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# CANADIAN TAX FOUNDATION

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## *Thirteenth Annual Report*

FOR THE YEAR ENDING  
DECEMBER 31st, 1958

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# CANADIAN TAX FOUNDATION

## BOARD OF GOVERNORS

Elected March 24th, 1959

W. Fay Anderson, C.A.	- - - - -	Calgary
Paul Bruneau, C.A.	- - - - -	Quebec
William M. Carlyle	- - - - -	Vancouver
*H. Marcel Caron, C.A.	- - - - -	Montreal
D. W. K. Dawe, Q.C.	- - - - -	St. John's
Jacques de Billy, Q.C.	- - - - -	Quebec
*Raymond G. Decary	- - - - -	Montreal
G. Fitzpatrick Dunn, F.C.A.	- - - - -	Victoria
T. E. H. Ellis, Q.C.	- - - - -	Vancouver
*E. B. Fairbanks	- - - - -	Montreal
L. E. Fingarson, C.A.	- - - - -	Regina
Neil V. German	- - - - -	Calgary
Horace A. Hanson, Q.C.	- - - - -	Fredericton
John Hyslop, C.A.	- - - - -	St. John's
*W. R. Kay, C.A.	- - - - -	Toronto
*John P. Kinghorn, C.A.	- - - - -	Montreal
*Campbell W. Leach, C.A.	- - - - -	Montreal
*A. J. Little, F.C.A.	- - - - -	Toronto
*C. K. MacGillivray, F.C.A.	- - - - -	Hamilton
Donald C. McGavin, Q.C.	- - - - -	Winnipeg
Donald McInnes, Q.C.	- - - - -	Halifax
G. Kenneth McKenzie, C.A.	- - - - -	Saint John
*Hugh J. McLaughlin, Q.C.	- - - - -	Toronto
*William A. Simonton, F.C.A.	- - - - -	Toronto
Hugh E. Spencer, C.A.	- - - - -	Halifax
*R. Bredin Stapells	- - - - -	Toronto
*Jacques Tetrault	- - - - -	Montreal
*Stuart D. Thom, Q.C.	- - - - -	Toronto
David M. Tyerman, Q.C.	- - - - -	Regina
*Henry F. White, Q.C.	- - - - -	Toronto
G. Norman Wildgoose, C.A.	- - - - -	Winnipeg
H. G. Williams, C.A.	- - - - -	Charlottetown

*\*Executive Committee of the Board of Governors*

## OFFICERS

Chairman	- - - - -	- Campbell W. Leach, C.A.
Vice-Chairmen and Co-Chairmen	} - - - - -	- Stuart D. Thom, Q.C.
of the Executive Committee		- A. J. Little, F.C.A.
Past Chairman	- - - - -	- Henry F. White, Q.C.
Director	- - - - -	- J. Harvey Perry
Secretary	- - - - -	- William H. Zimmerman
Treasurer	- - - - -	- James A. Reid



**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31st DECEMBER, 1958**  
(With comparative figures for 1957)

	<u>1958</u>	<u>1957</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash on hand and on deposit - - - - -	\$ 14,169.76	\$ 26,653.61
Guaranteed investment receipts - - - - -	50,000.00	40,000.00
Deposit with Trans-Canada Airlines - - - -	425.00	425.00
Accounts receivable - - - - -	—	210.00
	<u>\$ 64,594.76</u>	<u>\$ 67,288.61</u>
<b>FURNITURE AND OFFICE EQUIPMENT—at cost - -</b>	<b>\$ 12,503.95</b>	<b>\$ 12,226.78</b>
Less accumulated depreciation - - - - -	6,712.70	5,960.77
	<u>\$ 5,791.25</u>	<u>\$ 6,266.01</u>
	<u><u>\$ 70,386.01</u></u>	<u><u>\$ 73,554.62</u></u>
<b>LIABILITIES AND RESERVE</b>		
Accounts payable - - - - -	—	\$ 1,666.66
Subscriptions received in advance - - - - -	—	7,650.00
		<u>\$ 9,316.66</u>
<b>RESERVE</b>		
Retained for continuation of the		
Foundation's activities - - - - -	\$ 70,386.01	\$ 64,237.96
	<u>\$ 70,386.01</u>	<u>\$ 73,554.62</u>

APPROVED ON BEHALF OF THE BOARD OF GOVERNORS  
Henry F. White                      Campbell W. Leach  
*Chairman*                              *Vice-Chairman*

STATEMENT OF INCOME AND EXPENSE  
FOR THE YEAR ENDED 31st DECEMBER, 1958  
(With comparative figures for 1957)

