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D.B.S. REFERENCE PAPER

Dominion Bureau of Statistics, Ottawa, Canada

ISSUED BY AUTHORITY OF THE RT. HON. C. D. HOWE, MINISTER OF TRADE AND COMMERCE

No. 39



December, 1952

GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS 1926 - 1951

(Supplement No. 1 to the National Accounts)

Prepared in the
Research and Development Division

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QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1952

2102-507
3-11-52

Price 50 cents

FOREWORD

The purpose of this monograph is to provide statistics of government transactions on a basis suitable for economic analysis within the framework of the National Accounts. Some of this material has been published previously in "National Accounts, Income and Expenditure 1926-1950" and "National Accounts, Income and Expenditure Revised Preliminary 1951". The present publication provides additional detail of previously published totals, in addition to a more comprehensive analysis of the statistical results. It also consolidates and brings up to date the major statistics which are available in the government sector of the National Accounts.

The methods involved in transforming the conventional accounting statements of governments to a basis suitable for National Accounts presentation are described in Appendix "A" of this publication. For purposes of illustration, a reconciliation statement is given at Appendix "B" showing, for the years 1938-1951, the major adjustments involved in the transition from federal public accounts figures to National Accounts totals. For earlier years, the National Accounts totals are reconciled to data drawn from the report of the Royal Commission on Dominion-Provincial Relations.

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INTRODUCTORY ANALYSIS

Government expenditures, and their financing, exert a powerful influence on the level and direction of economic activity, and have important redistributive effects on incomes. During the past quarter century, government revenues and expenditures have grown greatly, and their composition has been profoundly altered. Thus, in 1926, the combined expenditures¹ of all governments in Canada—federal, provincial and municipal—amounted to \$750 million, compared with \$4701 million in 1951. At the same time, the proportion of total expenditure¹ paid out as welfare and social insurance benefits (i.e. transfer payments excluding debt interest) and subsidies increased from approximately 10 per cent in 1926 to slightly more than 24 per cent in 1951. The increase in total government expenditures¹ has been approximately matched by a corresponding growth in total revenues¹, but the composition of total revenues¹ has altered significantly; the proportion derived from indirect taxation has declined from 76 per cent in 1926 to 44 per cent in 1951.

These figures indicate something of the magnitude of government transactions in the present day economy, and also of the striking changes which have taken place in the country's fiscal structure over a quarter of a century. It is the purpose of this introduction to go behind these total figures and to comment briefly on the main features which emerge from an analysis of the data. But first attention is drawn to the classificatory framework which is used.

Economic Classification of Government Revenue and Expenditure

A useful method of expressing the size of the economic role of government, and of studying the impact of government transactions on the economic system, is to record these transactions in the overall context of the National Income and the Gross National Product and Expenditure. Viewed in these perspectives, insights may be gained as to the relative importance of the government as a purchaser of the community's goods and services, as an employer of labour, as a medium for re-distributing the National Income, and as a source of saving or dis-saving for the economy as a whole. In addition, this method of analysis provides a frame of reference within which to observe structural changes in the fiscal framework.

Broadly speaking, such an approach requires that we adopt the system of classification used in the National Accounts. This means that, on the expend-

iture side, we must differentiate between expenditures which represent outlay for (a) goods and services currently produced; (b) transfer payments to persons; (c) production and consumption subsidies; and (d) transfers to other governments. Each of these categories is uniquely meaningful for purposes of economic analysis. The separation of expenditures on currently produced goods and services tells the analyst what portion of the nation's total production is utilized by government. In this connection, expenditures on land or used plant and equipment must be excluded since these assets do not constitute a part of the nation's current production; they are either "gifts of nature", or have been produced in previous years.

Transfer payments to persons, on the other hand, constitute unilateral payments to individuals for which no goods or services are rendered in return, e.g. family allowances. They represent, in effect, a redistribution of incomes which have already been earned in the course of production. Their immediate economic impact is therefore quite different from expenditure on goods and services.

Subsidy payments represent contributions by government toward the current production costs of business. Such payments may be made in order that the consumer may benefit from lower prices, or to protect the producer from a decline in the market price of his product. The absorption by the government of losses sustained under the Agricultural Prices Support Act is an example of the latter case.

Finally, transfers to other governments are simply cash payments from one Canadian government to another where no productive service is rendered in return. The economic effects of these payments are measured in terms of the end-uses of the funds, that is, whether at the level of the recipient government the funds are spent for goods and services, paid out as transfers to persons, or paid to business as a subsidy.

On the revenue side, it is necessary to distinguish between (a) direct personal taxes; (b) direct corporation taxes; (c) indirect taxes; (d) government investment income (trading profits and interest); and (e) employer and employee contributions to social insurance and government pension funds.

Again, each of these classifications is built around a dominant economic characteristic which confers upon it a special value for analysis. Thus, direct taxes are mainly those levied on net incomes of individuals and businesses. Indirect taxes are those which are deductible as expenses from the gross revenues of business, and which are thus most

1. Excluding intergovernmental transfers.

likely to be shifted forward to the consumer through the market price of goods and services. Government investment income represents income arising through the commercial activities of government business enterprises, or through lending and investment operations of the government. Finally, employer and employee contributions to social insurance and government pension funds consist of levies which are diverted to special funds for special purposes; they

form the major part of the government's "extra budgetary" revenues.

While the system of classification described above is by no means the only one used in the analysis of public finance data, it provides a most effective instrument for studying government transactions in relation to overall economic magnitudes. The system is further elaborated in Appendix "A" of the present publication.

GOVERNMENT EXPENDITURE

Share Analysis

The pattern of government expenditure has been considerably altered in the twenty-five year period covered by this report. In 1926, government expenditure on goods and services (excluding interest) accounted for 59 per cent of total government expenditure for all purposes, compared with 64 per cent in 1951¹. Welfare and social insurance payments, on the other hand, have increased at a much

more rapid rate, from 10 per cent of the total in 1926 to 21 per cent in 1951. Subsidies also accounted for a larger share of outlay in 1951, rising from 0.2 per cent to 2.8 per cent. These increases in the relative position of these three types of payments are a reflection of the large relative decline in interest on the public debt, which has fallen from 31 per cent of total government outlay in 1926 to 12 per cent in 1951.

	1926		1939		1944		1951	
	Mil- lion \$	Percent of Total	Mil- lion \$	Percent of Total	Mil- lion \$	Percent of Total	Mil- lion \$	Percent of Total
Government Expenditure on Goods and Services (excluding interest)	443	59.1	632	56.4	4,918	83.8	3,011	64.1
Interest on Public Debt included in Gross National Product	78	10.4	103	9.2	104	1.8	109	2.3
Transfer Portion of Interest on Public Debt	153	20.4	172	15.4	319	5.4	447	9.5
Welfare and Social Insurance Payments	74	9.9	229	20.5	259	4.4	1,001	21.3
Subsidies	2	0.2	17	1.5	267	4.6	133	2.8
Total Government Expenditure¹	750	100.0	1,119	100.0	5,867	100.0	4,701	100.0

1. Excluding intergovernmental transfers.

Government Expenditure on Goods and Services

Government expenditure on goods and services is a means whereby the community consumes collectively a part of the economic output of the nation. The greater portion of this collective consumption has been produced by the private sector of the economy. It may be noted, however, that the government also contributes to the community's production through its direct employment of labour; in this capacity, the role of government is measured by the wages and salaries (including military pay and allowances) paid out by government.

During the past twenty-five years, combined government expenditures on goods and services measured in current dollars have risen from \$0.5 billion

in 1926 to \$3.1 billion in 1951. In terms of the Gross National Product measured in current dollars, these figures show that the proportion of the nation's total output absorbed by the government has increased from approximately 10 per cent in 1926 to about 15 per cent in 1951. If defence expenditures are eliminated from the figures, however, it will be seen that the government's absorption of economic resources for non-defence purposes has declined slightly in relative terms, from 9.6 per cent in 1926 to 9.2 per cent in 1951.

1. It will be noted that this relative increase is entirely due to the unusually heavy defence expenditures in 1951; if the comparison is made with the year 1950, a slight relative decline to 58 per cent is indicated.

	1926		1939		1944		1951	
	Million \$	Per cent of G.N.P.	Million \$	Per cent of G.N.P.	Million \$	Per cent of G.N.P.	Million \$	Per cent of G.N.P.
Federal Expenditure on Goods and Services	133	2.5	222	3.9	4,488	37.5	1,681	7.9
Provincial-Municipal Expenditure on Goods and Services	388	7.3	513	9.0	534	4.5	1,439	6.8
Total Government Expenditure on Goods and Services	521	9.8	735	12.9	5,022	42.0	3,120	14.7
Total Government Expenditure on Goods and Services Excluding War and Defence	506	9.6	665	11.7	723	6.0	1,960	9.2

As indicated in the above table, the utilization of the nation's economic resources by the government increased enormously during the war period, rising to \$5.0 billion, or 42 per cent of the Gross National Product in 1944. In that year, the amount absorbed by the federal government for war purposes alone amounted to 36 per cent of total output. By 1947, defence expenditures had declined to 1.7 per cent of Gross National Product, but they have since shown a steady increase, reaching 5.5 per cent in 1951.

It is interesting to observe the contrasting movements of federal and provincial-municipal government expenditure on goods and services during the war and immediate post-war periods. In the war years, federal expenditure on goods and services rose from a pre-war rate of about \$0.2 billion to a peak of \$4.5 billion in 1944, after which it declined rapidly. By 1947, federal expenditure had fallen to \$0.6 billion, though it turned upward thereafter as outlays for defence became more prominent. By contrast, during the war, provincial-municipal expenditure on goods and services declined slightly from pre-war levels of approximately \$0.5 billion and remained relatively stationary until 1944. Immediately following the war, however, provincial-municipal expenditure began to rise as public works programmes deferred by the war were undertaken and as new facilities came to be required to serve expanding urban and industrial communities. By 1951, expenditure on goods and services at this level of government had reached \$1.4 billion. Meanwhile, federal expenditures had turned upward again, and by 1951 had reached \$1.7 billion.

In the period covered by this monograph, federal expenditure on goods and services has remained substantially below provincial-municipal expenditures, with the exception of the war period and the year 1951 (the year of heaviest defence preparedness). From 1926 to 1939, the federal share amounted to considerably less than one third of the total. Following the war, however, the federal proportion stabilized at a somewhat higher level than in pre-war years, averaging about 40 per cent of total government expenditure on goods and services in

the period 1947-1950. This increase relative to the pre-war period is accounted for in part by the greatly enlarged post-war requirements for national defence, and in part by the expansion of the administrative machinery following the introduction during the 'forties of new welfare and social security measures. In 1951, the federal share of government expenditure on goods and services rose to 54 per cent of total government expenditure on goods and services.

As previously indicated, the role of government as an employer may be measured by the labour income originating in the government sector of the economy. It should be pointed out, however, that wages and salaries paid by government business enterprises are not included in the figures. Since government enterprises operate on an essentially commercial basis, setting a price for their services which is calculated to cover costs, their wage and salary payments are regarded as originating in the business sector of the economy rather than in the government sector.

Wages and salaries (including military pay and allowances) paid by all levels of government accounted for 5.8 per cent of the National Income in 1926, compared with 7.2 per cent in 1951. If military pay and allowances are eliminated from the figures, the percentages are 5.6 per cent and 6.1 per cent, respectively. It should be noted that during the 'thirties, when National Income was depressed, these percentages were higher, amounting to 10.6 per cent in 1933 and 8.2 per cent in 1939 (military pay and allowances included.) This is because government wage and salary payments normally tend to be relatively more stable than the movements in the National Income. However, during the war period, when federal civilian and military pay-rolls were expanding rapidly, total labour income originating in government increased at a faster rate than the National Income. In the peak war year 1944, the proportion of labour income originating in government rose to approximately 16 per cent of the National Income; military pay and allowances accounted for 11 per cent, and civilian salaries and wages for 5 per cent.

	1926		1939		1944		1951	
	Million \$	Per cent of National Income	Million \$	Per cent of National Income	Million \$	Per cent of National Income	Million \$	Per cent of National Income
Federal – Wages and Salaries.....	61	1.4	85	1.9	217	2.2	386	2.2
– Military Pay and Allowances	7	0.2	32	0.7	1,068	10.9	201	1.2
Provincial and Municipal:								
– School Corporations	70	1.7	81	1.9	102	1.0	239	1.4
– Other Wages and Salaries	104	2.5	159	3.7	190	1.9	420	2.4
Total Government Wages and Salaries (including military pay and allowances)	242	5.8	357	8.2	1,577	16.0	1,246	7.2

Government wage and salary payments (including military pay and allowances) may also be compared with total wages and salaries paid in the economy. This comparison shows that in 1926 the federal wage and salary bill accounted for 3 per cent of the total, while provincial-municipal outlays accounted for 7 per cent. By 1951, the federal portion had risen to 6 per cent, of which 2 per cent was due to military pay and allowances; on the other hand, the proportion accounted for by provincial-municipal wage and salary payments remained relatively unchanged.

Transfer Payments to Individuals (excluding debt interest)

Government transfers to individuals are unilateral payments for which no service is rendered to the government, e.g. family allowances. Unlike expenditures for goods and services, they do not represent a utilization of economic resources by the government, but merely add to the sums available for spending or saving by the recipient. To the extent that such transfers are financed out of taxation, government investment income, or employer-employee contributions to social insurance and government pension funds, they frequently represent a

re-distribution of the National Income. Moreover, under a progressive tax system, they tend to equalize incomes; taxes derived from the higher and middle income groups are used to make payments to persons at the lower end of the income scale.

Government transfer expenditures have grown greatly during the past twenty-five years, as welfare and social security measures have become more firmly embedded in the structure of our society. Old age pensions, unemployment insurance, and family allowances, to mention three of the more important measures, were introduced during this period, and the base of existing welfare schemes was extended and broadened. This quantitative growth is reflected in an increase in transfer expenditures of from \$74 million in 1926 to \$1,001 million in 1951. The greater part of the increase has taken place at the federal level, where transfer expenditures have risen from \$39 million in 1926 to \$581 million in 1951. But the increase at the provincial-municipal level has also been large, from \$35 million to \$420 million. It should be noted, however, that a substantial portion of provincial-municipal transfer payments is financed by the federal government through shared cost payments; in 1951, for example, the federal government contributed \$106 million for old age and blind pensions (see Table 6).

