

and mean motivations, requires the driving-force of all the moral and humanist imperatives, such as those related to the profound issue of equality.

Both Canada and the United States it seems, have a long way to go to realize the original and ultimate North American vision. But the path is clear. By every

means in our power, especially by the manifold processes we call education, we have to break down the old tribal collectivity by building up the full, up-standing person, and, what is after all but the other side of the same coin, building the realization of the World-as-One-Whole. That is the real equality.

Recent Experience with War-time Municipal Finance

By C. L. BEAZLEY

ANY discussion on war-time municipal finance in Canada must of necessity go back to agreements entered into between the Government of the Dominion of Canada and the Governments of the respective provinces in the fall of 1941 or in the early months of 1942.

Prior to 1916, the Federal Government of Canada did not impose a tax on income but the provincial and municipal governments had for many years used this method of raising revenue in varying degrees. During the last war the Federal Government enacted an Income War Tax Act imposing a small levy on income and until the advent of the present war this income tax could not be regarded as burdensome.

Some of the Provincial Governments of the Dominion also imposed an income tax and in some instances the provincial tax was based directly on the Federal levy and was collected for the Province by the Federal authorities. Furthermore, in some of the Provinces there was a further levy on income by the municipal governments, or some of them.

For the sake of the country's war effort the Dominion Government had to increase the income tax to a level unheard of in Canadian history. Such drastic measure was only possible if the Federal Government alone occupied the entire field of income taxation and corporation taxation. Accordingly, agree-

ments were entered into between the Federal Government and the Provinces, whereby each Province undertook on behalf of itself and of its municipal units, to vacate these fields completely for the duration of the war and for a certain adjustment period thereafter. In return, the Federal Government undertook, until the termination of the agreements, to pay to the Provinces annually the amount of money that those Provinces or municipalities levied on income or on corporations during the year ended December 31, 1940, or in the fiscal year ended nearest that date.

From the point of view of municipal government these agreements have been both a boon and a burden. The agreement has constituted a boon inasmuch as municipal governments now receive from the Federal Treasury payments of the amount of income tax formerly levied without the expense or delay of collection,—the agreements have been burdensome to municipal units because of this inability to provide themselves with needed revenue by increasing the levy on income at a time when incomes in the municipalities are at a high peak.

Problems Arising Directly From the War

The municipalities that have had the most severe financial problems to solve are obviously those in whose area there are large numbers of men in the armed services and concentrated either on active

duty or for training purposes or where war-time industries have been developed or materially expanded.

The problems facing these municipalities may be classified under four broad headings:

- (1) The activities of the armed services;
- (2) The activities of Federal Government agencies or boards;
- (3) Housing.

In many municipalities, the erection and operation of military, naval and air force camps and other establishments has placed such a demand upon streets, roads, utility services, hospitalization, educational facilities, fire and police protection, that difficulty is experienced in meeting these added obligations without some compensating revenue. In some cases, the Federal Government has given some recognition to the difficulty and has provided or assisted in providing some or all of the additional facilities.

A complaint by all municipalities which have a concentration of troops or a war industry in or adjacent to the municipality relates to the matter of housing.

There are at least two aspects to this problem; *first*, revenue is lost as the land on which the houses are erected becomes exempt from taxation by reason of the occupancy by an agency of the Crown; and *second*, for the occupants of the houses cost to the municipality is increased resulting from the necessity of providing the services to which rate-payers are entitled. War-time Housing Limited, an agency of the Federal Government, and therefore exempt from all taxation, has undertaken the erection of houses, staff quarters, recreational centres and like structures for civilian war workers and their families but the Company declines to pay taxes although it does contribute annual sums on a fixed basis.

Where there are no utilities or other service works in existence, War-time Housing Limited generally provides these services but the maintenance and operation thereof falls upon the municipality.

War-time Housing Limited does not contribute to the original capital cost either by way of connection fees or otherwise.

As a result of the erection of these additional dwellings, an increase in educational facilities, fire and police protection is almost invariably required, but in no case have such increased costs whether for capital or maintenance and operation been met otherwise than by a municipal charge or obligation.

Members of the armed forces live in barracks or camps maintained by the army, navy and air force and accommodation for them does not present a particular problem. But where there are large concentrations of service men, their wives and members of their families must be housed, fed and cared for in the existing dwellings or in new housing erected for the purpose. There is no difference in principle between the problem presented by the families of service men and by civilian workers engaged in defence projects or other war activities.

Where there has been a new or expanded war industry or extensive construction work, the problems incident to the increase in population and to the housing of the workers or their families has given much concern to those charged with the administration of municipal matters.

Hospital facilities in most of such municipal units are taxed far beyond their limits and added burdens have been imposed upon the Health Departments to insure that no outbreak of disease of epidemic proportions shall ensue.

In those cities and towns which have had a large influx of population and a growth of mushroom proportions, there has, of course, been a large increase in the amount of money circulating in the population, especially in the hands of the non-permanent residents. While this has reacted in favor of the municipality by easing the problem of tax collections from persons on the assessment roll, very little of the new money in the municipal district finds its way directly into the municipal treasury.