	<u>1958</u>	<u>1957</u>
<b>INCOME:</b>		
Subscriptions—Corporate - - - - -	\$113,380.00	\$114,690.00
—Individual - - - - -	22,565.00	18,580.00
Interest - - - - -	1,895.10	1,447.10
	<u>\$137,840.10</u>	<u>\$134,717.10</u>
 <b>EXPENSE:</b>		
Salaries- - - - -	\$ 76,200.00	\$ 67,197.22
Publications (net) - - - - -	17,449.73	26,846.12
Rent - - - - -	10,490.00	10,490.00
Travelling - - - - -	4,877.81	4,409.32
Special studies - - - - -	4,013.19	4,617.83
Postage - - - - -	3,767.56	3,832.16
Office printing, stationery and supplies - - - -	3,737.65	2,891.79
Conferences expense (net) - - - - -	3,562.25	1,316.27
Books and periodicals—library - - - - -	1,821.57	1,817.57
Pension plan - - - - -	1,791.22	3,681.00
Telephone and telegraph - - - - -	1,512.18	1,393.14
General office expense - - - - -	1,489.16	1,505.17
M. L. Gordon Fellowship award - - - - -	—	2,650.00
	<u>\$130,712.32</u>	<u>\$132,647.59</u>
Provision for depreciation of furniture and office equipment - - - - -	979.73	1,222.68
	<u>\$131,692.05</u>	<u>\$133,870.27</u>
 <b>EXCESS OF INCOME OVER EXPENSE FOR THE YEAR</b>		
transferred to reserve - - - - -	<u>\$ 6,148.05</u>	<u>\$ 846.83</u>

# ORMSBY & ORMSBY

CHARTERED ACCOUNTANTS

15 TORONTO STREET

TORONTO 1, CANADA

GERALD Y. ORMSBY, F.C.A.  
ANTHONY J. ORMSBY, C.A.

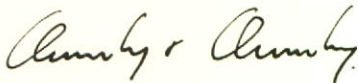
TELEPHONE - EMPIRE 3-5405

## AUDITORS' REPORT

To:  
The Board of Governors and the  
Members of  
Canadian Tax Foundation,  
154 University Avenue,  
Toronto, Ontario.

We have examined the Statement of Financial Position of the Canadian Tax Foundation at 31st December, 1958, and the Statement of Income and Expense for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying Statement of Financial Position and Statement of Income and Expense present fairly the financial position of the Canadian Tax Foundation as at 31st December, 1958, and the results of its operations for the year ended on that date.



Chartered Accountants.

Toronto, Canada.  
February 27th, 1959.

*Report of Chairman*  
*To the Thirteenth Annual Meeting of the*  
*Canadian Tax Foundation*  
*March 24, 1959*

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Before starting the detailed section of the regular Chairman's Report I should like to take this opportunity to recall some of the early events in the life of the Foundation, since I believe I am the only person now connected with the Board who was associated with the Foundation in its beginnings.

The idea of the Foundation was, as I remember, conceived on a train trip from Ottawa by the late M. L. Gordon, Q.C., and Mr. Kenneth Carter, as they returned from presenting a joint brief to the Minister of Finance. They had, apparently, received a cool reception and had been told that their recommendations lacked the necessary background study and supporting data. This reception inspired Mr. Gordon and Mr. Carter to consider the formation of a permanent body for the purpose of preparing background material to support the Annual brief of the two professions. Immediately after returning to Toronto, namely on March 19, 1945, Mr. Gordon obtained a Charter from the Lieutenant-Governor of the Province of Ontario designating Senator G. Peter Campbell, Q.C., J. G. Glassco, F.C.A., H. C. Hayes, F.C.A., himself and myself as Charter Members.

After a number of difficult Meetings in which the basic concepts of the Foundation were thoroughly discussed and thrashed out, in June of 1946 Donald Neelands, now of the Toronto General Trust Company, became the Foundation's first employee. Shortly thereafter the Foundation was successful in making arrangements with Mr. Monteath Douglas to become its first Director and the first job which the Foundation undertook was work on the new Income Tax Act at that time, and I believe that an excellent job was done.

At this time I should like to express tribute to the very fine work of Mr. Douglas in the early days of the Foundation when it was necessary to establish the integrity of the Foundation and at the same time resist pressures from two sources which would have considerably altered the Foundation's history had they been yielded to. On the one hand there was the urgent pressure of raising money and also on the other hand the pressure of establishing the Foundation's independence from its supporters. We all realize today that the absolute independence of the Foundation



from its contributors is a necessity. In the early days, however, it was somewhat difficult to convince persons whom we were soliciting for substantial financial support that they should not have any say in the policies of the Foundation. However, we were fortunate enough to succeed in obtaining subscribers and also in convincing our subscribers that there would be no representation from commercial interests on the Board of Governors. Having once established this policy on a firm footing it has been easier in latter years to continue the independence of the Board of Governors and I would like to put it on record at this time that the maintenance of this policy is of the utmost importance to the Foundation if it is to continue to succeed along the lines upon which it has been established. It is always a great temptation to accept subscriptions to do a particular job for a group of taxpayers but if this is done the Foundation lays itself open to a charge of loss of independence and impartiality and in my opinion the exposure of the Foundation to such a charge would be a tragedy of the first water.

It is with pleasure that I now present the thirteenth annual review of the affairs of the Foundation as follows. Whatever the significance of the figure 13 to some, it in no way impeded the progress of the Foundation or its activities during the year. The first part of the fiscal year of the Foundation coincided with a low point of activity in business, and resulted in some temporary curtailment of Foundation support. However, this was more than offset by the addition to our membership rolls of new corporate subscribers and a marked increase in individual subscriptions. In result, financially the year ended with a small credit balance.

### Conferences

Once again, apart from the major role of research, conferences constituted a major phase of the Foundation's work. As a focal point for joint discussions and objective studies by lawyers, accountants, businessmen, academics, and government officials on tax and fiscal problems, the Foundation continues to hold its unique place in Canadian public affairs.

