House of Commons
Canada

SPECIAL COMMITTEE ON AGRICULTURAL CONDITIONS

Room 268.

Ottawa, Ontario,
April 16, 1923.

My dear Sir Arthur Currie:-

For the past five weeks a Select Committee of the House of Commons, of which I have the honour to be Chairman, has been engaged in the examination of agricultural conditions in Canada. I know of no more important subject than this for study by legislators in Canada at this time.

On the 28th of March I addressed the enclosed letter to Dr. J. C. Hemmeon, Associate Professor of Economics of McGill University, and with this letter, as you will see from my communication, I forwarded the agenda of the Committee -- copy of which, found on pages 5 and 6 of the Minutes of the first meeting of the Committee, I now take the liberty of enclosing to you.

Not having heard from Dr. Hemmeon, I wired him on the 12th of April, asking him whether he could give evidence before the Committee tomorrow, the 17th. I received a telegram from him the next day in these terms:

"Regret it is impossible for me to leave Montreal."

As a graduate of two faculties in McGill University, I think I am not doing wrong in expressing to you as Principal of the University, my disappointment in this attitude assumed by Dr. Hemmeon.

The question of the condition of agriculture in this country is largely a question of economics, and it would appear to me right and proper that the representatives of the people should appeal to the Universities of the country for help in the solving of the grave economic problems which confront us.

I had thought of writing to Dr. Hemmeon expressing my disappointment, and asking him whether he would consider it unfair to himself if I took an opportunity of publicly referring to the fact that my Committee had appealed to the economists of the three great Canadian Universities, McGill, Toronto and Queens, and that only one, Toronto, expressed its willingness to help. I was discussing the matter on my way to Ottawa last evening with Dr. C. B. Keenan and Mr. Bowden of the Grand Trunk, and they both felt that before doing so I should advise you of the matter.

Please do not think that I wish to be unduly critical of Dr. Hemmeon. It may be that he is very much pressed in his work at this time. It may also be that in view of the fiscal views of a certain number of your Board of Governors, he feels it to be imprudent for him to express frankly his views on the situation, and the difficulty arising from these two facts are responsible for his not replying to my letter until he had received my subsequent telegram.

I have no desire to drag an unwilling witness before our Committee, but I feel that in justice to my alma mater, these facts should be laid before you. I am sending a copy of this letter to Dr. Hemmeon.

Our Committee will be holding sessions for the next two or three weeks, and if it were desired by Dr. Hemmeon to appear at a later date, the Committee would endeavour to suit its convenience to his.

I remain,

Yours very sincerely,

Andrew Macmaster

Sir Arthur W. Currie, G.C.M.G., K.C.B., L.L.D.,
Principal, McGill University,
Montreal, P. Q.

C O P Y

SPECIAL COMMITTEE ON AGRICULTURAL CONDITIONS

Ottawa, Ontario,
March 28, 1923.

My dear Sir:-

A Committee of the House of Commons, of which I have the honour to be Chairman, has been for some weeks past engaged in the investigation of agricultural conditions in Canada.

My view is that the present condition of the industry is due, in some measure at least, to economic causes, and I wish to enlist the assistance of economists in our efforts to solve the agricultural question.

I desire to appeal to you for aid, and I hope that you may be willing to come before the Committee and give us the advantage of your knowledge.

I enclose herewith the first number of the record of our proceedings and evidence. On Pages 5 and 6 of this, you will see a memorandum of proposed subjects for investigation, which I submitted to the Committee and which, with a few additions and changes, was accepted as an agenda.

On the assumption that you will be willing to come before the Committee, might I ask you to indicate the subjects on which you would be willing to give evidence?

I would be glad to hear from you at your convenience, and if you would care to discuss the matter with me before coming before the Committee, I expect to be in Montreal for most of the time on and after Thursday, 29th March, till the 8th of April.

Yours very truly,

"A. R. McMASTER"

Chairman.

Dr. J. C. Hemmeon,
Associate Professor of Economics,
McGill University,
Montreal, P. Q.

April
Seventeenth
1923.

A. R. McMaster, Esq.,
Room 268,
House of Commons,
OTTAWA.

My dear Mr. McMaster:-

This will acknowledge receipt of your letter of April 16th, with enclosure as stated.

I am very sorry indeed that Dr. Hemmeon did not reply in writing to your letter of March 28th. I have seen him to-day and I know that he is writing to you. Let me give you the assurance, also, that Dr. Hemmeon's reluctance in going to Ottawa arises solely from the fact that he fears he will not make any contribution to the matter under discussion. I can also assure you that his reluctance did not arise from any feeling that it would be imprudent for him to express frankly his views on the situation, owing to the fiscal views of a certain number of the Board of Governors of McGill.