	1926		1939		1944		1951	
	Million \$	Per cent of Personal Income	Million \$	Per cent of Personal Income	Million \$	Per cent of Personal Income	Million \$	Per cent of Personal Income
Federal Transfer Payments (excl. debt interest)	39	1.0	56	1.3	104	1.2	581	3.7
Provincial – Municipal Transfer Payments (excl. debt interest)	35	0.8	173	4.0	155	1.7	420	2.6
Total Transfer Payments (excl. debt interest)	74	1.8	229	5.3	259	2.9	1,001	6.3

Transfer payments from governments (excluding debt interest) constituted less than 2 per cent of Personal Income in 1926. During the depression, when Personal Income was abnormally low and relief payments were rising, this proportion increased to a peak of 7 per cent in 1934, the year in which relief payments were highest¹. Thereafter, Personal Income increased at a more rapid rate than transfer payments, and the proportion fell steadily to approximately 3 per cent in 1944. In 1945 and 1946, with the introduction of family allowances and large benefit payments to veterans, transfer payments rose to 6 per cent and 11 per cent, respectively, of Personal Income. By 1951, the proportion had declined again to approximately 6 per cent.

Interest on the Public Debt

In the National Accounts classification of government expenditure which is followed in this publi-

cation, the greater part of interest on the public debt, i.e. the "non-productive" portion, is regarded as a transfer payment, the remainder or "productive" portion being included in government expenditure on goods and services (see reference, page 26). However, as a matter of convenience, the public debt interest will be considered in this section in its total aspects, rather than exclusively in terms of its transfer content².

Total interest on the public debt has increased approximately two and one-half times in the period between 1926 and 1951, from \$231 million to \$556 million. Almost all of this increase has occurred at the federal level and is due mainly to the exigencies of war-time finance; federal debt interest rose from \$130 million in 1926 to \$427 million in 1951, while provincial-municipal interest increased only from \$101 million to \$129 million.

	1926		1939		1944		1951	
	Million \$	Percent of National Income	Million \$	Percent of National Income	Million \$	Percent of National Income	Million \$	Percent of National Income
Federal Interest on Public Debt	130	3.1	134	3.1	304	3.1	427	2.5
Provincial-Municipal Interest on Public Debt	101	2.4	141	3.2	119	1.2	129	0.7
Total Interest on Public Debt	231	5.5	275	6.3	423	4.3	556	3.2

It is interesting to note that in the pre-war period 1926-1939, federal debt interest remained fairly stable, while provincial-municipal interest increased by 40 per cent. During the war and immediate post-war period, federal debt interest rose sharply, while provincial-municipal debt interest showed substantial declines, a reflection to some extent of the surpluses available for debt retirement during these prosperous years. In 1949 and 1950, however, these trends again reversed; federal interest payments declined, while provincial-municipal payments began to turn upward.

As a proportion of the National Income, interest on the public debt has declined from 5.5 per cent in 1926 to 3.2 per cent in 1951. During the depression

when National Income fell to very low levels, the proportion of debt interest to National Income increased sharply, amounting to 11.5 per cent in 1933, the most severe depression year.

1. Although relief payments were higher in 1934 than in 1933, the latter year was the most severe depression year if measured by the level of Gross National Product.
2. It is a point of interest that a large portion of the transfer content of interest on the public debt is paid to financial institutions such as banks and insurance companies, in contrast to the transfer payments discussed in the previous section, which are paid exclusively to individuals (see reference, page 27).

Subsidies

Subsidies represent contributions by government toward the current production costs of business. They are usually designed to benefit producers through the establishment of guaranteed minimum prices for specified commodities, or to benefit consumers by permitting goods and services to be sold at a lower price than would otherwise prevail. Thus, losses incurred on bulk trading operations of the Canadian Wheat Board and the Agricultural Prices Support Board result from the payment of guaranteed prices to producers in excess of going market prices; the government's absorption of these losses represents a subsidy to the producer. On the other hand, the bulk trading operations of the Commodity Prices Stabilization Corporation during the war and after were conducted to ensure low consumer prices, and the Corporation deliberately sold below the going market price in order to achieve this end.

It should be noted that subsidies may also take the form of direct payments to producers. Such pay-

ments are usually made at the manufacturing or importing level, so that in addition to their direct effect on prices, they can prevent a pyramiding of mark-up and sales tax costs.

In Canada, subsidies are paid almost exclusively at the federal level. They did not play a very important role in the Canadian economy prior to World War II, up to which point they consisted mainly of the trading losses of the Canadian Wheat Board and payments under the Maritime Freight Rates Act and for the movement of coal. During the war and post-war period they became an important device in the government's price control programme, and in the years 1944, 1945 and 1946 amounted to approximately one quarter of a billion dollars. These figures compare with \$2 million paid out in 1926 and \$62 million in 1938. With the removal of most of the price control measures after 1946, subsidy payments declined sharply and in 1950 and 1951 amounted to \$64 million and \$133 million¹, respectively.

	1926		1939		1944		1951	
	Million \$	Percent of National Income	Million \$	Percent of National Income	Million \$	Percent of National Income	Million \$	Percent of National Income
Federal Subsidies	2	—	- 18 ¹	- 0.4	261	2.6	129	0.8
Provincial-Municipal Subsidies	—	—	1	—	6	0.1	4	—
Total Subsidies	2	—	- 17¹	- 0.4	267	2.7	133	0.8

1. Negative subsidy due to recovery in Wheat Board trading loss (see reference, page 27).

In percentage terms, subsidy payments were 2.7 per cent of the National Income in 1944 and 1945 when they reached their highest level. In 1951, they represented only 0.8 per cent of the National Income.

Federal Transfers to Other Governments

Federal transfers to other governments are mainly cash payments to the provinces, transfers to municipal governments being quantitatively quite small. Such payments have played an important part in the evolution of the country's fiscal structure. As noted earlier, however, the economic effects of these payments are chiefly to be measured in terms of end-uses of the funds, that is, whether they are used for purchases of goods and services, transfer payments to individuals, or subsidies. These forms of government expenditure have been examined in the preceding sections.

In the years before World War II, transfers to the provinces by the federal government consisted almost exclusively of the so-called "statutory sub-

sidies" under the British North America Act, the federal government's share of old age pensions (which were then paid wholly at the provincial level), and relief aid. Prior to 1930, these payments amounted to less than \$20 million. During the depression of the 'thirties, it became necessary for the federal government to render financial assistance to the provinces and large sums were transferred to them for unemployment and farm relief. From 1931 to 1937 such payments constituted more than half of total federal transfers to the provinces, amounting to \$53 million out of total transfers of \$105 million in the latter year. After the outbreak of war, relief requirements dropped sharply and federal relief payments to the provinces were discontinued entirely after 1941; in that year, total federal transfers amounted to \$54 million.

1. Includes \$65 million payment to farmers on account of United Kingdom Wheat Agreement.

In 1942, as the need for revenue to finance the war became more compelling, the federal government entered into an arrangement with the nine provinces whereby it gained sole occupancy of the personal income and corporation tax fields in return for an annual payment to each province. A similar five-year agreement was reached in 1947 with seven of the

nine provinces, an additional feature of which was the withdrawal of the agreeing provinces from the field of succession duties. As a result of these agreements, federal transfers to the provinces have been substantially higher in the war and post-war periods, amounting to \$260 million in 1951.

	1926		1939		1944		1951	
	Mil- lion \$	Percent of National Income	Mil- lion \$	Percent of National Income	Mil- lion \$	Percent of National Income	Mil- lion \$	Percent of National Income
Old Age Pensions	—	—	29	0.7	37	0.4	106	0.6
Taxation Agreements	—	—	—	—	98	1.0	87	0.5
Other	15	0.4	50	1.1	20	0.2	67	0.4
Total Transfers	15	0.4	79	1.8	155	1.6	260	1.5

As a proportion of the National Income, federal transfers to other governments were 0.4 per cent in 1926 and 1.5 per cent in 1951. In terms of total

federal outlay for all purposes, these intergovernmental transfers amounted to 5.0 per cent in 1926 and 8.5 per cent in 1951.

GOVERNMENT REVENUE

An examination of the manner in which government expenditures are financed also provides information on the economic role of government in the economy. Normally taxation is the main source of government revenue. Individuals and businesses contribute a portion of their incomes so that the government may be provided with funds to finance its outlays. To the tax receipts obtained in this manner must be added any investment income earned by way of profits of government business enterprises, or interest on government loans, advances and investments and on public funds; and employer-employee contributions to government pension and social insurance funds.

To the extent that current revenues are inadequate to finance expenditures, the government will have to borrow. Taxes cannot be increased indefinitely since a point is reached where they begin seriously to undermine incentives. In time of war, when government expenditures increase drastically, borrowing may become as important a method of government finance as taxation. The extent of government borrowing is reflected by the size of the current deficit. Where the current receipts of govern-

ment exceed current outlays, the situation is reversed and the government will have a surplus. The economic implications of the government surplus or deficit will be discussed in a later section.

Share Analysis

In the twenty-five year period under consideration, the sources of current government revenues have undergone a striking change. Indirect taxes, which accounted for 76 per cent of total revenue in 1926¹, amounted to only 44 per cent in 1951 despite a four-fold increase in absolute terms. On the other hand, direct taxes increased from 11 per cent of the total in 1926, to 43 per cent in 1951; a large relative gain in direct personal taxes from 7 per cent to 18 per cent was exceeded by an even greater gain in direct corporation taxes, which rose from 4 per cent of total revenue in 1926 to 25 per cent in 1951².

1. Excluding intergovernmental transfers.
2. It should be noted that since 1945 indirect taxes have gained somewhat in relative importance, and direct taxes have declined correspondingly.

	1926		1939		1944		1951	
	Million \$	Per cent of Total	Million \$	Per cent of Total	Million \$	Per cent of Total	Million \$	Per cent of Total
Direct Personal Taxes.....	53	6.6	112	10.4	838	25.4	1,016	17.6
Direct Corporation Taxes	34	4.2	115	10.7	598	18.1	1,444	25.0
Withholding Taxes	—	—	10	1.0	27	0.9	56	1.0
Indirect Taxes	614	76.2	716	66.4	1,378	41.7	2,519	43.7
Investment Income	88	10.9	90	8.3	327	9.9	414	7.2
Employer-Employee Contributions	17	2.1	35	3.2	133	4.0	316	5.5
Total Government Revenue¹.....	806	100.0	1,078	100.0	3,301	100.0	5,765	100.0

1. Excluding intergovernmental transfers.

Between the terminal years, changes have also occurred in the other sources of government revenue, but of a rather less notable nature. Government investment income has declined relatively since 1926, from 11 per cent to 7 per cent of total government revenue in 1951; although there has been a small gain in the proportion attributable to profits of government business enterprise, interest revenues have declined substantially in relative terms. On the other hand, employer and employee contributions to social insurance and government pension funds have increased in relative size, mainly as the result of the growth of social security programmes and

particularly the introduction of unemployment insurance in 1941.

The Level of Taxation

Before turning to the discussion of the individual sources of government revenue, it will be useful to examine the total level of taxation in relation to the National Income. It should be noted that withholding taxes (which are levied on interest and dividends paid to non-residents) are not included in the comparison, since the income on which such taxes are levied does not form a part of Canada's National Income.

	1926		1939		1944		1951	
	Million \$	Per cent of National Income	Million \$	Per cent of National Income	Million \$	Per cent of National Income	Million \$	Per cent of National Income
Direct Personal Taxes	53	1.3	112	2.6	838	8.5	1,016	5.9
Direct Corporation Taxes	34	0.8	115	2.6	598	6.1	1,444	8.4
Indirect Taxes	614	14.7	716	16.4	1,378	14.0	2,519	14.6
Total Taxes	701	16.8	943	21.6	2,814	28.6	4,979	28.9

Total taxation in Canada has risen from 16.8 per cent of the National Income in 1926 to 28.9 per cent in 1951. While the ratio of indirect taxation to National Income was approximately the same in 1951 as in 1926 (at about 14.6 per cent), the ratio of direct taxation has increased from 2.1 per cent to 14.3 per cent.

The relative increase in total taxation has not taken place at a steady rate, but has been characterized by a number of changes in direction. As National Income declined during the depression, the ratio of taxes to National Income rose substantially to 26.5 per cent in 1933. Thereafter, the proportion declined, and by 1939 had fallen to 21.6 per cent.

During the war, as tax rates were increased and new taxes were imposed, the ratio of taxes to National Income rose abruptly; in the period 1941-1945, it averaged 28.5 per cent.

In the immediate post-war period, the ratio of taxation to National Income was actually somewhat higher than the war-time level, reaching 30.1 per cent and 30.0 per cent in 1946 and 1947, respectively. This is largely due to the fact that in these years there was a great increase in indirect tax collections as a result of heavy war-deferred consumer expenditures and merchandise imports. In 1948 and 1949, the ratio declined to 26.7 and 26.0 per cent, respectively, but turned upward again in 1950 and 1951, when new and higher taxes were imposed following the outbreak of fighting in Korea.

Direct Personal Taxes

Direct personal taxes consist of taxes levied directly on the net income of individuals plus the

various licences and penalties which are paid out of the net income of individuals¹. They have a two-fold effect. On the one hand, they provide the government with revenue to finance its outlays. On the other hand, they may restrict individual consumption, thus releasing a part of the nation's total production for the government's use. In this respect, they facilitate the shifting of resources from activities related to the satisfaction of consumer wants to activities which the government may be required to undertake in the national interest.

Because direct personal taxes are paid out of Personal Income, it is convenient to consider them in relation to that aggregate. In 1926, direct personal taxes absorbed 1.3 per cent of Personal Income, compared with 6.4 per cent in 1951. All of this relative increase occurred at the federal level; at the provincial-municipal level, the proportion declined from 0.8 per cent in 1926 to 0.5 per cent in 1951.