Our conference in Winnipeg last November 13, 14 and 15 was the first to go beyond two days and the results were gratifying. The attendance in Winnipeg exceeded 400. The extended conference permitted the holding of 15 panel sessions and two general sessions on a wide range of tax questions of current interest. The completion of the 1958 conference proceedings is expected shortly and will contain the only published material on one or two important subjects.



Once again our conference was favoured with participation from top ranking experts from the professions, officials from various levels of government in Canada and the United States, the universities and business. The wide selection of subjects was arranged by the Programme Committee comprising Mr. Campbell W. Leach, as Chairman, Mr. E. B. Fairbanks, Mr. James A. Renwick, Mr. C. G. McConnell, Mr. G. Richard Hunter, Mr. Douglas G. Scott, and the Director. As a result of the success of the 2½ day Winnipeg conference, the 1959 conference at the Chateau Frontenac in Quebec City will be of the same length and will be held November 19, 20 and 21.

In addition to our annual conference last year, the Foundation co-sponsored a regional conference at St. Mary's University, Halifax, known as the Atlantic Provinces Tax Conference, and this year we have embarked on a much extended conference programme. Two have been held to date with notable success. I refer to the Montreal and Toronto Estate Tax meetings at each of which Mr. Ivan Linton, Administrator of the Estate Tax, Department of National Revenue, Ottawa, spoke. His valuable exposition will shortly be printed and forwarded to members. In both cities distinguished panels also participated. Special conferences for corporate management are planned for the future and there will be another Atlantic Provinces Tax Conference, this time at Dalhousie University. The Director is again assisting in the preparation of the programme for the third Tax Seminar at Queen's University to be held in June. A special conference of the Foundation will take place following the publication of our study of taxation of the petroleum industry and should be of particular interest in the West where it will be held.

The scope for regional and special subject meetings throughout the year in addition to our regular annual conference is great and each new venture has been accorded warm support.

### **Publications**

Through our publications members are kept in touch with all Foundation activities and in this way benefit from our annual and special conferences even though they have not been able to attend.

As previously mentioned, two important publications will soon be in the mails — Mr. Linton's address, our 1958 Conference proceedings, and later in the year, the major report on Taxation in the Petroleum Industry will be issued.

The now well-known Tax Memo and Taxes Abroad series

continued to be well received in 1958. Of the four Tax Memos, two dealt with the new Estate Tax Act, one with the views of business on Corporation Taxes, and the fourth with Provincial Finances.

Surveys of taxes in New Zealand, Mexico, and Western Germany were added to the Taxes Abroad series, bringing the total to six. The Union of South Africa, Australia, and the United Kingdom were previously dealt with. Combined with the regular Canadian Tax Journal feature, "Foreign Tax News", our membership is thus kept informed on the major tax developments outside of Canada.

So far in 1959 one Tax Memo has been produced — the annual federal budget forecast — and has received wide attention.

The Canadian Tax Journal continues to be the backbone of our publications and regularly appears every two months containing articles on a wide range of subjects.

Last month a most valuable booklet entitled "Guide to Publications" was published and for the first time we have a compilation of all the material published by the Foundation. The comprehensive index will undoubtedly enhance the value of our several thousands of pages of printed material by making it more accessible.

Business Deductions Under the Income Tax was the subject of the thirteenth in the Canadian Tax Papers series. You will recall our 1957 introduction of a compilation of Canadian fiscal data under the title, "Canadian Fiscal Facts", which was widely welcomed as an extremely useful handbook of material brought together nowhere else. In 1958 a supplement was issued. Supplements or complete revisions of this volume will be issued as circumstances permit and require.

Now one of our mainstay publications, "The National Finances" relates and illustrates the vast operation of the federal government. The 1958-59 issue is again being extensively read in universities and business for its clear exposition of a complex subject.

As my predecessor pointed out in his annual report last year, the preparation of these publications occupies a good part of the time of the staff, and with the volume of material produced it is almost true to say that the Foundation is as much a small publishing house as a research organization. In fact of course the two efforts coincide, because without the publications the results of research could not reach the public and our membership and would be little used.



One new limited series has been introduced recently under the title, "News Letter to Corporate Members". To date two issues have been distributed, each containing news about the Foundation, its plans, programme and financial position. The News Letter we feel fills a need to keep our corporate subscribers informed in a concise and brief manner.

In addition to the volume of material produced by the staff further progress was made during the year on several studies being prepared by outside experts on special assignment. A brief but original analysis of the use of special incentive measures for less developed regions of Canada has been received from J. N. Wolfe, of the University of Toronto. Craig McIvor, McMaster University, conducted a cross-country survey of present day co-operative activities and will have a report ready for publication this summer. Eric Hanson, of the University of Alberta, is making an extensive study of inter-governmental fiscal relations for us which eventually will appear as a report. Other projects of a longer term nature are also underway which have not developed sufficiently to announce at this time.

### **Tax Legislation**

Attention to new legislation is, of course, another of the main jobs of the Foundation, its staff and its members. The year 1958 was a notable one in this field, primarily as a result of the passage of the Estate Tax Act. The new act as you will recall was the subject of two Tax Memos. The first gave a general description of the first bill and explained it in contrast with the Succession Duty Act. In the second Memo, briefs presented by various organizations on the bill were correlated to give all our members and others easy access to the various recommendations. You may have noted from Hansard that the Memo was widely used by Members of Parliament on both sides of the House and Senate and at the Committees of each body. It was clear that the Memo was useful and well received.

