


in search of balance -

canada's intergovernmental experience



ADVISORY COMMISSION ON
INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575

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A comparative study of Canadian experience relating to selected intergovernmental tensions prevalent in the United States. An analysis and description of Federal-Provincial relations, financing of public education and social welfare, and Provincial-local relations.

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Preface

More than a decade ago, the 86th Congress passed Public Law 380 establishing the Advisory Commission on Intergovernmental Relations. The Congress noted at that time the need in a federal form of government for the fullest cooperation and coordination of activities between the levels of government.

In this report, the Commission focuses its attention on a comparative analysis of Canadian experience relating to selected intergovernmental fiscal tensions prevalent in the United States. This topic was chosen at the June 1970 meeting of the Commission. The Commission's concern centers on an analysis and description of Federal-Provincial relations, financing of public education and social welfare, and Provincial-local relations.

The Commission approved publication of this report at its meeting on May 21, 1971.

Robert E. Merriam
Chairman

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The Commission records its gratitude for the contribution of all these individuals. Full responsibility for content and accuracy remains, however, with the Commission and its staff.

John Shannon
Assistant Director
Taxation and Finance

Wm. R. MacDougall
Executive Director

The Commission and its Working Procedures

This statement of the procedures followed by the Advisory Commission on Intergovernmental Relations is intended to assist the reader's consideration of this report. The Commission, made up of busy public officials and private persons occupying positions of major responsibility, must deal with diverse and specialized subjects. It is important, therefore, in evaluating reports and recommendations of the Commission to know the processes of consultation, criticism, and review to which particular reports are subjected.

The duty of the Advisory Commission, under Public Law 86-380, is to give continuing attention to intergovernmental problems in Federal-State, Federal-local, and State-local, as well as interstate and interlocal relations. The Commission's approach to this broad area of responsibility is to select specific intergovernmental problems for analysis and policy recommendation. In some cases, matters proposed for study are introduced by individual members of the Commission; in other cases, public officials, professional organizations, or scholars propose projects. In still others, possible subjects are suggested by the staff. Frequently, two or more subjects compete for a single "slot" on the Commission's work program. In such instances selection is by majority vote.

Once a subject is placed on the work program, staff is assigned to it. The staff's job is to assemble and analyze the facts, identify the differing points of view involved, and develop a range of possible, frequently alternative, policy considerations and recommendations which the Commission might wish to consider. This is all developed and set forth in a preliminary draft report containing (a) historical and factual background, (b) analysis of the issues and (c) alternative solutions.

The preliminary draft is reviewed within the staff of the Commission and after revision is placed before an informal group of "critics" for searching review and criticism. In assembling these reviewers, care is taken to provide (a) expert knowledge and (b) a diversity of substantive and philosophical viewpoints. It should be emphasized that participation by an individual or organization in the review process does not imply in any way endorsement of the draft report. Criticisms and suggestions are presented; some may be adopted, others rejected by the Commission staff.

The draft report is then revised by the staff in light of criticism and comments received and transmitted to the members of the Commission at least three weeks in advance of the meeting at which it is to be considered.

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SUMMARY OF FINDINGS

SCOPE OF STUDY

Over the last several years, the Advisory Commission on Intergovernmental Relations has identified four serious imbalance situations that call for corrective or countervailing action:

General Revenue Imbalance that increasingly favors the Federal Government and works against States and localities and hence a strong system of decentralized government.

Public Welfare Expenditure Imbalance that favors States that minimize outlay for public welfare and works against States and localities that underwrite relatively generous assistance programs.

The Educational-Local General Government Imbalance—the largely "independent" school boards are gradually pushing cities and counties off the overburdened local property tax base.

Metropolitan Imbalance that works for the wealthier suburban jurisdictions and against most central cities and some poor suburban jurisdictions—a classic mismatch of needs and resources.

This Information Report has one objective—to report on the way the Canadian federal system has dealt with these four issues since World War II. The study was prompted by the belief that recent Canadian experience particularly in the tax sharing field might provide instructive insights to policymakers in the United States.

CANADA AND UNITED STATES—INTERGOVERNMENTAL DISTINCTIONS

Admittedly, differences in time, place, and circumstances make risky business of any attempt to lean too heavily on foreign experience. This is even true when the "foreigner" happens to be the next door neighbor with far more in common than several thousand miles of boundary.

Much of the difference in fiscal federalism as practiced north and south of the border can be traced to a have and have not situation—Canada has a parliamentary system but no Pentagon; the United States operates under a separation of powers system and has no Quebec. But there are other differences, as outlined below.

The Parliamentary System

The parliamentary system marked by strong party discipline fuses Federal legislative and executive power in the prime minister and his cabinet; it also makes strong men politically of Canada's ten provincial leaders. Because of this fact, Canadian leaders are in an effective position to negotiate closing agreements on issues that do involve major changes in Federal-Provincial relationships. This process of negotiation has been institutionalized in the form of regular Federal-Provincial conferences both at the highest policy level and at the departmental and technical levels. There is now tentative agreement that this informal decision-making machinery should receive formal constitutional recognition.

In striking contrast, our system is characterized by weak party discipline and the separation of legislative and executive power. Power is so widely diffused that in the absence of a crisis situation it is difficult to secure agreement for a major departure from the intergovernmental status quo—such as that involved in having the Congress set aside a portion of its income tax revenue to be distributed to States and localities on an unconditional basis.

10 Provinces—50 States

The strong position of provincial leaders can also be traced to the fact that the Canadian Federation has only 10 Provinces compared to our federation of 50 States. Provincial leaders become in effect the spokesmen for their regions—a role that in the United States is played by regional groupings of United States Senators.

Relatively Weak Position of Canadian Local Government

The absence of municipal home rule and the weak intergovernmental position of the spokesmen for Canada's cities accentuate the real power difference between the governors of our States and the leaders of Canadian Provinces. Despite some recent rustlings in the urban field, Canadian cities are still quite responsive to provincial will. This responsiveness can be traced to the political stature of provincial leaders, the strength of the provincial fisc and to the lack of constitutional inhibitions—factors that have helped the Provinces build up a strong system for controlling local government. As a rule, Ottawa speaks only to the Provinces and only the Provinces speak to their local governments—unlike the situation in the United States where the Federal Government often deals directly with the localities, bypassing the States.

Decentralizing Effect of the French Canadian Protest

Rooted in cultural and language differences, the militant "provincial rights" position of Quebec now finds no parallel within our federation. A keen student of Canadian and United States federalism has observed that one of the most important differences between federalism north and south of the border is to be found in the fact that while some of our governors still preach states rights, the leadership of Quebec really believes in it. Quebec's riveted demand that it be the master of its own house has stood out as a powerful factor working for decentralization during the last two decades.

The necessity to accommodate Quebec has forced Ottawa to make fiscal concessions that would be virtually unheard of in the United States—the "opting out" arrangement whereby Quebec receives an additional grant of income tax powers from the Federal Government to compensate it for the waiver of certain Federal categorical aid funds. Although all the Provinces were originally offered this arrangement, only Quebec accepted it. Now; in order to keep peace in the federation family, Ottawa may be forced once again to offer the same concessions to the other Provinces. In fact, the new Government of Ontario has recently announced its intention to claim the same privilege when it comes time to negotiate a new tax-sharing agreement with Ottawa for the 1972-1977 period.

The importance of Quebec is underscored by the fact that it contains 6 of Canada's 21 million inhabitants. In relation to the Canadian Federation, Quebec holds essentially the same geographic and demographic position as that held in our federation by six States—Massachusetts, Connecticut, New York, New Jersey, Pennsylvania, and Ohio.

Centralizing Effect of the Black Protest in the United States

Whereas the French Canadian protest has had a strong decentralizing effect, Black protest in the United States works in precisely the opposite direction—to strengthen the influence and control of Federal judges, legislators, and administrators over a wide range of State-local programs. The reason for this opposite effect can be traced to the fact that, unlike the French Canadians, the Blacks do not control the machinery of State government and therefore must constantly turn to Washington for redress of grievances.

Table 1

GOVERNMENT EXPENDITURES AS A PERCENTAGE OF GROSS NATIONAL PRODUCT, CANADA AND THE UNITED STATES, CALENDAR YEARS 1961 THROUGH 1970

Calendar Year	Total		Defense[1]		Nondefense	
	Canada	United States	Canada	United States	Canada	United States
1970	34.9 est.	32.0 prel.	2.2 est.	7.8 prel.	32.7 est.	24.2 prel.
1969	33.6	31.1	2.3	8.5	31.3	22.6
1968	33.2	31.3	2.5	9.0	30.7	22.3
1967	32.7	30.6	2.7	9.1	30.0	21.5
1966	31.1	28.3	2.8	8.1	28.3	20.2
1965	30.0	27.3	2.8	7.3	27.2	20.0
1964	30.1	27.7	3.2	7.9	26.9	19.8
1963	31.0	28.3	3.5	8.6	27.5	19.7
1962	31.5	28.5	4.0	9.2	27.5	19.3
1961	31.5	28.6	4.1	9.2	27.4	19.4

[1] Government expenditures for defense goods and services.

SOURCE: Canadian Tax Foundation, *The National Finances, 1970-71,* and *The Economic Report of the President, February 1971.*

It is most significant that the only major "string" attached to the Administration's current revenue sharing proposition is to be found in a civil rights protection clause.

The Variation in National Defense Responsibilities

The differences in national defense loads must also be taken into consideration when making a comparative analysis of Canadian and United States intergovernmental fiscal arrangements. The massive foreign commitments of our central government are reflected in the fact that we now bear more than three times the defense load of the Canadian Federal Government (table 1).

REDRESSING THE INTERGOVERNMENTAL FISCAL AND POLITICAL IMBALANCES*

Fiscal Imbalance in the United States

The Commission has taken the position that Federal revenue sharing (unconditional grants to States and localities) and Federal tax credits to encourage greater State use of the personal income tax are both needed to redress the fiscal imbalance and thereby check the steady centralization of power in Washington.

This imbalance situation can be traced in large part to the fact that Congress can raise far more revenue at far less political risk than can all the State and local officials combined. Freedom from interstate tax competition, a near monopoly of the income tax and growing public acceptance of deficit financing at the Federal level stand out as the primary factors responsible for the Federal Government's fiscal supremacy.

Unrelenting expenditure demands on State and local governments have severely aggravated this fiscal mismatch. Working with a relatively sluggish revenue system and confronted with a prohibition against deficit financing, State legislatures have been forced to take 466 tax increase actions since 1959.[1] ** The pressure on the local fisc is more intense—at least half of the $30 billion property tax growth and the $4 billion increase in local income and sales taxes since 1952 can be attributed to the thousands of local decisions to hike tax rates.

While the careers of many State and local officials have been wrecked by courageous decisions to raise taxes, similar action at the Federal level is seldom necessary and rarely if ever fatal to a political career. In the last sixteen years Congress has cut the Federal income tax five times (1954, 1962, 1964, 1965, and 1971) and increased it only once (1967) and that action was taken in response to a strong public demand to curb inflationary pressures.

This growing mismatch in political risk-taking at the various levels of government prompted the Commission to observe:[2]

> It is not surprising therefore that power gravitates to the place (Washington) that can command resources more readily. To put the matter in more philosophical terms, the growing revenue superiority of the Federal Government undercuts a basic premise that supports our federal system—that officials at each level of government will experience about the same degree of resistance when making demands on the taxpayer's pocketbook.

The power scales are tipped even farther in favor of Washington by the lopsided Congressional reliance on the narrow categorical or conditional form of financial assistance. The extension of Federal influence over State and local expenditure decisions can be traced directly to the fact that the Congress is now dangling more than 500 large and small conditional aid carrots worth close to $30 billion before the eyes of State and local officials.

It is against the background of rising discontent with our present form of Federal aid that we examine Canada's post-World War II efforts to redress its intergovernmental fiscal imbalance.

The Relatively Favorable Climate for Tax Sharing in Canada

Before examining in detail the significant features of the present Canadian tax sharing system, it is appropriate to answer this question—*Why have the Canadians been able to chalk up over two decades of tax sharing experience while we in the United States still debate the merits and demerits of this proposition*? Undoubtedly more than half of the explanation is to be found in the basic intergovernmental differences previously cited—the powerful political position of provincial leaders, the increasingly strident demand of Quebec for home rule, and the decline in Canada's national defense burden in relation to its steadily rising gross national product.

The rest of the explanation is to be found in the accidents of recent Canadian history:

1. **The Rowell-Sirois Report of 1940**—Canada in 1867 started with a system of unconditional Federal grants which was enlarged spasmodically and unsystematically over the decades. In 1940, the Rowell-Sirois Commission showed how the grants could be put on an orderly and systematic basis. While most of the centralizing recommendations of this Royal Commission Report were never accepted, this searching analysis of

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*This section summarizes the findings and conclusions set forth in Chapter II.

**See numbered footnotes at end of chapter.

Canadian intergovernmental relations created an intellectual climate that was receptive to new ideas for dealing with chronic intergovernmental issues. Moreover, its specific recommendation calling on the central government to exercise an equalizing role as among the Provinces now constitutes one of the three basic elements in the Canadian tax sharing system.

2. **The Wartime Tax Rental Agreements**—At the outset of World War II, appeals to patriotism (if not sheer fright) accomplished what reasoning had failed to effect; the Provinces turned over to Ottawa their income tax rights in return for a "rental" payment. The Federal Government wanted undisputed control of the income tax fields in order to finance as much of the wartime costs as possible from current revenue flows. After the end of hostilities, it was necessary, therefore, for Ottawa and the Provinces to come to some basic understanding as to the future Federal-Provincial division of the income tax field. Thus, after World War II, Canada was confronted with a tax sharing fact—not a theoretical situation.

3. **The Accidents of Parliamentary Politics**—During the late 1950's and early '60's the parliamentary system produced relatively strong provincial leaders and minority governments in Ottawa. Restoring the Federal-Provincial fiscal imbalance was a major issue in the national election campaigns of 1957 and 1962—each of which brought a new political party to Federal power. Following both elections more liberal tax-sharing concessions were agreed to by the Federal Government, facilitated in part by the fact that the Federal Government was gathering more revenue than it needed to meet its own commitments. The growing strength of the provincial political leaders was reflected in the extensive Federal-Provincial discussions that preceded the negotiation of new fiscal arrangements in 1967 which were still more favorable to the Provinces.

4. **Increased Public Support for Decentralization Policies**—From the middle 1950's, there developed a rather strong and negative public reaction to the "Ottawa knows best" mentality that had surfaced during the Depression and flourished during World War II and in the early years of the post-war period. This change in public attitude helps explain why the power pendulum began to swing back toward the Provinces in the 1950's and continued to move in that direction throughout most of the 1960's.

Canada's Three Pronged Tax Sharing Approach

Over the last twenty years Canada has developed three distinct forms of assistance in order both to strengthen the provincial revenue position and to secure a high degree of Federal-Provincial tax coordination.

1. **Federal tax abatements (essentially tax credits) that redress the intergovernmental fiscal mismatch by transferring revenue sources from Ottawa to the Provinces on an unconditional basis.** This transfer is effected by a Federal tax reduction (abatement) that makes "tax room" for the Provinces. This Federal tax reduction enabled provincial leaders to enact income taxes at zero political risk because the taxpayers' provincial tax was offset by the reduction in the Federal liability. Under this abatement system, Ottawa now makes available to the Provinces 28 percent of the basic personal income tax, about 23 percent of the corporate income tax yield, and 75 percent of the succession duties.

2. **Revenue equalization payments to the poorer Provinces.*** Because the tax abatement (tax credit) approach clearly favors the wealthier Provinces, the Federal Government compensates for this fact by extending unconditional aid in the form of revenue equalization payments to the seven poorer Provinces. This enables the lower-income Provinces to provide reasonable levels of public services without having to impose levels of taxation appreciably above the national average.

3. **Federal tax collection agreements designed to maximize taxpayer convenience and the coordination of Federal-Provincial income and estate tax policies.** Under these agreements the Federal Government has offered to collect provincial personal and corporate income taxes at no cost to the Provinces, provided their tax bases are identical with Federal definition. Eight Provinces have accepted the Federal offer to collect both their personal and corporate income taxes. Ontario has farmed out the collection of the personal income tax to Ottawa but continues to collect its corporate income tax. Quebec continues to levy and to collect both its personal and corporate income taxes.

Evaluation of the Canadian Tax Sharing System

Canada's tax sharing approach has gone a long way in redressing the general revenue imbalance within the Canadian Federation. One of the tests for ascertaining the relative fiscal and political strength of the partners in a Federal system is to observe how they share the

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*In fiscal 1971 the estimated value of the abatements was $2.8 billion and the equalization payments were about $900 million—a total of $3.7 billion or 27.3 percent of provincial revenue. Comparable arrangements would be worth some $33 billion to the 50 States. In addition, Ottawa transferred to the Provinces $2.2 billion in conditional grants for "shared cost" programs.

intergovernmental revenue pie over time. Using the "revenue pie" test, the performance of the Provinces is truly impressive. Between 1957 and 1969 the provincial share of all revenue collections rose from 18 to 33 percent; the Federal share fell from 69 to 52 percent; and the local share increased slightly from 13 to 15 percent.

By comparison, the performance of our States was far less impressive–rising only from 15 to 19 percent despite their furious activity on the tax increase front.

While our State leaders were out on the firing line constantly raising tax rates, the provincial leaders took two revenue raising routes–tax increase action *and* the negotiation of more generous tax sharing agreements with Federal officials. In fact, most of the remarkable revenue gains chalked up by the Provinces during the 1950's and 1960's can be attributed to the willingness of the Federal policymakers to negotiate with the provincial political leadership and their decision to share their prime revenue source with the Provinces.

The Canadian tax credit approach to revenue sharing has helped solve two basic political problems–that of keeping tax sharing funds free of Federal controls and of maintaining at least token identification with the principle of fiscal responsibility. Opponents of revenue sharing in this country often warn that this form of assistance will extend rather than diminish Federal control over State and local activity. Their contention is based on a belief that Congress will be under constant pressure to attach "strings" to the so-called unconditional revenue sharing grants.

Canada has avoided this completely by transferring tax power rather than dollars. It is extremely difficult for a central government to attach expenditure strings to tax credits.

Canada's tax credit approach to revenue sharing also has the advantage of maintaining at least formal recognition of the principle of fiscal responsibility–that the power to tax should be linked to the power to spend. Before the Province of Ontario can claim 28 percent of the basic Federal income tax, it must *first* go through the legal motions of imposing a tax of 28 percent on its own residents. As noted earlier this is merely a formal act because the Federal tax is reduced (abated) by the same amount.

As an inducement to more intensive provincial use of the personal income tax, the Federal-Provincial agreements also authorize the Provinces to set their personal income tax rates in excess of 28 percent of the Federal tax. Fiscal pressure has now forced six Provinces to cross the tax responsibility Rubicon–Alberta, Newfoundland and Prince Edward Island, 33 percent; Saskatchewan, 34 percent; New Brunswick, 38 percent; and Manitoba at 39 percent–of the basic Federal tax rate. It is probably safe to assume that the taxpayers in these six Provinces are generally aware of the independent financial action taken by their provincial leadership even though they mail their Federal-Provincial income tax returns to Ottawa.

There is no question about taxpayer awareness in Quebec. Provincial taxpayers are required to send their income tax returns to the provincial capital and they pay a special 6 percent surtax on their provincial personal income tax–an amount that is over and above that which can be charged off against their Federal liability.

The success of Ottawa's effort to nudge the Provinces into the income tax field is reflected by the following data.

		Fiscal Year	
		1957	*1970*
I	Provincial share of all income taxes (individual and corporation) collected in Canada	3.6%	28.9%
	State share of all income taxes (individual and corporation) collected in the U.S.	4.3	9.4
II	Provincial income tax claim on GNP	0.3	3.7
	State income tax claim on GNP	0.6	1.4

The full political significance of the tax credit-fiscal responsibility approach became quite clear in 1966 when the Federal Minister of Finance, Mr. Sharp, announced that the Provinces could no longer count on larger Federal tax credits as the painless source of additional revenue. Just as the tax credit approach had kept Canadian revenue sharing free of Federal controls, it had also created, at least on paper, a rather strong system of provincial income taxes. This fact, coupled with revenue equalization payments to the poorer Provinces, made it possible for Ottawa to tell the provincial leaders that it was now time for them to bite the fiscal responsibility bullet–that if they needed more revenue they should raise their own taxes and accept full political responsibility for such action. This has remained the Ottawa position since 1966.

As a necessary supplement to tax credits, Canada has developed a sophisticated and effective method for equalizing the revenue capacity of the Provinces. Under the present formula, the Federal Government undertakes to equalize the per capita yield of all provincial revenues from own sources up to the national average per capita yield. This equalization technique is similar to the "average financing system" approach used by this Commission in developing State-local fiscal capacity and effort measures.[3] In fact, there is evidence that the Canadian Government's decision to move to this average financing technique was influenced in part by an earlier Commission study that used the "representative tax system" approach.[4]

Because the tax credit approach clearly favors the Provinces with superior revenue-raising capacity, the Federal Government extends special aid to the less endowed jurisdictions. For the fiscal year 1971, the Federal Government turned over approximately $900 million to the seven poorer Provinces in the form of revenue equalization payments. As will be seen in Chapter II, these payments have a powerful equalizing effect.

At the price of building a greater rigidity into the Federal income tax structure, Canada has achieved a very high degree of Federal-Provincial tax coordination. The Federal tax collection agreements have encouraged all the Provinces except Quebec to adopt income taxes that are identical to the Federal. For taxpayers the advantage of convenience is obvious. Two lines on the Federal income tax form take care of their provincial income tax obligation. From the standpoint of the Federal authorities, the meshing of Federal and provincial income taxes is also highly advantageous–the same rate of progression is maintained throughout the country and there is uniform treatment of all items that comprise the tax base.

There are two advantages for the Provinces. First, they are not required to take on the fiscal and administrative burden of tax collection. Second, Federal collection of the income tax permits provincial leaders to maintain very low political visibility on the controversial income tax front.

Canada has had to pay a "rigidity" price for the advantages of this type of highly coordinated tax arrangement. With the Provinces piggy-backing on the Federal levy, it is very difficult for Parliament to effect tax reforms or increase or decrease the income taxes without creating a major intergovernmental issue. It is also difficult–if not impossible–for the Provinces to use the personal income tax in furtherance of their own social goals (for example, as a vehicle for extending property tax relief to poor property owners).

On balance, however, the advantages of tax coordination appears to outweigh this disadvantage of tax policy rigidity.

Canadian tax sharing experience indicates that the transfer of revenue power from Ottawa to the Provinces was effected for the most part under considerable intergovernmental tension because the basic issue was not who had the right to levy taxes, but who should assume the political risk involved in exercising that right. Central government policymakers are reluctant to admit that their expenditure responsibilities have a lower priority than those of Provinces and local officials and they constantly seek to avoid a situation that enables officials at other levels to claim credit for expenditure programs financed with unconditional Federal tax dollars. Provincial authorities constantly underscore the fact that revenue sharing does not provide sufficient resources to meet their rapidly rising expenditure priorities.

Because it was virtually impossible to secure agreement on expenditure priorities, Federal-Provincial bargaining had the effect of reducing political risk-taking for provincial revenue raisers by means of tax credits, Federal collection of provincial income taxes, and revenue equalization payments to the poor Provinces.

While there is plenty of evidence to suggest that hard bargaining has redressed considerably the intergovernmental revenue imbalance, there is no evidence to suggest that the Provinces pushed Ottawa too far.

Application of the Canadian Tax Sharing Experience to the United States

The major message to be drawn from Canadian experience is the absolute necessity for either bending or suspending the principle of fiscal responsibility if a Federation is to strike a tolerable balance between intergovernmental revenue requirements and expenditure responsibilities. If Canada had clung tenaciously to the doctrine that he who has the pleasure of spending tax dollars must bear the *full* political pain involved in raising them, the fiscal mismatch in Canada would be as bad as our own situation.

In order to achieve a better general revenue balance between the levels of government and to equalize revenue capacity among the Provinces, Canada risked infringement of the fiscal responsibility principle. Through the anesthetizing effect of tax credits, Federal collection systems and equalization payments the Federal Government reduced provincial revenue raising pain to more tolerable levels.

THE PUBLIC WELFARE IMBALANCE*

The Public Welfare Issue in the United States

In its 1969 report, *State Aid to Local Government,* the Advisory Commission recommended that the

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*This section summarizes the findings and conclusions set forth in Chapter III.

Federal Government assume full financial responsibility for public assistance and medicaid.* In reaching this decision, the Commission was largely persuaded by the intergovernmental—as opposed to the program—defects of the public assistance programs:

1. Great disparities among States in the level of income support provided the poor—lowest among the southern States, highest in the States of the Northeast and Far West.

2. The continuing migration of poor whites and poor blacks from the southern States to the northern urban centers—a situation that prompts fears among northern State legislators that their higher welfare benefits are at least partially responsible for attracting the poor to their States and certainly responsible for holding them there if they cannot find employment.

3. The progressive loss of State administrative and fiscal control over the welfare function as Supreme Court decisions and Federal legislative and executive actions have whittled away the right of the States to deny aid to certain classes of welfare applicants.

4. The great disparities in public welfare burdens borne by the States.

The Canadian Federal-Provincial Contrast

In sharp contrast to these intergovernmental defects and tension points is the picture of a fairly uniform distribution of the burdens and benefits of Canadian public welfare programs administered by the Provinces on a 50-50 shared cost basis with the Federal Government:

1. The differences between the high-paying and low-paying Provinces under the Canadian Assistance Plan are generally in the range of 1.5 to 1 using their monthly budget standards as the basis for comparison. This contrasts to a ratio of 6 to 1 among the States—four times the Canadian divergence.

2. Ratios of as high as 10 to 1 have been found among the States when public welfare expenditures are expressed as a percentage of State personal income—the provincial counterpart to this ratio is on the order of 2.5 to 1.

3. Undoubtedly, as a result of these lower differentials, public discussion of the migration of the poor to search out higher welfare benefits has nowhere reached the strident tones heard in the United States.

4. Canada has not experienced the explosive growth in public assistance caseloads that has occurred in the United States. While individual States have seen their welfare rolls expand 40 to 50 percent in the course of a single year, the Canadian ratio has increased only from 23.6 to 25.0 per 1,000 population.

5. Although the Provinces are not permitted to impose residence requirements, they do set eligibility criteria and retain wide latitude in undertaking public assistance programs eligible for Federal cost sharing.

The relatively impressive Canadian record immediately raises the question—Why do we find such a contrast between Canadian and United States experience?

1. **The difference in Federal matching provisions:** The Federal Government of Canada matches on a flat 50 percent reimbursement basis, while the Federal Government of the United States uses the "step-down" approach. For example, in the Aid to Families with Dependent Children program (AFDC), Washington pays 5/6 of the first $18 and then 50-65%—in inverse ratio to State per capita income—of the balance. Because it becomes increasingly expensive to provide benefit levels beyond the minimum, the Federal matching grant tends to reinforce the other factors that have caused certain States to pay the minimum welfare rate.

2. **Relative affluence of Canada and the United States:** Further exacerbating the differences in matching provisions between the two countries is the greater affluence of the United States—where 31 of the States have per capita incomes exceeding the wealthiest Canadian Province (Ontario). This greater relative affluence has in turn increased pressures, at least in certain States, to pierce the Federal ceiling on welfare expenditures. Thus the lower income levels in Canadian Provinces coupled with the flat Federal matching share have avoided this source of diversity—so present in the United States.

3. **Federal program financial responsibilities:** The Federal Government in Canada finances and administers two programs—old age security and family allowances—which help relieve the pressures on provincial public assistance programs. This aid to the elderly then takes a large group off the welfare rolls while family allowances, in a sense, are comparable—though by no means a complete substitute—for the aid for the dependent children programs of the United States. Thus the scope of intergovernmental public assistance programs varies between the two countries.

4. **Superior fiscal position of Canadian Provinces:** The strong income tax position of the Provinces, the relative immunity from inter-provincial tax competition, and the Federal provision of substantial equalization aid to the poorer Provinces all combine to place the Provinces in a somewhat more favorable position,

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*At the same time, the Commission further recommended that the States and localities continue to administer public assistance programs.

vis-a-vis their expenditure demands than their State government counterparts in this country. Indeed, while State after State has been pushed into the income tax field to finance spiralling education and welfare costs, Canadian Provinces did not encounter any severe public assistance caseload problem during the late 1960's though the winter of 1970 marked a significant departure from the record.

5. **Economic dynamism and racial discrimination:** The transformation of the United States economy from a rural, agricultural base to an urban, industrial orientation has unleashed a migration that includes–but is not limited to–the poor. The latter, however, while acting in the national interest in their search for better job opportunities nonetheless emerge as the social problem of recipient States and localities. This phenomenon is exacerbated by the policies of racial discrimination–evidenced not only in the setting of welfare benefit levels but in the educational and job opportunities made available to residents. This element of racial diversity is largely absent in Canada where the minority groups–Indians and Eskimos–are assisted directly by the Federal Government. *Part of the Canadian success in the greater homogeneity of public assistance benefits then must be attributed to this lack of the singularly divisive issue of race.* Contrary to the expectations of some, this economic transformation and racial migratory pattern in the United States has not crested but continues at rates paralleling the decades of the forties and fifties.

6. **Greater Canadian reliance on public sector "equalization:"** Any evaluation of the Canadian social welfare services would have to conclude that this sector is more highly developed than its United States counterpart. This judgment rests not only on quantitative measures but also on the fact that public assistance is universally available to the poor and that public hospital and health care programs are more fully developed. In part at least, this suggests that when compared to the U.S., there is greater support in Canada for the general proposition of "equalization"–that government must play a strong role in reducing the gap that separates the "haves" from "have-nots." This Canadian concern for equalization is not limited to the intergovernmental area–their social welfare programs carry it forward into the inter-personal field.

Given the much greater heterogeneity of benefits and public assistance tax effort in the United States than in Canada, it is unlikely that the shared cost approach, if applied here, would materially improve the financial position of States and localities. So long as the State-local sector remains revenue poor–most States in 1971 are planning a tax increase, to an aggregate tune of $5 billion–it is simply not feasible to consider introducing major new public programs without providing a substantial infusion of Federal aid in some form–revenue sharing, shared costs, tax credits, and the like.

Application of the Canadian Approach to the United States Welfare Situation

If the Federal Government strengthens the fiscal position of the States with generous tax abatements and substantial equalization payments for the poorer jurisdictions (along the lines of the Canadian plan), then would the joint Federal-State welfare system achieve a fairly uniform distribution of the costs and burdens of public welfare? While any action that would substantially increase the fiscal power of State governments could also be expected to reduce somewhat interstate welfare disparities, it is extremely doubtful that the 50 States in our Union could then duplicate the Canadian provincial performance. The main obstacle would still remain–internal migration heightened by policies of racial discrimination–the most critical distinction between Canada and United States public welfare experience.

It must also be noted that the Federal-Provincial shared cost arrangement is not free of intergovernmental tensions. The poorer Maritime Provinces are presently seeking additional Federal aid because of their lack of financial resources and because the incidence of unemployment in these Provinces exceeds the national average. More wealthy British Columbia is seeking a "portability grant" on the ground that its favorable climate attracts an in-migration that it cannot control due to the prohibition against imposing residence requirements as a condition of eligibility for receiving public assistance.

For these reasons, it is doubtful that the Canadian shared cost approach, even if supplemented by a generous revenue sharing arrangement, could be accepted as an adequate substitute for full Federal assumption of public assistance costs in the U.S.

EDUCATIONAL AND LOCAL GENERAL GOVERNMENT IMBALANCE*

The Educational Finance Problem in the United States

In *State Aid to Local Government*, this Commission confronted the issue of whether the local property tax

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*This section summarizes the findings and conclusions set forth in Chapter IV.

can provide adequately for the mounting costs of both local governments and local schools. The Commission concluded that the education function had burst most of its local bounds and therefore that heavy reliance on the property tax for school support was not the wisest public policy. The Commission recommended that the States adopt as a long-run fiscal objective the assumption of substantially all responsibility for financing local schools from State revenue sources (essentially taxes other than on property). While calling for centralization of financing responsibility, the Commission foresaw a continued opportunity for local financial enrichment and appropriate local decision making.

The New Brunswick Experience

The Province of New Brunswick has had the working prototype of the educational financing arrangement recommended by the Commission since 1967. In most Canadian Provinces, provincial-local educational financing arrangements resemble those in the United States, and for purposes of this study are therefore of less interest.

Prior to 1967, provincial-local relationships in New Brunswick resembled State-local relationships in many of our States. Public school support depended heavily on the local property tax. Property tax burdens varied widely from community to community. Ethnic distinctions as well as property tax geography were major determinants of a child's educational opportunities. The adverse effects of disparities in the provision of educational services spilled over the boundaries of the local school districts. The provincial government enacted the "Equal Opportunity Program" to deal with these and other critical provincial-local concerns.

In view of the Commission's position on State assumption of school costs, the following findings, based on New Brunswick's experience, are particularly noteworthy:

1. Provincial assumption of school costs fixes political responsibility for school support more firmly than any provincial-local cost sharing arrangement seems capable of doing.

2. Provincial assumption results in a more equal provision of educational services than a provincial-local cost sharing arrangement seems capable of attaining. In New Brunswick's case, the process meant an "evening up," that is, improvement in educational programs for residents formerly served inadequately while sustaining the level of services already provided for many residents. Obviously this result could not have been achieved if the public had been led to expect tax relief. Indeed, New Brunswick's effort succeeded only by virtue of the higher taxes which made possible an infusion of new funds.

3. Provincial assumption retains local decision-making in significant educational policy areas such as hiring of teachers and ancillary professional staff but only after massive reorganization of local school districts.

4. Provincial assumption of school costs was but one, albeit important, part of a total restructuring of provincial-local relations in New Brunswick which included:

   a. assumption by the provincial government of the full cost of providing general benefit services such as education, health, welfare, and justice;

   b. abolition of counties as units of local government and establishment of three categories of local government based on the scope of services provided locally;

   c. tax and revenue revision which eliminated the personal property tax and several nuisance-type taxes and established a provincially administered assessment system that undergirds the uniform province-wide real estate tax and allows local governments, in effect, to piggy back local real estate taxes.

The New Brunswick experience supports the Commission's recommendation on school finance. State takeover (1) fixes responsibility for the financial support of schools and, indeed, demands that provincial officials withstand extreme public pressures on tax issues, (2) equalizes the provision of educational services, (3) leaves room for local administration and local discretion rather than necessitating centralized decision-making on the Hawaii model for example.

The Lessons From New Brunswick Experience

New Brunswick's experience reveals, however, that the Commission's recommendation may not have spelled out sufficiently the prospect that:

1. State takeover and the resultant "leveling up" process may necessitate an infusion of new funds and an increase in the overall tax burden in order to equalize educational services;

2. For most States the Commission's call for financing education from nonproperty tax sources may be unrealistic. States may well find it necessary to enact a uniform statewide property tax as an interim measure as the governors of both Michigan and Minnesota have proposed in plans for State assumption of school financing.

3. If State takeover could be accomplished without increasing the aggregate tax burden, shifts in individual tax burdens resulting from greater reliance on nonproperty tax sources and relief from property taxes would still make public acceptance difficult to attain.

PROVINCIAL-LOCAL RELATIONS*

U. S. Concern with Metropolitan Fiscal Disparities

The Advisory Commission on Intergovernmental Relations has been particularly concerned with a metropolitan imbalance that favors the wealthier suburban jurisdictions as against most central cities and some suburban jurisdictions. Two forces have been the prime contributors to this imbalance in our urban centers:

1. Political fragmentation of the metropolitan area which causes central cities especially to fear that higher taxes will reinforce other powerful social and political factors that prompt middle and upper income whites and business firms to move to suburbia; and
2. The "municipal overburden" that stems from the heavy concentration of the poor who are especially dependent on the public sector for all types of services.

Our studies have brought forth numerous policy recommendations—an "arsenal of weapons"—for dealing with the metropolitan fiscal disparity problems. All involve strengthening State-local tax structures, improving property tax administration, and restructuring and revitalizing local government. In essence, we have called for State and Federal policies to:

1. Promote annexation and consolidation;
2. Encourage the migration of people and industry to smaller and more balanced communities;
3. Encourage the financing of major functions on an areawide basis; and
4. Compensate those local governments forced to shoulder a municipal or educational overburden.

The Canadian Experience

Metropolitan fiscal disparities are not an important factor in Canada because its major cities still have economic and social balance. The rich and the poor and the middle class will be found within the same jurisdiction. Indeed, in some metropolitan areas the central city is much better off than some of its surrounding communities.

Still there is a growing concern in Canada with the varying abilities of individual communities in the growing metropolitan areas to finance both educational and municipal services. Fiscal zoning has not been unknown in Canada, with neighboring communities vying for high value residential, commercial and industrial development. As a result, there is a definite trend toward establishment of areawide local government mechanisms, restructuring of provincial aids and improving property tax administration.

- Ontario is moving toward a network of strong local regional governments, largely along the lines of the two-tier structure of Metro Toronto that has been operating with generally acknowledged success since 1954.
- A similar regional structure was established in the Winnipeg metropolitan area in 1960 and proposals are now being considered for strengthening it by consolidating all the municipalities in the area under one centralized governing body.
- The Province of New Brunswick recently revolutionized its ability to render public services through a complete overhaul of its local government structure and a drastic shift in the provincial-local division of financing and administrative responsibility.
- Some of the other Provinces are re-evaluating their local government aid systems and are moving toward more general local government support—some, like New Brunswick, in the form of equalizing per capita grants.
- And significant steps are being taken by most Provinces to improve property tax administration and to make that tax more equitable.

Unique Factors in the Provincial-Local Environment

There are a number of significant factors in the Canadian provincial-local environment that have enabled the Provinces to hurry history along without an aggravated metropolitan fiscal disparity problem.

1. Because provincial governments are both politically and fiscally powerful, they are able to exert the strong control over local government that is their constitutional responsibility. Provincial-local affairs agencies, with specific life and death powers over the municipalities, have existed in all Provinces for many years. It is not surprising, then, that many of the Provinces, for example, have taken over the property tax assessment function, or that New Brunswick was able to undertake a complete overhaul of local government with one comprehensive legislative act, or that Ontario was able to

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*This section summarizes the findings and conclusions set forth in Chapter V.

conceive and is now in the process of developing a broad system of regional-local governments.

2. Canadian municipalities are not beset by the intralocal racial polarization that is tearing at the very fabric of many urban centers in the United States. Although bi-lingualism is a burning issue in Canada, it is primarily a national problem rather than an intra-metropolitan problem.

3. Finally, because urbanization is a more recent phenomenon in Canada than in the United States, the Canadians are able to profit from our mistakes. They observe the results of undirected localism across the border and can point to the "living proof" of what could happen in Canada if proposals for reorganization of local government are not implemented.

Lessons for the United States

The Canadian experience shows that the Commission's prescriptions for improving State-local fiscal relations can work provided:

1. The Federal Government takes the necessary steps to help States strengthen their fiscal capabilities; and

2. Federal and State policymakers are willing to assume the admittedly great political risks necessary to strike a tolerable balance between needs and resources among the jurisdictions that comprise our metropolitan areas.

More importantly, Canada has demonstrated that it is still possible for the large city to provide a first-rate urban environment for all income classes and that an ounce of prevention is worth a ton of disparity cures.

THE STATE OF FISCAL FEDERALISM IN CANADA AND THE UNITED STATES—AN "IMPRESSIONISTIC" ANALYSIS

There are at least four "impressionistic" type tests that can be used to assess the current state of fiscal federalism on either side of the 49th parallel. In order of their relative importance:

1. **The Unity-Diversity Test**—A high degree of decentralized decision making within a strong federal union.

2. **The Equity Test**—An equalization system that can insure that no jurisdiction or significant group within the body politic is either forced to carry an extraordinary tax load or is badly shortchanged with respect to public services.

3. **The General Fiscal Balance (Political Risk) Test**—An assignment of revenue sources and expenditure responsibilities between the central government and the State-local systems that insures that policymakers at all levels experience about the same degree of political risk when making demands on the taxpayers.

4. **Fiscal Responsibility (Pleasure-Pain) Test**—An assignment of revenue sources and expenditure responsibilities that insures that the pleasure of public expenditures is closely linked with the pain of taxation.

The United States scores higher on tests 1 and 4 (unity-diversity and fiscal responsibility) while the Canadian Federation clearly gets the nod on tests 2 and 3 (equity and fiscal balance).

The force of adversity may go a long way in explaining why the Canadian Federation chalks up a better record than ours when it comes to equalization and fiscal balance. Confronted with real threats to their national unity, Canadian intergovernmental policymakers have been forced to think out the equity and intergovernmental balance issues. They could not afford the luxury of clinging tenaciously to the fiscal responsibility principle (test #4).

These "impressionistic" tests also clearly point up the fact that these four objectives of fiscal federalism are often in conflict, the one with the other. It is becoming increasingly clear that if our federation is to reinforce diversity and make progress on equity and fiscal balance fronts it will have to make the access to revenue somewhat less painful to State and local policymakers.

Failure to take such remedial action will insure that most of the nation's revenue cream will continue to rise to the top and then be sent back to States and localities with Federal "strings" attached. There is no surer way to centralize fiscal and administrative power in Washington than to insist that State and local officials can only control the expenditure of those tax dollars for which they accept complete political responsibility.

[1] ACIR *State-Local Finances, and Suggested Legislation,* 1971 Edition (M-57), Dec. 1970), p. 49.

[2] ACIR Information Report, *Revenue Sharing—An Idea Whose Time Has Come,* (M-54, Dec. 1970), p. 4.

[3] ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (M-58, March 1971).

[4] ACIR, *Measures of State and Local Fiscal Capacity and Tax Effort* (M-16, October 1962).

Chapter II

CANADA'S APPROACH TO REDRESSING THE GENERAL REVENUE IMBALANCE

The creation of a strong provincial income tax system by means of Federal income tax credits (abatements)* and the granting of unconditional aid to the poorer Provinces in the form of revenue equalization payments now represent the Canadian method for both redressing the intergovernmental fiscal imbalance and still maintaining a direct link between the power to tax and the power to spend.

THE CANADIAN TAX SHARING ARRANGEMENTS

One of the tests for ascertaining the relative fiscal and political strength of the partners in a federal system is to observe how they share the intergovernmental revenue pie over time. In the light of this test, the performance of the Provinces is truly impressive.

Division of Revenue

Between 1957 and 1969 the provincial share of all revenue collections rose from 18 to 33 percent; the Federal share fell from 69 to 52 percent; and the local share increased slightly from 13 to 15 percent (table 2). Clearly, tax sharing has strengthened the fiscal and political position of the Provinces within the Canadian Federation.

By comparison, the performance of our States was far less impressive—rising only from 15 to 19 percent despite their furious activity on the tax increase front.

While our State leaders were out on the firing line constantly raising tax rates, the provincial leaders took two revenue-raising routes—tax increase action *and* the negotiation of more generous tax-sharing agreements with Federal officials. In fact, most of the remarkable revenue gains chalked up by the Provinces during the 1950's and 1960's can be attributed largely to the growing power of provincial political leadership and the

Table 2
THE DISTRIBUTION OF REVENUE BETWEEN LEVELS OF GOVERNMENT IN CANADA AND THE UNITED STATES, FOR THE FISCAL YEARS 1957 AND 1969
(Dollar amounts in millions)

Level of government	General revenue from own sources								
	Amount			Percentage distribution			As a percentage of GNP		
	1956-57	1968-69	Percentage increase	1956-57	1968-69	Percentage point change	1956-57	1968-69	Percentage point change
Canada									
Federal	$ 5,441	$ 11,438	110	69	52	–17	17.3	16.0	–1.3
Provincial	1,395	7,225	418	18	33	+15	4.4	10.1	+5.7
Municipal	1,057	3,207	203	13	15	+2	3.4	4.5	+1.1
Total	7,893	21,870	177	100	100	—	25.2	30.6	+5.4
Exhibit: GNP	31,374	71,454	128	—	—	—	—	—	—
United States									
Federal	78,403	162,845	108	70	63	–7	18.7	18.8	+.1
State	16,454	49,537	201	15	19	+4	3.9	5.7	+1.8
Local	17,866	45,861	157	16	18	+2	4.3	5.3	+1.0
Total	112,723	258,242	129	100	100	—	26.9	29.9	+3.0
Exhibit: GNP	419,200	865,045	106	—	—	—	—	—	—

Source: Report of the Tax Structure Committee to the Federal-Provincial Conference of Prime Ministers and Premiers, February 16-17, 1970; Canadian Tax Foundation, *The National Finances, 1970-71*; and U. S. Bureau of the Census, Governments Division.

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*See the footnote in table 3 for the distinction between abatements and credits as applied to the Canadian fiscal arrangements.

Table 3

CANADIAN TAX SHARING ARRANGEMENTS, FISCAL YEAR ENDING MARCH 31, 1971

Item	Amount ($000,000) (Est.)	As a percent of provincial gross general revenue	Basis for computing the value of provincial share
Federal personal income tax abatement[1]	1,905	14.1	Federal relinquishment of 28% of the basic Federal personal income tax liability, thereby permitting a Province to impose a personal income tax up to this rate, without increasing the taxpayers' total Federal-Provincial tax liability.
Federal corporation income tax abatement[1]	710	5.3	Same abatement procedure as above but limited to 10% of taxable corporate income in the Province. (In effect, this permits a Province to levy a tax roughly equivalent to 20% of the Federal tax without increasing the corporation's total Federal-Provincial tax liability.)
Provincial share of Federal succession duties	196	1 .5	75% of Federal estate taxes (succession duties) in the Province, based on a three-year average of assessments.
Equalization payment to the Provinces[2]	880	6.5	Paid only to the seven Provinces with taxable capacity below the national average. The equalization payment brings each of these Provinces' per capita revenue from own sources up to the National per capita average yield.
TOTAL	3,691	27.3	

[1] Strictly speaking, an income tax abatement represents a reduction of Federal income tax liability whether or not a Province levies such a tax. It is less coercive than a credit because the Provinces were not originally required to levy an income tax. But where, as in Canada, all Provinces impose personal and corporate income taxes with rates at least equal to the Federal abatement rate, there is no difference between a tax abatement and a tax credit. Residents of the Yukon and Northwest Territories pay the full Federal tax as the Territories do not levy such a tax themselves.

[2] Including stablization payments.

Source: D.B.S. *Provincial Government Finances, Revenue and Expenditure 1970 (Estimates)*; and Canadian Tax Foundation, *The National Finances, 1970-71.*

absence of entangling defense commitments which facilitated the decision of Federal policymakers to share their prime revenue source with the Provinces.

Tax Credit (Abatement) Approach

Federal-Provincial negotiations produced a series of tax sharing agreements, each more liberal than the previous one.* Under the tax credit arrangement the Federal Government currently makes available to the Provinces 28 percent of Federal personal income tax revenue, slightly less than 25 percent of the Federal corporate income tax receipts, and 75 percent of the succession (estate) duties. In addition, it makes revenue equalization payments to seven Provinces.

The fiscal significance of these arrangements is to be found in the fact that, for fiscal 1971, they produced an estimated $3.7 billion for the ten Provinces, about 27 percent of their total gross revenue (table 3). Comparable arrangements (i.e., a system of very generous tax credits and equalization payments) would be worth $33 billion for the 50 States.

In return for the transfer of revenue raising power, the Federal Government of Canada realized its primary objective—that of establishing the principle that the political leadership of the Provinces should accept at least token tax responsibility for the additional Federal funds that would flow into their hands. The principle of fiscal responsibility was realized at least in theory when the provincial leaders agreed to abandon the tax rental approach and substitute in its stead the tax credit (abatement) approach to Federal tax sharing with the Provinces.

Under this tax credit system, a Province can now obtain 28 percent of the basic Federal income tax collected within its jurisdiction on *one* condition—it must be willing to impose a tax of this amount on its residents. This transfer of resources from Federal to provincial coffers is effected at virtually zero political risk for provincial leaders because the Federal Government currently reduces (abates) its tax by 28 percent

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*A detailed description of this process will be found in a subsequent section of the chapter, beginning on p. 16.

thereby leaving the taxpayer's total Federal-Provincial burden unchanged.

As a further inducement to more intensive provincial use of the personal income tax, the Federal-Provincial agreements also authorize the Provinces to set their personal income tax rates in excess of 28 percent of the Federal tax. Fiscal pressure has now forced six Provinces to cross the tax responsibility Rubicon–Alberta, Newfoundland and Prince Edward Island, 33 percent of the basic Federal tax rate; Saskatchewan, 34 percent; New Brunswick, 38 percent; and Manitoba at 39 percent. It is probably safe to assume that the taxpayers in these six Provinces are generally aware of the independent financial action taken by their provincial leadership even though they mail their Federal-Provincial income tax returns to Ottawa.

There is no question about taxpayer awareness in Quebec. Provincial taxpayers are required to send their income tax returns to the provincial capital and they pay a special 6 percent surtax on their provincial personal income tax–an amount that is over and above that which can be charged off against their Federal liability.

Equalization Aid

Because the tax credit approach clearly favors the Provinces with superior revenue-raising power, the Federal Government extends special aid to the less endowed jurisdictions. For the fiscal year 1971, the Federal Government turned over approximately $900 million to the seven poorer Provinces in the form of revenue equalization payments.

Each eligible Province's revenue equalization entitlement is computed on the basis of its capacity to raise revenue from sixteen tax and nontax revenue sources. The aim is to equalize each Province's per capita yield from its own sources up to the national per capita yield.

The equalizing effect of these payments is illustrated by comparing the way Canada's richest Province (Ontario) and its poorest (Newfoundland) fared under the tax sharing-equalization agreement in the fiscal year 1971. Whereas Newfoundland received only $54 per capita from income and estate tax abatements, it received $173 per capita under the unconditional equalization grant (table 4). In sharp contrast, Ontario claimed

Table 4

THE VALUE OF CANADIAN TAX SHARING ARRANGEMENTS, BY PROVINCE, FISCAL YEAR ENDING MARCH 31, 1971

Province	Per capita tax abatements and equalization payment				Total tax abatements plus equalization payments		Per capita personal income 1970 (est.)		Population June 1970 (est.) (000)
	Federal income tax abatement[1]	Provincial share of Federal estate tax	Equalization payment to the Provinces[2]	Total	Amount (in millions)	As a % of provincial gross general revenue	Amount	Rank	
Newfoundland	$ 53	$ 1	$173	$227	$ 117.8	33.8	$1,759	10	518
Prince Edward Island	45	3	196	244	26.8	32.8	2,000	9	110
Nova Scotia	72	5	116	194	148.3	32.9	2,513	7	766
New Brunswick	63	2	132	197	122.7	29.3	2,258	8	624
Quebec	105[3]	9	86	201	1,208.0	31.9	2,794	5	6,013
Ontario	155	13	—	168	1,284.0	25.7	3,562	1	7,637
Manitoba	105	5	40	151	147.8	26.3	3,066	3	981
Saskatchewan	83	4	42	129	121.6	21.3	2,620	6	942
Alberta	118	5	—	123	197.2	19.3	3,059	4	1,600
British Columbia	139	9	—	148	315.7	24.8	3,322	2	2,137
All Provinces	123	9	41	173	3,690.5	27.3	3,091	—	21,328

[1] Individual and corporation income tax.