	1926		1939		1944		1951	
	Million \$	Percent of Personal Income	Million \$	Percent of Personal Income	Million \$	Percent of Personal Income	Million \$	Percent of Personal Income
Federal Direct Personal Taxes	19	0.5	49	1.1	793	8.8	931	5.9
Provincial-Municipal Direct Personal Taxes	34	0.8	63	1.5	45	0.5	85	0.5
Total Direct Personal Taxes	53	1.3	112	2.6	838	9.3	1,016	6.4

During World War II, federal direct personal taxes increased enormously from \$49 million in 1939 to \$793 million in 1944; in the latter year they absorbed almost 9 per cent of Personal Income, the highest proportion in the twenty-five year period under review. On the other hand, provincial-municipal direct personal taxes declined in both absolute and relative terms during the war period, due to the withdrawal of the provinces from the personal income tax field in 1942.

From 1944 to 1950, federal direct personal taxes declined steadily as a percentage of Personal Income, while the proportions attributable to provincial-municipal governments remained about the same. In 1951, however, the federal share rose again, from \$653 million or 4.9 per cent in 1950 to \$931 million or 5.9 per cent; the provincial-municipal share showed very little change.

Direct Corporation Taxes

Direct corporation taxes consist of taxes levied directly on the net income of corporations. Basically, such taxes perform the same functions in the economy as direct personal taxes, that is, they provide revenue for the government and they reduce income available for spending by the private sector so that resources may be made available to the government. To the extent that taxes absorb corporation income which would otherwise have been distributed in the form of dividends, individuals have less disposable income; to the extent that they reduce the undistributed portion of corporation income, businesses may find it more difficult to undertake capital expansion programmes.

Direct corporation taxes absorbed 8.4 per cent of corporation profits in 1926, compared with 50.7 per cent of corporation profits in 1951. At the federal level, the increase was from 7.9 per cent to 43.9 per cent, and at the provincial-municipal level, from 0.5 per cent to 6.8 per cent.

1. An important exception to this definition is made in the case of succession duties, which are levied on beneficiaries with respect to amounts received from estates (see reference, page 28).

	1928		1939		1944		1951	
	Mil- lion \$	Per- cent of Corpora- tion Profits	Mil- lion \$	Per- cent of Corpora- tion Profits	Mil- lion \$	Per- cent of Corpora- tion Profits	Mil- lion- \$	Per- cent of Corpora- tion Profits
Federal Direct Corporation Taxes.....	32	7.9	98	14.2	594	48.7	1,251	43.9
Provincial-Municipal Direct Corporation Taxes	2	0.5	17	2.5	4	0.3	193	6.8
Total Direct Corporation Taxes	34	8.4	115	16.7	598	49.0	1,444	50.7

During the war, as a result of higher corporation profits, higher income tax rates, the imposition of an excess profits tax, and the withdrawal of the provinces from the corporation tax field under the 1942 taxation agreement, federal direct corporation taxes rose to unprecedented levels, from \$98 million in 1939 to \$636 million in 1943; in the latter year they accounted for 50.2 per cent of corporation profits. On the other hand, provincial-municipal direct corporation taxes declined, both absolutely and relatively, during the war, due to the vacation of the corporation income tax field by the provinces.

From 1943 to 1948, the ratio of federal corporation taxes to corporation profits declined steadily; in the latter year, they amounted to \$566 million, or 29.0 per cent of profits. Thereafter, the ratio began to rise, and in 1951 federal direct corporation taxes amounted to \$1,251 million or 43.9 per cent of corporation profits.

At the provincial-municipal level, the ratio of taxes to profits began to turn upward in 1947. In that year, Ontario and Quebec re-entered the corporation tax fields, and to avoid unfairness, the other provinces under the Tax Rental Agreements imposed a 5 per cent corporation tax which was collected at the federal level. Thus, from 1946 to

1951 the ratio of provincial-municipal corporation taxes to corporation profits rose from 0.1 per cent to 6.8 per cent—that is, from \$2 million to \$193 million.

Indirect Taxes

Indirect taxes consist of taxes which are deductible as expenses from the gross revenues of business¹. Like direct taxes, indirect taxes provide the government with revenues to finance its operations, and divert funds from the income stream which would otherwise compete for the community's resources. The latter function is accomplished indirectly by the price increase which usually accompanies the imposition of an indirect tax²; a smaller amount of real goods and services may be purchased with a given amount of money.

1. The distinction between direct and indirect taxes is not made on the basis of legal definition but follows the guide of business accounting procedure (see reference, page 28).
2. It is, of course, possible that an indirect tax may be partly or wholly absorbed rather than shifted forward, in which case net incomes are lower.

	1926		1939		1944		1951	
	Mil- lion \$	Per- cent of G.N.P.	Mil- lion \$	Per- cent of G.N.P.	Mil- lion \$	Per- cent of G.N.P.	Mil- lion \$	Per- cent of G.N.P.
Federal Indirect Taxes.....	302	5.7	310	5.4	922	7.7	1,494	7.0
Provincial-Municipal Indirect Taxes.....	312	5.9	406	7.1	456	3.8	1,025	4.9
Total Indirect Taxes	614	11.6	716	12.5	1,378	11.5	2,519	11.9

Since indirect taxes represent one of the major costs included in the total value of production at market prices, their relative size can best be assessed in relation to the Gross National Product. The most striking fact which emerges from this comparison is the relative stability which indirect taxes have shown as a proportion of the total value of production; while in absolute terms, total indirect taxes have increased from \$614 million in 1926 to \$2,519 million in 1951, as a percentage of Gross National Product they have increased only from 11.6 per cent to 11.9 per cent. This percentage-wise increase is accounted for wholly at the federal level; at the provincial-municipal level, there has been a moderate decline in the ratio.

For the twenty-five year period as a whole, indirect taxes have never exceeded 15.3 per cent of Gross National Product. This ratio occurred in the depression year 1933, when Gross National Product was at its lowest point.

Unlike direct taxes, the great bulk of which originates as a levy on personal or corporate income, indirect taxes have a more heterogeneous origin, arising from a number of different sources. It will be useful to examine the relative importance of these different sources of indirect taxes, and the changes in them which have occurred over time.

	1926		1939		1944		1951	
	Million \$	Percent of Total	Million \$	Percent of Total	Million \$	Percent of Total	Million \$	Percent of Total
Federal:								
Customs Import Duties	142	23.1	91	12.7	139	10.1	355	14.1
Excise Duties (liquor and tobacco).....	49	8.0	58	8.1	148	10.8	233	9.2
Excise Taxes	106	17.3	156	21.8	622	45.1	888	35.3
Other	5	0.8	5	0.7	13	0.9	18	0.8
Provincial-Municipal:								
Real and Personal Property	227	37.0	248	34.6	269	19.5	450	17.9
Gasoline Taxes	6	1.0	53	7.4	47	3.4	170	6.7
Sales and Amusement Taxes	6	1.0	12	1.7	38	2.8	147	5.8
Other	73	11.8	93	13.0	102	7.4	258	10.2
Total Indirect Taxes	614	100.0	716	100.0	1,378	100.0	2,519	100.0

Real and personal property taxes, which were the most important single source of indirect taxation in 1926, accounting for 37.0 per cent of the total, declined to 17.9 per cent in 1951. Customs import duties, the next most important source in 1926, also declined, from 23.1 per cent of the total to 14.1 per cent. Offsetting these declines, however, federal excise taxes rose from 17.3 per cent to 35.3 per cent. At the provincial-municipal level, gasoline taxes rose from 1.0 per cent to 6.7 per cent, and sales and amusement taxes from 1.0 per cent to 5.8 per cent.

Investment Income

Profits of government business enterprises, and interest on government loans, advances, investments, and on public funds also contribute to the overall revenues of the government. In 1926 total revenues from this source amounted to \$88 million, compared with \$414 million in 1951. About half of this increase is due to the profits of provincial-municipal government business enterprises (e.g. power and telephone commissions, street railways, liquor commissions), which have risen from \$26 million in 1926 to \$194 million in 1951.

	1926		1939		1944		1951	
	Million \$	Percent of National Income	Million \$	Percent of National Income	Million \$	Percent of National Income	Million \$	Percent of National Income
Federal:								
Profits	- 1	-	- 37	-0.8	110	1.1	45	0.3
Interest	15	0.4	19	0.4	54	0.5	106	0.6
Provincial-Municipal:								
Profits	26	0.6	56	1.3	112	1.2	194	1.1
Interest	48	1.1	52	1.2	51	0.5	69	0.4
Total Government Investment Income	88	2.1	90	2.1	327	3.3	414	2.4

Throughout the 'thirties, investment income of the federal government was negative mainly as a result of the heavy deficits incurred by the Canadian National Railway. It recovered during the war period however, when the Canadian National Railway began to show a profit, and as the war-time crown companies came into operation. In 1945 federal investment income amounted to \$189 million, of which \$127 million was represented by profits of government business enterprises. By 1948 federal investment income had declined to \$89 million; a large drop in profits resulting from the recurring Canadian National Railway deficit and the closing down of wartime crown companies was only fractionally offset by small increases in interest on loans, advances and investments, and in interest on public funds such as the unemployment insurance fund. In each year since 1948, federal investment income has risen, and in 1951 it amounted to \$151 million.

Provincial-municipal investment income rose steadily after 1933, showing an almost twofold gain in the war period 1939-1945. By 1951, it amounted to \$263 million, of which \$194 million was represented by profits.

Government investment income does not constitute an important proportion of National Income. Between 1926 and 1951, the proportion increased only slightly, from 2.1 per cent to 2.4 per cent. However, in percentage terms, profits have increased more than twofold, while interest revenues have shown a relative decline.

Employer and Employee Contributions

Employer and employee contributions to social insurance and government pension plans¹ provide the government with funds to finance certain transfer

payments which are not provided for within the framework of the budgetary accounts, e.g. unemployment insurance and workmen's compensation benefits. These contributory revenues and the expenditures which they finance, are described by the term "extra-budgetary". In addition to providing revenue for the government, employee contributions represent a direct reduction in income available for spending by the private sector; while employer contributions may have effects similar to those of indirect taxes.

Prior to World War II, federal revenues from employer-employee contributions were extremely small, consisting solely of contributions to public service pension funds. Since 1941, there has been a rapid expansion in revenue from this source as a result of the introduction of unemployment insurance in that year, and the recent introduction of a contributory pension scheme for the armed forces. In 1951, federal receipts from employer-employee contributions amounted to \$206 million, compared with only \$6 million in 1939.

At the provincial-municipal level the growth of this type of revenue has been somewhat more gradual, with the introduction of industrial employees' vacations in 1945 as the chief innovation during the period under study. In 1951, employer and employee contributions at this level of government were \$110 million, compared with \$29 million in 1939 and \$14 million in 1926.

Transfers from Other Governments

These consist mainly of federal transfers to the Provinces. They have been discussed in the section, "Government Expenditure", page 6.

1. Including teachers' pension funds.

THE GOVERNMENT SURPLUS OR DEFICIT

When the current revenues of government exceed current expenditures, the government will have a surplus. This surplus represents a net withdrawal of a part of the current incomes of business and individuals from the flow of income in the economy. At a time when the resources of the economy are fully employed and demands stemming from governments, consumers and business tend to exceed supply, a government surplus is likely to have the effect of moderating demand and thus reducing inflationary pressures. On the other hand, if there are unemployed resources in the economy as a result of inadequate demand, a government surplus, by withholding funds from the income stream, is likely to cause a further reduction in demand¹.

Conversely, when the current expenditures of the government exceed current revenues, the government incurs a deficit. To finance a deficit, the government may borrow from the public or from the banking system. Borrowing from the public will not normally

result in curtailment of demand since funds will ordinarily be loaned which would have been saved in any case. Borrowing from the banking system will likewise do nothing to curb demand of the private sector; if an expansion of bank credit takes place, this simply adds to the money supply. In each case, the spending of the borrowed funds by the government creates new demands on the resources of the economy. In times of falling national income and unemployment, this may bring about an expansion in economic activity. On the other hand, if full employment exists, government deficit financing is likely to create inflationary pressures as a result of ensuing competition for limited resources.

1. These propositions are valid if the funds represented by the surplus are not returned to circulation. Any increase in the cash holdings of the public or the banking system resulting from the use of the surplus for debt retirement is assumed to remain inactive.

Thus, the government surplus or deficit is an important determinant of the level of economic activity and prices.

It should be noted that, for any past period, and for the economy as a whole, that part of current income which is not spent for current consumption i.e. gross national saving, is equal to that portion of current production which is not consumed, i.e. gross capital formation. A government surplus therefore represents a source of the nation's total saving, and in this context, by releasing resources for investment purposes, it is an integral part in the saving-investment process. A government deficit, on the other hand, represents a source of dissaving for the economy, offsetting the amount made available for investment purposes by the saving of the private sector.

During the prosperous years of the late nineteen-twenties, the federal government showed substantial

surpluses, averaging about 6 per cent of total national saving in the period 1926-1929. These surpluses were replaced by very large deficits during the depression years of the 'thirties, when revenues declined substantially and large expenditures were required for unemployment and farm relief, and relief works. By 1937, however, due to the gradual improvement in economic conditions, federal revenues had increased to the point where a small surplus was shown. However, in the recession of the following year, a substantial deficit again occurred. The immense cost of financing the war led to a succession of enormous deficits during the war years, and in 1944 the deficit of the federal government amounted to \$2,708 million. This amount largely offset the saving of the private sector of the economy of \$3,251 million, with the result that the amount of saving available to maintain the country's gross capital formation was reduced to a very low level.

