Vancouver Talks May 86 Mtrls

Org.

Las Vegas: I hope no sober Canadians here.

(I have 2 children who have Canadian cit. by origin — or possibly 3, depending on .. tt. to life.

Emphasis: Canad. =n is ~~state~~ more based on pop.

Better re equity + efficiency. (If you want to criticize anything Canadian, you first say "It's better than in U.S.A.

I. Similarities, U.S. + Canada

A. Vertical balancing -- subventions.

B. Horiz. " -- to have-nots

C. Crown cannot tax the Crown (but can refuse to grant land on open range. Local taxes. a "Tragedy of commons" - over open range.

deduct royalties.)

✓ D. Canadian's Law vs. Hermican's Law of mkt. failure. "Congested frontier" - T.N. Encyc.

✓ E. Subventions come from gen. tax payer — not the sick prov.

II. Diffs. (If you want to get along in this country, you'd better (over)

A. Fed. to Provinces -- not to cities, locals.

B. Larger, stronger ~~Provinces~~ Provinces are than states.

C. More horiz. balancing w/in Provinces

✓ D. More " " among " --

~~B~~ Maritimes get 50% prov. revs. from =n entitlements.

✓ cf. U.S. constn.; p.w. grants; etc. U.S. Senate in which smallest state has just as much clout as largest -- or would, if their Senators weren't so mercenary. ~~(over)~~

✓ E. Crown Prov. own public domain, esp. in west.

✓ F. Alta Heritage Fund. (Imagine Jarvis in Alta.) Sask. has one, too.

✓ G. Separatism to overcome.

Bases:

Protectionism

Geog., E-W

Language etc.

Poverty vs. riches

Response: Exclusionary nationalism, fractious differentiation

a Tax Shift
they have an effect other than equalizing!

E, (cont.) Thus, is more vertical balancing than horiz. balancing. Like fr. aid. Poor people in rich provs. subsidize rich people in poor provs. Cf. W. Va. in U.S. All Provs. are have-nots but 3.

F. Rechtelized govt. Schultz & Turner.

G. H; persistent unempl – despite hi resource endowments. (But highest in Maritimes — and B.C.)

...

remember these differences. When Canadian says Vive la différence he's not being a male chauvinist — just a ~~plain ole~~ regular one.

strikes foreigners are forced + often absurd. Willing victims of nationalism. (But so are we)

✓ H. ~~3rd party~~ Populism stronger, 3rd party, + 4th.
Rt. wing, Socreds
Left -, NDP. (Y, K). Rules Sask.
~~Both have separatist leanings.~~
(P.C. in Alta.) Major rent collection in West.

✓ I. Strong + explicit recognition that diff. resource endowments are basis of interprov. differences.

Eqn. is rent-sharing. Canadian ecists. talk about rent all the time, just as though it were a permissible word.

J. Selective attitude toward what rents are shareable
Oil + gas
Forest revs.
Mineral
Water power
~~School taxes~~

Not gen. prop. tax revs., or tax base. Thus, urban + agric. l.v. are not shared. ✓ (over)
Why? Provinces own them; fmrs. lease them; (over)

K. High degree of for. ownership. Visible + resented.

No greater degree of absentee ownership than U.S.; but the absentees are recognized as alien. Is major cause of (H).

Bldg. values enter into formula. But l.v. are specifically excluded! Replaced by "gross provincial product". (Doug Clark, p. 22, at p. 27)

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fmrs. consume them, are vulnerable to negative dumping.

They are very unequally distributed among Provinces, on per cap. basis. Much more so than other sources of income. E.g., Que. has 28% pop. and 24% of inc. Alta. has 7.6% pop. and 8% of oil resp. base.

L. Net exporter of the shared resrs.

i.e., price control is a major way of sharing rents. Esp. gas + oil + water power.

Coupled w. "negative damping"

M. Eastern pop. dominance. West is colonial. Alta. + B.C. have the resrs. of Tx. + Cal. but not the votes.

N. Protectionism – hence, need to hit back at Ontario.

O. No penalty or reward for prov. tax effort. E is based on tax base, not the rate.

P. Penalty for speed of resr. use.

E.g. if ~~Quebec~~ cut timber faster, wd. Δ resr. "base" as defined, reduce E.

The "Base" is the actual use of resrs. not the highest + best use, or timely use.

Q. No judicial review. Contracts changeable ex post facto. Royalty rates can rise

R. Sharing based on pop. TR [% of pop – % of base]

TR = Total Rev. from the tax source, nationwide.

III. W. that background, impact of oil price revn. (To lesser extent, timber & minerals)

A. Provs. raise royalties, and other revs. from crown lands
- sale of leasehold
- profit from Crown corps. like B.C.P.C.
- taxes

B. Prov. disparities Δ, under formula.

C. Puts. to have - vote Δ; but leaves as such pay not living.

D. Median Ontario taxpayer gets soaked — along w. absentee owners of western oil, coal, etc.

E. The Empire strikes back → Thus Prov. penalized for royalty effort. (over)

1. Royalties not deductible. In s.t. the impact is on lessees, but l.t. impact is that Provs. must back off. Lower royalties maybe; but surely get less on new leases.

Dual purpose. a) The obvious one of (over)

2. Profit of B.C.P.C. recognized as a royalty.

3. Price control of oil
(B.C. province did sense to its gas &

By disallowing royalty deduction, you raise the income tax base in the Province. This reduces eligibility for E. purts.

protecting fed. revs. b) The subtle one of protecting major rent barons by assuming that prov. inc. tax, rather than resource royalties, etc. shd. be the instrument used. Tax labor.

Western populists were acutely aware of this aspect. It was to preserve the class structure, discourage provincial levelling.

Turner did it. Protected absentee owners of western ress. from prov. populism. His Richter training showed through.

wtr. energy for B.C. consumption)

4. Tax export of oil.

6. Antipathy to absentee owners was twisted into general anti-American chauvinism.

5. Weight of oil in eqn. formula was reduced. How?

Only revs. for current use were counted. Contribs. to cap. fund were not. (Alta. Heritage Fund.)

→ 6.

IV. Later Revisits.

V. Conclusion

Canada system better bcs. more based on popn. In spite of the ways it has been screwed up.

Too bad it exists in a country that really shd. not exist as indep. unit.

V. Other proposals

/ Colin Clark

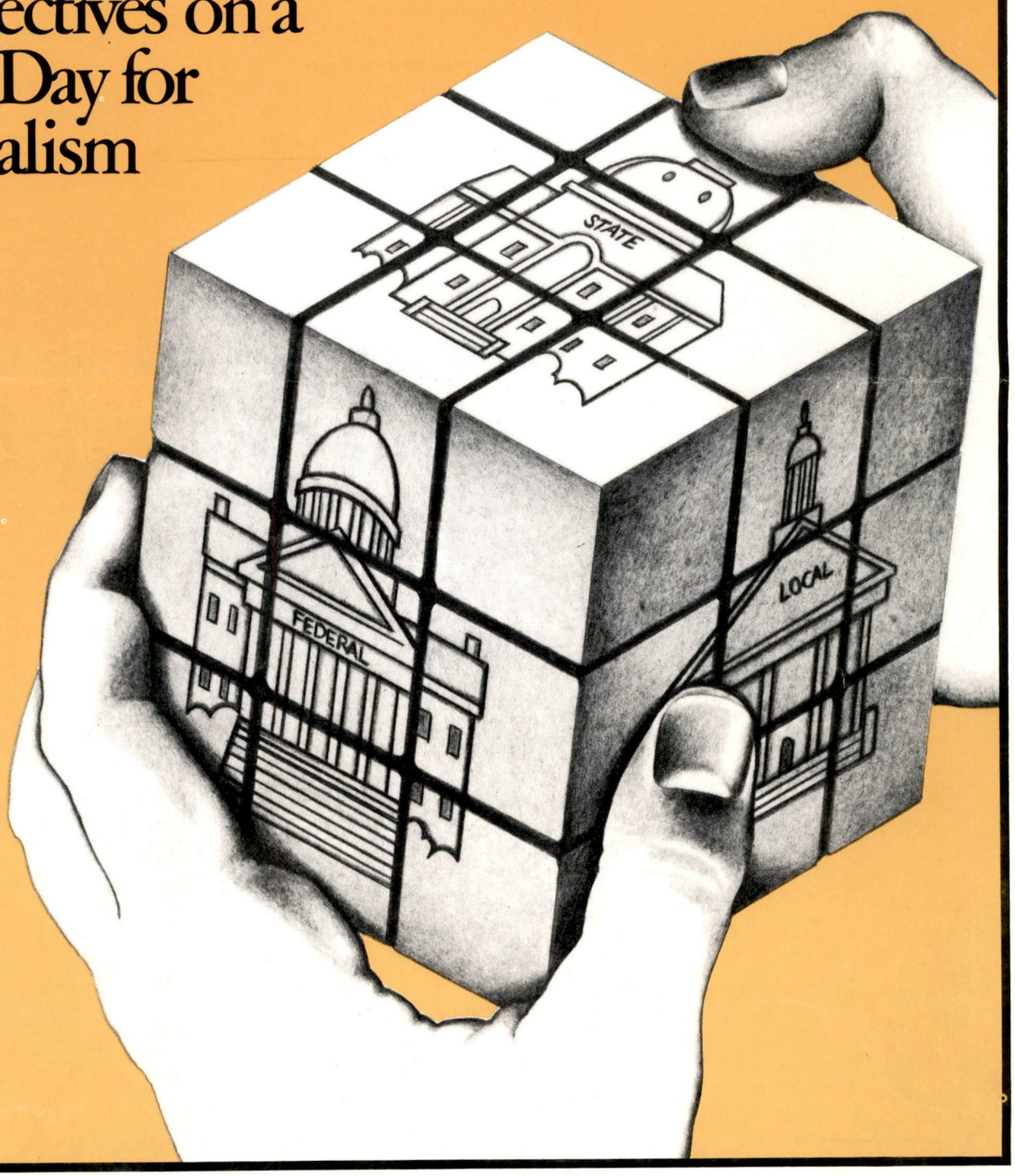
Speaker at UCR, Robt. Nisbet, "Now I am ~~sure you're all eager to get on w. yr. hot yr. diplomas, and so I am going to~~ a few concluding remarks." Applause

Take to Cambridge

Spring 1982, Vol. 8, No. 2

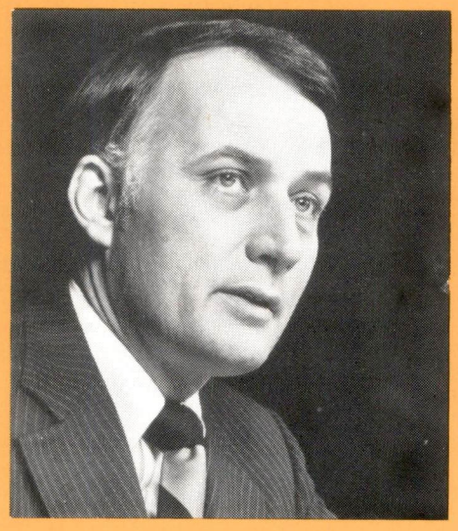
# Intergovernmental PERSPECTIVE

## Perspectives on a New Day for Federalism




ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

# View From The Commission



Dear Reader:

This issue of **Intergovernmental Perspective** deals with two pressing intergovernmental issues: rebalancing federalism and fiscal disparities among the 50 states.

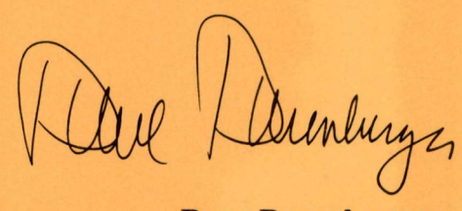
Proposals to rebalance federalism are too important to be cast aside by skeptics in the Congress and the press. ACIR's view, shared by the President among others, is that our federal system needs drastic overhaul. Ignoring or indefinitely postponing efforts to rebalance what ACIR calls a "top heavy federal system" will only increase the disarray and make it tougher to deal with the problems later. Now that the issue has surfaced and received public attention, it deserves to remain at the top of the agenda where it can be subject to spirited public debate.

I do not subscribe to the "one track" theory of some of my colleagues on Capitol Hill—the view that we must put off any policy debate on federalism until we balance the budget. They believe that it is fine to drastically reduce federal aid to states and localities, but that giving them more responsibility and authority to make up these cuts and carry out these and other functions must wait until after the budget is balanced. Nonsense! We cannot balance the budget without making the policy changes first, and we are wasting our time pretending otherwise. The policy shifts inherent in a New Federalism calls for better use of all our institutions, including state and local governments—entities that are more responsible and more accountable to the needs of the American people.

Yet, we must also recognize that states and localities vary tremendously in their structure, function, fiscal role and well-being. New Federalism proposals presuppose strong state and local governments that are able to pick up not only additional responsibilities but also the extra costs to carry them out. Realistically, this is not always the case.

Along these lines, I have been particularly interested in ACIR's recent work on tax capacity—the ability of states and localities to raise revenues. The latest work of the Commission illustrates the need for fiscal equalization among the states. ACIR found that the disparities among the states in tax capacity is increasing sharply, due largely to the ability of some states to tax energy resources such as coal and oil through the use of severance taxes or leases. I believe this issue of fiscal disparities is one of the most important—and potentially most divisive—issues facing our intergovernmental system today. We must initiate some program of fiscal equalization to alleviate these growing disparities. As a first step, any allocation from a trust fund set up to help states and local governments take over certain federal functions must use a tax capacity measure such as ACIR's Representative Tax System which determines tax capacity by applying a set of uniform taxes to the tax bases of the 50 state-local systems. We must face the current fiscal situation for what it is—tight—and do what we should have been doing all along: improving our ability to target federal dollars to those governments and people most in need.

Articles highlighting the issues and analyzing various options such as those in this issue of **Perspective** are an invaluable aid to those of us committed and willing to carry out the goal of a strong and effective federal partnership. The mood of the country and the Congress, the fiscal situation facing us today, and the New Federalism initiative of the Reagan Administration make this our best opportunity to restore the balance of our federal system.



**Dave Durenberger**
**United States Senator**
**Minnesota**

Intergov. Perspective

# Rich States—Poor States: Inequalities in Our Federal System

by Robert B. Lucke

**One important consideration in moving to a more decentralized system of government as envisioned under the New Federalism is the difference between the rather extraordinary tax wealth of some states and the relatively anemic resources of others. The latest ACIR study on the tax capacity of the 50 states illustrates significant and growing disparities in their ability to raise revenue.[1] For example, Alaska has three times the capacity to finance public services as Mississippi. In the past, these differences in taxing capacity were "papered over" by an expensive federal grant system. The dramatic realignments called for in various New Federalism proposals, coupled with shrinking federal grants, have raised the issue of how federal fiscal resources should be distributed among the states.**

Both the National Governors' Association (NGA) and Senator David Durenberger (MN), Chairman of the Senate Subcommittee on Intergovernmental Relations, have stressed the need to provide fiscal equalization grants to poorer states as part of reorganizing programmatic responsibilities among government levels. Senator Durenberger summed-up the problem and his solution: "Large disparities create wasteful tensions in a federal system. . . .[Although] complete equalization is beyond the reach of federal resources . . . some movement in that direction can and should be accomplished in the allocation of the new federalism trust fund."[2] Others agree. Journalist Neal Peirce recently commented: "This is an issue many of us have long wanted to see out in the open, lest wealth differentials tear at our national unity and cause immense hardships for some states and regions in the coming years."[3]

While the targeting of trust fund allocations to the poorer states was not emphasized in the initial New Federalism proposal set forth by the President, the Administration and state and local officials are currently exploring this possibility. A compromise might find the Administration agreeing to equalization as a quid pro quo for achieving its federalism and budgetary objectives. Federalism initiatives may be more readily reconciled with tighter federal budgets in the years ahead if federal grants are targeted to those jurisdictions with the least ability to provide services from their own revenue sources.

### Measuring Fiscal Disparities

Measuring differences among states in their abilities to raise revenues—or fiscal disparities—has long attracted the interest of economists, government analysts, and policymakers. Traditionally, a state's ability to raise revenue has been gauged by the per capita income of its residents. As an indicator of fiscal capacity, however, per capita income has been criticized because it does not completely account for all the sources available for state tax purposes. This shortcoming is particularly true for the energy-rich states, such as Alaska, Texas, Louisiana, and Wyoming or the tourist-rich states, such as Nevada and Hawaii, which can tap resources not strongly related to their respective state per capita incomes. Income is also an inadequate measure for farm states that have large amounts of real property and for those states that have a relatively large concentration of corporate activity. Overall, per capita income is a better measure of the economic well-being of a state's residents than of a government's ability to raise revenue. The ACIR has long been interested in developing

[1] ACIR, **Tax Capacity of the Fifty States: Methodology and Estimates,** M-134, Washington, DC, U.S. Government Printing Office, March 1982. A statistical report presenting preliminary estimates for 1980 is also available from ACIR, $2 prepaid.