[2] Including stabilization payments.

[3] Does not include value of extra abatements (22 income tax points) to Quebec as compensation for "opting out" of certain Federal aid programs.

Source: D.B.S. *Provincial Government Finances, Revenue and Expenditure 1970 (Estimates)*; Canadian Tax Foundation, *The National Finances, 1970-71*; and *Report on the Economic Situation to the Ministers of Finance and Provincial Treasurers by the Continuing Committee on Fiscal and Economic Matters, 7-8 December 1970.*

$168 in per capita tax abatements—but not one cent from Federal equalization aid.* It is not surprising, then, that Ontario continues "to regard herself, in the words of one of her former Premiers, as the benevolent 'milch cow' of the Canadian Federation."[1] Traditionally, the leaders of the Atlantic Provinces have countered this claim with the contention that Federal subsidies to the railroads and equalization payments to the poorer Provinces still fall short of adequate compensation for Federal tariff policies that clearly favor the Central Provinces in general and Ontario in particular.

Federal-Provincial Tax Coordination

When the Federal Government "rented" provincial income taxes in order to help finance the heavy burden of World War II, it laid the groundwork for effective tax coordination. The post-war tax collection agreements led to a high degree of Federal-Provincial income tax uniformity. This has been strengthened by the Federal Government's offer to collect provincial personal and corporate income taxes at no cost to the Provinces *provided* their tax bases are identical with the Federal definition. Eight Provinces have accepted the Federal offer to collect both their personal and corporate income taxes. A ninth Province, Ontario, has farmed out the collection of the personal income tax to Ottawa but continues to collect its corporate income tax. Quebec continues to levy and to collect both its personal and corporate income taxes, but the provisions conform substantially to Federal law.

Aside from the obvious convenience to the taxpayer, Federal collection of income taxes relieves the Provinces of the fiscal and administrative burden of collecting the tax themselves. It also has the advantage of lowering the political visibility of provincial leaders regarding controversial income tax issues.

The requirement of uniformity as a condition for Federal collection of provincial income taxes does introduce an element of rigidity—both for Federal and for provincial policymakers. Any proposed change in the Federal income tax structure inevitably affects the revenue position of the Provinces and is bound to inject the provincial leaders into the controversy. The comprehensive tax reform package being considered by the Federal Government is a case in point. Furthermore, the uniformity requirement may circumscribe the ability of the Provinces to use their income taxes in furtherance of their own social goals.

CONTROVERSIAL ISSUES

The present tax sharing arrangements were forged during the early 1960's under a confrontation-type federalism and largely shaped by one central issue—who was to bear the political cost for exercising the revenue raising power. In a recent paper, Professor Hartle has summarized the Federal-Provincial battle over revenues. His cogent analysis has many implications for revenue sharing in the United States and is quoted extensively in an appendix to this Report.* In brief, Professor Hartle points out that in Canada, "These seemingly simple changes in inter-government transfers were only achieved at a very high cost in terms of tension between the three levels of government. The tension needed to bring about the adoption shook the foundations of the federation."

Escalating Fiscal Responsibility for the Provinces

The Provinces may be forced to accept full responsibility for future increases in their income taxes because Federal policymakers have stoutly maintained for the last five years that they will not agree to any further reductions in the Federal income tax (by means of increased tax abatements) so as to give the Provinces more "tax room" at zero political risk. In the view of Professor Hartle the real cause for the Federal-Provincial battle over revenue was not over who should have the power to raise taxes, but rather who was to bear the political costs for exercising this power.

In throwing down the Federal gauntlet before the Premiers and Prime Ministers of the Provinces in 1966, the Federal Minister of Finance, Mr. Sharp, put the issue more delicately:[2]

> The conclusion seems clear: the problem is not lack of access to revenue resources, but rather the difficulties the Provinces face—in company with the Federal Government—in raising tax levels that are already high.
>
> The conventional approach to this problem, during the post-war period has been to argue that the Federal Government should reduce its taxes so as to give the Provinces more "tax room." This is an understandable argument if federal tax yields are rising more rapidly than required. But when federal revenues are required to meet federal expenditures, or to reduce a deficit or create a surplus for economic reasons, then this approach is unhelpful and even misleading . . . .
>
> The proposition that the Federal Government should reduce its taxes to ease increases in provincial levies must, in

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*It should be noted in this connection that equalization relates to *total* provincial revenue from own sources (not just income and estate taxes). When all such provincial revenue is taken into account, Ontario's per capita take exceeds Newfoundland's, including its equalization grant. A detailed description of the Canadian revenue equalization system is to be found in a subsequent section of this chapter, beginning on p. 19.

*See Appendix B.

> circumstances such as those I have described, be based on the assumption that Parliament is appropriating money for purposes less important than those being served by provincial expenditures. That governments should reduce expenditures is a proper subject for argument—taxpayers make it regularly, and apply it equally to federal, provincial and municipal governments. But we cannot accept as a general principle that federal expenditures are less important than provincial ones. The principle that *does* call for recognition is a different one: namely that both Parliament and provincial legislatures must accept their financial responsibilities and that each should look to its own electors for direction as to what money should be raised and how it should be spent. . . .
>
> What I am suggesting then, is that we must get away from what is tending to become a conventional notion that the Federal Government can and should be expected to give tax room to the Provinces, when they find their expenditures rising more rapidly than their revenues. This has been possible, and has been done, in the past decade, but it cannot be accepted as a general duty. Our basic duty is the ancient one—to tax no more than we need, and to reduce taxes when we can and should. . . .
>
> There are also compelling reasons for the Federal Government to maintain a substantial position in the personal income tax field. This is the principal tax by which equity is achieved between the rich and the poor across the nation. This implies that a substantial share of this tax should continue to flow to the National Government. This tax, too, is one of the central instruments for regulating total demand in the economy, and Canadian governments must not allow total federal income taxes to be abated so much that they can no longer be used for this purpose. This means that the Federal Government must maintain a strong position in this field, despite the pressures it will continue to face for reducing its share in favour of the Provinces . . . .
>
> For these reasons we have concluded that we must look elsewhere than to the further and continuous abatement of federal income taxes for the solution to provincial fiscal problems. We must look instead, I think, to provincial access to all tax fields in provincial jurisdiction . . . .

This view was reiterated in 1969 by the present Federal Government in its White Paper on tax reform. In that report, E. J. Benson, Finance Minister of Canada, stated:[3]

> It is the Government's view that both (Federal and provincial) jurisdictions should retain access to wide powers of taxation. Constitutional taxing powers should not be allocated between the Provinces and Canada according to some prediction of fiscal requirements. Requirements change and are very difficult to predict. The actual use of the tax fields constitutionally available to both jurisdictions will depend upon the circumstances of the time, and ultimately on the judgments of the people and their representatives in Parliament and the legislatures.

Consistent with this view, the Government proposed that ". . . the present practice of abating the basic income tax to assist the Provinces should be discontinued. Instead, the rate structure of the federal tax would be adjusted from the beginning to allow for provincial taxes . . . ."[4] However, the White Paper goes on to note that because of the complexities inherent in the corporate income tax, the Government proposed retaining an abatement system for that tax.*

A sharp rise in intergovernmental tax competition may be the price the Federal Government will have to pay if it establishes, in 1972, the "equal access" policy. The leadership of Ontario has come down hard on this point:[5]

> The existing system of tax sharing has proven defective in the allocation of fiscal resources between the federal and provincial-municipal governments. Nevertheless, it has provided a framework for the maintenance of a reasonably uniform tax structure across the country. Paradoxically, the equal access approach offers an opposite set of advantages and disadvantages. The ability to use all tax fields would seem to be a simple way of ensuring that all governments can finance required expenditures. But it also involves the danger of uncoordinated tax actions resulting in serious interprovincial tax differences and countermanding policies as the Provinces move to meet different expenditure demands and achieve different social and economic objectives. While the need to remain economically competitive may work to contain tax levels and foster interprovincial co-operation, it may also result in measures designed to compete for economic activity and export tax incidence.

"Opting Out"—A Potential Trade Off

At the time that the Government reiterated its intention to discontinue the present system of personal income tax credits it also noted that it would continue to allow special credits to Quebec which had opted in 1965 to assume financial responsibility for certain shared cost programs.[6] Although the opting out arrangement was originally offered to all the Provinces, only Quebec accepted the offer, and to all intents and purposes, that offer is now considered as having lapsed.** However, in connection with its tax reform proposal, the Federal Government has indicated that it would once again consider offering opting out arrangements to the Provinces. Ontario now views this as a possible trade off for the loss of the established abatement. At least it is willing to discuss the level of fiscal equivalence it would require to take over financial responsibility for specified shared cost programs.

EVOLUTION OF CANADIAN TAX SHARING AND REVENUE EQUALIZATION

By the advent of World War II the provincial tax structure had developed into a hodge-podge

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*Legislation to implement the tax reform program was introduced in the spring of 1971 and is expected to be enacted before the end of 1971.

**"Opting out" is discussed in a subsequent section of this chapter, beginning on p. 18.

underpinned by a variety of income and consumption taxes—much like the present situation in the States. Some imposed personal and corporate income taxes, others did not. Some levied general sales taxes; others a conglomeration of selective consumer taxes. Although property taxation was then—as now—the foundation of local government finance, there were a number of local sales and income taxes.

The confusion of the depression years led to a serious examination of the problem of Federal-Provincial finance in Canada. Both the Bank of Canada in 1935 and the Royal Commission on Dominion-Provincial Relations, which reported in 1940 (Rowell-Sirois Report), made extensive studies and recommendations for rationalization of Federal-Provincial finances.

With its involvement in World War II, the Canadian Federal Government was faced with an unprecedented financing problem because it decided to finance as much of the war cost as possible from current revenue. To meet this need it took an unusual step—using the call for national wartime unity, it prevailed upon the Provinces to relinquish to it the entire field of income taxation for the duration of the War plus one year. This, in effect, ushered in a new era in Federal-Provincial fiscal relations and the start of tax sharing and revenue equalization programs.

When the War was over the Canadian Government was in an excellent position to maintain a coordinated upturn of Federal-Provincial income taxation. Although it was generally agreed that centralized administration of personal and corporate income taxation made considerable sense, there ensued an incessant struggle by the Provinces for an ever increasing share of the income tax pot. With each succeeding five-year tax sharing arrangement, the Federal Government did indeed give up more of its income tax take to the Provinces—each time as a result of Federal-Provincial negotiation.

The chronology on the following pages describes each of the successive fiscal arrangements through which has evolved the present fiscal strength of the Provinces.[7]

Wartime Tax Agreements (1941-46)

To help finance the War effort, the Canadian Government suspended all provincial and municipal personal and corporate income taxes for the duration plus one year. In return for entering into "tax suspension agreements" with the Federal Government, each Province received rental payments amounting to either (1) the amount of revenue it obtained from its personal and corporate income taxes during fiscal 1941 or (2) the net cost of debt service in fiscal 1940 less its revenue from succession duties. The Provinces were also guaranteed maintenance of their existing revenue levels from liquor and gasoline taxes.

Tax Rental Agreements (1947-1956)

On expiration of the wartime tax agreements, the Federal Government offered the Provinces optional five-year agreements to continue Federal occupancy of income taxation through 1951. Under these agreements, rental payments were based on the revenue yield from income taxation, adjusted annually for provincial growth and for nationwide increases in Gross National Product. In addition, the Federal Government required each agreeing Province to levy a standard 5 percent tax on corporate profits, which was collected by the Federal Government with proceeds deducted from rental payments. This eliminated any discrimination against Ontario and Quebec, which did not enter into this agreement, thus allowing them to impose their own tax. Those two Provinces did indeed levy and collect their own corporate income taxes (at a 7 percent rate). Neither Ontario nor Quebec levied a personal income tax, even though their taxpayers would have been allowed a 5 percent reduction of their Federal personal income tax liability had they levied such a tax. The tax rental agreements applied also to provincial succession duties, but Ontario and Quebec continued to levy such taxes, for which their taxpayers were allowed a 50 percent credit against the Federal estate tax.

The tax rental agreements were continued for another five-year period through 1956, again with a minimum guarantee based on actual yields of individual and corporation income taxes and succession duties adjusted for growth in provincial population and in the Gross National Product. Ontario entered into an agreement for this period, leaving Quebec as the only hold-out. Quebec continued its 7 percent corporation income tax against which the Federal abatement was raised from 5 percent to 7 percent for the period 1953 to 1956. In 1954 Quebec re-entered the individual income tax field with a provincial tax equivalent to about 15 percent of the Federal tax against which a 10 percent Federal abatement was allowed, an increase of 5 percent from that formerly in effect.

Tax-Sharing Arrangements (1957-61)

The 1947 and 1952 tax rental agreements included implicit equalization provisions (by gearing the rental payments to population and GNP growth). The 1957

Tax-Sharing Arrangements Act for the first time included an explicit equalization provision which formed the basis for the more refined revenue equalization aid that is the keystone of Canada's unconditional aid today. In effect it continued the previous tax rental agreements but Federal payments to the renting Provinces were made in three parts.

First, the basic rental payment to each participating Province consisted of the equivalent of 10 percent of Federal personal income taxes collected in the Province (excluding the Old Age Security Tax), nine percent of corporation net income and 50 percent of succession duties.* In those Provinces choosing to impose their own taxes (Ontario with respect to corporate and inheritance taxes and Quebec with respect to all three), taxpayers were allowed Federal credits (abatements) at the above-mentioned rates. The personal income tax abatement was raised in 1958 to 13 percent of the Federal tax liability. The corporation income tax abatement was left unchanged except that in 1960-61 an additional point was abated for taxpayers in Quebec in lieu of that Province accepting per capita grants for universities.

The second feature of the 1957 tax-sharing arrangement was an explicit equalization payment to bring a Province's per capita yield from the three standard taxes up to the weighted average yield from those taxes (if levied at the "standard" rates) in the two Provinces–Ontario and British Columbia–with the highest per capita yields. The equalization payment was actually made to nine Provinces, including Quebec–even though it did not participate in the rental agreement.**

The third element was a stabilization payment to ensure that no Province obtained less than it had under the previous arrangements and also to protect Provinces against revenue losses resulting from cyclical downswings in the economy.

Fiscal Arrangements (1962-1966)

With the enactment of the Federal-Provincial Fiscal Arrangements Act of 1961, applicable to the five-year period 1962-1966, the tax rental system was scrapped in favor of tax collection agreements.

The personal income tax abatement was set at 16 percentage points for 1962 to be increased by one percentage point in each subsequent year until it reached 20 percentage points in 1966. The abatement was increased by two percentage points in 1965 and the same amount in 1966, so that by the end of the five-year period (1966) it had reached 24 percent of the Federal tax liability. In addition, the Federal Government offered to collect, at no cost to the Provinces, the provincial income taxes, provided they were levied against the Federal base. All the Provinces enacted personal income taxes at rates of at least the Federal abatement (Manitoba and Saskatchewan adopted higher rates), and all except Quebec entered into tax collection agreements with the Federal Government. Quebec continued to administer its own tax. The corporation income tax abatement was continued at 9 percent of net income and all Provinces except Ontario and Quebec entered into Federal collection agreements for that tax.

The rental provision did continue with regard to death taxes–50 percent of the Federal tax to those Provinces not levying their own succession duties and a 50 percent abatement in those Provinces levying such taxes. The 50 percent shares were raised to 75 percent effective in fiscal 1965.

Calculation of equalization payments was changed to bring the below average Provinces up to the national per capita average for the three standard taxes (rather than to the average for the top two Provinces) and a measure for natural resources revenues (50 percent of a three-year moving average) was added to the formula. However, as the result of a 1963 Federal-Provincial conference, the formula was changed back to reflect the average for the two highest-yield Provinces, but with a deduction for natural resources revenues applicable to Provinces with above average per capita revenue from this source.

Conditional "Opting-Out" of Shared-Cost Programs (1965)

Largely at the instigation of Quebec, the Federal Government in April 1965, offered the Provinces the opportunity of either continuing to participate in shared-cost programs or providing an exclusively provincial program in specific areas with equalized financial equivalents in the form of Federal tax abatements. This arrangement, known as "opting-out," applied to hospital insurance, public assistance, vocational education and health.[8]

Quebec was the only Province to accept this offer (which expired on October 31, 1965). Under the original legislation, that Province was allowed an additional abatement of 20 percentage points. With subsequent adjustments, this additional abatement is now worth 22 points–14 for hospital insurance (estimated at $245 million), 4 for special welfare programs ($70 million), 1

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*These were referred to as "standard rates."

**British Columbia received small payments since its yields were below the combined yields of Ontario and itself.

for health grants ($18 million) and 3 for youth allowances* ($53 million).[9]

The offer to "opt out" of the established programs was repeated in 1966, but there were still no takers, other than Quebec. In the recent Government White Paper on tax reform, it is noted that the 1966 offer "is now regarded as having lapsed. A revised offer will be considered after reform of the income tax is implemented and the relative value of 'tax points' and the costs of the major, continuing joint programs can be better appraised."[10]

Why was Quebec the only Province to opt out of the established programs?

For one thing, "opting out" did not relieve the Provinces of meeting certain program conditions that were imposed by the Federal Government. Furthermore, the less affluent Provinces feared that no matter how much tax leeway they might be given their weak tax bases would not sustain the fast-growing costs of the human resources programs—the prime program candidates for opting out arrangements.

The Provinces with strong tax bases are, of course, aware of the advantages of accepting full responsibility for the shared-cost programs in return for additional "tax room" that would be relinquished by the Federal Government. At the time the opting out arrangement was first offered, however, they could not be sure that the additional abatements would be sufficient to finance programs they knew were growing—so they bided their time. More recently, as the issues of Federal tax reform and new fiscal arrangements came to a head, the new Ontario Government has indicated its intention of opting out of the shared-cost programs. As stated by the recently appointed Ontario Treasurer and Minister of Economics:[11]

> ...I wish to state now our clear intention to assume complete responsibility for the established shared-cost programs in exchange for fiscal equivalence and to resist rigorously the establishment of new shared-cost programs. In the long run this solution will serve all governments better. It will eliminate complex bureaucratic procedures and leave each level of government the full responsibility to plan and finance its own programs within its own framework of priorities.

How much "fiscal equivalence" Ontario is willing to accept is a matter for speculation. Back in 1966 it indicated that 50 percent (28 percent personal income tax abatement plus the additional 22 percent allowed Quebec under the opting out arrangements) was not sufficient.[12]

Fiscal Arrangements (1967-71)

Under the Federal-Provincial Fiscal Arrangements Act now in force (through 1971), the personal income tax abatement was raised by four points (to 28 percent) and the corporate, by one point (to 10 percent). Unlike the abatements under the prior fiscal arrangements, the additional abatement points are tied to a functional grant program—post-secondary education aid. They are part of a fiscal transfer to the Provinces in respect to the 50 percent Federal share of the costs of post-secondary education. The other parts are equalization associated with these tax points and a cash payment sufficient to bring each Province up to its total entitlement.

The major departure from the previous fiscal arrangements is in the equalization formula that complements the abatement system. The average financing approach is now used to equalize provincial revenues, instead of the four "standard" revenue sources that were previously applied at the Federal abatement level as the "standard rate." The old approach was criticized as bearing no relationship to the real world of provincial taxation. The "standard provincial rate" was arbitrary and the use of only four selected sources provided only a partial measure of provincial fiscal capacity.[13]

The new system is tied to each Province's fiscal capacity—that is, its *ability to raise revenue.* It thus breaks the linkage, inherent under the 1962-1966 arrangements, between the equalization basis and the actual yield of four standard revenue sources levied at "standard rates."

THE AVERAGE FINANCING APPROACH TO REVENUE EQUALIZATION—AN ANALYSIS OF THE PRESENT CANADIAN SYSTEM

Under the present formula the Federal Government undertakes to equalize the per capita yield of all provincial revenues from own sources up to the national average per capita yield.[14] The technique used by Canada for computing each Province's equalization payment is similar to the "average financing system" approach used by this Commission when it recently developed State-local fiscal capacity and effort measures.[15] In fact, there is evidence that the Canadian Government's decision to move to this average financing technique was influenced in part by an earlier Commission undertaking to measure State and local fiscal capacity and tax effort, using the "representative tax system" technique.[16]

In actual practice, the Canadian Department of Finance makes a separate equalization reckoning for

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*"Youth Allowances" is not a shared-cost program but rather a program that is Federal in nine Provinces and provincial in Quebec.

each of 16 revenue sources.* A tax base (or proxy) is developed for each source; each base or proxy is chosen to conform as closely as possible to the actual base in the Provinces, subject to available uniform data. The national average rate is calculated by dividing total revenue from each source by the value of its base. This rate is then applied to each Province's portion of the base, which figure is then converted to the per capita yield of a "tax" levied at the national average rate. The difference between this figure and the per capita amount the Province would raise if its share of the base were the same as its share of the population is its per capita equalization entitlement from the particular source (positive or negative). The results of these computations for all 16 sources are added algebraically to arrive at each Province's total equalization payment. Currently seven of the ten Provinces (i.e. all except Ontario, Alberta and British Columbia) receive equalization aid.

It is clear, from the way each Province's equalization grant is computed that the formula makes no attempt to equalize provincial fiscal *needs*. In other words, this is a form of revenue equalization rather than service level equalization. As Douglas Clark states,

> . . . "The formula must be classified as a pure revenue formula. It does not attempt to take account of interprovincial differences in the costs of and needs for public service but, rather, in the absence of satisfactory data concerning provincial differences in expenditure needs, assumes that these are equal per head."[17]

Financial Effect

The effect of the new equalization formula was to increase the dollar amount of such aid considerably—from $371 million in fiscal 1967 (the last year of the previous fiscal arrangements) to an estimated $900 million in fiscal 1971 (table 5). In per capita terms, some Provinces benefitted more than others from the formula change, although their relative ranking did not change. Thus, Quebec's per capita payment more than tripled—from $27 to $86, Newfoundland's and Prince Edward Island's just about doubled, and the per capita payments to the other Provinces increased by lesser amounts.

Saskatchewan's equalization entitlement declined very sharply under the new formula, and provision was made for transitional payments to the Province for fiscal years 1968 through 1971. As it turned out, however, Saskatchewan required a transitional payment only for fiscal 1968. The Province's farm economy turned rather markedly downward following 1967 and its equali-

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*See Appendix C for a list of the sources and description of each tax base.

Table 5
EQUALIZATION PAYMENTS TO THE PROVINCES, FISCAL YEARS 1966-67 AND 1970-71

Province	Total payment ($000,000)				Per capita payment				Payment as a percentage of provincial revenues from own sources[2]			
	1966-67[1]	1970-71 Est.	Increase or decrease (–)		1966-67[1]	1970-71 Est.	Increase or decrease (–)		1966-67[1]	1970-71 Est.	Increase or decrease (–)	
			Amount	%			Amount	%			% Points	%
Newfoundland	39.5	89.8	50.3	127.3	$77.91	$173.68	$95.77	122.9	52.8	69.3	16.5	31.3
Prince Edward Island	10.7	21.6	10.9	101.9	98.17	197.51	99.34	101.2	70.3	81.1	10.8	15.4
Nova Scotia	52.1	88.7	36.6	70.2	68.02	115.99	47.97	70.5	47.9	42.7	(–5.2)	10.9
New Brunswick	45.6	82.1	36.5	80.0	72.61	131.79	59.18	81.5	44.9	38.0	(–6.9)	15.4
Quebec	155.5	517.8	362.3	233.0	27.02	86.23	59.21	219.1	9.8	19.8	10.0	102.0
Ontario	–	–	–	–	–	–	–	–	–	–	–	–
Manitoba	32.6	39.7	7.1	21.8	33.57	40.48	6.91	20.6	17.8	10.9	(–6.9)	38.8
Saskatchewan	34.3	40.0	5.7	16.6	35.80	42.44	6.64	18.5	13.6	11.2	(–2.4)	17.6
Alberta	.3	–	(–.3)	–	.20	–	(–.20)	–	0.1	–	(–0.1)	–
British Columbia	–.2	–	.2	–	–.11	–	.11	–	*	–	–	–
TOTAL	370.5	879.8[3]	509.3	137.5								

*Less than 0.05 percent.

[1] Includes the Atlantic Provinces Adjustment Grants.

[2] "Provincial revenues from own sources" consists of provincial net general revenues less all transfers from the Federal Government (based on D.B.S. statistics) i.e., it includes all provincial revenues from taxes, licenses, fees, fines, etc.

[3] Revised calculation brings total to $900 million.

Source: Canadian Tax Foundation, *The National Finances, 1970-71;* and Dominion Bureau of Statistics, *Provincial Government Finance, 1970.*

zation entitlements rose rapidly. This draws attention to one of the most important aspects of the new equalization arrangements–the stabilizing effects on the overall revenue of recipient Provinces.

Data Problems

Application of the average financing method to equalization of provincial (or State) revenue capacity involves considerable manipulation of data–assuming that the revelant data are available in the first place. This fact was made abundantly clear in the course of this Commission's work on measures of State and local fiscal capacity and effort.

Canada has simplified its data problem by limiting equalization to provincial government revenue and ignoring local government revenue (primarily the property tax). Yet it is faced continually with definitional problems concerning the base to be used either directly or as a proxy for each of the 16 revenue sources incorporated into its average financing system. These problems are inherent with the average financing system since this changes as Provinces revise the structures of existing taxes or introduce new ones. They have been dealt with by means of technical studies authorized by the Federal-Provincial Continuing Committee on Fiscal and Economic Matters–a group of senior officials who report directly to Ministers of Finance.

The omission of municipal revenue from the equalization formula has been noted as a potentially serious shortcoming.[18] The reason for this criticism is that there is considerable variation in the provincial-local distribution of responsibility for financing functions. Indeed, the trend has been toward provincial takeover of increasing financing responsibility (as in the case of New Brunswick's assumption of full educational costs).* Since New Brunswick is now also levying a substantial provincial property tax (to help finance the new functions it assumed), it may be argued that the failure to include property taxes explicitly in the equalization formula distorts the equalization picture. The inclusion of local revenues (mainly the property tax) in the equalization formula is now being considered.**

There is, understandably, a serious time lag in the availability of data for computing equalization payments. In order to give the Provinces an early indication of their equalization payments, the Finance Minister prepares a preliminary estimate four months before the beginning of each fiscal year to which the payments apply. He uses the most recent fiscal year data available, normally involving a two-year lag. As new data become available, subsequent adjustments are made. The final adjustments are made two years after the end of the applicable fiscal year and they may involve considerable sums of money in either direction. Recent adjustments have resulted in sizable reductions for some Provinces, requiring them to make repayments to the Federal Government. On one occasion, i.e. population adjustments following the 1966 Census, Provinces were given the option of making repayments in one year without interest or in three years with interest.

The average financing system approach entails constant revision and trustworthy institutional arrangements. Timely data constitutes the principal demand of all the partners particularly where complicated data series are needed in connection with on-going programs. This is sometimes used as an argument for substituting more readily available data whenever a proposal is advanced for building strong equalization provisions into general revenue sharing. The Canadian experience indicates that this problem can be tolerated, if the administrators are willing to undertake the task of making numerous adjustments and there is mutual forebearance among the federal partners.

FOUR ALTERNATIVE APPLICATIONS OF THE CANADIAN REVENUE EQUALIZATION FORMULA TO THE UNITED STATES

Using the fiscal capacity measures developed for our recent study, this Commission calculated an illustrative set of equalization estimates for the United States based on the Canadian revenue equalization formula.[19] Our calculations indicate that if such a program, applicable to State governments only, had been in effect for fiscal 1967, a total of $1.8 billion in equalization payments would have been paid to 23 States (table 6, column 1). Per capita payments would have ranged down from $63 for Mississippi to $1 each for Iowa, Arizona, and Maryland. It is estimated that the cost of the program would have risen by some 30 percent, to $2.3 billion, by fiscal 1969.

The ten States that would receive the largest per capita grants under such a program are all in the South–generally among the lowest income States in the nation. Those States would receive 76 percent of the total equalization aid. Most of the other States listed in the table are also low-income States, although it does include a scattering of fairly high-income ones as well–notably Maryland, Massachusetts, New Jersey, Pennsylvania and Wisconsin.

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*See Chapter IV.

**It should be noted, in this connection, that the most appropriate tax base–assessed value of property–is one for which comparable data are not now available for Canada.

Table 6

ESTIMATED 1966-67 PER CAPITA DISTRIBUTION OF FEDERAL GRANTS TO STATE AREAS HAVING BELOW-AVERAGE REVENUE CAPACITY UNDER FOUR ADAPTATIONS OF THE CANADIAN REVENUE EQUALIZATION PLAN

State	Distribution based on—			
	State revenue capacity[1] (1)	State-local revenue capacity[2] (2)	State-local revenue capacity adjusted for gov'tal cost levels indicated by—	
			Public employees' pay rates (3)	Statewide averages of personal income (4)
U.S. total ($000,000)	1,809	4,636	3,071	2,895
Per capita amounts ($)				
Mississippi	63	133	71	52
Alabama	52	110	63	49
Tennessee	45	76	30	27
Arkansas	45	102	43	40
South Carolina	44	137	89	75
West Virginia	42	111	74	58
Kentucky	38	89	53	41
North Carolina	37	95	69	45
Georgia	34	78	34	37
Virginia	29	72	54	47
Pennsylvania	20	54	50	54
Maine	18	83	52	50
Missouri	12	29	7	18
Wisconsin	12	16	25	16
Utah	12	43	21	10
Idaho	10	34	—	—
South Dakota	4	19	—	—
Florida	4	—	—	—
Massachusetts	3	11	17	31
Vermont	2	59	44	37
Iowa	1	—	—	—
Arizona	1	—	2	—
Maryland	1	7	15	24
Rhode Island	—	43	36	49
Texas	—	15	—	—
Ohio	—	12	6	—
Indiana	—	9	—	14
Minnesota	—	1	13	—
Michigan	—	—	13	—
New Jersey	—	—	[3]	16
Connecticut	—	—	—	12
Illinois	—	—	—	2

[1] Amounts needed to make up the difference between the per capita revenue capacity of each State government and the nationwide per capita average for State government revenue sources.

[2] Amounts needed to make up the difference between the per capita State-local revenue capacity of each State and the nationwide per capita average for all State and local revenue sources.

[3] Less than $.50.

Source: ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (M-58), March 1971.

If the formula were applied to State *and local* capacity, the results would be similar (table 6, column 2). Twenty-five States would be eligible for payments, including most of those that appear in column 1, at a cost of $4.6 billion for fiscal 1967. The same southern States remain at the top, but with some shifting in rank. Three States drop out of the list and five are added. Per capita payments range from $137 for South Carolina (three times its entitlement when only State capacity is considered) to $1 for Minnesota (which had no entitlement under the State capacity only situation).

As mentioned above, the Canadian system makes no effort to equalize for inter-provincial cost differentials and assumes that expenditure needs per capita are identical in all Provinces–an admittedly unrealistic assumption. To illustrate the effect of cost differentials, the ACIR effort modified each State area's capacity by a measure of its relative governmental payroll costs. Because the bulk of equalization payments goes to the southern States where living costs (and government salaries) are lower than in the rest of the nation the total amount of equalization payments is cut from $4.6 billion to $3.1 billion (table 6, column 3).

As is pointed out in the ACIR study, however, there is an inherent limitation in using an adjustment (governmental payrolls) that is manipulable by the potential beneficiaries of the program. In effect, this kind of formula would amount to a 100 percent Federal subsidy for higher pay rates to public employees. To avoid this shortcoming, the Commission also experimented with an adjustment using an exogenous proxy for cost differentials–per capita income. The results of this exercise are shown in table 6, column 4. The cost of the program would be slightly less than illustrated by column 3.

These alternatives are simply illustrations, based on the Canadian experience, of how fiscal capacity estimates might be used to allocate Federal grant funds among the States. As noted in the ACIR report:[20]

> . . . it should be emphasized that the foregoing sets of estimates are not offered as policy proposals. Their presentation should not be interpreted as being intended to justify the desirability of one or another of the grant arrangements described above. Rather, these figures are intended solely to illustrate how the revenue capacity estimates prepared in this study can be utilized to gauge the dimensions of various forms of capacity-equalizing grants, generally modeled after Canada's established system, that might merit consideration in the United States. . . . the hypothetical plans presented here do not exhaust the alternative arrangements for which corresponding kinds of estimates could be made. For example, the scope of the financing "capacity" to be considered for equalization might be narrowed to take account only of taxes, rather than including also nontax revenue sources of State and local governments; or perhaps broadened, to deal with overall fiscal capacity including debt issuance in addition to revenue, possibly along the lines examined in Appendix F (of the original ACIR Report). Again, some alternative and possibly better way might be designed to allow for interstate differences in governmental price levels than those reflected in tables E-3 and E-4 (of the original Report, reproduced as columns 3 and 4 of table 6 in this study). It is hoped that the background data in this report, together with the illustrative estimates presented in the appendix, may aid fiscal scholars and responsible policymakers in their further consideration of such matters.

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[1] R. M. Burns, "Recent Developments in Federal-Provincial Fiscal Arrangements in Canada," reprinted in Joint Economic Committee, Congress of the United States, *Revenue Sharing and Its Alternatives: What Future for Federalism* (Washington: U.S. Government Printing Office, 1967), Vol. 1, p. 440.

[2] Statement by The Honourable M. W. Sharp, Minister of Finance of the Government of Canada, before the Federal-Provincial Tax Structure Committee, in report of *Federal-Provincial Tax Structure Committee,* (Ottawa; September 14th and 15th, 1966), pp. 24-26.

[3] Honourable E. J. Benson, Minister of Finance, *Proposals for Tax Reform,* (Ottawa: Queen's Printer, 1969), p. 80. The parenthetic phrase was added for clarity.

[4] *Ibid*, p. 82.

[5] *Intergovernmental Policy Co-ordination and Finance,* Reprinted Staff Papers of the Ontario Department of Treasury and Finance (Toronto: 1970), p. 8.

[6] *Proposals for Tax Reform, op. cit.*, p. 83.

[7] The chronology is drawn from information in *National Finances, 1966-67* and *National Finances, 1970-71* (Toronto: Canadian Tax Foundation).

[8] Established Programs (Interim Arrangements) Act, S.C. 13-14 Eliz. II, c. 54 (1965).

[9] *The National Finances, 1970-71* (Toronto: Canadian Tax Foundation, 1970), p. 150.

[10] Hon. E. J. Benson, Minister of Finance, *Proposals for Tax Reform* (Ottawa: Queens Printer, 1969), p. 81.

[11] *1971 Budget, Ontario* (Toronto: Apr. 26, 1971), p. 9.

[12] "Alternative Methods of Transferring Federal Tax Revenues to the Provinces," presented to the Federal-Provincial Continuing Committee on Economic and Fiscal Matters, Sept. 1966; reprinted in Ontario Department of Treasury and Economics, *Intergovernmental Policy Co-ordination and Finance* (Toronto: 1970), p. 29.

[13] *Federal-Provincial Tax Structure Committee, Proceedings* (Ottawa: Queens Printer, 1966), pp. 15-16.

[14] Douglas H. Clark, *Fiscal Need and Revenue Equalization Grants* (Toronto: Canadian Tax Foundation, 1969), p. 38.

[15] ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (M-58, March 1971).

[16] ACIR, *Measures of State and Local Fiscal Capacity ana Tax Effort* (M-16, October, 1962).

[17] *Op. cit.*, p. 38.

[18] George E. Carter, *Canadian Conditional Grants Since World War II,* (Toronto: Canadian Tax Foundation, 1971), pp. 59-63.

[19] ACIR, *Measurihg the Fiscal Capacity and Effort oj State and Local Areas* (M-58, March, 1971), Appendix E.

[20] *Ibid.*, p. 110.

Chapter III

THE CANADIAN SYSTEM OF PUBLIC HEALTH AND SOCIAL WELFARE

SUMMARY AND CONCLUSIONS

In its 1969 report, *State Aid to Local Government,* the Advisory Commission recommended that the Federal Government assume full financial responsibility for public assistance and medicaid.* In reaching this decision, the Commission was largely persuaded by the intergovernmental—as opposed to the program—defects of the public assistance programs:

1. Great disparities among States in the level of income support provided the poor—lowest among the southern States, highest in the States of the Northeast and Far West.

2. The continuing migration of poor whites and poor blacks from the southern States to the northern urban centers—a situation that prompts fears among northern State legislators that their higher welfare benefits are at least partially responsible for attracting the poor to their States and certainly responsible for holding them there if they cannot find employment.

3. The progressive loss of State administrative and fiscal control over the welfare function as Supreme Court decisions and Federal legislative and executive actions have whittled away the right of the States to deny aid to certain classes of welfare applicants.

4. The great disparities in public welfare burdens borne by the States.

In sharp contrast to these intergovernmental defects and tension points is the picture of a fairly uniform distribution of the burdens and benefits of Canadian public welfare programs administered by the Provinces on a 50-50 shared cost basis with the Federal Government:

1. The differences between the high-paying and low-paying Provinces under the Canadian Assistance Plan are generally in the range of 1.5 to 1 using their monthly budget standards as the basis for comparison. This contrasts with a ratio of 6 to 1 among the States—four times the Canadian divergence.

2. Ratios of as high as 10 to 1 have been found among the States when public welfare expenditures are expressed as a percentage of State personal income—the provincial counterpart to this ratio is on the order of 2.5 to 1.

3. Undoubtedly, as a result of these lower differentials, public discussion of the migration of the poor to search out higher welfare benefits has nowhere reached the strident tones heard in the United States.

4. Canada has not experienced the explosive growth in public assistance caseloads that has occurred in the United States. While individual States have seen their welfare rolls expand 40 to 50 percent in the course of a single year, the Canadian ratio has increased only from 23.6 in 1962 to 25.0 per 1,000 population in 1969. Some further increase undoubtedly took place in 1970, however, as a result of the economic slowdown.

5. Although the Provinces are not permitted to impose residence requirements, they do set eligibility criteria and retain wide latitude in undertaking public assistance programs eligible for Federal cost sharing.

The relatively impressive Canadian record immediately raises the question—why do we find such a contrast between Canadian and United States experience?

1. **The difference in Federal matching provisions:** The Federal Government of Canada matches on a flat 50 percent reimbursement basis, while the Federal Government of the United States used the "step-down" approach. For example, in the Aid to Families with Dependent Children program (AFDC), Washington pays 5/6 of the first $18 and then 50-65%—in inverse ratio to State per capita income—of the balance. Because it becomes increasingly expensive to provide benefit levels beyond the minimum, the Federal matching grant tends to reinforce the other factors that have caused certain States to pay the minimum welfare rate.

2. **Relative affluence of Canada and the U.S.:** Further exacerbating the differences in matching provisions between the two countries is the greater affluence of the United States—where about three-fifths of the States have per capita incomes exceeding the wealthiest Canadian Province (Ontario). This greater relative affluence has in turn increased pressures, at least in certain States, to pierce the Federal ceiling on welfare expenditures. Thus the lower income levels in the Canadian Provinces coupled with the flat Federal

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*At the same time, the Commission recommended that States and localities continue to administer public assistance programs.

matching share have avoided this source of diversity–so present in the United States.

3. **Federal program financial responsibilities**: The Federal government in Canada finances and administers two programs–old age security and family allowances–which help relieve the pressures on Provincial public assistance programs. This aid to the elderly then takes a large group off the welfare rolls while family allowances, in a sense, are comparable to–though by no means a complete substitute for–the aid to dependent children program of the United States. Thus, the scope of intergovernmental public assistance programs varies between the two countries.

4. **Superior fiscal position of Canadian Provinces**: The strong income tax position of the Provinces, the relative immunity from inter-provincial tax competition, and the Federal provision of substantial equalization aid to the poorer Provinces all combine to place the Provinces in a somewhat more favorable position, *vis-a-vis* their expenditure demands than their State government counterparts in this country. Indeed, while State after State has been pushed into the income tax field to finance spiralling education and welfare costs, Canadian Provinces did not encounter any severe public assistance caseload problem in the late 1960's. This experience, however, was marred by an upswing in caseloads during the winter of 1970.

5. **Economic dynamism and racial discrimination**: The transformation of the United States economy from a rural, agricultural base to an urban, industrial orientation has unleashed a migration that includes–but is not limited to–the poor. The latter, however, while acting in the national interest in their search for better job opportunities nonetheless emerge as the social problem of recipient States and localities. This phenomenon is exacerbated by the policies of racial discrimination–evidenced not only in the setting of welfare benefit levels but in the educational and job opportunities made available to residents. This element of racial diversity is largely absent in Canada where the minority groups–Indians and Eskimos–are assisted directly by the Federal Government. *Part of the Canadian success in the greater homogeneity of public assistance benefits then must be attributed to this lack of the singularly divisive issue of race.* Contrary to the expectations of some, this economic transformation and racial migratory pattern in the United States has not crested but continues at rates paralleling the decades of the forties and fifties.

6. **Greater Canadian reliance on the public sector**: Any evaluation of the Canadian social welfare services would have to conclude that this sector is more highly developed than its United States counterpart. This judgment rests not only on quantitative measures but also on the fact that public assistance is universally available to the poor and that the public hospitals and Medicare programs are more fully developed. In part at least, this suggests that when compared to the U.S., there is greater support in Canada for the general proposition that government must play a strong role in reducing the gap that separates the "haves" from "have-nots." This Canadian concern for equalization is not limited to the intergovernmental area–their social welfare programs carry it forward into the inter-personal field.

Given the much greater heterogeneity of benefits and public assistance tax effort in the United States than in Canada, it is unlikely that the shared cost approach, if applied here, would materially improve the financial position of States and localities. So long as the State-local sector remains revenue poor–most States in 1971 are planning a tax increase, to an aggregate tune of $5 billion–it is simply not feasible to consider introducing major new public programs without providing a substantial infusion of Federal aid in some form–revenue sharing, shared costs, tax credits, etc.

If, however, the Federal Government strengthens the fiscal position of the States with generous tax abatements and substantial equalization payments for the poorer jurisdictions (along the lines of the Canadian plan), then would the joint Federal-State welfare system achieve a fairly uniform distribution of the costs and burdens of public welfare? While any action that would substantially increase the fiscal power of State governments could also be expected to reduce somewhat interstate welfare disparities, it is extremely doubtful that the 50 States in our Union could then duplicate the Canadian provincial performance for many reasons. One main obstacle, for example, would still remain–internal migration heightened by policies of racial discrimination–the most critical distinction between Canada and United States public welfare experience.

It must also be noted that the Federal-Provincial shared cost arrangement is not free of intergovernmental tensions. The poorer Maritime Provinces are presently seeking additional Federal aid because of their lack of financial resources and because the incidence of unemployment in these Provinces exceeds the national average. More wealthy British Columbia is seeking a "portability grant" on the grounds that its favorable climate attracts an in-migration that it cannot control due to the prohibition against imposing residence requirements as a condition of eligibility for receiving public assistance.

For these reasons, it is doubtful that the Canadian shared cost approach, even if supplemented by a

Table 7
PUBLIC EXPENDITURES ON HEALTH AND SOCIAL WELFARE, 1960 TO 1969

Year Ended March 31	Federal	Provincial	Municipal	Total
		Total Expenditures (in millions)		
1960	$2,167.6	$ 754.7	$106.4	$3,028.7
1961	2,362.1	885.7	109.0	3,356.8
1962	2,577.1	1,004.3	107.8	3,689.2
1963	2,683.5	1,097.7	117.3	3,898.5
1964	2,801.0	1,166.8	101.2	4,069.1
1965	2,969.7	1,376.1	108.2	4,454.0
1966	2,883.5	1,714.3	129.6	4,727.4
1967[1]	3,243.1	2,017.7	130.0	5,390.8
1968[1]	3,986.5	2,426.6	140.0	6,553.1
1969[1]	4,450.0	2,725.0	145.0	7,320.0
% increase 1960-1969	105.3%	261.1%	36.3%	141.7%
		Per Capita Expenditures		
1960	$ 122.99	$ 42.82	$ 6.04	$ 171.85
1961	131.17	49.18	6.05	186.40
1962	140.34	54.69	5.87	200.90
1963	143.44	58.68	6.27	208.39
1964	146.95	61.22	5.31	213.48
1965	152.92	70.86	5.57	229.35
1966	145.80	86.68	6.56	239.04
1967[1]	160.88	100.10	6.45	267.43
1968[1]	194.01	118.10	6.81	318.92
1969[1]	213.36	130.65	6.95	350.96
% increase 1960-1969	73.5%	205.1%	15.1%	104.2%
		Percentage Distributions		
1960	71.6	24.9	3.5	100.0
1961	70.4	26.4	3.2	100.0
1962	69.9	27.2	2.9	100.0
1963	68.8	28.2	3.0	100.0
1964	68.8	28.7	2.5	100.0
1965	66.7	30.9	2.4	100.00
1966	61.0(65.2)[2]	36.3(31.2)[2]	2.7	100.00
1967[1]	60.2(64.4)[2]	37.4(33.2)[2]	2.4	100.00
1968[1]	60.8(66.2)[2]	37.0(31.6)[2]	2.2	100.00
1969[1]	60.8(66.1)[2]	37.2(31.9)[2]	2.0	100.00

[1] Includes estimated data.

[2] Percentages in parenthesis represent shares if Federal contributions to Quebec are considered Federal payments and not provincial expenditures, as in earlier years.

Source: Provincial and Federal Government Expenditures on Selected Social Security Programs by Province. Fiscal Years 1959-60 to 1968-69, inclusive.

generous revenue sharing arrangement, could be accepted as an adequate substitute for full Federal assumption of public assistance costs in the U.S.

INTRODUCTION

Like the United States, the provision of social services in Canada has been marked by a drift toward upper governmental financing. At the turn of the twentieth century, these services were solely a Provincial-municipal responsibility—established as such on a permissive, rather than mandatory, basis by the British North America Act. Indeed, during the early years of nationhood, these public health and welfare services were frequently supported by the private sector, reflecting the individualistic attitudes of a laissez-faire rural society.

Federal financial and administrative activities in the sphere of social services, while beginning in 1927 with payment of one-half the cost of pensions for the elderly, saw their most significant expansion in the post-World War II period. The Federal Government presently directly administers several programs and, jointly with Provinces, provides financial support for provincially administered income maintenance and health programs. As a result of these developments the municipal sector, which in the early years was a significant source of financial assistance, now plays a distinctly tertiary role in social welfare programs. Nonetheless municipalities do retain a good degree of authority in health services, where delegated by the provincial sector.

THE GROWTH OF GOVERNMENTAL EXPENDITURES ON HEALTH AND SOCIAL WELFARE, 1960 TO 1969

Total public expenditures on health and social welfare have increased steadily and sharply during the 1960's, rising from $3.0 billion in 1960 to $7.3 billion in 1969—a growth of just under 150 percent (see table 7). This rate of growth is slightly in excess of that for the United States, where social welfare expenditures (excluding education and housing but including social insurance) have risen by 141 percent—from 34.5 billion in 1960 to 83.2 billion in 1969.

Equally steady and only slightly less dramatic has been the increase in Canadian per capita spending which also has more than doubled during the decade—rising from $171.85 in 1960 to $350.94 in 1969, an increase in 104 percent. As a proportion of total economic activity, spending on health and social welfare programs rose from 8.5 percent of the gross national product to 10.6 percent in 1969; compared to net national income, the gain has been from 11.3 percent at the start of the decade to 14.2 percent in 1969. Yet both the Canadian rate of growth and per capita level of spending for social welfare are somewhat less than in the United States, where such per capita spending has grown from $191 to $409—or by 114 percent—while the shares of GNP absorbed by such expenditures rose from 6.8 percent in 1960 to 8.9 percent in 1969.

During the 1960's then, spending on public health and social welfare programs has outpaced the growth in aggregate economic activity, with the current shares being the highest levels in recent Canadian history. Several factors have underpinned this increase in spending. Continued population growth along with a changing demographic composition, so that the school aged and elderly have emerged in relatively larger numbers, has been but one development. Such a changing population composition accounts, in part, for the growth in family and school allowances as well as the increased payments for the old-age programs. Moreover, the increasing life span of the Canadian population has meant a more intensive use of existing health and hospital facilities as degenerative diseases have typically been associated with aging. Urbanization and its inevitable counterpart suburbanization have meant the need for new and expanded hospital facilities to keep pace with the changing location of the Canadian population.

Several phenomena—more strictly economic in nature—have also contributed to the growth in spending for public health and social welfare programs. Along with the more demographic factors mentioned above, cyclical instability has demonstrated the need for governmental programs to moderate the effects of economic downswings. The most obvious such occurrence—the Great Depression of the 1930's—generated what some regard as a new way of social thinking, one that is relief-oriented. From a longer run point of view, economic affluence and its increased personal income have given use to new demands—not only in the private but in the public sector as well. Thus, new programs of a social welfare and public nature have been introduced during the 1960's along with more liberal benefit levels and eligibility requirements. A part of these increases must also be attributed simply to the seemingly inevitable tendency for prices to move upward. In sum, then, the growth in government spending during the 1960's results from several interrelated demographic and economic factors—factors that are part and parcel of the growth and development of the Canadian national economy itself.

Although all three governmental sectors have expanded their spending on health and social welfare services during the 1960's there has been some tendency for the Federal share to decline, the provincial sector to increase and the municipal level to decrease, though slightly. In this respect, Canadian experience during the 1960's differs from that of the United States, where the Federal share of social welfare expenditures has increased—from 70 percent of the total in 1960 to 75 percent in 1969. Comparisons of Canadian financial shares over the decade, however, are made more difficult by the accounting arrangements of the Established Programs (Interim Arrangements) Act, by which a Province may choose to "opt-out" of a joint program. In such cases, the programs are then administered and financed as provincial programs, with expenditures being included in the provincial totals but excluded from Federal government spending. Beginning in 1966 then, provincial expenditures include gross outlays by the Province of Quebec for programs from which that Province has opted out, whereas the Federal data do not include the tax abatement and equalization payments to the Province, as these are considered to be transfer payments. For health and social welfare spending combined, however, it is possible to make comparisons over the entire decade on a comparable basis, though this is not the case for the individual functions.

With this point in mind, the Federal share of combined health and social welfare payments has fallen from 71.6 percent in 1960 to 60.8 percent in 1969. Just about half of this decline is attributable to the "opting-out" provisions and if comparable accounting procedures had been maintained–that is, including Federal payments to Quebec as a Federal expenditure and therefore excluding them from provincial spending–the decline in the Federal share would have been to 66.1 percent in 1969. This decline is more than made up by the rise in relative importance of provincial spending–from 24.9 percent in 1960 to 37.2 percent in 1969 (31.9 percent if Federal payments to Quebec are excluded from provincial expenditures). The municipal share, which is unaffected by the "opting-out" arrangements, has proved to be decreasingly important as a source of funds for combined health and social welfare expenditures–falling from 3.5 percent in 1960 to 2.0 percent in 1969.