	1926	1939	1944	1951
	\$ Million	\$ Million	\$ Million	\$ Million
Federal Surplus (+) or Deficit (-)	68	- 2	- 2,708	1,031
Provincial-Municipal Surplus (+) or Deficit (-)	- 12	- 39	142	33
Gross Private Saving	1,091	1,118	3,251	4,132
Residual Error	- 61	- 9	60	- 137
Total National Saving	1,086	1,068	745	5,059

The financing of these huge war-time deficits was carried out through the sale of bonds to the public and to the banking system. The intensive saving campaigns of the government during the war no doubt resulted in a substantial curtailment of private expenditures, but to a large degree bonds sold to the public were purchased out of funds that would have been saved in any case. Insofar as the sale of bonds to the public did result in a curtailment of private expenditures, their economic effects were similar to those of taxation. Resources were released to the government without the competitive bidding up of prices involved where new funds were created by the expansion of bank credit.

The inflationary potential inherent in this heavy loan financing was held in check by a system of direct economic controls. Prices were fixed, commodities rationed, and resources allocated by government order. The large voluntary savings of the public were supplemented by compulsory savings which were refunded at the war's end.

The drastic reduction in military expenditures at the end of the war, and the buoyant revenues

resulting from high levels of personal and business incomes and expenditures led to a succession of large federal surpluses in the years 1947-1951. These amounts were available to supplement the saving of the private sector, and to sustain the very high levels of investment expenditure then being made. In 1951, the federal government surplus of \$1,031 million accounted for 20 per cent of gross national saving.

At the provincial-municipal level, there is an almost unbroken succession of deficits from 1926 to 1939. The material shortages of the war period necessitated the deferment of provincial-municipal public works and local improvements, so that substantial surpluses accumulated in these years. The high levels of provincial-municipal capital expenditures in the post-war period resulted in a marked reduction of these surpluses in 1946 and 1947, and in 1948 and 1949 they were replaced by deficits of \$16 million and \$57 million respectively. In 1950 and 1951, small surpluses again occurred.

TABLE 1. Government Transactions Related to the National Accounts

EXPENDITURE
(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
1	Expenditure on goods and services.....	521	567	597	682	767	738	643	526	568	603
2	Federal.....	133	145	152	173	186	159	134	130	143	172
3	Provincial and Municipal.....	388	422	445	509	581	579	509	396	425	431
4	Transfer Payments.....	227	229	233	236	257	291	326	355	396	397
5	Federal.....	152	153	150	145	150	154	161	165	165	163
6	Provincial and Municipal.....	75	76	83	91	107	137	165	190	231	234
7	Subsidies.....	2	3	5	5	7	18	9	8	8	23
8	Federal.....	2	3	5	5	6	18	8	8	8	22
9	Provincial and Municipal.....	—	—	—	—	1	—	1	—	—	1
	Transfers to other Governments:										
10	Federal.....	15	16	17	17	25	56	82	56	71	74
11	Total Expenditure ¹	765	815	852	940	1,056	1,103	1,040	945	1,043	1,097
12	Federal.....	302	317	324	340	367	387	365	359	387	431
13	Provincial and Municipal.....	463	498	528	600	689	716	675	586	656	666

1. It should be noted that this figure includes intergovernmental transfers. To obtain net expenditures of the three levels of government, it is necessary to deduct "Transfers to other Governments".

TABLE 2. Government Transactions Related to the National Accounts

REVENUE
(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
1	Direct Taxes-Persons.....	53	59	59	68	71	63	64	69	64	80
2	Federal.....	19	24	26	29	28	26	28	31	27	35
3	Provincial and Municipal.....	34	35	33	39	43	37	36	36	37	45
4	Direct Taxes-Corporations.....	34	38	45	48	40	33	32	37	52	65
5	Federal.....	32	35	42	44	36	30	27	32	46	55
6	Provincial and Municipal.....	2	3	3	4	4	3	5	5	6	10
7	Withholding Taxes.....	—	—	—	—	—	—	—	5	8	7
8	Indirect Taxes.....	614	637	694	686	600	575	546	545	585	608
9	Federal.....	302	311	340	313	228	215	194	212	239	236
10	Provincial and Municipal.....	312	326	344	373	372	360	352	333	346	372
11	Investment Income.....	88	92	109	103	69	39	36	38	52	65
12	Federal.....	14	11	17	5	26	49	43	39	28	27
13	Provincial and Municipal.....	74	81	92	98	95	88	79	77	80	92
14	Employer and Employee Contributions to Social Insurance and Pension Funds.....	17	20	22	27	29	26	23	21	23	26
15	Federal.....	3	4	4	5	5	5	5	4	4	4
16	Provincial and Municipal.....	14	16	18	22	24	21	18	17	19	22
	Transfers from other Governments:										
17	Provincial and Municipal.....	15	16	17	17	25	56	62	56	71	74
18	Total Revenue ¹	821	862	936	949	834	792	763	771	853	925
19	Federal.....	370	385	429	396	271	227	211	245	294	310
20	Provincial and Municipal.....	451	477	507	553	563	565	552	526	559	615
21	Deficit (+) or Surplus (-) ²	- 56	- 47	- 84	- 9	222	311	277	174	190	172
22	Federal.....	- 68	- 68	- 105	- 56	96	160	154	114	93	121
23	Provincial and Municipal.....	12	21	21	47	126	151	123	60	97	51
24	Total Revenue plus Deficit (or minus Surplus).....	765	815	852	940	1,056	1,103	1,040	945	1,043	1,097
25	Federal.....	302	317	324	340	367	387	365	359	387	431
26	Provincial and Municipal.....	463	498	528	600	689	716	675	586	656	666

1. It should be noted that this figure includes intergovernmental transfers. To obtain net revenues of the three levels of government, it is necessary to deduct "Transfers from other Governments".

2. For a description of the difference between this item and the conventional budgetary deficit or surplus, see page 25.

TABLE 1. Government Transactions Related to the National Accounts

EXPENDITURE
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No.
600	671	720	735	1,165	1,689	3,726	4,227	5,022	3,704	1,832	1,570	1,798	2,128	2,323	3,120	1
165	163	185	222	690	1,204	3,250	3,736	4,488	3,110	1,090	639	679	880	971	1,681	2
435	508	535	513	475	485	478	491	534	594	742	931	1,119	1,248	1,352	1,439	3
400	410	392	401	378	375	421	471	578	948	1,561	1,302	1,327	1,425	1,454	1,448	4
167	174	166	174	181	193	245	287	380	737	1,344	1,042	1,001	1,022	1,022	988	5
233	236	226	227	197	182	176	184	198	211	217	260	326	403	432	460	6
14	10	62	- 17	53	74	93	211	267	262	236	180	75	77	64	133	7
13	9	81	- 18	52	69	87	205	261	257	231	174	71	73	60	129	8
1	1	1	1	1	5	6	6	6	5	5	6	4	4	4	4	9
91	105	86	79	70	54	150	148	155	157	174	192	150	182	256	260	10
1,105	1,196	1,260	1,198	1,666	2,192	4,390	5,057	6,022	5,071	3,803	3,244	3,350	3,812	4,097	4,961	11
436	451	498	457	993	1,520	3,732	4,376	5,284	4,261	2,839	2,047	1,901	2,157	2,309	3,058	12
669	745	762	741	673	672	658	681	738	810	964	1,197	1,449	1,655	1,788	1,903	13

TABLE 2. Government Transactions Related to the National Accounts

REVENUE
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No.
95	112	115	112	139	296	495	698	838	809	796	791	822	789	735	1,016	1
38	43	50	49	76	233	452	650	793	761	737	729	752	707	653	931	2
57	69	65	63	63	63	43	48	45	48	59	62	70	82	82	85	3
83	101	94	115	327	510	629	640	598	599	654	701	685	731	1,023	1,444	4
71	87	77	98	291	477	624	636	594	596	652	630	566	601	878	1,251	5
12	14	17	17	36	33	5	4	4	3	2	71	119	130	145	193	6
9	10	10	10	13	24	29	27	27	29	29	35	41	47	54	56	7
674	714	700	716	883	1,128	1,178	1,328	1,378	1,265	1,505	1,784	1,847	1,907	2,069	2,519	8
286	331	302	310	453	674	750	889	922	782	957	1,136	1,086	1,048	1,115	1,494	9
388	383	398	406	430	454	428	439	456	483	548	648	761	859	954	1,025	10
91	87	70	90	132	176	234	311	327	389	363	333	327	357	394	414	11
10	- 16	- 33	- 18	17	54	91	163	164	189	142	102	89	110	137	151	12
101	103	103	108	115	122	143	148	163	200	221	231	238	247	257	263	13
28	34	33	35	39	69	114	128	133	136	149	181	224	239	259	316	14
5	5	5	6	6	31	64	70	78	74	78	100	129	141	158	206	15
23	29	28	29	33	38	50	58	57	62	71	81	95	98	101	110	16
91	105	86	79	70	54	150	148	155	157	174	192	150	182	256	260	17
1,071	1,163	1,108	1,157	1,603	2,257	2,829	3,280	3,456	3,384	3,670	4,017	4,096	4,252	4,790	6,025	18
399	460	411	455	856	1,493	2,010	2,435	2,576	2,431	2,595	2,732	2,663	2,654	2,995	4,089	19
672	703	697	702	747	764	819	845	880	953	1,075	1,285	1,433	1,598	1,795	1,936	20
34	33	152	41	63	- 65	1,561	1,777	2,566	1,687	133	- 773	- 746	- 440	- 693	1,064	21
37	- 9	87	2	137	27	1,722	1,941	2,708	1,830	244	- 685	- 762	- 497	- 686	1,031	22
- 3	42	65	39	- 74	- 92	- 161	- 164	- 142	- 143	- 111	- 88	16	57	- 7	33	23
1,105	1,196	1,260	1,198	1,666	2,192	4,390	5,057	6,022	5,071	3,803	3,244	3,350	3,812	4,097	4,961	24
436	451	498	457	993	1,520	3,732	4,376	5,284	4,261	2,839	2,047	1,901	2,157	2,309	3,058	25
669	745	762	741	673	672	658	681	738	810	964	1,197	1,449	1,655	1,788	1,903	26

TABLE 3. Expenditure on Goods and Services
(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
FEDERAL:											
1	Wages, salaries, and supplementary labour income	61	65	68	73	78	72	63	60	64	69
2	Military pay and allowances	7	7	7	8	8	8	8	8	8	9
3	UNNRA, mutual aid and military relief	—	—	—	—	—	—	—	—	—	—
4	Direct military expenditure abroad (excl. military pay)	—	—	—	—	—	—	—	—	—	—
5	Interest on public debt incurred to finance existing real assets	17	17	19	20	20	19	21	21	21	18
6	Changes in inventories of government commodity agencies ¹	—	—	—	—	—	—	—	—	—	—
7	Other purchases of goods	48	56	58	72	80	60	42	41	50	76
8	Total	133	145	152	173	186	159	134	130	143	172
PROVINCIAL AND MUNICIPAL:											
Wages, salaries, and supplementary labour income:											
9	Municipal school corporations	70	72	75	78	81	81	79	72	70	71
10	Other (excl. water works)	104	114	123	133	146	153	141	121	137	135
11	Interest on public debt incurred to finance existing real assets	61	65	66	72	79	84	88	88	87	86
12	Other purchases of goods and services	153	171	181	226	275	261	201	115	131	139
13	Total	388	422	445	509	581	579	509	396	425	431
14	GRAND TOTAL	521	567	597	682	767	738	643	526	568	603

1. Includes change in inventories of Commodity Prices Stabilization Corporation, Canadian Wool Board, Special Products Board, Meat Board, Dairy Products Board, Agricultural Prices Support Board and Fisheries Prices Support Board. Does not include change in inventories financed out of the Defence Production Revolving Fund, which is included with "other purchases of goods and services".

2. Defence and war expenditures included in these figures are given in table opposite. It should be noted that the "war" series is based on the definition of "war expenditure" followed by the Comptroller of the Treasury in the Public Accounts and includes expenditures of the Departments of National Defence, Munitions and Supply and many other departments for war or related purposes. The "defence" series includes only expenditures by the Departments of National Defence and Defence Production, and consequently is discontinuous with respect to the "war" series after the year 1946.

TABLE 4. Transfer Payments
(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
FEDERAL:											
1	Family allowances	—	—	—	—	—	—	—	—	—	—
2	War service gratuities	—	—	—	—	—	—	—	—	—	—
3	Re-establishment credits	—	—	—	—	—	—	—	—	—	—
4	Rehabilitation benefits	—	—	—	—	—	—	—	—	—	—
5	Pensions World Wars 1 and 11 ¹	30	32	33	32	37	40	36	35	35	35
6	War veterans' allowances	3	3	4	4	5	5	5	4	5	5
7	Unemployment insurance benefits	—	—	—	—	—	—	—	—	—	—
8	Prairie Farm Income Plan	—	—	—	—	—	—	—	—	—	—
9	Prairie Farm Assistance Act	—	—	—	—	—	—	—	—	—	—
10	Pensions to government employees	3	3	3	2	2	2	2	3	3	3
11	Federal grants to war charities	—	—	—	—	—	—	—	—	—	—
12	Interest on debt not incurred to finance existing real assets	113	112	106	102	101	102	114	119	118	116
13	Miscellaneous	3	3	4	5	5	5	4	4	4	4
14	Total	152	153	150	145	150	154	161	165	165	163
PROVINCIAL AND MUNICIPAL:											
15	Direct relief	—	—	—	1	4	26	50	74	104	100
16	Workmen's compensation benefits	9	10	10	13	14	13	11	10	11	12
17	Old age pensions	—	—	2	3	11	15	15	16	19	22
18	Mothers' allowances	4	4	4	5	5	5	5	5	5	6
19	Pensions to government employees	2	2	3	3	3	3	4	4	5	5
20	Provincial and municipal grants to private non-commercial institutions	20	19	23	24	25	26	26	25	28	27
21	Interest on debt not incurred to finance existing real assets	40	40	40	41	44	48	52	55	58	80
22	Miscellaneous	—	1	1	1	1	1	2	1	1	2
23	Total	75	76	83	91	107	137	165	190	231	234
24	GRAND TOTAL	227	229	233	236	257	291	326	355	396	397

1. Excludes pensions paid abroad, which are treated as government expenditure on goods and services. The amounts involved in the terminal years 1926 and 1951 were \$7 million and \$9 million, respectively.