[2] Dave Durenberger, "Basic Principles for a New Federalism," released February 2, 1982.

[3] Neal Peirce, speech on the New Federalism before the National Center for Municipal Development, March 24, 1982.

**"The accountability and efficiency themes so strong in New Federalism proposals tap strong currents of public support but Congress will not forget the equity and effectiveness themes that prompted expansion of their role in the first place."**

public support but Congress will not forget the equity and effectiveness themes that prompted expansion of their role in the first place. Congress will certainly pause before enacting a proposal that sweeps away much of the power it exercises through the federal grant system. Congressional skepticism abounds about both the capacity and willingness of state and local governments to operate as envisaged in New Federalism. At the mid-winter meeting of the National Governors' Association, Speaker O'Neill questioned the efforts of "this President to send most of society's problems back to the states."

"I believe there needs to be an orderly sorting out of which government does which job the best," the Speaker said. But, he felt some problems were clearly federal responsibilities. "Poverty is not a problem of one state or another. Congress must look at problems like poverty that cross state lines." He chastised the governors: "If we turn it over to you, can you handle it? I hear different stories from different people."[7]

In a 1982 Congress preoccupied with other problems, New Federalism legislation will probably make little headway. However, the issue of changing national spending priorities, and of reducing deficits will still weigh heavily on Congress in 1983. By that time, additional options may emerge that will make New Federalism seem more an opportunity than a distraction.

- ☐ A New Federalism plan could be struck that is not balanced within itself but purposefully designed to help balance the federal budget. Such an imbalance would have to be weighed by states and localities against the cuts in grants that might otherwise have to be taken in a time of federal budget stress. States and localities might have some of their equity and resource worries addressed by provisions for new-formula-revenue-sharing, block grants, or a combination of the two. They might end up with fewer dollars than in the best of times, but with more discretion over those available. Changes could even be made without necessarily involving the major income maintenance programs.
- ☐ A new intergovernmental compromise on the old "welfare problem" could be struck by assigning added AFDC responsibilities to the states, along with related resources that carry some safeguards or minimum welfare program standards. On the whole, the federal level could produce a more uniform welfare and medical care system that it does now, if it is willing to draw back its exercise of power in other areas such as education, transportation, social services and the like.
- ☐ Instead of pushing for an overall plan to return "tax authority" and decentralize responsibilities, the President can meet his accountability and efficiency goals by persuading Congress to further cut and eliminate grants as he did in 1981. A New Federalism plan offers both Congress and the President a way to make comprehensively formulated and orderly domestic spending changes while consulting state and local governments.

The attitude of the Congress, the mood of the people, and the overall state of the American economy will all play major roles in determining how equity, accountability and efficiency concerns get balanced out in New Federalism. With so many elements still underdetermined, the question of a new day for federalism remains just that—a question.

*Albert J. Davis is a senior analyst in the Commission's Taxation and Finance Section. S. Kenneth Howard is the Executive Director of ACIR.*

[7] As reported in the **Washington Post**, February 23, 1982.

a more comprehensive measure of fiscal capacity and recently stated its support for a measure, such as the Representative Tax System (RTS), that would provide a more accurate reflection of a state's ability to raise revenue from all sources.[4]

The Representative Tax System provides a comprehensive measure of each state's overall tax base by combining all sources of tax revenue, such as property, income, retail sales, and minerals, into a composite index of state tax capacity. The index is calculated by estimating the amount of revenue that each state would raise if it used an identical set of tax rates. The rates used for the calculation are "representative" in the sense that they are the national average tax rates for each base. Because the same tax rates are used for every state, estimated tax yields vary only because of differences in the underlying bases.

All bases commonly subject to state and local taxation are used in the RTS measure of tax capacity. The representative tax rates are applied in every state regardless of whether a given state actually taxes a particular base. For example, Connecticut does not have an income tax, but income is included in Connecticut's tax wealth; similarly, Oregon does not have a retail sales tax, but retail sales are included in its tax capacity computation. An individual state's decision to stress one type of tax or another does not affect the measurement of its tax base and potential "tax wealth" relative to other states.

The Representative Tax System shows that states differ significantly in their abilities to raise revenues. The first two columns of *Table 1* present the RTS measure of tax capacity in dollars per capita and as an index for 1980. Alaska ranks as the wealthiest state based on this measure—its tax capacity is $2,463 per capita and its index of 260 is 160 percentage points greater than the national average. These levels are more than three times greater than Mississippi's—$658 per capita and an index of 69. Other states high on the tax capacity scale are Wyoming (196), Nevada (154), Texas (124), and California (117). The low capacity states are found in the southeastern part of the country: Mississippi (69), South Carolina (75), Alabama (76), Arkansas (79), and Tennessee (79)—all have tax capacities less than 80% of the national average. In general, the western states, especially those well endowed with mineral resources, have capacities greater than those in the east.

### Is The Fiscal Gap Widening?

The tax capacity indices presented in *Table 1* for 1975, 1979, and 1980 show that fiscal disparities among the states are becoming greater. One summary measure of the overall disparities among the states is the population-weighted standard deviation of the tax capacity indices. The standard deviation of the tax capacity indices measures the relative dispersion of

*Table 1*

**Tax Capacity of the States—1975,1979 and 1980.**

| State | Tax Capacity Per Capita | Tax Capacity Index 1980p | 1979r | 1975r |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | 1,058 | 112 | 108 | 110 |
| Maine | 759 | 80 | 80 | 84 |
| Massachusetts | 913 | 96 | 93 | 98 |
| New Hampshire | 916 | 97 | 96 | 102 |
| Rhode Island | 795 | 84 | 84 | 88 |
| Vermont | 801 | 84 | 85 | 94 |
| **Mideast** | | | | |
| Delaware | 1,057 | 111 | 109 | 124 |
| Washington, DC | 1,051 | 111 | 110 | 117 |
| Maryland | 941 | 99 | 99 | 101 |
| New Jersey | 997 | 105 | 102 | 109 |
| New York | 855 | 90 | 89 | 98 |
| Pennsylvania | 879 | 93 | 93 | 98 |
| **Great Lakes** | | | | |
| Illinois | 1,021 | 108 | 112 | 112 |
| Indiana | 875 | 92 | 98 | 98 |
| Michigan | 920 | 97 | 104 | 100 |
| Ohio | 918 | 97 | 101 | 103 |
| Wisconsin | 899 | 95 | 99 | 98 |
| **Plains** | | | | |
| Iowa | 998 | 105 | 108 | 106 |
| Kansas | 1,032 | 109 | 109 | 109 |
| Minnesota | 969 | 102 | 105 | 97 |
| Missouri | 888 | 94 | 97 | 96 |
| Nebraska | 918 | 97 | 100 | 106 |
| North Dakota | 1,028 | 108 | 109 | 101 |
| South Dakota | 856 | 90 | 95 | 94 |
| **Southeast** | | | | |
| Alabama | 718 | 76 | 76 | 77 |
| Arkansas | 750 | 79 | 77 | 78 |
| Florida | 949 | 100 | 100 | 102 |
| Georgia | 778 | 82 | 81 | 86 |
| Kentucky | 787 | 83 | 85 | 85 |
| Louisiana | 1,036 | 109 | 103 | 97 |
| Mississippi | 658 | 69 | 70 | 70 |
| North Carolina | 754 | 80 | 82 | 84 |
| South Carolina | 714 | 75 | 76 | 77 |
| Tennessee | 749 | 79 | 81 | 84 |
| Virginia | 899 | 95 | 93 | 93 |
| West Virginia | 889 | 94 | 92 | 89 |
| **Southwest** | | | | |
| Arizona | 841 | 89 | 91 | 92 |
| New Mexico | 1,016 | 107 | 103 | 92 |
| Oklahoma | 1,108 | 117 | 108 | 98 |
| Texas | 1,173 | 124 | 117 | 110 |
| **Rocky Mountain** | | | | |
| Colorado | 1,069 | 113 | 110 | 106 |
| Idaho | 830 | 87 | 91 | 89 |
| Montana | 1,067 | 112 | 113 | 103 |
| Utah | 816 | 86 | 87 | 86 |
| Wyoming | 1,862 | 196 | 173 | 153 |
| **Far West** | | | | |
| California | 1,110 | 117 | 116 | 110 |
| Nevada | 1,465 | 154 | 154 | 145 |
| Oregon | 979 | 103 | 106 | 100 |
| Washington | 976 | 103 | 103 | 98 |
| Alaska | 2,463 | 260 | 217 | 154 |
| Hawaii | 1,011 | 107 | 103 | 110 |
| U.S. AVERAGE | 949 | 100 | 100 | 100 |
| Standard Deviation: | $ 149 | 15.7 | 13.7 | 10.4 |

p = preliminary r = revised

Source: Advisory Commission on Intergovernmental Relations.

[4]ACIR Commission meeting, March 29, 1982.

the states around the national average. A high standard deviation indicates greater fiscal disparities than a low standard deviation. The change in fiscal disparities over time is reflected by the growth of the standard deviation of the indices from 10.4 in 1975, to 13.7 in 1979, and to 15.7 in 1980. Over the 1975-80 period, disparities increased by 52%. In general, the poorer states have not shown improvement since 1975, and in fact, many of the southern states, such as Mississippi, Alabama, and South Carolina, have seen their relative capacities slip. The greatest declines between 1975 and 1980, however, occurred in the northeastern and midwestern states. Delaware, Vermont, Nebraska, and New York experienced the largest declines. In contrast, the greatest growth in tax capacity occurred in the western states, particularly the energy-rich states of Alaska and Wyoming. Alaska's increase was not surprising due to its rapid entry into the club of large oil producing states.

The growing gap between rich and poor states is not so apparent when per capita income is used to measure capacity. For some time now, economic activity and population movements have tended to converge per capita income levels across the country. However, since the mid-70s, increased state revenues from nonincome-related sources have tended to make per capita income an even less reliable measure of tax capacity.

### The National Interest in Fiscal Equalization

Fiscal equalization as an issue arises in the debate over new federalism because of the growing fiscal disparities among states. Fiscal disparities arise because economic growth and prosperity are not shared equally across jurisdictions. Furthermore, with individual subfederal units of government responsible for financing the public services they provide, disparities in capacity can result in differences in the quantity and quality of public services offered and in the tax rates necessary to provide them.

Historically, the redistribution of revenue from wealthy to poor governments has been justified on equity grounds. In 1964 the ACIR concluded that the objective of fiscal equalization is:

> to achieve a national minimum level of program operations by varying the federal grant offer to the states directly in proportion to their program needs and inversely with their fiscal capacities. The objective is to enable all states to achieve the nationally defined minimum service level if they make a uniform effort to tax resources available to them.[5]

The equity rationale is primarily based on two arguments, both of which have been emphasized in the debate over school finance reform. The first argument is that some communities, by virtue of their wealth, are able to finance a much higher level of educational services than their less wealthy counter-

*Table 2*

**The Impact of Grants on Fiscal Disparities**

| State | Tax Capacity Index | Tax Capacity Plus GRS | Tax Capacity Plus all Grants |
|---|---|---|---|
| **New England** | | | |
| Connecticut | 112 | 111 | 106 |
| Maine | 80 | 81 | 91 |
| Massachusetts | 96 | 97 | 105 |
| New Hampshire | 97 | 96 | 96 |
| Rhode Island | 84 | 84 | 97 |
| Vermont | 84 | 85 | 111 |
| **Mideast** | | | |
| Delaware | 111 | 112 | 113 |
| Washington, DC | 111 | 112 | 234 |
| Maryland | 99 | 99 | 102 |
| New Jersey | 105 | 105 | 103 |
| New York | 90 | 91 | 104 |
| Pennsylvania | 93 | 93 | 94 |
| **Great Lakes** | | | |
| Illinois | 108 | 107 | 105 |
| Indiana | 92 | 92 | 87 |
| Michigan | 97 | 97 | 100 |
| Ohio | 97 | 97 | 92 |
| Wisconsin | 95 | 95 | 99 |
| **Plains** | | | |
| Iowa | 105 | 105 | 100 |
| Kansas | 109 | 108 | 103 |
| Minnesota | 102 | 102 | 100 |
| Missouri | 94 | 93 | 92 |
| Nebraska | 97 | 97 | 94 |
| North Dakota | 108 | 108 | 116 |
| South Dakota | 90 | 91 | 111 |
| **Southeast** | | | |
| Alabama | 76 | 76 | 84 |
| Arkansas | 79 | 79 | 86 |
| Florida | 100 | 100 | 92 |
| Georgia | 82 | 82 | 90 |
| Kentucky | 83 | 83 | 88 |
| Louisiana | 109 | 109 | 105 |
| Mississippi | 69 | 70 | 84 |
| North Carolina | 80 | 80 | 81 |
| South Carolina | 75 | 76 | 79 |
| Tennessee | 79 | 79 | 83 |
| Virginia | 95 | 95 | 92 |
| West Virginia | 94 | 94 | 102 |
| **Southwest** | | | |
| Arizona | 89 | 89 | 85 |
| New Mexico | 107 | 107 | 114 |
| Oklahoma | 117 | 116 | 108 |
| Texas | 124 | 123 | 108 |
| **Rocky Mountain** | | | |
| Colorado | 113 | 112 | 105 |
| Idaho | 87 | 88 | 93 |
| Montana | 112 | 112 | 125 |
| Utah | 86 | 86 | 90 |
| Wyoming | 196 | 194 | 185 |
| **Far West** | | | |
| California | 117 | 117 | 110 |
| Nevada | 154 | 153 | 140 |
| Oregon | 103 | 103 | 108 |
| Washington | 103 | 102 | 103 |
| Alaska | 260 | 258 | 267 |
| Hawaii | 107 | 107 | 111 |
| U.S. Average | 100 | 100 | 100 |
| Standard Deviation: | 15.65 | 15.28 | 14.24 |

Source: Advisory Commission on Intergovernmental Relations

[5]ACIR, **The Role of Equalization in Federal Grants,** A-19, Washington, DC, U.S. Government Printing Office, 1964, p. 4.

parts. Thus, fiscal disparities not only reflect current differences in the abilities of communities to support public services, but they can have lasting effects on individual citizens through the unequal educational opportunities or other services they may receive across jurisdictions. Because government services, such as education or health, contribute to the earning potential of the recipient, current disparities in the ability to finance public services can contribute to differences in individual income levels well into the future. Therefore, fiscal equalization grants are a way of providing more equal access to government services, particularly to the less privileged segments of the population residing in the poorer states.

Equity concerns also arise from the fact that taxpayers can face substantially different tax rates for a given package of services simply because of their place of residence. Because poorer jurisdictions often must levy higher tax rates than their wealthier counterparts to provide the same level of services, individuals with like incomes will pay different amounts in taxes depending on the jurisdiction in which they reside. In the classic school finance case, **Serrano v. Priest,** the plaintiffs illustrated that poor school districts often had much higher tax rates than their wealthier counterparts, yet raised much less revenue.[6] The tax capacity indices in *Table 1* indicate that a low capacity state like Mississippi could only raise 69% of the revenue of the average state, even if both imposed identical tax rates. Equity suggests that equalizing grants should be used to equalize the tax burdens or tax prices associated with like levels of public services. In the educational finance literature, this form of equalization system is commonly referred to as "district power equalization," because it equalizes the tax power of the school districts.[7] In other words, the equalizing grants are distributed to school districts in such a way that each district would have the same amount of revenue per pupil if each were to levy the same tax rate.

In addition to equalizing taxpayer burdens for comparable levels of spending, equalization grants can promote economic efficiency by inhibiting the migration of labor and production facilities based purely on fiscal considerations. By reducing differentials in tax rates per unit-of-service across jurisdictions that arise strictly from fiscal disparities, equalization grants can offset the tendency of labor and capital to move to high capacity areas to take advantage of lower tax prices. Indeed, one of the primary arguments advanced by Senator Durenberger for equalizing grants is that "[e]conomic relocation driven by the individual desire to avoid high taxes in low capacity states contributes to an inefficient allocation of social resources."[8]

Of course, locational decisions regarding labor and investment are not only based on tax price variations, but on the real economic advantages of one area over another as well. For example, wage rates, energy prices, and transportation facilities substantially differ across jurisdictions and will have a significant effect on the locational decisions made by businesses and individuals. Care must be taken to assure that a system of equalization grants does not go beyond correcting for disparities in capacities so that real (non-fiscal) differences in regional comparative advantages can continue to influence resource flows.