Since I have been identified with the University, and I can speak positively of that period only, I have never seen any indication on the part of a single member of the Board of Governors of this University of a desire to influence in any way the personal views of any professor. Professors at this University know that they are always at liberty to express their personal views anywhere they choose. All I ask of them is that they disclose a knowledge of the subject. If there was any attempt to stifle their views we certainly could not call ourselves a University and I, for one, would not tolerate any attempt at stifling the public expression of the views of any professor, or of influencing that public expression in any way. Many of our professors have expressed themselves in the freest manner on a variety of subjects and I think it is the duty of a University professor to give a lead to public opinion when he has anything worth while saying.

Let me also add that I think if you had stated publicly that you had appealed to the Economists of McGill in vain you would not have been placing the matter fairly. Your letter was not addressed to the Department of Political Economy at McGill, or to the University head. It was written to a member of the University staff and I think one would conclude from the circumstances that it was rather a personal letter than an official letter.

I am very glad that you wrote to me.

With all good wishes, I am,

Yours faithfully,

Principal.

NOTES ON TURNOVER TAX MEMORANDUM

The Memorandum submitted is a rather elaborate discussion as to whether a 1% turnover tax will yield more than the present sales tax of 5%. That a turnover tax could be made to yield more than the present sales tax is not in dispute; the comparison is to be drawn between a 1% turnover tax and a 5% sales tax. Which of these two would be the more productive seems to me to be almost entirely a matter of the number of turnovers which Canadian products experience on the average. The memorandum says (p. 28): "we do not think the number of turnovers would exceed seven on the average", but there is no indication anywhere of what is the basis of this estimate, nor is the basis of calculation given for Mr Cameron's four examples of turnovers on p. 16

On the main question of the productivity of revenue – and apart from questions of economic expediency or fairness – the number of turnovers is the dominating factor. Furthermore, it is of little value to argue the expediency or the fairness of the suggested change, if the turnover tax is not going to be more productive. In fact it is put forward not only as more productive than the sales tax but sufficiently so to bring about a considerable reduction in income tax.

It may be helpful to start with an artificially simplified case. Take the case of a ~~[illegible]~~ commodity which changes hands seven times on the way to the ultimate consumer, and, to begin with, let us suppose no additional value is added to it: it is merely passed on. Again, for simplicity, suppose each intermediary adds 10% to the selling price

UNDER SALES TAX. assuming ~~[illegible]~~ consumer cannot shift the burden		UNDER TURNOVER TAX assuming every seller can shift the burden ~~[illegible]~~		Actual turn over tax.
A sells at	100	A sells at	101	1.
		B adds 10%	10.1	
			111.1	
		Turnover tax 1%	1.1	
B sells at	110	B sells at	112.2	1.12
		C adds 10%		
C				

see next page

5% UNDER SALES TAX	1% UNDER TURNOVER TAX	
assuming ultimate consumer cannot shift the burden of the tax back	assuming every seller can shift the burden forward except 1% on the turnover tax itself.	Actual tax received
A sells at 100	A sells at 101	1
	B adds 10% 10·1	
	111·1	
	and turnover tax 1·11	
B sells at 110	B sells at 112·21	1·12
	C adds 10% 11 22	
	123·43	
	and turnover tax 1·23	
C sells at 121	C sells at 124·66	1·24
	D adds 10% 12 46	
	~~125·92~~	
	~~& turnover tax 1·25~~	
	137 12	
	& turnover tax 1 37	
D sells at 133·1	D sells at 138·49	1·38
	E adds 10% 13 84	
	& turnover tax 152 33	
	1 52	
E sells at 146·41	E sells at 153·85	1·53
	F adds 10% 15 38	
	169 23	
	& turnover 1 69	
F sells at 161·05	F sells at 170·92	1·70
	G adds 10% 17 09	
	188 01	
	& turnover 1 88	
G sells at 177·15	G sells at $\boxed{189 \cdot 89}$	1·89
+ Sales tax 5% 8·85		9·86
$\boxed{186 \cdot 00}$ FINAL SELLING PRICES		
Final Tax yield 8·85		

In this case and under these assumptions, the turnover tax yields a little more than the sales tax, on a single article, but the price of the article to the ultimate consumer is higher in the case of the turnover tax and this would have some effect on restricting the total volume of trade, so that it is still doubtful whether in the aggregate the turnover tax would yield more than the sales tax.