TABLE 3. Expenditure on Goods and Services
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No.
69	73	75	85	107	120	174	209	217	232	248	250	269	315	325	386	1
9	9	9	32	193	386	641	910	1,068	1,117	340	83	82	115	137	201	2
—	—	—	—	—	—	1,002	518	960	858	97	38	19	—	—	—	3
18	18	16	16	13	58	145	603	1,261	630	74	—	—	—	—	—	4
—	—	—	—	17	25	25	28	28	24	24	22	22	22	22	20	5
69	63	85	89	9	3	10	38	11	2	27	16	18	32	19	16	6
—	—	—	—	618	618	1,253	1,430	943	251	334	262	305	396	506	1,090	7
165	163	185	222	690	1,204	3,250	3,736	4,488	3,110	1,090	639	679	880	971	1,661	8
72	73	78	81	84	65	89	95	102	111	128	146	175	198	217	239	9
141	154	171	159	155	159	162	177	190	206	242	276	333	363	389	420	10
83	82	84	87	85	85	86	82	76	86	75	74	72	75	84	89	11
139	199	202	186	151	156	139	137	168	191	297	433	539	612	662	691	12
435	508	535	513	475	485	476	491	534	594	742	931	1,119	1,248	1,352	1,439	13
600	671	720	735	1,165	1,689	3,726	4,227	5,022	3,704	1,832	1,570	1,798	2,128	2,323	3,120	14

Defence		War	Defence
1926 \$15 million	1933 \$20 million	1939 \$ 70 million	1947 \$ 227 million
1927 \$19 million	1934 \$22 million	1940 \$ 543 million	1948 \$ 236 million
1928 \$20 million	1935 \$27 million	1941 \$1,046 million	1949 \$ 361 million
1929 \$22 million	1936 \$25 million	1942 \$3,100 million	1950 \$ 493 million
1930 \$24 million	1937 \$33 million	1943 \$3,565 million	1951 \$1,160 million
1931 \$18 million	1938 \$36 million	1944 \$4,299 million	
1932 \$14 million		1945 \$2,891 million	
		1948 \$ 847 million	

TABLE 4. Transfer Payments
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No.
—	—	—	—	—	—	—	—	—	114	240	261	269	291	307	318	1
—	—	—	—	—	—	—	—	—	116	322	27	3	—	—	—	2
—	—	—	—	—	—	—	—	2	13	87	79	43	25	18	12	3
34	34	34	34	33	34	34	36	41	91	60	70	89	87	87	87	4
6	5	6	7	8	8	8	8	12	20	25	24	23	24	27	27	5
—	—	—	—	—	—	—	1	3	16	49	31	40	69	99	77	6
—	—	—	—	—	1	18	—	—	—	—	—	—	—	—	—	7
—	—	—	2	10	6	15	—	8	6	17	12	21	18	14	10	8
3	3	4	5	5	6	6	7	9	10	11	15	15	14	17	19	9
—	—	—	—	—	1	5	10	18	15	3	—	—	—	—	—	10
119	119	113	118	120	133	153	218	276	355	420	431	431	439	404	407	11
5	13	9	8	5	4	6	7	11	13	19	13	10	24	31	21	12
167	174	166	174	181	193	245	287	380	737	1,344	1,042	1,001	1,022	1,022	988	13
91	83	72	67	36	18	8	7	7	5	7	10	15	17	17	17	15
13	16	15	15	17	20	23	26	28	30	31	35	38	40	42	45	16
29	37	39	40	40	40	42	48	58	62	65	82	96	129	146	155	17
7	8	9	10	10	9	9	10	10	11	12	12	14	16	19	20	18
5	5	5	6	7	8	8	8	10	10	12	12	14	15	17	18	19
28	30	32	34	35	36	37	40	41	41	50	71	106	136	140	151	20
57	54	53	54	51	48	46	43	43	47	35	32	33	36	38	40	21
3	3	1	1	1	3	3	2	1	5	5	6	10	14	13	14	22
233	236	226	227	197	182	176	184	198	211	217	260	326	403	432	460	23
400	410	392	401	378	375	421	471	578	948	1,561	1,302	1,327	1,425	1,454	1,448	24

TABLE 5. Subsidies
(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
FEDERAL:											
Department of Agriculture:											
1	Wheat acreage reduction	-	-	-	-	-	-	-	-	-	-
2	Oats and barley	-	-	-	-	-	-	-	-	-	-
3	Fluid milk	-	-	-	-	-	-	-	-	-	-
4	Butterfat ¹	-	-	-	-	-	-	-	-	-	-
5	Milk - cheddar cheese	-	-	-	-	-	-	-	-	-	-
6	Feed freight assistance, Western grain	-	-	-	-	-	-	-	-	-	-
7	Feed wheat drawback	-	-	-	-	-	-	-	-	-	-
8	Hog premiums	-	-	-	-	-	-	-	-	-	-
9	Miscellaneous	-	-	-	-	-	-	-	-	-	-
10	Total, Agriculture²	-	-	-	-	-	-	-	-	-	-
COMMODITY PRICES STABILIZATION CORPORATION:											
Import subsidies:											
11	Petroleum products	-	-	-	-	-	-	-	-	-	-
12	Woven fabrics - cotton	-	-	-	-	-	-	-	-	-	-
13	Raw cotton and linters	-	-	-	-	-	-	-	-	-	-
14	Coal and coke	-	-	-	-	-	-	-	-	-	-
15	Miscellaneous	-	-	-	-	-	-	-	-	-	-
16	Subtotal	-	-	-	-	-	-	-	-	-	-
Domestic subsidies:											
17	Milk - production	-	-	-	-	-	-	-	-	-	-
18	Milk - consumption	-	-	-	-	-	-	-	-	-	-
19	Butterfat	-	-	-	-	-	-	-	-	-	-
20	Miscellaneous	-	-	-	-	-	-	-	-	-	-
21	Subtotal	-	-	-	-	-	-	-	-	-	-
22	Trading loss ³	-	-	-	-	-	-	-	-	-	-
23	Total, C.P.S.C.	-	-	-	-	-	-	-	-	-	-
OTHER SUBSIDIES:											
24	Emergency gold mines assistance	-	-	-	-	-	-	-	-	-	-
25	Drawback to millers	-	-	-	-	-	-	-	-	-	-
26	Emergency coal production board	-	-	-	-	-	-	-	-	-	-
27	Maritime Freight Rates Act	-	1	3	3	4	3	2	2	3	2
28	Movement of coal	-	-	-	-	1	1	1	3	2	2
29	Wheat bonus	-	-	-	-	-	11	2	-	-	7
30	Wheat Board trading loss	-	-	-	-	-	-	-	-	-	7
31	Miscellaneous	2	2	2	2	1	3	3	3	3	4
32	Total, Other	2	3	5	5	6	18	8	8	8	22
33	TOTAL FEDERAL SUBSIDIES	2	3	5	5	6	18	8	8	8	22
34	TOTAL PROVINCIAL SUBSIDIES	-	-	-	-	1	-	1	-	-	1
35	GRAND TOTAL, ALL SUBSIDIES	2	3	5	5	7	18	9	8	8	23

1. Transferred from Commodity Prices Stabilization Corporation, May, 1943.

3. Includes Canadian Wool Board.

4. Includes \$65 million payment to farmers with respect to the United Kingdom Wheat Agreement.

TABLE 6. Transfers to Other Governments¹
(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
FEDERAL:											
1	Old age and blind pensions	-	-	1	2	6	10	12	12	15	17
2	Subsidies to provinces ²	13	14	14	14	14	15	15	15	15	17
3	Unemployment and farm relief	-	-	-	-	4	30	34	28	39	38
4	Taxation agreements ³	-	-	-	-	-	-	-	-	-	-
5	Health grants to provinces	-	-	-	-	-	-	-	-	-	-
6	Miscellaneous	2	2	2	1	1	1	1	1	2	2
7	Total	15	16	17	17	25	56	62	56	71	74

1. Excludes relief loans and advances to the provinces.

2. Excludes non-cash transactions under Natural Resources Settlement Agreements of \$5 million and \$16 million in 1930 and 1947 respectively.

TABLE 5. Subsidies
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No.
--	--	--	--	--	23	23	31	10	1	--	--	--	--	--	--	1
--	--	--	--	--	--	--	5	13	13	14	14	--	--	--	--	2
--	--	--	--	--	--	--	16	23	24	22	4	--	--	--	--	3
--	--	--	--	--	--	--	1	4	4	5	1	--	--	--	--	4
--	--	--	--	--	2	10	16	16	17	19	20	18	14	15	16	5
--	--	--	--	--	--	--	2	8	7	7	6	--	--	--	--	6
--	--	--	--	--	--	--	--	14	11	6	5	5	4	5	5	7
--	--	--	2	4	7	7	7	10	8	7	6	3	2	6	66	8
--	--	--	2	4	32	40	78	98	85	80	56	26	20	26	87	9
--	--	--	--	--	--	--	12	13	9	5	2	--	--	--	--	11
--	--	--	--	--	--	--	1	3	2	6	25	--	--	--	--	12
--	--	--	--	--	--	--	--	1	9	13	6	1	--	--	--	13
--	--	--	--	--	--	--	2	7	6	11	8	--	--	--	--	14
--	--	--	--	--	--	6	16	20	3	10	5	2	--	--	--	15
--	--	--	--	--	--	19	35	53	33	45	46	2	--	--	--	16
--	--	--	--	--	--	4	2	--	--	--	--	--	--	--	--	17
--	--	--	--	--	--	7	19	19	21	11	--	--	--	--	--	18
--	--	--	--	--	--	7	6	1	--	--	--	--	--	--	--	19
--	--	--	--	--	--	7	17	14	25	14	3	7	2	--	--	20
--	--	--	--	--	--	18	44	32	46	25	3	7	2	--	--	21
--	--	--	--	--	--	--	9	16	15	17	11	6	1	--	--	22
--	--	--	--	--	--	37	88	101	94	87	60	15	1	--	--	23
--	--	--	--	--	--	--	--	--	--	--	--	5	14	10	10	24
--	--	--	--	--	--	2	16	20	16	25	24	--	11	--	--	25
--	--	--	--	--	--	--	5	5	9	8	8	--	--	--	--	26
3	3	3	2	4	4	5	5	5	4	5	5	7	7	8	11	27
2	2	2	4	4	5	5	2	2	2	2	1	2	3	3	4	28
5	--	53	-29	37	24	-9	--	14	31	10	6	4	4	2	--	29
3	4	3	3	3	4	7	11	14	16	14	14	12	13	11	17	30
13	9	61	-20	48	37	10	39	62	78	64	58	30	52	34	42	31
13	9	61	-18	52	69	87	205	261	257	231	174	71	73	60	129	32
1	1	1	1	1	5	6	6	6	5	5	6	4	4	4	4	33
14	10	62	-17	53	74	93	211	267	262	236	180	75	77	64	133	34

2. Department of Agriculture figures as shown in "Agricultural Assistance, War and Post War" (March 1949) have been adjusted by deleting Prairie Farm Income payments, which are treated as transfer payments in the National Accounts, and payment for the improvement of cheese factories, which are treated as capital assistance to industry.

TABLE 6. Transfers to Other Governments¹
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No.
21	29	28	29	30	30	30	30	37	44	44	49	66	77	101	106	1
17	21	22	21	19	15	15	15	14	14	14	17	17	18	19	19	2
50	53	31	24	18	2	--	--	--	--	--	--	--	--	--	--	3
--	--	--	--	--	--	97	97	98	90	99	111	60	67	82	87	4
--	--	--	--	--	--	--	--	--	--	--	--	--	12	19	22	5
3	2	5	5	3	7	8	6	6	9	17	15	7	8	35	26	6
91	105	86	79	70	54	150	148	155	157	174	192	150	182	256	260	7

3. An adjustment has been made to exclude provincial corporation taxes collected by the federal government (net of remittances to the provinces) from the figures for the years 1947-1951 inclusive (see Appendix "B", item 6 (a)).