#### The Role of Grants in Achieving Fiscal Equalization

The United States, unlike a number of other federal countries, does not have a program specifically designed to reduce fiscal disparities among its states. Although General Revenue Sharing (GRS) provides payments with few strings, the program is relatively small and only modestly equalizes disparities. Most fiscal assistance to state and local governments in the U.S. takes the form of categorical or block grants. To some extent, the federal intergovernmental aid system does achieve a degree of equalization by using allocation formulas that are sensitive to a state's fiscal capacity. Per capita income is used as a proxy for fiscal capacity in a number of grant programs, including GRS, Medicaid, and Aid to Families with Dependent Children (AFDC). Because the per capita income measure is used in combination with other factors, the equalization power of these programs is limited. For example, using tax effort, urban population, or programmatic expenditures in federal aid formulas partially offsets the effects of per capita income in equalizing fiscal resources.

To gauge the equalization effectiveness of current grant allocations, the amount of federal aid each state receives was added to the state's tax capacity in *Table 2.* The change in state tax capacity after the addition of these payments provides an indication of how well the grant system functions as an equalizer.

The set of indices in column 2 of *Table 2* is based on the RTS for 1980, plus General Revenue Sharing allocations. The GRS payments had very little effect on the individual state indices, only reducing the standard deviation by 2.4%, from 15.65 to 15.28. Based on the RTS measure of tax capacity, it appears that the fiscal equalization aspects of the program are relatively weak. Indeed, had the GRS allotments been based on a purely per capita basis, the standard deviation (15.32) would have been virtually the same as the standard deviation calculated under current law. Although the program is designed to achieve goals other than equalization, the equalizing attributes of the existing GRS formula are equivalent to an allocation based solely on population.

The third column of *Table 2* shows the indices of capacity after **all** federal intergovernmental transfers are accounted for, including GRS. In FY 1980 these grants totaled $90 billion, or $395 per capita.[9] The

[6] **Serrano v. Priest,** C.3d 584, 487 P.2d 1241 (1971).

[7] Robert D. Reischauer and Robert W. Hartman with assistance of Daniel J. Sullivan, **Reforming School Finance,** Brookings Institution, Washington, DC, 1973.

[8] Dave Durenberger, *op. cit.*

[9] U.S. Department of the Treasury, **Federal Aid to the States, Fiscal Year 1980,** Washington, DC, U.S. Government Printing Office, 1981.

**"Clearly, federal aid programs are designed to meet objectives other than fiscal equalization and their weak equalizing performance bears this out."**

equalizing effect of all grants is indicated by a reduction in the standard deviation to 14.24, a decrease of 9% from the initial level. While this equalizing impact is greater than that of GRS alone, it is still less than if all grants were distributed on a per capita basis. If all intergovernmental aids were allocated solely on the basis of population, the measure of disparities would decline to 11.05, about 22% lower than under the existing distribution. In other words, about 22% greater equalization could be achieved under a per capita distribution than under the current set of allotments. Clearly, federal aid programs are designed to meet objectives other than fiscal equalization and their weak equalizing performance bears this out.

### Fiscal Equalization in Other Federal Systems

In other countries with a federal structure, fiscal equalization has been a traditional function of the national government. In West Germany, Australia, and Canada, the national government provides fiscal equalization grants to lower levels of government to compensate for the fiscal disparities that exist among them. These equalization payments are typically unconditional and are designed to enable the fiscally weak governments to finance adequate levels of public services.

Australia has a comprehensive system of fiscal equalization that takes into account both the fiscal capacity of the states and differences in the costs of providing public services. The Australian system of equalization essentially measures "revenue need" as the difference between the revenue the recipient state would have raised had it applied the average revenue effort of the standard states to its revenue base and the revenue it would have generated, on the basis of the standard revenue effort, if its per capita revenue base had been the same as the average revenue base of the standard states. Expenditure needs are assessed by the difference between the expenditure the recipient state would have incurred if it had provided the same average range and quality of services as the standard states and the expenditure it would have incurred if its per capita expenditure had been the same as the average of the standard states. Total assessed needs are measured by the sum of assessed revenue and expenditure needs, representing the recipient state's shortfall in revenue-raising capacity relative to the standard states and its additional costs to provide services comparable to those of the standard states. The standard states in this program are the two states with the highest fiscal capacity, thus providing a much higher standard of equalization than that used in other federal countries.[10]

The West German system of equalization grants consists of two distinct parts—"vertical" equalization payments from the national government to the states, and "horizontal" equalization payments directly from the rich states to the poor states. The vertical transfers used by West Germany are based on its value added tax and are allocated to each state's tax revenue to bring up the capacities of the poorer states to 92% of the national average. After taking into account the vertical transfers, the states negotiate direct transfers between themselves that are designed to bring up the capacities of the poorer states to nearly the average for all states.

The Canadian equalization program distributes grants only to those provinces having capacities below the national average; these are not provided to provinces with above average capacity. The grants are meant to equalize capacities so that each and every province can provide the average level of public services at average rates of taxation.

The Canadian system of equalization is of particular interest to the U.S. because the Canadian federal government provides fiscal equalizing transfers to the provinces based directly on the Representative Tax System measure of fiscal capacity. In FY 1979, the Canadian equalization program, as outlined in the 1977 Fiscal Arrangements Act, distributed $2.9 billion to seven provinces which together have 45% of Canada's population. The three other provinces received nothing under this program.

[10]ACIR, **Studies in Comparative Federalism: Australia,** M-129, Washington, DC, U.S. Government Printing Office, August 1981, pp. 17-26.

*Table 3*

**Canadian Representative Tax System Yields, FY 1979**

| Province | Capacity Per Capita | Index* | Index after Equalization under Current Law |
|---|---|---|---|
| Alberta | $3,931.62 | 232 | 217 |
| British Columbia | 1,948.66 | 115 | 107 |
| Manitoba | 1,306.56 | 77 | 88 |
| Newfoundland | 971.03 | 57 | 85 |
| New Brunswick | 1,058.32 | 63 | 85 |
| Nova Scotia | 1,090.06 | 64 | 85 |
| Ontario | 1,573.19 | 93 | 87 |
| Prince Edward Island | 930.07 | 55 | 84 |
| Quebec | 1,335.81 | 79 | 87 |
| Saskatchewan | 1,739.23 | 103 | 98 |
| Average | $1,691,47 | 100 | 100 |
| Standard Deviation: (population-weighted) | $ 715.66 | 42.31 | 35.80 |

*Index is percent of national per capita average

Source: Federal-Provincial Relations Division, Department of Finance, Government of Canada, *Provincial Fiscal Equalization, Fiscal Calculation, 1978-79,* Printout, April 7, 1981.

The equalization payment provided to a province equals the difference between its fiscal capacity and the national average capacity. For example, in FY 1979-80, Manitoba's Representative Tax System yield was $1,101.38 per capita and the national average yield was $1,383.60 per capita. Manitoba's equalization payment was $282.22 ($1,383.60 less $1,101.38 times its population to get a total $291.7 million grant. The payments are financed out of general federal revenues and unlike West Germany, there are no "negative aids" paid by those provinces with greater than average capacity. The provinces are brought up to the national average but the system is asymmetric because it does not reduce the capacity of the wealthy provinces.

The effectiveness of the Canadian equalization program can be appraised by how well it reduces fiscal disparities among the provinces. The FY 1979 representative tax yield or tax capacity for each of Canada's provinces is shown in *Table 3;* capacity is shown on a per capita basis, and indexed to the national mean. The indices range from a high of 232 for Alberta to a low of 55 for Prince Edward Island, indicating that Alberta has more than four times the revenue capacity of the poorest province. Regionally, the three western provinces (Alberta, British Columbia, and Saskatchewan) rank well above those in the east. Although the most populous province, Ontario, ranks above average on the nonmineral resource sources of revenue, its relative disadvantage on the natural resource base pulls its overall index below the average. The Maritime provinces (Newfoundland, New Brunswick, Nova Scotia, and Prince Edward Island) are the weakest fiscally.

In 1979, the standard deviation computed prior to the inclusion of equalization payments was 42.3. The average yield of the RTS was $1,691 per capita, with a standard deviation of $716. The third column in *Table 3* shows the capacity indices after equalization payments have been added to each province's capacity. After equalization payments are counted, all provinces, except Ontario, have capacities closer to the mean. Because the wealthy provinces are not required to finance payments directly to the less prosperous jurisdictions, equality is not achieved. However, with the exceptions of Alberta and British Columbia, all provinces fall within a 15 point range from 84% to 98% of the national average after accounting for equalization grants. Disparities are significantly lessened with the standard deviation dropping to 35.8, a 15.4% reduction. The equalization program is especially important to the Maritime provinces whose capacity index, taken as a group, is increased from 61.5 to 84.5, a rise of 37.3%. Because Ontario has been excluded from the equalization program, although technically qualifying, its capacity falls from 93.0 to 86.7 after equalization.

### U.S. Fiscal Equalization, Canadian Style

As part of the ACIR staff's analysis of New Federalism issues, a simulation has been conducted to ana-

*Table 4*

**Equalization Grants Based on the Representative Tax System**

| State | Fiscal Equalization Grant ($000) | Tax Capacity Per Capita After Equalization | Tax Capacity Index After Equalization | Percentage Change in Tax Capacity Index After Equalization |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | $ —0— | $1,058 | 106 | -5.4% |
| Maine | 213,716 | 949 | 95 | +18.2 |
| Massachusetts | 207,877 | 949 | 95 | - 1.6 |
| New Hampshire | 30,631 | 949 | 95 | - 1.9 |
| Rhode Island | 146,220 | 949 | 95 | +13.0 |
| Vermont | 75,533 | 949 | 95 | +12.0 |
| **Mideast** | | | | |
| Delaware | —0— | 1,057 | 105 | - 5.4 |
| Washington, DC | —0— | 1,051 | 105 | - 5.4 |
| Maryland | 32,635 | 949 | 95 | - 4.6 |
| New Jersey | —0— | 997 | 99 | - 5.4 |
| New York | 1,645,786 | 949 | 95 | + 5.0 |
| Pennsylvania | 833,849 | 949 | 95 | + 2.2 |
| **Great Lakes** | | | | |
| Illinois | —0— | 1,021 | 102 | - 5.4 |
| Indiana | 406,063 | 949 | 95 | + 2.6 |
| Michigan | 267,137 | 949 | 95 | - 2.4 |
| Ohio | 327,846 | 949 | 95 | - 2.3 |
| Wisconsin | 236,197 | 949 | 95 | - 0.1 |
| **Plains** | | | | |
| Iowa | —0— | 998 | 100 | - 5.4 |
| Kansas | —0— | 1,032 | 103 | - 5.4 |
| Minnesota | —0— | 969 | 97 | - 5.4 |
| Missouri | 299,855 | 949 | 95 | + 1.1 |
| Nebraska | 47,838 | 949 | 95 | - 2.2 |
| North Dakota | —0— | 1,028 | 103 | - 5.4 |
| South Dakota | 64,524 | 949 | 95 | + 4.9 |
| **Southeast** | | | | |
| Alabama | 899,318 | 949 | 95 | +25.0 |
| Arkansas | 456,384 | 949 | 95 | +19.8 |
| Georgia | 934,767 | 949 | 95 | +15.4 |
| Florida | —0— | 949 | 95 | - 5.4 |
| Kentucky | 592,947 | 949 | 95 | +14.1 |
| Louisiana | —0— | 1,036 | 103 | - 5.4 |
| Mississippi | 735,150 | 949 | 95 | +36.5 |
| North Carolina | 1,144,568 | 949 | 95 | +19.0 |
| South Carolina | 734,679 | 949 | 95 | +25.8 |
| Tennessee | 917,520 | 949 | 95 | +19.8 |
| Virginia | 266,192 | 949 | 95 | - 0.1 |
| West Virginia | 117,156 | 949 | 95 | + 1.0 |
| **Southwest** | | | | |
| Arizona | 292,676 | 949 | 95 | + 6.7 |
| New Mexico | —0— | 1,016 | 101 | - 5.4 |
| Oklahoma | —0— | 1,108 | 111 | - 5.4 |
| Texas | —0— | 1,173 | 117 | - 5.4 |
| **Rocky Mountain** | | | | |
| Colorado | —0— | 1,068 | 107 | - 5.4 |
| Idaho | 112,335 | 949 | 95 | + 8.2 |
| Montana | —0— | 1,067 | 106 | - 5.4 |
| Utah | 194,843 | 949 | 95 | +10.1 |
| Wyoming | —0— | 1,862 | 186 | - 5.4 |
| **Far West** | | | | |
| California | —0— | 1,110 | 111 | - 5.4 |
| Nevada | —0— | 1,465 | 146 | - 5.4 |
| Oregon | —0— | 979 | 98 | - 5.4 |
| Washington | —0— | 976 | 97 | - 5.4 |
| Alaska | —0— | 2,463 | 246 | - 5.4 |
| Hawaii | —0— | 1,011 | 101 | - 5.4 |
| U.S. Total | 12,234,256 | 1,003 | 100 | 0.0 |
| Standard Deviation: | — | 106 | 10.54 | — |

Source: Advisory Commission on Intergovernmental Relations.

**"Simply put, the $12.2 billion program could buy 3.75 times more fiscal equalization than that achieved currently by the entire $90 billion aid system."**

lyze the implications of adopting a Canadian-type equalization program in the United States. In conjunction with a decentralization of programmatic responsibilities, an equalization program might improve the flexibility of state and local governments and temper the impact of cuts on the governmental entities with the least capacity to raise their own revenues. The 1980 RTS estimates provide an opportunity to assess the equalizing impacts of such an approach.

Although the U.S. and Canadian federal systems have many similarities and face common problems, important differences do exist. One difference is that the disparities between the American states are not as great as those between the Canadian provinces. The standard deviation of the tax capacity measure prior to the inclusion of any grants in the U.S. is 15.65—only 37% of the comparable Canadian measure. Even after the Canadian equalization payments are taken into account, the U.S. standard deviation is still just 44% of the Canadian index. This result is a little surprising; because Canada is composed of ten provinces rather than 50 states, one might expect that disparities among the provinces would tend to average-out because of their large size.

The relative disadvantage of the poorer states is not as severe as that of their counterparts in Canada. Four provinces (Newfoundland, Prince Edward Island, Nova Scotia, and New Brunswick) rank well below the poorest of the states. Combined, these provinces have a capacity index of 61.54—8.9% less than Mississippi's index. These poorer provinces account for about 9.5% of Canada's population. After equalization, however, the poorest provinces all rank as high (or higher) than the low tax capacity American states if all domestic aids are included.

The results of a simulation based on the Representative Tax System under the Canadian approach are presented in *Table 4.* The equalization program would only provide aids to the 28 states whose capacity is below the national norm. New York ($1.6 billion), North Carolina ($1.1 billion), and Alabama $0.9 billion) would receive the largest equalization grants. In general, the states in the southeast region would benefit most from such a program. As a group, these states would receive more than half the total funds appropriated for equalization. By using this approach, the overall cost of such a program in FY 1980 would have been about $12.2 billion or about 14% of all federal aid provided to state and local governments in that year.

The impact on disparities from a Canadian-type program would be quite substantial. The indices in *Table 4* are based on the RTS measure of tax capacity, including the simulated equalization payments while excluding all other federal aids. Because negative aids are not assessed, many states are below the average capacity after the equalization grants, although none falls below its initial capacity level.[11] The reduction in the standard deviation from 15.65 to 10.54, a decrease of 33%, indicates that disparities would be reduced by about one-third. In contrast to the existing aid structure, the reduction in disparities would be significantly greater under the Canadian-style program (-33% versus -9%). Simply put, the $12.2 billion program could buy 3.75 times more fiscal equalization than that achieved currently by the entire $90 billion aid system. While the high capacity states of Alaska (246), Wyoming (186) and Nevada (146) would remain well above the rest of the states, their advantage would be reduced. The remaining states would all fall within a 24-point span.