In the actual business world, B, C and the other intermediaries would add additional value to the article by some further process of manufacture. On the same assumptions as before that each intermediary adds 10% to the purchase price before re-selling, the fact that B adds to the value of the material purchased from A by some further process can be shown as another column of figures starting at B. The value produced by A is embodied in the same article B sells, but B's additional contribution can be conceived as separate for our purpose of studying the tax incidence and its yield. In the same way other columns of figures could be constructed side by side to represent the additional values contributed by all the other intermediaries, the main result being that on all parts of the value added subsequently to A, the turnover is less than seven and the advantage of the sales tax over the turnover tax (from the point of view of yield) on these portions of the value is manifest.

But, if we accept the statement — which I have no means of checking — that the number of turnovers on Canadian products is on the average not more than seven, and if, to take the most favourable case for the turnover tax, we suppose the average number of turnovers to be seven, then our one column as given can be taken as sufficient in itself, for what is lost by the turnover in some values being less than seven is compensated for by the turnover on other values being more.

In so far as the burden of the tax is not shifted, the ultimate selling price is less and both taxes yield proportionately less. I do not know that it is possible to prove that the incidence of the sales tax can be shifted back more easily than the turnover tax can be shifted forward, and in the absence of proof, it is a reasonable assumption that the incidence of the tax would work out in a similar way, so that for purposes of comparison, we can assume, as in the figures given, that the incidence is shifted to the ultimate consumer, as indeed the intention is said to be.

With regard to the amount added — which the figures take as 10% — by each intermediary to the selling price, — the higher this is on the average the greater the advantage (or less the disadvantage) of a sales tax over a turnover tax. If 10% is considered too high to represent the actual average, to the extent it is reduced, the more favourable (or less unfavourable) the turnover tax appears.

The conclusions reached by me therefore are: the greater the number of turnovers, & the smaller the amount added by each intermediary to cover his overhead charges, and the less the elasticity of demand, the more favourable will the turnover tax appear in comparison with a sales tax;

but, considering a 1% turnover tax as against a 5% sales tax and assuming the average number of turnovers to be seven, though the turnover tax would yield a comparatively small excess on the average individual article, yet considering that the increased ultimate selling price would diminish total sales & that the cost of collection of the turnover tax would be substantially greater, the turnover tax would not in the aggregate produce a revenue materially differing from that which the present sales tax produces.

If this is so, it is hardly worth considering the fairness of one as against the other, but obviously the turnover tax penalises industries dealing in goods having a larger number of turnovers and favours those with a small number, and there does not seem to be any advantage or any fairness in that.

Dismissing for the above reasons the turnover tax, there remains the general question of how to meet the fiscal needs of the country. ~~[Here the question is no longer one of preventing a further accumulation of debt — the revenue is already greater than the expenditure. The question is how to maintain this position and yet give some relief to the income tax payer.]~~ I believe that a high income tax has a discouraging effect on enterprise and that the tax should be reduced at the earliest opportunity. The Memorandum (§ 11) questions the validity of the argument that a high income tax discriminates against new enterprise with an element of risk & puts a premium on investment in securities with fixed yields. "It seems to us," they say, "that there are independent causes for this preference", and they mention some. The existence of independent causes does not invalidate the argument.

A married man, without dependents, with an income of $200 000 pays $97 849.50 in income tax. If he could by increased effort and enterprise raise his income to $300 000, he has to pay $169 249.50; that is, out of the additional $100 000 he could earn, he has to give up $71 400 or 71.4%. What a man will do for the sake of earning a dollar is considerably different from what he will do if he is only to get 29 cents.

While fully recognising the disadvantages of a high income tax, it is another matter to consider if the income tax can be reduced by the substitution of a new form, or an increase of another old form, of taxation. Writing after only three years experience of this country, I should be inclined to trust to the gradual return of prosperity, the lightening of the burden of the National Debt by Conversion Loans as opportunity arrives, and a much stricter control of national expenditure so as to avoid waste and inadvisable commitments. These factors would permit of a gradual reduction of the income tax. If, however, the position is really so difficult that something more must be done and new fiscal expedients devised, perhaps we might follow the British precedent and appoint a strong Committee — such as the Colwyn Committee — "to ascertain the state of the Public Debt and the incidence of taxation and to fulfil the task of making inquiries necessary for the preparation of new means for the extinction of the War Debt."

J.P.D.

INTRODUCTION

Dr. Day and I have been asked to consider the desirability of substituting a Turnover Tax at the rate of 1% for the Sales Tax. Those who are in favor of such a substitution are of the opinion that the Turnover Tax would be much more productive of revenue than the Sales Tax and that in some other respects of less importance it would be more desirable.

Dr. Day and I are of the opinion - for reasons set forth in our reports - that the superior productivity of the Turnover Tax has not been proved. On the contrary we are inclined to think that a Turnover Tax of 1% would yield rather less than a Sales Tax of 5%. We have reached this conclusion by different methods. Dr. Day has estimated the probable yield of both Taxes from a hypothetical series of transactions while I have made use of German and French experiments with Turnover Taxes and the probable yield of such a Tax in Canada on the basis of the estimated value of Canadian products.