4. Includes \$13 million Manitoba flood relief.

TABLE 7. Direct Taxes — Persons

(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
FEDERAL:											
1	Income ¹	18	23	25	28	27	25	26	29	25	33
2	Excess Profits ¹	—	—	—	—	—	—	—	—	—	—
3	Succession Duties	—	—	—	—	—	—	—	—	—	—
4	Miscellaneous	1	1	1	1	1	1	2	2	2	2
5	Total	19	24	26	29	28	26	28	31	27	35
PROVINCIAL AND MUNICIPAL:											
6	Income.....	4	5	5	6	6	8	9	9	9	9
7	Motor Vehicle Licences and Permits ²	9	9	10	11	10	9	10	10	11	11
8	Succession Duties	16	16	12	16	21	15	11	13	12	20
9	Hospital (Saskatchewan and British Columbia).....	—	—	—	—	—	—	—	—	—	—
10	Miscellaneous	5	5	6	6	6	5	6	6	5	5
11	Total	34	35	33	39	43	37	36	38	37	45
12	GRAND TOTAL	53	59	59	68	71	63	64	69	64	80

1. Excludes estimated refundable portion of personal income and excess profits tax as follows: 1942 1943 1944 1945 1946

Personal Income Tax.....	58	135	72	—	—
Excess Profits Tax	1	3	4	4	1
Total	59	138	76	4	1

TABLE 8. Direct Taxes — Corporations

(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
FEDERAL:											
1	Income	32	35	42	44	36	30	27	32	46	55
2	Excess Profits ¹	—	—	—	—	—	—	—	—	—	—
3	Total	32	35	42	44	36	30	27	32	46	55
PROVINCIAL:											
Income:											
4	Provinces Under Taxation Agreements ²	—	—	—	—	—	—	—	—	—	—
5	Provinces Not Under Taxation Agreements (excl. mining tax)	1	2	2	3	3	2	4	4	4	7
6	Tax on Mining Profits (Ont., P.Q., B.C.).....	1	1	1	1	1	1	1	1	2	3
7	Total	2	3	3	4	4	3	5	5	6	10
8	GRAND TOTAL	34	38	45	48	40	33	32	37	52	65

1. Excludes estimated refundable portion of excess profits tax as follows: 1942 1943 1944 1945 1946

	37	57	63	62	3
--	----	----	----	----	---

TABLE 7. Direct Taxes – Persons
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No
36	41	47	46	71	223	423	614	751	709	683	676	713	670	612	890	1
—	—	—	—	—	3	9	16	20	24	28	19	4	4	—	—	2
—	—	—	—	—	2	15	14	16	22	20	30	29	26	34	35	3
2	2	3	3	5	5	5	6	6	6	6	4	6	7	7	6	4
38	43	50	49	76	233	452	650	793	761	737	729	752	707	653	931	5
11	15	16	16	20	13	1	1	1	—	—	—	—	3	—	—	6
13	12	13	13	14	15	12	14	12	13	14	17	19	21	24	24	7
27	37	31	28	23	27	22	24	23	25	34	31	29	29	29	28	8
—	—	—	—	—	—	—	—	—	—	—	4	10	15	18	20	9
6	5	5	6	6	8	8	9	9	10	11	10	12	14	11	13	10
57	69	65	63	63	63	43	48	45	48	59	62	70	82	82	85	11
95	112	115	112	139	296	495	698	838	809	796	791	822	789	735	1,016	12

2. Personal share only. The business share is treated as an indirect tax.

TABLE 8. Direct Taxes – Corporations
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No
71	87	77	98	144	196	235	232	220	215	253	519	566	601	878	1,251	1
—	—	—	—	147	279	389	404	374	381	399	111	—	—	—	—	2
71	87	77	98	291	477	624	636	594	596	652	630	566	601	878	1,251	3
—	—	—	—	—	—	—	—	—	—	—	7	28	28	28	39	4
9	10	12	13	31	29	1	—	1	—	—	61	86	95	109	144	5
3	4	5	4	5	4	4	4	3	3	2	3	5	7	8	10	6
12	14	17	17	36	33	5	4	4	3	2	71	119	130	145	193	7
83	101	94	115	327	510	629	640	598	599	654	701	685	731	1,023	1,444	8

2. Collected by federal government on behalf of provinces under Dominion-Provincial Taxation Agreements.

TABLE 9. Indirect Taxes
(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
FEDERAL:											
1	Banks and insurance companies	2	3	2	1	2	1	2	2	2	2
2	Customs import duties	142	157	187	179	131	104	70	66	77	74
3	Excise duties	49	57	64	65	58	49	38	35	43	44
4	Excise taxes	106	90	83	63	35	60	82	107	112	113
5	Miscellaneous	3	4	4	5	2	1	2	2	5	3
6	Total	302	311	340	313	228	215	194	212	239	236
PROVINCIAL AND MUNICIPAL:											
7	Amusement	6	6	6	6	5	5	5	4	4	6
8	Corporation tax (not on profits)	12	12	12	13	13	15	17	16	15	17
9	Gasoline	6	8	13	18	24	23	26	26	28	32
10	Licences, fees and permits	16	16	17	20	18	16	13	12	13	13
11	Motor vehicle licences and permits	7	8	9	10	10	9	10	10	11	12
12	Public domain	16	17	16	15	14	12	9	8	11	14
13	Real and personal property	227	235	245	263	262	255	248	234	241	246
14	Retail sales tax (incl. liquor and tobacco)	—	—	—	—	—	—	—	—	—	4
15	Miscellaneous	22	24	26	28	26	25	24	23	23	28
16	Total	312	326	344	373	372	360	352	333	346	372
17	GRAND TOTAL	614	637	684	686	600	575	546	545	585	608

1. Business share only. The personal share is treated as a direct tax.

TABLE 10. Investment Income
(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
FEDERAL:											
1	Interest on government-held public funds	5	5	5	5	6	6	7	7	6	7
2	Interest on loans, advances and investments	10	12	13	15	12	10	12	12	12	11
3	Profits (net of losses) of government business enterprises	- 1	- 6	- 1	- 15	- 44	- 65	- 62	- 58	- 46	- 45
4	Total	14	11	17	5	- 26	- 49	- 43	- 39	- 28	- 27
PROVINCIAL AND MUNICIPAL:											
5	Interest on government-held public funds	13	13	14	16	16	17	17	17	20	20
6	Interest on loans, advances and investments	35	37	37	38	41	37	35	39	34	38
7	Profits (net of losses) of government business enterprises	26	31	41	44	38	34	27	21	26	34
8	Total	74	81	92	98	95	88	79	77	80	92
9	GRAND TOTAL	88	92	109	103	69	39	36	38	52	65

TABLE 11. Employer and Employee Contributions to Social Insurance and Pension Funds
(millions of dollars)

No.		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
FEDERAL:											
1	Public service pensions	3	4	4	5	5	5	5	4	4	4
2	Unemployment insurance	—	—	—	—	—	—	—	—	—	—
3	Total	3	4	4	5	5	5	5	4	4	4
PROVINCIAL AND MUNICIPAL:											
4	Public service pensions	4	4	5	5	6	7	7	7	7	7
5	Workmen's compensation	10	12	13	17	18	14	11	10	12	15
6	Industrial employees' vacations	—	—	—	—	—	—	—	—	—	—
7	Total	14	18	18	22	24	21	18	17	19	22
8	GRAND TOTAL	17	20	22	27	29	26	23	21	23	26

TABLE 9. Indirect Taxes
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No
2	2	2	2	2	2	7	6	7	8	8	9	3	4	4	4	1
84	93	81	91	126	143	125	154	139	104	209	301	224	230	257	355	2
46	52	51	58	80	104	137	137	148	181	195	196	207	212	226	233	3
152	181	166	156	241	421	477	586	622	481	537	623	642	590	620	888	4
2	3	2	3	4	4	4	6	6	8	8	7	10	12	8	14	5
286	331	302	310	453	674	750	889	922	782	957	1,136	1,086	1,048	1,115	1,494	6
5	4	4	4	4	4	4	5	7	9	10	10	20	24	22	23	7
19	18	24	18	20	17	—	—	—	1	1	15	20	21	24	25	8
35	39	42	53	56	60	48	46	47	58	74	111	124	138	152	170	9
15	15	15	15	15	17	18	17	18	21	25	28	30	37	36	40	10
13	14	13	14	14	17	14	16	19	19	24	29	32	36	40	40	11
15	17	20	15	19	23	25	24	27	30	37	39	56	63	76	62	12
250	240	245	248	249	255	256	285	269	267	283	306	340	375	408	450	13
5	6	6	8	19	26	29	30	31	35	43	52	72	89	111	124	14
31	30	29	31	34	35	34	36	38	43	51	58	67	76	85	91	15
388	383	398	406	430	454	428	439	456	483	548	648	761	859	954	1,025	16
674	714	706	716	883	1,128	1,178	1,328	1,378	1,265	1,505	1,784	1,847	1,907	2,069	2,519	17

TABLE 10. Investment Income
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No
7	7	8	7	6	7	8	10	14	16	17	19	20	23	27	30	1
12	14	11	12	13	20	30	37	40	46	49	39	51	81	62	76	2
- 29	- 37	- 52	- 37	- 2	27	53	116	110	127	76	44	18	6	48	45	3
- 10	- 16	- 33	- 18	17	54	91	163	164	189	142	102	89	110	137	151	4
20	20	21	21	21	21	22	23	23	26	25	26	27	30	32	33	5
36	34	33	31	30	29	28	29	28	31	29	29	29	31	33	36	6
45	49	49	56	64	72	93	96	112	143	167	176	182	186	192	194	7
101	103	103	108	115	122	143	148	163	200	221	231	238	247	257	263	8
91	87	70	90	132	176	234	311	327	389	363	333	327	357	394	414	9

TABLE 11. Employer and Employee Contributions to Social Insurance and Pension Funds
(millions of dollars)

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No
5	5	5	6	6	7	9	10	11	12	14	20	32	35	40	54	1
—	—	—	—	—	24	55	60	65	62	64	80	97	106	118	152	2
5	5	5	6	6	31	64	70	76	74	78	100	129	141	158	206	3
7	7	9	9	10	10	12	13	15	16	19	22	26	29	31	36	4
16	22	19	20	23	28	38	45	42	45	50	56	63	63	63	66	5
—	—	—	—	—	—	—	—	—	1	2	3	6	6	7	8	6
23	29	28	29	33	38	50	58	57	62	71	81	95	98	101	110	7
28	34	33	35	39	69	114	128	133	136	149	181	224	239	259	316	8

APPENDIX "A"

METHODS¹

The appropriate way of dealing with the government contribution to national income and output has been a topic of frequent discussion among national income experts. An important aspect of the present interest by various governments in National Accounts data is the development of a framework within which the factors affecting the levels of employment, income and prices may be studied. Such a framework can be helpful in discussions of inflationary and deflationary developments, market analysis and problems of public policy. In general, the treatment of government transactions in this publication is in line with that recommended by the United Nations and followed by the United States, Great Britain and most other countries.

Tables 1 and 2 "Government Transactions Related to the National Accounts", bring together under uniform headings the transactions of all governments in Canada which have relevance for the National Accounts. Because of numerous adjustments which are necessary to convert the conventional accounting statements of governments to a basis suitable for National Accounts' presentation, the surpluses or deficits shown here do not agree with those shown in the accounts of the various public authorities. The nature of these adjustments, and the classification of the data to accord with the concepts and principles underlying the National Accounts, are described in this section.

Classification of Expenditures

As indicated in the introductory analysis, on the expenditure side of the National Accounts it is necessary to differentiate between the following types of government outlay: expenditure on currently produced goods and services; transfer payments to persons; subsidies; and transfers to other governments. All other items charged to expenditure are either omitted or offset against revenue. Thus, provision for reserves, and the write-down of assets are omitted as being purely bookkeeping transactions. Losses of government business enterprises are transferred to revenue, and offset against trading profits in government investment income. Since the Post Office is treated as a government business enterprise, its expenditure is transferred to and offset against postal revenue, the difference being regarded as the profit (or loss) of the Post Office². (See section on investment income). Transfers of funds to various agencies of the government are omitted, the actual expenditures of these agencies being analyzed independently and assigned to appropriate expenditure classifications. Purchases of land and used plant and equipment are also excluded, since such expenditure does not represent

a measure of currently produced goods and services; the latter type of capital asset will have been measured in the Gross National Expenditure in the year in which it was produced. To avoid double counting, capital assistance to non-defence industry³ (e.g. to encourage the construction of cold storage warehouses) is also omitted; the significant values are the final expenditures by industry on plant and equipment, which are included in the gross domestic investment component of the Gross National Expenditure.

1. Government Expenditure on Goods and Services

This component consists of the outlays of federal, provincial and municipal governments (including municipal school corporations) for currently produced goods and services. The figure is essentially a residual one, derived by eliminating from government budgetary expenditures all outlays which are not made directly to purchase new goods and services—i.e. subsidies, transfer payments to individuals and private non-commercial institutions, transfers to other governments⁴, losses of government-owned enterprises, provisions for debt retirement, reserves, write-downs and other bookkeeping adjustments, and purchases of land and used capital assets. As indicated above, the expenditure of the Post Office Department is also eliminated, since this agency is treated in the National Accounts as a government business enterprise.

A number of adjustments are made to this residual figure: extra-budgetary expenditure on goods and services of agencies not treated as government business enterprises (e.g. War Assets Corporation, Canadian Broadcasting Corporation, Workmen's Compensation Boards) are added; sales of goods and services by governments are transferred from

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1. For a discussion of concepts, see "National Accounts, Income and Expenditure, 1926-1950", page 83.
 2. This treatment is approximate only, since no allowance has been made for the depreciation of postal properties.
 3. Capital assistance to defence industries is included in government expenditure on goods and services, since in these cases the government retains the title to the assets. An appropriate adjustment is made to gross domestic investment to avoid double counting.
 4. Expenditures on goods and services financed by inter-governmental transfers are included at the level of the government which spends the funds for goods and services.

revenue and deducted to avoid double counting in the Gross National Expenditure (these sales are included with expenditures of the other sectors); refunds of previous years' war expenditure, arising from re-negotiation or cost audits, are allocated to appropriate years and deducted, in order to correct the overstatement of government budgetary expenditure which was made at that time (data obtained from Department of National Revenue and the Public Accounts); war asset sales which are reflected in other components of the Gross National Expenditure are offset, since these goods ought not to be counted in production of the current year (data obtained from War Assets Corporation); finally, net purchases of inventories of government commodity agencies are added (see footnote 1, Table 3).

It should be noted that government expenditure on goods and services includes both current expenditures, e.g. wages, salaries, and other administrative expenses, and so-called capital or "public investment" expenditures such as outlay for new buildings and highways. No distinction is made, as in the private sector, where such investment outlays would be shown under gross domestic investment. Interest on government debt incurred to finance existing real assets is also included in government expenditure on goods and services; only the "transfer" portion of this debt is excluded.

International capital transactions of a purely financial nature, such as repatriation of securities and loans and advances abroad, are excluded from government expenditure on goods and services, since such transactions merely represent methods of providing foreign countries with the means of payment for Canadian exports, and do not in themselves measure the current economic production of Canadian factors. Insofar as the means of payment provided by these transactions are used to purchase goods and services in Canada, they are reflected in the figures of exports, and therefore in Gross National Expenditure. Cash gifts abroad are included with government expenditure on goods and services and in imports in the Canadian Balance of International Payments; they therefore cancel out in the Gross National Expenditure. (When however, the funds are used to purchase Canadian goods and services, they are reflected in exports and hence in Gross National Expenditure). Similarly, advance payments by the Canadian government to foreign governments for military procurement are included in both government expenditure and imports. In this manner, such payments are excluded from the Gross National Expenditure (as they should be, since no Canadian production is involved).

Government expenditure on goods and services thus consists of purchases from Canadian business and non-residents; foreign aid; wages and salaries of government employees; military pay and allowances, including that paid abroad; other military expenditures abroad; and interest on debt incurred to finance existing real assets.