### Toward a New Federalism

The Reagan Administration's proposals to restructure our federal system have sparked a serious debate over the viability of the intergovernmental grant system. Despite—or perhaps because of—the dramatic increase in federal aid to state and local governments over the last two decades, little attention has been paid to differences in the ability of state and local governments to raise their own revenues. ACIR's recent research shows that disparities among states in their revenue raising capacities are increasing and that the current federal grant-in-aid system only modestly equalizes these differences. Now, as a major restructuring of programmatic responsibilities is being considered, it is timely to ask whether more attention should be directed to assisting the fiscally weakest states.

This article has highlighted the Canadian method of providing targeted assistance to the poorer states through use of the Representative Tax System. Of course, this approach is only one of the many possibilities that will be considered in the course of the debate over New Federalism. The purpose of this article is not to advocate a particular form of equalization, but rather to illuminate some of the underlying issues and concerns over the growing fiscal disparities among our 50 states, a development some feel may well pose one of the thorniest intergovernmental problems in the 1980's.

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[11]The initial capacity per capita equals $948.73; after equalization the average capacity equals $1,002.59. Because states are only equalized up to $948.73, their resulting index is 95 [948.73/1002.59] and not 100. The difference ($53.86) is solely due to the added equalization payments.

# Canadian Experience With the Representative Tax System (RTS)

Douglas H. Clark

**The representative tax system (RTS) is used by the Government of Canada as a means of allocating federal grants to provinces on a basis of their relative need for financial assistance. The purpose of this article is to describe the role of the RTS within the Canadian system of intergovernmental grants.**

Canada, like the United States, is a federal country in which some public goods and services are provided by the national government and some by regional (provincial) and local governments. Each level of government imposes taxes and, by and large, finances the services it provides by means of these taxes. However, services may also be financed by grants from other governments.

There are some remarkable similarities between the federal systems of Canada and the United States. Thus, the differing services provided by the central and regional governments are similar in the two countries, as are the ranges of taxes levied. At the local governmental level the similarities are particularly marked. However, the two federal systems tend to diverge rather significantly in the case of intergovernmental grants. Thus, Canada places considerable emphasis on a type of grant not used by the United States Government, i.e., grants with no conditions imposed upon the receiving governments. Canada also emphasizes block grants with conditions of a very broad nature. The number of federal grant programs is much fewer in Canada than in the United States, but the total payments appear to be relatively twice as large.

## The Canadian System of Intergovernmental Grants

Like the United States, Canada has a well-established system of intergovernmental grants. There are large grants from the federal government to the provinces and from the provinces to local governments. Relatively small grants are paid from the federal government to local governments, but there can be little doubt that local governments—who are "creatures of the provinces"—benefit greatly from the system of federal-provincial grants.

There are various rationales for federal grants. Two are of particular importance. First, federal grants are paid because of a perceived "national" interest in certain services which are provided by provinces. Second, grants are paid to some provincial governments because of a perception that they are less able than others to provide the public services for which they are responsible.

In the 1985-86 fiscal year (ending March 31, 1986), federal cash grants to provincial and local governments will total an estimated $21 billion, or approximately 20% of total federal budgetary expenditures.[1] Approximately $13 billion of these grants is being paid for health, post-secondary education, and welfare programs administered by the provinces (including insured medical and hospital services), $5 billion for equalization payments to needy provinces, and $3 billion for a small number of other programs. (In order to put Canadian numbers such as these in terms of an American equivalent it is customary to multiply them by ten, given that the U.S. economy is approximately ten times as large as the Canadian.)

The allocation of federal grants among provinces is, of course, a matter of great importance. Some Canadian grants are allocated on an equal per capita basis. Some are distributed on a cost-sharing basis for certain defined expenditures. Equalization payments are allocated on a basis of need, that is defined in terms of disparities in the relative revenue-raising capacities of provinces. Various other methods of grant allocation also are used.

Six provinces, with approximately 40% of total provincial population, presently qualify for equalization. Four relatively well-off provinces, which have approximately 60% of total population, do not qualify. The distributional impact of the $5 billion in equalization payments on provincial revenues is therefore very large.

The importance of the equalization program to provinces is illustrated by *Chart I* that indicates the estimated proportions of total provincial revenues in 1985-86 accounted for by federal grants for health and education; welfare; and equalization.[2]

power and money. Is that to be the payoff for Valley Forge and all of the many other agonies of those eight long years?

Was the disallowance of state and local tax deductibility, with an estimated yield of $33 billion, going to actually solve our fiscal problems? Bear in mind that the interest on the United States debt alone amounted to over $149.2 billion in fiscal 1986. No, it was merely the equivalent of less than eleven weeks of interest on the national debt, exclusive of payment of principal and all defense and non-defense spending.

When we consider that state and local governments provide virtually all of the basic public services and account for 14 million of 17 million public sector employees, a mortal blow to those services is scarcely worth 11 weeks of improvident federal interest payments on the national debt.

Is that what George Washington and the other Founding Fathers had in mind when they drove King George's Redcoats from our shores in 1783?

If tax reform is going to involve alteration of the most basic compact under which we have lived for two centuries, let's forget doing it by statute. Instead, let Congress honor the request made by our New York State Senate to originate a constitutional amendment shield to protect state and local revenue vulnerability. And let Congress then submit that amendment to the states for consideration.

The way would then be clean to expose the sinister nature of taxation without deductibility. And perhaps then, with all the implications made starkly visible, we can write deductibility into the Constitution on a permanent basis—without benefit of accountants, tax lawyers or economists.

*John J. Marchi is Chairman, Committee on Finance of the New York State Senate.*

The remainder of this article will describe Canada's equalization program, and will deal with the central role of the RTS in this program and its further use in evaluating the fiscal health of the provincial-local government sector.

## CANADA'S EQUALIZATION PROGRAM

The purpose of Canada's equalization program is set out in section 36.(2) of the Constitution as follows:

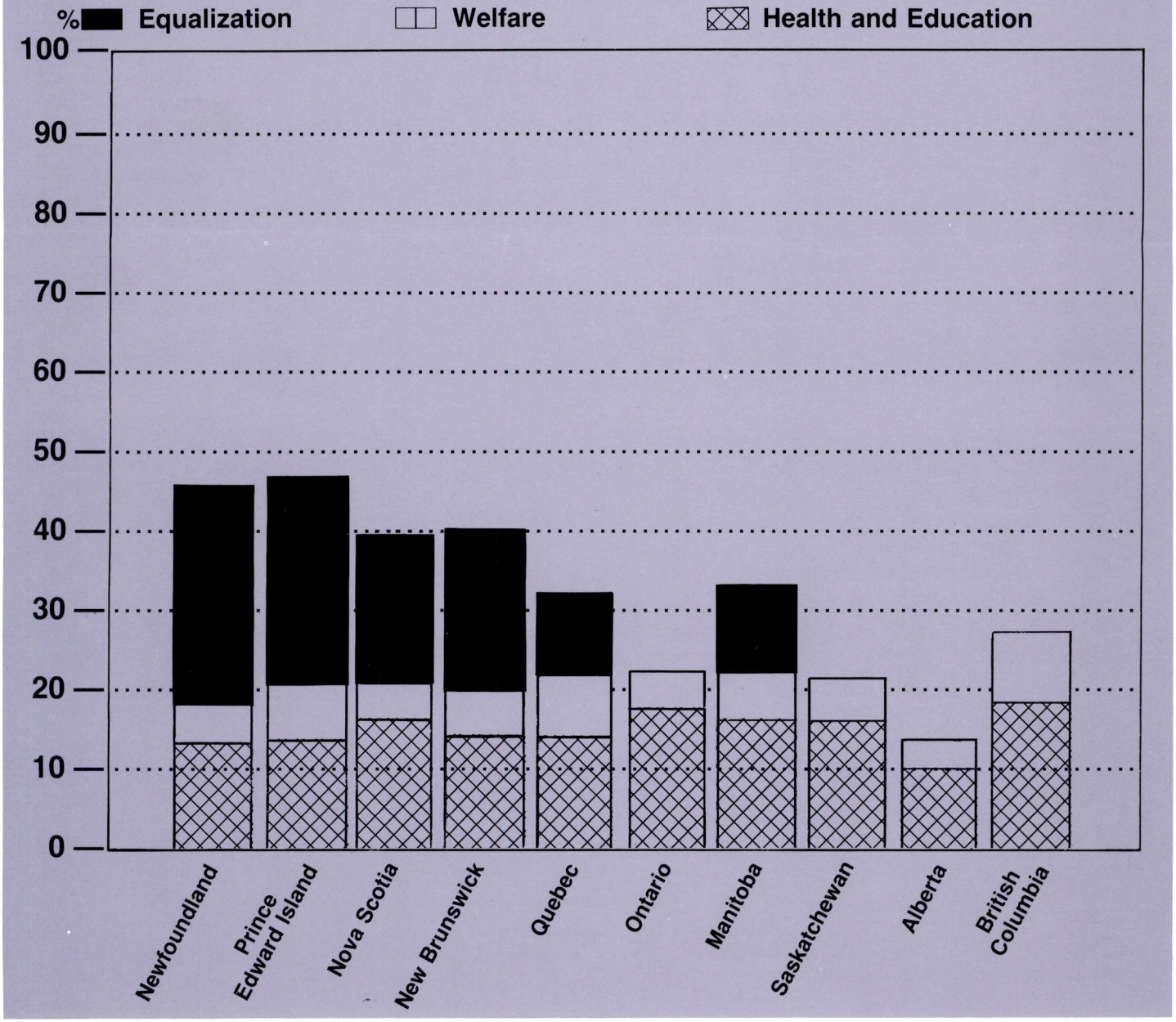
"Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation".

This provision was added to the Constitution in 1982. However, similar statements about the intent of the program go back to its origin in 1957, and indeed even earlier, to 1940, when the concept of equalization was first proposed by a Royal Commission.

Although equalization has a distinct purpose, program payments have always been made free of any conditions. Neither the federal government nor the provinces have considered that it would be appropriate for the federal government to specify levels of taxation or public services that provinces should provide. Any province receiving equalization is therefore free to use funds from this source to raise its levels of public services or to lower its levels of taxation, or some combination of the two.

The equalization program covers local as well as

**CHART I**
**MAJOR FEDERAL GRANTS TO PROVINCES AS A PERCENT OF GROSS PROVINCIAL REVENUES, 1985-86**



provincial governments. This is done by collectively taking each province's municipalities and school authorities, etc., into account in determining its eligibility for equalization and the amount of any payment it receives. Although equalization payments are not made directly to local governments, it is inevitable that payments to an equalization-receiving province will, in one way or another, benefit its local governments.

The need for an equalization program in Canada arose for two reasons: first, because Canada is a federal state; and second, because Canada has had a persistent problem of regional economic disparities. As a consequence of these regional disparities, any given level of taxation will tend to raise more money in high-income provinces than in low-income provinces. In the absence of some countervailing action of the kind provided by an equalization program, the low-income provinces would normally have higher levels of taxation and/or lower levels of public services than the high income provinces, in some cases markedly so. Successive Canadian Parliaments have felt that such a situation would weaken Canadian unity, and political spokesmen have frequently referred to the equalization program as "the cornerstone of Canadian federalism".

The equalization program is not intended to address the underlying problem of regional economic disparities. Accordingly, payments are made to *governments* and are based upon the measured well-being of these governments as distinct from their residents. (In fact, it is possible, although not likely, for a particular region to have *residents* whose average incomes are relatively low but a *government* whose total per capita revenues from taxation—perhaps because of large natural resource rents—tend to be relatively high. In such circumstances, no equalization payment would be warranted.) While payments are made to governments, their ultimate impact is upon individuals since the well-being of individuals is influenced not only by their cash incomes, but also by the goods and services they receive from their provincial and local governments and the provincial and local taxes they pay.

### Calculation of Equalization Entitlements

Equalization is a "formula-based" program. Entitlements are calculated by a formula with three basic steps:

- Estimate the total amount of revenue per capita that each province could raise by imposing a *standard tax system*.
- Determine the level of revenue per capita to which each province is entitled to be raised. This is done by estimating the total amount of revenue per capita that a prescribed set of middle-rich provinces, known as "standard provinces", would obtain from the same standard tax system.
- Compare the per capita amounts from steps (1) and (2) for each province. If the amount under step (1) for any province is less than the amount under step (2), that province has a per capita equalization entitlement equal to the amount of its shortfall.

These steps are illustrated by *Chart II* and *Table 1*. *Chart II* indicates two important things about equalization. First, it illustrates how the equalization program got its name because it shows that, after taking account of equalization, the total per capita fiscal capacities of each of the eligible provinces are equal.

Second, *Chart II* demonstrates that the equalization formula has two basic elements:

FISCAL CAPACITY = the estimated per capita revenues that a province can obtain from imposing a standard tax system; and

## TABLE 1: CALCULATION OF EQUALIZATION ENTITLEMENTS, 1985-86

| Province | (1) Average Per Capita Yield of RTS in Standard Provinces | (2) Per Capita Yield of RTS in Province | (3) Per Capita Shortfall of Province from Standard Provinces (Col. 1 - Col. 2) | (4) Population | (5) Equalization Entitlement (Col. 3 x Col. 4) |
|---|---|---|---|---|---|
| | ($) | ($) | ($) | (000) | ($000,000) |
| Newfoundland | | 1,895 | 1,036 | 581 | 602 |
| P.E.I. | | 1,928 | 1,003 | 127 | 128 |
| Nova Scotia | | 2,284 | 647 | 881 | 570 |
| New Brunswick | | 2,129 | 802 | 719 | 577 |
| Quebec | | 2,516 | 415 | 6,581 | 2,734 |
| Ontario | | 3,110 | — | 9,064 | — |
| Manitoba | | 2,579 | 352 | 1,070 | 377 |
| Saskatchewan | | 3,321 | — | 1,019 | — |
| Alberta | | 6,333 | — | 2,348 | — |
| British Columbia | | 3,310 | — | 2,891 | — |
| Total | 2,931 | | | 25,281 | 4,988 |

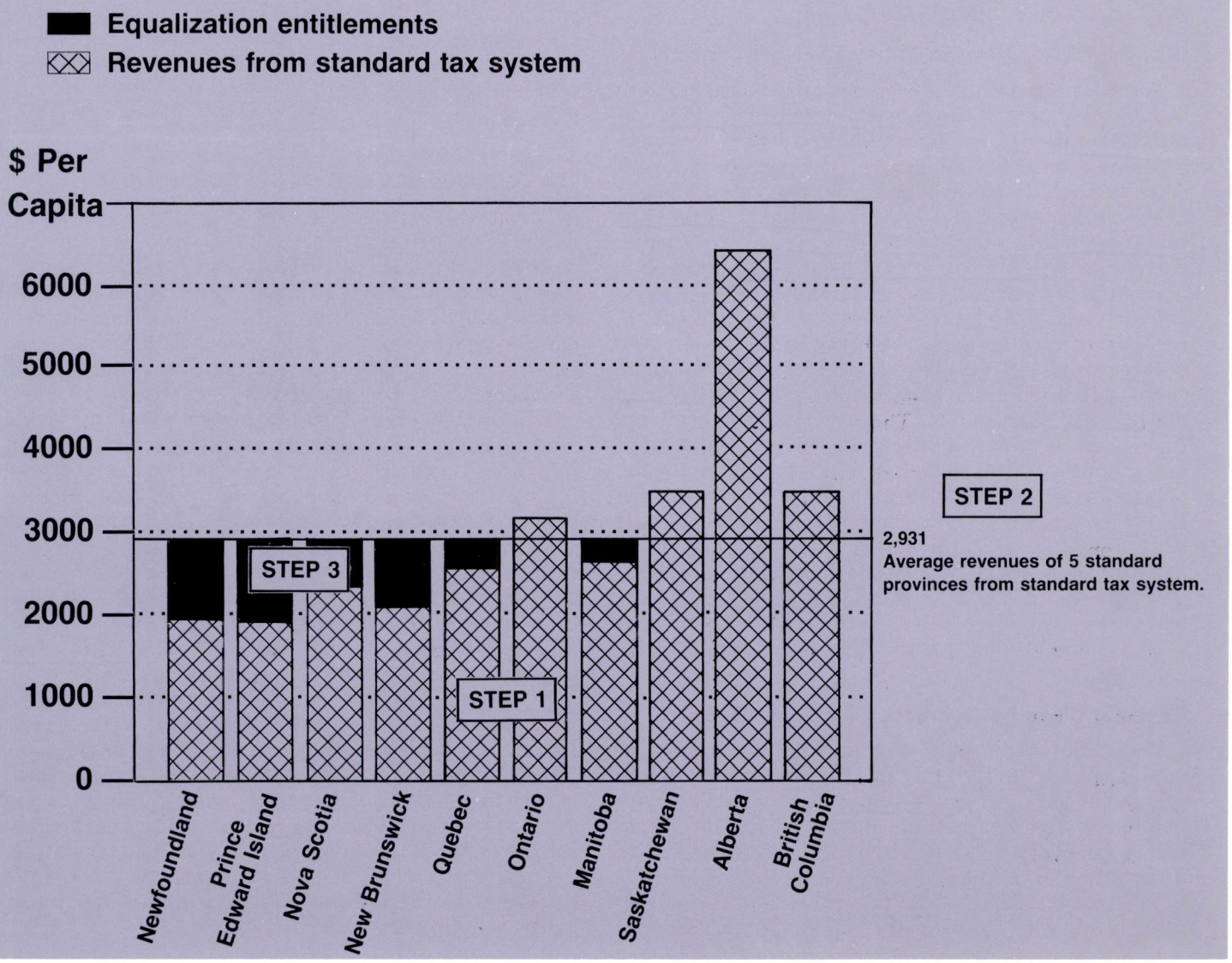
EQUALIZATION STANDARD = the estimated average per capita revenues that the standard provinces can obtain from the same tax system—a level to which all provinces are entitled to be raised by the equalization program, and one that is considered sufficient to make it possible for all provinces to provide their residents with reasonably comparable public services if they levy reasonably comparable taxes.