SOCIAL WELFARE

Fiscal Trends 1960 to 1969. Despite a less rapid rate of growth during the 1960's–compared to health and hospital expenditures–spending on social welfare programs in Canada continued to be the larger component. Total social welfare spending has increased from $2.2 billion in 1960 to $4.6 billion in 1969, a percentage increase of 107.1 percent (see table 8). Per capita spending advanced from $125.39 in 1960 to $219.41 in 1969, an increase of 75.0 percent and has accounted for a somewhat larger share of aggregate economic activity–rising from 6.2 percent to 6.6 percent of gross national product and from 8.2 percent to 8.9 percent of net national income during the decade. These rates of growth have been somewhat less than those for the United States where total social welfare expenditures (excluding education, housing and health and medical programs) have risen by 164 percent–from $22.2 billion in 1960 to $58.6 billion in 1969. On a per capita basis, this represents a growth rate of 136 percent–from $122 per capita in 1960 to $288 per capita in 1969–a level of spending some 30 percent higher than in Canada. Such spending in the United States had grown from 4.4 percent of GNP to 6.3 percent by the end of the decade.

Social welfare programs in Canada are predominantly financed by the Federal sector. While there has been some decline in the relative importance of the Federal government between 1960 and 1969, this sector at the close of the decade nonetheless was still responsible for supplying just under 80 percent of the funds for social welfare programs. Part of this decline is attributable to the accounting arrangements of the Established Programs (Interim Arrangements) Act which in turn has also spurred a part of the relative increase registered by the provincial sector. Municipal governments, by way of contrast, showed little change in their share of financing social welfare programs–declining from 1.7 percent in 1960 to 1.4 percent in 1969.

Federally-Administered Income Maintenance Programs

Income maintenance programs directly administered by the Federal Government are those where a high degree of nationwide uniformity and coordination is desired. In brief, these programs include:

1. *The Canada Pension Plan* which covers those 18 to 70 who earn more than $600 annually ($800 if self-employed).
2. *The Old Age Security Pension* paid to those 65 and over meeting residence requirements.
3. *The Guaranteed Income Supplement* provided to those 60 and over with little income aside from the old age security pension.
4. *Family Allowances* covering all Canadian children under 16 born in Canada, resident for 1 year, or whose parents lived in Canada for three years prior to birth.
5. *Youth Allowances* paid for dependent children 16 and 17 years old receiving full-time educational training or who are prevented from doing so for physical or mental infirmities.
6. *Veterans Pensions* provided to those serving with the Canadian Forces or the Naval, Army or Air Forces of Canada who suffered death or disability.
7. *Veterans Allowances* covering those veterans who because of age or infirmity are not able to derive maintenance from employment. Widows and orphans of qualified veterans are eligible.
8. *Civilian War Pensions and Allowances* provided for certain civilian groups, widows and orphans.
9. *Unemployment Insurance* which covers all persons employed under a contract of service, with certain exceptions; also those engaged in fishing, agriculture and horticulture.

Two of these programs–the guaranteed income supplement to the old security allowance and the comprehensive Canada Pension Plan–were first introduced during the 1960's. The Province of Quebec, it

Table 8
PUBLIC EXPENDITURES ON SOCIAL WELFARE SERVICES, 1960 TO 1969

Year Ended March 31	Federal	Provincial	Municipal	Total
	Total Social Welfare Expenditures (in millions)			
1960	$1,888.1	$283.8	$38.0	$2,209.9
1961	2,038.4	341.2	43.5	2,423.1
1962	2,156.5	365.2	41.9	2,563.6
1963	2,208.8	398.9	43.6	2,651.3
1964	2,262.9	426.0	46.4	2,735.3
1965	2,380.2	481.6	50.3	2,912.1
1966	2,407.9	582.4	56.2	3,046.7
1967	2,676.7	636.0	60.0	3,372.7
1968	3,292.1	756.6	65.0	4,113.7
1969	3,614.5	895.0	67.0	4,576.5
% increase 1960-1969	91.4%	215.4%	76.3%	107.1%
	Per Capita Social Welfare Expenditures			
1960	$ 107.13	$ 16.10	$ 2.16	$ 125.39
1961	113.19	18.94	2.42	134.55
1962	117.43	19.88	2.28	139.59
1963	118.06	21.32	2.33	141.71
1964	118.71	22.34	2.43	143.48
1965	122.56	24.79	2.59	149.94
1966	121.75	29.44	2.84	154.03
1967	132.77	31.54	2.98	167.29
1968	160.21	36.82	3.16	200.19
1969	173.29	42.91	3.21	219.41
% increase 1960-69	61.8%	166.5%	48.6%	75.0%
	Percentage Distributions			
1960	85.4	12.8	1.7	100.0
1961	84.1	14.1	1.8	100.0
1962	84.2	14.2	1.6	100.0
1963	83.3	15.1	1.6	100.0
1964	82.7	15.6	1.7	100.0
1965	81.8	16.5	1.7	100.0
1966[1]	79.0	19.2	1.8	100.0
1967[1]	79.4	18.8	1.8	100.0
1968[1]	80.0	18.4	1.6	100.0
1969[1]	79.0	19.6	1.4	100.0

[1] Federal payments to Quebec for programs that province has opted out of are included as provincial expenditures and excluded from the Federal sector.

Source: *Provincial and Federal Government Expenditures on Selected Social Security Programs by Province*, Fiscal Years 1959-60 to 1968-69 inclusive.

should be noted, has opted out of two Federally-administered income maintenance programs—replacing the Canada Pension Plan with the independent, but closely parallel, Quebec Pension Plan and the youth allowance program with its own school allowance.

As part of rounding out the sphere of social welfare programs, both the number of recipients as well as the level of benefit payments have increased substantially during the 1960's for each such program. The sole exception was the number receiving veterans pensions, where a 10 percent decline was registered. For the major Federally-administered income maintenance programs combined, the number of recipients grew from 7.4 million in 1960 to about 10.5 million at the close of the decade while benefit payments just about doubled—from $1.7 billion to $3.4 billion (see table 9).

These several programs share one key feature—they help to prevent individuals from falling into poverty. Yet while they are helpful in preventing poverty, beneficiaries are not solely those who are poor. Some programs

Table 9
MAJOR INCOME SECURITY PROGRAMS IN CANADA, BENEFITS AND RECIPIENTS 1959-1960 AND 1969-1970

Federally Administered Programs	1959-1960		1969-1970		Percent Increase	
	Recipients	Benefits (in millions)	Recipients	Benefits (in millions)	Recipients	Benefits
Old Age Security	876,410	574.9	1,670.639[1]	1,467.0	90.6	155.2
Guaranteed Income	(N.E.)	(N.E.)	812,835[1]	263.0	—	–
Family Allowances	6,219,989[2]	492.6	6,917,052[3]	656.5[4]	11.2	33.3
Youth Allowances	(N.E.)	(N.E.)	462,385[5]	78.0[6]	–	–
Veterans Allowances	67,683	62.6	85,505[7]	107.0	26.3	70.9
and Pensions	188,626	149.6	169,129[8]	218.0	−10.4	45.7
Unemployment Insurance	(N.A.)	415.2	268,473[9]	542.1	–	–
Canada Pension Plan	(N.E.)	(N.E.)	75,099	48.0	–	–
Total Above	7,352,708	1,694.9	10,461,117	3,379.6	42.2	99.4

Notes: (N.E.), not established
(N.A.), not available
[1] As of March 31, 1970.
[2] Number of children receiving family allowances.
[3] Number of children receiving family allowances and family assistance during 1968-1969.
[4] Includes family assistance benefits and payments under Quebec's family allowance program.
[5] As of 1968-1969.
[6] Includes Quebec's schooling allowances and Newfoundland's parents' supplement (schooling allowances.)
[7] As of 1967-1968.
[8] Pensions for disabled veterans and wives.
[9] Number of reported injuries in 1967.

Sources: Department of National Health and Welfare, *Income Security for Canadians,* 1970 and *Provincial and Federal Government Expenditures on Selected Social Security Programs by Province,* Fiscal Years 1959-60 to 1968-69, inclusive.

such as family allowances, for example, provide universal coverage to all families with one or more children, with no income or means criterion invoked to restrict eligibility. Similarly, old age assistance is provided to those 65 and over, not just the elderly poor. As a result of this feature then, such programs—while helpful in preventing poverty—are considered to be "inefficient" vehicles for curing poverty, inefficient in the sense that to increase the coverage of payment levels would benefit not just the poor but all who are eligible for assistance under the particular program: The point is clearly recognized in the White Paper, *Income Security for Canadians* and forms the basis of proposed legislation to place the income maintenance and public assistance programs in a more direct focus on the problem of poverty, *per se.* As that Report States:[1]

> Greater emphasis should be placed on anti-poverty measures. This should be accomplished in a manner which enables the greatest concentration of available resources upon those with the lowest incomes. Selective payments based on income should be made, where possible, in place of universal payments which disregard the actual income of the recipients. In addition, social insurance programs should be expanded in those areas where poverty alleviation or prevention can be achieved. The combined result should provide a more stable income base for low-income families. (original italicized)

At present, the only income maintenance program with a direct focus on the problem of poverty is the guaranteed income supplement program. Under this program, those elderly poor with little or no income other than the old age security pension are eligible for a supplement equivalent to 40 percent of the flat rate old age security payment. Even with this program, however, the focus is not on poverty *per se.* Rather, it is addressed only to those poor who are also elderly.

The key provisions of these several programs are summarized in table 10. Because these programs involve direct payments to individual recipients and therefore are not intergovernmental, they are not examined in detail in this Report.

There are, however, two points which deserve further attention because of their differences with comparable United States programs. Under the Canadian Pension Plan, the maximum pensionable earnings, which in turn determine benefits, are adjusted with changes in

Table 10
SUMMARY OF FEDERALLY ADMINISTERED INCOME MAINTENANCE PROGRAMS IN CANADA

Program—Year Enacted	Coverage	Calculation of Benefits	Benefit Offsets	Contributions
Canada Pension Plan—1965	Covers those 18 to 70 who earn more than $600 per year or $800 if self-employed, together with the closely related but independent Quebec Pension Plan, coverage is virtually universal.	*Retirement Benefits.* As of 1970, paid to those 65 and over if retired. Those 70 and over receive benefits regardless of employment status. Full benefit rates will be first paid in 1976 and will equal 25 percent of updated pensionable earnings of contributor's average since January 1, 1966, or from age 18, whichever comes later. Benefits prior to 1976 are at reduced rates and calculated on pensionable earnings averaged over 10 years exclusive of disability period.	If under 70, maximum earnings of $900 are permitted. Earnings between $900 and $1500 reduce retirement pension by 50 percent of amount in excess of $900. If earnings execeed $1500, reduction is $300 plus actual amount over $1500 in earnings.	*Self-Employed*—3.6 percent *Employed*—1.8 percent *Employer*—1.8 percent *Maximum Pensionable Earnings*—1970 to 1975, $5200 plus adjustment for changes in Pension Index (based on Consumers Price Index).
		Survivors Benefits—For benefits commencing before 1975, contributor must have participated for three years. *a. Widows 45 to 65*—a flat rate Widows' Pension plus 37.5 percent of husband's retirement pension. Flat rate component is $25 plus ratio of Pension Index of year of husband's death to Pension Index in 1967. *b. Widows Less than 45*—Same if she has dependent or disabled children or is herself disabled. If not, pension is reduced by 1/120 for each month she is less than 45 at time of husband's death.		
		c. Widows 65 and over—Pension equal to 60 percent of husband's retirement pension.	If she herself receives a retirement pension, this is combined by a formula with her widows pension but total cannot exceed maximum retirement pension.	
		d. Orphans Benefits—rate for each of first 4 children is the flat rate component of the widow's pension; half of this amount for each additional child beyond 4.	Payable until child reaches age 18 or 25 if full-time student.	
		e. Disabled Widower's Pension—test of disability is same as for claiming a disability pension and the pension formula is the same as that for a disabled widow.		

Table 10
SUMMARY OF FEDERALLY ADMINISTERED INCOME MAINTENANCE PROGRAMS IN CANADA (Continued)

Program—Year Enacted	Coverage	Calculation of Benefits	Benefit Offsets	Contributions
		f. Death Benefit—lump sum amount equal to 6 times his monthly retirement pension. ***Disability Pensions.*** For benefits commencing before 1976, a 5 year minimum of contributions is required. Pension consists of a flat rate payment equal to flat rate component of Widows Pension plus 75 percent of the contributor's monthly retirement pension had he reached 65 at time of disability. Benefits are payable to dependent children at same rates and essentially similar circumstances as orphan's benefits. All benefits are adjusted upward if warranted by change in Pension Index.	Maximum amount is limited to 10 percent of the maximum on pensionable earnings.	
Old Age Security	As of 1970, those 65 and over meeting residence requirements.	$75 per month plus changes in the Pension Index.		
Guaranteed Income Supplement—January, 1967	Those 60 or over with little income other than the old age security pension.	40 percent of the flat rate old age security pension.	Maximum supplement is reduced by $1 for every $2 a month of income over and above the old age security pension and any supplement that may have been received.	
Family Allowances—1944 (Quebec operates independent but similar plan.)	All Canadian children under 16 born in Canada, resident for 1 year, or whose parents lived in Canada for three years prior to date of birth.	$6 per month for each child under 10. $8 per month for each child 10 to 16.	Not treated as family income but a smaller tax exemption for children receiving allowances is established.	
Youth Allowances—1964 (Quebec operates independent but similar plan.)	Dependent children 16 to 17 receiving full-time educational training or are precluded from doing so for physical or mental infirmity.	$10 per month.	Not considered as income for Income Tax Act purposes.	

Table 10
SUMMARY OF FEDERALLY ADMINISTERED INCOME MAINTENANCE PROGRAMS IN CANADA (Continued)

Program—Year Enacted	Coverage	Calculation of Benefits	Benefit Offsets	Contributions
Veterans Pensions—1952	Those serving with the Canadian Forces or the Naval, Army or Air Forces of Canada who suffered death or disability.	As of January 1, 1968, per year: *Disabled (100%)* 1) Disabled pensioner—$3180 2) Wife 876 3) One child 408 4) Two children 720 5) Each subsequent child 240 *Widows and Dependents* 1) Dependent parent 1632 2) Widow 2400 3) One child or dependent brother or sister 480 4) Two children or dependent brothers or sisters 720 5) Each subsequent child or dependent brother or sister 240		
Veterans Allowances—1952	Those veterans who because of age or infirmity are not able to derive maintenance from employment. Widows and orphans or qualified veterans are eligible.	As of September 1, 1966: Monthly Rate / Annual[1] Income Ceiling Single $ 105 $1,740 Married 175 2,940 One orphan 60 1,008 Two orphans 105 1,608 Three or more orphans 141 2,016 [1]Where recipient or spouse is blind, the income ceiling is $120 higher.		
Civilian War Pensions and Allowances	Certain civilian groups, widows and orphans.	Benefits are similar to those paid to veterans under War Veterans Allowances Act.		

Table 10
SUMMARY OF FEDERALLY ADMINISTERED INCOME MAINTENANCE PROGRAMS IN CANADA (Concluded)

Program—Year Enacted	Coverage	Calculation of Benefits	Benefit Offsets	Contributions
Unemployment Insurance—1940.	All persons employed under a contract of service with certain exceptions; also those engaged in fishing, agriculture & horticulture.	Duration of benefits—in general, one weeks' benefits for each two weeks' contributions in last 104 weeks, maximum of 52 weeks.		Employee contributions determined by weekly earnings. An equal share is paid by employer. Federal government contributes one-fifth of the aggregate employer-employee contribution and defrays administrative expenses.

Weekly Rates of Benefit		Earnings not Deducted	
Person Without Dependent	Person With Dependent	Person Without Dependent	Person With Dependent
$	$	$	$
13	17	7	9
16	21	8	11
19	25	10	13
22	29	11	15
26	33	13	17
30	38	15	19
34	43	17	22
38	48	19	24
42	53	21	27

Range of Weekly Earnings	Weekly Employee Contribution	Range of Average Weekly Contributions
	cts.	cts.
Less than $20. . .	10[1]	Less than 28. . .
$ 20 and under $ 30	20	28 & under
30 " " 40	35	43 " "
40 " " 50	50	58 " "
50 " " 60	65	73 " "
60 " " 70	80	88 " " $1.03
70 " " 80	95	$1.03 " $1.18
80 " " 90	$1.10	$1.18 " $1.33
90 " " 100	$1.25	$1.33 or over. . . .
100 or over.	$1.40	

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[1] A half stamp.

the Pension Index, an index related to the Consumer Price Index. This mechanism then provides a built-in hedge against the inflationary process as benefit levels change in accordance with the change in prices. It is, in short, an attempt to provide "real" as opposed to "money" benefits.

The second point of departure, also found in the Canada Pension Plan, is that all contributions in excess of the amounts required to pay benefits and administrative costs for a three-month period are made available to each Province. Each provincial allotment is determined by the share of contributions made to the plan on behalf of residents of the particular Province to the total contributions to the plan. Thus, if 30 percent of the total contributions came from a particular Province, that Province is entitled to borrow 30 percent of the funds after the three-months estimate of benefit payments and administrative costs has been deducted. This fund then offers a safety-valve to the provincial sector for raising long-term capital to meet the demands for new and expanded public facilities. Provinces are required to pay at least the equivalent interest rate on comparable Federal securities and some implicit subsidy is therefore included; funds not borrowed by the Province are invested in Federal securities.

To summarize then, the Federal Government in Canada finances and administers various programs of an income maintenance nature. Although these programs are not restricted solely to the poor, they do have the effect of keeping people out of poverty. Equally important, because of the coverage and benefits provided by these Federally administered income maintenance programs, the scope of intergovernmental public assistance programs differs from its United States counterpart. That is, the Canadian family allowance to some extent reduces the pressure for assistance such as provided by the Aid to Families with Dependent Children (AFDC) program. Similarly, the aid to the elderly provided by the Federal income maintenance program removes a large group of potential recipients from the public assistance roles in Canada. For these reasons, therefore, the Canadian public assistance population differs from that in the United States.

Federal-Provincial Public Assistance Programs

Prior to adoption of the Canada Assistance Plan in 1966, public assistance in Canada was provided by means-tested categorical aid programs, much like those of the United States. Four such programs had been established—old age assistance, blind persons allowances, disabled persons allowances and unemployment assistance.

To be eligible for an allowance under any of these programs, the individual had to fulfill a 10-year residence requirement as well as the income test. If these conditions were met, the old age assistance allowance was provided to those 65 and over. Recipients of this assistance were transferred to the old age security program upon reaching the eligible age; the program itself was eliminated in 1970 when the eligible age for old age security was lowered to 65 years. Aid to the blind and aid to the permanently and totally disabled are paid to those so afflicted who are 18 and over. The unemployment assistance program, when initially established in 1956, was designed to provide Federal assistance only for the employable unemployed; the following year, however, it was broadened and thus moved in the direction of a general assistance program. As early as the late 1950's then, the Federal Government shared the costs of a general assistance program whereas in the United States general assistance is financed entirely from State-local sources. Nonetheless, many exclusions prevented the unemployment assistance program from attaining comprehensive coverage of the poor and dissatisfaction with these earlier Federal-Provincial cost sharing categorical programs led to the Canada Assistance Plan.

INTERRELATIONSHIP BETWEEN CANADA ASSISTANCE PLAN AND CATEGORICAL GRANTS

A key feature of the Canada Assistance Plan is to provide support for the development of integrated programs through which assistance can be granted to those deemed eligible. To foster this goal of an integrated program, Provinces can—at their option—cease accepting applications for the specific categorical grants, and elect to provide for these recipients under the general assistance program, the Canada Assistance Plan. Persons previously receiving public assistance under the narrowly defined categorical aids can be transferred to the Canada Assistance Plan provided they qualify for comparable or greater benefits after the transfer.

Several Provinces have taken this option and begun to transfer recipients of the categorical aids to the Canada Assistance Plan. By mid-1970, Alberta, Ontario and Saskatchewan had discontinued receipt of applications under the blind persons allowance program while six Provinces—Alberta, Newfoundland, Nova Scotia, Ontario, Prince Edward Island and Saskatchewan—ceased to accept applications for disabled persons allowances. The Canada Assistance Plan has virtually replaced the Unemployment Assistance Act, though the latter remains in effect in the Northwest Territories and, for an interim period, in some Provinces to cover means-tested programs. Old age assistance was eliminated on January 1, 1970, when the qualifying age for old-age security pensions was lowered to age 65. Thus by 1970, most public assistance was provided by the Canada Assistance Plan rather than the categorical grant programs.

Key Issues in Canadian Public Assistance Programs

Scope of Canada Assistance Plan. Central to the Canada Assistance Plan is the comprehensive scope of services provided. Coverage of services was broadened by including the following costs, all of which were excluded from the Unemployment Assistance Act: assistance to needy mothers with dependent children, maintenance of children in the care of provincially approved child welfare agencies, health care services to needy persons, and the extension of welfare services to prevent or remove causes of dependency or to assist recipients in achieving self-support. Indeed, a key feature of the Canada Assistance Plan is to improve and extend the provision of welfare services throughout the Provinces. This is spurred by Federal-Provincial sharing of the cost of employing persons engaged wholly or mainly in the performance of welfare service functions and who were employed in positions filled after March 31, 1965. Although an alternative method of calculating the shareable costs of extending welfare services is permitted, all Provinces follow the above procedure.

Assistance payments to persons in need are of four major types. Items of basic need include food, clothing, shelter, fuel, utilities, personal and/or household allowances. Financial assistance may also be provided to meet needs that arise from special circumstances or conditions. Such special needs include travelling expenses, special care for the handicapped, burial expenses and a number of other such items. Needy persons are also provided with health services as well as rehabilitation services. Thus, needs may be "basic," supplemented by allowances for special needs, health care and rehabilitation services.

Cost-Sharing Arrangements. Under the Federal-Provincial agreements, Provinces are reimbursed for 50 percent of the cost of assistance provided to persons in need and for 50 percent of certain costs of improving or extending welfare services. Additionally, the Federal grant is "open-ended"—that is, no ceiling exists after which the Federal payments are terminated. Cost sharing under the categorical aid programs, by way of contrast, is restricted to a specified percentage—50 percent under the disabled persons allowance and 75 percent under the blind persons allowances—of a $75 monthly maximum or of the assistance paid, whichever is less. These formulas for Federal cost-sharing are far simpler than those used in the United States. For example, in the Aid to Families with Dependent Children program (AFDC), Washington pays five-sixths of the first $18 and then 50 to 65 percent—in inverse ratio to State per capita income—of the balance. If it is to a State's benefit, however, they may use the medicaid formula with no maximums, which ranges from 50 to 83 percent Federal funds. The Federal Government also pays 50 percent of the administrative costs of State and local welfare agencies.

The cost sharing formula of the Canada Assistance Plan has, however, been subject to three types of criticism. The first of these concerns matters of inclusion and exclusion for cost sharing purposes. For example, the Canada Assistance Plan covers costs of care in nursing homes for public assistance recipients and similar institutions but excludes hospital care; care and services offered through child welfare programs are included but correctional institutions and services are excluded. Situations like these naturally enter into administrative decisions and need not be fully compatible with the type of care most suitable for the individual cases.

A second criticism, voiced mainly by Provinces in the Atlantic Region is that the cost sharing formula does not recognize the special problems they face due to their more limited fiscal capacities and their consistently higher rates of unemployment. Indeed, there is no explicit recognition in the present Federal grant formula to deal with this problem of variations in fiscal needs.

Lastly, British Columbia has raised the objection that costs of assistance are unduly high because of the high rate of migration to that Province. Since the Provinces cannot set residence requirements as a condition for eligibility, such immigration of welfare recipients is beyond the control of any particular Province. British Columbia therefore has raised the issue of special assistance in the form of a "portability grant" from the Federal Government.

Determination of Eligibility. Eligibility standards for the Canada Assistance Plan represent a dramatic departure not only from earlier-established Canadian public assistance programs but also from those provided in the United States. Under this Plan, eligibility is based on needs and derived by an assessment of budgetary requirements as well as income and resources. This then represents a needs test for eligibility as opposed to the means test—consideration of income and resources only—used under the narrowly defined categorical aids. A

Province is prohibited from imposing residence requirements under the Canada Assistance Plan either as a condition of eligibility for assistance or for continued assistance. The provincial welfare authorities do, however, set the rates of assistance and eligibility requirements so that these may be adjusted to local conditions and the needs of special groups. Eligibility requirements vary by program but the methods of determination must be "needs"–rather than "means"–oriented.

By way of contrast, eligibility conditions for the categorical aid public assistance programs were all based, in part, on the means test. Thus, to be eligible for the blind persons allowances, a person must in addition to being blind, age 18 and over, and residing in Canada for ten years, have a total income of less than $1,500 a year–including the allowance–if single. The income requirements for a single person with one or more dependent children is raised to $1,980 a year while for a married couple, the maximum permitted income is $2,580. If the spouse is also blind, income of the couple cannot exceed $2,700. The same general eligibility requirements are applied in the disabled persons allowances where the recipient also must–in addition to being permanently and totally disabled, age 18 and over, and residing in Canada for ten years–have an annual income including the allowance of less than $1,260 per year if single. For a married couple, the income limit is set at $2,220 per year except that if the spouse is blind, income of the couple may not exceed $2,580 a year.

Determination of Need and Benefit Levels. The needs test approach is implemented by the budget deficit method which all Provinces now use to determine need. The needs of the applicant and his dependents are calculated according to a prescribed schedule or budget in which specified amounts are allocated for the various items–those of basic need, such as food, clothing, shelter, personal care, etc.; and those of special need, items required only by some recipients because of their particular circumstances. The difference between the amount which the individual or family needs is determined according to the provincial schedule and the amount of the family's income available to meet these needs is the budget deficit or amount of the allowances. Where the municipalities administer assistance, they are generally required to use the budget standards and the schedule of allowable income set by Provinces in calculating the amount of the allowance. Municipalities in Alberta and Manitoba, however, set their own rates, though the amounts granted are subject to any ceilings established.

The amount of the allowance paid under the Canada Assistance Plan is varied according to a number of factors that affect items of basic need. In all Provinces the allowance compensates for differences among families in such matters as size of family, the age of children, and income available; in Alberta, the allowance is also varied with regard to sex, both for adults and children.

Since the budget deficit method of determining need takes the number of dependents of the applicant into account, allowances for families are varied by family size. For items such as food, clothing and personal care, the allowance is generally specified for each adult and child, with the family allowance being the sum of the individual allowances. Some adjustment may also, however, be made for family size. For example, a number of Provinces increase the food allowance for smaller assistance units by a specified percentage or amount for a single person and a two or three-member family while reducing the total for larger families, usually those of five or more members. Also a number of Provinces increase the basic allowance for rent, utilities or fuel for the larger families. Food and clothing rates are set with regard to the age of children; in general, such rates are specified by age group except in Alberta, where rates are specified by single year of age; British Columbia, where no differentiation is made between adults and children; and Newfoundland, where a single rate is applied to children under eighteen. As previously mentioned, Alberta also varies the allowance with regard to age.

The amount of income considered available to meet the needs of the applicant will reduce the amount of the allowance payable. Although the definition of "income"–other than assistance–varies by program, all Provinces specify exemptions. Such exemptions include casual earnings up to a specific amount–usually between $20 and $30 per month, though in some Provinces this is increased if there are dependents–a proportion of income from roomers and boarders, earnings of school children, and family and youth allowances. These exemptions are all considered allowable income and therefore do not affect the amount of the allowance given.

All allowances are also subject to ceilings. As such, they may be limited by the dollar amounts allocated to certain items of basic need in the predetermined schedule of rates. They may further be restricted by setting a family maximum less than the individual budget items for each member of the family, or by setting the allowance at a fixed percentage of the budget deficit, or by limiting allowances to an amount considered a reasonable standard for the community.

For the categorical blind persons and disabled persons allowances, benefit levels are payable to

Table 11
MONTHLY BENEFITS FOR PUBLIC ASSISTANCE, CANADIAN PROVINCES (MARCH 1969) U.S. STATES (MAY 1970)

Monthly Payment	To the Blind		To the Disabled		To the Elderly	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
40.00 to 49.99						2
50.00 to 59.99	1	1		5	1	13
60.00 to 69.99	1	4	3	10	5	13
70.00 to 79.99	10	12	9	10	3	11
80.00 to 89.99		11		3		2
90.00 to 99.99		7		8		5
100.00 to 109.99		6		7		2
110.00 to 119.99		3		2		2
120.00 to 129.99		3		1		1
130.00 to 139.99		1		3		
140.00 to 149.99		–		1		
150.00 and over		2				

individual cases meeting the eligibility requirements and are not varied directly according to family composition or size. Because the eligibility criteria do include different income limits for those who are single and those who are married, however, these differential family income standards, in effect, mean that some consideration is also given to family size.

Inter-Provincial Differences in Benefit Levels. Since provincial governments retain substantial decision-making authority under both the Canada Assistance Plan and the categorically aided public assistance programs, variations among Provinces in such matters may be presumed. Yet one striking difference between the Canadian and United States categorical programs is the far greater uniformity of benefit levels among the Canadian Provinces. Monthly benefits for March, 1969, under the blind persons allowances averaged $71.95 for Canada as a whole, with ten of the twelve Provinces and territories spending between $70 and $75 per month, the latter being the monthly maximum for Federal cost-sharing (see table 11). The range for this program extended from a low of $51.52 in Ontario to the $75 maximum in the Northwest and Yukon Territories. Aid to the blind payments in the United States for the month of May, 1970, on the other hand, varied from a low of $54.40 in Mississippi to $158.65 in California–a ratio of nearly 3 to 1–while the U.S. average was $101.15.

Canadian payments on behalf of the disabled show the same clustering effect–nine of the twelve Provinces and territories made payments in excess of $70 per month but less than the maximum $75 while the other three made monthly payments of between $60 and $70 during the month of March, 1969, the national average being $73.39 per month. For the United States, aid to the permanently and totally disabled payments ranged from a low of $50.15 per month in Alabama to a high of $140.60 per month in Iowa–again a nearly 3 to 1 ratio–while the U.S. average monthly payment in May, 1970, was $93.40.

Old age assistance allowances in Canada during March, 1969, varied from a low of $52.86 in Ontario to the $75.00 maximum in the Yukon Territory–with the average for the nation as a whole being $69.20. Again the variation in the U. S. program of old age assistance was far more pronounced. Compared to the national average of $75.00, aid payments for the month of May, 1970, ranged from a low of $47.05 in Mississippi to $122.20 in New Hampshire.

For the Canada Assistance Plan, however, the only available comparative data among Provinces are the monthly budget standards for items of basic need. Yet this data is not strictly comparable since most of the provincial standards eliminate the cost of fuel, some exclude utilities and all exclude the extra allowances that may be granted for items of basic need, for special diets, and special needs, such as an allowance for special clothing. It must be emphasized that the amounts below are monthly budget standards which because of the exclusions mentioned and the possible imposition of ceilings are not necessarily equivalent to the actual allowances paid.

These provincial monthly budget standards do show a greater variability than was the case for the categorical aid payments. Excluding Alberta, for which data are unavailable, and Nova Scotia, where the data are least comparable, the monthly budget standard for a single adult living alone ranges from a low of $80 in British Columbia to a high of $131 in Prince Edward Island; for a married couple with two children, the range is from

Table 12.
MONTHLY BUDGET STANDARDS FOR ITEMS OF BASIC NEED BY TYPE OF FAMILY BY PROVINCE, JULY 1, 1970

Type of Family	NFD.[1]	P.E.I.[2]	N.S.[3]	N.B.[4]	ONT.[5]	MAN.[6]	SASK.[7]	ALTA.[8]	B.C.[9]
Adults									
Single, living alone	$ 90	$131	$ 41.80	$117	$115	$101.60	$ 93.10	NOT SPECIFIED	$ 80
Married couple	165	175	78.80	143.33	204	166.80	140.35		135
Families with children									
One parent with									
girl 8	150	163	72.40	137	195	165.40	128.15		143
boy 8, girl 13	175	200	118.20	161.33	230	200.30	171.10		181
boy 16	150	168	85.20	141.33	212	175.70	138.30		143
Two parents with									
one child 6	190	207	103.20	163.33	231	205.30	176.80		173
two children; girl 8, boy 13	215	244	148	187.66	271	246.10	215.15		211
three children boys 6 and 11, girl 9	240	270	159	202.33	303	267.40	250.45		249
four children; girl 4, boys 7 and 9, girl 12	265	305	195.50	224.66	335	303.40	275.20		287

Notes: 1. Exclusive of fuel allowance (15 a month.)

2. Exclusive of fuel allowance, which may be paid on basis of actual cost.

3. Exclusive of rent, fuel and utilities which together may not exceed $115. Provincial maximum allowances are set as follows: $75 for women 60-65 who are single, widowed, deserted, divorced or unemployed; $100 for disabled persons and persons 65 or over; $175 for families.

4. Exclusive of fuel allowance which may be paid on the basis of actual cost. Amounts specified for the various items of basic needs are maximum amounts and the total allowance may not exceed an amount considered to be a reasonable standard in the community.

5. Rent for heated premises.

6. Exclusive of fuel and utilities which are paid on the basis of actual cost.

7. Exclusive of fuel allowance which may be granted according to provincial schedule or on the basis of actual cost.

8. Amount for provincial allowances are specified for food and clothing only; other rates are set at community standards. Rates are not specified for municipal allowances.

9. Includes fuel.

$188 in New Brunswick up to $240 in Manitoba (see Table 12). For other types of families, the range between high and low provincial monthly standard schedules tends generally to be 1.5 to 1, again excluding Nova Scotia and Alberta. Due to the use of ceilings, the varying treatment of some items of basic needs, the exclusion of special allowances as well as the fact that the monthly standard in some Provinces is a maximum payment, the variation in standard budgets–while the best available comparative information–need not necessarily be indicative of the variations among Provinces in actual allowances paid.

The monthly standard budgets are, in general, uniform throughout a Province. Exceptions to this statement exist for shelter costs which are differentiated on a rural–urban basis in Newfoundland, Prince Edward Island and New Brunswick. In Provinces that have municipal welfare programs, assistance rates can vary between the municipal and provincial program.

In sum then, the variability in assistance levels appears to be greater among the Provinces under the Canada Assistance Plan than the categorical public assistance aids. This conclusion must be tempered, however, by the fact that only monthly standard budget allowances and not actual expenditures are available for the Canada Assistance Plan. Nonetheless, at least for items of basic needs, these variations are far less pronounced than those prevailing in the United States.

Growth and Variations in Welfare Case-Loads. Unlike the United States, public welfare in Canada has not reached a stage of explosive growth. For the Nation as a whole, welfare cases per thousand of population have risen from 23.6 percent in 1961-62 to only 25.0 percent in 1968-69–a six percent rate of growth over the course of seven years (see table 13). There was a more pronounced increase, however, beginning with the winter of 1970.

Table 13
NUMBER OF WELFARE CASES PER THOUSAND OF POPULATION BY PROVINCE

	NFLD	*P.E.I.*	*N.S.*	*N.B.*	*QUE.*	*ONT.*	*MAN.*	*SASK.*	*ALTA.*	*B.C.* CB	*CANADA*
1958-59	–	20	–	18	–	12	–	36	–	32	–
1959-60	47	21	–	18	–	12	–	36	27	34	–
1960-61	45	22	20	23	22	13	–	38	28	36	–
1961-62	46	23	21	24	26	14	18	39	28	38	23.6
1962-63	45	28	22	24	28	15	19	33	29	36	24.0
1963-64	45	29	23	24	28	15	21	31	29	35	24.3
1964-65	45	29	23	24	28	17	21	30	30	33	24.5
1965-66	43	29	22	24	28	17	21	28	29	32	24.3
1966-67	44	77	22	22	30	17	20	23	28	30	24.3
1967-68	53	51	22	23	31	16	18	21	27	30	24.2
1968-69	46	40	22	25	33	17	20	21	24	30	25.0

For any given year, this welfare caseload varies quite widely among the Provinces. The highest incidence is typically found in Newfoundland–with 46 cases per thousand population in 1968-69. Among the individual Provinces, the most striking trends are a markedly rising welfare load in Prince Edward Island and a sharply downward movement in Saskatchewan during the 1960's.

Effect on Work Incentives. The extent to which public assistance payments enhance or reduce the incentive to work is difficult to resolve due to the numerous non-economic dimensions–social, 'psychological, etc.–that are encompassed. Yet, it is clear that a program keyed to rehabilitation and self-support must provide an incentive to work if it is to achieve its stated goals.

Because of varying caseloads and differing fiscal capacities, the Canada Assistance Plan forces the Provinces to devote widely varying portions of their own source financing to this program. Newfoundland, for example, spent 10.3 percent of its own source revenues on the Canada Assistance Plan, more than 2½ times the rate for Ontario and nearly double the national average of 5.2 percent (see table 14). Such differences, however, are not at present compensated for by the Canada Assistance Plan cost-sharing agreements.

Under the Canadian Assistance Plan, benefits are reduced as available income increases–that is, income not exempted, such as casual earnings, family and youth allowances, etc. This reduction then is sometimes referred to as the "benefits" or "earnings tax." The benefits can be reduced dollar for dollar of increased earnings–a 100 percent tax–or by some percentage, 66-2/3 as with AFDC in the United States or 50 percent. The higher the "benefits tax," the greater the disincentive to work since using the 100 percent rate, there is no net gain registered for employment unless the previous recipient moves to a substantially more remunerative job. In Manitoba, for example, the social allowance is cut back by just such a 100 percent tax–dollar for dollar–after the first $20 earned in a month or $240 in a year. Municipalities vary in policy from either a system comparable to that of the Province or to permitting no earnings at all. This policy has been recognized as unsatisfactory and an alternative policy has been proposed.

Aside from the question of the "benefit tax," the disincentive can be examined with regard to the most likely alternative remuneration rates, the minimum wage or some other figure close to the minimum. An hourly wage of $1.50 would yield a monthly equivalent income of $260 (assuming a 40 hour week and 4-1/3 weeks in a

Table 14
PROVINCIAL REVENUES ALLOCATED TO FINANCE THE PROVINCIAL GOVERNMENT SHARE OF THE CANADA ASSISTANCE PLAN, 1968

Province	(In thousands)		Percent
	Provincial recources from own sources and from borrowing	Provincial revenues allocated to Canada Assistance Plan	
Newfoundland	$ 139,135	14,324	10.3
Prince Edward Island	20,664	1,537	7.4
Nova Scotia	189,584	9,313	4.9
New Brunswick	175,193	8,209	4.7
Quebec	2,004,086	142,841	7.1
Ontario	2,979,401	119,845	4.0
Manitoba	267,290	13,247	5.0
Saskatchewan	323,999	14,107	4.4
Alberta	654,442	30,086	4.6
British Columbia	737,254	39,260	5.3
Total	7,491,048	392,709	5.2

Source: *Income Security and Social Services,* Government of Canada, Working Paper on the Constitution, Appendix D, p. 120.

month). Yet this monthly earned income would be less for certain types of families—those of two parents and three or more children—than the monthly budget standard for items of basic need in many Provinces.

In point of fact, many low-income workers, particularly women, are employed in industries such as retail trade and services where wages are close to or at the minimum wage and where fringe benefits are also minimal. Such minimum wage rates vary among Provinces and in some cases also by zone or sex, but generally range from between 85 cents to $1.40 per hour. These wage earners, however, must not only pay income tax but their earnings must cover items of basic need plus costs such as insurance, Canada Pension Plan contribution, transportation and work clothes cost and—for female-headed families—the cost of child care services, etc.

Before concluding that wage earners employed at or near the minimum wage level would be better off as public assistance recipients, it is essential to note that the free services made available to welfare recipients and subsidized services available to those working should also be included in the comparison. Nonetheless, it seems reasonably clear that the minimum wage for many families provides less than that considered adequate by Provincial budget standards for assistance recipients. Again, however, such budget standards cannot be equated to the actual amounts paid since the latter may be subject to a specified ceiling or limited to amounts considered reasonable in the community.

Reducing the Welfare Stigma. The Canada Assistance Plan incorporates two procedures that reduce the degree of stigma attached to being placed on public assistance rolls. Perhaps the more basic of these is the use of the "needs"—rather than "means"—test to determine eligibility. By this procedure, a family may make application for assistance without declaring "bankruptcy"—rather, the family head simply declares, in effect, that his income is not commensurate with his needs whether the latter be for the basic or special services, including health and rehabilitation costs.

Equally important, cash payments are made to the family head with no attempt to direct the use of the social assistance payment into specific purchases. Certain services such as health care and hospital services are provided in kind and vouchers may be issued for food, clothing, and other necessities. As the Director of the Saskatchewan Department of Welfare stated, "One of the basic principles of our program is that every recipient should receive his financial assistance in the form of cash so that he may plan his life as he chooses, even though he has lost his financial independence. If he fails to provide the necessities of life for himself or his dependents, a trustee arrangement may be implemented."

Yet, while this attitude reflects a marked change from previous experience, the stigma of being on the welfare dole is far from being licked in Canada. Judgments as to whether a person is "deserving" or not are still made in many Provinces and this naturally enters into the decision as to whether to place the applicant on the welfare roll or in the determination of how much assistance should be granted. So long as welfare remains a stigma in the eyes of the public, administrative and bureaucratic procedures of an "investigatory" or "policing" nature are bound to result.

Financial vs. Administrative Decision-Making Authority. Decision-making responsibilities regarding the Canada Assistance Plan rest largely with the provincial governments. The assistance provided is comprehensive and the 50 percent Federal financial sharing undoubtedly exceeds the legal or administrative supervision of the Federal sector. Each Province, having agreed during the planning stages of the legislation to abolish residency and other requirements, retains near total responsibility for administration of the program. Few limits are placed on the autonomy of the Province in developing new proposals to obtain cost sharing.

In those Provinces with municipal welfare systems, part of the administrative responsibility is delegated to municipal authority. Decision-making in regard to eligibility, rates of assistance, etc. in all Provinces rests with the provincial authority even in those Provinces with municipal welfare systems, although this authority may be delegated to municipalities in respect of persons requiring short-term assistance. Federal reimbursement may also be obtained for agencies that primarily provide welfare services, such as private non-profit agencies, community agencies, provincial or municipal agencies. In general, such agencies must have as their objective the lessening, removal or prevention of the causes and effects of poverty, child neglect or dependence on public assistance.

To be sure, the Federal Government sets requirements which must be met if Provinces are to qualify for reimbursement of specified costs. Matters of policy and problems in administration of interest to all welfare administrators are worked out and coordinated by Federal-Provincial meetings of Ministers of Welfare and deputy Ministers of Welfare. Finally, the Canada Assistance Plan administration is able to resolve questions relating to interpretation of Federal regulations, and to provide consultant services on welfare matters which come within the scope of the Canada Assistance Plan.

Summary and Conclusions. Although the Canada Assistance Plan possesses several major strengths–its comprehensive coverage of the poor, its determination of benefits according to needs rather than means and the far greater homogeneity of benefit levels among Provinces than is true in the United States–there are nonetheless various issues that remain unsatisfactorily resolved. Among these, the most important are the 50-50 cost sharing formula and its failure to recognize variations in Provincial fiscal needs, the work incentive problem and the fact that welfare assistance is not yet accepted as a right of those in need. Additionally, there is some feeling that, at least in certain Provinces, assistance levels are not adequate and that the recipient or potential recipient does not possess adequate information about the assistance that is available. A particularly knotty problem concerns the 16 to 21 age group that have left their families–what type and how much assistance, if any, should be granted to this group when such payments might in fact encourage the recipients to leave home?

Of a longer-run nature, two trends in Canadian public assistance stand out starkly The first of these is the movement from categorical public assistance to general assistance–initiated in 1957 when the categorical assistance program of unemployment insurance was broadened and more fully accomplished in 1966 with enactment of the comprehensive Canada Assistance Plan. Secondly, there has been a discernible movement toward Provincial control over welfare and other matters of social policy with Federal financing being provided. As such, this contrasts sharply with United States experience where Federal decisions and Supreme Court rulings have whittled the authority of State and local government officials to administer their welfare programs. Indeed, it can be said that Federal categorical aid in Canada has always been provided with less surveillance than has been the case in this country and that the recent Canadian experience is to further lessen the Federal administrative role–certainly in the fields of social welfare and public health and hospitals.

PUBLIC HEALTH AND HOSPITALS

Fiscal Trends, 1960 to 1969. Expenditures for public health and hospitals have shown a dynamic growth during the 1960's–largely attributable to the Hospital Insurance and Diagnostic Services Act of 1958 and the Medical Care Act of 1966. Spending for public health has risen from $819 million in 1960 to $2.7 billion in 1969, an increase of some 225 percent (see table 15). Spending per capita has risen by a nearly equal percentage–183.2 percent–growing from $46.44 in 1960 to $131.53 in 1969. This advance in public health spending has also outstripped the growth in aggregate economic activity with the result that 4.0 percent of Gross National Product in 1969 was accounted for by public health expenditures as opposed to 2.3 percent in 1960, while the comparable shares of net national income were 5.3 percent in 1969 contrasted with 3.1 percent in 1960. Health and medical expenditures have also increased dramatically in the United States in both the public and private sectors. Indeed, total expenditures rose from $26.4 billion in 1960 to $60.3 billion in 1969, an advance of 118 percent. Of these amounts, 24.3 percent represented public spending in 1960 while the comparable figure for 1969 was 37.5 percent. In per capita terms, this has meant an increase from $146 per capita to $296 per capita–or 102 percent–during the decade. As in Canada, such expenditures absorbed an increasing share of the Gross National Product–accounting for some 6.7 percent in 1969 as opposed to 5.3 percent in 1960.

Although relative shares are changing rapidly in Canada, 1968 data revealed the provincial sector as the major source of funds–raising $1.6 billion, or 39 percent (see table 16). The second largest share was that of the private sector–34 percent–with the Federal Government accounting for approximately 25 percent. Municipal governments in 1968 raised but 2 percent of the total bill for health care. During the 1960's, though, excluding the private sector for which comparable data is not available, the trend has been for the Federal sector to decline in relative importance while provincial governments have increased their share of public health spending. Again, however, these developments include the effects of the "opting out" provisions between the Federal Government and Quebec and thus, in part at least, reflect the changeover in accounting procedures of the Established Programs (Interim Arrangements) Act. The municipal sector, which is not affected by the "opting out" provisions, has registered a virtually steady decline during the 1960's–falling from 8.4 percent in 1960 to 2.8 percent in 1969.

In terms of the components of public health expenditures, the three governmental sectors have been paying close to 90 percent of hospital care costs for the past ten years. In 1968, however, the private sector was the predominant source of funds both for physicians' services (73 percent) and other health care–which includes preventive public health in the government sector and expenditures on dental care and prescribed drugs, largely in the private sector–59 percent. Following implementation of the Medical Care Act, all

Table 15
PUBLIC EXPENDITURES ON HEALTH SERVICES,
1960 TO 1969

Year Ended March 31	Federal	Provincial	Municipal	Total
	Total Health Expenditures (in millions)			
1960	$279.5	$ 470.9	$68.4	$ 818.8
1961	323.7	544.5	65.5	933.7
1962	420.6	639.1	65.9	1,125.6
1963	474.7	698.8	73.7	1,247.2
1964	538.1	740.8	54.8	1,333.7
1965	589.5	894.5	57.9	1,541.9
1966[1]	475.6[1]	1,131.9[1]	73.4	1,680.9
1967[1]	566.4[1]	1,381.7[1]	70.0	2,018.1
1968[1]	694.4[1]	1,670.0[1]	75.0	2,389.4
1969[1]	835.5[1]	1,830.0[1]	78.0	2,743.5
% increase 1960-1969	198.9%	288.6%	14.0%	255.1%
	Per Capita Health Expenditures			
1960	$ 15.85	$ 26.71	$ 3.88	$ 46.44
1961	17.97	30.23	3.64	51.84
1962	22.90	34.80	3.59	61.29
1963	25.37	37.35	3.94	66.66
1964	28.23	38.86	2.87	69.96
1965	30.35	46.06	2.98	79.39
1966[1]	24.04[1]	57.23[1]	3.71	84.98
1967[1]	28.09[1]	68.54[1]	3.47	100.10
1968[1]	33.79[1]	81.27[1]	3.65	118.71
1969[1]	40.05[1]	87.74[1]	3.74	131.53
% increase 1960-1969	152.7%	228.5%	−3.6%	183.2%
	Percentage Distribution			
1960	34.1%	57.5%	8.4%	100.0%
1961	34.7	58.3	7.0	100.0
1962	37.4	56.8	5.8	100.0
1963	38.1	56.0	5.9	100.0
1964	40.4	55.5	4.1	100.0
1965	38.2	58.0	3.8	100.0
1966[1]	28.3[1]	67.3[1]	4.4	100.0
1967[1]	28.1[1]	68.5[1]	3.4	100.0
1968[1]	28.5[1]	68.5[1]	3.0	100.0
1969[1]	30.5[1]	66.7[1]	2.8	100.0

[1] Federal payments to Quebec for programs that province has opted out of are excluded from Federal sector.

Source: *Provincial and Federal Government Expenditures on Selected Social Security Programs by Province,* Fiscal years 1959-60 to 1961-69, inclusive.

Provinces were expected to enter into agreements by the end of 1970. Because of this new federally shared program, the governmental portion of expenditures on physicians' services is expected to be roughly comparable to the 90 percent figure currently spent for hospital care.

Although the Federal Government provides financial support for a number of public health programs—both those directly administered by the Federal sector and those cost-shared and provincially administered—two such programs are overwhelmingly dominant. Indeed, the Hospital Insurance and Diagnostic Services Act ($625 million) and the Medical Care Act ($370 million) taken together account for about $1 billion in Federal outlays or 83 percent of total Federal spending for public health.

KEY ISSUES IN CANADIAN PUBLIC HEALTH AND HOSPITALS PROGRAMS

The Principle of Universal Coverage. Both the Hospital Insurance and Diagnostic Services Act of 1958

Table 16
APPROXIMATE AMOUNTS EXPENDED BY FEDERAL, PROVINCIAL, AND LOCAL GOVERNMENTS, AND BY THE PRIVATE SECTOR FOR HEALTH CARE, 1968

Sector	Hospital Care	Physician's Services	Other Health Care	Total
		(in millions of dollars)		
Federal	$ 815[a]	$ 50	$167	$1,032
Provincial	1,312	163	122	1,597
Municipal	49	–	34	83
Private	338	575	472[b]	1,385
Total	2,514	788	795	4,097
		(percentage distribution)		
Federal	32	6	21	25
Provincial	52	21	15	39
Municipal	2	–	4	2
Private	13	73	59	34
Total	100	100	100	100

Notes: (a) Includes $230 million contributed by Canada to Quebec under the Established Programs (Interim Arrangements) Act.