The Income Tax Act received considerable attention in a number of technical aspects last year. As in past years a committee from the tax sections of the sponsoring professions, under the auspices of the Foundation, was favoured with a day-long interview with departmental officials who explained the changes following first reading of the amending bill. It was noted by members of the committee that a good number of the amendments indicated the brief of the Joint Committee had been given close attention by departmental officials.



Flowing from the amendments were several panel topics at our annual conference where officials and members were able to examine the effects of the changes in detail. One notable example of this follow-through was the panel on Company Amalgamations. You may recall that at our 1956 conference the topic was examined. I believe it would be fair to say that the results of that panel discussion contributed measurably to departmental studies of the problem and played a part in the development of Section 85I, which, while it does not go as far as many would wish, does take a major step in clarifying the tax consequences of amalgamation.

The progress in tax law pertaining to company amalgamations, is, I think, a good example, of how the Foundation plays a part in the improvement of legislation. The contribution was simple enough. In 1956, as mentioned, a panel at our conference thoroughly and objectively explored the problem. Their remarks based on experience brought together a true picture for departmental officials to study. Here was no desk-thumping demand, or the presentation of a conclusion by a petitioner, but the provision of a forum for an expert and unbiased appraisal which was made useful by its publication in the proceedings. Not a dramatic "win", but an example of solid progress, and this is the aim of all of us and no less so of Canadian tax officials.

It is obvious, of course, that in such complicated areas the government has to move slowly and cautiously, testing each foot of the way. I feel that our years of attention to the Sales Tax problem will one day culminate in extremely important changes in this legislation.

So while we do endeavour to see the distant scene sure steps toward better tax legislation are steadily being taken.

### Membership

The year 1958 was memorable for increases in individual memberships. We started the year with 1,480 individual members and largely through the assistance of our sponsoring bodies given through publicity in the Canadian Chartered Accountant and the Canadian Bar Journal — we increased this number some 27 per cent to a new figure of 1,906. An expansion of one-quarter in one year is a very striking achievement which we will hardly expect to repeat. Nevertheless it is a dramatic revelation of what can be done when the effort is made. To date in 1959 we have added another 100 individual members.

The corporate subscribers story is also very encouraging — 28 new corporate members were added to our rolls in 1958 to bring the new figure to 501. In addition some 300 companies contribute through their associations so that our total membership at December 31, 1958, exceeded 2700. Equally encouraging was the fact that 39 corporations increased their subscriptions during the year.

While membership is improving, I agree with my predecessors who have said there is no reason why our active membership should not be several times its present size. In a moment I will be speaking about finances and from the figures I mention you will appreciate that it is necessary that our membership efforts continue at an even increased pace this year.

To this end I urge present members to bring the work of the Foundation to the attention of clients, business and professional acquaintances and others. We have found in the past that a simple introduction to our work and publications is sufficient to acquire a new and enthusiastic member. Members can also assist the new Board of Governors, whose task it is primarily to see that finances are sufficient to meet the needs of the Foundation, by referring to them any companies which might subscribe if approached.

A minimum of \$4,000 for new individual members plus an additional \$14,000 from corporate subscribers is required this coming year to permit the fulfilment of the extended 1959 programme. From past performances we are confident that this can be done with your help.

I would suggest that if every present member made an effort to introduce one member, our goal would be reached.

### **Finances**

The 1958 year ended with a modest surplus, as you will be aware from the audited financial statements you received with the notice of this meeting. The figure was \$6,148. Compared with 1957, the 1958 revenue showed an increase of some \$3,000. Expenses showed a net decrease of just under \$2,000. This decrease, however, arose from the fact that there was no major printing bill outside the regular publications last year. This year several major studies will be published and this will change the expense picture considerably.

But the main news in the finance section of this report is the prospects for this year. And while my successor as chairman will shoulder the responsibility in the months to come I would



like to complete the finance picture by outlining the budget which has been approved by the Executive Committee. The budget reflects the need for a continued expansion of research and launches us into the important municipal field.

Expenditures in 1959 will rise about \$28,000 to \$160,000 and on the basis of present revenues of \$142,000 we foresee a deficit of about \$18,000. It was with this fact in mind that I previously mentioned the need for continued and increased membership efforts. The entry into research in municipal finance will undoubtedly result in a new source of membership. Many people in the municipal field will be interested in supporting the Foundation and in receiving its publications if our present members draw this new venture to their attention.

The decision to expand the Foundation's research programme, with its consequent increase in cost and the possibility of a deficit, recalls to mind the Chairman's report of 1954. Referring to a similar decision to push ahead vigorously, R. deWolfe MacKay, Q.C. said: ". . . The first course was adopted in the knowledge that the required income might have to be built up more slowly, but in the firm belief that demonstration of the Foundation's increased capacity and accomplishments would enable us to secure it!"

So it is today — that firm belief remains as we continue to extend our efforts.

One other comment from that report is also interesting to recall at this time, for again the situation is much the same.