Both fiscal capacity and the equalization standard are determined with reference to a standard tax system. This leads to consideration of the RTS because the standard tax system that is used to determine Canadian equalization entitlements is the RTS.

### THE CANADIAN REPRESENTATIVE TAX SYSTEM

The Candian equalization program was introduced in 1957, at one of the quinquennial renewals of what are known as the "federal-political fiscal arrangements". Prior to that time, these arrangements had related mainly to a cooperative system for sharing revenues from the personal income tax, the corporation income tax, and the estate tax. The original equalization formula was limited to these three taxes, but was in effect a "mini-RTS" that incorporated highly reliable data on tax yields derived from the revenue sharing system. The equalization program was widely accepted, and in 1967 was enlarged to take account of

## CHART II
## HOW EQUALIZATION ENTITLEMENTS ARE CALCULATED, 1985-86



all provincial taxes on income, consumption, property and natural resource rents, as well as various licenses, fees and service charges.

While local government revenues were excluded from the enlarged equalization program in 1967, it is fair to say that a comprehensive RTS was put in place at that time. In taking the decision to adopt the RTS, Canada was profoundly influenced by pioneering work on the concept by the Advisory Commission on Intergovernmental Relations, set out in a 1962 publication entitled *Measures of State and Local Fiscal Capacity and Tax Effort*.

The original Canadian RTS may be referred to as "RTS 1967" and it was suceeded, at five-year intervals, by RTS 1972, RTS 1977 and RTS 1982. The latter is presently in effect and will apply until its expiry in 1987. Each of these representative tax systems has been based upon the concept of devising a tax system that would be typical, in both rates and structures, of all of the taxes, licenses and fees, etc., currently levied by provincial, or provincial and local, governments. School purpose taxes were added to the system in 1973. Municipal taxes, together with local government revenues from sales of goods and services, were added in 1982. The Canadian system goes somewhat beyond pure taxation revenues, and can appropriately be referred to as a "representative revenue system". However, this term is not used in Canada.

### How the RTS is Used to Estimate Fiscal Capacity

The fiscal capacities of each province have therefore been estimated by means of successively defined representative tax systems since 1967. This has been done by estimating the total amount of revenue that each province could raise each fiscal year from the RTS then in effect. Such estimates are made separately for each tax and non-tax source of revenue. (For convenience, we refer to each kind of revenue as a "tax" whether it is a genuine tax, a quasi-tax, or a non-tax.)

More specifically, the procedure to estimate fiscal capacity is as follows. For each tax in the system, the *average provincial tax rate* for the fiscal year is applied to the estimated value of each province's standardized *tax base* for that source. The average provincial tax rate is determined by dividing the total revenues of the ten provinces from a tax by the total tax base of the ten provinces for that tax, as measured for purposes of the RTS. The tax base is determined with reference to a definition that is intended to be typical of the various bases actually used by provinces for that tax. The resulting revenue yields from applying tax rates to tax bases are then summed for each province to give its total estimated yield for the RTS—that is, its "fiscal capacity".

### Revenue Classification in the Canadian RTS

The initial step in applying an RTS, and one that is sometimes overlooked, is the classification of provincial-local revenues into categories or sources. Ideally, a separate revenue source should be established for every kind of tax which has a distinctive distribution of tax base among the ten provinces.

The present RTS has 39 categories and comes reasonably close to meeting this ideal. The RTS established in 1967 had only 16 revenue sources. This has increased gradually over the years to the present number. Some revenue categories have been added as a result of enlargement of the equalization program by the federal government. Others have been added to take account of new revenue sources developed by provinces, such as lotteries and payroll taxes. However, most of the new categories have stemmed from efforts to improve the quality of inter-provincial comparisons. For example, in 1977 revenues from alcoholic beverages were split into separate sources for spirits, wine and beer in order to reflect the varying degrees to which provinces can derive revenues from these products owing to differences in the elasticity of demand and also their regionally-distinctive patterns of consumption. Similarly, in 1982 a special category was established for heavy oil because its economic rent tends to be less than that from conventional oil, and there are distinctive patterns of regional production, with heavy oil being concentrated in Saskatchewan and conventional oil in Alberta. Quite a number of natural resource revenue categories have been added for similar reasons.

Natural resources account for almost half of the total number of categories in the present RTS. This is partly a reflection of the importance of natural resources as a source of inter-provincial disparities in Canada and partly a reflection of the well-known tendency of natural resources of any kind to have a unique geographical incidence. One reason for the importance of natural resources as a source of provincial revenues is that most sub-surface rights to minerals in Western Canada are owned by provincial governments.

### The Definition of Tax Bases in the Canadian RTS

The most important element in measuring fiscal capacity is the definition of tax bases, since it is the tax base amounts which determine how rich or poor a province is, whether it qualifies for equalization, and if so, by how much. A definition must be made for each revenue category. This has proven to be a difficult, technical task, in part because each tax base must reflect the increasingly complicated tax structures of the ten provinces. Fortunately, problems with the important income taxes have been minimized because the ten provinces continue to levy personal and corporation income taxes on a remarkably uniform basis that is closely tied to the federal system. Other taxes frequently present more difficulties. The various tax base definitions have been worked on over a period of some 20 years, and many of the most difficult problems have been resolved in a satisfactory manner. Of course, problems remain. At the present time, work is being done on a number of tax bases, including those for property taxes, general sales taxes, and lotteries. This work is done in close consultation with the provinces. Inevitably, however, there is a continuing need for some changes to tax bases because each annual round of provincial budgets tends to bring changes in the typical structure of some provincial taxes. For this reason alone, the RTS will always need periodic updating.

*Table 2* provides a brief summary of the 39 revenue categories in the present RTS and the accompanying tax base definitions.

Douglas Clark

## TABLE 2: SUMMARY OF THE 1982 RTS

| Type of Revenue | Number of Revenue Sources | Summary of Tax Base Definition |
|---|---|---|
| Personal income tax | 1 | Total simulated yield in province of the average provincial personal income tax rate applicable to each tax bracket as these brackets are defined for purposes of federal tax. (This is done by a federal personal income tax model.) |
| Corporation income tax | 1 | Portion of taxable income of corportions allocated to province by a *standard allocation formula* set out in the Income Tax Regulations and accepted by all provinces. |
| Consumption taxes (general sales taxes, taxes on gasoline, alcohol, tobacco, etc) | 9 | Value or volume of consumption in the province of taxable good or service. |
| Property taxes L.V. excluded | 1 | Value of buildings included in capital stock in province for *building component* of property taxes; gross provincial product, with some adjustments, used for *land component* of property taxes. i.e., land per se is excluded |
| Taxes on natural resource rents Based on production | 18 | Value or volume of production in the province of natural resource in most cases; actual revenues of province from resource used in two cases. |
| Estate taxes Based on income | 1 | Total income of high income taxpayers in province, with increased weight for taxpayers aged 65 and over. |
| Taxes on corporation capital - not assets | 1 | Value of those elements of corporation capital that are typically taxed, such as equity capital, reserves and long-term debt—with higher weight for amounts attributable to financial institutions. |
| Health insurance premiums | 1 | Estimated number of persons liable for typical premium in province. |
| Payroll taxes | 1 | Value of wages and salaries paid in province. |
| Lotteries | 1 | Personal disposable income in province, with some adjustments. |
| Motor vehicle licenses, non-commercial | 1 | Number of passenger vehicle registrations in province. |
| Motor vehicle licenses, commercial | 1 | Value of capital stock of vehicles sold in province over five year span. |
| Miscellaneous taxes and non-tax revenues | 2 | Weighted average of province's tax bases for all non-resource revenue sources; actual revenues of province for one minor source. |

Some of the tax bases listed in *Table 2* are not the statutory bases that are actually used by provinces or local governments, but rather proxies for the actual bases. If a proxy base has a distribution among provinces that is similar to the distribution of the typical actual base, it should produce a result that will be similar to the result that would be obtained if the actual base could be used. This is important because statistical data are sometimes not available for actual tax bases on a uniform basis for all provinces.

Estate taxes provide an example of a proxy base. The actual tax base for estate taxes (actually known as "succession duties" when levied by provinces) has been the value of the estate or of the bequest. Provinces have been withdrawing from this field, and there are no longer suitable data on estates or bequests that could be used for purposes of intergovernmental comparison. However, there are good data on the total income of persons in high tax brackets, with separate data for persons aged 65 and over, from which a suitable proxy base can be developed. Where it is necessary to employ a proxy base, every effort is made to use one that is supported by statistics of good quality for purposes of inter-provincial comparisons.

### Population

One final element of the RTS is population. Population is used to compare provinces of different size, and is a measure of provincial expenditure need—it being assumed that, on an overall basis, such needs are equal per capita for all provinces. As a consequence, population is undoubtedly the important single input into the equalization formula. Fortunately, Canadian population data appear to be of good quality. Annual data are related to census benchmarks, and a census is taken every five years. In addition, considerable attention has been given in census planning to means of reducing the extent of a phenomenon known as "census under-enumeration"; i.e., the number of people who, for any reason, are not counted in a census.

### Alternative to the RTS

The RTS is not the only means of estimating provincial fiscal capacities. From the very beginning, consideration has been given in Canada to the use of an alternative which would be based upon some broad "macro concept" of provincial income or provincial product. In the 1950s, attention focused on the concept of *personal income,* for which data were readily available. In the 1960s and early 1970s, attention focused on a *weighted combination of personal income and corporation taxable income* which took account of the relative proportions of provincial taxes paid by individuals and business enterprises. More recently, interest has shifted to *gross domestic provincial product,* which has been published each year by Statistics Canada beginning with 1977. Although the latter series is published on an "experimental basis", most of its components are considered to be of good quality and it has been used in both RTS 1977 and RTS 1982 as a proxy for certain tax bases which relate very broadly to economic activity.

The Canadian rationale for choosing a representative tax system essentially has been that this reflects the real world of what provinces collectively choose to tax. Accordingly, it gives the most weight to those things which provinces tax most heavily, such as:

- consumer goods for which there is an inelastic demand—such as gasoline, beer, tobacco and lottery tickets (but not food because provinces choose not to tax it);
- real property—because it is immovable, making tax evasion almost impossible;
- economic rents—especially from natural resources (which can be taxed without affecting output decisions or giving rise to a misallocation of the factors of production);
- non-residents—for example, the application of retail sales taxes to goods and services that tourists are known to buy heavily.

The latter two categories both relate to a phenomenon known as the "exportation of taxes"—a matter that the RTS automaically takes into account.

Macro-concepts of fiscal capacity do not, and are not intended to, recognize distinctions collectively made by provinces in their actual systems of taxation. As a result, these concepts fail to reflect adequately the uneven provincial distribution of many things that are taxed heavily and they do not provide a sensitive measure of fiscal capacity.

The advantage of the RTS can be stated in another way. The RTS provides a direct measure of the fiscal capacity of *governments,* whereas macro-measures of capacity relate to the capacity of the total economies over which governments have jurisdiction. Since grants such as equalization are paid to governments, there is a *prima facie* case for basing them upon a fiscal capacity measure such as the RTS that relates to governments. However, there is a continuing recognition in Canada that macro-concepts of fiscal capacity have advantages. For example, they are considered to be more "neutral" because they are less likely to influence the behavior of provincial governments or to be biased by certain actions that provinces may take. Macro-concepts are therefore likely to continue to be considered at each quinquennial renewal of the equalization program.

If gross domestic provincial product or some other macro-economic measure were to be used to measure fiscal capacity, the concept of a "standard tax system" as illustrated in *Chart II* could be retained, but in this event, the same measure of tax base would be used for each tax in respect of which equalization is calculated. There would then be no need to classify provincial-local revenues into sources.

### Other Uses of the RTS

The RTS provides data inputs which make important fiscal comparisons among provinces possible. Accordingly, indices of fiscal capacity and of tax effort, of the kind that the Advisory Commission on Intergovernmental Relations now calcualtes in the United States, are produced following every official calculation of equalization. In addition, indices of fiscal capacity are produced, *post-equalization,* which indicate the striking effect that this program has on reducing disparities among provinces. The various indices help

governments monitor the state of horizontal fiscal balance in the Canadian federation and are useful for general policy purposes.

Apart from equalization, indices of fiscal capacity have also been used in some relatively small federal-provincial programs where it is intended to provide benefits to provinces that have revenue-raising capacities below certain specified levels.

## CONCLUSIONS

Canada has successfully operated an RTS since 1967. The RTS is built into Canada's large equalization program which provides annual financial support, with no strings attached, to financially-disadvantaged provinces on a formula basis. The purpose of these grants is to make it possible for all provinces to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. The RTS is used to allocate equalization payments because it is considered to provide the most sensitive and realistic means of comparing provinces in respect of their revenue-raising capacities. The present RTS takes account of all provincial and local taxes and almost all other provincial-local revenues from own sources.

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### Footnotes

[1]In addition, the federal government transfers a further amount to provinces of approximately $7 billion (for health, education and welfare) in a form known as a "tax transfer". A tax transfer is a transfer of "tax room" by one level of government to another, which is achieved by one level of government reducing its rates for one or more kinds of tax in order that another level of government can make a corresponding increase in its own rates for the same taxes, without there being any change in the overall burden on the taxpayer.

[2]Chart I includes tax transfers for health, education and welfare, as well as cash transfers for these programs and for equalization.

*Douglas H. Clark is Assistant Director, Federal-Provincial Relations Division of the Department of Finance in Canada. The views expressed here are those of the author and not of the Government of Canada.*

A Fiscal Note

# Tax Reform and Federal Individual Income Tax Liabilities

**Carolyn D. Lynch**
**Analyst**

As part of a larger study on the fiscal effects of comprehensive tax reform of the the federal income tax structure on state and local governments, the Advisory Commission on Intergovernmental Relations (ACIR) is analyzing the impact of various tax reform proposals on federal income tax liabilities. The research was supported in part by a grant from the Ford Foundation.

The purpose of this analysis is to determine how the various tax reform plans would affect the federal income tax liability of citizens in different states and income classes. Preliminary information is now available on how the President's and the House-approved plans would affect federal personal income taxes on a state-by-state basis.

The ACIR has contracted with deSeve Economics Associates to provide the data necessary to analyze the effects of federal tax reform. The data supplied by deSeve Economics are based on microsimulation modelling of the federal income tax system. The data base used in the computer simulation by deSeve Economics is conceptually the same data file that the U.S. Department of the Treasury and the Joint Tax Committee use as their primary data source for analysis and revenue estimates of all federal individual income tax changes.[1] The number of records in the deSeve data base, however, is substantially larger and, therefore, permits the calculation of meaningful results on a state-by-state basis. The statistical procedures employed in the development of the deSeve data base used projections of the national economy based on the Administration's (February 1985) economic forecasts.

Both tax reform plans contain some provisions that would increase federal tax liability over current law and others that would decrease liability. It is the net effect of these two types of changes, when they are combined in a comprehensive reform plan, that determines whether a particular tax reform proposal increases or decreases tax liability, or leaves it unchanged. It is important to note that certain provisions of both the President's and the House-approved plans cannot be caputred by microsimulation techniques. For both plans, it was possible to estimate the effects of approximately 98% of the revenue-losing provisions and 73% the revenue-gaining provisions. This means that the estimated changes in tax liability derived from the microsimulations are overstated by approximately 25% in both cases. The simulated national reduction in personal income tax liability is 9.2% under the President's proposal and 9.6% under the House-approved plan. When the figures are adjusted for the 25% overstatement, total federal personal income tax liability is estimated to fall by 6.9% under the President's plan and 7.2% under the House-approved plan.