At the federal level, the basic data on budgetary expenditures are obtained, for the years 1938-1951, from a detailed analysis of the Public Accounts; the figures are converted to a calendar year on the basis of monthly information obtained from the Comptroller of the Treasury. For the years 1926-1937, the data are obtained from an analysis of the Public Accounts published as an appendix to the report of the Rowell-Sirois Commission; in the latter case, the figures are by fiscal years ending nearest December 31 of the calendar year.

At the provincial level, the data are again obtained, for the years 1938-1951, by a detailed analysis of the provincial Public Accounts. For prior years, data are taken from the report of the Rowell-Sirois Commission, "Comparative Statistics of Public Finance", and supplemented by information from the Public Accounts of each province. All figures are by fiscal years ending nearest December 31 of the calendar year.

The municipal estimates are obtained from the report of the Rowell-Sirois Commission, the 1946 supplement to the "Statistical Summary of the Bank of Canada", and subsequent monthly summaries published by the Bank of Canada. In all cases, the municipal data are by calendar years.

2. Transfer Payments

Government transfer payments are defined as unilateral payments for which no service is rendered in return. Since they do not represent utilization of economic resources they are not included in the consolidated accounting of total output represented by the Gross National Product and Expenditure. They constitute a transfer from one sector to another of income arising in production. In the main, transfer payments are payments made by governments to persons in the form of various social security benefits, and as interest. In this context, persons are defined to include private non-commercial institutions such as universities, hospitals, and charitable organizations, the benefits of whose expenditures out of government grants accrue to individuals.

With one exception, transfer payments are restricted to unilateral transactions in which cash is transferred, in contrast to transactions "in kind" which are treated as government expenditure on goods and services. In the case of relief, transfers "in kind" were included since the statistics available would not support a separation of "in kind" relief from "cash" relief.

Special consideration must be given to interest on the public debt. The greater part of the public debt has been incurred to finance wars and direct relief, and is not supported by publicly-owned assets which render services to the community. To include interest on this portion of the public debt in the National Income would cause the latter aggregate to vary with mere changes in methods of government financing i.e. whether through taxation or borrowing. Hence only that portion of public debt interest which is estimated to be represented by

continuing productive assets⁵ is included in the National Income (and in government expenditure on goods and services); the balance, representing "non-productive" debt interest, is regarded as a transfer payment. It should be noted that, to the extent that business firms receive a portion of this interest, government transfer payments may be said to include unilateral payments to business as well as to persons.

The main budgetary transfer payments consist of family allowances, veterans' benefits, debt interest, old age pensions, direct relief, and grants to private non-commercial institutions. To these budgetary expenditures must be added the outpayments of various extra-budgetary funds such as the Unemployment Insurance Fund, Workmen's Compensation Funds, government pension funds, and the Prairie Farm Emergency Fund (Prairie Farm Assistance Act). The sources of the data are as described in the preceding section; supplementary information has been obtained from the Unemployment Insurance Commission and the reports of the provincial Workmen's Compensation Boards.

3. Subsidies

Subsidies may be defined as contributions by government towards the current production costs of business. The greater part of the subsidy figure consists of federal production and consumption subsidies which are made with a view to price stabilization. Such payments are primarily made in order that the consumer may benefit from lower prices, or to protect the producer against a decline in the price of his product. Federal subsidies are divided into three main classes: (i) Agricultural subsidies, which include wheat acreage reduction payments, premiums on livestock, subsidies on milk, cheese, and butterfat, freight assistance on western feed grains for livestock feeding purposes, and subsidies on oats and barley; (ii) Business subsidies which include: import subsidies on petroleum, cotton, coal and coke; and domestic subsidies, including drawback to millers, emergency assistance to gold mines, payments under the Maritime Freight Rates Act, subsidies for milk consumption, and steamship subsidies for mail; (iii) Trading losses on operations of government commodity agencies, such as the Commodity Prices Stabilization Corporation, the Canadian Wool Board, the Agricultural Prices Support Board, the Fisheries Prices Support Board, and the Canadian Wheat Board. In the case of the Canadian Wheat Board, trading operations on any crop account may extend through several years; an increase in the trading loss is regarded as a positive subsidy while a recovery in the trading loss is regarded as a negative subsidy, equivalent in effect to an indirect tax.

5. The statistical basis on which this estimate rests is weak. Also, the treatment can be questioned on conceptual grounds. Inclusion of this item in its present form is therefore being reconsidered.

For the period 1938-1951, the data are obtained from the Public Accounts of the federal government, from the published reports of the agencies concerned, or directly from government officials. For the most part, the figures are on a calendar year basis. For the period 1926-1937, the data are obtained from the reports of the Rowell-Sirois Commission, and are by fiscal years ending nearest December 31 of the calendar year.

Provincial subsidies are paid to agriculture in the form of freight assistance on limestone for fertilizer, western feed grains, and other products. Production subsidies are paid on wool, cheddar cheese, sugar beets, bacon, hogs, and livestock for breeding purposes. Business subsidies include payments on iron ore and peat, the operation of ferries, and the publication of text books.

The provincial figures are taken from the Public Accounts and are by fiscal years ending nearest December 31 of the calendar year.

There are no subsidies paid by municipal governments.

4. Transfers to Other Governments

This component consists of federal payments to the provincial and municipal governments for which no productive service is rendered in return. The economic effects of these payments must be measured in terms of the final disposition of the funds, i.e. whether, at the provincial and municipal levels, they are spent for goods and services, paid out as transfers to persons, or paid to business as a subsidy. Consequently, in Table 1, these three main classifications include expenditures which have been financed out of funds paid to the provinces and municipalities by the federal government. It will be apparent that this procedure involves an element of duplication when the total expenditures of the three levels of government are added together (see footnote 1, Table 1). It has no effect on the consolidated surplus or deficit of Table 2, however, since a corresponding amount is entered in revenue as "Transfers from Other Governments".

The chief outlays made by the federal government under this heading are payments to the provinces under the British North America Act, tax compensation to the provinces under the Dominion-Provincial Taxation Agreements, unemployment and farm relief, the federal government's share of old age and blind pensions, and health grants to the provinces. In addition, there are a substantial number of miscellaneous payments, including flood relief, and grants to municipalities in lieu of taxes.

For the years 1938-1951, the data are obtained from the Public Accounts of the federal government and converted to a calendar year basis using the monthly statements of the Comptroller of the Treasury. For the earlier years the data are taken from the report of the Rowell-Sirois Commission and are by fiscal years ending nearest December 31 of the calendar year.

Classification of Revenue

The relevant items of government revenue in the National Accounts are direct taxes, indirect taxes, withholding taxes, investment income, employer and employee contributions to social insurance and pension funds, and transfers from other governments. All other revenue items shown in the Public Accounts are either omitted or offset against expenditure. Thus, revenues from sales of goods and services by government non-business are offset against government expenditure on goods and services. Governments are assumed to sell goods and services at cost and the offsetting of these sales simply avoids a double counting of the goods and services in the Gross National Expenditure (i.e. once in government expenditure on goods and services and once in either personal expenditure, gross domestic investment, exports, or again in government expenditure on goods and services, depending upon whether the purchaser is an individual consumer, a business, a non-resident, or another government). Refunds of current expenditure are offset against expenditure in the current year, in order to state the net cost of goods and services purchased by government in that year. As previously noted, refunds of previous years' war expenditure which have arisen out of re-negotiation and cost audits, are allocated to prior years and similarly offset, in order to correct the overstatement of government expenditure on goods and services which was made at that time. That portion of war asset sales which is estimated to enter the statistics of personal expenditure, inventories, or exports is also deducted, since these goods represent the production of previous years and ought not to be counted in the current year's Gross National Expenditure. The balance of war asset sales not estimated to be duplicated elsewhere in Gross National Expenditure is simply omitted. In addition, all purely book-keeping and non-cash items such as the write-up of assets, and capital gains such as the mint gain on coinage, are omitted.

1. Direct and Indirect Taxes

Business accounting procedures provide a guide as to whether a tax is to be regarded as direct or indirect. Thus, all taxes which are deductible as expenses from the gross revenues of business are taken as indirect. Taxes which are levied directly on net incomes, whether of individuals or corporations, are regarded as direct taxes. Theoretically, it would be desirable to separate taxes according to their ultimate incidence; if this were possible, those taxes which are shifted forward to the consumer would be treated as indirect and excluded from the National Income, while those taxes which are not shifted forward would be treated as direct taxes and included in the National Income. It will be clear that the inclusion of direct taxes in the National Income is necessary if this aggregate is not to vary with mere changes in direct tax rates. On the other hand, to include in the National Income those taxes which are shifted forward (i.e. indirect taxes), would cause the level of this aggregate to

change with every change in indirect tax rates. On the basis of present knowledge, it is not possible to separate taxes according to their ultimate incidence; their separation according to the sources from which they are levied comes as close to the desired approach as is possible.

Thus, direct taxes are mainly those levied on the net incomes of businesses and individuals (income and excess profits taxes) and on accumulated wealth (succession duties); indirect taxes are those which may be treated as costs by business such as customs and excise duties, sales taxes, the business share of motor vehicle licences, and real property taxes.

(a) Direct Personal Taxes

The main item under this heading is the personal income tax, including the excess profits tax on the net incomes of unincorporated business proprietors. Also included is the personal share of privileges, licences, permits, and fees, where no direct service by the government is involved. Although the items comprising the latter group do not represent percentage levies on net incomes, their economic effect is quite similar insofar as they directly reduce the disposable portion of personal income. Included here are motor vehicle licences and permits (non-business share), marriage licences, liquor permits, fines and penalties, radio licence fees, the British Columbia and Saskatchewan hospital tax, poll taxes, hunting and fishing licences, and other miscellaneous items.

Succession duties are also included under the heading of direct personal taxes. Opinion differs on the extent to which such taxes impinge on current income (in contrast to payments out of accumulated capital), but a theoretical case can be made for regarding their effects as similar to other personal taxes. For this reason, and to facilitate international comparability, they are included here.

For the period 1938-1951, the federal data are taken from the Public Accounts of the federal government and converted to a calendar year on the basis of monthly figures published by the Comptroller of the Treasury. The data have been adjusted to exclude the estimated refundable portion of the personal income and excess profits tax. For the period 1926-1937, the data are obtained from the report of the Rowell-Sirois Commission and are by fiscal years ending nearest December 31 of the calendar year.

The sources of the provincial estimates for the years 1938-1951 are the Public Accounts of the various provinces. For the years 1926-1937, data are obtained from the reports of the Rowell-Sirois Commission, and "Comparative Statistics of Public Finance" (Dominion-Provincial Conference on Reconstruction), supplemented by information from the Public Accounts. All figures are by fiscal years ending nearest December 31 of the calendar year.

The sources of the municipal estimates are the reports of the Rowell-Sirois Commission, the 1946 supplement to the "Statistical Summary of the Bank of Canada", and subsequent monthly summaries published by the Bank of Canada.

(b) Direct Corporation Taxes

These consist of income and excess profits taxes on corporations. At the federal level, the figures are shown on an accrual rather than a collections basis, in order to achieve consistency with the figures of corporate earnings included in National Income. The estimated refundable portion of the excess profits tax has been excluded. In addition, the figures are on a calendar year basis and have been adjusted for re-negotiations of war contracts. The source of the data is "Taxation Statistics" published by the Department of National Revenue, supplemented by information supplied by officials of that Department.

At the provincial level, no adjustment to an accrual basis is made, it being assumed that there is a close correspondence between the collections and the accrual basis. The sources of the provincial data are the Public Accounts of the various provinces.

(c) Indirect Taxes

As indicated above, indirect taxes represent a part of the market price of goods and services, being deductible as expenses from the gross revenues of business. For the most part, the figures included here are based on analyses of the Public Accounts of governments made in the National Income Section, or for presentation in the reports of various Royal Commissions. The figures represent collections of revenue and are not adjusted to an accrual basis to allow for the lag between the time the taxes enter business costs and the time the collections are remitted to the government; adequate information to permit such adjustment is not available.

Indirect taxes levied by the federal government consist of: (1) customs import duties; (2) excise duties and taxes; (3) taxes on corporations other than on profits (e.g. bank note circulation tax and tax on net premiums of insurance companies); (4) the business share of privileges, licences and permits where no direct service by the government is involved; and (5) the levy against farmers under the Prairie Farm Assistance Act.

Provincial indirect taxes consist of: (1) the business share of motor vehicle licences and permits; (2) privileges, licences, permits and fees not involving any direct service by the government, including public domain revenues such as timber dues, stumpage fees and water leases; (3) gasoline taxes; (4) retail sales taxes including provincial taxes on liquor and tobacco; (5) real and personal property taxes; (6) taxes on corporations other than on profits; and (7) miscellaneous taxes including amusement taxes and forest fire prevention assessments.

Only the business share of motor vehicle licences and permits are regarded as indirect taxes, the personal share being treated as direct personal taxes. It may also be noted that the liquor taxes specified here refer only to non-operating revenues of Liquor Commissions in the form of malt taxes, beer gallonage and wine taxes, brewers' taxes and retail licences; they do not include the "net revenues from sales" of Liquor Commissions, which are treated as profits of government business enterprises.

Municipal indirect taxes consist mainly of real property taxes. These are treated as indirect whether on owner-occupied or on rented property. Since inclusion of imputed rent on owner-occupied property in National Income involves regarding the owner-occupier in the dual role of landlord and tenant, this treatment is appropriate. Municipal indirect taxes also include sales and amusement taxes, and the business share of licences, permits and fees where no direct service is rendered by the government.

The sources of the data are as described in section 1(a) above.

2. Withholding Taxes

These consist of federal taxes on dividends, interest, rents and royalties paid to non-residents⁶.

For the years 1938-1951, the data are obtained from the Public Accounts of the federal government and converted to a calendar year basis using the monthly statements of the Comptroller of the Treasury. For the earlier years, the data are taken from the report of the Rowell-Sirois Commission and are by fiscal years ending nearest December 31 of the calendar year.

3. Government Investment Income

The item includes profits of government business enterprises, and interest on government loans and advances, and on public funds.