He said, "Much as we need to increase revenue in order to match expansion of the work, it has always been considered essential that corporate support should be given a proper understanding of the Foundation's functions. We believe that this condition precludes the professionally promoted type of financial campaign and obliges us to present our case mainly through the Governors and other responsible members who are qualified to approach people on the Foundation's behalf. The Governors have always recognized their collective responsibility in this matter and no member has refused his help if he was able to give it. While it would no doubt be possible for us to raise more money much faster with much less personal effort by more spectacular methods that may be appropriate for other organizations, we would not then enjoy the same relationship with our subscribers and it is probable that some of the results would be both precarious and prejudicial to the Foundation's independence."



The same approach for the same sound reasons is being followed in the present stage of the Foundation's growth.

### M. L. Gordon Fellowship

No fellowship has been granted for the current year. This decision was taken on the recommendation of the committee of award and as a result of it the status of the fellowship is now under review. In the meantime the Foundation has been exploring other ways it might be of assistance in interesting scholars to pursue careers in the tax and fiscal field and possibilities of working with provincial departments of education at the primary or secondary school level are being examined. We have also been exploring inexpensive means of reproducing doctorate theses in our own field so as to make them available to other teachers and students.

### Changes in the Board of Governors

The retiring members of the Board of Governors this year are as follows:

Ralph L. Bamford, F.C.A.	John C. Newland, C.A.
H. Weir Davis, Q.C.	James A. Renwick
A. Willard Hamilton, C.A.	Douglas G. Scott, C.A.
G. Richard Hunter, Q.C.	Lancelot J. Smith, F.C.A.
Gerald E. Martin, C.A.	S. Bruce Smith, Q.C.
C. G. McConnell, F.C.A.	

Each has made a contribution to our progress during his term as a Governor and it is now my particular pleasure to thank them for their sincere interest and effort on behalf of the Foundation and its members. I know I am voicing the opinion of all members when I express a special tribute to our retiring Past Chairman, A. Willard Hamilton. Mr. Hamilton has served the Foundation continuously since 1954 and has been a tireless worker on its behalf.

You will be asked to elect a new Board of Governors. You have received the list of nominations along with the notice of this meeting. In accordance with our by-laws the nominations have been made by the presidents of the Canadian Bar Association and the Canadian Institute of Chartered Accountants. You will note among the nominees many names of those who are now on the Board. Those nominees not at present governors are as follows:

L. E. Fingarson, C.A.	William A. Simonton, F.C.A.
Neil V. German	Hugh E. Spencer, C.A.
John Hyslop, C.A.	R. Bredin Stapells
W. R. Kay, C.A.	Jacques Tetrault
John P. Kinghorn, C.A.	G. Norman Wildgoose, C.A.
Donald C. McGavin, Q.C.	

### Staff

Since the last annual meeting there have been three staff changes. Last June, Mr. Ronald Robertson joined the staff as executive assistant to the Director. He practised law in Windsor before coming to the Foundation and earlier was a reporter for The Windsor Daily Star. Mr. Robertson has already been able to assist the Director in many ways with the wide variety of demands that fall on him and the expanded programme of conferences and similar activities we plan for the future is largely possible because of his addition to the staff. R. A. Rawkins, our Librarian since 1956, left at the end of January to assume new duties with the North York Library Board. He leaves a legacy of a well indexed tax library which he organized to meet the specific needs of the Foundation. His parting contribution was the compilation of the recently distributed "Guide to Publications of the Foundation" which has already received commendation from Librarians in the United States and Canada. As a successor for Mr. Rawkins we were fortunate in obtaining the services of Mr. Gerald Hoy, who comes to the Foundation with considerable experience in the handling of a technical library.

Our most recent staff member is Mr. F. H. Finnis who joined the staff yesterday. He will conduct the studies in the municipal field which I previously mentioned. Mr. Finnis has had wide practical and theoretical experience in the municipal field and prior to becoming a member of the staff of the Foundation was an executive officer on the staff of the Citizens' Research Institute of Canada. Those of you who attended the Winnipeg Conference last November will recall his contribution as a member of the panel which delved deeply into the problems of Uniform Assessment as the base of the Real Property Tax.

Another change in our staff which will take place in the near future is the departure for other employment of our Statistician, Mr. Roger Carswell. Mr. Carswell has made many notable contributions to our research programme in his six years with the Foundation. His work will be best remembered for his original study "Taxes and Traffic" and for the introduction of the National



Finances and Fiscal Facts series, but in a multitude of ways he has contributed to the success of many of our other publications. We shall miss him at the Foundation and wish him well in his new career. Mr. Carswell's successor will be announced in due course.

The other members of the staff are by now well known to all of you either through their writings in our various publications or by having met them at various Foundation conferences. As each year goes by the value of their contributions to the work of the Foundation increases.

Mr. David McGurran, Research Assistant, has been responsible for the Taxes Abroad series as well as feature articles for the Journal, which number among them the current series, "Principles of Income Tax". This latter series, as you know, involves the extremely difficult task of reducing the complexities of our income tax law to a readable and understandable outline. Student members in particular have received this series with enthusiasm.

Gwyneth McGregor, as editor, finds more work for her editor's pencil as our production of publications grows. But as you know, she is as much author as editor and is known for her regular Journal feature "Tax Cases in the News". She has in recent months become widely known outside the Foundation membership as the author of a weekly tax column in the Toronto Globe and Mail. Her abilities as a speaker have also been discovered as you will recall from the business deductions panel at the conference, and in recent months she has been in demand as a speaker for various organizations.