To meet the pressing demand for a larger revenue I have proposed an extension of the list of commodities liable to Sales Tax and as a last resort an increase in the rate, or the imposition of a Federal Succession Duty while, Dr. Day has advised that a commission be appointed to consider and report upon public expenditures and revenues in Canada.

J. C. Hemmeon

1. The Problem.

2. Two methods of solving the problem.

   (a) By decreasing our expenditure.
   (b) By increasing our revenue.

3. The Proposed Turnover Tax.

   (a) Description and comparison with the Sales Tax.

   (b) German and French experiments with a Turnover Tax.

   (c) Arguments for and against a Turnover Tax.

4. Our present Dominion Taxes, particularly the Income Tax.

5. Conclusion:-

   That the proposed Turnover Tax at 1% would not yield as much as the present Sales Tax.

   That, in order to meet the existing situation, the Sales Tax should be imposed upon all goods, possibly upon services too. It may even be necessary to increase the rate.

   A Federal Succession Duty may be desirable in preference to an increased rate on the Sales Tax or it may be necessary to resort to both.

THE PROBLEM

We have not balanced our budget and are not now doing so. Our net debt has increased and is increasing. In making these statements I have included the so-called indirect obligations of the government. There is no good reason why these should not be considered a part of the net debt. They are for the most part in the nature of loans advanced to the Canadian National Railways and guaranteed by the government as to principal and interest. There are also included, securities of the Grand Trunk Railway guaranteed as to interest. The amount of the net debt is shown below.

		Indirect Liabilities	G.T.R. Securities
Yr. ending March 31,1924	$2,417,783	309,629	216,207
" " " 31,1925	2,417,437	365,915	216,207

000 omitted

THERE ARE TWO WAYS OF MEETING THIS UNFORTUNATE SITUATION

(a) By decreasing our expenditure.

(b) By increasing our revenue, i.e. our tax receipts, or by a combination of the two. I shall not consider here a third method of decreasing the burden, by means of increased immigration - providing more shoulders to carry the weight - as I assume that it is the purely fiscal and financial side of the question that we have been asked to consider.

(a) Decreasing our expenditure.

Unfortunately that portion of our expenditure which is fixed and unalterable is very great - much greater proportionately than is the case in the United States. This portion is largely in the nature of interest on war debt, subsidies to the provinces, pensions, etc. It is very difficult in a country like Canada for any government to curtail its expenditures very seriously. I do not say that it is impossible but the alternative method - increasing the revenue - seems more feasible. Nor should we forget that there has been a very marked decrease in certain kinds of expenditure - particularly capital and special. Not much credit is due for the cessation of railway subsidies in our much be-railroaded country and there is still room for further curtailment in the expenditure on public works but such a proposal has little appeal for the average member of parliament.

(b) Increasing our revenue.

One proposition that has met with considerable approval from the business world is to substitute a Turnover Tax of 1% for our Sales Tax. In 1924 the Sales Tax produced $100,990,000, in 1925 $66,707,000. Advocates of the Turnover Tax have prophesied that it will produce from $175,000,000 to $250,000,000. Presumably they anticipate that the Turnover Tax will be imposed at the rate of 1% whenever a commodity or possibly a service is sold - subject of course to necessary qualifications for brokers, bankers, professional men and so on. The tax will be on the selling price of the commodity or service and the receipts will be forwarded to the government monthly. The existing Sales Tax is a 5% Tax imposed on the selling price of a finished product and is paid usually by the manufacturer or producer, sometimes by the wholesaler. Moreover a great many commodities - mostly food products, exported commodities and those entering into further manufacture are not taxed.

Probably the most important question to be considered is - will the proposed Turnover Tax be as productive as its advocates believe? If it should be, they have virtually won their case for it is additional revenue that is needed and that at almost any cost. Most of the attempts that have been made to estimate its yield seem to me to be based on very insufficient data. There is too much guess work involved. We do not know the volume of sales in Canada, we do not know how many times the raw material, the semi-finished commodity and the completed product change hands before reaching the consumer. We can only guess and the guesses that have been made have resulted in an estimate of the productivity of the Turnover Tax as low as $40,000,000, as high as $250,000,000.

