

Canadian Federalism vs. U.S. Federalism

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DEPARTMENT OF ECONOMICS AND RELATED STUDIES

9 March '87

Dear Mason,

On my last day, after 6 months here, your note on revenue-sharing has just arrived. I will be back in Vancouver in mid-April, and read + react to your piece. The item on page 9 I did not know about! Intriguing!

All the best,

Tony

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22 Feb 87

Tony Scott
Econ.
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VANCOUVER, B.C.

Dear Tony:

Here I am back again sooner than expected, owing to enclosed article by Gary Becker. You may recall that you once kindly invited me to contribute a chapter to your work on Natural Resource Revenues, a Test of Federalism, and that I was seriously thinking of broaching a policy of selling immigration rights. I was dissuaded partly by my conviction that the idea was too crassly Chicagoan to be salable in Canada.

Lo, here Becker is not only proposing same, but further alleging that "Canada has begun to do it". I write to enquire (or inquire, down South here) if Becker is well informed. I can hardly believe it, but in a way would like to.

I am asking people to stop reminding me that Reagan and Mulroney are both Irishmen, as I am doing my best to forget it. We also have Regan, and Casey, and I've been told Pat Buchanan is one, too. These fellows' ancestors were probably in command at the Boyne. At any rate, after reviewing their various performances I would suggest a discriminatory higher immigration duty on Irishmen. As for me I am now claiming that Gaffney is really an old Hebrew name for a wine-merchant.

Sincerely,

Thurs. June 6, '84

Fiscal Federalism

Wishful thinking.

0. Take Ch. 16 w. ground rule, esp. p. 320. (over)

1. Wagner's law, Δ govt. share.

e.g. Holland vs. Argentina

2. Peacock & Wiseman modify

It occurs in steps, Δ war or depression. The threshold of acceptable tax. rises.

e.g. U.S.

~~the~~ W.W.1 validated publ. inc. tax of 1913

Depression Δ publ. inc. tax; began SST

WW 2 stepped up " "

" added w/h of payrolls

But all this time, local prop. tax was declining. So a tax shift was underway (long before prop. 13).

~~the~~ Camacho's Law — local tax. makes publ. land a public good.

3. The shift occurred away from local, toward state & fed. govt.

a. By shifting functions.

Welfare; ~~higher ed.~~; highways; water, & all p.w.; health

b. By Δ role of nat. fns: military
state " " higher ed.

p. 320 is based on too many wrong assms. to list, but
here is one: "nat. defense is a public good."

- a. German-Americans pro G.
- b. Sympathizers w. Sandinistas, & the poor in
El Salvador, vs. owners of United Fruit
- c. Investors in oil leases in S. China Sea.
- d. Aranno vs. my brother.

c. By subventions, = intergov. grant.

4. The form of the grant is now a major issue.

a. Madison & apportionment.

U.S. tradition has been ~~pro~~ ^{taxes.} pop-based ~~grants~~.

~~Our greatest error~~

Consistently, we have avoided pop-based grants. The U.S. tendency has been to preserve & defend interjurisdictional inequality. "horizontal imbalance".

✓ E.g. state school support ff. P-13.

✓ E.g. fate of McGovern & social dividend.

Canada, pop. is basis for interprovincial = 4.

Large prnts. to Quebec, P.E.I., ~~Nova Scotia~~ New Brunswick.

✓ b. Our ~~tax~~ Fed. taxes are in personam — pop-based.

Reductions are propert — based: prop. taxes; exemption of local bonds.

✓ c. Grants are to land dev., & big capital projects

Sewers, hiways, wtr. supply

Hard to tell this from T-18-2, p. 367. E.g. "health"

13

sounds pop-related. But means Hospitals. Result: excess capacity.
Is it that nice? Go to emergency room + see the shortage of personnel.
Dr. Ed Morgan is playing golf. Dr. Armand Hammar is running Occ. Petr.
"Nat. Res. + Env." "Community dev." = p.w.

Net result: build up capacity to receive pop.,
but reduce incentive to do so. Reprise: B.C. Futures.
Ends in clash between developers + preservationists
in growing areas. Exclusionary zoning.

In cities, urban removal. Henry Mayer.

None of this reduces the pop. It just makes it
harder for fiscal liabilities to locate.)

Local planners (if any good) now classify
people as fiscal assets or liabilities. Most of you
will be liabilities next 15 yrs or so.

→ Causes urban sprawl; tends to divide us into
haves and have-nots on a massive scale.
Source of enormous social friction.

Also part of pattern of excessive use of K + land
relative to labor.

d. Forms for grants.

1. To reduce vert. ~~inequality~~ ^{imbalance}, p. 353
 1. Inc. tax credits
 2. " " deduc.
 3. Uncond. grants (to what?)
 4. Condit. + block grants.