Mr. Don Cerigo, our research economist, has studied and travelled considerably in the last year gathering material for our survey of Taxation of the Petroleum Industry. He is now in the final stages of this major work which has been among the most exacting and difficult undertaken by the Foundation.

Mr. James Reid is responsible not only for the well ordered condition of Treasury but his name has also become synonymous with the precise arrangements which have contributed so much to the success of our conferences. Our three helpful secretaries, Miss Gurney, Mrs. Wilkinson and Mrs. Altan, continue to make their essential contribution to the work of the Foundation. I am pleased to take this opportunity of thanking them on your behalf for their efforts during the past year.

This team, capable as they are, could not deliver their full potential without the guidance and leadership of our Director J. Harvey Perry. He is now completing his 7th year of service



with the Foundation and he has made a real place for himself achieving greater and greater success each year in the direction of our work. We are very grateful to him.

### **The Future**

From what I have said before in my report on Membership and Finance and the extension of the Foundation's horizons into the municipal field, I think it is obvious that the future is bright. The main task which will fall to the new Chairman of the Board of Governors will be to expand the financial resources to keep pace with the expanded research programme. No organization can stand still and survive. It must move ahead with the challenge of the times. The Foundation will hold its unique position as long as it continues to serve the far sighted aims set for it by its sponsoring bodies. I have every confidence it will so continue and in doing so will continue to merit the support of Canadian businesses which provide the major part of its funds.

### **Conclusion**

As chairman during the past year I have received the support and co-operation of my fellow officers and governors. I would like to express my appreciation for this, and extend my best wishes to the new officers and Board of Governors for success in this important year in the life of the Foundation.

HENRY F. WHITE, Q.C.

## *Report of the Director*

*To the Thirteenth Annual Meeting of  
the Canadian Tax Foundation  
March 24, 1959*

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### INFLATION IN PERSPECTIVE

The Chairman's report having dealt with all matters of importance regarding the Foundation and its activities the content and flavour of the Director's report is left largely to the imagination and ingenuity of the incumbent of that office. In my earlier years I found the annual challenge of filling this void a rather perplexing one but as time passes I look forward to it more and more. One reason is that I have now found a formula; I make the most of whatever details are so minute or issues so grandiose that they have escaped the eye of the Chairman. Another reason is that I welcome the opportunity as being almost the only chance during the year of making a public utterance before the group with which I am most proud and happy to be associated.

In considering which side of my formula to apply this year I have come out strongly for the grandiose. Some general remarks on the trend of the tax systems at last year's annual meeting seem to have been well received and there are today other pressing questions which come inescapably within the Foundation's terms of reference. And I should stress that by force of circumstances almost beyond our own control these terms of reference are becoming broader and deeper. As I travel about the country and meet individuals and groups in all paths of life I find that the Foundation is now looked to as a source of independent and authoritative opinion on an amazing — and indeed very flattering — variety of subjects. The plain truth is that on many controversial matters of public policy the Foundation is regarded as the one voice that can speak without bias. This is the objective for which we have striven over the years and it is more than gratifying to find that we have achieved it in a measure far beyond the expectations of any of our founders.

This observation is hardly a digression because I intend to discuss one of the most controversial subjects of the day, namely — inflation. My reason for doing so is not simply that every other person even remotely interested in economic and financial matters has made it the subject of a major utterance during recent months. This would in itself provide excuse enough, but I am moved by



reasons stronger than imitation. I hope to demonstrate that this one word inflation embraces the most basic economic and social issues of our time. We must therefore have some philosophy about it and that philosophy will govern our approach to most of the fundamental economic problems of our era.

### Post-war Revolution

The handmaiden of philosophy is history, and it can serve us well by giving us perspective. Nor need we delve deep in time for our present purpose — a bare two decades will suffice. In that two decades a revolution has occurred. Governments have assumed a role in our times that would have shocked our forefathers. Most economists of my own vintage associate this new role with the writings of John Maynard Keynes, but anyone who can recall the depression of the thirties will realize that a new attitude on the part of government towards the economic life of the nation was inevitable. This realization, rooted in a growing concern with the harsh realities of needless economic distress and channelled into specific programmes of action by a new school of economists, has brought a revolution in our times. The result of this revolution is now clear to see for all who will read; and it is this — governments the world over have now assumed responsibility for the economic well-being of each individual citizen, no matter what his circumstances.

In Canada the mechanical apparatus of this development stands so new around us that we can easily recognise it. A bare fifteen years ago almost nothing existed of unemployment insurance, family allowances, old age security and hospital insurance. Financially most of these measures have only become important in the last five years. Behind this apparatus lies a fundamental change in philosophy which found strongest expression in the brave new world atmosphere of the immediate postwar days. One recalls the reconstruction manifestos of the federal government holding out the promise that every measure would be moulded to the achievement of full employment and a high and rising standard of living. An energetic use of fiscal and monetary policy would create the general atmosphere for achieving this objective. And in fact in keeping with this manifesto many new welfare measures were introduced and for some years we witnessed an extremely energetic use of fiscal policy. We had large surpluses designed to offset strong inflationary pressures and we have also seen deficits during times of recession. Monetary controls, after remaining almost dormant since the establishment of the Bank of Canada, have in recent years also been used quite extensively. In brief Canada

embraced the new philosophy with enthusiasm and practised its dictates with energy and relative success. And we have done well. We have enjoyed an unprecedented economic expansion in a very short period of time and our standard of living is the envy of most of the world.