It seems to me that something may be gained by a consideration of the experiences of other countries with a Turnover Tax. Nearly every country in Europe, with the exception of Great Britain, has one. Germany has had one since 1918 based on a stamp tax instituted in 1916 on the transfer of goods. The existing rate is 2%. France has one - Taxe sur le chiffre d'affaires - the rate being 1.4%. The German Tax produced about 1400 million marks ($350,000,000) in 1924. The French Tax produced 3,015 million francs ($130,000,000). With a 1% rate the German tax would have produced about $175,000,000 and the French tax about $93,000,000.

It is unlikely that a Canadian Turnover Tax would produce anything comparable to the yield of the German and French taxes. Both Germany and France have many times the population and industrial wealth of Canada. Germany in particular is far more highly industrialised than Canada and its business turnover is much greater.

The exponents of the Turnover Tax are of the opinion that it can be more easily ascertained by those required to pay it than the Sales Tax and that it will cost less to collect. As one of them has said "Anyone who has a cash register needs no further accounting for this purpose". These statements are probably true when applied to any one individual or corporation, but they are not true when applied to the much larger groups of individuals or corporations who will be liable for the payment of the tax when turnover is the test and not the sale of the finished commodity. They also say that it will produce a revenue gradually, if paid monthly and on the monthly turnover. This also is true. In addition it eliminates the possibility of paying the tax on bad debts but in such a case relief should be granted under the Sales Tax.

The opponents of the Turnover Tax contend that it would have a tendency to produce concentration in business. There is no doubt that this charge is true though doubtless a certain amount of concentration is desirable. The highly centralized trust would fare better than the corporation which bought its raw material and sold its finished product to other corporations for further production although doubtless this tendency could be met to some extent.

Since many more individuals and corporations would be required to make returns under a Turnover Tax the expense would be greater and supervision more difficult, but this has been alluded to already in another connection.

A third difficulty is more serious. Should the tax be imposed on exports? The Germans have decided that it should, undesirable as they confess this policy to be and they have so decided largely on the ground that the only way of exempting exports from the tax is to collect it and then grant a drawback. But to whom and in what proportions should such a drawback go, when it has been paid by several people and in different amounts? Under our existing Sales Tax no such difficulty is met for there is only one person to whom the drawback goes since there is only one person who paid the tax and in addition the amount of the drawback is as easily ascertained as the amount of the tax.

Our principal sources of revenue are Customs and Excise duties and the Sales and Income Taxes. An income tax is favored by most economists because it can be graded in accordance with the tax payer's ability to pay. This is possible to a limited extent with the so-called indirect taxes by the use of ad valorem rates and heavier taxes on luxuries. A very important objection to our existing income tax is the fact that the rates are much higher than those of the American income tax. A married man in the United States with an income of $7500. and no children pays a federal income tax of $60.00. In Canada he pays $336.00. On larger incomes we find much the same difference though not so marked. I need not go into the undesirable results. True, a more logical method is to compare the total taxes paid by a Canadian with those paid by an American. In fact there are good reasons for concluding that all taxes - federal, provincial and municipal are somewhat lower in Canada than in the United States but the American is as a rule better able to bear his burden of taxation than the Canadian is.

Considering all these circumstances, what should be our conclusion? On the one hand it must be granted that an income tax no heavier than the American would be desirable since it is income tax and not all taxes that impresses people most. Moreover, it is questionable whether a rate higher than 40% or 50% on large incomes really yields as much in the long run as lower rates. Furthermore very high rates tend to lessen saving and investing. On the other hand most economists would probably oppose any such decrease in income tax rates as would materially reduce the receipts. As it is, only about one fifth of our tax receipts comes from the income tax while the American income tax produces three fifths of the tax receipts and the English income tax is responsible for nearly one half of the tax receipts. To put it in another way. Four fifths of our federal tax receipts come from taxes which fall much harder on the poor and middle classes than on the well-to-do. Our income tax is the sole federal tax that can be and is adjusted to the income of the payer. Under these circumstances I should hesitate to propose any material reduction in income tax rates and this for no personal reason for I know of no one who is hit harder by our income tax than the salaried person.

Our present Sales Tax is the successor of a modified form of Turnover Tax and in a general way seems to be a better tax. It is levied upon fewer people and is thus subject to better government supervision. Moreover the people who pay it, being manufacturers, have generally better means of estimating it as compared with other classes in the distributive process. It does not discriminate in favor of the integrated industry and the producer who deals directly with his customer although this is a discrimination which has its desirable side.

As to the probable yield of a 1% Turnover Tax in Canada I doubt very much whether it would be as productive as the existing Sales Tax especially if the latter were imposed on all sales. I base my conclusion on the German and French experiments with Turnover Taxes. The total value of all Canadian products in 1924 has been estimated at $4,500,000,000. In this valuation there is confessedly much duplication, how much we do not know exactly. At a guess, and a very extravagant guess, the total net value is not more than $4,000,000,000. German, American and Canadian authorities tell us that a 1% Turnover Tax would produce the equivalent of a 2½% tax on the final price to the retailer. This would give us about $100,000,000 which is a little less than the Sales Tax produced during the year for which the estimate of $4,500,000,000 was given. In addition if the Sales Tax were imposed on the sale of all commodities - and the estimated yield of the Turnover Tax is - the Sales Tax would yield even more.