(b) Includes dental services and prescribed drugs only.

and the Medical Care Act of 1966 are based on the principle of universal coverage. Provincial hospital insurance programs, operating in all Provinces and territories since 1961, covered 99.5 percent of the Canadian population by March 31, 1969. The coverage was 100 percent in all Provinces and territories except Ontario (98.6 percent) and Saskatchewan (99.4 percent). With public medical care programs implemented in seven Provinces at the end of 1969, some 18.9 million or 88.8 percent of the population had insurance for physicians' services; of this number 15.1 million or 70.8 percent were covered under public plans whose coverage in the previous year was but 29.9 percent of the total population. By early 1971, with all Provinces participating, the proportion comprehensively insured for physicians' services will be 100 percent in eight Provinces and between 95 and 100 percent in the remaining two. Under the Medical Care Act, coverage is a right of the population–it is stipulated that no exclusion can be made because of age, ability to pay or other circumstances.

Covered Hospital Services. As a minimum, the Hospital Insurance and Diagnostic Services Act requires that hospital insured in-patient services must include accomodations at the public ward level, meals, necessary nursing services, diagnostic procedures, pharmaceuticals, the use of operating rooms, case rooms, anaesthetic facilities and the use of radiotherapy and physiotherapy if available. Coverage of out-patient services is optional and some Provinces do not insure a full range of such services. Tuberculosis hospitals and sanitariums, hospitals and institutions for the mentally ill and institutions whose purpose is the provision of custodial care, such as nursing homes and homes for the aged are specifically excluded. Nonetheless, costs of psychiatric care and TB care rendered in an acute general hospital are insured. Also excluded from the shareable costs are the capital cost of land, buildings or physical plant (items such as moveable and nonmoveable technical equipment required by a hospital, however, are shareable) payment of any capital debt or interest related thereto, the payment of debt incurred prior to the coming into force of the agreement or on the interest related to such prior debt, or any provision for depreciation on the value of land, buildings or physical plant.

The provincial plans are administered by the provincial department of health in some Provinces and by separate commissions in others. To finance the insurances plans, the Provinces use general revenue, sales taxes, premiums, and utilization and similar charges in various combinations.

Covered Medical Services. The Medical Care Act of 1966 requires coverage of physicians' care. Other health services may be included under terms and conditions specified by the Governor-in-Council. Specified procedures by oral surgeons are defined in such a way that these are also considered to be insured services. Yet, other dental procedures are excluded from coverage. All provincial plans–aside from those operating in Nova Scotia and Newfoundland–include beneficiaries for refractions by optometrists and a restricted volume of services provided by such practitioners as chiropractors, podiatrists, osteopaths and naturopaths may also be insured. Items of service by opticians, the services of private duty nurses, and prescribed drugs tend not to be insured except in limited degree in the private sector. Services of physiotherapists have at times been offered as a limited benefit in a few Provinces, but the trend is to insure these under auspices of the hospital insurance programs.

Perhaps the most basic gaps in coverage under the Medical Care Act relate to geographic inaccessibility since there is an over-concentration of medical practitioners, and especially specialists, in the cities. There may also be gaps in coverage resulting from administrative imperfections in the Province-to-Province provision for portability; this should, however, be resolved as experience is gained with the passage of time.

Federal Cost Sharing and Fiscal Equalization. The Federal share of costs, under both the Hospital Insurance and Diagnostic Services Act and the Medical

Care Act, is set at 50 percent for the nation as a whole. The specific Federal share for the Hospital Insurance and Diagnostic Services Act, however, is equal to 25 percent of the average per capita cost for in-patient hospital services in Canada plus 25 percent of the average per capita cost in the Province; this is then multiplied by the yearly average number of insured persons in the Province. This formula then involves a sort of cost control feature in that increases or decreases in provincial in-patient costs change the Federal contribution directly only by 25 percent, the remaining 25 percent of the Federal share being spread among all Provinces by means of the national figure per capita. Nonetheless a long standing complaint by provincial ministers from the poorer areas—that such a formula forces them to make a relatively heavier use of their own sources of finance to meet their share of the costs for a particular program—was ignored. Indeed, none of the allocation formulae for Federal-Provincial health programs—or social welfare for that matter—are based on a fiscal capacity index or any other such measure so as to offset the differences in ability to raise revenues for a given public program.

Although such differences in fiscal capacity are not explicitly recognized, the Hospital Insurance and Diagnostic Services Act works out so that the Federal share of costs tends to be higher in the poorer Provinces, though in per capita terms this outside financial assistance tends to be less. This results from the fact that the poorer Provinces generally have the lower costs for such programs and—in addition to receiving 25 percent reimbursement for their own costs—receive a 25 percent share of the higher national average per capita costs. For the nation as a whole, of course, these provincial per capita cost figures balance out so the overall Federal share for these programs is 50 percent.

Table 17
PERSONAL INCOME AND FEDERAL SHARE OF HOSPITAL INSURANCE AND DIAGNOSTIC SERVICE ACT COSTS, BY PROVINCE, 1968

Province	Personal Income		Federal Share	
	Per Capita	Rank	Per Cent	Rank
Newfoundland	1,467	(1)	52	(6)
Prince Edward Island	1,682	(2)	63	(10)
Nova Scotia	2,072	(4)	53	(8)
New Brunswick	1,897	(3)	52	(6)
Ontario	3,065	(10)	47	(1)
Manitoba	2,654	(3)	51	(3.5)
Saskatchewan	2,386	(6)	51	(3.5)
Alberta	2,645	(7)	50	(2)
British Columbia	2,842	(9)	52	(6)
Yukon and Northwest Territories	2,326	(5)	54.5[1]	(9)

[1] Simple arithmetic average of Federal share for Yukon and Northwest Territories.

To measure this tendency, a Spearman rank-order correlation coefficient was calculated for 1968 relating the per capita personal income to the Federal share of the costs of insured hospital services contributed under the Hospital Insurance and Diagnostic Services Act among the Provinces. The results of this procedure—applied to the data presented in table 17—yield a correlation coefficient of −.645, the negative sign indicating that the higher the per capita income of a Province, the lower the Federal share of costs. The most dramatic illustration of this tendency relates to the Province of Ontario, which in terms of its per capita income is the wealthiest of all Provinces but which in terms of the share of costs borne by the Federal Government, receives the lowest such proportion.

More significant from the standpoint of fiscal equalization however is the intention of the Federal government to shift the basis of compensation for the Medical Care Act to an equalized tax transfer when the program becomes more firmly established.

Criticisms of the Federal Grants. Because of its longer history, the Federal grant under the Hospital Insurance and Diagnostic Services Act has received rather more critical attention than either the Canadian Assistance Plan or the Medical Care Act. In one respect, however, all three grants share a desirable feature—their open-ended nature. Since Federal financial assistance presumes an underlying Federal interest in the particular program—an interest beyond that of the provincial, local or individual involved—a well designed grant-in-aid should attempt to meet this Federal interest with a commensurate Federal share of costs. Unless it can be shown that this Federal interest disappears or lessens after a certain point, it therefore follows that the Federal cost-sharing should be extended at a comparable percentage to all such eligible costs. In this respect, then, the open-ended grant policy of the Federal government appears warranted. This is particularly true in programs where the Federal interest can be measured reasonably well. When the Federal interest is difficult to specify, then an open-ended grant can result in more or less than the desired share being distributed. These difficulties are further compounded if the recipient retains wide latitude in determining benefit rates, eligibility criteria, etc.

The Federal grant under the Hospital Insurance and Diagnostic Services Act, however, has been criticized as being an unsuccessful blend of fiscal equalization and cost control objectives. As to equalization, the grant results in a larger Federal share to the poorer provinces but lesser per capita amounts. When equalization is taken to mean greater per capita aid payments to the poorer Provinces, the formula obviously does not meet this test. As to being a cost-control device, the use of both per capita provincial and national figures has been characterized as crude. A basic reason for this crudeness is that differences in actual per capita costs among Provinces may represent differences in the quality of service as well as differences in purely price phenomena for a comparable service. The Federal grant formula has also been criticized for its exclusion of costs of mental and tuberculosis hospitals.

Despite these critical points, it must be emphasized that the Hospital Insurance and Diagnostic Services Act grant has wide support and has proved quite successful in operation. The Royal Commission on Health Services (1964), for example, concluded its observations with these remarks:[2]

> The representatives from hospital associations, medical associations, provincial governments, and consumer groups together with our own investigations, make it clear that, by and large, the basic foundations of the programme are sound, that it has financed hospital operations that could not otherwise have been possible, enabled people to obtain care that they would not otherwise have received, and prevented, for many individuals and families, a substantial part of the financially crippling blow of prolonged illness.
>
> The programme appears to us a sound blend of federal financial support and respect for provincial responsibility. In fact, it goes beyond that, for in its administration it utilizes a number of joint Federal-Provincial committees and working parties. It is a remarkably successful example of what has long been termed 'cooperative federalism.'

Bureaucratic Controls. Under both the Canada Assistance Plan and the Medical Care Act, Canada has used an approach to the problem of supervision and control that is almost the complete reverse of United States policy. Indeed, with the long list of narrowly defined categorical aids, the U.S. has entered a phase of grant policy referred to as "the hardening of the categories" characterized by increasing paper work, bureaucratic, administrative and procedural controls. In Canada, Federal conditional grants have always been less severe in their surveillance aspects.

The Canadian approach to this problem—as evidenced in the Canada Assistance Plan and the Medical Care Act—is to give maximum scope to provincial initiative. As the Director of the Saskatchewan Department of Welfare stated, for example, "The autonomy of the Province is almost unlimited in developing new proposals to obtain cost sharing." Indeed, with regard to the Medical Care Act, the Federal Government has shown a positive reluctance to maintain any sort of permanent supervisory responsibility. Rather, the intent was to provide Federal leadership and initiative to establish a national standard for health care but to avoid demands for detailed conformity by the Provinces.

To participate in the Medical Care Act, the Provinces must operate plans which meet four basic conditions: (1) all physicians' services must be included, (2) insured services must be provided on a universal basis—that is, they must cover not less than 90 percent of insurable residents and after two years, not less than 95 percent, (3) the plan must be administered on a non-profit basis by a provincial authority, and (4) benefits must be "portable"—that is, available both to insured persons temporarily absent from the Province and to insured persons who move to another Province participating in the federal scheme until they qualify in that Province for medical care benefits. These then are the basic Federal conditions and there is wide scope for provincial variation and initiative above these minimum standards.

The Use of Service Charges. Much controversy surrounds the extent to which service charges should be employed to defer a portion of health care expenditures. Some take the position that service charges are nothing other than a poll tax on the sick; others, that they constitute a mechanism for controlling health care costs and rationing scarce health and hospital resources. The 1964 Royal Commission in its thorough study on Health Services noted this controversy but was not prepared to offer a recommendation. Nonetheless, Federal policy as experienced in the Hospital Insurance and Diagnostic Services Act is such as to discourage the use of service charges since deterrent fees are subtracted in calculating the provincial allotments.

In Canada, the administration of health care programs is a provincial responsibility so that the use of service charges depends upon the policy of the Province concerned. Most Provinces do not levy charges on the patient for general hospital care—other than charges for semi-private or private accommodation. Three Provinces and the Northwest Territories do invoke service charges. In British Columbia, the charge is $1 per day for standard ward care, $2 for each emergency or minor surgical out-patient treatment or day-care surgical service, and $1 for out-patient cancer therapy. Alberta imposes a $5 fee for the first day and $2 for each day thereafter of each adult and child admission to a general hospital, $2 per day in auxiliary (long-term care) hospitals. The service charges in Saskatchewan are $2.50 per day for the first 30 days for each adult and child admission, $1.50 per day thereafter up to and including the ninetieth consecutive day of stay and $1.50 per visit for out-patient physiotherapy services, while in the Northwest Territories, the fees are $1.50 per day for adult, child and newborn in-patient care. Some Provinces also make charges for care in mental health institutions.

With respect to physicians' services, only two of the seven provincial plans–Newfoundland and Nova Scotia–finance their share of costs exclusively from general revenues (see table 18). The remaining five plans employ premiums to help finance their costs. Typically, premiums are paid for welfare recipients and various subsidy devices are used to assist those just above the poverty line (and therefore not eligible for welfare assistance). Both Saskatchewan and Manitoba deliberately keep the premium fee low, though the former permits a "utilization fee"–direct payments to the doctor of $1.50 to $2.00. Ontario, Alberta and British Columbia all impose stiffer premium levies but provide subsidies to reduce these costs to families and individuals with little or no taxable income in the preceding year.

Although not strictly a service charge, the method of paying doctors can also affect the portion of the total costs of physicians' services that are borne directly by patients. Doctors can submit their bill directly to the insuring authority or to the patient. If the bill is sent to the public authority, Saskatchewan, Manitoba and Newfoundland require that the amount paid (usually 85 or 90 percent of the fee for the service as specified in the fee schedule) represents payment in full; in the other four provincial plans, this does not preclude extra billing, provided the doctor indicates his intention to the patient beforehand. Doctors using the extra billing method in Nova Scotia and British Columbia, however, must also obtain prior written agreement from the patient and notify the public authority of the extra charge

In all participating Provinces, the doctor may choose to submit his bill directly to the patient and may legally charge the patient any amount. The patient is then reimbursed by the insuring authority only on the basis of what is defined to be the approved fee. In most cases, the physician is required to advise the patient that he intends to charge an amount greater than what will be reimbursed. Both British Columbia and Nova Scotia require a written agreement with respect to extra charges–a requirement applicable to participating and non-participating physicians alike. Despite these various arrangements, it is nonetheless believed that doctors typically waive the right to collect extra amounts from low-income patients.

Cost Control Mechanisms. Aside from the possible deterrent effects of service charges, the budget for a hospital provides a check on hospital costs. Most general hospitals are financed on a budgetary basis by the provincial hospital insurance authorities and, barring unforeseen circumstances, the provincial authorities may refuse to finance expenditures in excess of approved amounts. This budget review practice has been described as follows:[3]

> Each hospital submits a detailed budget before the beginning of a given year. This budget contains data on volume of services provided in the preceding completed year, an estimate of volume of services to be provided in the current year, and an estimate of services in the year being budgeted for. These budgets are reviewed by persons familiar with the operation of the particular hospital as well as other hospitals. Comparisons are made with comparable institutions and a decision is made as to the funds required by the institution. The provincial authorities also review all proposed hospital construction projects and all

Table 18
PREMIUM CHARGES UNDER PROVINCIAL MEDICAL CARE PLANS

Province	Single Person	Fees For Two Person Family	Three (or more) Person Family
Saskatchewan	$12 per year	$24 per year	$24 per year
British Columbia	$ 5 per month	$10 per month	$12.50 per month
Newfoundland	None	None	None
Nova Scotia	None	None	None
Manitoba	$ 0.55 per month	$ 1.10 per month	$ 1.10 per month
Alberta[1]	$ 5 per month	$10 per month	$10 per month
Ontario	$ 5.90 per month	$11.80 per month	$14.75 per month

[1] Beginning July 1, 1970, a combined premium of $69 per year for single person and $138 for families was established for both the medical and hospital insurance programs.

Source: *Health and Welfare Services in Canada, 1970,* Department of National Health and Welfare.

hospital purchases of substantial items of equipment. These procedures are designed to restrict the operating costs of hospitals to those judged by the authorities to be required for efficient operation.

Control of medical care insurance is exercised by scrutinizing individual accounts. Assessment of the appropriate volume of service and the appropriate charges per account are made with reference to provincial fee schedules and pre-established norms of practice.

Federal Aid to Hospital Facilities. The Federal Hospital Construction Grant was terminated on March 3, 1970, reflecting the achievement of an adequate supply of hospital beds in most Provinces. A consensus has developed among Canadian health officials that between 6.7 and 7.3 general hospital beds per thousand population is the desired target range—the 1966 ratio being 6.8. Thus while distribution problems may remain, such as among regions, the overall bed capacity of Canadian hospitals appears adequate. In general, hospital inpatient facilities are considered adequate; the present trouble spots being out-patient service departments and long-term care facilities.

The Federal Government contributes through the Health Resources Fund to the cost of facilities for health research and training. This fund supplies as much as 50 percent of the cost of planning, construction, purchase, renovation and basic equipment of teaching hospitals, medical schools, training facilities for nurses and other health professional and research establishments. A sum of $500 million has been appropriated for the 15-year period 1966-1980. The fund is divided into three parts:

$300 million distributed to Provinces on a per capita basis,

$25 million to the four Atlantic Provinces for joint projects,

$175 million to be allocated by the Governor-in-Council.

Provinces are required to submit a 5-year development program for approval by the Health Resources Advisory Committee, consisting mainly of provincial representatives. Upon approval, the Minister may authorize payment from the fund toward the cost of projects included in the plan.

Unresolved Issues. Two issues rising to the forefront of the health services in Canada relate to (a) the establishment of community health services and (b) the staffing and major activities of public health units. Regarding the establishment of community health centers, the Committee on the Costs of Health Services strongly recommended that a high priority be placed on this development, while the Royal Commission on Health Services stated:[4]

> The modern hospital transcends the financial capacity of many municipalities, and much of the costly modern equipment cannot be used efficiently if it serves only small populations. This necessitates the regional planning of hospitals and, in the larger centers, a division of labor among local hospitals as far as certain types of extensive equipment and specialized services are concerned. Regionalization would not be possible, however, if modern transportation and communication had not at the same time facilitated travel so that many patients can safely be brought to a strategically located hospital outside their own community. This means a trend towards a degree of centralization of hospital services, particularly in the acute treatment general hospital and in some of the highly specialized rehabilitation services.

At present, a working party is in the process of being established to examine the implications of the recommendation.

The public health program—as opposed to medical care and hospital care—is staffed mainly by sanitation inspectors and public health nurses. The latter, however, are engaged mainly in health supervision roles and provide little direct service to families and individuals other than in mass programs such as immunization. There is also some feeling that the health services are primarily geared to an era when communicable diseases were the major problem. While much upgrading and improvement has been accomplished—in the direction of adopting a comprehensive view of community health needs—public health officials have not yet succeeded in successfully coping with such contemporary problem areas as pollution control, drug abuse, abortion, family life education and accident prevention.

[1] Department of National Health and Welfare, *Income Security for Canadians*, 1970. p. 1.

[2] Royal Commission on Health Services, Vol. I, 1964, (Queen's Printer: Ottawa, 1964), p. 413.

[3] Ronald Andersen and John T. Hull, "Hospital Utilization and Cost Trends in Canada and the United States," *Medical Care* (Supplement), November-December 1969, Vol. 7, No. 6, p. 5.

[4] Royal Commission on Health Services, Vol. II, p. 238.

Chapter IV

FINANCING ELEMENTARY AND SECONDARY EDUCATION

The issue of whether the local property tax can provide adequately for the mounting costs of both local governments and local schools arose as a major consideration in the Commission's study *State Aid to Local Government.* The Commission recommended that the States adopt as a long-run fiscal objective the assumption of substantially all responsibility for financing local schools from State revenue sources (essentially taxes other than on property). While calling for centralization of financing responsibility, the Commission foresaw a continued opportunity for local financial enrichment and appropriate local decision making.

State takeover of the responsibility for the major share of public school costs rests on grounds that:

- both the quantity and content of education currently depend too heavily on the accidents of property tax geography;
- interdependence of contemporary life has removed education as a function whose benefits are largely localized;
- the property tax has too many adverse economic effects to warrant its use in support of both schools and local general government;
- local or municipal type functions should have first claim on the property tax—the only really localized tax source;
- use of nonproperty tax resources to support education would reduce the potential for interlocal tax competition and reduce the practice of fiscal zoning;
- in contrast to so-called equalization programs, this shift could achieve approximate parity in resources behind each pupil; and
- local control of education should concentrate on program content and not on "selling" bond issues and tax rate increases.

SUMMARY AND CONCLUSIONS

The Province of New Brunswick has had centralized financing of schools since 1967. Provincial-local educational financing arrangements in most Canadian Provinces resemble those in the United States, and for purposes of this study are therefore of less interest.

Those aspects of the New Brunswick experience that are particularly relevant to the Commission's recommendation fall into three categories.

1. Provincial assumption of school costs fixes political responsibility for school support more firmly than any provincial-local cost sharing arrangement seems capable of doing.

2. Provincial assumption results in a more equal provision of educational services than a provincial-local cost sharing arrangement seems capable of attaining. In New Brunswick's case, the process meant an "evening up," that is, improvement in educational programs for residents formerly served inadequately while retaining the level of services already provided for many residents. Obviously this result could not have been achieved if the public had been led to expect tax relief. Indeed, New Brunswick's effort succeeded only by virtue of the higher taxes which made possible an infusion of new funds.

3. Provincial assumption was accompanied by massive reorganization of local school districts, but local decision-making was retained in significant areas such as hiring of teachers.

4. Provincial assumption of school costs was but one, albeit important, part of a total restructuring of provincial-local relations in New Brunswick. Noteworthy changes include:

   a. assumption by the provincial government of the full cost of providing general benefit services such as education, health, welfare, and justice,

   b. abolition of counties as units of local government and establishment of three categories of local government based on the scope of services provided locally,

   c. tax and revenue revision which eliminated the personal property tax and several nuisance type taxes and established a provincially administered assessment system that undergirds the uniform province-wide real estate tax and allows local governments, in effect, to piggy-back local real estate taxes.

The New Brunswick experience reinforces the Commission's recommendation on school finance. State takeover (1) fixes responsibility for the financial support of schools and, indeed, demands that provincial officials withstand extreme public pressures on tax issues, (2) equalizes the provision of educational services, (3) leaves room for local administration and local discretion rather than necessitating centralized decision-making on the Hawaii model for example.

New Brunswick's experience reveals, however, that:

(1) State takeover and the resultant "leveling up" process may necessitate an infusion of new funds and an increase in the overall tax burden in order to equalize educational services;

(2) Financing education exclusively from non-property tax sources may be unrealistic as a short-run possibility States may well find it necessary to enact a uniform state-wide property tax as an interim measure as the governors of both Michigan and Minnesota have proposed in plans for State assumption of school financing.

SCHOOL FINANCING—A PROVINCIAL-LOCAL PROGRAM

Great similarities exist between the United States and Canadian federal system with respect to the provision of schools. Each Canadian Province has developed a school organization suited to its territorial needs and educational philosophy just as each of the States has. Several characteristics common to all provincial educational systems bear a striking resemblance to our State systems:

1. Compulsory school attendance laws;
2. Delegation of administration of public schools to locally elected or appointed boards;
3. Property taxes as a principal source of school support.

Canada Year Book describes the content and objectives of elementary and secondary education much as one would describe them in the United States:

> Three programs can frequently be distinguished—the university entrance course, the general course for those who wish to complete an academic type of program before entering employment, and vocational courses for those who wish to enter skilled trades. Thus, attention is given to the minority who will go on to institutions of higher learning, while the majority, who will look for jobs, are prepared for entry to their chosen occupation.

If distinctions can be drawn, the Canadians may place greater emphasis than we do on assuring students a marketable job skill.

The British North America Act, the equivalent of the U.S. Constitution, clearly makes education a Provincial responsibility. Indeed, the Federal Government has neither a Minister nor a Ministry of Education. Federal support for education, to the extent that it exists, grows out of manpower and other national programs that relate to the health of Canada's economy. To the present, at least, the Federal Government in Canada has been circumspect in asserting the national interest directly in the education field. Nevertheless, the support level of the Federal Government is strikingly similar to our Federal Government's role as the following table shows.

Table 19
SOURCES OF SCHOOL SUPPORT, UNITED STATES AND CANADA
1967 (Percentages of Total)

	Federal	Provincial/ State	Local
U. S.	8	39	53
Canada	6	52	42

Source: Compiled from Research Division—National Education Association, *Estimates of School Statistics 1968-69;* Dominion Bureau of Statistics, *Preliminary Statistics of Education* 1968-69.

The variety in provincial-local school financing arrangements is thoroughly obscured in national data for Canada as it is in the United States. Each Province has worked out its own approach to take account of such influences as local government structure, density and sparsity of population, Federal categorical aids, and in some instances the religious characteristics of communities. In Newfoundland, for example, schools are operated locally by different religious denominations or in some localities by an amalgamated board set up by several denominations.

Separation of church and State has not been an issue influencing the development of private schools in Canada.[1] Denominational schools are very much a part of the publicly financed elementary and secondary education in Ontario and Quebec. Accordingly, a larger proportion of total school enrollment in Canada attends publicly supported as contrasted to privately supported schools than in the United States. On the average, 11 percent of U.S. enrollment is in non-public, frequently religious, schools; a considerably higher proportion than in any of the Provinces (table 20).

Provincial-Local Effort

Elementary and secondary school spending by provincial and local governments has claimed an increasing share of personal income as table 21 shows. Whereas school spending was less than five percent of personal income in all Provinces in 1954, by 1967 it had exceeded that percentage in eight of the ten Provinces.

Growth in educational expenditures stems from three sets of factors: enrollment rises, price level increases, and improvement in the quality and quantity of education. The first and third factors are largely

Table 20
PUPILS ENROLLED IN PRIVATE SCHOOLS AS A PERCENTAGE OF TOTAL ELEMENTARY AND SECONDARY SCHOOL ENROLLMENT BY PROVINCE

Province	*1968-69*	*1967-68*
NFLD	0.2	0.2
PEI	0.5	0.5
N.S.	1.3	1.6
N.B.	0.2	0.3
QUE	3.8	6.1
ONT	2.2	2.2
MAN	3.5	3.9
SASK	0.8	0.8
ALB	1.3	1.4
B.C.	4.6	4.9

Preliminary Statistics of Education, 1968-69

Table 21
EXPENDITURE ON ELEMENTARY AND SECONDARY EDUCATION FROM PROVINCIAL AND LOCAL FUNDS AS A PERCENTAGE OF PERSONAL INCOME, SELECTED YEARS 1954-1967

Province	*1967*	*1965*	*1963*	*1961*	*1959*	*1954*
Newfoundland	6.1	4.9	4.9	4.7	4.5	3.4
Prince Edward Island	6.6	5.1	5.1	4.1	3.5	2.9
Nova Scotia	5.4	5.3	5.4	5.0	4.4	3.2
New Brunswick	6.1	5.2	5.2	5.0	4.6	4.0
Quebec	5.8	6.3	5.4	5.1	3.9	2.7
Ontario	5.7	5.3	4.9	4.4	3.8	2.7
Manitoba	4.3	5.3	4.5	4.5	4.0	2.9
Saskatchewan	6.6	5.7	4.9	6.9	5.4	4.8
Alberta	6.6	6.1	5.8	5.9	5.4	4.1
British Columbia	4.9	4.9	4.6	4.4	4.0	3.0

Source: *Survey of Education Finance 1966,* Dominion Bureau of Statistics, p. 10. *Preliminary Statistics of Education* 1968-69, Dominion Bureau of Statistics, p. 53.

self-explanatory. The second factor involves subtleties that get to the core of educational finance issues.

Price level increases impact more heavily on education than on other types of economic activity. Material and supply prices rise as they do in all sectors of the economy, but these are a minor segment of educational expenditures. Teachers and other school personnel claim the vast bulk of educational spending. These people expect a wage commensurate with the level enjoyed elsewhere in the economy and with the rise in the standard of living. To achieve this, teachers have used collective bargaining to improve their economic and occupational status in eight of the ten Provinces.[2] The higher qualifications of new entrants in the teaching profession adds a further impetus that pushes educational costs up faster than rises in the consumer price index, as an example.

The enrollment ratio (public school pupils to population) is trending upward in Canada reflecting the lengthening of the school program and the increased holding power of secondary schools (table 22). Pupil teacher ratios are holding fairly steady or trending downward. School expenditures accordingly exhibit a rising trend just as they do in the United States, and Canadian Provinces have been picking up a rising share of the growing school finance load.

Provincial-Local Cost Sharing

The great majority of Canadians probably would feel at home with the school financing program of most States. Several Provinces use the foundation program approach. Many have developed grants of both the equalizing and incentive type. Indeed, provincial-local school cost sharing is as typical of Canadian federalism as it is of ours. Educators and public officials in the United States would probably agree with the rationale expressed by the Ontario Committee on Taxation:[3]

> The most appropriate division of spending activities in education is surely that which makes the province the guarantor of educational standards and the local school board the source of diversity. It is this division that best reconciles provincial responsibility and local autonomy.

The Foundation Plan approach has developed into the favored method of carrying out this division of educational expenditure responsibilities. The Ontario Committee on Taxation lauds the approach in these terms: "the Foundation Tax Plan exhibits the quality to which every part of a provincial and local revenue system should aspire—fiscal sophistication is a framework of simplicity." The Committee was not so naive as to believe that the Foundation Plan could not be improved. But the main thrust of its recommendations was to increase reliance on the foundation financing concept and specifically to expand and strengthen the plan by eliminating several "stimulation" or categorical aids.

Competition for the Local Property Tax Dollar

Counties, cities, towns, and villages in most Provinces have one or more school boards to administer the local educational program. The school boards requisition from the councils of these municipal bodies the local taxes needed to maintain the schools.

School boards and municipal councils thus compete for the local taxpayer's dollar as they do in most of the United States. Meanwhile, in their brief to the Special

Table 22

ENROLLMENT AND PUPIL-TEACHER RATIOS FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS BY PROVINCE, FOR SELECTED RECENT YEARS

	ENROLLMENT RATIO			*PUPIL-TEACHER RATIO*		
	1968-69	1966-67	1965-66	1968-69	1966-67	1965-66
Newfoundland	.304	.297	.297	25.2	26.3	26.4
Prince Edward Island	.268	.262	.257	20.6	21.7	23.0
Nova Scotia	.274	.265	.264	23.4	25.0	25.3
New Brunswick	.276	.269	.270	22.9	24.1	24.2
Quebec	.252	.241	.235	22.5	20.7	21.9
Ontario	.259	.252	.250	22.8	24.4	26.1
Manitoba	.245	.233	.231	22.2	23.8	24.1
Saskatchewan	.260	.253	.249	21.7	22.2	22.7
Alberta	.257	.250	.248	21.4	22.8	23.3
British Columbia	.233	.229	.225	24.7	26.3	26.7

Source: Derived by ACIR staff from data in the *Canada Year Book.*

Joint Committee of the Senate and of the House of Commons on the Constitution of Canada, the Joint Municipal Committee on Intergovernmental Relations addressed itself to the problems of this competition:[4]

> As things now stand, and have stood for many years, the burden of most services to real property falls upon the municipal governments whose only source of revenue other than governmental grants, is the tax on real property. We would not attempt to argue that purely local services are not a proper charge on property but when the definition of such services is as widely expanded as it has been and when it includes a substantial part of the very heavy and escalating charges for primary and secondary education, the stress upon an already overburdened and regressive tax is too much to accept without vigorous protest. It is not our purpose here to argue the proper situs of education responsibility, which is now specifically allocated to the provinces. But we do believe that we have the unanimous agreement of all our constituent organizations when we say that the costs that now fall on the municipal taxpayer for educational purposes are out of all reason. Their indefinite continuation may very well be a prime factor in the breakdown of local government. The pressures of education costs are so great that in many places their elimination as a burden on the property taxpayer would in a very substantial measure ease the problem of municipal local finance as it exists today. An overall solution to the problem of financing public services should provide the possibility that the provinces could afford to assume the full cost of education.

As the demands for school and municipal expenditures increase, the Provinces like our States are seeking an adequate fiscal response to ease if not reduce pressure on the local property tax. This effort proceeds along several routes.

Larger Units of Administration

Revolutionary change is the only adequate way of characterizing the development of units of school administration in the post World War II era. Whereas school organization once was built on communities within walking distance of a school, the school bus and the highway system now enable school districts to cover a vast territory. The revolutionary change in the organization of administrative units made possible by highways and buses can be seen best in two Canadian provinces that recently restructured their local school organization.

- In 1967 there were more than 1,200 public, separate and secondary school boards in Ontario. By January 1, 1970, the number of boards had been reduced to 221
- In 1966, there were more than 400 school districts in New Brunswick. Currently, there are but 33.

School district reorganization of this magnitude raises issues of centralization and the loss of local autonomy. The dedication of Canadians to decentralized decision-making is no less than the dedication in the U.S.A. Ontario's Minister of Education noted therefore in a talk on education reform that the provincial government tried to delegate more decision-making functions to school boards. He suggested that the Department of Education, the local school boards, and the municipal councils might develop a clearer understanding of the meaning of decentralization:[5]

> . . .We must think in terms of cooperation. Complete decentralization is out of the question because there is an interdependence in our society between the local unit and the larger unit of which it is a component. At the same time, there must be an opportunity for local participation and influence. The task is to distinguish between what should be decentralized and what cannot be decentralized. I am sure that you will agree that this is no easy task, and that the various responsibilities will have to be reassessed from time to time.

Canadians have recognized the many advantages of larger administrative units for schools. They permit

Table 23
PERCENTAGE OF SCHOOL BOARD EXPENDITURE BORNE BY PROVINCIAL GOVERNMENTS* SELECTED YEARS 1954-1967

Province	*1967*	*1965*	*1963*	*1961*	*1959*	*1954*
Newfoundland	90	87	88	87	87	83
Prince Edward Island	71	61	62	63	54	51
Nova Scotia	53	47	46	43	44	44
New Brunswick	98	25	31	31	34	41
Quebec	54	49	47	37	29	27
Ontario	45	44	40	38	39	35
Manitoba	74	40	41	42	43	33
Saskatchewan	44	43	46	41	41	28
Alberta	53	48	51	52	53	33
British Columbia	39	42	46	47	46	34
All Provinces	51	46	45	41	40	33

*On the basis of grants reported received by School Boards
Source: Dominion Bureau of Statistics *Survey of Education Finance,* 1966, p. 13.

economies of scale in the administration of school programs. They reduce the chance that valuable property will be insulated from school taxes through the creation or continued existence of a tax enclave. The particular appeal of larger units is that they offer a modicum of property tax relief while enhancing the scope of educational offerings.

Canadians apparently share the attitude of their neighbors to the South in urging that more of the burden of school financing be shifted to nonproperty tax sources, generally the provincial tax system. Provincial support accounted for about one-third of all school board expenditures in 1954 and now accounts for more than fifty percent (table 23). In Newfoundland and New Brunswick, local boards are supported almost exclusively by the provincial government but these are special cases lying outside the pattern experienced by most Canadians.

School boards in all but two Provinces compete with local general governments for the property tax dollar just as they do in the United States. Newfoundland, with few full-scale municipalities, and New Brunswick are the exceptions. In the other eight Provinces, school taxes represent 40 to 60 percent of all municipal revenues (see table 24).

Urbanizing trends akin to those in the United States are running strong in Canada. Thus, municipal governments have sought to expand services to cope with the more intensely organized society. In an attempt to put the competition for local funds in perspective, Ontario's Minister of Education noted:[6]

> The costs are going up; let's be clear about that. However, it was pointed out to me very recently that while municipal councils are prone to compare changes in municipal levies with changes in education levies, very few citizens are aware that the Province in the last two years has taken over the major cost of welfare and justice from the municipalities and, as I have stated, has taken over the assessment in 1970.

The favored safety valve for containing the pressure of education as well as other local services on the local tax base has been the gradual increase of the provincial proportion of school support.

According to one Canadian commentator:[7]

> .as the burden of education shifts to higher levels of government, two changes take place. First, because the quantity of service demanded by individuals does not necessarily bear a direct relationship to the amount they pay in taxation, there is a tendency to demand more service. Second, the change in level of government places education in competition with the much wider range of services provided by senior levels of government.

Canadian experience with the foundation approach has produced results strikingly similar to those in the United States. Local school boards seek maximum discretion in the use of foundation funds. In many districts, the boards succeed in convincing citizens to support a local program substantially in excess of the authorized foundation level. The local boards then berate legislators for not providing adequate support to avoid a local property tax rate increase. Pressure is applied to legislators to broaden the foundation concept and to reduce the required local share. Provincial or State support rises in response to the demand for relief from the mounting property tax burden and the whole cycle starts again.

Viewing this cycle from the perspective of the Deputy Minister of Education, T. C. Byrne of Alberta told the superintendents of the large city school boards that behavior of this type which appears to transfer responsibility for local tax increases to another level of government constitutes a threat to decentralized school government. "Governments require (and will, in the end, move to establish) as complete control as possible over their own expenditures."[8]

The uni-functional focus of school boards represents a striking incompatibility with the requirements of governments as stated by Mr. Byrne. School officials continue in office on the strength of their performance in maximizing educational outlays. The effective way of assuring rational allocations of the limited public resources among unlimited needs is increasingly recognized as the process by which the allocation to education is decided in competition with the needs of other functions. By and large, this can only be done at the provincial and State level in Canada and the United States because of the traditional independent status of local school boards.

Table 24
ESTIMATED PROPORTIONS OF MUNICIPAL AND PROVINCIAL GOVERNMENT REVENUES EXPENDED ON EDUCATION 1966, 1967, 1968

Province	1968		1967		1966	
	Local	*Provincial*	*Local*	*Provincial*	*Local*	*Provincial*
Newfoundland	8.9	35.6	9.0	43.7	8.7	32.4
Prince Edward Island	61.0	25.5	60.9	25.1	64.2	22.0
Nova Scotia	59.4	42.0	56.7	36.1	56.7	30.6
New Brunswick	1.8	38.1	–	36.5	83.2	17.7
Quebec	57.2	27.9	53.5	28.7	53.8	27.9
Ontario	49.6	47.4	47.8	42.7	47 1	34.6
Manitoba	45.1	38.4	43.8	34.9	48.7	26.9
Saskatchewan	50.7	31.1	51.1	28.9	51.0	25.2
Alberta	54.1	46.9	56.2	41.7	55.3	39.7
British Columbia	56.1	36.4	53.2	30.0	52.7	Not Available
All Provinces	52.4	38.1	50.4	35.5	51.0	

Sources: *Preliminary Statistics of Education,* Dominion Bureau of Statistics
Municipal Government Finance 1967 and 1968, Dominion Bureau of Statistics.

The Ontario Committee argued forcefully for continuing use of the property tax to finance education as one means to ensure responsible performance. The Committee argued that increased provincial assistance might well be necessary if school costs become an excessive burden on property. But the Committee saw the removal of the property tax from educational financing as a course that would accentuate the malaise which caused school costs to become excessive... "the close scrutiny which results from financing schools through the property tax would be lost and local cost control irreparably damaged."[9]

CENTRALIZED SCHOOL FINANCING AND LOCAL AUTONOMY IN NEW BRUNSWICK

The validity of the Ontario Committee's hypothesis about the need for local property tax participation in school financing has been tested for three years in the Province of New Brunswick. The Province of New Brunswick assumed full responsibility for financing elementary and secondary education in 1967 as part of a total revision of provincial-local relationships in finances and functional assignments. In addition to financing schools, New Brunswick took over the financing and provision of health, welfare and justice functions. It reorganized local governments including school districts, restructured the provincial-local tax system and (a) eliminated the personal property tax and other local nuisance-type taxes, (b) enacted a uniform province-wide real estate tax at an effective rate of 1.5 percent of market value determined by provincial rather than local assessors and (c) took over the billing and collecting of all property taxes including those of municipalities.

Table 25
GENERAL REVENUE OF NEW BRUNSWICK LOCAL GOVERNMENTS BEFORE AND AFTER THE EQUAL OPPORTUNITY PROGRAM 1966 COMPARED TO 1967

Source	*1966*	*1967*
	(thousands of dollars)	
Taxes		
Ad valorem	37,730	10,223
Poll	2,295	–
Other	77	82
Special assessments	224	8
Privileges, licenses, permits	657	668
Sales and fees for service	264	5,236
Fines and penalties	334	141
Other miscellaneous revenue from own sources	*1,865*	*1,205*
Gross revenue from own sources	43,446	17,563
Conditional transfers from:		
Federal government	139	1,296
Provincial government	*8,549*	*1,483*
Total conditional aid	8,687	2,779
Unconditional transfers from:		
Federal government	1,355	643
Provincial government	*11,328*	*11,309*
Gross general revenue	64,876	32,294

Source: D.B.S. *Local Government Finance*

One provincial official characterized the New Brunswick legislation as "probably the greatest assessment and taxation upheaval to take place in any province of Canada." The results of the upheaval show most clearly in comparisons of provincial and local revenue and expenditures before and after enactment of the Program of Equal Opportunity (tables 25 and 26).

General revenue of local governments was cut to about half its former size. Local *ad valorem* taxes for

Table 26

GROSS EXPENDITURE OF NEW BRUNSWICK LOCAL GOVERNMENTS BEFORE AND AFTER THE EQUAL OPPORTUNITY PROGRAM 1966 COMPARED TO 1967

Function	*1966*	*1967*
	(thousands of dollars)	
General Government	$ 3,951	$ 3,005
Protection of persons and property	7,225	7,688
Public Works	7,766	9,240
Sanitation and Waterworks	1,890	7,585
Health	1,959	107
Social Welfare	4,898	14
Recreation and Community Services	4,056	3,770
Education (excluding debt interest)	34,432	1,316
Debt Charges	4,398	3,150
Own Enterprises	641	262
Other Expenditures	3,965	1,540
Gross Expenditures	75,181	37,677

Source: D.B.S. *Local Government Finance*

schools and the poll tax were abolished. Fees for services such as water supply were instituted. Conditional transfers from the Province mainly for health and social services disappeared. General expenditures of local governments likewise fell to about half their former size. Relief of responsibility for education, health and welfare resulted in the major expenditure drop. Conversion of municipally provided sanitation and water service to a utility type financing arrangement showed clearly in the pattern of local expenditures in 1967.

While taxing and spending at the local level dropped precipitately, New Brunswick residents were on notice that the new program meant higher tax burdens overall. In introducing the program to the legislature in November 1965, Premier Robichaud said, "One point must be stressed, and I would hope that no one in New Brunswick has any misconceptions concerning this—the recommendations of the Royal Commission on Municipal Finance and Taxation do not yield a reduction in total taxation."

To give a clear picture of the impact of the Equal Opportunity Program on provincial finances, general revenue and expenditure data were selected for fiscal years that were clearly before and after the change. The major tax adjustments undertaken by the Province—increased personal income and sales taxation and the Province-wide uniform real estate tax levy of $1.50 per $100 of current market value—stand out clearly in table 27. The obverse side of the relief of local government responsibility is shown in the assumption by the Province of responsibility for health, welfare and education (table 28).

Table 27

GENERAL REVENUE OF NEW BRUNSWICK PROVINCE BEFORE AND AFTER THE EQUAL OPPORTUNITY PROGRAM

Fiscal Year Ended March 31, 1966 Compared to Fiscal Year Ended March 31, 1968

Source	*1966*	*1968*
	(thousands of dollars)	
Taxes		
Income		
Corporations	6,868	7,531
Individuals	9,458	18,379
Property	454	22,093
Sales		
General	14,889	32,598
Selective	23,024	27,216
Other Taxes	1,082	1,259
Privileges, Licenses and Permits	12,513	14,875
Other Miscellaneous Revenue From own Sources	15,150	17,822
Gross Revenue from Own Sources	83,438	141,773
Conditional Transfer from Federal Government	44,945	65,665
Unconditional Transfer from Federal Government	44,883	70,925
	173,266	278,363

Source: D.B.S. *Provincial Government Finance*

New Brunswick started on its new course with a detailed road map provided by the New Brunswick Royal Commission on Finance and Municipal Taxation subsequently to be known as the Byrne Commission after its Chairman, Edward G. Byrne.

The Commission began by analyzing the tasks assigned local government.

> The services which we now expect from our municipalities are of two quite different kinds:
>
> First, there are services of a local nature, which benefit mainly the residents of a small, well-defined geographic area. Elsewhere in the province the benefits of these services are felt only indirectly, if at all.
>
> Second, there are the general services, such as education, hospitals and public health, social welfare, the administration of justice and civil defense. These general services affect a much larger population and when they are poorly performed the consequences spread throughout the entire province.

The Commission then set out its approach to the problem of providing public services and particularly education in New Brunswick in the following terms:

> At present neither local nor general services are performed adequately in every instance. Our objective, therefore, has been to ensure that responsibility for each kind of service is placed on the level of government best qualified to perform it, and that each level of government has the financial resources required to carry out its responsibilities.
>
> Under the structure of government which we propose, the general-service programmes which are of province-wide

Table 28
GENERAL EXPENDITURE OF NEW BRUNSWICK PROVINCE BEFORE AND AFTER THE EQUAL OPPORTUNITY PROGRAM
Fiscal Year Ended March 31, 1966 Compared to Fiscal Year Ended March 31, 1968

Function	*1966*	*1968*
	(thousands of dollars)	
General government	7,975	12,617
Protection of persons and property	3,505	5,925
Transportation	33,855	69,671
Health	24,489	57,620
Social Welfare	8,673	18,716
Recreation and cultural services	520	2,133
Education		
Schools operated by local authorities	13,181	64,890
Universities, colleges and other schools	6,886	23,552
Other education	1,435	4,551
Total Education	21,502	92,993
Natural resources and primary industries	7,599	13,500
Debt charges excluding debt retirement	11,723	22,847
Unconditional grants to local governments	9,709	11,807
Contributions to government enterprises	17	6,367
Other expenditures	1,851	4,657
Net general expenditures	131,418	318,853

Source: D.B.S. *Provincial Government Finance*

> significance and which require large units for efficient operation will be performed directly by provincial government agencies. These provincial agencies will bring together centralized formulation of policy and a clear responsibility for maintaining service standards, but they will provide also for continuing the present decentralized administrative offices as required to take proper account of local circumstances. Under our scheme there will be automatic province-wide equalization of the burden of maintaining adequate standards in such vital areas as education, public health, hospital services, social welfare and justice. No longer will small children be limited to the quality of education which their own neighborhood can afford; henceforth they shall be entitled to that standard of education which the province as a whole can support. As one means of bringing about greater uniformity we propose that the province set and pay all teacher salaries and that local school boards be prohibited from supplementing these amounts. At the same time we propose making more efficient use of our educational resources by reducing the number of school districts from more than 400 to approximately 60. We intend, however, that school boards in these new districts shall continue to control the hiring and firing of teachers and the various other matters which are their proper concern.

The four underlying premises for the shift of educational financing which the Byrne Commission emphasized were:

1. A single standard of education that the Province rather than a community could afford (elimination of the accidents of property tax geography?).
2. A single salary schedule for teachers (elimination of wage differentials as the means of competing for teachers).
3. Reorganization of the school district structural arrangement to promote better use of educational facilities and improve educational programs.
4. Retention of significant local decision-making (e.g., teacher hiring and firing) in reorganized local school boards.

School District Organization

The reduction in the number of school districts achieved under the New Brunswick Schools Act of 1967 surpassed the objectives of the Byrne Commission. Currently, 33 school districts have been organized in seven regions of the Province.

Each school district has a board of school trustees responsible for the administration of public education. School boards have either nine or fifteen members, six or nine of which, respectively, are elected while the remainder are appointed by the provincial administration (Lieutenant-Governor-in-Council).

The Department of Education maintains liaison with district school boards and superintendents through seven regional superinterndents of schools. George A. McIntyre, Superintendent in Region D (the Southeastern region around Moncton) defined his role as follows:

> We believe that the Regional Superintendent in addition to his administrative duties as the representative of the Minister of Education in the region should be concerned primarily with his role as a consultant and resource person in the region.
>
> The Regional Superintendent should be the catalyst working with the district superintendents in evaluating the educational needs of the region and organizing the best possible program to meet those needs. In other words, the role of the Regional Superintendent should be one of consultation, stimulation and co-ordination rather than direct control by edict and regulation.

Regional superintendents thus represent the provincial education department in the field. By their continuing contact with district school boards and superintendents the Regional Superintendents give the department first-hand knowledge of significant differences in districts.

Discussions with district officials revealed two conflicting views of the role of the regional superintendent. On the one hand, officials in districts where the educational program has been visibly upgraded by provincial takeover of financing (generally the French speaking areas) identify improvements in the educational program with the regional superintendent and his staff. On the other hand, officials in districts where the impact of provincial take over was less marked by improvement regard the regional superintendency as another layer of bureaucracy to complicate and delay dealings between the district and the department.

Perceptions of Local Autonomy–Local and Central

In New Brunswick, the mixed reaction toward regional superintendents seemed to carry through to other facets of the operation of the provincial educational program. School officials from areas where educational programs have improved markedly shrug off the issue of loss of local control. Indeed, these officials tend to have the strongest feeling of adequate scope for local decision-making, although they would be pleased if they had more autonomy on certain matters such as capital outlay and major repair decisions. In a district where provincial support resulted in a less dramatic change in educational program, local school officials seemed to want local autonomy not only in school construction and major repair matters but in determining curriculum and the size of teaching and auxiliary staff. In short, these officials wanted the *status quo, ex ante.*

The contrast in local decision-making both before and after provincial takeover has been described as follows:[10]

> The duties of the School Board Trustee today, 1970, are a far cry from the work performed by most trustees of five years ago in New Brunswick.
>
> Under the former system of small school boards which existed in almost all communities, the trustee was involved personally with the physical operation of one to four small schools employing seven or eight teachers. He was elected at an annual meeting of the rate payers of his district, usually became well known by area citizens, and was at the beck and call of all residents–teachers and janitors who seemed to be forever wanting repairs, supplies ordered, bills paid, complaints aired, fewer students per teacher and hundreds of other matters which kept the trustee involved almost on a daily basis.
>
> With the advent of the re-organization of the education system of New Brunswick in 1967 most of the old ways of the trustee disappeared. The fact that the number of school boards was decreased to 33 meant that the new larger districts had more schools, and more personnel and the trustees were unable to administer on a part-time basis. A number of full-time employees gradually were taken on to operate the school districts.
>
> Nowadays the duties of the School Board member can in many ways be likened to those of a member of a Board of Directors of a private firm. These people formulate matters of policy, prepare budget submissions, do long-range planning for the district and generally approve or recommend changes in the decisions of the administrative staff.

This school board member sees New Brunswick's new system posing a different type of threat–overspecialization and dehumanizing of public education–and suggested that school board trustees be on guard against any such tendency.

The Government and Departmental View

While the government incorporated massive portions of the Byrne Commission recommendations in its program for equal opportunity, it rejected the administrative proposals as undemocratic. For example, the Byrne Commission recommended a provincial "Public Schools Commission" to administer the elementary and secondary school program. With the Minister of Education as Chairman, the Public Schools Commission would have been comprised of eight "experts" nominated by the four universities within the Province and four other appointees of the Minister of Education. Premier Robichaud deplored the Royal Commission's tendency to advocate centralizing solutions for policy making in education and other fields on the grounds of efficiency. He contended that the Royal Commission proposal would have reduced school boards to "pieces of powerless window dressing" and that his proposal strengthens their power and makes them elective and responsible to the people.

The issue of local policy determination was thus in the forefront of policy discussions in New Brunswick at the time of the provincial take over of school support. It remains so to this day. In its report for 1969, the Department of Education expressed its desire to achieve the best of all possible worlds.[11]

> The Department and its decentralized counterpart, the Region, desire to effect a proper balance in education. The basic problem is to combine the advantages of centralized financing with decentralized decision-making. This requires competency and responsible decision-making at all levels. For the Department, it implies increased responsibility for initial in-service education to teachers unfamiliar with new programmes of instruction. Specialized personnel assigned to specific tasks are needed within the Department.

The remainder of this case study consists of the summary description of the mix of centralized financing and decentralized decision-making achieved in New Brunswick and the analysis of its strengths and weaknesses.