No ~~the~~ mention of reducing Fed. taxes. Mc +
Chas. Schultze.

2. To reduce horiz. ~~inequality~~ ^{imbalance} p. 356
~~4. ~~the~~~~

No mention of social divid.

1. Uncond. grants.

To poorer states

" Poor people in rich countries ... "

E.g. of W. Va. + coal.

2. Block grants + matching, at
variable rates (like "power equalizn.")

3. Progressive fed. inc. tax hits
"richer" states. (or colder states).

Canada

1. ~~Price control, oil & gas~~
2. ~~Equalize. pmts.~~
3. ~~Liberal party~~
 - ~~Quebec voters~~
 - ~~Trudeau~~
 - ~~Ag. Turner - Beckett & Schulz~~
4. Mosaic & melting pot.
5. Empire loyalties
6. ~~Separatism~~
 - ~~Protectionism~~
 - ~~Geography - B.C.~~
 - ~~Language - Que.~~
 - ~~Poverty - "Maritimes" (P.E.I., N.B.)~~
7. ~~a stronger 3d choice~~
 - ~~CCF~~
 - ~~NAP~~
 - ~~(Soured)~~
8. Protectionism - willing victims of nationalism
9. America: Fear, awe, contempt
10. Explicit recognition they are redistributing rent -
~~the~~ refreshing.
11. ~~Selective recognition of rent~~
 - ~~a. Realized vs. potential~~
 - ~~b. Extractive.~~
 - ~~c. oil & gas.~~

12. Fed. liberals penalize provinces for tapping rent
- cf. U.S. formulae, rewarding "tax effort"
Turner did it. The Bed-Telization of
N. Am. govt. Cf. Mellonization, 1920s.

13. Control is important, as well as revenue.
NDP in B.C. proved more concerned w.
control

P.C. in Alberta has taken more rev. w.
less control. My preferred model.
Taxn. as socializing the kernel, leaving the
shell. - H.G.

Socialists insist the shell is more important.
Can give e.g.s. (Premium tender offers confirm.)
Those who put their faith in taxn.
must adjust taxn. to make mkt. work.

~~14. Western
Can. Provinces own ~~lots~~ most Crown land -
major diff. from U.S.~~

~~15. Prov. royalties are much better rent-collecting
system than Fed. inc. tax. (Hence
large lesser support Turner, liberals -
Ottawa protects them from provincial
populism.)~~

16. Cannan's Law also protects
17. Ottawa, like ~~Wn.~~ ^{like} Wn. ~~has~~ ^{has} ~~both~~ ^{multiple} ~~have~~ ^{data} ~~system~~ ^{multiple} protect; rent barons.
- No fed. rent tax
 - Prov. royalties not deductible
 - Cannan's Law
18. ~~Fed. ownership breeds populism.
But is easily distracted to general Maximism.~~
19. ~~Reasons for focusing on extractive res.~~
- Provinces own them
 - Feds. are owners or lessees
 - Feds. are customers
- ~~Can use price discrim. "Negative dumping"~~
20. ~~OPEC price Δ let Provinces get more rev. from oil.
Fed. inc. tax missed most of windfall.
So Feds. made royalties non-deductible.~~
21. Fed. govt. has higher time pref. than Provs.
Fed. wants to stimulate overall ec. growth.
Some Provs. to slow it down. (Cannan's Law again.)

22. ~~"Eq-4"~~ aimed not at fully eq-g, but maintaining "some basic level" of services in all provinces.
 So ff. 1973 oil AP, they reduced weight of oil in formula.

23. Mex. fed line underutilizes & underpopulates better lands. "Human Effect" — Latin Am.

✓ e.g. It is govt. + human effect that counters that, draws pop. to (some) of better lands.

Egn. puts re-counters this, scatter back to unqual. lands.

Young then drives from everywhere?

24. '67, Fed-Prov. ^{Fiscal Arrangements} ~~Egn. Pmts.~~ Act. 5 yrs.
 '72, renewed 5 yrs.

$$E_{ij} = TR_i \left[\frac{P_i}{P_c} - \frac{B_{ij}}{B_{ic}} \right]$$

$$\frac{P_i}{P_c} = \text{pop. share of prov. } j$$

$$\frac{B_{ij}}{B_{ic}} = \text{prov. } j \text{'s share of rev. base } i$$

E.g. N.S. has 3.65% of Can's pop.
If has 2.65% of ^{base of} rev. source i , it gets 1% of TR in Canada raised from source i .

E.g. N.S. has 0% of oil base, gets 3.65% of TR from oil source.