But as the German Chancellor remarked in concluding his speech on the Turnover Tax "Our conclusinns are very unsatisfactory and seem to lead us nowhere". What has a Canadian to propose in order to increase our revenue? In the first place an inclusion of those commodities which are not now subject to Sales Tax - particularly food products. Possibly an inclusion of services. As a last resort an increase in the Sales Tax rate. There is also a possibility that a Federal Succession Duty may be desirable. I am aware that this would be opposed by the provincial governments who now complain that the Dominion Government has infringed upon their proper field of taxation. But necessity knows no law and other countries have both state and federal succession duties among them being the United States and some of the British Dominions.

NET REVENUE - PER CAPITA, 1923

	Municipal	Provincial or State	Federal	Total
Montreal	$44.71	$ 9.04	$41.60	$ 95.35
Boston	77.00	12.93	36.42	126.35
Buffalo	59.18	13.21	36.42	108.81

FEDERAL GOVERNMENT

TAX AND REVENUE RECEIPTS - TOTAL AND PER CAPITA, 1924.

	United States	Canada
Customs	$ 545,012,000	$121,500,000
Income Tax	1,841,749,000	54,204,000
Other Taxes	952,531,000	166,340,000
Total Taxes	$3,349,302,000	$342,044,000
Per Capita	31.70	38.80
Total Revenues	3,884,041,000	406,582,000
Per Capita	37,00	45,58

March 9, 1926.

Dr. J.C. Hemmeon,
Arts Building,
McGill University.

Dear Dr. Hemmeon:-

I am sending you herewith two copies of your report on the Turnover Tax. Will you be good enough to make pencil corrections where necessary and return to me. I will have the front page rewritten so that you can sign it.

Yours faithfully,

Wilfrid Bovey.

The memorandum submitted is a rather elaborate discussion as to whether a 1% turnover tax will yield more than the present sales tax of 5%. That a turnover tax could be made to yield more than the present sales tax is not in dispute; the comparison is to be drawn between a 1% turnover tax and a 5% sales tax. Which of these two would be the more productive seems to me to be almost entirely a matter of the number of turnovers which Canadian products experience on the average. The memorandum says (p.28): "we do not think the number of turnovers would exceed seven on the average", but there is no indication anywhere of what is the basis of this estimate, nor is the basis of calculation given for Mr. Cameron's four examples of turnovers on p.16.

On the main question of the productivity of revenue - and apart from questions of economic expediency or fairness - the number of turnovers is the dominating factor. Furthermore, it is of little value to argue the expediency or the fairness of the suggested change, if the turnover tax is not going to be more productive. In fact, it is put forward not only as more productive than the sales tax but sufficiently so to bring about a considerable reduction in income tax.

It may be helpful to start with an artificially simplified case. Take the case of a commodity which changes hands seven times on the way to the ultimate consumer, and, to begin with, let us suppose no additional value is added to it; it is merely passed on.

Again, for simplicity, suppose each intermediary adds 10% to the selling price:

5% UNDER SALES TAX		1% UNDER TURNOVER TAX		
assuming ultimate consumer cannot shift the burden of the tax back.		assuming every seller can shift the burden forward except 1% on the turnover tax itself.		
				Actual tax received
A sells at	100	A sells at	101	1
		B adds 10%	10.1	
			111.1	
		and turnover tax	1.11	
B sells at	110	B sells at	112.21	1.12
		C adds 10%	11.22	
			123.43	
		and turnover tax	1.23	
C sells at	121	C sells at	124.66	1.24
		D adds 10%	12.46	
			137.12	
		and turnover tax	1.37	
D sells at	133.1	D sells at	138.49	1.38
		E adds 10%	13.84	
			152.33	
		and turnover tax	1.52	
E sells at	146.41	E sells at	153.85	1.53
		F adds 10%	15.38	
			169.23	
		and turnover tax	1.69	
F sells at	161.05	F sells at	170.92	1.70
		G adds 10%	17.09	
			188.01	
		and turnover tax	1.88	
G sells at	177.15	G sells at	$\boxed{189.89}$	1.89
plus Sales Tax 5%	8.85			9.86
	$\boxed{186.00}$			

Final Selling Prices

Final Tax yield 8.85

In this case and under these assumptions, the turnover tax yields a little more than the sales tax, on a single article, but the price of the article to the ultimate consumer is higher in the case of the turnover tax and this would have some effect on restricting the total volume of trade, so that it is still doubtful whether in the aggregate the turnover tax would yield more than the sales tax.