## The Differential Impact of the Two Plans

A state-by-state comparison of the impact of the President's and the House-approved tax reform proposals on federal individual income tax liabilities is presented in the table on pages 32-33. The effect of the two reform plans on federal personal income taxes paid by all residents of a state, and a breakdown for five income classes within each state, are given. The preliminary estimates are based on 1986 levels of income and are designed to present the permanent or fully phased-in effects of all provisions of the tax reform plans, even though some provisions would not actually take full effect until years subsequent to 1986. Federal individual income tax liabilities were estimated for five income classes within each state under current federal tax law and for each of the two reform plans. From these estimates, the percent changes in federal income tax liabilities from current law for each income class and reform plan were calculated. The figures in the column headed "weighted average of all classes" are based on estimates of aggregate federal income tax liabilities under current law and the two reform plans for all residents of a particular state. The figures, therefore, indicate the average change in liabilities for all taxpayers of that state.

Total federal individual income tax liabilities for the entire nation are estimated to decline by approximately 9% under both the President's and House-approved tax reform proposals.[2] The reduction in federal individual income taxes, however, would vary considerably by income class and by state under the two plans. Under the Administration's proposal, the decline in aggregate federal income tax liabilities would range between −15.0% for Alaska to −2.9% for Minnesota, a difference of 12.1 percentage points.[3] The House-approved plan demonstrates

Mason Gaffney
3040 Tyler Street
Riverside, CA 92503

August 3, 1985

Editors
EQUAL RIGHTS
580 N. 6th St..
Indiana, PA 15701

Dear Editors:

Lawrence Clark Sr. of Medfield, Mass. expresses doubts about the constitutionality of a Federal lvt. He may have overlooked the following.

1. Expensing and accelerated depreciation are tantamount (respectively) to complete and partial tax exemption of the income from the depreciable capital to which they are applied. Land is not eligible for either. By this means there is already an element of lvt in income taxation, both corporate and personal, federal and state. In application it is badly flawed, due to non-uniformity, to de facto depreciation of land, to double depreciation, and so on: but the legal concept is there.

2. Taxation of "imputed income" from owner-occupied residences is seriously considered in recent "reform" proposals, with no question of its constitutionality.

3. The Supreme Court has declared that Congress can tax and define "capital gains" (read unearned increments of land value) in any manner that it pleases. The fault is with Congress which has not picked up the ball; not with the 16th Amendment.

4. The 16th Amendment was passed at a time when Georgists were highly active and influential in tax and political matters. There is reason to believe that many of them supported it, in the belief that it could be used as a vehicle for federal land taxation. This is a vacuum of intellectual and politico-economic history which some diligent researchers need to enter. The courts, in interpreting the meaning of terms and intent of legislation, give some weight to arguments published by advocates.

But our major problem lies with elected officials, and the strange, self-destructive propensity of median Americans to vote for people with bloated budgets which they have to know are raised by selling out majority interests to special privileges. When someone figures out a solution to that one, much else will fall in place.

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LAWRENCE D. CLARK, SR.
21 EMERSON ROAD
MEDFIELD, MASS. 02052

February 10, 1986

Mason Gaffney
3040 Tyler Street
Riverside, CA 92503

Dear Sir:

In the winter issue of Equal Rights you write that there is already at least one element of LVT in the Federal income tax code and that there are ways of introducing more LVT elements in the course of reforming the tax code. I have been quite well aware of this. I have suggested removing the capital gains tax on capital invested in productive enterprise and taxing at the full rate the so-called capital gains from investment in land. I have even suggested that perhaps a surtax based on land values could be added to the income tax without violating the constitution. In expressing doubts about the constitutionality of a Federal LVT I raise a question to which I still do not know the answer. Do you think the Federal income tax could be replaced with a complete out and out Federal land-value tax without a constitutional change? A land-value tax collects the economic rent (or a portion of it) from the taxpayer whether or not he or she has received any of it as income during the year. If you do think it could be done and if you are right about it that's great for the Georgist cause. What are we waiting for, then?

If we could have one hundred percent success in reforming the property tax so that all improvements nation-wide would be untaxed and the whole burden were to fall on land, we would still be only a small fraction of the way towards completely untaxing labor and capital. Until we tackle the big dragon, the Federal income tax, we will not be far on our way to Georgist victory.

Very truly yours,

Lawrence D. Clark, Sr.

Lawrence D. Clark, Sr.

Risden, Holland, Band, TRCD, Schabb. We recruited them to Georgism. Crops up, like radiation sickness, years later.

"Fight one more round." Glad to see Bob Wins. back in action.

1. Cato
2. Need for Georgists to recognize the Georgist angle in more issues.

a. Rachel Carson. 17¢ stamp.

Env. is common propty. Stop blowing smoke in my ~~air~~ face; poisoning my <u>private</u> <u>natural</u>.

Had a passion, an ideology, not ashamed, ~~to~~ wasn't intimidated as so many are by no-panacea-ism.

b. Conservationists.

We are stewards of the earth for next gen. Is what H. G. said. Every new child has = right (try that on yr. cons. friends).

(Gary Schlichen, N.C.; Otis Graham, UNC Press invite.)

c. How spend public money?

Don't be compartment-minded. "Many rockets go up, ..."

~~E~~ "Make land common prop." says as much about how rent shd. be distrib. after collection, as how you should raise taxes.

Form of social dividend: cash (like Ak.), public ed., etc. } <u>Per capitae</u>.
vets. benefits

1830 distrib. was a land issue, surplus from sale of fed. lands. But gave to specs., p.w.

3. What level of govt. shd. collect?

If local govts collect — or "regions", in new NDP concept — shd. rich regions share w. poor? On what basis.

H. G. neglected. Maybe it didn't matter then, but it sure does now, & must be addressed.

Orig. ~~intent~~ idea of common prop. was federal.

Later, entered city politics. Left a movement focussing mainly on that. We've been receding, ever since from the level of passionate interest & commitment he inspired. There's enough at city level to keep us alive, but not to make us soar.

Imagine asking a city to declare a social dividend. Even a state — Alb. case.

"Welcome to Calif" - now go home".

Must face q.u. of fiscal federalism. We'll find many ecsts. got there first — & talk a lot about rent. Don't say all the right things, but are on the right subject.

Not just a qu. of distribn. Is whole qu. of whether a growth-oriented policy will sell. Now, feds tax people & give money to landholders. Need to reverse that.

when W-n Canada exempted lodge, was r.e. indy that put it over.

# Vancouver Counts on Expo '86 to Build Base for Stronger Economy

By KENNETH FREED,
*Times Staff Writer*

VANCOUVER, Canada

Things have not gone British Columbia's way in recent years. But there is hope—a giant party.

Faced with an unemployment rate consistently above 10%, nonexistent industrial growth and a disappearing economic base, the powers that be are counting on a world's fair called Expo '86 to point the way back to prosperity.

Expo '86 is scheduled to open May 2 and go on for 5½ months. Vancouver expects it to attract millions of people to a 250-acre site crowded with displays, rides, concerts and fast-food outlets. Transportation and communication will be the theme.

Provincial Premier Bill Bennett, the key promoter for the fair, said it is part of an economic strategy designed to catch the attention of the world.

### Declining Demand

In an interview, Bennett lamented British Columbia's traditional dependency on exporting such natural resources as lumber and coal for which there has been declining demand. Expo '86, he said, will promote tourism and "create a service industry as the fastest way to create employment."

The potential beyond Expo "is tremendous," he said, and added, "I don't know where we would be without Expo."

His cheery hope is based on figures that indicate that the fair will be the most successful in recent times, the best since Montreal's Expo '67 and far outpacing expositions in Japan, New Orleans and Knoxville, Tenn.

Sales are moving briskly, with more than 9 million of the projected 13.5 million tickets already paid for and construction running far ahead of schedule. There will be pavilions from 32 countries, every Canadian province and territory, and three American states.

Entertainers will be on hand, from the Kirov ballet company to the Philadelphia Orchestra, as well as Broadway stars and rock groups.

And, according to Jim Pattison, the millionaire trucking tycoon who is directing Expo on a volunteer basis, the project will not overrun its budgeted $300-million deficit.

All this is aimed at turning British Columbia into a tourist mecca and service-industry center to replace lumber and mining as the province's economic engine.

"It will be the magical event of the year," Vancouver Mayor Mike Harcourt, once a bitter critic, said recently. "It's going to build the realization that this is one of the best places around, a choice destination for tourists, conventions . . . a catalyst for growth and job creation." Maybe so, but there are skeptics who have raised questions not only about the long-term economic benefits, but also about forecasts that the fair will restore civic pride and transform Vancouver into a more livable city.

Dave Barrett, a former premier whose moderately socialist New Democratic Party was defeated by Bennett and his Social Credit Party, at least in part over the Expo issue, said the fair "is a kind of psychological circus to give people a lot of hope . . . the sort of thing that goes back to Nero."

### Looking for Miracle

Talking with a reporter, Barrett likened the area's economic malaise to a deadly illness, and added: "If you're terminally ill with economic cancer you go for the apricot pit. People are looking for a miracle . . . but there is no thoughtful planning for economic development after Expo. What is missing is the will to form rational economic and political thought. You don't build a solid economy on a party."

Nonsense, Bennett said. He described Expo as part of an economic strategy, accompanied by tax breaks and other incentives aimed not only at building tourism but attracting businesses and financial institutions that will see that British Columbia provides modern technology and a good investment climate.

Bennett has invited 32,000 international businessmen and firms to come to Expo and tour Vancouver and the rest of the province.

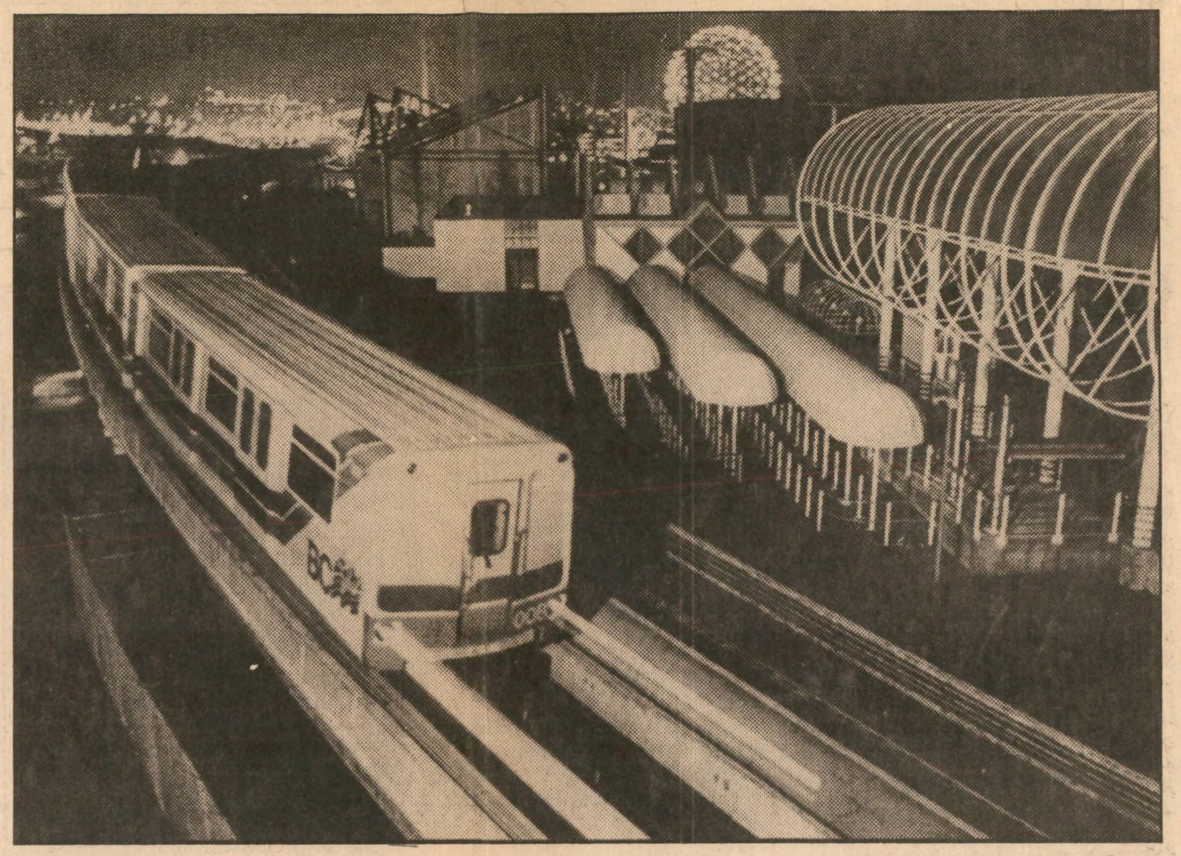
Harcourt, who once wrote to the international organization that authorizes world's fairs to protest putting Expo '86 in Vancouver, but then came around to supporting Bennett's view, also dismissed the gainsayers, particularly those who say past fairs did not provide any lasting benefits.

Harcourt takes credit for negotiating a broad range of improvements for his city—new bridges, widened streets, an elevated rapid transit system, a computerized traffic control system.

### 'Acceptable Use'

"In addition," he said, "we came up with an acceptable use for the site after Expo ends in October . . . and I don't see the momentum slowing down. Vancouver will be the business, transportation and communication center on the West Coast." Others are dubious. Some see Expo as a missed opportunity to really develop Vancouver into a truly beautiful and livable city.

Even Pattison, who is given credit for almost single-handedly making Expo a reality, does not see much long-range impact beyond accelerating tourism throughout the province. "I don't think it's going to make Vancouver a different place," he said. "It's not going to be like New York, Los Angeles or London, except in terms of the Pacific Rim. . . . But that was going to happen anyway," because the city is already a gateway into Canada from Asia.



Reuters

Skytrain, Vancouver's new automated light rapid transit system, cruises above the Expo '86 site.

There is also a sense of letdown by city planners and social philosophers who had hoped that the fair would spark a revamping of the city, which had developed helter-skelter into something of an urban eyesore, its basic ugliness hidden by the surrounding natural beauty.

Edward Gibson, an art historian at Simon Frazier University, said in an interview that "a famous architect once came here, looked around and said, 'What a view by God, what a mess by man.' "

Peter Oberlander, an urbanologist at the University of British Columbia, also sees Expo as "a lost opportunity."

Instead of planning a long-time use for the site with the 6-month fair as an interim part, "we have turned it around," making the fair the focus and then scrambling to decide on a more permanent use, he said. Oberlander said he admires the city's plan for ultimate development of part of the Expo site as an area of mixed residential units, small businesses and recreation facilities. "That is positive, and gives me hope," he said. But, he added, "it will take 20 years"—and

Please see EXPO, Page 7

Los Angeles Times

# EXPO: Major Benefits Seen

**Continued from Page 2**

there is no guarantee that the politicians will carry it out.

Gibson, the art historian, said fairs never have a lasting impact on the wealth of the host city. He said the slowest economic growth of any city in Canada has been in Montreal since the 1967 world's fair.

In the past, he went on, fairs had their greatest impact in non-economic areas, particularly through architecture. He said the Chicago fair "made neoclassical architecture secure from 1890 until the entry of modernism in the 1930s."

"This fair is marked by stylistic ambiguity," he said. "Nothing has emerged as a characteristic of Vancouver. . . . We have failed to use Expo to document the uniqueness of the city."

Oberlander seconded this view, pointing out that perhaps the greatest legacies of past world's fairs are the Eiffel Tower in Paris and the Crystal Palace in London. "I can't think of a thing that will be left behind on this site that will be memorable," he said.

What will be seen at the May opening will be groups of squat, prefabricated, featureless buildings facing a series of concrete malls filled with rides, restaurants and sculptures reflecting the fair's theme. There are only three permanent structures on the entire site and none is considered to have much in the way of artistic merit.

Gibson said this is particularly ironic since Vancouver is the home of Canada's most famous architect, Arthur Erickson, who was not even asked to bid on an Expo project.

"It isn't the first time the best architect was left out," Gibson said, "but it is sad. It is a missed opportunity, particularly for rethreading the fabric of the city, to create a visual face to mark Vancouver as a great city."

Still, Oberlander and Gibson both said there are some benefits.

"Expo has raised spirits," Gibson said, "and it will have a cultural impact, and the most positive aspect is that the government has been sensitive to citizen involvement."