### Sense of Frustration

So much for the perspective of the last decade or two. On the whole it presents an extremely satisfactory record. But a serious blemish appears if we look around us today. The specific is now in sharp and sour contrast with the general. For over a year we have experienced a mild economic recession. We now have something like half a million unemployed in a working force of six million. Our federal budget is substantially in deficit and the prospect is that it will remain so for the near term future. Our financial markets have experienced greater disorganization than at any time since 1929. Financial and business leaders express grave concern for the stability of the currency. Meanwhile prices continue to rise or if they decline do so almost imperceptibly. In the face of the paradox of idle men and factories on the one hand and latent inflationary pressures on the other, there is a sense of frustration and disillusionment with the effectiveness of government monetary and fiscal action. Where ten years ago the economists were certain they had the world by the tail they are not even sure whether there is a tail that can be securely grasped. Or to use a more accurate comparison where fiscal and monetary experts were confident at one time that they had at their disposal a whole range of antibiotics to minister to an economy suffering from any indisposition, they now realize that their medical techniques have advanced little beyond the castor oil or major purgative stage.

To attempt to appraise this condition and indicate some possible avenues of escape from it would be a challenging exercise and one which would exceed not only my ingenuity but the time at my disposal. However as I indicated at the outset many facets of the dilemma are focussed in the present concern with the threat of inflation and some remarks on that subject may throw light on the broader scene.

One should of course define terms in discussing any economic issue but I imagine that most of us have a general idea of what is meant by the term inflation. In the traditional sense it implies an abnormal rise in prices as a result of some artificial stimulus of demand or some artificial reduction in supply. The most



common cause of an artificial stimulus of demand is an increase in the supply of money and credit at a rate more rapid than the flow of goods becoming available for purchase. In the analysis of economic instability the relationship of consumption and investment is the key to much of the Keynesian analysis but we can pass over that detail here. In more recent years the concept of inflation has been broadened to include an increase in prices attributable to a rise in costs due to what are regarded as abnormal demands of organized producer groups. Putting this in common parlance, many business leaders attribute the rise in prices to union pressures for wages higher than would be justified by increases in productivity. In any event whatever the basic cause the essence of inflation is a decline in the value of money in the sense that a dollar will purchase less in real goods than the same dollar would purchase a year before.

### Government, Labour, Business

From this all too brief summary there emerges an observation of extreme relevance; namely that inflation for the moment is the crux of the relationship between the three massive components of modern society — government, labour and business. Government controls the money supply; labour affects the largest element of cost; and business has the ultimate responsibility of determining prices. These three elements are seldom in harmony and indeed are sometimes in open warfare. Their relationships are infinitely complex and the economic implications of their actions and utterances are profound and far reaching. Inflation for the moment is the bogey and the bad man in these relationships, a fact to which I will return again in a moment.

Let us grant that inflation is a bad thing. I am opposed to it just as are the vast majority of other people. In its extreme form it is the cruelest sort of confiscation. It wreaks its greatest havoc on the defenceless. In an insidious way it changes the real terms of every contract expressed in money. It alters the income relationships within society in a capricious and uncontrollable manner. It is the pitfall of the politician because it appears to give an easy if temporary solution to pressing problems. Like sin it is something into which we can sink unconsciously unless we are constantly warned of the danger. High priests of finance therefore serve much the same purpose as preachers of the gospel; inflation, like sin, can easily get out of hand if we rely only on our immediate pleasurable enjoyments.

## Role of the Private Sector

Where does everyday reality stand in relation to the gospel of truth on inflation? I will say quite frankly that where business and labour are concerned I simply don't know. Where either wage or price levels are concerned the most universal slogan sounds like that of charitable drives — let's go over the top. For the classical equation of fixed costs plus higher productivity equals lower prices there is now substituted higher costs plus stable productivity equals higher prices. To the outsider the so-called "labour-management" tug of war seems to be dominated by mutual distrust and phoney statistics, and its resolution the victory of power politics rather than of economic logic. Add to the constant uncertainty of the outcome of this struggle the fact that the most capricious element in the whole economy — and the one that is most likely to create inflation — is industrial investment expenditure, and one is a long way from a sense of assurance that all will be non-inflationary in the private sector. Indeed, one's conclusion might be very much the reverse.

## Role of Government

However, let us leave the private sector to struggle with its own problems and consider the very strong expression of concern that government is the main threat of inflation. These expressions have come mainly from the financial community — in short from the government's creditors. I would like to suggest that these worries arise out of a particular reaction to a special situation. As a result of the massive borrowing operations of the federal government during the last year the financial community is now in a rather bruised and anxious frame of mind. In short it really has its wind up. Even without the Conversion Loan the money markets in 1958 would have been required to absorb far greater borrowings than in any year since the war and though it did not call for the provision of much new money the multi-billion dollar Conversion operation strained investment channels to the limit. In this light it is not unnatural that those closely associated with the capital markets should look with misgiving on the possibility of another large bout of government borrowing from a further large deficit in the new fiscal year. There is also very genuine concern with the fact that to ease the government's financing operations in 1958 the Bank of Canada pumped very substantial quantities of new money into the banking system. Although this process halted some months ago the financial authorities fear that



more of the same thing in 1959 would only add to the threat of an inflationary credit boom. This, as far as I can make out, is the main cause of the constantly repeated warning of an inflationary potential. One might indeed say that this is the only cause for a warning signal. The other indicators of future economic activity in the year or two ahead give little ground for fear of inflation.