Financial Operations

School expenditures both current and capital outlay in New Brunswick approach $500 per pupil for a total enrollment of about 172,000 students. The steps in the expenditure process have been outlined by the Department of Education as follows:

Each school district is a financial unit and receives sufficient funds for ordinary and capital expenditures on a budgetary basis from the Government of the Province. Distribution of monies for this purpose are through the

Department of Education. However, the administration of finances in any school district is the responsibility of the board of school trustees.

Each school district prepares annually a budget for the operation of public education. The budget is submitted to the Minister of Education not later than November 15 (Schools Act, Section 9), after which it is analyzed by the Administration Branch of the Department of Education.

The budget is discussed by Departmental, Regional and District personnel at a budget conference, usually held during the month of December. Following careful scrutiny and discussion of the budget submission, the Administration Branch attempts to reach agreement with the school district on a realistic operating budget for the following school year.

Budgets for all school districts are submitted to the Treasury Board as part of the Department of Education budget. This budget, which is approved by the Treasury Board and Cabinet, is included as part of the Provincial Estimate and submitted to the Legislature.

When budgets have been finally approved by the Legislature, the Minister of Education advises school districts (usually in April) of approved budget allotments for the coming school year.

Distribution of the budget allotment to school districts is made on a monthly basis beginning in July. School districts requisition their monthly allotments to enable them to administer their financial operations.*

Provincial Control of Finances

The Department of Education exercises overall control of local budgets by the simple expedient of controlling personnel and using formula budgeting for other items in the school district accounting series. Personnel costs amount to about 85 percent of the district school operating budgets. Based on the provincial revenues available for school expenditures, the Department now uses a pupil-teacher ratio of 23 to 1 as its control figure. School districts have fairly wide latitude for decisions within this figure. They can, for instance, hire certain specialists in curricula or other fields if they are willing to accept an increase in class size.

Importantly, the control of positions does not extend to control of dollars. Teachers are paid on the basis of a uniform Province-wide salary schedule that varies with educational attainment and experience.* School districts are free to recruit the best qualified teachers they can and the Province stands ready to pay them in accordance with the amount specified in the salary schedule. Salary differentials as such have been eliminated as a basis for teachers choosing to locate in one or another school district.

Because school districts have teaching staffs with varying degrees of educational attainment and experience, per pupil expenditures vary from district to district. Thus, provincial assumption has not meant equal fiscal resources behind each pupil regardless of where he resides. By encouraging each district to hire the best qualified teachers, centralized financing should help to upgrade the caliber of teaching and perhaps achieve a more equal provision of educational services throughout the Province. Currently, about one-third of the teachers in New Brunswick public schools have one or more university degrees. Fairly generous salary differentials for those with university training are expected to increase this percentage significantly in the years ahead.

School district allotments for non-personnel costs are uniform where an amount per pupil, teacher, or other measure of need reflects district activity and conforms to departmental standards. Generalizations in these matters are difficult, however, because of the wide variations in school and district circumstances at the time the Province began the Program of Equal Opportunity.

Capital Outlay Program

The school construction program stands out as one of the most critical elements in New Brunswick's centralized school financing program. Basically, the school districts are organized around a high school complex and the area from which the high school will draw pupils. The availability of Federal funds for school construction gave added weight to using high schools as the organizational unit. The Federal condition for participation in the financing of vocational education is that the high school enroll at least 600 students in grades 10, 11, and 12. Even the reduction in school districts from over 400 to 33 has not assured each district of at least one high school of the requisite size to qualify for Federal capital outlay support.

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*The Department of Education instituted a centralized payrolling system in 1970 and now issues the salary payment checks (bi-monthly) for approximately 10,000 teaching and non-teaching employees.

*When the Province assumed financial responsibility it adopted the schedule of salaries paid in the best-paying district rather than the provincial average or some intermediate level. The salary schedule is now the result of negotiations between the Provincial Government and the teachers' union.

The Department of Education has a school planning staff which develops the capital outlay program, sets priorities, and works with the district school boards to develop appropriate school buildings. High schools have high priority because they are the nucleus of the district organization plan and because of the availability of Federal funds to match provincial funds spent on vocational facilities.

Construction activities of the Provincial Government fall under the central direction of the Department of Public Works, a task it assumed in 1967. Apparently this Department has been unable thus far to provide the level of performance provincial and local officials want and expect. This accounts for the expressed hope by some local officials that the Provincial Government will grant local boards some discretion in seeing that capital construction and major repairs are accomplished promptly. Prior to 1967, when the Province provided construction aid to local boards, the Department of Education reportedly exercised as much, if not more, control over local school construction programs than the Department of Public Works now does. It seems evident that the lack of satisfaction with this aspect of provincial support for education may be important from an administrative viewpoint, but has little to do with how facilities are financed.

Local Supplementary Programs

While the Province will finance the full cost of the standard education program, the New Brunswick Schools Act makes provision for school districts to carry on supplementary programs. The district makes a proposal for a supplementary program to the Minister of Education who publishes the relevant facts (such as the real estate tax rate increase required within the district to finance the program) in a newspaper having general circulation in the district. If less than five percent of the eligible voters of the school district protest in writing to the Minister he advises the board to implement the program and the Minister of Municipal Affairs to impose the higher tax rate on real estate in the district.

If more than five percent of the eligible voters protest, the Minister conducts a plebiscite at the time and in the manner set out in the Schools Act. The program is voted up or down by the majority of those who cast their ballots.

One example of a proposed supplementary program involved a swimming pool at a high school. The proposal went to plebiscite and lost. Eligible voters residing at some distance from the high school reportedly foresaw little prospect of benefitting from use of the pool outside of school hours, whereas they visualized those close to the school making good use of the facility. When given a chance to weigh this proposal on the basis of its impact on the district's educational offering, voters rejected it. Thus, New Brunswick's approach to local supplementation stands out as a fairly effective device for assuring continuing focus of responsibilities—education on the Department of Education and the school district, noneducation on municipal officials if the function is local or on provincial officials. In this case, the proposed swimming pool fits neatly into municipal responsibility for recreation and might well muster enough support to be included in the budget of the municipality in which the school was located.

Transportation

The task of transporting pupils increased significantly with the reduction of school districts and the abandonment of small and outmoded school buildings. Children who live more than a mile and a half from school are transported. Provincial operation has produced a number of advantages:

a. Eliminated taxpayer arguments over who should pay for transporting students from one district to another;

b. Emphasized the importance of highway safety by

   (1) Requiring medical examination and driver testing for operators
   (2) Providing in-service refresher courses in defensive driving
   (3) Establishing equipment maintenance and repair schedules.

The Province allows each school the use of one bus per week for extra-curricular activities. If the use is for educational purposes the Province meets the full cost of the trip. Journeys to sporting events are usually financed by student councils who must pay the driver's wages and expenses.

Summing Up

At the close of 1969, New Brunswick's innovation in school finance and the prospects for the future were appraised officially in these terms:[12]

> Variations still exist because facilities, equipment and diverse courses need to be financed on a priority basis. In spite of those variations progress has been achieved. Larger school units are being constructed, established schools are being equipped, and numbers of teaching and non-teaching personnel have increased, for the most part, more rapidly than student enrollments.

> The equality to which the province is committed is that all should have a chance for success, not the expectation that equal success should and will reward each person's effort.
>
> This concept is concerned with "evening things up" for those whose natural capacities or socio-economic setting places them at a disadvantage. "Equality of opportunity" should not mean uniformity. Recognition needs to be given that there should exist a minimum programme below which no locality should be allowed to go, while a superior education should be available to some. It should be an upward lifting concept, not a depressing concept.

The Liberal Government of New Brunswick that had fathered the program of equal opportunity relinquished power to the Progressive Conservatives on November 12, 1970. Reportedly, the election did not hinge on whether to retain the program. Thus, while administrations in Fredericton change, the process of "evening things up" will continue.

Pressure on the provincial revenues remains high and is likely to intensify because the Province initiated a jointly financed Federal-Provincial medicare program on January 1, 1971. The competition for provincial funds can be expected to intensify given the scope of provincial responsibilities.

This competitive factor may well determine the extent to which educational finance decisions can be decentralized. The provincial government will probably want to retain fairly firm control of school expenditures, both operating and capital outlay, as long as the fiscal outlook remains tight. This is, in fact, one of the major arguments in favor of provincial takeover. Education's requirements can now be weighed alongside other provincial programs by officials who are accountable to the electorate for the full gamut of human services. Only at the provincial level do officials have at their disposal all the means (the tax system and expenditure responsibility) to make the hard decisions that are necessary to allocate limited resources among unlimited needs.

From the perspective of the educational fraternity the Equal Opportunity Program is a mixed blessing. Mr. A. H. Kingett, Executive Director of the New Brunswick Teacher's Association, in a speech to the Fourteenth National Education Association Conference on School Finance, provided the following assessment:

> ... There is no question that some areas, and teachers, students and families in those areas, have definitely benefited from the program. There is no question that services in some areas have been curtailed. There is no question that some areas that could have paid for improved facilities and services before but didn't, are now most indignant that they are not at the top of the priority list.
>
> There is no question that the salaries of some teachers are now less than they would have been had the present provincial scale not been forced upon us.
>
> There is no question the terms and conditions of employment have greatly improved as a result of the negotiated Memoranda of Agreement with the Provincial Government.
>
> There is no question the Minister of Education is on the right track when he talks of returning to school boards a degree of autonomy that was taken from them.
>
> There is no question that since a portion of school board members are appointed by the Government with the remainder elected by the people, both the Government and the people must put aside party politics and petty differences, and see that we have board members who, in their deliberations and decisions, put education first.
>
> In my own opinion, it is impossible at this time to balance the ledger to see if we are in the black or red insofar as overall benefits are concerned. The program is an ambitious one, a costly one, maybe too ambitious and too costly for a small province such as ours with limited resources. On the other hand, nothing ventured—nothing gained.

Elsewhere in his speech, Mr. Kingett referred to the new Education Minister's plans for improving the program but concluded that: "All this is fine and commendable, but you still come back to the same problem or source of criticism or complaint, it is really the Treasury Board of the Provincial Government that calls the shots and makes the final decisions, as it is the Treasury Board that controls the purse strings."

PARTIAL PROCEEDINGS FROM A CONFERENCE ON STATE (PROVINCIAL) FINANCING OF PUBLIC SCHOOLS MAY 20, 1971

Introductory Remarks: Robert Merriam, Chairman, ACIR

For those of you who have not followed closely the Commission's work these remarks will provide the rationale for this particular meeting, concentrating on recent Canadian experience with provincial financing of public schools and relating this to a prime Commission recommendation in this area.

The Commission over the past several years has developed a three-prong set of recommendations dealing with some of the major financing problems of Federal, State and local governments in this country. One recommendation now being seriously discussed in Congress calls for a takeover by the Federal Government of the cost of welfare programs. The second recommendation calls for revenue sharing between the Federal Government and the State and local governments—at least a point of discussion before the Congress in this session. And the third leg of this three-legged stool, if you will, being a proposal that States assume all or substantially all of the cost of public education.

In the course of our consideration of these proposals and the follow-up on them it seemed to us pertinent in the Commission to take advantage of and analyze the experience of others who have dealt with the whole question of financing in a federal-type government. It was with this thought in mind, that the Commission last year directed a portion of its attention to the Canadian experience. In this whole area of financing various levels of government, we recognize of course, that both similarities and differences inevitably exist as between different federal systems.

This Conference was made possible through a grant from the Ford Foundation which shared, with the Commission, the feeling that the whole question of financing of education in this country was of sufficient special import to warrant a meeting of this type. It therefore underwrote the cost of assembling people from various influence points around the country to talk about the issues and we do thank the Ford Foundation for the opportunity to carry on this meeting today.

We are extremely honored to have with us representatives from the Province of New Brunswick where we have very close at hand a very interesting, and I gather from my reading and brief discussions, sometimes controversial program which has been developed for the support of public education by the Provincial Government. We are indeed honored to have with us four gentlemen, three of whom will speak formally to you and the fourth, Mr. O'Sullivan, is here to answer questions about the development and execution of the program for State financing and provincial financing of the public education in New Brunswick. This afternoon we will hear from the representatives of Governors of the States of Minnesota and Michigan both of whom are considering a rather substantial rearrangement of their financing activities with reference to public education. And, this noon we will be honored to hear Governor Russell Peterson of Delaware who is the Chairman of the Education Commission of the States.

I would like first of all to introduce to you Mr. Frederic Arsenault who is the principal secretary to Premier Hatfield of New Brunswick. Mr. Arsenault is a Rhodes Scholar in philosophy, politics, and economics at Oxford University. He served as Executive Assistant to the Leader of the Opposition in New Brunswick, was a candidate for Federal election in 1968; then became secretary for the Maritime Union Study and is now, as I have indicated, the principal secretary to Premier Hatfield. Mr. Arsenault, we are very happy to welcome you here and appreciate your taking the time to be with us.

THE NEW BRUNSWICK EXPERIENCE

Mr. Arsenault: Thank you Mr. Chairman, ladies and gentlemen. I am delivering a speech on behalf of someone. This, of course, makes it all easier for me. If the proper person were here today he, obviously, would have answers to your questions.

I do present to this gathering the apologies of the Premier from New Brunswick, Premier Hatfield, who would very much like to have been here today to discuss the program with you. However, I am sure that at least one member of the Commission would understand why the Premier is not here. Graduation exercises are being held today at the University of New Brunswick. Senator Muskie—one of the members of your Commission—has received an honorary degree from that University and therefore would sympathize with the Premier's commitment. Let me, however. read to you the text which the Premier would have liked to have been able to present to you in person.

Premier Richard Hatfield

The work of your Commission is of such far-reaching importance that it would be my wish to be present in person to participate in and learn from your discussions. New Brunswick is honoured by your interest in our progress; the Government is appreciative of your invitation.

The Program of Equal Opportunity, as it is named, is now in the fifth year of its operation. The program resulted from a decision taken by the government in 1962 to appoint a Royal Commission to examine and recommend solutions to the many problems of provincial and municipal finance and taxation: the problems are familiar to each of us here and you will appreciate that they are vigorously acute in a weak economy.

The Royal Commission Study

In 1962 it was widely recognized in the Province and by the two political parties that our municipal institutions were in serious difficulties: in a Province of 28,000 square miles with a population of approximately 600,000, predominantly rural, there were 7 cities, 21 towns, fifteen units of county government, seventy-five local improvement districts, 15 local administrative commissions, 1 village, 1 township, and 422 school districts; there were inequities in services, in standards, and in opportunities; there was a jungle of assessment and tax laws; in areas of the Province, there was crippling debt, near bankruptcy and demonstrable fiscal incapacity; there was a patchwork of laws for providing provincial assistance and for the provincial sharing of costs on various programs.

The Royal Commission in its report in 1963 concluded that the problems faced could not be solved by a mere allocation of tax fields and that a solution must be found in a re-allocation of provincial-municipal responsibilities and in a re-organization of government structures. The Commission recommended that all general services to people (education, justice, health, and welfare) be financed by and administered by the provincial government and that "local" services (e.g. fire and police protection) be provided by local governments; the Commission recommended that the county unit of local government be abolished; it recommended that the provincial government take over all assessment and tax collection and adopt a system of equalization grants to municipalities. In a key recommendation, the Commission proposed that four provincial administrative commissions be established in the fields of social welfare, hospitals, municipal affairs and schools. The recommendations were put forward as a "package"

Proposal to Program

The then government rejected the proposed administrative commissions as impractable; it set about to implement the other principal aspects of the Report. Legislation was introduced into the Assembly in 1965 and allowed to die on the order paper ostensibly to permit time for public discussion and representation. In 1966 legislation was again introduced; though important changes were made, no essential change was made in principle; the legislation became effective on January 1, 1967.

The debates in and out of the Assembly were frequently heady, vexatious and pejorative. Then, and in retrospect, there would appear to have been little difference of opinion in the Province over the objectives to be achieved; the issues were over alternatives and methods. Serious efforts were made by the government to communicate its proposals to the public; the efforts were not free from some element of confusion. In the elections of 1967 the government was returned to office and the issues over equal opportunity probably had little bearing on the outcome; in 1970 the government was defeated at the polls with equal opportunity not an issue.

Financial Doubts

During the debates on the program in 1965 and 1966 it was pointed out that both the Royal Commission and the government seriously underestimated the costs. The Royal Commission proposed a tax on real property at the rate of $1.50 per $100 of assessed valuation for provincial purposes, changes in the provincial sales tax and the imposition of certain other taxes; the additional tax burden was estimated at $7.6 millions on a hypothetical base year. The Minister of Finance in speaking to the program made various cost estimates and expressed the view of the government that the new program would be paid for by the new revenue sources, rather than by relying on possible future revenue sources or on borrowing.

In fact, provincial revenues from all sources were to prove inadequate to carry both the program and the other functions of government despite a substantial increase in revenues derived from the federal government on transfer and other payments; in 1969, the government found it necessary to increase the sales tax from 6 to 8 per cent and among other levies to impose a provincial surtax of 10 per cent on income tax. In the first year of the program, an estimate that the increase in the provincial net debt would be about $9.7 million turned out to be $42 million; in the recent fiscal year, the increase was about $54 million; over the period of equal opportunity to March of this year the net debt increase attributable to schools and hospitals was estimated to be $65 million.

The statistics indicate that the program has required the infusion of new revenues, the imposition of additional taxes and extensive borrowing; in fact, the tax rates in New Brunswick are now among the highest in Canada; the debt burden is now among the heaviest in Canada. During the same period some 614 new hospital beds were provided; some 35 new schools were opened; no new jail or court facilities were provided. The dry statistics give, as I would make clear, only a very compressed summary of the provincial fiscal effort.

Education's Share

The costs of education in the Province are now running at well over $100 or more than twice the cost in the last year before equal opportunity. Under the program the government reduced the number of school districts from 422 to 33; the basic program in the schools is established by the provincial Department of Education and administered by the district school boards the members of which are both elected and appointed; seven regional offices are established to give administrative supervision and assistance to the local school boards. Budget proposals are made by the boards to the provincial department and approved by the

Treasury Board. The whole of the basic program is financed by the provincial government; certain supplementary programs may be undertaken by the local boards and following plebiscite; teachers are appointed by the local boards in accordance with uniform salary scales established by the province on the basis of province wide collective bargaining.

The Government that I lead has been in office since November 1970. It is apparent to us that equal opportunity in education is not yet firmly established in every section of the Province; in some districts we still have a high drop-out rate; there is an urgent need to provide the range of vocational teaching services to reduce the drop-out rate and to ensure that students in the districts are adequately prepared to enter the labour market.

In the implementation of the program, there has been continuing criticism of and a sense of frustration with the limited degree of autonomy in the local school boards; there is criticism of the inability to undertake enriched programs; in addition, structural problems have developed in practically every new school complex built under the program. It is the intention of the Government, compatible with over-all provincial objectives, to provide the local boards with greater budgetary authority, to solicit more effectively their views on major matters and to involve their direct participation in the planning and development of school facilities.

Fixing Political Responsibility

I have noted the observation made in the draft of your report that the provincial assumption of school costs fixes political responsibility for school support more firmly than any provincial-local cost-sharing program would seem capable of doing. I have also noted the observation that the assumption of provincial responsibility provides the basis for a more equal provision of educational services than a provincial cost-sharing program would seem capable of doing. The observations seem to me to be essentially correct; in my own province, it is a measure of the political responsibility that about a third of the provincial budget is devoted to education costs. With limited resources, the determination of provincial priorities and educational priorities is a "gut" matter.

The program of equal opportunity in New Brunswick is locked into an economy where there is an under utilization of manpower, higher than average unemployment, relatively severe seasonal unemployment, a low level of per capita income and of investment, high out-migration and severe welfare problems. Economic growth has not been keeping pace with the rate of increase in the cost of services or with anticipations. The provincial industrial development program and the joint federal-provincial development programs have not done enough to generate the required increases in employment and income levels. The highest priority is being given to industrial development and job creation.

Regional Concern

Every recent government in New Brunswick has recognized that a massive injection of federal assistance is required in our region; the case is pressed for regional economic development, for the removal of regional disparities, for the relative equalization of service standards; in the revision of the constitution now underway, we hope there will be a direct reference to the removal of regional disparities as a national objective.

Well over a hundred years ago the first discussions were held with a view to the union of the three Maritime Provinces in eastern Canada. Discussions are now actively underway to determine the areas within which common services may be provided in the region and to determine the prospects of full political union.

The view that I have presented of equal opportunity is one in which rigorous effort must be made to ensure effective local participation; it is one in which rigorous effort must be made to provide the required economic base.

Mr. Arsenault: I hope that these brief remarks are sufficient to highlight the challenges which face the government and people of New Brunswick. I heartily stress that our ability to deal with these deeper social problems depends on how successful we are in strengthening the provincial economy and the tax base which supports our education system. These efforts, we trust, will be able to increase, and be able to increase in the meantime, local participation in a decisionmaking process to enable our citizens to participate more fully in building a better and more prosperous Province for the decades ahead.

Chairman: Thank you very much Mr. Arsenault.

Next, we would like to hear from Mr. W. W. Meldrum, who is an attorney with a long association in provincial government. Mr. Meldrum served as the New Brunswick Attorney General in 1965-66, Minister of Education from 1966-1970, President of the Council of Ministers of Education for Canada, also. Currently, he is an opposition member of the New Brunswick legislative assembly and is engaged in the private practice of law. It is with great pleasure that I now call upon Mr. Meldrum.

Wendell W. Meldrum

Thank you Mr. Chairman, ladies and gentlemen.

I must take some exception to the matter of a long association with provincial government. As a matter of fact, it was just six years ago this week that I was suddenly hurled into provincial government.

The Canadian tradition is that members of the Cabinet also be members of the legislature and in most cases, in all cases, we only have one elected body in the Province. We don't have a Senate and a House of Representatives, they are combined. And the tradition is that a member of the Cabinet must also be a member of the legislature. I was not, and was precipitated by requests into the Cabinet, and later too, into the legislature by election in my own area and precipitated into what became one of the liveliest debates in New Brunswick's history.

Your invitation to speak from Mr. MacDougall asks that I talk about (a) the background of the Equal Opportunity Program; (b) how the Liberal Party confronted the issue of local control; (c) presentation of the program to the public including special effort to marshall favorable public reaction and (d) other significant obstacles confronted either in securing enactment or implementing the program. So I'll try to follow generally those four themes.

On the matter of background, the Premier through Mr. Arsenault has touched this reasonably well.

Background

Briefly, New Brunswick is seventh in size of the Provinces—a little smaller than Maine, a little smaller than North Carolina. It is eighth in population—a little bit smaller than Hawaii, a little bit smaller than North Dakota. Its ethnic origins, and this may make it unique, are slightly different than yours. As Mr. Arsenault has said, approximately 60% of the population is English-speaking, 40% French-speaking. And in that situation is the background which I might dwell on briefly.

Many of you may not be particularly aware of it, yet some of you may have read Longfellow's poem "Evangeline". In 1755, English soldiers came along and rounded up the Canadian population of Nova Scotia and New Brunswick, herded them into churches, locked the doors, and then marched them out to ships to be carted off to Louisiana. To some, as you can imagine and as Longfellow's poem makes it, it was a terribly heart-rendering experience. Some escaped, some wandered back, and I'm not being unfair to suggest that some, perhaps the wealthier of the group, community leaders, tended to drift back to France. Those who were left in New Brunswick were left on the poorest land. They had been kicked out of the good land, the good portions. They were relatively leaderless and very poor. And that is the prime reason for which 40% of the New Brunswick population has had to rebuild to today's level whatever we may find that to be.

Within 20 years of that, within 30 years perhaps I should say, you yourselves had some problems with the British. Those of your population who had decided that they wanted to remain loyal to the British Crown drifted to Nova Scotia, New Brunswick and Ontario. Among these tended to be many of the wealthy, many of the community leaders. Many of those who came were community leaders back home, they had a tradition of education. Within a very few years they founded New Brunswick's first university, and they moved on to the best lands, the richest areas of New Brunswick.

So we find now a 200 year old background for a traditional gap of relative revenue and prosperity—serious poverty along ethnic, language, and religious lines. The result has been that expressed by Governor Milliken's comments—because they could have applied to New Brunswick—there was some very good education in New Brunswick and some terribly bad.

Educational Disparities

This good and bad existed across ethnic lines, but on average the education available to English-speaking New Brunswickers tended to be considerably better than that available to French-speaking New Brunswickers. As a matter of fact, for a long time, a very long time, if the Catholic Church had not been interested in education and taken the responsibility for education in their communities without public aid, there would have been parts of New Brunswick, mostly French-speaking parts, that would have had no education facilities whatsoever. And so there developed an unfortunate issue—dirty, rotten and debase, perhaps—a tendency to assume that the relatively rich, English-speaking areas, relatively good education areas, were being taxed and thereby limited to help the relatively poor, less educated, less advantaged French-speaking areas. As a matter of fact, one newspaper carried a series of editorial cartoons on the issue at every opportunity. They suggested that Equal Opportunity was a process of robbing Peter to pay Pierre.

There is no doubt that, historically, French-speaking education in New Brunswick was more disadvantaged than English-speaking. But let me tell you of a couple of examples in totally English-speaking counties.

In the middle 60's, in one county there were 42 one-room schools, 32 of them had no sanitary facilities whatever, four of those 42 were listed by the superintendent as unfit for human habitation. This is the English-speaking area, not the French-speaking. In another totally English-speaking area, one eight-room school had had four teachers during the school year. Now anyone the least awake can recognize that those kids had no chance to come out of the eighth grade at an equivalent level.

There were communities where a teacher could start work beginning in October. That teacher would last them for two weeks, then the school was closed. They got another local lady to fill in until after Christmas, and at that time she was replaced by a third who lasted about two weeks and then the school was closed again for two weeks up until the time they found someone else to fill in until the end of the year. That was taking place in an English-speaking area, and it is extreme, but it is the kind of background that existed and made it necessary to do away with one-room schools and close and consolidate other schools.

Local Finances and Provincial Aid

Financing, I think Mr. Arsenault suggested, was on a basis primarily of local taxation. I apologize to Mr. O'Sullivan, who I suspect is at least a little bit responsible for this. He was Secretary of the Royal Commission which described all our problems. They recommended many of the steps we ultimately took and he, perhaps, has greater knowledge of the intricacies of all this than any of us.

This Commission identified 1,622–I think–areas of government taxing bodies in the province that were supposed to cover education costs, supplemented to some extent by provincial grants. And they–the grants –it seems to me were utterly backwards. Because while the cities of the Province probably were able financially to afford the education necessary, they received a per capita grant from provincial sources of $24 roughly per person. The rural areas where the need for education was the greatest and the financing perhaps the poorest received per capita grants of about $6 per person. An so it is the case of the rich get richer and the poor get poorer so far as the distribution of provincial assistance to local government is concerned.

Educational Governance-Local Control

Management was with four hundred districts, school districts, the rural districts almost totally elected but very much restricted in their powers by county school finance boards. The city and town districts were appointed, totally appointed, and there were no restrictions, whatever, on their ability to tax or levy on local government for education needs. And this creates, I think, a bit of background for the later arguments because the city and town boards, and remember this, made their education and finance decisions themselves. They simply said to the local government, give us this many millions of dollars for education and there was no power whatsoever by either local officials or elected representatives to say: "no, it's too much; no, we can't afford; no, we don't agree." In some cases there were negotiations and an attempt to persuade–"don't go quite so fast, we can't afford it." But, in fact, the local school boards in cities and towns had an unlimited authority to set their budget and to direct that the money be paid over to them from whatever sources the local government could find.

As a result of the increasing frequency of the kind of problems that Mr. Arsenault suggested–local government near bankruptcy in some cases, tax rates exorbitantly high in others–the Royal Commission on Municipal Finance and Taxation was established.

It's interesting to note, now looking back, that this was not a Commission on Education Finance. Its directions were to study the problems of municipal financing. But, because of the briefs, the major and long-term results were heavily in the field of education finance.

Looking back, some of the briefs were most interesting. The first one I came across was a brief from a town and school board, a combined brief. The most reckless suggestion it made was that the Province accept full responsibility for education. The Province set standards, texts, and curriculum; it controlled teacher training. The brief noted that the Province is supreme in every respect except actual school administration and finance.

And to digress for one minute, I think perhaps you will find here the first major difference between our forms of federal government. I suspect as of now you have a much greater local autonomy in the setting of curriculum than existed in the earlier days, the old days, in New Brunswick.

To return to the brief: most of the municipal area has increased in cost as rapidly as education. It is probably true that none of this is important. It's doubtful if cost maintenances are going to cease. We suggest therefore that the solution is to take the matter out of the hands of local government completely.

Another brief, a joint brief, of the New Brunswick School Trustee Association and the New Brusnwick Teachers Association advocated larger school units, compulsory centralization by legislation.

Educators and local governments were finding that education costs were heavy and increasing so fast that they were the items that they feared and that ultimately resulted in the Program for Equal Opportunity. Now secondly, to go back to my guiding themes; how the Liberal Party confronted the issue of local control. I don't know how one can simplify or control that particular issue, it was touchy, it still is a touchy issue.

Myth and Reality

I remember a full-page story in one of the daily newspapers which listed 42 dictatorial powers of the Ministry of Education in the legislation and regulations. I mentioned this to illustrate first of all the problems of information or propaganda or propagation of information. When looking at whatever the Liberal Party or the then government stood for and how they confronted it, 42 dictatorial powers of the Ministry of Education in his new program is a terrible thing.

The Department of Education, and I was not Minister at that time, went through the old Schools Act regulations and found that most of the 42 powers in the existing regulations and some more were in that act. In the previous one there were 51 dictatorial powers of the Minister of Education. But the story was there in headlines. No matter of contradiction or correction ever catches up with the original story. And so the later Minister of Education just stepped into the shoes of the previous dictator. There was really no change in powers except in the matter of finance and this was only a big exception in those cities and towns where school boards had almost unlimited powers.

But, in fact, what happened was that the Province took over the full cost of financing education. And with it fell some responsibility to look and see how that money was being spent or to put some curbs on it. Examples: One school board came in with their first budget, they wanted to pave every schoolyard in their district although some of them had been in existence for 30 to 50 years and when the local people were responsible for finance it was good enough. But when Big Daddy government, who ever that is, was going to pay the freight, they all had to be paved this year. This perhaps is the background to a statement which Mr. Arsenault has read to you and which, I suggest, has perhaps become part of the mythology.

Distrust of Political Solutions

The Royal Commission stated that its recommendations should be a package deal and that any degradation of or reduction in the program could bankrupt the Province. If I do not overstate it, the chairman of the Royal Commission had very little faith in politicians. He felt that no politician could possibly say "no" to any demand of the voter particularly at election time. And, as I said before, politicians get extra pressures at election time. He said, in effect, if you do not establish the Commissions on Education, on Welfare, on Justice, on Health to administer this program, politicans are going to get under such pressures, and they are going to say yes so often that it is going to bankrupt the Province. What he was saying is that if you put this in the hands of politicians you are in trouble.

Well, we are in trouble, but I suggest it wasn't totally the fault of the politicians. It is a lot of factors–geographic, ethnic, financial and the problems you have and we have. And now, again Governor Milliken's statement, I think maybe you have this information but, he, speaking of local control, suggests that local communities and school districts retain control over important matters of educational conern such as curriculum and personnel. The difficult problem of raising educational revenue should be removed from local districts so they can concentrate on educational quality. And our feeling has been very much that instead of being less free now they are much more free of the kind educational control or financial control. Free within the budget, of course, and I don't minimize the fact that the budget controls many things. But, within the budget they are free to concentrate on educational control.

Fiscal Flexibility

There were background fights. The question of who is going to control school superintendents, the chief educational officer of the district. I can tell you that internally during the committee discussions of the preparation of the legislative package, there was a really keen debate. The Department of Education said the Superintendents must be employees of the Department of Education. The School Boards said they must be employees of the local School Boards. The ultimate compromise was that we have 7 regions within the Province where there are Regional Superintendents and 21 District Superintendents. The District Superintendents are the employees of the local school board while the Regional are the Department's representatives in the area.

Within the budget limitations, the local school board hires and fires teachers, chooses the skills they may want. For example, we want 15 history teachers, 3 physical education, 18 English and so on. Or, they may decide they want to go heavily on physical education, art, music, English, history, any particular discipline, they choose the skills. They allocate the teachers and pupils within the area, manage the buses, the janitors, the mechanics of running the school system, the maintenance. They hire and fire teachers.

I will not say that much about curriculum at this moment other than to indicate that previously the curriculum was the responsibility of the Department of Education. We have not moved far away from that position.

The Province sets the budget, and of course, that counts. Through a series of budget conferences the school board prepares the budget, comes to the Department of Education and says this is what we need. Budget conferences arrive at, not always happily, but arrive at a figure which is then presented to the Provincial Treasury Board and ultimately to the Legislature.

The local school board does come back from time to time with what we, in provincial terms, would call a demand for special warrant. That is, we (the local school board) may find now that September is here that we cannot get by with the number of teachers allocated. Here are our figures, more than we expected or more than you (the Department) expected. We need five more teachers.

This specific bidding has happened and the Department of Education in the Provincial Government said, "All right. Faced with the facts, the budget that was there last spring but you can't live with now, you have five extra teachers." Or more buses or whatever it may be.

Let the Province set the number of teachers within the district, not their qualifications. The negotiations, the salary negotiations which Mr. Arsenault spoke of and which are carried on basically by the Province, sets salary levels for various qualifications. But at this point at least, there has been no limitation on the qualifications that local school boards can hire. So that they say to you in your district that you are entitled to 500 teachers. If the district can get them, it can hire 500 Ph.D's. But if a school district now hires a teacher unqualified to teach pays them practically nothing, it is not, as was the case before, because of financial restrictions. Nobody is doing it now.

Bulk Budgeting

I suggest that we are coming to a greater degree of local autonomy, to a point where there will be less of the kind of fear that has been expressed and I'm sure is being expressed by anyone who is discussing State financing in your country.

Remember that this all started on January 1, 1967 in New Brunswick. It was totally new, untried. Preconceived notions existed on all sides of the issue.

Last year, for example, plans were formulated whereby two school districts were given the opportunity to do what we call bulk budgeting. In other words the Department would say, "Here is your budget—there is no restriction. We won't say so much for library and so much for buses, and so much for physical education. We give you the whole lump sum and you spend it as you want to spend it—all on the library and you can't get by with the others, that is your problem." Bulk budgeting didn't come about because the two districts said they were not ready to take on that responsibility yet.

I'm happy to note that the government this year has said that this bulk budgeting is going to be their policy. Mr. Arsenault will have to say when, but it is one more step in the last 3 or 4 years.

I note Mr. Arsenault comments about greater autonomy in school construction. The Minister of Education when he spoke last month indicated that you need programs that the previous government had taken on, or started. He indicated new areas for future possible expansion of local autonomy. But all of these things are a matter of feeling. One minister has said that of the 14 districts they asked, only two wanted more economy in the matter of school building maintenance. The others were happy with provincial control of the maintenance of the school buildings.

The new government expressed itself firmly in favor of greater local autonomy. I suspect that was one one of the issues which they were successful in presenting to the electorate last fall. And they will achieve greater autonomy. But it is not going to be all a one-sided issue of local autonomy. They will be feeling their way, rather than suddenly saying we are going to do it this way.

Selling Equal Opportunity

The presentation to the public was an interesting matter. As you perhaps suspected, the debates were loud and lively and long; and the newspapers reported them widely. The presentation of the program to the public by the government had a number of aspects—the traditional aspects; a lot of direct mail advertising of literature about Equal Opportunity; what it is intended to do in health, education, welfare, and justice, and so on; much radio and television programming and explanation and a fair amount of newspaper advertising as well.

I do not know whether it got across as it was intended. In one weekend I went home and picked up the mail at the Post Office and found a letter addressed to the Commanding Officer, Equal Opportunity, Sackville, N. B., that is all. It landed in my mail box, maybe because I was one of the loudest advocates but certainly also because part of the program involved Cabinet Ministers doing speaking tours throughout the Province.

The committee that worked on the legislative program consisted of the Ministers of Education, Health, Welfare, Justice and Municipal Affairs, because local government was involved. Those five started in about June of 1965 to prepare a legislative package. If I can sort out the demise of the number, by the winter of 1966 the Minister of Health had taken seriously ill and was not able to participate and, like the little Indians, then there were four. In April, 1966, the Cabinet shuffle and the resignation removed the former Minister of Education and I, who had been Minister of Justice, and by this time had taken over as acting Minister of Health, became Minister of Education. And a new Minister of Justice came in so that while there were still four, one was a new boy on the scene and really couldn't be expected to carry the load of explaining or discussing the program. A further Cabinet shuffle removed the Minister of Welfare and a new man came in. We wound up, ultimately, with basically two members of the original Committee who went on barnstorming tours around the Province, speaking and answering questions.

The publicity I suggest or feel, had a two-fold impact. It educated the public, perhaps. But, it certainly educated those of us who took part because the question period was most enlightening.

The education of the public is more difficult. While I was still Attorney General, I spoke in the principal city of the Province and I spoke among other things, about the responsibility of the county for justice, for jails, and so on. I spoke of one man who was then awaiting appeal from sentence of death for murder, and I spoke of him in rather harsh terms. The newspaper quoted my speech the next day and carried a headline and a picture, which I thought, and some of my constituents thought, was most like me. Here it is for those of you who can see it, pictures of it, the eyebrows are unmistakable, the headline says: "One of the most vicious killers that we have seen in recent years." This indicates the problem of getting a clear story across. I am not sure I agreed with the apparent editorial comment on the headline. But it was, I hope to the public, certainly to the government, an enlightening experience.

It had its humorous sidelights. The then Minister of Municipal Affairs and I did a lot of speaking in this first six or eight months of 1966. We sat in Cabinet one morning and I turned to him, a French-speaking Catholic, and said: "Where were you last night?" And he chuckled and said: "I had some supper and spoke at the Masonic Temple in St. Stephen. Where were you?" And by this time I was laughing because I, a Mason, and an elder of one of the Protestant churches in the Province said, "Well, I spoke to the Knights of Columbus of Saint John."

In the Legislature

To some extent, the debates were derisive in their character as I indicated by the cartoons. But to another extent I think they were perhaps a uniting factor because certainly government members saw a lot of problems we would not have otherwise seen. It was part of the program of trying to get the message across to the people.

There were other parts affiliated with getting a message across to the people. A Law Amendments Committee was established where people came and explained to a committee of the legislature why they thought the bills should be amended. Some of the briefs were very good, as a matter of fact, as Chairman of the Committee on one bill with 62 sections, we brought in 61 amendments. Other briefs were not so hot. I can think of one set of three briefs prepared by three lawyers who obviously got pretty well paid for their services. Honestly, if I were a high school teacher, I would have turned them down as a legitimate essay at the high school level. But it was all part of the process of the public getting a message to government and vice versa.

At the same time, we appointed an Ombudsman as someone to sit between government and the citizens to hear citizens complaints. About the same time or within the same general time frame we got the first auditor general of the Province. As anyone knows, an Auditor General tends to find fault with the expenditure of public money. And sometimes the government gets caught in between. I was asked in the interest of education to make a particular payment to parents in respect to the education—special education—of a handicapped child. I dug in my heels and said: No, I won't, No, I can't, No, I shouldn't, No, No, No. Ultimately, the Ombudsman came to me and said, "Look, you should do this, it's the humane thing to do, it's the right thing for government to do. I think you should do it." I said no in decreasing levels of vehemence until eventually I said yes. And in the next Auditor General's report, I caught hell for making a payment that I wasn't entitled to make.

But again, the creation of these various offices was an attempt to give good government; to let the public see and give the public access to means of influencing and having explanations from government.

There were concessions made. For example, as I remember, the Commission report—it's not an easy document to read, in spite of the high education levels of the authors—suggested that for provincial sources the tax rate on real property be a $1.50 per hundred of assessment, for local purposes it should be .75¢. I didn't agree with it, but the Premier felt is necessary and did stay with $1.50. The .75¢ made to the local government for its own purpose—police, fire protection, and so on—was changed. Local officials are elected the same as we are elected and if they want to tax higher, the .75¢ limit will not apply.

I ushered through 61 amendments to a 62 section bill. There were a lot of amendments generated through this committee and other resources.

Implemenation rather than Execution

Now the difficulties of carrying out, implementing, and going on. I trust that the difficulties aren't as complete as I heard the Chairman to say. If I remember in my notes he talked about the development and "execution" of State financing of education in New Brunswick. Now, Mr. Arsenault and Mr. O'Sullivan, I recognize a change of government last fall, and I recognize that this new government has a right to a different point of view and to a different approach. But, I trust you will not take that literally and proceed to the "execution" of the state financing of education in New Brunswick.

Part of the problem is money, plain money. Mr. Arsenault in his remarks spoke of the difficulties of the four Provinces financing a major reformation. Part of the problem of implementation is the general public's fear of too much change too fast. It's commonly said that the previous government moved too fast. And the question is: "are we moving too fast?" There is even the problem of public resistance to teacher salary increases, which have been carried out through our third period of salary negotiation with the teachers of the Province. And there are those in the Province who think that the teacher's pay is too high, too much. Now this creates problems between the educator on one hand, and the taxpayer on the other.

The problem is a problem of backlog. I don't have to remind you—I suspect we all have the same problems—that in the depression schools couldn't be built. In the war years, schools weren't built. And, in the period of the late 40's, the late government of New Brunswick embarked on a program of school consolidation in an effort to improve education. It ran into the resistance to give up our local school in favor of a central school. There was very little done in the 50's, but the then government created a Commission to study the subject in 1956. What we called the McKenzie report came in identifying the same kind of problems that the Byrne report identified.

There has been the problem of the superintendents. A district superintendent, for example, is resentful of someone taking him from the ranks and putting him into a position of regional superintendent at very little better salary. There has been the problem of the general public being afraid. Are we losing our school in our district? And this creates fears. In two communities just five miles apart, we decided that the high school should go in the larger of the two communities. The citizens of the other village said, "absolutely no!" There were meetings, a lot of explanations. When the time came and the school buses loaded up the children to go five miles away the citizens turned out, about four hundred strong. A number of women laid down across the bus route to make sure their children weren't going to be taken away from them. They cried various things—don't touch me, police brutality. One seven year-old girl, hearing the older married women shouting their complaints, was laying there saying: "Don't touch me, don't touch me, I'm pregnant." This sort of problem is not unique to New Brunswick, I'm sure.

And there is a question of politics. Sometimes one suspects politics by local school boards—that politics may have crept into education. I recall a district where, and I discussed it with the school board later, on two occasions at meetings between the school board officials and Department of Education officials our problems seemed to be ironed out. Yet, the next day we find a release from the district to the newspaper which said just the opposite to what we thought had been said at the meeting. On the other hand, that same district—the district which I thought was playing politics—has been equally adamant and demanding of the new government.

Program rather than Politics

So, the point I want to make here is the tendency to see things in political party terms, which perhaps, more honestly, and legitimately should have been seen in terms of pressure, the legal pressure by a local group, and the resistance, perhaps the legal resistance by the Department of Education. It was the labeling but not party politics. It was the politics of getting a job done.

On occasion a lack of coordination among departments has been a problem, and specifically I move to the matter of school construction. We moved to a major school construction program over the last three or four years, and as Mr. Arsenault has suggested, the transition has produced some rather nasty construction problems. It doesn't help to say that every major construction probably has some bugs that have to be ironed out, there were just too many bugs. I can't libel anyone. Local school boards, architect, Department of Education, Department of Public Works, no one responsible for the construction program, I think, had entirely clean hands. When various problems came up you could see where each one could have reacted a little bit differently, they could have avoided it. But a large part of the problem, as indicated by our Minister of Public Works this spring, was a lack of communication between departments. And, I hope that that is being ironed out, and I say no more.

The cost of education of course is a problem, it is a problem for everyone. There is a problem of determination, it is not easy for legislators to impose the tax burden of education that's been demanded. As Mr. Byrne and his Commission indicated there is a real problem of political courage. How determined are you? Or how determined is the legislature, the government, to carry out an effective education improvement program? Does the government have the determination to carry it out, including taking the tough positions that are necessary. All right, you may resolve one problem, but the government may not escape the problem when election time comes around.

I spoke of two communities where there was a fight over where the high school should be. The parents didn't want their children to be bused. Some of the very same people, the people who I met most frequently and who resisted most strenuously have since said: "Our actions were the most foolish thing we could have done. The best thing that could have happened to our children was to get the better education that is available through school consolidation, better teachers and better facilities."

Teacher supply in New Brunswick terms is perhaps adequate. I don't think we can take credit totally through the government. But, we have a good supply of teachers, now, and it is getting better and of better quality.

Bus systems are working smoothly. Generally, things have been working to greater understanding between the local school boards and government. There are going to be problems.

Summing Up

Let me finish with another famous quote from Meldrum. There was a dispute between superintendents in the Department of Education which raised some nasty headlines. I happened to be out of the Province at the time, I got an urgent phone call from the Premier's office, "Get back here, all hell has broken loose." So I grabbed the first plane, left my wife in Quebec City to drive back to New Brunswick as best she could, arrived, discussed, and gave a statement to the press. The next afternoon the headline, a double front-page headline appeared–No School Problems Said Meldrum. Now is that ever a stupid statement, certainly in the minds of educators, for the Minister of Education to make. And so I wracked my brain–what had I said that they could possibly take as the basis for that headline. So I looked at the text of what I had said, and it carried these words: "There are no school problems that can't be worked out."

Chairman: Thank you very much Mr. Meldrum.

Our next speaker will be Mr. Malmberg. Mr. Malmberg has served both as an educator and administrator. He taught high school and was a high school principal. From 1962 to 1969, Mr. Malmberg was the Director of the Curriculum and Research Branch of the New Brunswick Deparrtment of Education. He is currently a Professor at the University of New Brunswick. It is my pleasure to present Mr. Malmberg.

P. J. H. Malmberg

Mr. Chairman, fellow panelists, ladies and gentlemen. Unlike our previous two speakers, I have no affiliation with politics. Honestly speaking I am delighted to be here.

I am very pleased to have the opportunity to discuss with you a few impressions about the impact the Equal Opportunity Program has had on some aspects of education in New Brunswick, particularly curriculum and instruction, the so called "interna" of education. During the period 1962-1969 I was Director of Curriculum and Research in the provincial Department of Education. Some of my remarks will be based on experience; some, on observation.

As you are aware the British North America Act made the Canadian Provinces responsible for education. While the provinces delegated considerable responsibility for the financing and administration of education–the so called 'externa'–to local school districts, they have steadfastly maintained control of the "interna"–curriculum. Only recently have there been signs of loosening up in some Provinces of Canada. In New Brunswick the Schools Act of 1966 made the Minister of Education directly responsible for curriculum. One of the 42 dictatorial powers he had. Prior to that any changes in curriculum had to be approved by the Cabinet. The reason for the change was apparently to speed up the process relatively of curriculum implementation by removing one level of decisionmaking.

The Minister of Education is advised in curriculum matters by the Provincial Curriculum Committee. The Committee, established in 1937, is representative of the various educational groups in the Province and also various lay organizations. There were 35 members residing. Legally, an Advisory Board, functionally, it is a policy making body. All proposals for curriculum change in all schools in the Province must be presented and seek the approval of the Committee before the recommendations go to the Minister of Education, only rarely are the recommendations of the Curriculum Committee turned back by the Government. One of the groups represented on the Committee is the New Brunswick Trustees Association. This is the only official avenue local school trustees have to exert influence in curriculum or structure.

While there has been considerable curriculum change and instructional reorganization in New Brunswick over the past seven or eight years or so, little of it, in my opinion, can be attributed directly to Equal Opportunity. It is true that the Government which launched Equal Opportunity gave high fiscal priority to all phases of education, including curriculum; and this made instructional change possible. However, the major influences for curriculum change were similar to those in the rest of North America: (1) Sputnik; (2) knowledge explosion; (3) greater concern for organizational flexibility in the schools.

In my view, provincial control of curriculum in New Brunswick has been unfortunate as it has in other Provinces in Canada. I think it has stifled diversity in education which is so essential to growth.

The advent of Equal Opportunity in 1967 saw the resources of the entire Province placed behind education and other services to people. At the same time the Government had the opportunity to begin the transfer of curriculum from the provincial to the local level. It did not do so. It had taken over the complete responsibility in regard to the "externa" of education and it would have been an appropriate time to begin to transfer the responsibility for the "interna" to the local area so that we had centralization for efficiency and equality supposedly and we'd have decentralization for diversity. That didn't happen.

Stifling Innovation

School districts which acted as innovators in curriculum prior to 1967 now are not able to do so. These districts usually spent a greater per pupil amount of instructional development than other districts. Instructional funds are now distributed by the Province on the same per pupil basis to all school districts and they, plus economies, are minimal. The result is that in the "lighthouse" districts there has been curriculum stagnation. The effects of Equal Opportunity on curriculum have been more a "leveling down" than an "evening up". There are indications that the present Government is concerned about the amount of control in education exercised by the Province and the relative lack of involvement by local school districts. This concern might eventually extend to curriculum.

Thus far I have been speaking about Equal Opportunity and curriculum. I would like to record a few impressions about Equal Opportunity in relation to other aspects of education in the hope they might give you some feel for what has happened.

Fiscal Control

It is no secret that when school boards lost their fiscal independence in 1967 they felt they had lost their manhood, for this independence to most school boards represented local control of education. It is not wholly correct to say in the draft report that school boards have retained control of "significant" decision making functions. I don't think many school boards feel this way. The most significant one they lost, that is control of raising money and determining how to spend it in education. It is my impression that it has been more difficult to get good people to serve on school boards since the advent of Equal Opportunity and that school boards have not taken their duties as seriously as they did previously. To retain local interest in schools it is essential to have a large measure of local control. This is a challenge New Brunswick now faces.

Fiscal Accountability

It is my impression that during the early years of Equal Opportunity once school funds were allocated to school boards little attempt was made by the Province to ensure accountability for expenditures. There was quite a time lapse between the time the school boards got the money and spent it. The result was, in some districts, various degrees of over expenditure with the Province having to pick up the tab. In more recent years the Province has instituted accounting supervision over expenditures by local boards, and there have been threats that the Government would not assume responsibility for over expenditure on budgets but require it to be placed before the public as a supplementary item. It also, I think, considered that if the school board overspent a budget in one year the deficit would have to be taken from the next year's budget. This had never actually happened, but it had been talked about. To my knowledge this has not yet happened.

Regional Organization

As Mr. Meldrum pointed out, the regional people—the intermediate tier between the Provincial Government and the local school districts superintendents—are civil servants employed by the Province. By and large—I'm speaking for myself here, I don't represent anybody—the regional set-up, intermediate between the Government and local school districts, has not worked well in New Brunswick. It was conceived by the planners of Equal Opportunity as a service unit. Specialist services which schools required; e.g. guidance, special education, libraries and so on, but which would be too expensive on a school district basis could be provided on a regional basis. The regional concept had, and I believe still has a real potential to exercise a professional leadership and consultative function. It could be a half-way house on the road to decentralization. With a few exceptions the original concept has not been realized for two principal reasons: (1) The idea originated outside the Department of Education and the Department has had difficulty in incorporating it into its methods of operation; (2) Many of the personnel in regional officers were previously field administrators and supervisors for the Education Department. Thus most were accustomed to acting either as administrators or inspectors not as educational leaders. It has been difficult for these people to exercise the dynamic leadership needed to make the regional system a useful one.