(Q41.

a. Are there Fed. oil revs, or all? Or just Prov. revs.
The ~~Base~~ must refer to something province can tax.
But Provincial inc. tax rides on Fed. - they both tax it.
I think it is just Prov. revs.

✓ Notes. a) Prov. j can raise own $t.r.$ w/o ^{or royalty} reducing E_j , bcs. B_{ij} is unaffected, (unless driven away, ~~which~~ which wd. Δ eqn. points.)

b) a royalty, ~~does reduce~~ if deductible, reduces ^{inc.} tax base, then raises E_j . 0 Ottawa
had to counter royalties, i.e. (Royalties are one of the B_i or rev. bases in formula. But corp. inc. wd. be reduced.)

25. E_{ij} are summed for ea. tax source.

a. If $\Sigma > 0$, Prov. j gets E pmt.

b. If $\Sigma < 0$, Prov. as such pays nothing.

"Gen. fund" pays - i.e., labor pays.

c. If $E_{ij} < 0$, but $\Sigma > 0$, E_{ij} counts against Prov. j , is deducted from Σ .

Thus an overall have-not Prov. does "pay" for having one B_i that is rich.

26. ~~All Provs. but Ont., Alta + B.C. are have-nots.~~

✓ 27. 20 rev. sources included. Psnd. inc. tax is much the larger, but interprov. per cap. diffs. are small.

∴ oil revs., which are ca. 18% of psnd. inc. tax revs., 1973-74, acctd. for just as much of the interprov. ~~diffs.~~ 5 points.

26. ~~As oil price rises, + Alta. royalties rise, Equ. points. to Que. etc. rise — but Alta. needn't pay much more general fed. taxes bcs. royalties are deductible.~~

27. ~~Ottawa's response:~~

~~Control oil price~~

~~Tax oil export (+ subsidize imports to east)~~

~~No deduct royalties.~~

~~(A Prov. is not penalized for tax effort — but is for royalty effort)~~

about how moneys are spent, as how they are collected. "Vung rockets go up, who comes ~~at~~ v'ere zey come down?"

Distrib. not on p.c. basis. Human services - on cash.

3. Note incentive effect of "RTS".

If Province has unused tax base, using it more wd. not reduce E . Might increase E , by lowering tax base; a) directly; b) by reducing income tax base.

4. Alta. Heritage Fund. "The future is the refuge of the last resort of those with no plan for the present."

5. "a hell rings"...

1. H.G. wrote orig. from fed. view.

Land was fed.

Evidence suggests he was thinking fed. when he proposed ~~making~~ a social collection of rent. (But most spending

Lately ~~a~~ saw wedge to enter ^{city} politics (was local)
Left followers focusing mainly on that.

Movement has never been the same since.

There's enough in city level to keep us alive -
but not to make us soar.

He cd. be vague: fed. wasn't spending much. We cannot.

Why? "Public wrongs not cured by priv. rights"

By extension, "Nat. wrongs not cured by local wts."

No city will declare social dividend.

2. To thrive, Georgism must recognize itself in more
issues.

a. Ecology. Rachel Carson made the postage
stamp. She said Env. is common property. (Own)

b. Conservationists. Said we are stewards
of the earth, for next gen. Is what H.G. said - w. diff.

c. How spend Fed. money?

1834, Distrib. was obviously our issue - from
sale of Fed. lands. And it was done wrong, spent to
boom L.V. rather than social dividend.

Make land common - implies as much

she had an ideology, a passion, which too many of us
have lost as we strive to be practical, respectable
technicians.

WESTERN TAX ASSOCIATION
1984 ANNUAL CONFERENCE
Preliminary Program

702-

Meeting Location: RIVIERA HOTEL, Las Vegas, Nevada

Saturday, June 23, 1984

8:30 a.m. to 5:00 p.m.

Registration: 8:30 a.m. - 9:00 a.m.

Morning Session: 9:00 a.m. - 12:00 noon

"Henry Simons Full Gain Concept of Income"

Thomas Calmus, University of Oregon

"Tax Exporting: The Case of Hawaii"

Bruce Billings, University of Arizona

"Rating State General Obligation Bonds"

Donald Escarraz, Sangamon State University

"Proposition 13 Property Tax Capitalization"

Marian Brown, Pomona College

Luncheon Session:--12:30 p.m. - 2 p.m.

Speaker: James Johnston

Senior Economist

Standard Oil Company

Topic: "Unitary Taxation: A Free Lunch?"

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"A New Federal Tax System: Implications for Federalism"

Richard Lindholm, University of Oregon

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Richard Pollock, University of Hawaii at Manoa

"Recent Changes in Canadian Federalism"

Mason Gaffney, University of California at Riverside

Business Meeting:--4:00 p.m. - 5:00 p.m.

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