### The Issues

While this is a legitimate concern expressed by serious people, I would like to suggest that it does not reflect a whole view of the economy; that it under-estimates the nature of the responsibility that now rests on government; that it is an approach based on fear and mistrust, and that it represents an over-simplification of the pressing alternatives which government must reconcile. It is counsel directed against one simple and obvious possibility; namely, that government will deliberately and consciously attempt to stimulate business recovery by direct measures of inflation.

The truth of the matter is that only occasionally are the issues faced by government as simple as this. In fact it is the exception rather than the rule. More frequently there are half a dozen criteria equally as important as the stability of the dollar which press for recognition. Many of these flow from the new role of the government in the economy which I outlined earlier in my remarks. At some stage in economic history no doubt governments were able to direct all their policies towards the sole objective of maintaining a stable currency. But this is no longer the case. The stable dollar commands extremely high priority on the list but today other tests must also be applied. The maintenance of a stable price level at the cost of unemployment of a very large segment of the labour force certainly would not pass the test. The waste in human resources would far outbalance the destructive effect of all inflation except the utterly catastrophic kind. But take a more concrete proposition. Much of the present boom in residential construction is based on funds which originate with the federal government. Should this operation be ceased, with the consequent unemployment of thousands or hundreds of thousands of workers, simply because such financing might add to an inflationary potential? Here is another example; suppose that the present level of unemployment persists for another year and despite a pickup in general business conditions shows no sign of lessening. If it appeared that an extra billion dollars of government investment in social capital, i.e. schools, roads, public buildings, etc., would substantially alleviate this unemployment, should

no action be taken simply because of fear that an outlay on this scale might create or add to an inflationary threat? Coming closer to home, having in mind that tax rates are now fairly high should we counsel a government to court the detrimental economic effects of substantial increases simply to close a deficit in order to remove a fear that inflation might happen?

### Stability At All Costs Unrealistic

These are *real* situations, situations faced by government today. They are situations in which an exhortation to avoid inflation gives little help. The question is seldom whether to engage in an inflationary procedure *per se* but whether to go ahead with or abandon some positive and constructive step that might create employment or provide social capital even at the risk of inflationary consequences.

I suggest that there is an underlying difference in approach here which is fundamental. Certainly we would not endorse the irresponsible use of the fiscal and monetary system in such a way that inflation would be inevitable. To this degree we are all for virtue and against sin. But it is completely unrealistic today to imagine that governments will so far abdicate their responsibilities for the economic well-being of the citizen that they will make price stability the first criterion of all their actions. This is not to argue, as have some economists, that there can be no economic progress without inflation. Rather it is to say that a prescription of price stability at all costs is wholly unrealistic and simply ignores some of the basic facts of life about government in the twentieth century.

### Conclusion

You will by now understand the force of my original assertion that I had gone for the grandiose in this report. If I may descend quickly to the level of practical talk about the Foundation I would like simply to add my own expressions of satisfaction at the successful completion of another year in the life of our organization. The Chairman has mentioned the high points, and there is no need for me to repeat them. As the one most directly in charge of the staff work — which is the mainstay of all our activities — I may say that the range and complexity of the issues coming before us from day to day continue to astonish me and offers a constant personal challenge. If one can judge from work done and good spirit in the doing of it my colleagues share the same sentiments. During the past year my own long absences, either



for travel or through illness, have introduced complications, but everyone seems to have survived in good order.

For the relief in sharing my own responsibilities I welcome the addition of Mr. Robertson as my Executive Assistant and for the entirely new field of research he opens up for us our new municipal expert, Mr. Finnis, is also a most welcome addition to our group. Mr. Hoy, our new Librarian, is also fitting in nicely. The one marked regret I have is the change involving Roger Carswell. I brought Roger to the Foundation and have watched him develop his abilities and range of interest with increasing satisfaction. However a precious privilege of being a young man is that one can still experiment with a career, and Roger leaves with my blessing and every wish for a rewarding future. The rest of the staff I am sure join me in these sentiments.

Finally may I express my pleasure in having enjoyed the most cordial and co-operative arrangements with our chairman, Henry White, and with the other officers and Governors during the past year. May I also take this opportunity of welcoming the new Board, and of assuring them of my fullest support in the year which lies ahead.

HARVEY PERRY.





**T**HE Canadian Tax Foundation was established in 1945 as an independent tax research organization. Its Governors are nominated each year by the Canadian Bar Association and the Canadian Institute of Chartered Accountants, and its work is supported by some twenty four hundred Canadian individuals and corporations.

The purpose of the Foundation is to provide both the tax-paying public and the governments of Canada with the benefit of expert, impartial research into current problems of taxation and government finance. This work is carried on by a well-qualified, permanent staff and by outside experts commissioned for special studies. The Foundation publishes the Canadian Tax Journal and other books and pamphlets, and its activities include holding conferences, providing speakers, granting university scholarships and making submissions to government.

Membership in the Foundation is open to all who are interested in its work.