I hope, Mr. Chairman, that my few comments will give you some idea of a few of the operational problems involved in the Equal Opportunity Program.

Chairman: Thank you very much Mr. Malmberg.

THE DELAWARE EXPERIENCE

Chairman: We are extremely honored and pleased to have as our luncheon guest—for our Canadian visitors we will refer to him as one of our Provincial Governors—Governor Peterson of Delaware. Governor Peterson comes to his awesome responsibilities from a very broad background of interest. He is a scientist, a research chemist with a Ph.D from the University of Wisconsin, Senator Knowles' home state, which again proves that the western beginnings are maybe humble, but important. He has been deeply involved in civic affairs in the State of Delaware, serving on a variety of State commissions for three previous governors. He was Regional Vice President of the National Municipal League, former Director of the Community Services League for Delaware, a member of the Citizens' Crime Commission. We, of course, know Mr. Peterson as Governor of the State of Delaware in which capacity he has served since January of 1969.

He was telling me at lunch time, parenthetically, of some of their current activities in revising the Constitution of his state, a process which is now in the works. The Governor is the chairman on the Committee of Law Enforcement, Justice, and Public Safety for the National Governors' Conference. He also serves this year, in the capacity in which we are so pleased to have him with us, as Chairman of the Education Commission of the States. It is my very great pleasure to present to you the Honorable Russell Peterson.

Honorable Russell W. Peterson

Thank you Chairman Merriam, Distinguished guests from New Brunswick, leaders in education of government, ladies and gentlemen, I am pleased, indeed, to be here today to make a few comments about financing education at the State level. No need to tell any of you about the great importance of education to all of us, and the tremendous potential it has for solving many of the problems that continue to plague us, and the tremendous demand upon our finances that education brings to bear.

I have become more and more excited, about the concept of looking at the whole community as a place where each human being is endeavoring to find a career or to participate in a career which is satisfying and rewarding to him or to her. When one does that, one begins to think of solutions to the crime problem, the welfare problem, and many, many others. And as you well know, each and everyone of us needs to have a career. At every stage in life, a career is important. And as the years go by, it appears that human beings need more careers in a lifetime.

Today, it is said that the average person requires three careers in a lifetime. Some predict that by the year 2,000 it will probably be up to four or five careers in a lifetime, because of the rate of change and the tremendous communication facility that we have.

Centralized Financing

I come before this group of experts in school and governmental finance with some trepidation. Not only are most of you very knowledgeable in education and government costs, but you have already spent about half a day getting into the details of centralized financing of elementary and secondary education.

In addition, you have had the benefit of hearing our guests and experts from New Brunswick tell you not only that centralized school finance can be done but also *how* it has worked for nearly four years.

In comparison with that kind of expertise, my best defense is to look at the subject from a different point of view. That is why I have titled this talk "Centralized Financing of Public Elementary and Secondary Schools As Seen From The Governor's Office."

In discussing Centralized Financing of Schools, sometimes referred to as Full State Funding of Schools, I plan to look at this challenging concept from these points of view:

–First some definitions–What is meant by centralized financing of public schools?

–Next, some advantages of centralized school financing.

–Then we will examine who pays for what with a centralized school financing scheme.

–Next, some deficiencies with centralized financing of schools–a case study.

–And finally, there *are* some problems with centralized financing of schools.

Even with my limited training in formal debating, I did learn one fundamental–you start by defining your terms. Let's define what we mean by Centralized Financing of Education.

Definition

First, it is meant to cover only elementary and secondary education, not community colleges, or four year higher education institutions, or day care or early childhood education below kindergarten.

Next, in its pure form, centralized funding of public schools allows for no local supplemental funding. Practically, a centralized financing arrangement would try to limit local funding to a small percentage of the total costs. This means, in effect, a uniform, statewide teachers salary schedule, and, in time, uniform funding for educational supplies and operating costs for the schools. It also means a uniform school construction cost formula for new facilities and equipment.

There would be differences, but only among varying types of students, not between school districts. For example, there would be higher per pupil expenditures for senior high students versus elementary pupils, a higher level of support for equipment and supplies for vocational education, and the like.

Notice, however, that centralized school financing *does not* assure equal educational results. For instance, adequate education of socially or racially disadvantaged young people almost certainly will take *more* resources per child than the average.

Advantages

Now that we have defined centralized financing of public schools, let's look at some of its attractions. First, centralized financing would radically reduce the wide discrepancies in resources available for each child's education across the state. That is, for all children in the same category–say regular elementary students–there could be no more than a small variation in the cost of education per child between school districts. Thus, centralized school financing would end the wide differences in resources allocated to individual children's education because of the accidents of local tax geography. The goal is equalization of educational opportunity.

This is as I understand it how the Commission on Intergovernmental Relation's John Shannon describes that utopia and I quote: "Once liberated from the necessity of selling local bond issues and tax rate increases, school boards and superintendents would be in a better position to concentrate their efforts on the true interest of local control–namely the nature and quality of education that is provided for the children of their locality."

I agree that centralized school financing *sounds* nice. What a wonderful thing! Local boards could concentrate on the education of children. It sounds too good to be true.

Fiscal Realities

Unfortunately there *are* some problems with centralized financing of public schools. It turns out that Conant's original proposal for centralized financing of public schools by the State–with the Federal government picking up welfare costs in return–is not quite so simple.

For instance, North Carolina, where in fiscal 1969 the state picked up 80 percent of the public school costs, would have needed about $105 million of additional revenue to achieve 100 percent state school financing *even if the Federal government had picked up all the state and local welfare cost in that year.*

In Pennsylvania, where the state picked up almost exactly half the elementary and secondary education cost, it would have taken over $700 million in new tax funds to shift financing of schools 100 percent to the state, even after the $271 million in welfare costs were fully assumed by the United States Government.

In New York and California, it would have taken $1.1 to $1.4 billion in additional revenue to have the state take over all public school costs after getting Uncle Sam to take over all of welfare payments.

Only in Hawaii, which as you know inherited a centralized system of educational finance from its territorial days, would Federal assumption of welfare costs more than offset local revenues for education.

It *will* take courage to move to centralized financing of public schools, *even if* the Federal government picks up all the state–local welfare tab. As an example, we have estimated what it would take in new tax revenue for eight states to assume full responsibility for financing of elementary and secondary education, assuming Federal welfare takeover. The states run the gamut from North Carolina, with 80 percent of public school costs borne by the state, to New Hampshire, where the state assumes only 9 percent of elementary-secondary educational expense.

In these cases, the state would have to increase personal income tax rates by about 1 to 4.5 percentage points (not percent, but percentage points). *Or*, the general sales tax rate would have to be increased from about 1 to 5 percentage points, or some combination of the two. *Any* Governor can tell you that trying to increase broadbased tax rates by those amounts takes *COURAGE*–spelled with capital letters.

My good friend, Governor William Milliken of Michigan has that kind of courage, necessary to make a major change in school financing. After trying unsuccessfully for almost two years, he is again proposing massive tax reform and higher state taxes to allow Michigan to assume a higher portion of public school costs.

The Delaware Experience

And so we see there *are* some practical difficulties in achieving centralized financing of schools. Let me use my own state as an example. Many years ago, Delaware took a great leap forward and started a massive State foundation program for Education. Twenty-five years ago, 92 percent of elementary and secondary school funding came from the state. Today it has fallen to about 71 percent state with 22 percent local and about 7 percent Federal financing.

In only the last ten years, the percentage of aid supplied by the state has slipped from 88 percent to 71 percent, with the Federal protion increasing from 1.5 percent to 7 percent and the local share increasing from 10 percent to 22 percent of the total. Now this is in spite of massive increases in the absolute level of state expenditures for elementary and secondary schools. All of education in Delaware is getting about 56 percent of total state revenues.

Even with major increases per year in support per child in Delaware, during the past two years the percentage share of total public school costs borne by the state has only increased slightly–from 54% to 56% of our total budget.

You will note that up to this point I have not mentioned the other part of the title of your conference–decentralized administration of elementary and secondary education. Let's now deal with some aspects of control with centralized school financing.

Local Control of Education

It has been my observation that even well-to-do suburban school districts do not usually communicate very well with their patrons, in spite of newsletters, annual reports and open meetings. Many citizens are like the famous farmer's mule–they have to be hit over the head with the 2-by-4 if a bigger tax bite is going to get their attention.

Schools and the whole educational establishment are already accused–and in some cases justly–of not being responsive. If they don't have to raise local tax money, the one *real* opportunity for communication disappears.

A wise school man has observed: "The give and take within the school district, informing, enlightening and *selling* the needs of education to the electorate have been a healthy and productive long-term effort for everyone concerned. A headache? Yes. A great deal of work? Yes. Frustrating? Yes. Occasionally detrimental to the short-term education of some children? Yes. Beneficial to the long-term best interests of public education? *Absolutely!*"

There isn't time to cover in detail some of the other problems I see with centralized financing of schools, but let me enumerate some important ones.

First, how are we going to insure *real* citizen participation and involvement at the local level if most of the key decisions are made in the statehouse. As an example, with centralized financing, the teachers' salary schedule will be finally negotiated in the Governor's office.

If collective bargaining negotiations on salaries and benefits are transferred to the state level, work stoppages will not be confined to one or several districts. Education in a whole state could shut down.

Educational Improvements

What makes us think that 100 percent state funding of schools will improve education? The only education systems in the continental U. S. directly under the legislatures are state departments of education. And history has demonstrated how *poorly* Departments of Public Instruction are treated by the legislature versus a local school district whose board is concentrating exclusively on education.

Mayors, city councils and county commissioners have been envious for years of the fiscal and operational independence of school districts. Are local school districts short-sighted in seeking essentially complete fiscal dependence on one or two distant political groups? Remember, there are only a very few effective workers for statewide education referenda.

Although theoretically not necessary, from a practical viewpoint centralized school financing is bound to lead to rigid allocation formulas and bureaucratic red tape which hamstrings local innovation.

Lights on or Lights out?

On a different note, organizations generally improve by following nearby leaders, like lighthouse school districts. If we meet the objective of equal opportunity by parceling out equal resources, how can any district be far enough ahead to be much of a leader?

We need a high level of education for *all,* but, on top of this, we need the opportunity for local districts to innovate and show the way. Monolithic state leadership could lead to egalitarian mediocrity. You all know, from your experience in any organization, that most of the truly creative ideas start somewhere out in the hustings, not at the state level of control.

Now in Delaware the State pays a high percentage—that is, over 70 percent of the cost of education—as a means of equalizing educational opportunity. We also have two additional programs to insure that students with special needs get something extra from the State. First of all, there is a major effort to give more funds for the education of exceptional children, children with learning disabilities, those who are socially and emotionally maladjusted and those with hearing problems, sight problems, physical handicaps and so on. And we have built it up to a point where it is equivalent, if done on a national scale, to a $2 billion a year effort. The other approach is by equalization. We have a State fund which is distributed among the school districts and in inverse proportion to their assessed valuation, to counter-balance their problem in raising local funds.

Let's summarize.

We have defined what centralized funding of public schools means and what it does not mean.

We have pointed up the advantages of being relieved of the necessity to raise local tax or bond funds—providing more time for the education of children.

We have examined in some depth the fiscal implications of centralized financing of elementary and secondary education, including the necessary significant increases in both state and total state-Federal taxes which are required if the local tax burden for schools is shifted to the state level.

The history of a state that almost had centralized financing of public schools 25 years ago was traced to the present, where local financing has increased markedly as local school districts exercised their prerogative to raise local funds to augment what the State was willing to make available. Would you think about that for a minute. The way this goes depends upon the relative nature of several things. Back during the period, in Delaware, when local school districts were moving to provide more funds, they had relatively low property taxes, in the school districts. Remember the State had taken over all the educational costs or essentially all of it. So for them to sell their own local area on spending more local funds was relatively easy. But as their taxes built up the public resisted increases. And now it is becoming easier to get results out of the state legislature and the Governor's office.

And finally we have examined some practical and philosophical hangups with centralized financing which indicate that local tax effort may not be such a bad thing in practice.

Conclusion

In conclusion, I submit that our goal as citizens with a vital interest in education should be *FULLER* state and Federal funding for public elementary and secondary education.

I recommend that we set as a goal approximately 75 percent to 85 percent centralized financing of public schools with State and Federal funds. The Federal funds I believe should be in block grants. Approximately 15 to 25 percent of financing should remain with local school districts to insure that interest which always stems from significant participation in the expense of our most important state function–Education.

Obviously, it is important that we obtain the right financing. And to have these several forces at work, State government and local government, each weighing the opportunities and needs, each judging the resistance of the taxpayer to providing additional funds, I am convinced this will put us in a much better position than if we went 100 percent with State funds or 100 percent with local funds. And certainly, if our little State is an example, there is no doubt about it, the quality of education in Delaware is markedly better because of the innovations started by local school districts. And one school district does something which is good, the neighboring school districts want to follow, even when they have to raise their own money, they do it.

We must, as we talk about this, certainly mention accountability. We talk a lot about financing, pouring more money into education, and the great need for more education, but rarely do we talk about results. And I would like to tell you, as I told the educators in Delaware who meet with the Governor once a year, that results are important. The last time all the members of the school boards, three school officers, the State Board of Education, met with us to present to me and the legislators their plans for the coming year–in other words, how many dollars they want–I told them I had never seen them tell anybody what results they were going to get from it. I challenged them and asked them to come back next year when they ask for money and tell us what they are going to buy with that money, what results are they going to get. It is inexcusable in my opinion for all of us–educators and governmental leaders–to continue to allow this to exist. There is no reason why we cannot measure more effectively than we have been doing. That is why I am such a strong supporter of the young program now being carried out under the sponsorship of the Federal Government–carried out by Education Commission of the States–the National Assessment Program. As a beginner, we need to get hard headed at home on this issue.

Chairman: Thank you very much, Governor Peterson, for those very challenging and thought-provoking remarks which set the stage for the discussion this afternoon when we will have representatives for Governors of two States, who like you, are wrestling with the educational finance problems.

MICHIGAN EDUCATION REFORM

Chairman: Governor Peterson set for us a very challenging agenda for this afternoon.

At this time we want to hear from representatives of two other Governors who like officials at the State and local level, nationwide, wrestle with these perplexing financing problems.

First, we are going to ask Mr. James Phelps, Administrative Assistant to Governor William Milliken of Michigan, to discuss with us their current thinking and progress in the area of equal opportunity education in the State of Michigan.

Mr. Phelps has experience on both sides of the educational podium. For eight years he was a teacher in community schools, and for two years an instructor in college. He is a Ph.D. in educational administration. His doctoral dissertation was on the subject of collective bargaining in education, so he may have comments, parenthetically, on that subject. He served as executive director of the School Superintendents Association in Ohio, was Assistant Director of the Governor's Commission on Educational Reform in Michigan, the author of two books on this topic.

It is with real pleasure that we welcome Dr. James Phelps.

James Phelps

I find it very difficult to add to the discussion of this morning and the luncheon.

We have had both sides of the issues discussed-pro and con. After reading the material, I have this feeling–I don't know what they call it in psychological terms–I have experienced this before. I have been to this place, I get the notion. I feel that what I have read and heard today I have gone over so many times.

The issues of control and the needs have been discussed so many times. I am going to try to keep my remarks very short, respond to some of the discussion of this morning and the luncheon, to try to put it in focus of what we have in mind in Michigan, and allow a great deal of time for discussion and questions.

The first point I would make is that there is a great deal of similarity between each experience although, of course, there are unique differences. I think that there is a lot to gain by looking at the common circumstances. The second thing, the impetus for most of these State-funded proposals, are a disorganization within the state's school system.

Crisis Characteristics

In Michigan, we have a large number of teacher strikes every year. Many schools are going on half day sessions because of lack of funds. Close to one hundred school districts—one sixth of the total number of school districts in Michigan—are deficit spending. Programs have been reduced substantially in a large number of districts. This year 5,000 teachers out of a labor force of 100,000 have been "pink slipped." They have been told that funds are not available for the fall. Many will not be given employment, unless the Governor's proposal goes through or there is a substantial increase in state revenue.

Increasingly, there is more militancy with the districts saying that they will not assume the additional burden in the area of education. This presents a very serious problem. It is a problem that has been getting worse over the past seven years in light of expenditures doubling within that period of time.

There is some question whether just more money poured into the same system will resolve these crisis characteristics. Everybody agrees, I think, that it will take not only more money but new structuring of how that money is to be allocated.

In case you are not aware of it, the proposals in Michigan are really an outgrowth of an educational reform commission which got underway just two years ago this month. The Commission, in September of 1969, made the recommendations. They were in the legislature for 18 months, some of the minor points were enacted. The major issue of full state funding of education was not passed. It's been discussed over and over. And I might say that I think it is stronger now than it was a year ago, largely because the problems are still there and more intense in light of the $150 million addition to educational expenditures in the State of Michigan last year.

The Educational Reform Commission outlined three major points which they thought could be achieved through state full funding.

Equity

One is the issue of equity. The courts are demanding equity. There is an ethical consideration. And I think that there is a very strong practical reason for equity.

It is Michigan's experience that a number of school districts have a high percentage of children who do not read, and ultimately have the problem of becoming employed. These districts are located where the local constituency does not have the personal income to raise the millage rates. So children from these school districts are farther behind, they cannot compete on the labor market, they have difficulty with the basic skills, they have greater problems in society

Where Does Responsibility Lie?

The second issue is: who is responsible for allowing this to happen? It is very easy to say, well if the local constituents would vote higher millages, this would not happen. But in fact, it does happen and the problem is serious. This leads to the question: who is actually responsible for elementary and secondary education? The Michigan constitution is very clear on this; it is the State, not the local school district. Only historically was this responsibility transferred. Thus, there is the question: Should the State accept its constitutional mandate and assume the responsibility?

Excellence

The third issue is the one of excellence. I was interested in discussion this morning to hear about the so-called levelling up and levelling down, and in the other comment that came back—in what terms do we measure levelling up, levelling down. We are at a loss to say really what happened.

We can say we spent so many dollars. We can say what the pupil-teacher ratio is. We can say it in these terms, but we will not have a good grasp of knowing what has happened in the school districts.

We believe that excellence can be achieved independently of revenues. I think you can go into a poor school district and find excellent education, just as, conversely, you can go into a wealthy school district and find poor teaching. They are independent of expenditures and pupil-teacher ratios.

Picking up on Governor Peterson's remarks at the luncheon, we need to look at the goals of education and progress of education. I might say that Michigan has endeavored to get into this area. The State has a statewide assessment program in which we are trying to find out just where these large pockets of non-achievers are and see if we can develop programs to give them additional resources.

This last issue concerns local control, a topic that has been discussed over and over. We believe that if the State assumed its responsibility for funding the schools, the local school districts because they would have the complete option of who they hire and the qualifications and the procedures used, and how teachers are allocated in the classrooms, and how they are supervised

–completely local functions–will in fact have local control.

A very good friend of mine, is now president of a school board. He spent his first eight months, full time, collective bargaining. Then once the board had arrived at an agreement he spent the next eight months trying to get a millage levy election through. After a total of 16 months in office he said to his board" I have yet to talk about education to anyone in the school district. Everything is going to come to a standstill in this board until we resolve the problems of education, problems of curriculum, and languages." And he spent the next two months insisting that the board discuss the problems of education. Then he got caught up in the cycle again, and the last time I heard from him, nothing was being resolved on education issues.

There are three major areas where we have recommended change. One is the area of taxation; another, the distribution of educational resources; and, the third, reorganization.

I touch briefly on reorganization, in my remarks, because I think you will find it covered in the materials. We have recommended local school reorganization for larger size school districts. We have intermediate school districts in Michigan, we would like those districts consolidated and given the responsibility for vocational education, special education, data processing, and transportation in these areas. We have made a recommendation for changing the State Board of Education.

Tax Proposal

Moving on the taxation area, 18 months ago the recommendation in Michigan was to reduce the property tax which averaged 26 mills down to a State wide level of 16 mills. This proposal failed in one house of the legislature. In the other there were some criticisms made of the proposals, and the Governor came back with the message to the legislature which you have before you trying to rectify some of the criticisms.

One of the most startling things that came out of the modification was instead of reducing the property tax, from 26 mills to 16 mills, the Governor proposed to reduce it from 26 all the way to zero. It might be for the wrong reason, but the reason was that the public felt that 10 mills reduction in property tax was not enough. And they felt they should have a greater amount of property tax relief and seemed to be willing to trade off a 2.3 percentage point increase in the individual income tax for greater property tax relief.

I think that some of that is real help in terms of people on a fixed income. I am sure that for some other people it has not won favor. For those in a high income bracket the decision is very difficult to make. Nonetheless, the Governor has recommended to bring down the average property tax rate for schools from 26 to zero, to increase the personal income tax up 2.3 percentage points, and, for corporations, instead of raising their corporate income tax rate, to switch to the value added tax. Michigan had a problem last year with an automobile strike, the corporate income tax is not a good stable tax, especially in Michigan. Moreover, it would put Michigan's rate up higher than average. So the Governor decided not to increase reliance it, but to go to a more stable tax, the value added tax, at a rate of around 2 percent.

We feel that this is a good proposal for several reasons. First, as tax relief the property tax in most areas, especially in Michigan is not an equitable tax. Assessment practices are not good at all. People on fixed incomes are very hard hit. And, it doesn't hit business equally. Those big autombile companies pay large property taxes and the other companies who have just as large a number of people employed, pay a relatively small portion.

Secondly, Michigan is where economic wealth is located, but, we have the industrial areas where property tax values are extremely high, and we go up to the northern areas where it is just nonexistent. No matter how hard you try to equalize under the State's distribution formula we just do not succeed.

The third issues is one of revenue growth. The property tax just does not grow at the rate of the income tax or the value added tax. Every time we project what education will cost in the future, we say we are going to have to add one mill a year on the average to keep up with it, if we stay with the property tax.

If we go to the income tax and the value added tax, over a seven year period, we will bring in additional $700 million in Michigan without increasing the rate at all. This becomes very attractive.

We have incorporated a wrinkle which tentatively got rid of the problem of the lighthouse districts, or the public demand for special programs. We made provision for school districts to go back and levy six mills which turned out to be about $180 for additional programs. But it is limited to six mills. We don't want to get back in the hole by having unlimited rate increases, and overturn our plans to get public education off the back of the property tax. But it does allow for some flexibility by school boards, with the vote of the people, to go back and have innovative programs or spend that money as they choose.

The Aid Distribution Proposal

Probably a greater problem in moving this through the legislature is the distribution phase. Now I can say parenthetically, the taxation issue is meeting with great support. People seem tired of the property tax and welcome a tax shift. But the issue of distribution is one that is far more difficult.

You talk about levelling up! We have the same criticism. We somehow have to guarantee equity, enact a grandfather clause saying that we will not level down, that we will absolutely level up. There is no getting around the fact that there has to be increased revenues. We recommended in addition to the shift from property taxes, a 2.3 percentage point income tax increase, and an additional 2 percent value added tax. Talking about political courage, the Governor had to say we are going to raise the personal income tax 2.3 percentage points essentially all of it going to education.

The second issue of distribution comes when you try to determine whether equal dollars mean equal educational opportunity. We have gone through the existing situation in Michigan and find that there is a large variance between the cost of doing business in education in different parts of the State. There is a $4,000 salary difference from the Upper Peninsula to the Detroit metropolitan area for a comparable teacher. We are in a dilemma. Do we bring everybody to the top, which financially is such a huge jump that it becomes restrictive? Or the reverse, do we go to a statewide average, reducing the salaries in the metropolitan area? It is just a matter of practicality. In a highly organized labor-oriented State like Michigan you can't get away with it. I think initially, at least, we have to deal with this issue by saying that there will be some kind of differential. There will be more dollars allocated to the urban area, recognizing that their cost of doing business is greater than in rural areas. Over a period of time, we will see that the salaries come together. The public may not be satisfied in having the differential reduced over a period of time, it may demand that salaries fall to the same level at one time.

Implied in my last comment was the difficulty we have in distribution because of matters related to labor economics. Michigan has a collective bargaining law, which is actively used. It seems that any kind of distribution formula would have to be in terms of some kind of labor pact. We have never recommended going to statewide collective bargaining, it is better regionally. We are trying to find that magic pie in the sky—that if we allocate somewhat equal resources throughout the state the collective bargaining process will really take care of itself. We haven't found it and I don't think we ever will. The problem of having collective bargaining is the product of having two school districts side by side—one spending $1200 per pupil, the other spending $500 per pupil. And no amount of toying with the law will resolve the problem. What you are saying is that one school district either has an inferior program or the teachers within that district should work for a lower wage. These have not been acceptable alternatives at this time.

In closing, I would like to say thank you very much on behalf of myself and the Governor for inviting us here.

MINNESOTA FINANCING PROPOSAL

Chairman: Thank you Mr. Phelps. Now I would like to call on Doctor Boddy to discuss the Minnesota situation. Mr. Boddy is an economist with a long-standing interest in State and local finance. He received his Ph. D. from the University of Minnesota where he now serves as a Professor of Economics and Associate Dean of the Graduate School. My notes say that he served the Federal Government in the 1940's in the U. S. Navy, then in the Office of Price administration. He was a member of the Minnesota Governor's Tax Study Committee in the 50's, Chairman of the Advisory Committee on Metropolitan Area's in 1967. Professor Boddy has been President of the Citizens League in Minneapolis, and a member of the group that did a recent study on fiscal disparities. Currently, he is Chairman of the Minnesota Governor's Council of Economic Advisors. We are doubly appreciative for that reason for his being here today because he tells me that the last day of the legislative session in Minnesota is tomorrow. We know he wants to get back and see what is going on.

It is a great pleasure to have you with us, Mr. Boddy

Francis Boddy

I would like to spend my time, and it won't be very long, on the background of the problem in Minnesota because I think it differs somewhat from what is occurring in other States.

The background of the problem in Minnesota is not a particular problem of the schools. The problem of educational finance, however, is one of the symptoms of a much more general problem which is just coming to be appreciated. And the chairman's reference to our Citizen's League reports on fiscal disparities I think is the key to the problem. What we discovered, and what everybody knows, is that our tax system and our need system are out of phase.

Need and Resource Imbalance

Federal Government has a very responsive tax system, and, given something like peace, perhaps more than enough generated revenue without ever increasing rates. That is why general revenue sharing is now coming very much to the fore. The Federal Government raises somewhere between 15 and 20 billion dollars more every year without changing rates just by growth. States are not so fortunate.

Minnesota is sort of an average of the country. Since 1967 we have had a 3 percent sales tax, we joined that group. We have had ever since 1933 a rather heavy and progressive income tax. So we use both of those major revenue producers in our State revenue system. The result is a State system which is perhaps a little reponsive to growth, but not as responsive as the Federal system.

The local system is, as in all areas of the country, dependent on the property taxes, and least responsive to economic growth.

The demands on those systems, as I indicated are not very heavy at the Federal level, unless we get into some massive new programs. At the state level, it is a toss-up. The pressures on the state level are not really unbearable in response to the state functions. At the local level the pressures are heavy indeed–education, streets, welfare. All of these tend to be sort of a mixture of state and local. And education, particularly, is very heavy on the local level.

The Tax of Last Resort

We have come to recognize over the last few years that the property tax is the tax of last resort. The property tax at the local level is a very bad tax indeed. It is the equivalent of a 20 to 25 percent sales tax on housing, for example, which, when you look at it that way, is an incredible indictment of our society's priorities.

Our property taxes in Minnesota are among the higher in the country. I think they rank something like 20th in terms of per capita percentage of income although earlier they were much higher. Nevertheless, our property taxes run somewhere around 3 or 4 percent of market value in the state; a high level. The political pressures have been tremendously strong and organized against the property tax. Thus, we have had a combination of things. A realization that the tax structure is out of phase in terms of the levels of needs, which needs themselves are contingent on the strength of the local community.

Dealing with Resource Disparities

The second thing we have seen is that there are tremendous disparities among the local levels, and this is, of course, a function of the property tax. It is not so much that we expect everybody to raise the same amount of money. But at least it seems to us in Minnesota that if you wish to raise the same amount of money it ought to take the same amount of effort. And the question is how do you measure the effort. Our state aid program has pretended to be an equalization program. That took a kind of effort, effort measured entirely by assessed valuation per pupil. The actual effect of equalization was that only 30 percent of the aid to education had any equalizing effect at all, 70 percent was in some sense across the board–nonequalizing. And so we found that our present system which pretended to be an equalization system on the education side, did not in fact give that.

The weakness of our system is that the state legislature will set a certain level of educational support which started out to be something like the median cost of education. We asked our local communities to raise an amount of local taxes which was to be a percentage of their equalized valuation corrected to reflect district differences in the levels of assessment. And, then, we made some modest adjustments. The primary adjustments in the Minnesota system are essentially on the pupil unit side where at the present time, we recognize differences in costs between grade school and high school. All of these things then enter into the distribution scheme we have been looking at.

There is a deeply critical problem although a much less managable problem, at the municipal level. They also suffer from the same kinds of disparities compared to the kind of effort it takes to achieve any given level for expenditure patterns. However, it is far more difficult to judge the need for the expenditure at the municipal level than it is on the education side.

As a result of these problems, the Citizen's League prepared a report called "New Formulas for Revenue Sharing in Minnesota." It came out I believe along in September or October, last year. Later, at our annual Citizen's League meeting in early October both of the then current nominees for Governor of Minnesota were invited to speak. And one of the questions, of course, was: What do you think about the educational program side of the Citizen's League Report? Both the candidates endorsed it, both of them.

The next day, however, the Republicans began to have some second thoughts and made the educational aid program an issue. Mr. Anderson, who was the Democratic nominee and who became Governor, had endorsed it throughly and stayed with it. But the Republicans criticized the program in terms of the massive increase in taxes required at the State level and campaigned on that issue.

Those of us in the Citizens' League were quite nervous at the State's having to elect a Governor on what we thought was rather short notice and on a program which we didn't think beforehand was going to be a critical issue in the campaign. It became *THE* issue in the campaign to a very large extent. So we were well pleased, as far as the Citizen's League was concerned, that criticism of our program was not enough to defeat the man who endorsed it most thoroughly.

The Citizen's League Proposal

What our report suggested was that ideally the State should take over 100 percent of the median cost of education in the State. Obviously there has to be some adjustment to that, but that was the basic program.

We suggested in our report that, at this stage of the game at least, it was unlikely that the State would be willing to move to that level. The State for a long time had a traditional target of meeting approximately 50 percent of the maintenance cost of education in the State, that is, not capital costs. But, depending on the way you hook it up with other States aids, State support of maintenance cost counted for about 43 percent in the last year.

The Governor's program which said in effect that the State will become responsible for the more complete financing of education was a major change. The reason for the political impact became clearer as the legislature met. It found itself no longer in a position of saying, "We aren't responsible for the property tax, that is the local responsibility." It has become clearly evident to everyone in the State that the legislature does set the property tax in the communities by what it does or doesn't do. And so the legislature is in a mood, at the present time I think, to make a rather massive change in our total tax structure and in the redistribution to the local levels of State collected taxes.

The Governor's proposals mean $400 million of new revenue. In addition to that there is about $300 million automatic increase in our State revenue just from growth and a very large proportion of that increase in State revenues will go back to the local units.

Governor's Proposal

Primarily, the Governor's basic program is for education. So there really is a massive change. The Governor's proposal, as he had written it in the budget message which you have, was to suggest that we ought to move not to an artificial level very far below the median, but move to a State average level for the cost of education per pupil. The figure is $740 for the first year and $815 or something like that for the second year. The State, in turn, would say that, in effect, every local school district would have to levy 100 mills to raise school funds. It sounds terribly high, but we have a classified tax system so that works out to about 1 percent of the market value. The State would pay the difference to the median.

There are some adjustments in this. The adjustment in the first place is that, if a school is far below the median, the State will help the district go up to one-sixth of the way to the median in the first year, and one-third of the way to the median in the next year, and on and on. Sort of progressive series, you see, catching up with the median. This would also effect the district on the downside. So the school districts spending well above the median, could only get support to spend one-sixth of the way to the median below their present spending level the first year, one-third below the next year and so on down. In other words it would be driving everybody toward the median. This obviously brings a very serious question; the kind that has been raised in our discussion here this morning. What about the district who wants to do more? The answer in the Citizens' League proposal was that any district could unrestrainedly go 10 percent above the median by raising its own money. Those who wish to go more than 10 percent above the median, can go as far as they want to—but for every dollar raised, 50 cents would be taken away in State aid. They would have to raise essentially $2 to get one. The effect of this is not a bar, but a penalty

In the Governor's proposal he suggested that the various school districts will be permitted to move beyond the level set by the formula, by cost of living or something of that kind. And they could go as far as they wanted to with referendum; by local voter referendum on any increases above that level. Now referendum has a difficulty; rich districts—highly professional kind of population and high income—would probably need least to raise the level of expenditures to educate their children but would perhaps find it easy to pass referenda. While poor districts, with less educated parents, and more need for the classroom kind of education might find it more difficult. So the referendum is by no means ideal, but at least, it is a way for sort of an opening to prevent the huge increases of expenditures that would come if the State, in a sense, said we will pick up a certain proportion of the expenditures of the local districts. Because we did that with the State sales tax distribution back in 1967, we don't want to go through that again.

We have tried to develop and I think there will be developed over the years, more and more sophisticated formulas for measuring needs in a more precise sense. But, the basic argument is still, I believe, that the disparities are too great among the districts–that it takes two or three times as much effort to raise less money for schools in some districts than in others.

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[1] Charles Fullman, "Supporting the Non-public Schools in Canada," *Compact,* Vol. 4, No. I, February 1970, p.38.

[2] J. Douglas Muir, "Collective Bargaining by Canadian Teachers–Experience and Direction," *Education Canada*, Vol. 10, No. 2, June 1970, p. 40.

[3] Ontario Committee on Taxation, *Report,* Vol. II, Queen's Printer, p. 55.

[4] Brief to the Special Joint Committee of the Senate and of the House of Commons on the Constitution of Canada, submitted by the Joint Municipal Committee on Intergovernmental Relations. March 2, 1971.

[5] William G. Davis, Minister of Education for Ontario, address to Provincial-Municipal Conference, Ontario, Science Center, Don Mills, Ontario, April 24, 1970.

[6] William G. Davis, Minister of Education for Ontario, address to Provincial-Municipal Conference, Ontario Science Center, Don Mills, Ontario, April 24, 1970.

[7] Peter Atherton, "Educational Finance: Some Problems in the 1970's," *Education Canada,* Vol. 10, No. 13, September 1970, p. 33.

[8] T. C. Byrne, "Urban-Provincial Relations in Canadian Education," *Education Canada,* Vol. 9, No. 1, March 1969, p. 42.

[9] Ontario Committee, *op. cit.*, p. 56.

[10] Alfred Arsenault, "The School Trustee–Past and Present," *The Communicator* (Official Bulletin Region D) Vol. IV, No. 1, October 1, 1970, p. 14.

[11] *118th Annual Report of the Minister of Education,* Fredericton, N. B., December 31, 1969, p. 50.

[12] *Ibid.*, p. 49.

Chapter V

Provincial-Local Relations

As in the United States, local government in Canada is the focal point for the delivery of most domestic public services. General purpose governments–including municipalities, counties and regional authorities–as well as school boards and a host of dependent and independent single-purpose boards and commissions perform the usual local government functions.

A major thrust of this Commission's fiscal studies has been the strengthening of State governments and through them, of local governments. We have been concerned with the progressive deterioration of State and local governments' capacity to meet the demands of a growing and increasingly complex society.

The growing property tax burden and the exacerbating interlocal fiscal disparities stand out among the critical problems to be met by States and localities in the United States. This Commission has been particularly concerned with a metropolitan imbalance that favors the wealthier suburban jurisdictions as against most central cities and some suburban jurisdictions.[1] Two forces have been the prime contributors to this imbalance in our urban centers.

1. Political fragmentation of the metropolitan area which causes central cities especially to fear that higher taxes will reinforce other powerful social and political factors that prompt middle and upper income whites and business firms to move to suburbia; and

2. The "municipal overburden" that stems from the heavy concentration of the poor who are especially dependent on the public sector for all types of services.

Although intercommunity social and economic disparities are not an important factor in Canada, its metropolitan landscapes are, nevertheless, dotted with large and small municipalities varying widely in fiscal capacity to finance educational and municipal services. Fearful that public service disparity situations would result from intercommunity competition for property tax bases, some of the Provinces have been seeking means of avoiding the kinds of urban crises that have developed among their neighbors to the South. The following sections discuss recent Canadian experience in establishing areawide local government mechanisms, restructuring of provincial aids and improving property tax administration.

RESTRUCTURING LOCAL GOVERNMENT

Canada is now experiencing urban growing pains like those which the United States has been undergoing since the 1940's. It is fast becoming an urbanized nation, with 73.6 percent of the population concentrated mainly in a score of urban centers, according to the last quinquennial census in 1966. This was up from about 65 percent in 1956 and 70 percent in 1961. It is estimated that by 1980, four-fifths of the Canadian population will be living in urban areas.

The Economic Council of Canada noted the implications of this growth for the quality of urban life:[2]

> The projected increase of some 5.8 million people in total urban population by 1980–and more particularly the 60% rise anticipated for the larger centres–provides a broad measure of the urban growth problem ahead. Clearly, however, it is a minimum measure only. Even if these major cities were already functioning models of urban efficiency and attractiveness, growth of this magnitude would itself involve substantial new investment and threaten severe strain and potential social cost. In reality, of course, there has long been widespread concern about the mounting deficiencies of our cities and the heavy backlogs of essential improvements. Shortages and inadequacy of urban housing, traffic and transport problems, air and water pollution, the confused jumble of conflicting land uses, decaying neighbourhoods and monotonous suburbs, urban poverty and social disturbance, steadily rising property tax burdens, and the frustrations of municipal administration–these are familiar problems to the average Canadian city dweller today. Yet it is against this background that our larger cities must face up to the continuous pressures of accommodating and fulfilling the wide-ranging needs of a further period of rapid expansion.

The Economic Council was well aware of the proliferation of local governments around the central cities of metropolitan areas. It pointed up the need for new institutional arrangements in the urban centers in the following terms:[3]

> In southern Ontario a new dimension is beginning to appear as distinct urban-centered regions tend more and more to merge together and create a new and complex web of interrelationships. On the whole, however, the regional and interurban aspects of city growth are relatively unexplored, and it appears that analytical and institutional arrangements for dealing with an emerging range of problems are scarcely developed. The task of dealing with these problems is urgent and should be a major preoccupation of provincial public policy.

Ever since the establishment of the Municipality of Metropolitan Toronto in 1954, that community has been viewed both in Canada and in the rest of the world as exemplary of successful local government reform. It was the first of the two-tiered local government federations on the North American continent.* The

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*A "two-tiered" local government system involves the superimposing on existing or restructured municipalities of a second governmental layer with area-wide urban functions. Except for success of Metro Toronto has impelled Ontario and some of the other Provinces to extend this kind of government structure to other local areas.

The following sections describe this movement. We have selected for detailed treatment here only a few examples of the kinds of innovative local government structural reforms that are being undertaken in Canada.* There are others, such as the blanketing of British Columbia with regional district boards[4] and the integration of school boards with county governments in Alberta. The Province of Quebec is just beginning to develop a plan for regionalization of local government.[5] A limited-function metropolitan council—the Montreal Urban Community—was established in 1970 in the Montreal metropolitan area.

It should be noted at the outset that the Canadian Provinces actually exercise considerably more power over local government structure than do the States. To a significant extent this is because the concept of participation by referendum has not developed in Canada to the extent that it has in the United States. It has been generally accepted in Canada that the provincial government has the right to intervene when the need for local government reform is clear. Still, as will be shown, local structural reform is not finally adopted without extensive consultation and it is not likely to be imposed if there is strong local opposition. As a perceptive student of the urban scene in both the United States and Canada has observed, the Canadian approach is not less democratic than is that of the United States. It is simply that the former emphasizes "democratic leadership," while the latter emphasizes "democratic participation."[6]

Another point needs to be emphasized. Unlike the situation in the United States, direct Federal-local relationships are virtually nonexistent in Canada. About the only direct Federal aid to localities is in the form of payments in lieu of property taxes on federally owned real estate. At present, Federal urban aid is channeled through the provincial local affairs agencies—a prerogative that those agencies guard jealously. Thus, the recent expansion (in 1970) of the responsibilities of the Federal Minister for Housing to include broader national concern with urban problems is viewed by some provincial municipal affairs officials as an encroachment on their responsibilities.

Local officials, on the other hand, are now beginning to express their concern—through their associations—as to the status of local government in the Canadian federal system. Specifically, they want to be included in the ongoing constitutional revision discussions to the end that local government is explicity recognized as a partner in the federation. Still they recognize their vulnerability—that each of the 4,500 large and small municipalities cannot really be considered as viable partners in the federation. They are therefore fully in accord with the moves that are being taken in Ontario and in some of the other Provinces to rationalize local government structures. Indeed, they can visualize strong areawide local governments as equal competitors in the Federal-Provincial-local arena.

The Municipality of Metropolitan Toronto

The Municipality of Metropolitan Toronto was established on January 1, 1954, by an Act of the Ontario Legislature, which implemented, with modifications, the recommendations of a report issued by the Ontario Municipal Board on January 20, 1953 (Cumming Report).[7] That Act established a Metropolitan Council with responsibility for specified areawide functions and retained the then existing 13 municipalities in the Toronto area, to which were assigned certain local functions. Under the Act, as subsequently amended, the Metropolitan Council has jurisdiction over such functions as social services, water supply, sewage disposal, mass transit, police, regional parks and the complete financing of educational facilities and operation (by means of an areawide property tax levy). The municipalities provide such services as fire protection, garbage collection and disposal, local water distribution, local sewage collection systems, and administration of local schools (but not financing).*

The extensive review by the Ontario Municipal Board of the local government structure in the Toronto metropolitan area was in response to applications by the City of Toronto and the Town of Mimico (a suburb of Toronto) for local government restructuring in the area. Although the two proposals took entirely different approaches they were based on similar premises.** Since the end of World War II, the population of the area was growing rapidly, but almost all of the growth was occurring in the suburbs (table 29). With this population growth came increasing demands for urban facilities and services and increasing pressures on

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Metropolitan Dade County, Florida, the few metropolitan governments that have been set up in the United States are of the consolidated city-county variety, rather than federations.

*See chapter IV for a detailed discussion of school and municipal reform in New Brunswick.

*See Appendix F for a full description of the respective responsibilities of Metro Toronto and the individual municipalities.

**The Toronto proposal called for complete amalgamation of its 12 surrounding communities with itself; Mimico requested authority for a number of communities to join in the financing and provision of certain areawide facilities and services.

Table 29
TORONTO AND SUBURBS
Percentage Rates of Increase in Population and Taxation, 1944-1951

	Population	General taxation	School taxation
York	21	122	149
North York	229	417	967
East York	47	123	131
Scarborough	129	220	213
Etobicoke	159	274	383
Forest Hill	21	82	165
Leaside	89	219	333
Mimico	38	85	42
New Toronto	54	113	189
Long Branch	64	143	99
Weston	28	148	94
Swansea	14	32	101
All Suburbs	73	172	228
Toronto	3	79	60
Toronto and Suburbs	17	98	95

Source: Ontario Municipal Board, *Decisions and Recommendations of the Board* (Cumming Report), (Toronto: January 20, 1953), p. 19.

local property taxes, by far the largest percentage increases occurring in the suburban communities. Relying on their own taxable resources, the communities could not finance the construction of water, sewer, public transportation and highway facilities adequate to the needs of the metropolitan area which was becoming increasingly interdependent. After reviewing the evidence of disparate facilities and public services in the various communities, the Ontario Municipal Board concluded:[8]

> . . . the basic problem to be solved in the Toronto metropolitan area is indicated in the contrast between the underlying social and economic unity of the area on the one hand, and the illogical and inequitable but extremely rigid divisions of political jurisdiction and available taxable resources on the other.

The Board rejected both the Toronto solution (amalgamation) and the Mimico solution (joint functions) and recommended instead the two-tier federation approach, which, as noted above, was adopted.

During the first ten years the Metropolitan Council concentrated on the physical plant deficiencies and keeping up with the steady population growth of the area. This it was able to accomplish successfully by pooling the credit resources of the thirteen communities and allocating capital projects on a priority basis. It was not quite so successful, however, in smoothing out the public service disparities, either in the provision of educational or of urban services.

Because local financing in Canada as in the United States depends almost entirely on property taxation, the local tax base is an important determinant of the level of services a municipality can afford to provide from its own resources. In 1954, per capita taxable assessments ranged from less than $1,300 in Long Branch to almost $3,100 in Leaside—a factor of 2.4 to 1—and the relative differential remained about the same by 1964 (table 30). Moreover, the disparity widened during that same ten-year period, in terms of the taxable resources behind each elementary school pupil. Thus, there were, and there continue to be wide inequalities among the individual communities in their ability to finance both school and municipal costs. Although the Metropolitan Council did levy some areawide property taxes during the first phase of its existence, its areawide jurisdiction with regard to the provision of public services, and especially educational financing was too limited to have a significant equalizing effect.

The failure of Metro to reduce service disparities among the several municipalities, among other considerations, impelled the Government of Ontario to order a Royal Commission study of the area (the Goldenberg Commission). Following a comprehensive review of the governmental structure and the financing of public services in Metro Toronto, the Goldenberg Commission concluded that additional consolidation of municipalities and further shifting of functions to the Metropolitan Council was indicated. It noted that the inequitable financing problems pointed up in the Cumming report had not been solved under the two-tier arrangement that retained thirteen disparate

Table 30
METROPOLITAN TORONTO
TAXABLE ASSESSMENT PER CAPITA AND PER PUPIL, 1954 AND 1964

	Per Capita		*Per elementary school pupil*	
	1954	1964	1954	1964
Toronto	$2,265	$2,990	$23,400	$25,800
North York	1,830	2,519	10,700	14,400
Scarborough	1,586	1,969	9,900	9,700
Etobicoke	2,174	2,998	13,000	17,400
York	1,581	1,802	11,700	13,900
East York	1,413	1,794	10,700	15,300
Forest Hill	2,803	3,432	23,900	40,600
Leaside	3,093	4,178	20,000	45,700
Mimico	1,541	1,947	—	—
New Toronto	2,927	3,435	—	—
Long Branch	1,287	1,873	—	—
Weston	1,960	2,618	12,300	22,800
Swansea	2,075	2,519	21,000	27,500
Metro	2,073	2,613	17,200	18,000

Source: Royal Commission on Metropolitan Toronto, *Report* (Toronto: June 10, 1965) pp. 81 and 127.

Table 31
METROPOLITAN TORONTO–AREA MUNICIPALITIES 1971 TAX RATES ON RESIDENTIAL PROPERTY–PUBLIC SCHOOL SUPPORTERS (in mills)

	Toronto	*East York*	*Etobicoke*	*North York*	*Scarborough*	*York*
Metrolopitan Toronto						
General	25.95	24.79	25.42	25.44	24.44	23.60
Public Schools	28.18	28.24	28.38	28.41	28.91	28.08
Secondary Schools	19.15	18.81	18.89	18.91	19.21	18.73
Sub-Total–Metro	73.28	71.84	72.69	72.76	72.56	70.41
Local Rates						
General	26.92	19.24	22.46	20.30	25.98	33.93
Hospital	–	–	–	.85	–	–
Special–Note 1	–	–	–	–	2.25	–
Note 2	–	–	–	–	–	.11
Sub-Total–Local	26.92	19.24	22.46	21.15	28.23	34.04
Total–1971	100.20	91.08	95.15	93.91	100.79	104.45

Note 1–This is the special rate for garbage collection which is provided to more than 90% of the ratepayers. The remaining ratepayers do not receive this service.

Note 2–This rate is levied against ratepayers of the former Town of Weston (now part of York), to provide an annual grant of $4,000 to the Weston Silver Band.

Source: Treasury Department, Municipality of Metropolitan Toronto, June 1, 1971.

municipalities "ranging from less than one square mile to seventy square miles in size, from 9,000 to 650,000 in population, and from $22 million to $2 billion in taxable assessment."[9]

The City of Toronto again proposed "amalgamation" of the other 12 municipalities with itself–in effect, their annexation to it. The smaller communities, on the other hand, argued for retention of local identity, "with emphasis on the values of neighborhood area and community feeling."[10] They also argued that "the smaller units now provide a level of services which reflects the needs and desires of the local residents whereas under any form of merger these residents would have to pay higher taxes for a uniform level of services over a wider area."[11]

The Goldenberg Commission proposed a compromise solution. It recommended consolidation of the thirteen municipalities into four–a recommendation that was only partially implemented by the legislature, which established six municipalities instead of four. But, possibly more importantly, the Commission recommended expansion of the metropolitan Council's financing and administrative responsibilities, including full financing of elementary and secondary education on an areawide basis. The Metropolitan Toronto Amendment Act of 1966, effective January 1, 1967, implemented many of the Goldenberg Commission's recommendations, including a change in the composition of the Metropolitan Council to provide greater representation to the suburban communities.[12]

The extent to which the Metropolitan Council has become involved in the financing of local services is illustrated by table 31, which shows the 1971 property tax rates that apply in each of the area municipalities. On average, about three-fourths of the total levy is to finance metropolitan areawide services. The reorganization of 1967 has succeeded in ironing out educational disparities as attested by the following excerpt from the most recent report of the Metropolitan Council:[13]

> Of the new powers and responsibilities the most important relate to schools and social services. In education, the Metropolitan School Board now has complete responsibility for financing school construction and operation through the establishment of a Metropolitan-wide tax rate, thus eliminating the previous disparities in educational financing and making it possible to provide an equal standard of education for every child in the area. The Metropolitan Corporation has similarly taken over the responsibility for social services. Other new responsibilities include waste disposal, the Canadian National Exhibition, the establishment of a Metropolitan-wide public ambulance service, the financing of regional libraries, and, authority to participate in urban renewal in conjunction with the area municipalities.

The Metropolitan Corporation of Greater Winnipeg

The Province of Manitoba established a metropolitan government in the Winnipeg area in 1960. The structure followed along the lines of Metro Toronto, leaving the 19 municipal governments then existing in the Greater Winnipeg area intact and superimposing an upper-tier metropolitan corporation.* The Corporation was given responsibility for such areawide functions as public transit, water supply, sewage disposal, parks, planning and zoning, and property tax assessment. The individual municipalities retained responsibility for police and fire services, trash collection, property tax collection and similar activities.

Recently the Government of Manitoba announced that it would propose legislation in the 1971 legislative session to consolidate all municipalities in the Metropolitan Winnipeg Area into one local government authority.[14] This proposal is spelled out in a policy paper on local government reform.[15] Based on a detailed study of the Winnipeg Area local goverment structure,[16] the Government policy paper aims at dealing with three major problems–fragmented authority, segmented financial capacity, and lack of citizen involvement–which in its view have not been solved under the present two-tier structure.