Oberlander said the choice of the site, in part a mud flat with railroad yards on the edge of a lagoon called False Creek, was excellent, since it focused attention on a key part of the city.

Because it includes water, he said, it presented magnificent possibilities such as those that were developed in Baltimore's inner harbor and Toronto's lake front. "This could have been made into a usable, useful and humane area," he said.

The hoped-for restoration of civic and political civility is considered doubtful, though there clearly is a positive aura among Vancouver's residents as the fair's opening nears.

But as Barrett, the former premier—he is still a major political force—put it: "Politics is fractured and hard edged." He does not see this as detrimental and does not want it to change, because "it is more honest."

"We have a clear-cut fight," he said.

Harcourt, who is planning to run for the provincial Legislature on the New Democratic ticket in the next election, also takes an inflexible stance when he turns from Expo to talk about politics.

"We've got to change the way we run the province," he said, "or Bennett's mentality is going to lose our best people. You don't create things by crapping on everybody." Harcourt was referring to Bennett's severe budget cutting in education and other social programs.

Bennett is equally determined not to give an inch to his opponents, or to allow Harcourt or any other politician to take credit for Expo. "While they played politics, we got things done," he said.

If Expo does not turn out to be the panacea its promoters hope for, and is just a good time with some leftover benefits for the tourist industry, what will have gone wrong? Oberlander has thought about that. "In the past, particularly in the 19th Century, a world's fair was a real venue of discovery," he said. "It was an opening to the future, something truly creative and stimulating. But here nothing is truly new. We have a combination of a commercial exposition and theme park, full of rides. It will increase tourism, but is that the best thing?"



A new cruise-ship facility has been constructed at the site of the Canadian Pavilion in Vancouver.

# Belzberg Family Bids $1.56 Billion to Take Over Ashland Oil

27 May 88 IV-1

NEW YORK (AP)—The wealthy Belzberg family of Canada disclosed Wednesday that it offered at least $60 a share, or about $1.56 billion, to acquire Ashland Oil, a leading U.S. independent oil refiner and marketer.

The offer came in a letter to John R. Hall, Ashland's chairman and chief executive, from Samuel Belzberg, chairman of First City Financial Corp., the Belzberg family's principal holding company.

A spokesman at Ashland's headquarters in Ashland, Ky., said the company had no immediate comment on the offer.

The Belzberg letter was included in a filing made with the Securities and Exchange Commission in which First City said that it and an affiliate already own or have options to buy a combined 2.63 million, or 9.2%, of Ashland's 28.6 million common shares outstanding. At $60 a share, it would cost the Belzbergs about $1.56 billion to buy the remaining stock.

Wall Street, however, showed some caution toward the Belzberg proposal. Although Ashland's stock rose $2.625 to $54.625 in New York Stock Exchange composite trading, the price remained well below the Belzberg bid.

Professional takeover speculators, who agreed to discuss the situation only on the condition that they not be identified, said the discount reflected investor doubts as to whether the Belzbergs will complete the transaction.

The family frequently buys a sizable stake in a company before announcing an acquisition bid. But, on some occasions, the family has dropped the bid and sold its stock back to the target company or to a third party for a profit.

Analysts also noted that it was not clear whether the offer was strictly cash or whether it might include some securities, in which case the deal's current market value might be less than $60 a share.

Asked about the proposed terms, a First City spokesman said she could not comment beyond the SEC filing.

If it is all cash, the price "would seem to me to place a reasonably full value on Ashland's assets," said Rosario Ilacqua, an analyst for L. F. Rothschild, Unterberg, Towbin. If the offer is only partly cash, "it's a whole different equation," he said.

In his letter, Belzberg said that while First City was ready to pay $60 a share, "if you enter into good-faith negotiations with us, we believe that working together we can negotiate a higher price for Ashland's stockholders."

"If you reject our proposal and our offer to negotiate, we will consider all available alternatives," Belzberg wrote. He did not elaborate.

Belzberg said that if Ashland did not respond to First City's bid by 5 p.m. EST Monday, First City would consider its proposal rejected.

The filing said that if First City acquired Ashland, it would propose adding its representatives to Ashland's board of directors but also expected to retain Ashland's current management.

Ashland, with nearly 33,000 employees, is the 14th-largest U.S. oil concern, based on revenue. In its fiscal year ended Sept. 30, 1985, Ashland earned $147 million on revenue of $8.18 billion.

Unlike some of the larger oil companies that rely on production for much of their earnings, Ashland is mainly a refiner and marketer.



Canadian Press

Samuel Belzberg

# G.B. NIXON & ASSOCIATES

742 HAWKS AVENUE, VANCOUVER, B.C. V6A 3J3
PHONE (604) 253-0541 OR (604) 687-9882


August 18, 1985

Mason Gaffney,
3040 Tyler,
Riverside, CA 92503

Dear Mason,

Just got back from Brazil. Hope you have got your Canadian tax refund. At any rate it's much better to have them owing you rather than you owing them.

Now I recall as part of our agreement for these marvellous services I have provided that you would in return give a talk at our International Conference held in Vancouver in May if we paid your way up here and handled room & board.

The talk must of course be truth-laden, relevant, scintilating, witty, urbane, and fast paced - in other words - your usual. Since we are having an emphasis at the conference on three areas - free trade, the third world, and resource rents, I thought you might like to talk about the latter as it is an area often neglected by Georgeists, in favor of pin head angel counting, site valuation taxation as a panacea, and philiological nit picking.

Hope this finds you well. The situation in our noble province can be best summed up in the words of the newly elected MLA Mr. Robert A. Williams (who has been raising considerable hell in Victoria) - "a made in Canada recession and a made in B.C. depression."

Hope you're claiming your full deductions on your U.S. return. All the best. Let's hear from you.

Garry.

Garry Nixon

GBN/aj

R May 17-23/86

## *Could Sell Energy to California Utilities*

# British Columbia May Build $2-Billion Dam

VANCOUVER, Canada (UPI)—Chester Johnson is tired of watching one of North America's last great natural power sources rush unbridled through British Columbia's mountains. It's like watching money flow through his fingers and into the ocean.

As chairman of the British Columbia Hydro and Power Authority, Johnson has control over the generation and supply of all electricity in Canada's westernmost province, a land mass more than twice the size of France.

British Columbia's rivers hold the potential of producing a hydroelectric capacity of more than 40,000 megawatts—enough to turn on every light bulb in California—and only a quarter of that power has been tapped.

B. C. Hydro wants to start construction on a $2-billion dam, known in planner's jargon as Site C, on the Peace River, 500 miles northeast of Vancouver.

**Fixed Contracts**

The provincial government wants to devote the 900-megawatt dam to long-term fixed contracts with California utilities, if the price is right. Work could begin within six months after the signing of U.S. contracts.

"Site C is just the tip of the iceberg in terms of this province's potential," Johnson said.

Until recently, B. C. Hydro had been prohibited by government policy from building beyond the projected needs of the province's 2.7 million residents.

In 1983, Site C was shelved on the advice of the British Columbia Utilities Commission because its power would not be required domestically until the next century.

But that policy was dramatically changed Sept. 17 at the official opening of B. C. Hydro's 1,800-megawatt Revelstoke dam, when British Columbia Premier Bill Bennett proclaimed that the province would pursue U.S. markets.

"In the eyes of the government, export wasn't a dirty word anymore," Johnson said. "They have changed their policy. It is an aggressive one, and I think it's good for the province."

**Sudden Reversal**

Bennett's sudden reversal, made without consulting the legislature or public, holds out the lure of 2,000 jobs during peak construction of Site C.

And jobs are what Bennett needs if he hopes to win another term in office. British Columbia's resource-based economy has been dogged by 14% unemployment during recent years.

Bennett's conservative Social Credit government, lagging behind the socialist New Democratic Party in polls, is expected to call an election by the end of the year.

In times of trouble, the government has traditionally used B. C. Hydro as a job-creation tool through rate subsidization or dam building.

"You've got to understand one thing. Hydro is the economic future of this whole economy, don't ever forget that," said Johnson, a longtime associate of the premier's. "As far as I'm concerned, where (B. C.) Hydro goes and what we do . . . are the critical things to the ongoing good of this province."

B. C. Hydro can also use the cash. The company's debt load totals more than $5.5 billion, and in the previous fiscal year it spent more than $500 million servicing that debt.

Despite a current energy glut, California seems eager to oblige B. C. Hydro with 20- to 25-year contracts for Site C power.

Compared to coal or nuclear power, hydro is relatively clean and inexpensive, and the Western United States has already exhausted most of its water resources.

**Require New Sources**

The California Energy Commission expects the state to require large new energy sources by the mid-1990s.

Eldon Cotton, assistant chief engineer for the Los Angeles Department of Water and Power, described B. C. Hydro's Site C plans as "ideal" in both timing and cost.

"All of the folks down here are basically in the same situation," Cotton said. "We have an excellent (power) base to take us into the next decade . . . but this is a very attractive project in terms of future needs."

California utilities are confident of B. C. Hydro's ability to generate electricity but uncertain about Canada's ability to deliver.

B. C. Hydro sends electricity to the United States via the transmission system of the Bonneville Power Administration (BPA), the U.S. federal agency that controls energy supplies in the four Northwest states.

Under the administration's policy, however, B. C. Hydro can gain access to the grid only when the transmission lines are not being fully utilized by U.S. utilities.

**Spot Sales**

Despite this policy, B. C. Hydro has gained a lucrative taste of the U.S. market. During the last nine months, it has sold a record $145 million of its surplus in spot sales to U.S. utilities.

The export price of that power averaged below 20 mills (2 cents) per kilowatt hour. Long-term fixed contracts for Site C power would range between 35 and 50 mills.

But B. C. Hydro has experienced little trouble gaining access to the BPA grid during the past year only because of abnormally low water levels in the Pacific Northwest.

Most observers believe that BPA's north-south transmission lines would have to undergo major expansion before guaranteeing Site C power long-term access to California.

Melissa Jones, a special adviser to California Energy Commission chairman Charles Imbrecht, said her state is willing to contribute more than $500 million to grid expansion and "is trying to light a fire under Bonneville to get them started."

That view was emphasized by Imbrecht following a Jan. 7 meeting at BPA's Portland offices, in which Johnson outlined the Site C project before 45 representatives of U.S. utilities.

"There was unanimity of interest expressed by all Californians to

**Please see DAM, Page 5**

# DAM: British Columbia Energy Project

**Continued from Page 4**

pursue the Site C development and we embrace it with great enthusiasm," Imbrecht said. "But I think we could have had substantially greater movement from (Bonneville)."

The BPA is reviewing its access policy, and a draft report is expected to be completed by April with a final report out by September. That report will likely spell out the fate of Site C.

BPA power manager Ed Sienkiewiscz said the federal agency is taking a cautious approach.

"I can understand that they (B. C. Hydro) are anxious. They've decided they want to do something and they're impatient to get it done," he said. "At the same time, we ask some forbearance and understanding of the issues we face."

One of those issues is the Pacific Northwest's disastrous nuclear program.

**Nuclear Reactors**

In the late 1960s, when energy demand was expected to continue rising at booming rates, the Washington Public Power Supply System drew up plans for five nuclear reactors.

More than $6 billion was raised for the reactors. But investors in the project, now known as "Whoops," became victims of the largest municipal bond failure in U.S. history.

Construction of two of the reactors was canceled, two others were indefinitely shelved after being 70% completed, and one plant is now operating at three-quarter capacity.

The BPA, dedicated to reaching energy self-sufficiency, still insists that the two unfinished reactors could be brought out of mothballs to meet the rising energy demand in the next decade.

But most California utilities have lost faith in the nuclear program.

"I don't really think they can complete the plants," said Jones, of the Energy Commission. "And if they do, (the power) will cost from 100 to 120 mills."

The BPA is also looking at conservation as a future energy source.

"By far the biggest and cheapest energy resource we have is conservation," said Mark Sullivan, president of the Seattle-based Northwest Conservation Act Coalition.

The Northwest Power Planning Council, made up of eight gubernatorial appointees, two from each state, estimates that the Northwest could save 4,000 megawatts during the next 20 years simply by increasing efficiency.

The BPA could also be forced under the National Environmental Policy Act to conduct an environmental study of Site C, despite the fact the dam will be hundreds of miles from the U.S. border.

"We will have to go through an environmental review process," confirmed Sienkiewiscz. "How extensive that review will be is difficult to say."

That is music to the ears of environmentalists in British Columbia, where the government has said it would proceed with Site C, once contracts are signed, without further public hearings.

The British Columbia Utilities Commission determined that the dam could be built at a relatively low environmental cost, chiefly because the Peace River is not a commercial fishing ground.

Most Canadian environmental groups say they can live with the project. It is the provincial government's new export policy that worries them.

**Impact on Salmon Industry**

"Which river do they dam next?" asks John Carter, president of the British Columbia Wildlife Federation. "Every other river in British Columbia is a salmon river. The salmon industry is already in trouble. It's a bit of a contradiction to create jobs by building dams on salmon rivers."

Carter's fears seem well founded. A B. C. Hydro official recently admitted that, if Site C is built for export, the utility may have to implement plans for a giant $5-billion, 2,900-megawatt project on the Stikine River in northwest British Columbia to help meet the province's own needs after the turn of the century.

# PROPOSAL

**Continued from Page 1**

they'll hurt the housing market."

Others aren't so sure.

"I've seen those Chase numbers, and they are very hard to support," said Michael Sumichrast, chief economist for the National Assn. of Home Builders. "Mortgage rates may go up a little in the short run, but over the long run, it's not going to make much difference."

Pub. Face.

Use in Vancouver paper

Mason Gaffney
3040 Tyler Street
Riverside, CA 92503

August 5, 1985

Prof. Steve Hanke
The Johns Hopkins University
Dept. of Political Economy
Baltimore, MD 21218

Dear Steve:

On Jan. 10, 1984 (or, as you put it, 10 Jan 84) you wrote that our mutual problem with politicians is that they are in the business of pissing away rents. "You can't let them (politicians) get their hands on assets or claims to them," quoth Hanke. "If you do you obtain (always) what I call" (-- says he in all modesty --) "the pissing-away phenomenon."

Well! 1, I claim some credit for the phrase, which I tacked onto Triffin's otherwise incomplete apothegm that excess profits are either competed away or imputed away. But I grant that all great ideas may be discovered independently, and I am delighted to learn that great minds are running still in the same grooves. Decorous as I am, however, I usually say "piddled" or "frittered", except at cocktail parties halfway into the second drink.

2, Let's not go blaming all this pissing on "politicians". That is so easy, and so misleading. The problem is deeply systemic and the prime movers are the land speculators who hold title to lands that stand to appreciate when touched by the wand of public works paid for by others. Some "politicians" are more than little marionettes dancing to golden strings, but they must all face up to this pressure. Even Andrew Jackson, hero of limited construction and the Maysville veto, presided over the wildest of public works booms financed by states that did everything he kept the feds from, and, if possible, worse.

Another reason rents get pissed away is that many people correctly perceive that they are a non-functional surplus, so why not? In my humble view the only solution is to seize bull firmly by horns and distribute as social dividend, per capita basis. Thus the rents get into the hands of sovereign consumers.

The first step in that process is one you will like, namely to reduce personal income taxes. A large flat credit to all persons would do very nicely. I often recall a seminar at Brookings chaired by Chas. Schultze. We met bi-monthly or so and I was a member in apprentice standing for a while because of a transient interest in my bizarre theories of rent. Charlie announed that our general topic was to be how to share revenues, and he listed 6 alternative ways. "Are there any others?" he inquires. "Yes", boldly volunteers Gaffney, "there is. We could lower federal tax rates." Schultze:"I'm simply going to rule that out of order." And that was the end of a promising relationship.

On later consideration it might make even more sense to start with the payroll tax.

But there's more. In your noble efforts you never mention (that I have seen) the great granddaddy of all big public pissers, The Pentagon. Until you look that monster in the eye, you're just playing with pebbles on the beach. And you'll find a similar cast of villains at work: those who hold title to lands out there near the frontiers which they want valorized by getting free police services from U.S. How about that one? Now that you are an established pundit you could get a hearing on it -- and, as an experiment, see how long it is before "they" lower the boom on you!

Anyway, keep the flow of wisdom coming, you see, sooner or later you do get a response.

Cordially,

Mason Gaffney
3040 Tyler Street
Riverside, CA 92503

August 11, 1985

Mary Rawson
1406 Woodland Drive
Vancouver, B.C. V5L 3S6

Dear Mary:

Thanks for your card from Jamaica. Is there still hope in Jamaica under Seaga? Would like to learn of your doings.

