ROYAL COMMISSION ON TAXATION

VOLUME 2

C O N T E N T S

	Page
CHAPTER 1 - OBJECTIVES OF THE TAX SYSTEM	1
ALTERNATIVES OPEN TO GOVERNMENT	2
Commandeering Resources Creating Money Borrowing Taxation The Choice Taxes Versus User Charges	2 2 3 3 4 5
STATEMEN'T OF OBJECTIVES	7
To Maximize the Growth of Output The Equitable Distribution of Output The Protection of the Liberties and Rights of the Individual The Strengthening of Federal-Provincial Relations	8 10 13 15
PRIORITY OF OBJECTIVES	17
CONCLUSIONS AND RECOMMENDATIONS	18
CHAPTER 2 - CONFLICTS AMONG OBJECTIVES	21
POLICY ERRORS IN RESOLVING CONFLICTS	21.
The Causes of Inefficient Policies Avoiding Conflicts by the Development of Additional Policy Instruments	23 24
THE CONFLICT BETWEEN FULL EMPLOYMENT AND PRICE STABILITY	25
Inflation Unemployment Adjustment for Rising Price Levels	26 29 32
THE CONCEPT OF ECONOMIC GROWTH	34
Per Capita Potential Growth The Distinction Between Potential GNP and Potential	34
Gross Domestic Product The Gap Between Actual and Potential GNP	35 36
THE CONFLICT BETWEEN ECONOMIC GROWTH AND FULL EMPLOYMENT	37
THE CONFLICT BETWEEN GROWTH AND PRICE STABILITY	41
THE CONFLICT BETWEEN ECONOMIC GROWTH AND EQUITY	42
CONCLUSIONS AND RECOMMENDATIONS	45
REFERENCES	ha

	Page
CHAPTER 3 - FISCAL POLICY FOR STABILITY	53
THE EXISTING FISCAL POLICY WEAPONS	54
Built-in Stability Discretionary Policy General Versus Specific Policies	54 60 64
EVALUATION OF FEDERAL FISCAL POLICY 1953-63	67
The Full-Employment Surplus Estimates The Need for Federal Budgetary Flexibility	69 81
PROBLEMS POSED BY PERSISTENT SURPLUSES OR DEFICITS	85
OFFSETS TO REVENUE DRAG	8 9
FISCAL POLICY IN A FEDERAL STATE	91
The Growing Provincial-Municipal Sector and Built-in Stability Stabilizing Provincial Tax Revenues Stabilization of Provincial Expenditures Maintaining the Federal Share of Personal Income Tax Revenues Federal-Provincial Conflict as a Barrier to Stabilization Policies	93 94 95 96
The Role of the Provinces in Discretionary	102
Stabilization Policies Federal-Provincial Co-operation for Stabilization Federal-Provincial Consultation	103 104
CONCLUSIONS AND RECOMMENDATIONS	106
REFERENCES	112
CHAPTER 4 - FISCAL POLICY FOR GROWTH	117
THE RELATIVE IMPORTANCE OF DIFFERENT FACTORS IN GROWTH	119
THE SUPPLY OF LABOUR	122
Demographic Factors The Decision to Work	123 125
TECHNICAL CHANGE	129
Structural Change: Industrial and Regional Mix Research and Development Improved Quality of the Factors of Production	129 137 141
CAPITAL FORMATION	142
The Rate of Investment The Rate of Saving The Allocation of Saving	142 149 154
The Retention of Earnings by Corporations and the	163

	Page
INCREASING THE INVESTMENT AND SAVINGS RATE AT FULL EMPLOYMENT	165
FUTURE PROSPECTS	168
CONCLUSIONS AND RECOMMENDATIONS	173
REFERENCES	185
CHAPTER 5 - INTERNATIONAL ECONOMIC RELATIONS	187
BASIC CONCEPTS	189
FULL EMPLOYMENT, PRICE STABILITY AND THE BALANCE OF PAYMENTS	192
The Stabilizing Role of the Foreign Sector The Potential Conflict	193 194
Problems Created by the Ceiling on Exchange Reserves and the United States Guidelines	196
TAXATION AND CANADA'S INTERNATIONAL COMPETITIVE POSITION	199
Analysis of the Problem Corporate Taxes Sales Taxes Export Incentives	199 202 203 204
ECONOMIC GROWTH AND THE BALANCE OF PAYMENTS	206
FOREIGN INVESTMENT	510
The Net Economic Benefit from Foreign Investment in Canada Changing the Form of Foreign Investment in Canada The Determinants of Foreign Investment in Canada Foreign Confidence Foreign Retaliation Canadian Share Offerings by Non-Resident-Controlled Corporations Criticisms of Foreign-Controlled Corporations	21.1 21.2 21.5 21.7 21.8 21.9 22.2
EFFECTS OF THE PROPOSED TAX SYSTEM	227
CONCLUSIONS AND RECOMMENDATIONS	229
REFERENCES	235
CHAPTER 6 - FISCAL POLICY FOR THE REDISTRIBUTION OF INCOME	239
THE INCIDENCE OF THE PRESENT FISCAL SYSTEM	240
The Incidence of Taxes The Incidence of Public Expenditures The Fiscal Incidence of the Public Sector	243 248 255
IMPLICATIONS	260

	Page
TRANSFER PAYMENTS	262
Financing Government Transfer Payments	263
REDUCING THE REGRESSIVENESS OF THE PRESENT TAX SYSTEM	266
Increasing the Relative Importance of Personal Income Taxes Increasing the Effective Progressiveness of the Personal Income Tax	266 267
Credits Against Personal Income Tax Liabilities for Other Taxes	268
CONCLUSIONS AND RECONTENDATIONS	270
REFERENCES	274
APPENDIX A - THE RELATIONSHIP BETWEEN UNEMPLOYMENT AND INFIATION	275
APPENDIX B - REGIONAL STRUCTURE OF UNEMPLOYMENT	279
APPENDIX C - FULL-EMPLOYMENT SURPLUS, REVENUE DRAG AND DISCRETIONARY FISCAL POLICY	281
APPENDIX D - BUILT-IN STABILITY, TAX LEAKAGES, MULTIPLIERS AND LAGS	305
APPENDIX E - PROPOSAL FOR STANDBY AUTHORITY TO OPERATE STABILIZING FISCAL NEASURES	325
APPENDIX F - TAX PROGRESSIVENESS AND PERSONAL SAVING	529
APPENDIX G - PROOF THAT A SHIFT FROM DIRECT TO INDIRECT TAXES IS EQUIVALENT TO A CHANGE IN THE INTEREST RATE	3 51
INDEX	335