To deal with the first two problems it is proposed that all major urban services and fiscal resources be unified under a central council. Those services would be financed by means of an areawide property tax levy, and consideration is also being given to at least partial equalization of school levies.

Council members would be elected from districts (wards), each representing approximately 10,000 people, with at least three representatives from each municipality. To accomplish this, seven of the smaller municipalities would be consolidated into three, so that there would remain eight "municipalities" within the consolidated government of Greater Winnipeg. These municipalities would simply be administrative subdivisions of the central council and each municipality's elected representatives (constituting a "Community Committee") would serve as the communication conduit between the local citizenry and the central council.

The Manitoba Government presented its proposal for the reorganization of local government in the Winnipeg area well in advance of introducing legislation to implement it, in the hope that it would be thoroughly discussed. Such a dialogue is being carried on by the media, politicians and political scientists–and presumably by the general public. The University of Winnipeg has published a brief document discussing the social, economic and political implications of the proposal.[17] It will be debated in the Manitoba legislature, once the legislation is introduced. If established, the new consolidated government of Greater Winnipeg will be worth observing–especially those aspects that bear some resemblance to the "neighborhood city hall" idea that is being espoused for the large urban centers in the United States as a means of obtaining citizen participation.

Ontario's "Design for Development"

The Ontario Committee on Taxation launched a discussion of governmental structure almost apologetically, calling its "excursion" into this nontax area an "unavoidable part of our assignment."[18] In the introduction to Chapter 23, entitled, "Reconciling Structure With Finance," the Committee lists four reasons for linking taxation with structure:[19]

1. Efficiency in raising property tax revenue requires assessment and collection on a regional basis.
2. Equity in local finance can hardly be achieved under the present (fractionated) system of municipal institutions.
3. Municipal capacity to use nonproperty taxes is severely circumscribed by limited territorial jurisdiction.
4. There has been (during the time that the Committee was operating) "a veritable deluge of legislation, provincial and municipal reports, and proposals from private and professional groups, all bearing on local reform and reorganization. . ."

Ontario was indeed in the midst of a governmental reform upheaval during the 4-1/2 year period between February 1963, when the Smith Committee began its study, and August 1967, when its report was issued. A monumental reorganization of the local school structure, initiated in the 1940's and completed in 1964 resulted in the abolition of some 1500 rural public school boards, and has culminated in a system of countywide school systems throughout Ontario. A provincial legislative committee (the Beckett Committee) recommended in 1965 that the entire Province be divided into "larger units of local government, designated as 'regional', . . . with suitable boundaries having consideration to population, assessment, logical planning areas, watersheds and economic and social conditions."[20] Furthermore, pressure was being exerted by local governments, through their associations of county and municipal officials, for action on the local government reform front.

Phase I–Metro Toronto remained the only regional local government in Ontario for about a decade and a half. But its achievements in improving water and sewage services and facilities, expanding and integrating both public and private transit, developing a regional park system and a centralized police force for the entire

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*Since establishment of the Winnipeg Corporation there have been some municipal consolidations, so that it now contains 12 municipalities.

metropolitan area, as well as the obvious advantages of areawide financing and centralized capital financing, were observed closely by the Ontario Government with the aim of applying the Toronto idea in other parts of the Province.

A number of local government studies were already underway in 1966—some on local initiative and others at the behest of the Ontario government—when the Prime Minister unveiled the Government's "Design for Development."[21] The stated objectives of this regional development plan were the "provision of the best possible environment for our people and, at the same time, the creation and maintenance of an atmosphere which will encourage economic growth and development throughout the province."[22]

In presenting this plan, Prime Minister Robarts emphasized that his statement was concerned with *regional development* and not *regional government* and that any regional development structure created by Ontario would not disturb the existing power and authority of the municipal and county councils. He noted, however, that, independently of the economic regional development plan he was proposing, studies were then (in 1966) being conducted which could "lead to recommendations for adjustment in local area development. The implementation of our regional development policy will in no way interfere with such considerations of area government, but rather, could well lay the groundwork for changes which might eventually be appropriate."[23]

As work progressed on the economic development plan, it became increasingly apparent that regional economic development could no longer be divorced from the strengthening of local government. By the end of 1968 the Ontario Government decided that the "moment has come" to couple regional economic development with the development of "area local governments."[24] Thus did the Government White Paper, *Design for Development Phase Two,* in the form of statements by Prime Minister John Robarts and Minister of Municipal Affairs W. Darcy McKeough, announce for the first time Ontario's basic policy for establishing regional local governments throughout the Province.

Phase II—Provincial participation in local structural reform was not new when the White Paper was issued late in 1968. In fact, at least 10 local areas were then under review, one of which had been completed. The Regional Municipality of Ottawa-Carleton became fully operational on January 1, 1969—the first new regional government since the establishment of Metro Toronto in 1954. Two others—the Niagara Area Regional Government and the City of Thunder Bay (a consolidation of two cities, parts of two suburban townships and some adjacent unorganized territory)—began operation on January 1, 1970. And new regional governments were established in the York and Muskoka areas, north of Metro Toronto, on January 1, 1971.

The significance of *Design for Development Phase Two* lies in the fact that it sets forth in some detail the criteria for establishing local regional government, the essential characteristics of a regional government, and the specific steps to be taken by the Department of Municipal Affairs in implementing each regional government plan.

Criteria—Eight criteria are used by the Department of Municipal Affairs as guidelines in designing regional governments. The first five were suggested by the Ontario Committee on Taxation and accepted by the Department, as follows:[25]

1. A region should exhibit a sense of community identity based on sociological characteristics, economics, geography and history;
2. A region should have a balance of interest so that no one group or interest can completely dominate the region;
3. There must be a financial base adequate to carry out regional programs at a satisfactory level;
4. The region should be large enough so that local responsibilities can be performed efficiently by taking advantage of economies of scale; and
5. Regional boundaries should facilitate maximum inter-regional cooperation.

Three more criteria were added by the Department of Municipal Affairs in the light of its own experience in implementing regional government plans and in view of its objective to integrate the regional local government with regional economic development:

6. Formulation of regional government proposals must be carried out with community participation and, where possible, the proposals should be acceptable to the affected communities;
7. New regional government boundaries should be usable by other institutions—specifically provincial departments and agencies and local school boards; and
8. Where a second areawide tier of government is established, the existing or reconstructed lower-tier governments will be designed according to the same criteria that are applied to the regional uits.

In discussing the sixth criterion (community participation), Mr. McKeough made a very significant point in the light of the United States experience with metropolitan government. The criterion of community participation and acceptability... "does not mean that any municipality will have a veto over regional government proposals in its area. *What we do want is participation by all communities in an area in the discussions leading to the formation of a regional government.*[26] Thus, in Ontario, while the regional government plan originates with the provincial government—and in the final analysis is imposed by it—the aim is to achieve consensus through education and debate. The result is a political solution but without the requirement of a final stamp of approval by the electorate.*

Essential characteristics. The Department of Municipal Affairs considers the essential characteristics of a new regional government in terms of its size, shape, internal structure (including distribution of functions between the upper tier and individual municipalities) and representation of the governing body. These are summarized in Mr. McKeough's statement as follows:[27]

> 1. A regional size which balances accessibility and the efficient provision of services. A minimum regional population of from 150,000 to 200,000 and, if two-tier, a minimum local population (for individual municipalities) of from 8,000 to 10,000.**
> 2. The region will cover both the urban community and the rural hinterland with which it shares economic, social, and physical services.
> 3. Regions may be one or two-tiered, depending on local circumstances.
> 4. If two-tiered, the regional level will have many significant responsibilities including assessment, planning, arterial roads, health and welfare.
> 5. Municipal councils will be strengthened by removing the powers from many special-purpose bodies and turning these powers over to Regional and Local Municipal Councils.
> 6. Regional Government representatives will be based on population.
> 7. In the two-tier regions, Regional Council representatives may be directly or indirectly elected.

Implementation. Ontario has not set a rigid time table to regionalize all local government in the Province. For one thing, not all areas are in equal need of regionalization. Top priority is being placed on the highly urban and urbanizing southern portion of the province that borders on Lake Ontario and extends from Toronto to Oshawa. Here is where local government faces a critical situation that is characterized by increasing fiscal difficulties, retardation of necessary growth, or a decline in the level of municipal services.

The second reason for not embarking immediately on an all-out restructuring program is a practical one—the necessary trained and experienced personnel are just not available in sufficient numbers. And most importantly from an implementation point of view is the firm conviction on the part of provincial officials that meaningful local involvement in the entire process is essential to the program's success. Obtaining such participation and arriving at a consensus will take time, and the Province is willing to endure delays in the interest of lasting results.

Once an area is selected for review and reorganizing, the following four-stage process is put into motion by the Department of Municipal Affairs:[28]

Stage One:	Discussion and consultation between the Province and municipalities in a Region. This may take the form of a joint study, a series of joint meetings, a local or a provincially directed study. In many respects, this stage will be similar to the Local Government Review concept with which we are familiar.
Stage Two:	Preparation of a specific proposal by the Province which I will formally present to the municipalities in the Region.
Stage Three:	The development of a final proposal and draft legislation based on reactions to the proposals in stage two.
Stage Four:	Presentation of legislation to this House, passage, and establishment of the Regional Government.

In general, the procedure is as follows:*

1. Meetings both local and with Department of Municipal Affairs, resulting in request for a study
2. Local liaison committee established to work out terms of reference, arrangements, etc.
3. Appointment of Commissioner(s) by the Minister.
4. Staff appointed, information collected and local meetings resulting in publication of a Data Book, which is a compilation of information which is readily available.
5. Briefs from interested parties received.
6. Public hearings by Commission on briefs.
7. Report to Minister by Commission.
8. Reaction to Report sent to Minister by interested parties.
9. Minister presents proposals for change covering boundaries, representation, finance, functions and whatever else is considered appropriate.
10. Reaction to proposals sent to Minister.
11. Decision whether or not to proceed. Legislation introduced.
12. Reaction to and amendments to legislation.

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*It should be noted, in this connection, that two reviews have not been accepted and one not completed because it was judged that insufficient local consensus was possible (Peel-Halton, Hamilton-Wentworth and Brant-Brantford).

**These population criteria have not been followed in every case.

*The procedure is not uniform. Some reviews have been less formal, and in a few cases major new issues have resulted in extensive research programs.

13. Legislation comes into force.

Conclusion. The Government of Ontario has indeed "embarked upon the greatest restructuring of local government in the history of this province," as Prime Minister Robarts stated in his message to the legislature, transmitting his *Plan for Development Phase Two.*[29] Building on solid experience in Metro Toronto, Ontario will in time be blanketed by some 30 regional governments, some of the two-tier variety, others in the form of consolidated municipalities. In the process, it is anticipated that numerous small, non-viable municipalities will be eliminated. Significant local consolidations have already been accomplished–in Metro Toronto, where 13 municipalities have been refashioned into 6; in the Niagara Region where 26 municipalities have been melded into 12; in the Lakehead Area, where a number of previously existing municipalities, together with some unorganized territory, are now one City of Thunder Bay with over 100,000 population; and so on. In addition, the Province intends, wherever possible, to shift the functions of numerous independent special-purpose districts to the new regional governments.

Probably the most significant aspect of the local government reform movement in Ontario is the insistence on the part of the Provincial Government on community participation and consensus. The municipal associations have agreed on the need for reform, although not always on the specific form it should take, and several areas are initiating their own local reviews. Where the Department of Municipal Affairs initiates a review it makes sure that local politicians and their staffs are involved. The Department furnishes technical assistance and guidance.

Once a review is completed, the restructuring proposal is that of the Department of Municipal Affairs. At this stage the proposal is presented to the local community–public officials, business interests and citizen groups. A series of public and private discussions ensues and the plan may subsequently be modified to take into account suggestions that emanate from the local communities. Once this phase is completed, and if political opposition has been overcome, the Minister of Municipal Affairs introduces legislation to implement the plan, and when enacted, the new local government is established without further ratification by the local electorate.

Not only does the Province provide much of the technical expertise necessary to carry out a local government reorganization plan, it is also providing additional financial assistance to the newly formed regional governments (including Metro Toronto). In 1970 the Ontario Legislature enacted the Regional Municipal Grants Act, which changes the formula for allocating unconditional aid to the regional municipalities. In the case of regional municipalities this distribution replaces the per capita unconditional grant that has been distributed to Ontario municipalities for many years. Under that program, municipalities are paid annually $5 to $7.50 per capita, depending on population size. Under the new program, municipalities in a reorganized regional district receive $7.50 per capita plus an additional amount (from $1 to $5 per capita) based on a residential population density factor (the lower the density, the higher the grant), plus $1.50 per capita where the regional government has established a police force. This new grant is regarded by the Province as both an incentive for municipalities to accept restructuring and recognition that the reorganized municipalities take on major responsibilities for the provision of services.

This Ontario experience with local government organization is testimony to the fact that a strong provincial or State government can take steps to strengthen local government. Both the Provinces in Canada and the States in the United States have the constitutional power to restructure local government and ACIR has recommended that States use their power to eliminate non-viable governments and to make it possible through such devices as regional financing authorities for local governments in metropolitan areas to make more effective use of the tax base. With only one or two exceptions, none has seen fit to do so, and none has even approached Ontario in scope and breadth. Indeed, in the United States, where local government restructuring proposals originate primarily with the localities rather than the States, many an annexation, consolidation and metropolitan government proposal has failed because of the requirement that the voters of each affected community approve the proposal by referendum. In Canada, only British Columbia is still using the referendum with regard to restructuring of local government.

STRENGTHENING PROVINCIAL AID TO LOCAL GOVERNMENTS

The provincial governments assist their localities in a number of ways. They provide direct financial aid by means of grants, and in some instances by assuming responsibility for traditional local services. They also provide technical and supervisory services through their departments of municipal affairs. In addition, most of the Provinces are now assisting their municipalities with capital financing.

Table 32
STATE AND PROVINCIAL AID TO LOCAL GOVERNMENTS IN THE U.S. AND CANADA, PER CAPITA AND IN RELATION TO TOTAL GENERAL EXPENDITURE, BY PROVINCE 1969-1970

Country and Province	Total general expenditure		Aid to local governments		
	Amount ($000,000)	Per capita ($)	Amount ($000,000)	Per capita ($)	As % of general expenditure
United States (FY 1969)	68,014	338	24,779	123	36.4
Median State	—	342	—	95	
Canada (FY 1970)	11,834	558	2,833	134	23.9
Median Province	—	557	—	104	
Newfoundland	324	627	56[1]	107	17.3
Prince Edward Island	68	619	10	88	14.2
Nova Scotia	418	547	70	91	16.7
New Brunswick	364	584	90	145	24.8
Quebec	3,317	552	802	134	24.2
Ontario	4,257	563	1,106[2]	146	26.0
Manitoba	507	518	103	105	20.3
Saskatchewan	513	541	101[2]	106	19.7
Alberta	966	610	246[2]	155	25.4
British Columbia	1,101	520	251[2]	117	22.8

Note: Detail may not add to totals because of rounding.

[1] Includes $51 million paid to schools operated on a religious denominational basis.

[2] Includes homeowner subsidies, as follows (in thousands) Ontario, $123,000; Saskatchewan, $8,700; Alberta, $13,254; and British Columbia, $55,600 (including $50,000 applicable to school taxes and classified as education aid). These are usually paid to local governments but in Saskatchewan they go directly to the taxpayer.

Sources: U.S. Bureau of the Census, *State Government Finances in 1969*; Dominion Bureau of Statistics, *Provincial Government Finance, Revenue and Expenditure (Estimates) 1969 (Fiscal Year Ended March 31, 1970)*; 1970 population estimates for Canadian Provinces from Canadian Tax Foundation, *Tax Memo,* "Provincial Finances, 1969-70," July 1970

Two aspects of indirect aid will be discussed in the following section on property taxation: assumption of property tax assessment by the Province; and the provision of homeowner grants and payments in lieu of taxes. This section will deal primarily with provincial grants-in-aid, but it will also touch on provincial measures to aid municipalities to raise capital funds.

Per capita general expenditure of the provincial governments is considerably higher than that of the State governments—over $550 compared with less than $350 for the States (table 32). In large measure, this is because the Provinces themselves provide and finance a greater portion of the "people services"—education, public welfare, health and hospitals—than do the States. Public assistance and hospital and medical care are direct provincial programs, with little or no financial participation by the local governments. New Brunswick has undertaken virtually full financing of primary and secondary education and all but three of the other Provinces finance at least half of the school bill (see Chapter IV). The State of Hawaii finances almost all the non-Federal cost of elementary and secondary education but the great majority of States do not even approach fifty percent financing.

Although provincial aid to local government comprises less than one-fourth of total provincial general expenditure (compared with over one-third in the States), it is, on the average, about $10 per capita higher than the average for the States. In fiscal 1970 (ended March 31), per capita provincial aid to local governments ranged from a low of $88 in Prince Edward Island to a high of $155 in Alberta (median, $104). In the United States, median per capita aid was about $95 in fiscal 1969 (ended June 30), with a range from $21 in Hawaii to $271 in New York.*

*There is virtually no education aid in Hawaii as that State operates the public school system at the State level. New York, like many of the Canadian Provinces, provides a considerable amount of unconditional per capita aid to its local governments.

Table 33
STATE AND PROVINCIAL AID TO LOCAL GOVERNMENTS, BY FUNCTION, AND BY PROVINCE, 1969-1970

Country and Province	Total	Conditional aids					Unconditional aids[1]
		Total	Education	Highways	Public Welfare	All Other	
	Amount (in thousands of dollars)						
United States (FY 1969)	24,779,346	22,643,947	14,858,261	2,108,696	4,402,450	1,274,540	2,135,399
Canada (FY 1970)	2,833,341	2,385,387	2,034,037	206,760	78,380	66,210	447,954
Newfoundland	56,017	53,317	50,697	1,100	—	1,520	2,700
Prince Edward Island	9,700	9,130	8,600	70	—	460	570
Nova Scotia	69,770	61,550	52,970	240	7,350	990	8,220
New Brunswick	90,140	76,600	68,170	330	4,800	3,300	13,540
Quebec	801,900	670,750	653,700	7,800	6,000	3,250	131,150
Ontario	1,105,860	932,930	699,220	143,510	50,610	39,590	172,930
Manitoba	102,620	92,420	81,680	5,960	4,550	230	10,200
Saskatchewan	100,736	91,920	68,800	16,090	2,290	4,740	8,816
Alberta	245,658	195,930	158,280	31,650	2,780	3,220	49,728
British Columbia	250,940	200,840	191,920	10	—	8,910	50,100
				Percent distribution			
United States	100.0	91.4	60.0	8.5	17.8	5.1	8.6
Canada	100.0	84.2	71.8	7.3	2.8	2.3	15.8
Newfoundland	100.0	95.2	90.5	2.0	–	2.7	4.8
Prince Edward Island	100.0	94.1	88.7	0.7	–	4.7	5.9
Nova Scotia	100.0	88.2	75.9	0.3	10.5	1.4	11.8
New Brunswick	100.0	85.0	75.6	0.4	5.3	3.7	15.0
Quebec	100.0	83.6	81.5	1.0	0.7	0.4	16.4
Ontario	100.0	84.4	63.2	13.0	4.6	3.6	15.6
Manitoba	100.0	90.1	79.6	5.8	4.4	0.2	9.9
Saskatchewan	100.0	91.2	68.3	16.0	2.3	4.7	8.8
Alberta	100.0	79.8	64.4	12.9	1.1	1.3	20.2
British Columbia	100.0	80.0	76.5	*	–	3.6	20.0

Note: See footnotes and Source notes on table 32.

[1] Includes homeowner subsidies, except for $50.0 million in British Columbia, included in education aid.

*Less than .05 percent.

Conditional Grants

Except for elementary and secondary education grants, conditional aid to local governments is minimal in Canada. More than 70 percent of total provincial aid expenditure is for schools, compared with 60 percent in the United States (table 33). Another 15 percent is for unconditional grants to municipalities, mainly in the form of per capita aid and (in four Provinces) reimbursement of local governments for homeowner subsidies. The remainder, a little over 10 percent, is for conditional aids such as highways (comprising well over half of this remainder), welfare, recreational facilities, and, in two or three Provinces, public housing and urban renewal.

Indeed, the great bulk of all non-educational conditional aid occurs in one Province–Ontario. Thus, of total $206.8 million highway aid expenditure in fiscal 1970, $143.5 million was in Ontario; of the $78.4 million in welfare aid, $50.6 million occurred in Ontario; and of the $66.2 million "other conditional aid," $39.6 million was paid out by Ontario. This "other" aid in Ontario included financial participation in the Federal urban renewal program, capital grants for community cultural and recreation programs, aid for acquisition of parkland and assistance in financing water and sewer projects.

The Smith Committee concluded that the entire system of provincial-municipal aid in Ontario needs overhauling and recommended that the Provincial Government "make a comprehensive annual review of provincial-local finance and give yearly approval to all grant programs."[30] In a 1969 *Budget* White Paper, the Provincial Treasurer agreed with the Smith Committee's view of provincial-municipal grants and noted that the Government was "undertaking a comprehensive review of its grants and aid policies."[31] One aim of this review is to provide more of the Province's municipal support in the form of unconditional aid.

Unconditional Grants

All of the Provinces provide unconditional aid to their municipalities, mostly in the form of per capita grants or similar devices. As a result, with 15.8 percent of the total provincial aid, unconditional aid comprises the second largest portion—second only to education (see table 34). And this is true in every Province but Saskatchewan, where unconditional aid takes only the form of reimbursement for homeowner subsidies.*

The homeowner subsidy (basic shelter tax exemption), which is also passed on to tenants, comprises the bulk of the $173 million of unconditional aid in Ontario ($123 million). The remainder is a per capita grant of $5 to $7.50, depending on the municipality's population. To provide an incentive for regionalization of local governments, Ontario now provides more substantial per capita aid to regional governments.**

Four other Provinces make per capita grants to their municipalities. In Nova Scotia, cities receive $3.21, towns, $2.10, and rural municipalities, $1.25 per capita. Prince Edward Island provides $12 per capita to Charlottetown (the only city) and each of the incorporated towns and villages receives a grant equal to its own-source revenue, up to $6 per capita. Manitoba also pays annual per capita grants, the amount depending on the appropriation for the purpose. The current grant is $3. British Columbia pays the largest per capita grant of all—$30, a figure which, like the homeowner subsidy, has been raised almost annually over the past decade. The $160 homeowner subsidy is almost entirely an offset to school taxes and most of the payment is included in tables 33 and 34 under "education" aid rather than with unconditional grants.

The substantial amount of unconditional aid in Quebec stems from the distribution of two percent of the provincial sales tax. This tax sharing plan was initiated in 1964 when the Province repealed the local option to levy a sales tax. The local share is distributed on an origin basis, with a guarantee of $2.50 per capita.

Table 34
PROVINCIAL UNCONDITIONAL GRANTS TO MUNICIPAL GOVERNMENTS, BY PROVINCE, FISCAL YEAR 1970 (in thousands of dollars)

Province	Total	Basic grant[1]	Homeowner subsidy	Other[2]
Total	447,954	282,354	150,554	15,046
Newfoundland	2,700	2,700	—	[3]
Prince Edward Island	570	570	—	[3]
Nova Scotia	8,220	8,220	—	[3]
New Brunswick	13,540	13,540	—	[3]
Quebec	131,150	125,000	—	6,150
Ontario	172,930	44,650	123,000	5,280
Manitoba	10,200	10,200	—	[3]
Saskatchewan	8,816	—	8,700[4]	116
Alberta	49,728	33,774	13,254	2,700
British Columbia	50,100	43,700	5,600[5]	800

[1] Per capita or similar grant (see text).

[2] Mainly payments in lieu of taxes.

[3] Minor amount included with "basic grant."

[4] Paid directly to taxpayer.

[5] Excludes $50 million applicable to school taxes and classified as education aid.

Source: Dominion Bureau of Statistics, *Provincial Government Finance, Revenue and Expenditure (Estimates),* 1969 *(Catalogue No. 68-205, April 1970),* Table 3.

Newfoundland's unconditional aid is in the form of a sliding scale own-source revenue matching: $2 for every $1 up to $1,000; dollar for dollar from $1,000 to $5,000; 90 cents for each dollar from $5,000 to $15,000; 70 cents, from $15,000 to $25,000; and 50 cents for every dollar over $25,000, with a maximum of $75,000. The city of Corner Brook receives a special annual grant of $400,000.

Alberta and New Brunswick provide equalizing unconditional aid to their municipalities. The Alberta equalizing formula uses population and area as needs proxies and assessed valuation as a measure of fiscal capacity. Alberta also shares revenue from a grazing lease tax with the localities in which such revenue originates.

New Brunswick's unconditional aid program is unique in that, by means of a combination of a flat-rate and an equalization grant, it aims to equalize municipal revenue so that each can provide a "good uniform standard of local services with a similar tax burden."[32] The program was initiated in 1967 on the recommendation of a Royal Commission (the Byrne Commission) as part of a complete overhaul of local government structure and provincial-local relations. The package of local services to be financed from locally raised revenues supplemented by unconditional aid excludes elementary and secondary education, health and welfare services, the administration of justice and assessment and collection of property taxes, for which financial responsibility has been assumed by the Provincial Government.

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*Homeowner subsidies in Ontario, Saskatchewan, Alberta and British Columbia are not classified as provincial aid to municipalities in Dominion Bureau of Statistics reports. However, since they normally represent transfers to municipalities as reimbursement for property tax abatements, they are classified as unconditional aid here, just as similar transfers (for homestead exemption reimbursements) are classified in U.S. Census reports on governmental finances.

**See p. 92, above.

The rather complicated equalization formula devised by the Byrne Commission was put into simplified terms in a recent article:[33]

> Because larger centres bear a greater weight of unavoidable civic expenditures, for the purpose of calculating the unconditional grants the municipalities have been divided into groups roughly according to population: A–cities over 19,000; B–cities and towns between 5,000 and 19,000; C–towns under 5,000; and D–villages. For municipalities in any one group, the mean local expenditures over a three-year period are averaged for all municipalities in the group to obtain a "standard local expenditure." The flat-rate grant is 40 per cent of this "standard local expenditure." The tax base of the municipalities is considered to determine what would be an equitable "municipal share" of the balance of the "standard local expenditure." The equalization grant is then computed to ensure that all municipalities are financially capable of providing services at the level permitted by "the standard local expenditure." Of course, if the "municipal share" is equal to or greater than the balance of the "standard local expenditure," that particular muncipality does not receive an equalization grant. The total unconditional grants to a municipality in any one year cannot exceed 70 per cent of the estimated expenditure for that year, less the estimated non-tax revenue.
>
> To date, the grant formulae have not been applied to villages, because there is a wide variation in the number and standard of local services. Both the villages and local service districts receive a flat-rate grant equal to 45 per cent of their estimated expenditures for each year.

The Byrne Commission emphasized that the "standard local expenditure" is not a "foundation program" imposed by the Province (in the sense that Provinces and States prescribe school foundation programs). Rather, it is an expenditure level that is determined by the municipalities themselves–in each group of municipalities, as noted above, the "standard is the average annual per capita expenditure over a three-year period." In other words, it is "determined by what the municipalities *themselves* on the average deem to be a desirable amount of expenditure for local services."[34]

Provincial Aid to Municipal Capital Financing

All the Provinces supervise the issuance of local government debt and most, if not all, provide technical assistance in marketing local bond issues. Specific services include the standardization of debt instruments and procedures and the "validation" of borrowings. In most, if not all the Provinces, local borrowing requires approval of the provincial department of municipal affairs or a special agency similar to the North Carolina Local Government Commission.

Several Provinces participate in the Federal urban renewal, public housing and sewage treatment facilities programs, either by financing a portion of the non-Federal costs or, as in the case of New Brunswick, by subsidizing local debt-service payments. British Columbia guarantees municipal water and sewer bonds.

With the possible exception of New Brunswick, Quebec and British Columbia, all the Provinces have established funds (several of them administered by provincial government corporations) for the purpose of purchasing local government obligations. Outside of Ontario and Alberta, however, the capital financing aid provided by the Provinces is rather limited, although the Manitoba School Financing Authority purchases all local school bond issues.

Ontario has three programs to help its localities with their capital financing.

The Ontario Education Aid Corporation is authorized to purchase municipal and school board debentures for school and library construction. The Corporation borrows from the Canada Pension Plan and relends the funds at interest rates slightly above the rate it pays to the Plan.

The Ontario Municipal Improvement Corporation acts as a lender of last resort, on behalf of the smaller municipalities with limited access to the private capital market. In his 1970 budget message the Provincial Treasurer noted that the Corporation would make available $10 million for fiscal 1971 to meet the capital financing requirements of all municipalities under 10,000 population. He also indicated that steps would be taken "to allow more flexibility in municipal debt issues so that our larger municipalities can compete effectively in the capital markets."[35] Among the measures being considered, according to the Minister of Municipal Affairs, are short term refundable debentures, debentures with provision for extending their maturities, and debentures payable in currencies other than Canadian and United States dollars and sterling.[36]

The Ontario Water Resources Commission is authorized to enter into agreements with municipalities whereby the Commission undertakes construction, management and financing of water and sewer projects. It can also make capital grants to small municipalities for sewage treatment plants and water lines.

Alberta "urbank". Alberta established an urbank-type public corporation in 1956, similar to the one that has been proposed in recent years for the United States Government as an aid to State and Local borrowing.[37] The Alberta Municipal Financing Corporation, in which the Province, cities, towns, villages, school boards, approved hospital boards and organized rural areas (specific districts) are shareholders, purchases and sells debentures and other debt instruments of its members.

It raises capital by borrowing on both the United States and Canadian capital markets and its obligations are fully guaranteed by the Alberta Provincial Government. Currently, over 75 percent of its financing comes from the Canada Pension Plan. The Board of Directors consists of seven members, three elected by the local government shareholders and four appointed by the Provincial Government.

The Corporation is authorized to obligate itself for an aggregate of $1 billion in outstanding debt and as of December 31, 1969, such indebtedness amounted to $761.4 million (offset by almost $50 million of sinking fund holdings). Since it started operating in 1957, the Corporation has lent $851.7 million to its member localities, of which $695 million was outstanding at the end of 1969. In recent years the Corporation has been lending about $100 million annually. Virtually all local government capital expenditures are now financed by the Corporation, although Edmonton, Alberta's most populous city, has borrowed on the open market recently to finance projects requiring funds beyond the amount allowed it by the Corporation.*

Interest rates charged to borrowers are set from time to time, on the basis of the cost of money borrowed by the Corporation and its operating costs, including reserve requirements. It is estimated that local governments "save from one to two percent per annum as a result of the Corporation's operations." Furthermore, the Provincial Deputy Treasurer points out that "many of our smaller municipalities would find it extremely difficult to borrow funds privately at almost any cost."**

Loan funds are allocated among borrowers principally on a per capita basis, but other factors may be taken into account, such as the nature of the project and the particular circumstances of the individual local government. A loan application must be accompanied by an audited financial statement, a detailed cost estimate for the proposed project, and approval of the Provincial Local Authorities Board indicating that the applicant has complied with provincial legislation relative to local government borrowing, including debt limitations. Regulations promulgated by the Lieutenant Governor in Council prescribe maximum terms of loans, which may vary with the type of project. Priorities for hospital and school projects are set, on behalf of the Corporation, by provincial health and education officials. Currently, the Corporation gives priority to municipal water and sewer projects and rejects financing the purchase of a private facility which is already providing adequate service.

There have been no defaults of debt service payments to date. Smaller communities occasionally request and obtain a delay in meeting their regular payments, but such delays have been brief. In general, then, the Corporation's experience with financing local government capital facilities has been satisfactory, and apparently the Province has not had occasion to make good on its guarantee of either the local governments' or the Corporation's obligations.

REVITALIZING THE PROPERTY TAX

Even to a greater extent than in the United States the locally raised share of expenditures for domestic public services is financed by property taxation. *Ad valorem* taxes on residential, farm, and business property account for well over 90 percent of local tax revenue, reflecting the fact that the Provinces do not authorize local governments to levy retail sales or income taxes.* Such local non-property taxes are authorized in 31 States and are used by some 7,500 local governments in the United States, including the more than 1,000 Pennsylvania school districts that levy payroll taxes.

Property Taxation Faces Similar Problems in Canada and U. S.

As summarized by a Canadian public finance expert, a rundown of the tax problems in Canada reads like the list for the United States:[38]

- Because of its heavy weight in the Canadian tax structure, the property tax contributes to a provincial-local tax mix that, on balance, tends to lack progressivity.
- Property taxation is beset with inequities—assessment ratios vary considerably among municipalities and among taxpayers within municipalities.
- The property tax is administered inefficiently—many small jurisdictions use part-time nonprofessional assessors; assessors have other responsibilities (for example, compiling voter registration lists); many use outdated record systems based on inadequate data.
- There is a lack of knowledge about property taxation, both on the part of the practitioner and on the part of the taxpayer.

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*Information on the Alberta Municipal Financing Corporation was supplied by Mr. F. G. Stewart, Deputy Treasurer of Alberta, in a letter, dated March 1, 1971.

***Ibid.*

*As was noted in the previous section, however, Provinces do provide considerable unconditional aid (that is, they are not reluctant to separate tax and spending responsibilities).

- Fragmentation of local government in the urbanized areas results in a maldistribution of the property tax base with the consequent inequities in tax burdens both among communities and among individual taxpayers.

As in the United States, the sentiment is often expressed that the burdens and inequities of property taxation can only be eliminated by removing it from the tax structure completely. Nevertheless this sentiment is generally accompanied by an immediate disclaimer—that it would be difficult, if not impossible, to replace a tax that despite its problems has been such a remunerative and growing source of local government financing.

Canadian Measures to Make Property Taxation More Palatable

The Canadian Provinces have taken a number of steps to deal with property tax problems. Three Provinces—New Brunswick, Ontario, and Prince Edward Island—have recently taken over property tax assessment from their local jurisdictions, and five of the other Provinces are providing homeowner grants. Several other Provinces provide, or permit, assistance to homeowners by requiring or allowing their municipalities to impose "split mill rates" with differentials favoring residential and farm property. These are used throughout Ontario and Manitoba and in large cities in Quebec and Nova Scotia. In New Brunswick the tax rate for business property is double that for residential property. Provincial aid to local governments, particularly to school boards, is on the rise and there is a significant move toward increased unconditional aid to municipalities. The property tax base itself is being broadened as the Federal and provincial governments make payments in lieu of taxes on their own property. Even some formerly sacrosanct non-governmental exemptions are now being chipped away or eliminated. Furthermore, more effective use is being made of the local tax base in some Provinces by means of provincewide (New Brunswick) and local regionwide property tax levies. In addition, there is a perceptible shift of responsibility for financing local functions to the provincial level.

Property Tax Assessment

As in the United States, property tax assessment has been traditionally a local function in Canada. Although all provincial property tax laws require "full" value assessment,* there is considerable variation in the ratio between assessed value and market value.[39]

The lack of equity in the assessment process has been a subject of investigation in seven major provincial tax studies during the 1960's.** All expressed concern with the variations in assessment levels among assessing jurisdictions and among different properties within particular jurisdictions. Three of the studies concluded that uniformity could only be achieved by transferring assessing responsibility to the provincial level. The other three recommended strengthening the assessment supervisory function of the Province.[40]

The extensive Ontario tax study by the Smith Committee was especially critical of tax assessment.[41] Discussing the state of assessing in Ontario, the Committee noted that property tax assessment is characterized by extreme inequalities which "with resulting inequities in taxation, have been hidden from view by the prevalence of gross under-assessment."[42] Despite the statutory requirement that property be assessed at full value, the Committee pointed out, in 1966 the average assessment ratio for 921 of the 935 municipalities in Ontario (98.5 percent) was less than 50 percent and in 94.3 percent of them the ratio was less than 40 percent. The Committee also found considerable variation between business and residential properties within municipalities.

The Smith Committee concluded that there was a need to reform assessment practices, procedures and organization in Ontario, but declined to go as far as other provincial study commissions (notably New Brunswick and Manitoba) in recommending that the assessment function be taken over by the provincial government. Rather, it recommended strengthening the supervisory role of the Department of Municipal Affairs and enlarging local assessment jurisdictions.

In a White Paper appended to its 1969 *Budget*, the Government of Ontario agreed with the Smith Committee findings on the poor state of property tax assessment and called for provincewide reassessment at current value. It documents the need for such action with the following indictment:[43]

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*Usually defined as "actual," "market," "fair" or "real." However, in some Provinces, this "full value" standard applies to land only, with lower percentages for buildings. For example, Manitoba requires that buildings be assessed as 2/3 of their value; Saskatchewan calls for 60 percent assessment of "buildings and improvements," and in Alberta improvements are assessed at various percentages as prescribed by regulation.

**Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Quebec, and Saskatchewan. See Appendix E for a description of New Brunswick's experience.

> Current property assessment in Ontario is riddled with inconsistencies and inequities. Many properties are underassessed, some are overassessed and some are not assessed at all. Like properties are assessed at different values both within the same municipality and between municipalities. Moreover, there is no consistency among municipalities in the assessment treatment of particular classes of property. A class of property which enjoys low assessment and therefore a tax advantage relative to other properties in one municipality may be at a relative disadvantage in another municipality. The Ontario Government is convinced that the only way to remove these anomalies and inequities is to reassess all properties in Ontario at current value. It is the Province's aim to bring about uniformity of assessment all across Ontario in order to achieve equity among property owners, among property categories and among municipalities.

The Ontario Government concluded that this goal could only be achieved by assuming full responsibility for administration of property assessment and it did so as of January 1, 1970. Assessment is now a provincial function in New Brunswick and Prince Edward Island as well and it has been largely provincialized in Manitoba and Saskatchewan. The Province of British Columbia assesses all property in villages and unincorporated areas, but not in the larger municipalities.

Toward full value assessment in Ontario. The first task undertaken by the Ontario Department of Municipal Affairs upon taking over the assessment function was to conform to the statutory mandate of 100 percent assessment. Even prior to enactment of the new Assessment Act of 1968-69, the law required "actual value" assessment. The only change in this regard was to replace the term "actual value" with "market value" and to define the latter as "... the amount that ... the land might be expected to realize if sold in the open market by a willing seller to a willing buyer."[44]

Because of the extreme unevenness of taxable values under the prior system of municipal assessment, it is becoming increasingly apparent as the reassessment program progresses that it will result in some shifting of the property tax burden. This shifting effect was demonstrated dramatically by a case study of a reassessment to market value in the Town of Mississauga, Ontario (population 130,000).[45] This sample-based study found that, as a result of the reassessment, the average increase in assessed value varied considerably among property types, as the following table shows:

Type of property	*Mean factor increase*
Industrial	5.96 times
Central commercial*	16.17 times
Apartment buildings	5.43 times
Single family** (4-5 years old)	6.91 times
Single family** (7-15 years old)	6.72 times
Single family (25-30 years old)	8.74 times

Put another way, the above figures indicate that under the previous system of fractional assessment, industrial property and apartment buildings were overassessed relative to single-family dwellings, and commercial properties in the central business district were extremely underassessed. Furthermore, among the single-family residences, older homes were relatively underassessed. The study concluded that, as a result of the reassessment in Mississauga, most of the shift in tax burden was from industrial and apartment properties to commercial and single-family residential, with central commercial and older homes bearing the brunt.

With the possible exception of the extreme underassessment of central business property, these findings were, of course, not surprising. Indeed, Ontario officials indicated at the time the decision was made to undertake a provincewide reassessment of market value that some adjustments would have to be made to cushion the immediate impact of the tax burden shift. This is being accomplished by authorizing municipalities (at their option) to grant relief, for a limited time, to property owners whose property taxes increase substantially as a result of the reassessment.***[46]

Broadening the Base

Local property taxes in Canada are subject to the standard types of exemptions common in the United States. As a general rule, property owned by Federal, provincial and local governments, and religious, charitable, educational and other types of non-profit organizations are wholly exempt from property taxation.

Payments in lieu of taxes on government property. Government property is specifically exempted under the Canadian Constitution, which states, "No land or property belonging to Canada or any Province shall be liable to taxation."[47]

The Federal Government has had a rather broad policy of making annual payments in lieu of taxes on government owned property since 1950. Under the Municipal Grants Act, the Government pays the equivalent of full property taxes based on assessed value agreed to between the assessor and the Federal Department of

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*The survey covered only commercial properties in the central business district. A preliminary survey conducted earlier by the Town Manager indicated that the assessed value of *all* commercial properties in Mississauga was increased by a factor of 7.31 times.

**Includes semi-detached dwellings.

***The Province does not undertake to reimburse municipalities for property tax losses that result from the granting of such relief.

Finance. Certain Federal properties are excluded from liability for in-lieu payments, notably self-contained defense installations (on the ground that they require services of limited cost in relation to the value of the property concerned) as well as parks, cultural properties (such as a museum or art gallery) and Indian reserves.

The Houses of Parliament are excluded from the general grant formula but payments are made which are related to the amount of real property taxes payable on office buildings in Ottawa having the same number of worker-occupants. Certain government corporations (such as the Canadian National Railways) have not been given agency status and therefore pay taxes rather than grants in lieu. Federal in-lieu payments on departmental properties amounted to $51.5 million in fiscal 1968-69

All the Provinces except Saskatchewan also make in-lieu payments on their property. There is some variation in coverage, but in most provinces the payments are substantial and include departmental properties as well as those of government corporations. In general, such provincially-owned properties as highways, parks and cultural facilities are not subject to in-lieu payments.

Move to eliminate property tax exemptions in Ontario. The Ontario Committee on Taxation devoted considerable space to the erosion of the property tax base by exemptions and concluded that, by and large, they should be eliminated.[48] It noted that the Ontario system of in-lieu payments on provincial property applies only to municipal taxes, excluding school taxes. It recommended that church property be subjected to property taxation but proposed that the taxation of such property be phased in over a period of years.

In the *1969 Budget* White Paper on "The Reform of Taxation and Government Structure in Ontario," the Provincial Government indicated its intent to move toward payment of full taxes on its properties and to review the exempt status of certain private properties.[49] At the same time it made it clear that there would be no attempt to eliminate the exemption of religious institutions.

Ontario took an interim step toward local taxation of college and university property when it authorized municipalities to levy a tax up to $25 per full-time student on provincially-assisted institutions of higher education. Universities and colleges of applied arts and technology are provided compensatory aid from the Province to help them meet this additional cost. In the *1970 Budget* of Ontario, the Provincial Treasurer pointed out that, once university properties are "properly assessed," they will be subjected "to the normal methods of taxation."[50] Quebec has recently started a similar system for municipal taxation of universities and colleges.

Relieving the Property Tax Burden

Measures to reduce property tax burdens take the form of tax rebates and split mill rates. Tax rebates are paid in respect of residential property in British Columbia, Alberta, Saskatchewan and Ontario. Ontario and Quebec have rebates for owners of farm property. Split mill rates are levied throughout Ontario, New Brunswick and Manitoba and in urban areas of Quebec and Nova Scotia.

British Columbia established an annual flat homeowner grant of $28 in 1957 and it has been increased steadily, so that it now amounts to $160 per residential taxpayer. The $160 credit is allowed the taxpayer by the municipal tax collector and the Province pays this amount to the municipality on behalf of the taxpayer. In fiscal 1970, British Columbia paid out about $55 million in homeowner grants, applied mainly against school taxes.

On the recommendation of the Smith Committee, Ontario initiated a system of basic shelter exemptions in 1968. This was akin to the standard type of homestead exemption that exists in a number of southern States whereby a specified amount of assessed valuation is exempt from taxation. In the case of Ontario, the exempted portion of the assessed value of a residential property was $2,000. However, because assessment ratios varied among municipalities, an equalization factor was applied in computing the amount of tax reduction. The basis for computing the "basic shelter grant" was subsequently revised. The present law requires each municipality to reduce its municipal and school levies on residential property by the lesser of (a) $30 per residential property plus 10 percent of the preceding year's municipal and school levy, or (b) 50 percent of total municipal and school taxes.[51] In fiscal 1970 Ontario distributed $123 million as reimbursement for residential property tax reduction.

Ontario provides another type of property tax relief in the form of per capita grants to municipalities (from $5 to $7.50 depending on the population size). This grant must be applied by the municipality to reduction of the property tax mill rate that is levied on residential and farm property. Per capita grants provided $44.7 million in "unconditional" aid to municipalities in fiscal 1970.

In the *1970 Budget*, the Ontario Government proposed another property tax relief program, aimed specifically at elderly homeowners and tenants. Under this program, up to $100 of supplementary tax relief would be paid to elderly homeowners and tenants with limited income.* At the time he proposed this plan, the Provincial Treasurer, Charles McNaughton, noted that he would have preferred to offer this in the form of selective tax relief through income tax credits, but because of the uncertainty of the Federal tax reform proposals, the Ontario Government had decided to proceed on its own.[52]**

CONCLUSION

It seems clear from this brief survey of selected aspects of provincial-local relations in Canada that at least some of the Provinces are taking seriously their responsibility for dealing with urban problems. Having developed, with the help of the Federal Government, strong revenue systems underpinned by reasonably effective personal income taxes, some of the Provinces have undertaken innovative programs to improve the delivery of a growing body of public services. Like the States, they have the constitutional power to restructure local government, but unlike most States, they are using it—some with drastic results.

Most of the Provinces have recognized the need to strengthen the property tax base and to spread its benefits more equitably. Except in Quebec, property tax assessment is now virtually a provincial function in Canada. As a result, more effective personnel and technical resources can be applied to developing uniform tax bases. And, more equitable use of the property tax base will inevitably derive from centralized administration or financing—either at the provincial level or at the local regional level—of such "people" services as education, welfare, health and justice.

The tendency toward more unconditional provincial aid to local governments is another development worth notice in the United States. The fact that the Canadian Federal Government has been involved in unconditional revenue sharing since the end of World War II is undoubtedly a contributing factor. Indeed, much of the provincial to local unconditional aid is in recognition of the growing local property tax burden and a general attitude that income and sales taxes are inappropriate as local imposts. Of particular interest to the States is the equalization formula that New Brunswick applies to its unconditional aid. Although New York has recently embarked on a massive income tax sharing program through per capita grants, it might well consider building in a sophisticated equalization scheme.

The limited access of small communities to capital markets has moved many of the Provinces to central marketing of local bond issues. Some of the States—for example, Virginia and North Carolina—have been marketing local bonds for many years. A considerable number of States have established housing finance agencies and Vermont established a Municipal Bond Bank at the end of 1970. While the Canadian situation regarding local bond issues differs in an important respect from that in the United States—interest on provincial and local bond issues is *not* tax exempt—the States might well benefit from some of the central financing experiences of the Provinces—especially Alberta.

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*To be eligible, recipients must be receiving the Federal Guaranteed Income Supplement and must maintain an independent household. As finally enacted, the amount of this supplementary tax relief was reduced to $50 (*ibid.*, sec. 8a).

**See chapter 11 for a discussion of Canada's tax reform program.

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[2] Economic Council of Canada, *The Canadian Economy from the 1960's to the 1970's, Fourth Annual Report* (September 1967), p. 191.

[3] *Ibid.*, p. 196.

[4] Dennis A. Young, "Case Study/British Columbia: Governing for Economic Development," *Public Management* (International City Management Association, Washington: October 1970), Vol. 50, No. 10, p. 9.

[5] Maurice Tessier, Minister of Municipal Affairs, *Proposal for the Reform of Municipal Structures* (Quebec: undated).

[6] Frank Smallwood, "Guiding Urban Change" in *National Civic Review* (Vol. LIV, April 1965), p. 197.

[7] *Municipality of Metropolitan Toronto Act*, 1953.

[8] Ontario Municipal Board, *Decisions and Recommendations of the Board* (Cumming Report) (Toronto: January 20, 1953), p. 43.

[9] Royal Commission on Metropolitan Toronto, *Report* (Toronto: June 10, 1965), p. 172.

[10] *Ibid.*, p. 173.

[11] *Ibid.*

[12] For an illuminating discourse on the political aspects of Metro Toronto, see Harold Kaplan, "Politics and Policy-Making in Metropolitan Toronto," *Canadian Journal of Economics and Political Science* (November 1965, XXXI, No. 4), pp. 539-551.

[13] *Metropolitan Toronto 1970* (Toronto: December 1970), p. 7.

[14] Municipal Finance Officers Association, *Newsletter*, January 16, 1971, p. 7.

[15] Manitoba Government, *Proposals for Urban Reorganization in the Greater Winnipeg Area*, December, 1970.

[16] Local Government Boundaries Commission, *Provisional Plan for Local Government Units in the Greater Winnipeg Area*, September, 1970.

[17] University of Winnipeg, Institute of Urban Studies, *The Future City—A Selection of Views on the Reorganization of Government in Greater Winnipeg* (Winnipeg: The University of Winnipeg Press, Undated).

[18] The Ontario Committee on Taxation (Smith Committee), *Report* (Toronto: 1967), Vol. II, p. 495.

[19] *Ibid.*, p. 495-496.

[20] Select Committee on the Municipal Act and Related Acts, *Fourth and Final Report* (Toronto: March 1965), p. 185.

[21] *Design for Development*, Statement by the Prime Minister of the Province of Ontario on Regional Development, April 5, 1966.

[22] *Ibid.*, p. 3.

[23] *Ibid.*, p. 7.

[24] *Design for Development Phase Two*, Statement by the Honourable John Robarts, Prime Minister of Ontario, November 28, 1968, p. 6.

[25] *Ibid.*, Statement by the Honourable W. Darcy McKeough, Minister of Municipal Affairs, December 2, 1968, p. 1.

[26] *Ibid.*, p. 2 (emphasis added).

[27] *Ibid.*, p. 9

[28] *Ibid.*, p. 10.

[29] *Ibid.*, Statement by Prime Minister Robarts, p. 10.

[30] Ontario Committee on Taxation, *Report* (Toronto: 1967), Vol. II, p. 443.

[31] "The Reform of Taxation and Government Structure in Ontario," *Ontario Budget*, 1969, p. 62.

[32] The Royal Commission on Finance and Municipal Taxation in New Brunswick, *Report*, (Byrne Commission) (Fredericton: 1963), p. 274.

[33] Ralph P. Krueger, "The Provincial-Municipal Revolution in New Brunswick," *Canadian Public Administration* (Spring 1970, Vol. XIII, No. 1), p. 84.

[34] Byrne Commission, *op. cit.*, p. 277.

[35] *1970 Budget of Ontario*, p. 16.

[36] *Reform of Municipal Finance*, a Statement by the Honourable W. Darcy McKeough, Minister of Municipal Affairs, to the First Provincial-Municipal Conference (Toronto: April 23, 1970), p. 13.

[37] The Alberta Municipal Financing Corporation Act (*Statutes of Alberta, 1956*, Ch. 3, as amended). For a discussion of this and other related proposals in the U.S., see ACIR, *Federal Approaches to Aid State and Local Capital Financing* (A-37, September 1970), Ch. 2.