Who is running the Vancouver Conference for next year? Can you tell me the dates and the place? With airline deregulation and rate discrimination it has become important to make rigid plans 'way ahead, so we are getting into the habit, even though this time we may drive.

We learned this summer that the three children are now tolerable on long drives, opening up new worlds for us.

I am glad that Bob has regained his riding. With Barrett gone, perhaps Bob can whip the party into better shape. Who is now titular head?

Steve Hanke writes that Peter Pearse maneuvered a contract for Steve to write a study of water systems in Canadian cities. Steve has become a libertarian guru down here. Peter is quite plastic, able to play ball with the NDP and now, I gather, with superconservative types. We all have some of that, I suppose, and I do not criticize so long as the objective is to maintain and raise standards of excellence in public policy analysis.

Just now "deregulation" and "privatization" are the panaceas. And to think how they used to rib land taxers for having a "panacea"! Different standards apply, of course. A land taxer might well say (with this beleaguered father) "When I talk no one listens; but when I burp everyone looks up."

As Halley's Comet returns I think of the opening to one of your articles, about the woman who knew it, "but only from a distance". May it shine on us all.

As ever,

~~and the industry began discovering the Commons variation of the hey began shortening tax lives and steepening~~

Mason Gaffney
3040 Tyler Street
Riverside, CA 92503

September 18, 1985

Garry Nixon
742 Hawks Avenue
Vancouver, B.C. V6A 3J3

Dear Garry:

"Just got back from ..." or "Just rushing off to ..." seems to be the story of your life. You must have been born with a rugged constitution indeed. I just got back from Boston, a mere domestic milk run, and it took a day to get unlagged.

Ever mindful of how soporific some people find my writing style it is with deep misgivings and fearful trepidation that I submit the enclosed effort which is soon to be published by an even more notorious bore, the U.S. Dept. of Agric. If, however, you can somnambulate your way through the headings or topic sentences, at least, you may divine that your chosen topic for me (viz. resource rents) is one dear to my heart, on which I will be happy to speak a few sharp words at the appointed hour.

As you skim quickly through, do not pass over without relishing pp. 2-3 on IRS collection powers.

The sooner I learn the appointed hour, the more likely I am to be there on time and in full cry. I surmise from scattered evidence that it falls between May 17-23, 1986, somewhere in or around Vancouver.

No, Revcan has not sent me any refund. I presume that refunds owing to non-resident aliens have a low priority in an organization where "manana" would be an exhortation to speed up even collections. Is there some way to make it hot for them? Are they violating the comity of nations or anything momentous like that?

It is good to read that MLA Williams is back at the bench. There is greatness in him, and I hope he may rise to the top of his party and get a chance to do what David the Lip never had the brains or character to accomplish.

As I was leaving B.C. I received an offer from the Simon Fraser Inst. to hang around a while and write a critical history of the 1,000 days. Miffed as I was, still life as a professional traitor was not for me and I am glad I refused. I would have tried to make it constructive and they might have edited it into a smear, or so I feared.

Please say hello to Jane Duval for me, and to Mary and Bob and other old friends when and if you see them.

Oh, yes, I am hitting up Lincoln (or trying to) to start a new TRED, the old one having tired blood. Arlo Woolery, the Director of the Lincoln Institute, seems enthusiastic. He wants to hit up free trade right away. Any suggestions of appropriate Canadian economists? What I do not need is a bunch of dogmatic libertarians who take the easy route of firing cheap shots at bureaucracies and other obvious targets and then stop there. The Lincoln Board now consists mainly of rich old men who would be happy with such a group, I am afraid.

Keep the Faith,

# FAMOUS FORGOTTEN SINGLE TAXERS OF CANADA

## L.D. Taylor 1857-1946

### The man with the red tie

First elected as Mayor of the City of Vancouver in 1910, "L.D." was a force in politics in Vancouver almost from the year of his arrival in 1896.

He became acquainted with George's ideas while in Ann Arbor, his birthplace, and even ran for election (on the Republican ticket) as a very young man. After living through two swings of the boom and bust cycle working at various jobs -- librarian, bank clerk, accountant, railway auditor -- he left for Alaska and the gold fields. He paused in Vancouver, struck out for the Klondike, "struck out" very quickly, and settled down.

After working several years strenuously and successfully for the Vancouver Province, he went into the newspaper business for himself. He bought the World and made a success of that too (1905-1915). By this time he was well known in Vancouver, liked by the working man but disliked by the upper crust. He had been several times elected and several times defeated. This pattern continued throughout his life, his last attempt at public office being a sorry run for alderman in 1937 at the age of 79.

It is one of the little ironies of history that the philosophy of Henry George should be frozen in the narrowing caption "Single Tax". As we know, George's philosophy is not about taxation; it is about social justice. That singular element seems to steer modern historians onto a false trail, at least those who do not take the trouble to read George for themselves.

Available references to L.D. Taylor, "Single Tax Taylor", are a case in point. Television scripts produced about mayor Taylor for the CBC (Tom Cone 1977) were confined to recounting amusing anecdotes about him. They made him out to be bright and determed but something of a light-weight. "He was an 'everyday man's mayor' without a vision for the future."

A more serious biographical sketch (David McFaul in 1979) referred to Taylor's Congregationalist background as having an influence but makes no mention of the Georgist one. Describing Taylor as tenacious and having a "roguish sense of humour", McFaul credits him with a wide range of accomplishment. "For many years both through his personality and civic programs, L.D. Taylor infused the City of Vancouver with vitality and character."




cont'd on page 2

# IU VANCOUVER NEWS

May 1986

**VANCOUVER INCORPORATED 1886**

In May 1887 the Canadian Pacific Railway had come to town and, with it, the world ... Vancouver was the Terminal City of the greatest transportation system the world had yet seen ... the first easy round-the-world tours were made possible, and the "jet set" of contemporary society passed through the C.P.R. station ... So did Rudyard Kipling who thought "a great sleepiness lies on Vancouver as compared with an American town". But he liked it, and commented on the "Absence of bustle", the unused spittoons, the free baths in the hotels, the good streets and the many Englishmen "who speak the English tongue correctly." The young city was "not a very gorgeous place as yet, but (he added) you can be shot directly from the window of the train into the liner that will take you in fourteen days from Vancouver to Yokohama." Kipling bought property in Fairview, some real estate, a town lot he described as "some four hundred well-developed pines and a few thousand tons of granite scattered in blocks at the roots of the pines, and a sprinkling of earth."

From: **Vancouver Observed - The First Ten Years:** by Gordon Elliot

☆ ☆ ☆

Friday afternoon has been designated Special Reports. Mr. Sandler (Argentina), Ms. de Silfa (Domenica) and Mr. Paik (Korea) will attend. Formal papers are not expected.

**CITY LOTS**
**TOM FOLLY and MRS. PRUDENCE**

Tom to the lady -
My dear old lady will you buy
A charming city lot?
She answered with a heaving sigh
My darling, I will not.
Boss Tweed, my lord, and Bailie Ross
Shall never tax my cot:
'Tis safer to play pitch and toss
Than trust this precious lot.
I will not buy, I will not build
Because I cannot trust
The Councillors who are all skilled
In making gold of dust.
The sawdust trick has sealed my purse
I'll keep my cash secure;
A city lot is like a curse -
It makes a rich man poor.
Boss Tweed, the Bailie, and my lord
Shall not be my trustees,
The lots which they have power to tax
Are not worth two baubees.

By **W. Norman Bole, Mainland Guardian, August 14, 1886.**

# SEE YOU IN PHILADELPHIA 1989

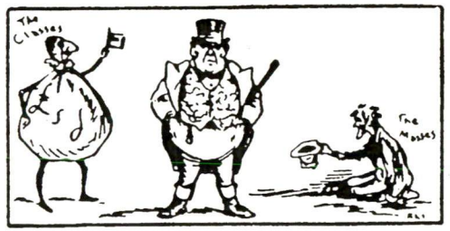
# PROGRAM NOTES

## 17th CONFERENCE

- The Schalkenbach Foundation sent a selection of their publications. See Pat Aller.
- A new book by Mr. W.A. Dowe of Australia can also be ordered.
- Walt Rybeck, Carl Iversen and Mal McCarthy promise to show films of interest.

☆ ☆ ☆

Rail/Boat trip for 20 people Saturday.




L.D. Taylor cont'd from p. 4

The Henry George philosophy gave a coherence to L.D.'s proposals for municipal and provincial government, and a steadfastness to his performance. He condemned union-busting tactics and called for public ownership of the telephone company (1906); his first municipal administration removed taxes from buildings (1910); he campaigned for votes for women (1911). He was a dynamic and persistent supporter of egalitarian and democratic policies as well as civic improvement from A to Z -- from airports, archives, bridges, city planning ... to parks and waterworks. He was elected mayor eight times in all, his final term being 1933-34.

L.D. Taylor's policy of exempting buildings 100% from the property tax was diluted to a 50% exemption by the Council of 1918, and diluted further by the Council of 1968. Today buildings are taxed the same as land.

Hans Blumenfeld, Canada's senior philosopher of cities, has said that shifting the property tax from buildings to land

> "would do more for the improvement of the quality of life in human settlements and for regional equalization than all the busy housing and regional development programmes now being operated by huge and proliferating Federal and Provincial bureaucracies." (Canadian Planning Issues 1976)

The irony and tragedy of Vancouver's great leap backward in 1968 is understood by only a handful of its citizens, and L.D. Taylor is all but forgotten.




L. D. TAYLOR
Mayor of Vancouver

| MAY | FRIDAY 23 | SATURDAY 24 |
|---|---|---|
| 8:30 Conference announcements and SEMINARS | Seminar 3 | Executive Committee IU - Check-out UBC 11:00 a.m. |
| 10:30 MEETING | **Burgess** - **Else-Mitchell** | (Train/Boat trip for 20) |
| 11:30 LUNCH INTERVAL | | Council of Georgist Organizations Conference begins today |
| 1:30 | Special Reports: **Sandler de Silfa Paik** | |
| 2:30 | | |
| 3:30 | | |
| 4:30 | **Rybeck** (film) | |
| 5:30 DINNER INTERVAL | | |
| 7:30 EVENING SESSION | Sherry Wind-up & Incoming President's address | |
| 10:30 | | |

**International Union for Land-Value Taxation and Free Trade**
177 Vauxhall Bridge Road, London SW1V 1EU, England

**1986 Canadian Conference Arrangements Committee**
*Please Address:* Mary Rawson, 1406 Woodland Drive, Vancouver, B.C., Canada V5L 3S6 *Telephone:* (604) 251-2908

# FAMOUS FORGOTTEN SINGLE TAXERS OF CANADA

## Laurier liberals 1896-1911

### See the cat?

According to most political pundits in Canada (one counts professors and journalists as of equal weight here.) the people of Alberta are well off because God put oil under there. It hasn't seemed to occur to them that God put minerals under a lot of people yet they are not well off.

The fact is that the political will of the day was to recognize natural resources as the property of all the people and to impose administrative structures making this will practical (Clifford Sifton). It is equally a fact that there is a direct link between the proposals of Henry George, the thinking of the Laurier liberals, and the practical work of Clifford Sifton. In the case of Alberta and Saskatchewan both the recognition and the structure (leasing methods) have clearly been of the greatest practical importance.



A recent poster explaining Alberta's "Heritage Fund" proclaims:

"Alberta has NO gasoline tax at the pump.
Alberta has NO sales tax.

Oil and Natural Gas Resources are Owned by the People of Alberta.

Provincial Petroleum Revenues Alberta gets its petroleum revenue in two primary ways.
One is through the lease of minerals rights.
The larger is through royalties - the share we get as owner of these resources.

85% of this revenue goes to the provincial operating budget.
15% is invested in the Heritage Fund."

It isn't hard to "see the cat" in this!

* * * * *
Monday May 19 is a bank holiday in Canada
* * * * *

We will have a hosted wind-up and informal farewell on Friday evening.

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The Council of Georgist Organizations (CGO) begins sessions on Saturday. CGO has also requested space on Thursday afternoon.

# IU VANCOUVER NEWS
May 1986

The conference schedule has no conflicting events but be prepared for two heavy days Monday and Friday.

We will have three, possibly four, evening meetings open to the public and free to everyone. Given our expected speakers, these should prove exciting and interesting.

Do take advantage of the "free" time to take a trip on the Skytrain, visit EXPO, see the fine Museum of Anthropology on campus, stroll with friends through the Nitobe or the Botanical garden, or Stanley Park.

The trip on the train **Royal Hudson** (steam engine 2860) to Squamish, and return by motor vessel Britannia is laid on for **Wednesday** and for Saturday, first come first served. A great trip! but space is limited. The boat returns to Vancouver by 4:30 p.m.

Most meetings will take place in the Isabel MacInnes Lounge of the Gage Conference Centre.

Only the **SALMON BARBEQUE**, Thursday 5 p.m. to 7 p.m., will be elsewhere. The Salmon BBQ will be outdoors at the Graduate Student Centre or in the ballroom if it starts to rain.

### CALL ON US

For help or information during the week see the following people (ribbons identify):

Accommodation questions - Jean Smith
Audio/Equipment - Carl Iversen
Book room - Ernie Bryan
Bouncer - Tom Raagner
Campus transport - Cyril Nelms
City information - Dorothy Shields
Conference Accounts - Helen Smith
Local hospitality - Irma Kirner
& Greta Jeberg
Music - Dale Stewart
Speakers/Meeting space - Mary Rawson
Train/Boat Trip - Helen Smith
& Ted Rawson
Press and Publicity - Jane Duval
Notice Board - John Fisher
Complaints - Henry George

★ ★ ★

# GOOD MORNING

# PROGRAM NOTES

Morning Tea, Coffee, Juice break: Mon, Tues, Thurs, & Fri. at 10 a.m.
FREE to Registrants

Smoking is permitted in the Fireplace Lounge, the corridors, and in the residences.

Rail/Boat trip for 50 people Wednesday and for 20 people Saturday.

Lunch and dinner intervals are 2 hours long.

THURSDAY is the SALMON BARBECUE at the Grad Centre -- FREE to Registrants

Friday afternoon has been designated Special Reports. Mr. Sandler (Argentina), Ms. de Silfa (Domenica) and Mr. Paik (Korea) will attend. Formal papers are not expected.

## 17th CONFERENCE

| MAY | SUNDAY 18 | MONDAY 19 | TUESDAY 20 | WEDNESDAY 21 | THURSDAY 22 | FRIDAY 23 | SATURDAY 24 |
|---|---|---|---|---|---|---|---|
| 8:30 Conference announcements and SEMINARS<br>10:30 MEETING | | Seminar 1<br>**Williams**<br>-<br>**Douglas** | Seminar 2<br>**Gaffney**<br>-<br>**Halverson** | | BUSINESS MEETING<br>I.U. MEMBERS ONLY | Seminar 3<br>**Burgess**<br>-<br>**Else-Mitchell** | Executive Committee IU<br>-<br>Check-out UBC 11:00 a.m. |
| 11:30 LUNCH INTERVAL | | | | | | | (Train/Boat trip for 20)<br>Council of Georgist Organizations Conference begins today |
| 1:30<br>2:30<br>3:30<br>4:30 | Check in at UBC after 2 p.m. at Gage Conference Centre | **Horsman**<br>-<br>**Risden**<br>-<br>**Bonner**<br>-<br>**McCarthy**<br>(video) | | DAY TRAIN/BOAT TRIP AVAILABLE | CGO | Special Reports:<br>**Sandler**<br>**de Silfa**<br>**Paik**<br>**Rybeck**<br>(film) | |
| 5:30 DINNER INTERVAL | Reception & Cash Bar 6:30 Fireplace Lounge | | | | SALMON BARBECUE 5:00 to 7:00 at Grad. Centre | | |
| 7:30 EVENING SESSION | Welcome<br>J.W.Freeland Q.C.<br>President<br>Robert Williams MLA | **GAFFNEY**<br>(Public) | **NKOMO**<br>(Public) | to be announced | **BURGESS**<br>(Public) | Sherry Wind-up & Incoming President's address | |
| 10:30 | | | | | | | |

**International Union for Land-Value Taxation and Free Trade**
177 Vauxhall Bridge Road, London SW1V 1EU, England

**1986 Canadian Conference Arrangements Committee**
*Please Address:* Mary Rawson, 1406 Woodland Drive, Vancouver, B.C., Canada V5L 3S6 *Telephone:* (604) 251-2908