In the actual business world, B. C. and the other intermediaries would add additional value to the article by some further process of manufacture. On the same assumptions as before that each intermediary adds 10% to the purchase price before re-selling, the fact that B adds to the value of the material purchased from A by some further process can be shown as another column of figures starting at B. The value produced by A is embodied in the same article B sells, but B's additional contribution can be conceived as separate for our purpose of studying the tax incidence, and its yield. In the same way other columns of figures could be constructed side by side to represent the additional values contributed by all the other intermediaries, the main result being that on all parts of the value added subsequently to A, the turnover is less than seven and the advantage of the sales tax is manifest.

But, if we accept the statement - which I have no means of checking - that the number of turnovers on Canadian products is on the average not more than seven, and if, to take the most favourable case for the turnover tax, we suppose the average number of turnovers to be seven, then our one column as given can be taken as sufficient in itself, for what is lost by the turnover in some values being less than seven is compensated for by the turnover on other values being more.

In so far as the burden of the tax is not shifted, the ultimate selling price is less and both taxes yield proportionally less. I do not know that it is possible to prove that the incidence of the sales tax can be shifted back more easily than the turnover tax can be shifted forward, and in the absence of proof, it is a reasonable assumption that the incidence of the tax would work out in a similar way, so that for purposes of comparison, we can assume, as in the figures given, that the incidence is shifted to the ultimate consumer, as indeed the intention is said to be.

With regard to the amount added - which the figures take as 10% - by each intermediary to the selling price,- the higher this is on the average the greater the advantage (or less the disadvantage) of a sales tax over a turnover tax. If 10% is considered too high to represent the actual average, to the extent it is reduced, the more favourable (or less unfavourable) the turnover tax appears.

The conclusions reached by me therefore are: the greater the number of turnovers, and the smaller the amount added by each intermediary to cover his overhead charges, and the less the elasticity of demand, the more favourable will the turnover tax appear in comparison with a sales tax, but considering a 1% turnover tax as against a 5% sales tax and assuming the average number of turnovers to be seven, though the turnover tax would yield a comparatively small excess on the average individual article, yet considering that the increased ultimate selling price would diminish total sales and that the cost of collection of the turnover tax would be substantially greater, the turnover tax would not in the aggregate produce a revenue materially differing from that which the present sales tax produces.

If this is so, it is hardly worth considering the fairness of one as against the other, but obviously the turnover tax penalises industries dealing in goods having a larger number of turnovers and favours those with a small number, and there does not seem to be any advantage or any fairness in that.

Dismissing for the above reasons the turnover tax, there remains the general question of how to meet the fiscal needs of the country. I believe that a high income tax has a discouraging effect on enterprise and that the tax should be reduced at the earliest opportunity. The Memorandum (p.11) questions the validity of the argument that a high income tax discriminates against new enterprise with an element of risk and puts a premium on investment in securities with fixed yields. " It seem to us", they say, "that there are independent causes for this preference," and they mention some. The existence of independent causes does not invalidate the argument.

A married man, without dependents, with an income of $200,000. pays $97849.50 in income tax. If he could by increased effort and enterprise raise his income to $300,000, he has to pay $169,249.00; that is, out of the additional $100,000. he could earn, he has to give up $71,400. or 71.4%. What a man will do for the sake of earning a dollar is considerably different from what he will do if he is only to to get 29 cents.

While fully recognising the disadvantages of a high income tax, it is another matter to consider if the income tax can be reduced by the substitution of a new form, or an increase of another old form, of taxation. Writing after only three years experience of this country, I should be inclined to trust to the gradual return of prosperity, the lightening of the burden of the National Debt by Conversion Loans as opportunity arrives, and a much stricter control of national expenditure so as to avoid waste and inadvisable commitments. These factors would permit of a gradual reduction of the income tax. If, however, the position is really so difficult that something more must be done and new fiscal expedients devised, perhaps we might follow the British precedent and appoint a strong committee - such as the Colwyn Committee - " to ascertain the state of the Public Debt and the incidence of taxation and to fulfil the task of making inquiries necessary for the preparation of new means for the extinction of the War Debt."

J. Dan.

Oct. 7 – 1923.

Dear Mr. Principal :–

I had a talk yesterday with Mackintosh of Queens about the proposed joint economic and statistical service. I called to his attention the difficult question of responsibility. He agreed that this is a difficult problem but suggested that it might be overcome by requiring that all articles should be read and sanctioned by a representative of each university before publication. I replied that time and distance made this impossible if the service was to be up to date. He demurred but offered no satisfactory reply. He is very enthusiastic but lacks experience and I feel sure does not appreciate the difficulties in the way of a joint service.