[38] Douglas H. Clark, "Property Tax Problems in Canada and How They are Being Met," in Tax Institute of America, *The Property Tax: Problems and Potentials* (Princeton: 1967), Ch. XXXIV.

[39] Frederick H. Finnis, *Property Assessment in Canada* (Toronto: Canadian Tax Foundation, March 1970), Ch. III.

[40] *Ibid.*, Ch. V.

[41] Ontario Committee on Taxation, *Report* (Toronto: 1967), Vol. II, Ch. 13.

[42] *Ibid.*, p. 205.

[43] "The Reform of Taxation and Government Structure in Ontario," *Ontario Budget*, 1969, pp. 63-64.

[44] *The Assessment Act of 1968-69*, (18 Eliz. II, 1968-69, Sec. 27 [2]).

[45] Bureau of Municipal Research, *Market Value Reassessment* (Toronto: 1970).

[46] *The Assessment Amendment Act*, 1970 (19 Eliz. II), effective January 1, 1970.

[47] British North America Act, 1867, Sec. 125.

[48] *Op. cit.*, Vol. II, Ch. 12.

[49] *Op. cit.*, p. 65.

[50] Ontario, *1970 Budget*, p. 16.

[51] *The Residential Property Tax Reduction Act*, Statutes of Ontario, 1968, Ch. 118 (as amended by 1968-69, ch. 112; 1970, Chs. 11, 119).

[52] *Op. cit.*, p. 16.

Appendix A

Table A-1.

CANADIAN PROVINCES AND U.S. STATES—COMPARATIVE FISCAL ANALYSIS FOR 1969

(Dollar amounts in millions)

Source	Canadian Provinces			U.S. States		
	Amount (est.)	% dist.	% of GNP	Amount	% dist.	% of GNP
Total general revenue	$ 9,672[1]	100.0	13.5	$ 67,312	100.0	7.8
Intergovernmental revenue	2,738	28.8	3.9	17,775	26.4	2.1
From Federal Government:						
Unconditional	1,150[2]	11.9	1.6	—	—	—
Conditional	1,633[3,4]	16.9	2.3	16,907	25.1	2.0
From Provincial or State governments:						
Unconditional	—	—	—	—	—	—
Conditional	—	—	—	—	—	—
From local governments	[4]	[4]	[4]	868	1.3	0.1
Taxes	5,594	57.8	7.8	41,931	62.3	4.8
Individual income	1,720	17.8	2.4	7,527	11.2	0.9
Corporation income	681	7.0	1.0	3,180	4.7	0.4
Sales and gross receipts:						
General sales	1,395	14.4	2.0	12,443	18.5	1.4
Motor fuel	947	9.8	1.3	5,644	8.4	0.7
Tobacco products	143	1.5	0.2	2,056	3.1	0.2
Other	106	1.1	0.1	3,906	5.8	0.5
Property	38	0.4	0.1	981	1.5	0.1
Death and gift	122	1.3	0.2	996	1.5	0.1
All other taxes	442	4.6	0.6	5,197	7.7	0.6
Charges & misc. general revenue	1,295[1]	13.4	1.8	7,606	11.3	0.9
Exhibit: Gross national product	71,454			865,045		

[1] Excluding $396 million "own enterprises revenue," mostly liquor profits (approximately 95%).

[2] Includes $555 million representing payment of 50% of the current cost of post-secondary education including the value at tax abatements under the personal and corporate income tax, and associated equalization and cash adjustment payments.

[3] Includes the value to Quebec of special income tax abatements and associated equalization where abatements are made in lieu of the conditional grants to other Provinces.

[4] Federal amount includes local transfers to Provinces, breakdown not available. Local amount was $23 million in 1968 and is estimated at $35 million in 1970.

Source: D.B.S. *Provincial Government Finance, Revenue and Expenditure 1970 (Estimates).* Revised intergovernmental revenue figures for Canada supplied by the Federal Department of Finance; and U.S. Bureau of the Census, *Governmental Finances in 1968-69.*

Table A-2.
CANADIAN AND U.S. LOCAL GOVERNMENTS–COMPARATIVE FISCAL ANALYSIS FOR 1969
(Dollar amounts in millions)

Source	Canadian			United States		
	Amount (est.)	% dist.	% of GNP	Amount	% dist.	% of GNP
Total general revenue	$ 6,788[1]	100.0	9.5	$ 71,943	100.0	8.3
Intergovernmental revenue	2,971	43.8	4.2	26,082	36.3	3.0
From Federal Government:						
Unconditional	54	0.8	0.1	—	—	—
Conditional	34	0.5	*	2,245	3.1	0.3
From Provincial or State governments:						
Unconditional	262	3.9	0.4	2,135	3.0	0.2
Conditional	2,621	38.6	3.7	21,702	30.2	2.5
From local governments	—	—	—	—	—	—
Taxes	3,269	48.2	4.6	34,781	48.3	4.0
Individual income	—	—	—	1,381	1.9	0.2
Corporation income	—	—	—	[2]	[2]	[2]
Sales and gross receipts:						
General sales	—	—	—	1,595	2.2	0.2
Motor fuel	—	—	—	37	0.1	*
Tobacco products	—	—	—	97	0.1	*
Other	—	—	—	741	1.0	0.1
Property	2,745	40.4	3.8	29,692	41.3	3.4
Death and gift	—	—	—	[3]	[3]	[3]
All other taxes	524	7.7	0.7	1,239	1.7	0.1
Charges & misc. general revenue	548[2]	8.1	0.8	11,080	15.4	1.3
Exhibit: Gross national product	71,454			865,045		

*Less than 0.5 percent.

[1] Excluding $36 million "own enterprise revenue."

[2] Minor amount included in individual income tax figures.

[3] Minor amount included in "All other taxes."

Source: D.B.S. *Local Government Finance, 1968 and 1969, Revenue and Expenditure;* and U.S. Bureau of Census, *Governmental Finances in 1968-69.*

Appendix B

EXCERPTS FROM A PAPER BY D. G. HARTLE

"THE IMPACT OF NEW TAX POLICIES ON NATIONAL UNITY"*

Rapid population growth, increased urbanization and an increased emphasis on education have all greatly increased the demand for the goods and services provided by municipal and provincial governments. This has created an unprecedented increase in the demand for revenues by these governments. In the recent past this demand has been met, to a considerable extent, by increased transfers of revenue from federal government to provincial governments. This was made possible, generally speaking, without increasing federal tax rates. The province's were, in effect, given part of the extra revenues created by economic growth and rising price levels. The municipalities in turn obtained larger transfers of revenue from the provinces. *These seemingly simple changes in inter-government transfers were only achieved at a very high cost in terms of tension between the three levels of government. The tension needed to bring about the adaptation shook the foundations of the federation.* Let me try to explain why.

Politicians in office seek to obtain the political benefits that result from rapidly rising expenditures and seek to avoid paying the political costs of rapidly rising tax rates. This leads to a tug-of-war for revenues among the three levels of government. Ultimate success is achieved when the politician obtains credit for additional expenditure but sticks someone else with the blame attached to raising extra funds. Given these objectives, it is always a good ploy for municipal politicians to claim that provincial politicians have the wrong priorities, and that the province should spend less or tax more in order to give more funds to the municipalities. . . .

It is equally sensible for provincial politicians to make the same argument vis-a-vis the federal government. Even if additional, politically costless funds are not forthcoming from the senior government, it is worthwhile making the demands because, in this way, the provincial and municipal politicians may be successful in laying the political blame for higher provincial and municipal taxes on the federal government. In short, municipal and provincial politicians had everything to gain by attacking the so-called "higher" levels of government for failing to observe the "real" priorities of the electorate.

I do not mean to suggest by these remarks that this battle is just a lot of words. I believe it is extremely important. What I do want to suggest is that in this deadly serious game the stakes are political credit and political blame. I also want to suggest that the stakes are often high. If this assessment is accepted *I think it follows that it is most unlikely that we will ever attain, under a federal system of government, the stituation where all governments get together, agree on priorities for expenditures, and then parcel out the revenues among themselves in accordance with these agreed priorities.* There are major and unavoidable conflicts of interest between levels of government that can only be resolved through hard bargaining. . . .

I am sure you are all aware that provincial governments have access to virtually all tax sources. They can obtain all the revenues they want if they are willing to bear the political costs of raising tax rates. The fight is *not about the power to raise revenue but about who is going to bear the political costs of exercising the power.*

Having said all of this I think it must be recognized that the present system has not worked well in adjusting to a new allocation of revenues among the three levels of government. While I cannot prove it, I expect that, in the past, the federal-government has proceeded with projects that, had there been a national referendum, would have been given lower priority by the majority than some of the projects that municipalities shelved rather than finance through higher taxes. The majority would have been better off had the federal government transferred the funds to the municipalities (directly or indirectly) and allowed the project to proceed with an unchanged tax burden at the municipal level. . . .

Faced with this situation the surprising thing is not the failure of the present system to adequately recognize priorities but rather the fact that extraordinary large transfers were made from the federal to provincial governments. Clearly the present system has adapted, slowly, painfully, and probably not completely, to the changing needs at the different levels of government. Clearly, too, we are about to enter a new phase, for the Federal Government has announced that it will not grant

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*Institute for The Quantitative Analysis of Local and Economic Policy, Paper Number 1 (October 1968) pp. 3-5, 7. Emphasis added.

the provinces further increases in abatements. If there was tension in the past when federal funds were being transferred there is going to be a lot more tension now that the federal heel has been dug in.

In retrospect it is easy to see that major shifts of revenues from the federal to provincial governments and from the provincial to municipal were necessary for the reasons I have already stated. It is also apparent that the process of adjustment puts great strain on the system because the adjustment can only take place when the tension is extraordinarily high. But it is difficult to conceive of an alternative method that would not amount, in effect, to the adoption of a super-government over both federal and provincial governments. Such a super-government could readily determine priorities. But who would be represented on this super-government? And to whom would it be responsible? Unless we are willing to abandon a federal system and move to a unitary system these endless fights for revenue are, I believe, inevitable.

Appendix C

REVENUE SOURCES AND TAX BASES USED IN THE 1967 FEDERAL REVENUE EQUALIZATION FORMULA

Revenue Source[a]	*Tax Base*[a] *(Base to which tax rate is applied each year)*
(1) Individual income tax	Assessed federal individual income tax allocated to province.
(2) Corporation income tax	Assessed federal corporation income tax allocated to province.
(3) Succession duty	Assessed federal estate tax allocated to province (three-year average).
(4) General sales tax	Total value of retail trade in province minus an amount equal to estimated personal expenditures on food (which is the principal tax-exempt item included in retail sales) plus the cost of materials used in construction in province (which is the principle taxable item excluded from retail sales).
(5) Gasoline tax (6) Motor vehicle licences	Volume of gasoline and diesel oil sold in province.
(7) Alcoholic beverage taxation	Volume of beer, wine and spirits consumed in province (special weighting for spirits and wine owing to relatively high mark-ups).
(8) Forestry taxation	Volume of forest production from provincial Crownlands in province.
(9) Oil royalties	Value of crude petroleum production in province.
(10) Natural gas royalties	Value of natural gas production in province.
(11) Sales of Crown leases and reservations on oil and gas lands	Five-year average of actual revenues of province from sale of Crown leases and reservations on oil and gas lands.
(12) Other oil and gas revenues	Actual oil and gas revenues of province from oil and gas other than royalties and sales of Crown leases and reservations.
(13) Metallic and non-metallic mineral revenues	Net value of mineral production in province, excluding fuels and structural materials.
(14) Water power rentals	Volume of energy generated in province from hydro sources, both private and public.
(15) Other provincial taxes (16) Miscellaneous provincial revenues	Total income received by individuals and business. (Combination of "individual income" of province and "business income" of province, the two components weighted to take account of the approximate proportions for Canada as a whole of other provincial taxes and miscellaneous provincial revenues paid by business and non-business taxpayers.)[b]

[a] Revenue sources and tax bases are defined more elaborately by sections 3 and 4 respectively of the Federal-Provincial Fiscal Arrangements Regulations, 1967, P.C. 1967-1934.

[b] The "individual income" of a province consists of personal income less one-third of the net income of non-farm, unincorporated business. The "business income" of a province consists of assessed federal corporation income tax allocated to the province plus one-third of the net income of non-farm, unincorporated business.

Source: Douglas H. Clark, *Fiscal Need and Revenue Equalization Grants* (Toronto: Canadian Tax Foundation, 1969), pp. 39-40.

Appendix D
INTER-PROVINCIAL VARIATIONS IN PUBLIC ASSISTANCE

Introduction. Although much attention has been given to the rising costs of public assistance both in Canada and the United States, comparatively little has been devoted to cross-sectional analysis of why different Provinces or States spend varying amounts for particular public assistance programs. The purpose of this present study is to determine whether any systematic pattern exists between measures of public assistance in Canada and certain socio-economic characteristics of the population. The results show that such relationships do in fact exist but that the explanatory power of the selected socio-economic factors differs considerably among the public assistance programs.

More specifically, this study seeks to explain why Canadian Provinces (a) provide different monthly benefit payments per recipient and (b) have different ratios of public assistance caseloads. The scope of this study includes three Canadian categorically-aided public assistance programs—old age assistance, blind persons allowances and allowances to the disabled—as well as the general assistance program, the Canada Assistance Plan. In addition, total welfare expenditures per capita are also analyzed.

Inter-Provincial Variations. Before beginning the analysis, it is helpful to summarize the Provincial variations that are the subject of this study. For each public assistance program, monthly benefits and the recipient ratio by Province are presented in Table D-1. It is these variations that are subsequently analyzed in this study.

As can be seen from the data, variations in monthly assistance benefits per recipient are not particularly pronounced for the three categorically-aided programs. Old age allowances during March of 1968, for example, ranged from a low of $58.53 per recipient in Saskatchewan to a high of $71.27 per recipient in New Brunswick, a ratio of 1.22 to 1. For the blind persons allowances, the range in benefit payments was from $54.27 per recipient in Ontario to $73.81 in British Columbia, a ratio of 1.36 to 1. Payments to the disabled varied from a low of $64.97 per recipient, again in Ontario, to a high of $74.43 per recipient in Newfoundland, a ratio of 1.15 to 1. These then are the actual differences paid to recipients for a particular month under the various categorically-aided public assistance programs.

For the Canada Assistance Plan, however, actual benefit payments by Province are not available. The best comparative information for this public assistance program is the standard monthly budget which is not necessarily the amount actually paid out to recipients. Since these monthly budgets are avilable for various types of family units, the budgets analyzed in this study are those for single persons living alone and a family with two parents and two children. Excluding Alberta, for which data is not available, and Nova Scotia, where the data is least comparable, the inter-provincial variations in monthly budgets for a single person living alone extend from a low of $80 per month in British Columbia to a high of $131 per month in Prince Edward Island, a ratio of 1.64 to 1; for the two parent—two children family, the range is from $187.66 in New Brunswick to $271 in Ontario, or a ratio of 1.44 to 1. While these variations are greater than those found for the categorically-aided public assistance programs, it must again be emphasized that the monthly budget figures are not necessarily equivalent to the amounts actually received.

In addition to monthly expenditure or budget measures, a set of recipient ratios was also studied. Specifically, these indices were the number of old age allowance recipients per 1000 of the population 65 and over, the number of blind persons allowance recipients per 10,000 of the general population, the number of disabled persons allowance recipients per 10,000 population aged 20 to 64 and the number of Canada Assistance Plan beneficiaries per 1000 general population. As can be seen from the data, the variations in recipient ratios for the categorically-aided assistance programs are far more pronounced than those for the monthly expenditure or budgets. This is due, at least in part, to the different responses on the part of the Provinces to the provision of the Canada Assistance Plan which permits the individual Provinces to cease accepting applications for the categorical assistance programs and to integrate these recipients in the Canada Assistance Plan, provided the recipient receives as much or more than he did prior to the change.

ANALYTICAL FRAMEWORK

Each of the variables presented in Table D-1—the dependent variables—was analyzed by means of a multiple regression technique. Variations in each such measure were tested to determine whether they bore a systematic relationship to four independent variables—

Table D-1
INTER-PROVINCIAL VARIATIONS IN MONTHLY BENEFIT PAYMENTS AND RECIPIENT RATIOS

VARIABLE	PROVINCE								
	NFD.	P.E.I.	N.S.*	N.B.	ONT.	MAN •	SASK.	ALTA.	B.C.
Old age allowance, monthly assistance, March, 1968	$ 66.24	$ 70.60	$ 66.20	$ 71.27	$ 59.47	$ 67.49	$ 58.53	$66.08	$ 70.84
Blind persons allowance, monthly assistance, March, 1968	73.18	73.72	73.28	73.52	54.27	71.91	68.86	73.02	73.81
Disabled persons allowance, monthly assistance, March, 1968	74.43	72.08	73.53	74.33	64.97	73.64	69.01	72.75	73.59
Canada Assistance Plan, monthly budget for a single person living alone	90.00	131.00	41.80	117.00	115.00	101.00	93.10	—	80.00
Canada Assistance Plan, monthly budget for a family of 2 parents and 2 children	215.00	244.00	148.00	187.66	271.00	246.10	215.15	—	211.00
Old age recipients per 1000 population age 65 and over	28.9	17.6	27.9	38.9	2.4	18.5	0.4	16.4	13.3
Blind recipients per 10,000 population	8.4	6.3	8.4	8.6	0.6	3.0	1.3	2.5	2.4
Disabled recipients per 10,000 population age 20 to 64	6.6	1.6	9.7	8.1	6.6	3.1	0.6	2.7	2.5
Canada Assistance Plan Beneficiaries per 1000 persons	1.304	.908	1.320	1.092	1.953	1.536	.985	1.297	1.310

*Excluded in regression analysis.

personal income per capita (1968), percentage of the population living in urban areas (1966), the rate of population increase between 1961 and 1966, and the ratio of recipients of retirement and widows benefits under the Canada Pension Plan in 1968 per 1000 population.

Personal income per capita was thought to be related to public assistance since the higher levels of income in general should serve to reduce–though not eliminate–the need for public assistance. Hence, a negative relationship was anticipated between this factor and the public assistance measures. On the other hand, a higher level of personal income would mean increased revenues for the Provinces which might ease the pressures on the public purse and enable more generous assistance levels to be provided. Thus, while income can be expected to be negatively related to recipient ratios, the influence of this factor on expenditure or budgetary data is less clear as this negative tendency may be offset by the fact that income–as an index of ability to spend–is positively associated with the expenditure series. As a result, the two influences may cancel each other when analyzing expenditures, though not beneficiary rates.

The percentage of the population living in urban areas was included to determine whether the higher costs of urban living are reflected in higher public assistance benefits and/or ratios. Urbanization seemed likely to be related not only to benefit payments–to the extent such higher costs do affect the level of monthly assistance–but also because of the tendency for many of the poor to reside in urban areas, in which case the more urban Provinces would tend to have the higher recipient ratios. While urbanization was expected to be directly related both to the monthly assistance and budget benefit levels as well as the public assistance recipient ratios, it is also possible that the clustering together of the poor in urban sectors may necessitate a spreading effect of a given welfare budget. In this case then, a negative relationship between public assistance expenditures and urbanization would result.

The rate of population growth was included as a possible explanatory factor on the grounds that budget officials in rapidly growing or declining Provinces might alter their expectations as to future population and public assistance developments. A direct relationship would, therefore, emerge if the budget process tends to anticipate this future growth; a negative association would result if the budget process lags behind the rate of population change. Such expectational changes are more firmly rooted to the extent the migration patterns of the poor or those who are likely to find themselves needing public assistance remain some near-constant proportion of the total rate of population growth.

The last variable–the ratio of Canada Pension Plan retirement and widows beneficiaries to the total provincial population–is designed to reflect the fact that those who receive such pensions have an alternative source of income. Such income, while not restricted to the poor, nonetheless is of assistance in preventing recipients from becoming poor. Because of this interplay, then, an inverse relationship between this ratio and the public assistance measures was anticipated. Although other types of pensions were paid in 1968–death and orphan's benefits–these were excluded in that they account for only about 2 percent of all Canada Pension Plan beneficiaries and seem to be only loosely connected, if at all, with the public assistance measure.

EMPIRICAL RESULTS

The results of these procedures indicate that the four independent variables–personal income per capita, percent of the population living in urban areas, rate of population increase and the ratio of Canada Pension Plan beneficiaries per 1000 thousand population–when taken together–"explain" between 51 percent and 83 percent of the inter-provincial variations in the categorically-aided public assistance programs. The sole exception to this statement is the variation in monthly payments for old age assistance where the independent variables provide little or no explanation–that is 4 percent. For the Canada Assistance Plan, the most successful results were achieved for the variations in beneficiary ratios where 89 percent of the interprovincial differences were "explained"; the monthly budget standard variations were less amenable to explanation by the four socio-economic variables, both for the single person living alone and the family of four–two parents and two children. Finally, some 90 percent of the inter-provincial variations in total welfare expenditures per capita was explained by the four socio-economic variables.

Old Age Assistance Program. Although little is achieved in the attempt to explain variations in monthly benefit levels for this program, the variations among Provinces in old age assistance recipients per 1000 are more amenable to analysis. When taken together, the four independent variables account for some 64 percent of the inter-provincial variation. More importantly, the results for the personal income and percent urbanization factors are both significantly related–in the statistical sense–to these variations and have the anticipated sign. The income measure is negatively related to differences among Provinces in their old age assistance recipient ratio, thereby indicating that aged residents of the more affluent areas have lesser recourse to the public assistance rolls than their counterparts in the poorer Provinces. The urbanization measure, on the other hand, is directly related to the recipient ratio, thereby suggesting that the aged tend to cluster in the more urban Provinces. Neither the rate of population change factor nor the Canada Pension Plan measure appeared to significantly affect the variations among Provinces in their old age assistance ratio.

Blind Persons Allowance Program. For this program, the four independent variables taken together "explained" some 74 percent of the inter-provincial differences in monthly payments and some 83 percent of the variations in the recipient ratio. Again, the personal income per capita and urbanization factors were found to be statistically significant and to have the anticipated signs–that is, negative regarding income and positive with respect to urbanization. In addition, the ratio of Canada Pension Plan recipients to 1000 population was also significantly related to the monthly blind payments allowances. This measure was negatively related to the level of provincial monthly payments thereby indicating that those Provinces with more people receiving pension assistance tended to pay the lower monthly benefits–a sort of substitution between the public programs.

For the inter-provincial variations in the blind persons allowance recipients per 10,000 population measure, the only statistically significant factor was the level of personal income per capita which again had the anticipated negative sign. The degree of urbanization, while having the positive association with variations in the ratio of blind persons allowances recipients, was close to–but not actually–significant in the statistical sense.

Disabled Persons Allowance Program. Taken together, the four independent variables "explain" some 65 percent of the inter-provincial variations in monthly payments to the disabled and some 51 percent of the differences among Provinces in the recipient ratio, expressed as a percentage per 10,000 of the population aged 20 to 64. As was true with regard to the blind persons monthly benefits, variations in the disabled persons monthly payments are systematically related to personal income per capita, the percentage living in urban areas and the ratio of Canada Pension Plan recipients per 1000 population. Each of these factors is significant in a statistical sense with the personal income per capita and the Canada Pension Plan recipient ratio having a negative relationship and the urbanization factor a positive association with the inter-provincial variations in monthly benefit payments.

Variations in the ratio of disabled persons allowance recipients per 10,000 population of those aged 20 to 64 were systematically related only to differences in personal income per capita. Actually, the relationship is just below (2.296) the level required for statistical significance (2.310) but is extremely close to being so. Again, this factor appears with the negative sign, indicating that the more affluent Provinces have the lesser ratios of disabled persons resorting to the public assistance rolls.

Canada Assistance Plan. As the monthly budget for the Canada Assistance Plan is available for families of various composition, two such series were selected–for a single person living alone and for a family of four, two parents and two children. Variations among Provinces in monthly budgets for the single person, however, were not found to be closely related to any of the socioeconomic measures. For the family of four monthly budget, a positive and close-to–but not actually–significant relationship was found with personal income per capita. In addition, a systematic and inverse relationship was found with the percent of the population living in urban areas while a direct and significant relationship was found with the Canada Pension Plan beneficiary ratio. While these latter two variables were significantly related to the variations in monthly budget standards, these signs do not accord with *a priori* reasoning. One possibility is that the clustering effect of the poor in urban sectors has forced these Provinces to spread their welfare budgets more thinly, thereby giving rise to the negative relationship. On the other hand, it is also possible that the urban Provinces tend to meet their monthly budget standards whereas the poorer rural Provinces fall short of their stated goals by greater amounts. If this is the case, then the anticipated positive relationship between urbanization and actual expenditures might still emerge, even though it is offset with the monthly budget standard data. Regarding the Canada Pension Plan beneficiary ratio, the positive relationship indicates that there is no tradeoff between receipt of the pension and public assistance–rather those Provinces with the greater ratio of pension recipients tend to allocate larger sums to the monthly budgets. While this may mean that Provinces with the larger portions of their populations receiving pensions devote more of their own resources to public assistance, it is also possible that such Provinces tend to undershoot their monthly budget standards by larger amounts. While the latter possibility must be regarded as speculative, to the extent it is true the relationship between actual assistance expenditures and the particular independent factor would be obscured. Taken together, all four independent variables explained 75% of the variations among Provinces in their monthly budget standards for a family of two parents and two children.

The ratio of Canada Assistance Plan beneficiaries per 1000 population was found to be systematically and negatively associated with personal income per capita while directly—and significantly—related to the rate of population growth between 1961 and 1966. Some 89 percent of the inter-provincial variations in Canada Assistance Plan beneficiary ratios are explained by the four independent variables.

Total Welfare Expenditures Per Capita. In contrast to the individual categorical public assistance programs, total welfare expenditures per capita were not found to be systematically related to either personal income per capita, degree of urbanization or the Canada Pension Plan beneficiary ratios. Rather, the only relationship that was significant, in the statistical sense, was found with regard to the rate of population increase between 1961 and 1966. Here the association was positive, indicating that those Provinces which were growing most rapidly also found their welfare payments per capita increasing fastest, suggesting that the budgetary process responded favorably to this increased population growth. Taken together, the four independent variables "explained" 90 percent of the variations in per capita welfare costs among the Provinces.

CONCLUSIONS

The results of this study indicate that the four socio-economic variables—personal income per capita, percent of the population living in urban areas, rate of population increase 1961-66 and the ratio of Canada Pension Plan retirement and widow beneficiaries per 1000 population are generally related to the inter-provincial variations in public assistance measures. The best results are obtained for the public assistance beneficiary rates, both in the categorically aided and general assistance programs. Variations in actual expenditures are reasonably well "explained" for two categorically aided programs—the blind persons allowance and the disabled persons allowance—though inter-provincial differences in old-age assistance payments bear little, if any, relationship to the hypothesized socio-economic measures. Furthermore, variations in monthly budget standards of the single person living alone are also found not to be related to the independent variables while those for the two parent two child family are somewhat puzzling.

In sum then, it appears that the four socio-economic measures are generally related to the public assistance measures. Nonetheless, the degree of variation explained varies from the very poor—for old age assistance monthly payments and Canada Assistance Plan monthly budget standards for the single person, living alone—to the quite good, for blind persons monthly payments (74 percent), blind recipient ratio (83 percent), total welfare expenditures per capita (90 percent) and the Canada Assistance Plan beneficiary rate per 1000 (89 percent). Even where the explanation is quite good, however, it is of course possible that other factors not included in the present study may also be significant determinants of public assistance measures.

Table D-2.
SUMMARY OF REGRESSION RESULTS FOR CANADA PUBLIC ASSISTANCE MEASURES

Dependent Variable	1968 Personal Income Per Capita	Pct Urban 1966	Population Increase 1961-1966	C.P.P. Retirement and Widows Benefit Rate/1000	$\bar{R}$	$\bar{R}^2$
1. Old Age Assist., monthly payment, 3/68	–0.00696	–0.38362	–0.01195	–12.33189		
	0.00682	0.51651	0.73898	13.12987		
	(–1.02011)	(0.74272)	(–0.01618)	(– 0.93922)	.1993	.0397
2. Blind Allowance, monthly payment, 3/68	–0.0114*	0.91795*	–0.69467	–32.20712*		
	0.00470	0.03509	0.50947	9.05211		
	(–2.36736)	(2.57783)	(–1.36350)	(– 3.55797)	.8589	.7377
3. Disabled Allowance, monthly payment, 3/68	–0.00809*	0.57752*	–0.43821	–14.48190*		
	0.00268	0.20268	0.28998	5.15225		
	(–3.02237)	(2.84942)	(–1.51118)	(– 2.81079)	.8068	.6509
4. OAA recipients/1000 65+	–0.03599*	1.90259*	–1.96851	–28.58389		
	0.01089	0.82415	1.17913	20.95032		
	(–3.30537)	(2.30855)	(–1.66946)	(– 1.36437)	.7970	.6352
5. Blind recipients/10,000 population	–0.00872*	0.29747	–0.34216	– 3.34836		
	0.00199	0.15004	0.21552	3.82929		
	(–4.38376)	(1.97474)	(–1.58762)	(– 0.87441)	.9091	.8265
6. Disabled recipients/10,000, 20 to 64	–0.00749*	0.36259	–0.51237	1.87912		
	0.00326	0.24701	0.35340	6.27907		
	(–2.29600)	(1.46791)	(–1.44983)	(0.29927)	.7108	.5052
7. Total welfare per capita	–0.00093	–0.43656	1.63143*	– 4.52941		
	0.00264	0.20012	0.28632	5.08719		
	(–0.35026)	(–2.18145)	(5.69797)	(– 0.89036)	.9481	.8989
8. C.A.P. monthly benefits for single person	0.02247	–2.95923	1.02807	75.33821		
	0.02669	2.21384	3.26877	52.64954		
	(0.84185)	(–1.33669)	(0.31451)	(1.43094)	.5160	.2663
9. C.A.P. monthly benefits, 2 parents, 2 children	0.05390	–5.25661*	4.31053	156.95111*		
	0.02434	2.01864	2.98054	48.00719		
	(2.21482)	(–2.60404)	(1.44622)	(3.26933)	.8661	.7501
10. C.A.P. Beneficiaries per 1000	–0.00829*	–0.12506	0.60102*	4.74625		
	0.00205	.15490	0.22161	3.93756		
	(–4.04939)	(–0.80738)	(2.71199)	(1.20538)	.9411	.8857

*Indicates 't' value is significant at 95 percent confidence level.

Appendix E

*Case Study on Change–New Brunswick Municipal Re-Organization as Seen from the Provincial Capital–Assessment and Taxation**

New legislation in New Brunswick in 1966 created what was probably the greatest assessment and taxation upheaval ever to take place in any Province of Canada.

Numerous Assessment Acts existing throughout the Province were replaced by one Provincial Assessment Act and one Real Property Tax Act, both to apply to *all* real property in the Province. All previous legislation on Assessment and Taxation was repealed and relegated to history. From the effective date, January 1st, 1967, Municipal and Provincial property taxes collected, are those on real property, (levied on full value assessments on land and buildings) and those on business assessments (levied on the proportionate amount of the real property assessment applicable to the portion of the real property occupied and used for business purposes). Other forms of municipal taxation, such as personal property, poll tax, etc., have been removed from the Statutes.

It should be noted that "real property" is defined in the Act as including land and buildings. Installations, equipment, structures and machinery not servicing a building are excluded from the definition of "real property", and therefore are not assessed. A "building" under the Act, is a structure providing shelter for people, plant or moveable property–following somewhat along the same lines as the Municipal Grants formula used by the Federal Government, but with, perhaps, a somewhat more restricted application.

All assessors (and tax collectors) in the Province are now Provincial Civil Servants, with assessors working in the Department of Municipal Affairs, completely divorced from any official ties with Municipalities. Co-operation with Municipalities (Cities, Towns and Villages) is, of course, being maintained at a high level. The Province has been divided into 12 Regions, each with a Regional Assessment Office staffed with a Regional Assessor, District Assessors, and steno and clerical help. Approximately 23 Tax Collection Offices have been set up, working separate from the Assessment function, but having close liaison with the Regional Assessment Office for the area. A Headquarters Assessment Section has been established with some 14 Special Property Assessors, working out of Fredericton, the seat of Provincial Government, on assessment problems which need to be looked at on a Province wide basis rather than on a District or Regional basis.

Two independent Assessment Appeals Tribunals have been set up, each with a lawyer as Chairman. These Tribunals hold open hearings throughout the Province, usually in the City or Town in which, or nearest to which, the property under appeal is located. Any person who receives an assessment notice may, in the first instance, "refer" his, or any assessment, to the assessor for reconsideration, and if he is still dissatisfied with his assessment after receiving a decision in writing following review, he may appeal the matter to the Tribunal. There are no costs or expenses involved, and any ratepayer may appear in person or be represented by an agent or counsel. Appeals to the Higher Courts are based on the transcript of evidence taken before the Assessment Appeals Tribunal, supplemented by argument by counsel. It is worthy of note that *on an appeal to the Assessment Appeals Tribunal, the onus, or burden of proof, is on the assessor*–i.e., the assessor must satisfy the Tribunal that the amount of the assessment is correct.

The following schedule sets out, in comparison form, the "before" and "after" situation–pre 1967 versus post 1967.

ASSESSMENT AND TAXATION IN NEW BRUNSWICK

As It Was–Pre 1967	As It Is–Post 1967
1. *No. of Assessment Offices* 44 Municipal Offices	Head Office *plus* 12 Regional Offices
2. *No. of Assessment Acts* Approximately 17 City and Town Acts plus 1 Provincial Act for the balance (often adopted with many variations)	1 only Provincial Assessment Act (mandatory to all assessment and taxation in the Province)
3. *No. of Assessors* Approximately 110 full time assessors *plus* approximately 75 part time	106 full time salaried assessors (Civil Servants)
4. *No. of School Districts* 422	33
5. *Date of Assessment* Varied from Municipality to Municipality	As at 1st January each year
6. *Basis of Assessment* Real and True Value in use (never fully applied–See (9) below)	Real and True Value in exchange (interpreted generally as meaning "Market Value") subject to (7) and (8) below

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*Elmer A. Cronk, Director of Assessment, Department of Municipal Affairs, Province of New Brunswick.

ASSESSMENT AND TAXATION IN NEW BRUNSWICK (Cont'd)

As It Was–Pre 1967	As It Is–Post 1967
7. *Assessment of Farm Lands* Based on value in use according to the percentage level being applied locally	If "in actual and bona fide use" as farmland, to be assessed on its value as farmland (without regard to "Highest and Best Use")
8. *Assessment of Timberland and Farm Woodlots* Based on real and true value but not uniformly applied throughout the Province	Assessed on special formula:– (a) If under 200 acres, at Real and True Value or at a figure to produce 25¢ per acre per year taxes–whichever is the lesser (b) If over 200 acres, to be assessed at a figure to produce a tax of 25¢ per acre per year
9. *Level of Value* Varied between 25% and 100% (from Municipality to Municipality)	To be at 100%–statistical analysis showed that 1967 and 1968 levels approximated to 95% level–i.e. ratio of assessment to sales–and 1969 had dropped slightly to 93% (See also item 30 below)
10. *Assessment Notices* Generally not sent to individual ratepayers but "posted" locally on a list Land and Buildings assessed and shown separately	Each ratepayer gets an individual assessment notice and an individual tax bill for each individual property One Assessment only–no breakdown between land and buildings
11. *Property liable to assessment and taxation* (1) *Real Property* (including all structures) (2) *Personal Property* (most areas)–including, with variations:– Stock inventory, cars, trucks, etc. Poll Tax (most areas) Business Tax (3 Cities only) Wild land Tax (some areas) Turnover Tax (some areas) Occupancy Tax (some areas) Non-resident Workers Tax (some areas)	(1) *Real Property*–land and buildings (excluding any installation, machinery or equipment not servicing a building)–taxed at combined Municipal plus Provincial Tax Rate (1 Tax Bill)–(see (14) and (16) below (2) *Business Assessment*–based on full value assessment of the space used and occupied for business purposes–taxed at the same combined rate mentioned above–charged to the occupier
12. *Exemptions from Taxation* Varied greatly from Municipality to Municipality	Restricted and uniform under the new Assessment Act
13. *Tax Concessions* Widespread and lacking in uniform approach	Existing Concessions or Agreements to be honoured until expiry. Positively no new tax concessions. Taxes under existing Agreements apportioned between Provincial and Municipal Government.
14. Cost of *services to people:* i.e. *Education, Health, Welfare, Justice, Assessment, Taxation* Responsibility of each Municipality and costs included in and levied by the local Municipal Tax Rate	Responsibility taken over by the Provincial Government, and finances levied by means of a Provincial Tax Rate, (1½%) in conjunction with the increase in Sales Tax from 3% (1966) to 6% (1967) and to 8% in 1969. (See # 20 below)
15. *Utilities* *Water and Sewer* In nearly all cases included in, and levied by, Local Municipal Tax Rate	Separate charge levied by each Municipality on a "user" self supporting basis.
16. *Other Cost of services to property (*i.e. *police, fire, streets, sidewalks, snowploughing, etc.)* Included in and levied by a Local Municipal Tax Rate	Included in a Local Municipal Tax Rate (levied and collected by the Province and rebated to the Municipality at no charge, with full collection guaranteed)

ASSESSMENT AND TAXATION IN NEW BRUNSWICK (Cont'd)

As It Was–Pre 1967	As It Is–Post 1967
17. *Taxes on Provincially owned properties (including ALL Hosiptals and Schools providing elementary or secondary education* No taxes paid	Full payment of Local Municipal Taxes by the Province to each Municipality, at the Local Tax Rate, including payment on Private Hospitals or Private Schools providing elementary or secondary education
18. *Taxes on Provincial Crown Corporations* No taxes paid	Full payment of Local Municipal and Provincial Taxes, including Business Taxes
19. *Taxes on Municipally owned property* No taxes paid	Provincial taxes levied at the Provincial Tax Rate (1½%) and paid to the Province by each Local Municipality (Cities, Towns & Villages)
20. *Sales Tax* 3%	6% (1967) increased to 8% in 1969
21. *Federal Grants in Lieu of Taxes* Negotiated by and paid direct to each Muncipality	Negotiated by and paid to the Provincial Government and rebated to Municipalities in proportion to the Local Tax Rate versus the Provincial Tax Rate
22. *Preparation and production of Assessment Notices, Assessment Rolls and Tax Bills (and follow up accounts)* Produced manually in each local office or by use of addressographs, etc.	All Assessment Notices, Assessment Lists and Tax Bills are produced from one central control source by electronic data processing (location–Centennial Building in Fredericton)
23. *Appeal Boards* Existed only in a few areas. In some cases appeals were heard before the Council of the Municipality	Two independent Assessment Appeals Tribunals circulating throughout the Province; provisions for further appeal to the Appeals Division of the Supreme Court of New Brunswick
24. *Burden of Proof* Generally an assessment was assumed to be "correct" until proven wrong by a ratepayer.	Burden of proof of "correctness of amount of assessment" lies with the assessor in any appeal to the Tribunal
25. *Education for Assessors* Restricted by cost conscious Municipalities	Extensive continuous educational courses (sponsored) by the Department of Municipal Affairs) on Assessment and Appraisal of Real Estate. Eighty percent of assessors have successfully completed a 3 year assessors course with Dalhousie University, and are engaged in appraisal courses.
26. *Fringe benefits for Assessors* Limited by the resources of each Municipality	Full Civil Service fringe benefits re Pension, Vacation Leave, Sick Leave, Blue Cross, etc.
27. *Assessors salaries* Limited by resources of each Municipality	Upgraded and uniform (with annual increment reviews and periodic cost of living adjustment)
28. *Political interference re assessors duties* Not infrequent (at local level)	None
29. *Promotion for assessors* Promotion subject to local influences and restricted by limited scope in small local offices	Promotion on merit only–by qualifications and work performance–scope considerably widened by Provincial Staff Structure

ASSESSMENT AND TAXATION IN NEW BRUNSWICK (Cont'd)

As It Was–Pre 1967	As It Is–Post 1967
30. *Assessment/Sales Ratio Studies (THE KEY TO CORRECT AND UNIFORM ASSESSMENT)* Not commonly used	Extensively pursued on a Provincially supervised basis. Future plans include extensive use of computer analysis of assessment/sales by areas, by neighbourhoods, by class of property, by age groups, etc.

EXECUTING THE PROGRAMME:

The work of implementing the new legislation passed in March, 1966, was commenced in May of 1966 with a target date for the first Assessement Roll to be published in March of 1967. Existing full time assessor employees of Municipalities were given the opportunity to join the Provincial Assessment Staff and most availed themselves of this right. Existing assessment records were taken over by the Provincial Government.

A programme of assessment/sales ratio studies was immediately put into effect, supervised by specially trained Head Office Assessors, with frequent consultations at the local level. From the resultant assessment/sales ratio analysis, local conversion factors were developed for various classes of property and for various locations to bring assessments to full "real and true" value–interpreted by earlier Court decisions in New Brunswick as being, in nearly all cases, synonomous with "market" value. All properties were given individual consideration to conform to the new definition of real property under the Act–i.e., to exclude any installation, machinery or equipment not servicing a building. Basically this is interpreted to mean that items such as wiring, plumbing, heating, air-conditioning, elevators, etc. form part of the real property and are included in the assessment but chattels or machinery, equipment or installations which service a business rather than a building are excluded from the assessment.

The assessment data of each individual property was programmed to a master central computer system at Fredericton, the seat of Government. By using a data processing system developed for the occasion, each individual assessment was given an individual Property Code Number identifying the Region, the Taxing Unit in which the property was located, the sub-unit of the Taxing Unit (broadly speaking the neighbourhood) and the individual property within that sub-units. In addition the opportunity was taken to include in the data filed, the type of property, the grade of the building (according to the New Brunswick Assessment Manual), the age of the building; and the taxation class into which the property falls–i.e.

(i) Fully taxable for both Municipal and Provincial Taxes, Real and Business
(ii) Tax Concession Property (Concession or Agreement to be honoured only until expiry date)
(iii) Federal Property (not taxable but in respect of which a contribution in lieu of taxes is paid by the Federal Government)
(iv) Provincial Government Property (on which the Provincial Government pays full Municipal Taxes–including all schools providing elementary or secondary education and all hospitals whether privately owned or otherwise)
(v) Municipally owned property (on which the Municipal Government pays Provincial Taxes)
(vi) Tax Exempt property (assessed but not taxed)

In addition to the above, other data has been incorporated into the "File" for each property–school district, old taxing unit, number of acres of timberland and, of course, the name of the owner, the location of property, the mailing address for notices and bills, the amount of the assessment of the land and building(s), the property description, etc. Business assessments were calculated, compiled and included for every property or part of a property used and occupied for business purposes.

Late in 1966 the conversion factors to bring each assessment to full real and true value (derived from the assessment/sales study) were programmed to the data bank and an initial print-out made of the projected Assessment Roll for 1967. This "provisional" Assessment Roll was broken down into Assessments Lists for each Region and each taxing unit and sent to local offices for checking, review and adjustment if considered necessary.

Running concurrently with the above, the 44 Assessment Offices (existing prior to 1967) were integrated into 12 Regional Offices to service 12 Regional Districts. Staff positions were determined and allocated following personal interviews by an independent Review Board comprised of qualified persons from outside the Province.

As indicated previously, later analysis of the 1967 Assessment Roll showed an average ratio of assessments to sales of approximately 95%, with a low co-efficient of disperson. A number of lower and higher spots were disclosed by the survey and steps were taken to bring these areas into line with the remainder in 1968. A rapidly rising market in the major urban areas has caused the ratio to slip in these areas to closer to 90% in 1969, and steps are being taken to re-align these urban areas for 1970. This will be a continuing process–analysis, interpretation and reassessment of non-conforming areas.

In 1969 the Provincial Sales Tax was increased from 6% to 8%, and at this time, too, other Provincial Taxes were increased, such as on liquor (all sales being controlled by Provincial outlets), on cigarettes, gasoline and vehicle permits. However, it should be noted that the Provincial Tax Rate was maintained at 1½% and Municipal (or local) Tax Rates were maintained in most cases (and even reduced in some cases).

Assessments in New Brunswick are now more correct and more uniform than they have ever been before, and probably more equitable than anywhere else in North America. A ratepayer in New Brunswick now knows not only what his assessment is, but also knows what it is supposed to be (full current value). If aggrieved, he has a simple and inexpensive system of appeal. Property taxes (direct taxes) are being maintained at an "effective" tax rate (ad valorem) of about 2¼% in the Urban Areas reducing to 1½% in the rural areas.

Continuous assessment/sales surveys should ensure that a very high standard of uniformity of assessment is maintained between properties. Continuous education programmes for assessors should also prove beneficial in the elusive search for correctness in assessment and equity in taxation.

Appendix F

DISTRIBUTION OF RESPONSIBILITY BETWEEN METRO TORONTO AND THE INDIVIDUAL MUNICIPALITIES IN THE TORONTO AREA (DESCRIPTION)

Functions Assigned to the Metropolitan Corporation

*Assessment and Taxation**—Assessment of real property, both metropolitan and local, throughout the area. On the basis of this assessment, the Metropolitan Corporation levies on the area municipalities for its requirements according to the proportion which the assessment of each bears to the assessment of the whole area.

Debenture Borrowing—Borrowing of money, subject to the approval of the Ontario Municipal Board, for the Metropolitan Corporation, the Toronto Transit Commission, any area municipality, and any board of public school trustees in the area, by the issuing of debentures on the credit of the Metropolitan Corporation.

Water Supply—Construction and maintenance of all works for the production, treatment and storage of water and all trunk mains; the wholesale distribution of water to the area municipalities, with power to fix wholesale rates and to set standards for local distribution systems in the area municipalities.

Sewage Disposal—Construction and maintenance of truck sewer mains and sewage treatment works to provide a metropolitan sewage disposal system, and to set standards for local works connected to a metropolitan work.

Garbage and Refuse Disposal—Construction, maintenance, and operation of disposal sites for garbage and refuse, including industrial wastes.

Roads—Establishment of a metropolitan road system and designation of highways as metropolitan roads, with power to prescribe speed limits thereon and to control traffic over and to limit access to such roads.

Transportation—Construction, maintenance and operation by the Toronto Transit Commission of all forms of public transportation within the metropolitan area, except steam railways and taxis.

Education—Co-ordination and financing of educational facilities and operations by means of an areawide school tax levy.

Parks—Establishment of metropolitan parks and recreation areas and assumption, with the approval of the Ontario Municipal Board, of existing parks.

Health and Welfare—General welfare assistance and social work; provision of homes for the aged; hospitalization and burial of indigents; chronic and convalescent hospital.

Administration of Justice, etc.—Provision and maintenance of a court house and a jail, and conveyance of prisoners; juvenile and family court; magistrates' courts; provision of Registry office and Land Titles Office accomodation.

Police—Police services throughout the metropolitan area under the Metropolitan Board of Commissioners of Police.

Licensing—Licensing of trades and businesses by the Metropolitan Toronto Licensing Commission.

Housing and Redevelopment—All powers of a municipality in the fields of housing and redevelopment.

Planning—Preparation of an official plan for the Metropolitan Planning Area by the Metropolitan Planning Board.

Air Pollution Control.

Civil Defense.

Functions Assigned to the Area Municipalities

Fire Protection.

Water Supply—Construction and maintenance of local distribution systems and retail sale of water to consumers.

Sewage Disposal—Local sewage collection and construction and maintenance of local sewage collection systems.

Garbage and Refuse Collection.

Roads—Construction and maintenance of local streets and sidewalks, including sidewalks on metropolitan roads.

Planning, etc.—Planning by local planning boards in conformity with the Metropolitan Official Plan; zoning.

Education—Operation of schools. The local school board may levy up to 1 mill for elementary education and 1½ mills for secondary education for specialized purposes.

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*Taken over by the Provincial Government, January 1, 1970

Recreation and Community Services–Local parks; recreation programmes; community centers and arenas; public libraries.

Traffic Control, etc.–Traffic regulations on local streets; street lighting; municipal parking lots.

Housing–All powers of a municipality in the fields of housing and redevelopment.

Health–Public health services; hospital grants.

Hydro-Electric Power–Local distribution.

Licensing and Inspection–Preparation and enforcement of building by-laws; marriage licenses; dog licensing.

Taxation–Levying and collection of taxes for local purposes, including the metropolitan levy.

Source: Royal Commission on Metropolitan Toronto (Goldenberg Commission), *Report* (Toronto: June 10, 1965), pp. 29 and 30, updated by ACIR staff.

Appendix G

DISTRIBUTION OF RESPONSIBILITY BETWEEN METRO TORONTO AND THE INDIVIDUAL MUNICIPALITIES IN THE TORONTO AREA (SCHEMATIC)

M–*Municipality of Metropolitan Toronto*
A–*Area Municipalities*

Finance and Taxation	
Assessment of property[1]	M
Courts of revision	MA
Taxation of property	A
Debenture borrowing	M
Local improvement charges	A

Planning	
Official plans	MA
Subdivision approval	MA
Zoning	A

Recreation/ Community Services	
Regional parks	M
Local parks	A
Recreation programs	A
Community centers/ arenas	A
Municipal golf courses	M
Municipal zoo	M
Regional libraries	M
Local libraries	MA
Grants to cultural societies	MA

Road Construction Maintenance	
Expressways	M
Arterial roads	M
Local roads	A
Bridges and grade separations	MA
Snow removal	MA
Street cleaning	MA
Sidewalks	A

Traffic Control	
Traffic regulations	MA
Cross-walks	MA
Traffic lights	M
Street lighting	A
Pavement markings	MA

Public Transit	
Toronto Transit Comm.	M

Water Supply	
Purification, pumping and trunk distribution system	M
Local distribution	A
Collection of water bills	A

Sewage Disposal	
Sanitary trunk system and disposal plants	M
Connecting systems	A
Storm drainage	MA

Garbage Collection and Disposal	
Collection	A
Disposal sites	M

Air Pollution	
Air pollution control	M

Public Education	
Operation of school system	A
School sites, attendance areas building programs	M
Operating and capital costs	M

Housing	
Low rental family housing	M
Elderly person housing	M
Moderate rental family housing	A

Welfare	
Welfare assistance	M
Hospitalization of indigents	M
Assistance to Children's Aid Societies	M
Homes for the aged	M

Health	
Public health services	A
Chronic and convalescent hospital	M
Hospital grants	A
Ambulance services	M

Police and Fire Protection	
Police	M
Fire	A

Administration of Justice	
Magistrates' courts	M
Court house and jail	M
Juvenile and family court	M
Coroner's office	M
Registry and land titles offices	M

Licensing and Inspection	
Business licensing	M
Dog licensing and pound	A
Marriage licenses	A
Buildings by-laws	A

Civil Defense	
Emergency measures	M

Other Municipal Services	
Collection of fines	MA
Collection of vital statistics	A
Distribution of hydro power	A
Harbor	A
Island airport	A
Municipal parking lots	A
Preparation of voter's lists and administration of civic elections	A
Redevelopment	MA

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[1] Taken over by the Provincial Government, January 1, 1970.

Source: Committee for Economic Development, *Reshaping Government in Metropolitan Areas,* (New York: February 1970), p. 83.

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