Problems Arising Indirectly From the War Effort

There are a number of other municipal financial problems which in all probability would not have arisen or in any event would not have assumed major proportions but for the war.

While these problems are due to war-time living, they are not so directly associated with the war effort as matters relating to troops, war industry, or housing. These difficulties are common throughout the entire Dominion and concern such matters as the lack of materials, depletion of staff, loss of business tax, replacements to motorized equipment and shifting of population.

In common with the rest of the world, municipal governments have been unable to obtain the necessary material and equipment to maintain municipal services at the usual level resulting from restrictions placed upon civilian enterprises.

Needed services have to be postponed and ordinary maintenance and repair work frequently may, after the war, necessitate to be undertaken. The omission of maintenance work at the present time may well result in or occasion the complete replacement of installations which otherwise would have lasted much longer.

Practically every municipality whether a war zone, so called, or otherwise, has suffered a loss of trained personnel and is experiencing extreme difficulty in replacements. In a small municipality, the loss of one or two key men may most seriously disrupt the entire municipal life of the community.

While it was in 1943 no particular worry to the municipal governments, it is becoming increasingly apparent that municipalities will suffer a loss in taxation revenue where a business tax has heretofore been imposed. The situation is not at the moment acute in any particular locality, but there has been and still is experienced a gradual loss of assessment as non-essential industries or smaller enterprises go out of business or suffer severe curtailment. This applies notably to gasoline service stations,

but also to small stores, canteens, roadside stands and the like that are now wholly unable to operate due to the difficulty of obtaining supplies or are compelled to operate on a very considerably reduced scale and with a very much depleted stock.

Lastly, there must be mentioned the gradually declining ability of some taxpayers to meet their municipal obligations in view of the substantial demands made upon them by government. This condition may not have become particularly noticeable as yet although 1944 should give some indication of the trend in that direction and 1945 should be further indicative of what municipalities may expect in the way of maintaining tax collections at the present high levels. Substantial portions of earnings will be required for Federal Income tax, compulsory savings, war saving certificates and Victory loans.

Remedies

Counteracting most, if not all, of the adverse factors respecting municipal finance which are either directly or indirectly attributable to war, there is, of course, the increased prosperity which all municipalities have tasted in the way of improved tax collections and other revenues due to the increase of employment and a great many more persons earning very substantially higher salaries and wages.

It is probably true without exception that municipal governments have been able to curtail expenses by the substantial if not total elimination of payments for unemployment or direct relief charges from their annual budgets. This fact of itself has left municipalities with a reasonably considerable margin available to meet increased or new expenditures without increasing the tax levies.

It is not unlikely, however, that the high point in general municipal prosperity due to war has been reached, and due mainly to the shortage of consumers' goods and the effect that this will have on retail and wholesale businesses, that municipal revenues from taxation of

businesses, stocks in trade and business occupancy may decline and collection of real property taxes on business premises may become increasingly difficult.

As municipalities cannot now spend the amounts necessary to provide adequate facilities, there is an apparently healthier condition reflected in their balance sheets. To some extent, this situation tends to create a false optimism but it also mitigates against the growing idea that reserves for future use should be built up.

It is apparent that there are two classes of thought in respect of the creation of reserve funds; one body of opinion holds that each municipal year is an entity in itself and must neither leave deficits or surpluses for the succeeding years and hence the tax rate for each financial period must fluctuate with the needs of that period. The second body of opinion takes a more realistic view and holds that it is in the interests of sound municipal administration to maintain a steady tax rate level and to provide, during times of free money, a reserve which can be used to offset, in part at least, any future borrowings for extraordinary expenditures or for expenditures which would in normal times be presently carried out.

In at least four of the Provinces of Canada legislation has been enacted providing for the establishment by municipal units of a special reserve fund, from revenue fund surpluses and in some instances municipalities are authorized to include as an expenditure in the current budget a sum to be placed to the credit of such a reserve account. The disbursement of such a reserve fund is generally subject to the approval of the Depart-

ment of Municipal Affairs of the Province enacting the legislation.

While it is yet too early to assess the results of such legislation, it is thought that the majority opinion is that beneficial effects will flow and it is the hope of municipal departments generally that municipalities will avail themselves of the opportunity to build up funds for post-war spending.

In those municipalities where there has been no concentration of troops or no war-time industry, there have not been any serious financial problems in 1942 occasioned by the war except the increased cost of materials and increased wages brought about by cost of living bonus or other factors and, generally speaking, municipal governments in these localities are experiencing an upturn in the realm of municipal finance. Collections of current taxes last year are in many cases the highest on record and almost invariably have been the highest for many years. Sundry revenues generally are well in advance of pre-war days and the earnings from public utilities show a continual increase.

Except in those municipalities which have suffered from growing pains, the war-time financial problems in the municipal life of Canada have been of a gradual growth, and reduced expenditures and improved collections have been an important offsetting factor.

While the average Nova Scotia municipality has not been called upon to surmount any major financial difficulty in 1943, I hold the firm conviction that unless municipal officials build well now and lay definite plans for the post-war period of adjustment, they will then be called upon to tread a rocky path.