I trust that you did not misunderstand my attitude at the conference Friday. For the time I put myself in the position of an ~~[illegible]~~ attorney for the defence. I think I made this plain but in case I did not please allow me to say that on this question I agree with Leacock and think that we should not participate.

I am writing this note in order to spare you a personal interview for I know how fully your time is occupied.

Sincerely yours,

J. C. Hemmeon

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Economics

Dec. 5th. 1921.

Dear Sir Arthur:-

I think that the accompanying sheets contain all the statistical material requested by Mr. Shedd. I take it for granted that he is aware of the motives which have actuated our Canadian legislation — the desire on the part of manufacturers to increase protective duties in an underhand manner. Of course the same motive is apparent in the American game and this at a time when we ought to try to help the Germans to pay their war indemnities by encouraging their export trade.

I am at your service for any further information which you may require.

Yours very truly.

J. C. Hemmeon.

September figures are the latest available.

There also present themselves to us the further questions as to the reasons leading up to the enactment of this bill, and also whether it has had any detrimental effect upon the export business of Canada with Germany and France.

We realize we are drawing considerably upon your time, but in our deep interest in the question, we especially desire the opinion of one whose view is as broad as your own. Any information that you can give us will be much appreciated.

Yours very truly,

MARSHALL FIELD & COMPANY

BY John G Shedd

President.

MARSHALL FIELD & COMPANY
CHICAGO

JOHN G. SHEDD
PRESIDENT

December 2nd,
1 9 2 1 .

Sir Arthur Currie, President,
McGill University,
Montreal, Canada.

Dear Sir Arthur:

You are no doubt aware that there is being actively promoted in this country a change in the tariff policy, which has always existed, of assessing the ad valorem duty on the foreign cost, and substituting therefor an ad valorem assessment of duty upon the wholesale selling price in this country.

We are actively opposing this measure as we believe that apart from its being an unworkable scheme, it will operate to greatly enhance prices and largely curtail if not entirely wipe out imports, with a consequent reaction upon the export business of the country.

In our study of the subject, we have taken note of the action of the Canadian government, last June, in disallowing, when computing the value for duty purposes, any depreciation in foreign currency in excess of fifty per cent of standard or proclaimed values. It would seem that this would bar out any goods from Germany and other central European countries and have much the same effect with respect to goods from France. If you have access to the figures we would be much interested to know whether the comparative imports from France, Germany and other central European countries during the months succeeding the passage of this act, as compared with like months in 1920, bear out our assumption. The comparative figures with the average of the years 1912, 1913 and 1914 would also be interesting.

Canadian Imports.

From	June		July		August		September	
	1920	1921	1920	1921	1920	1921	1920	1921
	$							
Austria	7,157	5,846	35,128	None	9,354	3,651	None	3,539
Czecho-Slovakia	3,052	6,214	None	32,454	177	25,001	none	27,332
France	1,995,773	820,952	1,765,087	1,049,986	1,960,640	1,026,623	1,934,863	1,131,790
Germany	28,585	110,817	32,725	135,735	54,673	194,057	216,191	163,206
Italy	223,907	31,491	141,812	160,249	133,556	153,755	154,006	70,795
Poland	22,799	24007	74,073	9,619	50	None	1,200	1,383

Canadian Exports.

	June		July		August		September	
To	1920	1921	1920	1921	1920	1921	1920	1921
	$							
Austria	866	973	none	953	200	14,390	None	225
Czecho-Slovakia	None	15	none	1,500	855	258	none	2,124
France	1,327,097	564,105	1,950,582	351,127	1,277,097	1,316,344	1,516,780	637,575
Germany	1,104,906	337,271	334,508	614,889	64,123	167,244	444,158	319,502
Italy	238,407	2,403,690	6,981,455	1,968,412	8,713,315	1,424,759	1,193,188	258,265
Poland	7,037	none	none	none	50	11,172	4,833	50

	Total Exports	Total Imports
1912	$315,317,250	559,320,544
1913	393,232,057	692,032,392
1914	478,997,928	650,746,797

	Exports to France	Imports from France
1912	$2,048,768	$11,744,664
1913	2,357,154	15,375,848
1914	3,632,444	14,276,535

	Exports to Italy	Imports from Italy
1912	$ 282,225	$1,146,822
1913	328,148	1,713,585
1914	514,660	2,090,387

	Exports to Germany	Imports from Germany
1912	$3,577,847	$11,089,998
1913	3,049,105	14,214,547
1914	4,044,019	14,586,223