Profits of government business enterprises consist of profits (less losses) of those government agencies which conduct their activities on an essentially commercial basis, setting a price for their services which is calculated to cover costs. Included here are profits of the Canadian National Railways, wartime crown corporations, provincial liquor control boards, and provincial and municipal public utilities such as hydro-electric systems, telephone systems, street railways and so on. The federal Post Office Department is included here, its gross expenditures being offset against its gross revenues to arrive at an estimate of profits⁷. The

6. The income on which the taxes are levied is not regarded as a part of Canada's National Income since it represents the earnings of foreign factors of production.

7. This treatment is approximate only, since no allowance has been made for depreciation on postal properties.

sources of the data are the Public Accounts of the federal and provincial governments, the "Statistical Summary of the Bank of Canada", reports of the provincial departments of municipal affairs, annual financial statements of various cities, and the annual reports of a number of the agencies concerned.

Interest on government loans and advances includes interest on loans to government agencies such as the Foreign Exchange Control Board and various public utilities, and interest on loans to foreign and domestic governments. The estimates are derived from the Public Accounts of the various governments; at the municipal level, information is obtained from the Bank of Canada. Interest on government pension and social insurance funds is obtained from the Public Accounts, the reports of the Unemployment Insurance Commission and the Provincial Workmen's Compensation Boards. At the municipal level, interest on pension funds is based on an analysis of the annual financial reports of a number of the larger Canadian cities, supplemented by survey data obtained for the years 1945 and 1946.

4. Employer and Employee Contributions to Government Pension and Social Insurance Funds

This item includes employer and employee contributions to the Unemployment Insurance Fund, the

Workmen's Compensation Funds of the provinces, various government pension funds, including teachers' pension funds, and contributions to industrial employees' vacation funds. Such contributions make up the bulk of government extra-budgetary revenues⁸.

The sources of the federal and provincial data are the reports of the Unemployment Insurance Commission, the Workmen's Compensation Boards of the various provinces, and the Public Accounts of the federal and provincial governments. At the municipal level, estimates are based on analysis of the reports of selected municipalities, and on data obtained by correspondence. Contributions to the Unemployment Insurance Fund and to municipal pension funds are on a calendar year basis; all other data are by fiscal years ending nearest December 31 of the calendar year.

5. Transfers from Other Governments

These consist of unilateral payments from the federal government. They are discussed in detail on page 27.

8. Outpayments from these funds are treated as extra-budgetary transfer payments to individuals on the expenditure side of the government account.

APPENDIX "B"

APPENDIX "B"

Reconciliation of Federal Government Transactions Related to the National Accounts
with Rowell-Sirois and Public Accounts Data 1926-1951

No		1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
		EXPENDITURE									
1	1. Federal expenditure, fiscal year	331	351	352	381	440	486	451	442	464	519
2	2. Adjustment to calendar year	-	-	-	-	-	-	-	-	-	-
3	3. Sub-total	331	351	352	381	440	486	451	442	464	519
4. Items offset or omitted:											
(a) Expenditure items offset against revenue per contra:											
4	(i) Post Office expenditure	- 31	- 32	- 34	- 35	- 36	- 35	- 30	- 29	- 29	- 30
5	(ii) Losses of government business enterprises	- 3	- 8	- 4	- 15	- 38	- 64	- 63	- 61	- 49	- 48
(b) Revenue items offset against expenditure per contra:											
6	(i) Sales of goods and services	- 9	- 9	- 10	- 9	- 7	- 6	- 5	- 5	- 6	- 6
7	(ii) War assets sales	-	-	-	-	-	-	-	-	-	-
8	(iii) Refunds of ordinary expenditure	-	- 1	- 2	-	-	-	- 1	- 1	- 1	- 1
9	(iv) Refunds of war expenditure	-	-	-	-	-	-	-	-	-	-
(c) Expenditure items omitted:											
10	(i) Reserves, write-downs, and non-cash	-	-	-	-	- 5	-	-	-	-	-
11	(ii) Transfers to various federal agencies	-	-	-	-	-	-	-	-	-	- 16
12	(iii) Other	-	-	-	-	-	- 5	-	-	- 5	- 4
5. Extra budgetary expenditures:											
13	(a) Unemployment insurance benefits	-	-	-	-	-	-	-	-	-	-
14	(b) Payments to farmers, Prairie Farm Assistance Act	-	-	-	-	-	-	-	-	-	-
15	(c) Pensions to government employees	3	3	3	2	2	2	2	3	3	3
16	(d) Expenditure of government agencies not included elsewhere	-	-	-	-	-	-	-	-	-	-
6. Special adjustments:											
17	(a) Provincial corporation tax collected by federal government (net)	-	-	-	-	-	-	-	-	-	-
18	(b) Wheat board trading loss	-	-	-	-	-	-	-	-	-	7
19	(c) Change in inventories of government commodity agencies	-	-	-	-	-	-	-	-	-	-
20	(d) Other	11	13	19	16	11	9	11	10	10	7
21	7. Federal expenditure as per National Accounts	302	317	324	340	367	387	365	359	387	431
		REVENUE									
22	8. Federal revenue, fiscal year	391	418	448	432	345	324	299	312	349	361
23	9. Adjustment to calendar year	-	-	-	-	-	-	-	-	-	-
24	10. Sub-total	391	418	448	432	345	324	299	312	349	361
11. Items offset or omitted:											
(a) Expenditure items offset against revenue per contra:											
25	(i) Post Office expenditure	- 31	- 32	- 34	- 35	- 36	- 35	- 30	- 29	- 29	- 30
26	(ii) Losses of government business enterprises	- 3	- 8	- 4	- 15	- 38	- 64	- 63	- 61	- 49	- 48
(b) Revenue items offset against expenditure per contra:											
27	(i) Sales of goods and services	- 9	- 9	- 10	- 9	- 7	- 6	- 5	- 5	- 6	- 6
28	(ii) War assets sales	-	-	-	-	-	-	-	-	-	-
29	(iii) Refunds of ordinary expenditure	-	- 1	- 2	-	-	-	- 1	- 1	- 1	- 1
30	(iv) Refunds of war expenditure	-	-	-	-	-	-	-	-	-	-
31	(c) Non-cash, write-ups and other	- 2	- 6	- 4	- 5	- 7	- 7	- 4	-	- 3	-
12. Extra budgetary funds:											
(a) Employer and employee contribution to social insurance and government pension funds:											
32	Unemployment insurance	-	-	-	-	-	-	-	-	-	-
33	Government pension funds	3	4	4	5	5	5	5	4	4	4
34	(b) Interest on government-held public funds	5	5	5	5	6	6	7	7	6	7
35	(c) Levy against farmers, Prairie Farm Assistance Act	-	-	-	-	-	-	-	-	-	-
36	(d) Radio licence fees, Canadian Broadcasting Corporation	-	-	-	-	-	-	-	-	-	-
13. Special adjustments:											
37	(a) Adjustment to place direct corporation taxes on accrual basis	2	1	7	2	- 8	- 6	- 9	5	10	12
38	(b) Other	14	13	19	16	11	10	12	13	13	11
39	14. Federal revenue as per National Accounts	370	385	429	396	271	227	211	245	294	310

APPENDIX "B"

Reconciliation of Federal Government Transactions Related to the National Accounts with Rowell-Sirois and Public Accounts Data 1926-1951

1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	No.
EXPENDITURE																
520	516	534	553	681	1,250	1,885	4,387	5,322	5,246	5,136	2,634	2,195	2,176	2,449	2,901	1
-	-	5	48	381	384	1,881	752	- 159	- 601	- 1,259	- 379	- 67	191	91	454	2
520	516	539	601	1,062	1,634	3,766	5,139	5,163	4,645	3,877	2,255	2,128	2,367	2,540	3,355	3
- 31	- 32	- 35	- 36	- 38	- 40	- 44	- 47	- 53	- 56	- 64	- 66	- 75	- 81	- 84	- 99	4
- 44	- 42	- 56	- 41	- 18	- 1	- 1	- 1	- 2	- 9	- 10	- 21	- 41	- 49	- 7	- 17	5
- 7	- 8	- 7	- 8	- 9	- 9	- 14	- 20	- 14	- 19	- 24	- 21	- 22	- 17	- 23	- 23	6
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7
-	- 1	- 3	- 3	- 1	- 1	- 4	- 2	- 2	- 2	- 2	- 1	- 2	- 2	- 4	- 5	8
-	-	-	-	- 15	- 68	- 114	- 146	- 147	- 287	- 342	- 43	- 5	- 1	- 1	-	9
-	-	- 5	- 3	- 29	- 44	- 45	- 69	- 71	- 72	- 522	- 62	- 92	- 154	- 187	- 331	10
-	-	- 1	- 35	- 35	- 16	- 31	- 17	- 15	- 32	- 29	- 44	- 73	- 44	- 52	- 50	11
- 19	-	- 1	- 3	- 3	- 10	- 18	- 400	- 4	- 5	- 6	- 3	- 2	- 8	- 4	- 1	12
-	-	-	-	-	-	-	1	3	16	49	31	40	69	99	77	13
-	-	-	2	10	6	15	-	8	6	17	12	21	18	14	10	14
3	3	4	5	5	6	6	7	9	10	11	15	15	14	17	19	15
-	-	3	3	4	4	4	7	6	6	8	14	15	14	13	12	16
-	-	-	-	-	-	-	-	-	-	-	-	7	- 28	- 28	9	17
5	-	53	- 29	37	24	- 9	-	14	31	10	6	4	- 4	2	-	18
-	-	-	-	9	- 3	10	38	11	- 2	- 27	- 16	- 18	32	- 19	- 16	19
9	15	7	4	14	38	211	- 114	378	58	29	53	51	28	1	145	20
436	451	498	457	993	1,520	3,732	4,376	5,284	4,261	2,839	2,047	1,901	2,157	2,309	3,058	21
REVENUE																
442	500	517	502	562	872	1,489	2,250	2,765	2,687	3,013	3,008	2,872	2,771	2,580	3,112	22
-	-	- 8	4	174	450	607	332	- 17	- 81	196	- 2	- 104	- 119	213	755	23
442	500	509	506	736	1,322	2,096	2,582	2,748	2,606	3,209	3,006	2,768	2,652	2,793	3,867	24
- 31	- 32	- 35	- 36	- 38	- 40	- 44	- 47	- 53	- 56	- 64	- 66	- 75	- 81	- 84	- 99	25
- 44	- 42	- 56	- 41	- 18	- 1	- 1	- 1	- 2	- 9	- 10	- 21	- 41	- 49	- 7	- 17	26
- 7	- 8	- 7	- 8	- 9	- 9	- 14	- 20	- 14	- 19	- 24	- 21	- 22	- 17	- 23	- 23	27
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	28
-	- 1	- 3	- 3	- 1	- 1	- 4	- 2	- 2	- 2	- 2	- 1	- 2	- 2	- 4	- 5	29
-	-	-	-	- 15	- 68	- 114	- 146	- 147	- 287	- 342	- 43	- 5	- 1	- 1	-	30
- 10	- 1	- 4	- 3	- 31	- 21	- 19	- 28	- 111	- 44	- 98	- 91	- 69	- 36	- 40	- 60	31
-	-	-	-	-	24	55	60	65	62	64	80	97	106	118	152	32
5	5	5	6	6	7	9	10	11	12	14	20	32	35	40	54	33
7	7	8	7	6	7	8	10	14	16	17	19	20	23	27	30	34
-	-	-	2	2	2	2	2	4	6	4	4	6	8	5	8	35
1	1	2	3	3	3	4	4	4	4	4	4	5	5	6	6	36
13	17	- 9	22	186	183	- 52	- 95	- 107	19	50	32	35	34	183	171	37
23	14	1	-	29	85	84	106	166	150	- 91	- 135	- 71	- 18	- 13	9	38
399	460	411	455	856	1,493	2,010	2,435	2,576	2,431	2,595	2,732	2,663	2,654	2,995	4,089	39

EXPLANATORY NOTES TO APPENDIX "B"

Reconciliation of Federal Government Transactions Related to The National Accounts with Rowell-Sirois and Public Accounts Data, 1926-1951

1. Source: 1926-1937, Rowell-Sirois Report, Appendix A.
1938-1951, Public Accounts of the Federal Government.
2. For the years 1938-1951, this adjustment is made on the basis of figures published monthly by the Comptroller of the Treasury. No adjustment to a calendar year basis has been made for the years 1926-1937.
4. (ai) The Post Office is classified as a government business enterprise since it operates on a commercial basis, selling goods and services at a price intended to cover operating costs. Trading profits are determined by deducting Post Office expenditure from Post Office revenue, the latter amount being included in item 10. These trading profits form a part of government investment income in Table 10, page 22.
4. (aii) Government trading profits, which form a part of government investment income, Table 10, page 22, are net of losses.
4. (bi) The value of goods and services which are re-sold by the government appear originally in government expenditure on goods and services. On being re-sold, their value is included in personal expenditure on goods and services, gross home investment, exports or even a second time in government expenditure on goods and services, depending upon whether the purchaser is an individual consumer, a business, a non-resident, or another government. To avoid double counting in the gross national expenditure, the value of the items is here deducted from government expenditure on goods and services. It is assumed that sales by government of goods and services (other than sales by government business enterprises) are made at cost.
4. (bii) That portion of war assets sales estimated to be included in sales to government, persons, businesses (other than on capital account) and non-residents is offset against government expenditure on goods and services in order to exclude from the current year's gross national expenditure the present value of goods produced in previous years.
4. (biii) This item is offset against expenditure in order to determine the net cost of goods and services purchased by the government in the current year.
4. (biv) Net production refunds are offset in order to eliminate from gross national expenditure the value of items which appear in government expenditure on goods and services in previous years. Refunds arising through re-negotiation, cost audits, or voluntarily, are allocated to prior years and offset, in order to correct the over-statement of government expenditure on goods and services which was made in those years.
4. (cii) The government's contributions to the Unemployment Insurance Fund and the Prairie Farm Emergency Fund are included here. Actual out-payments of these funds are added back in items 5(a) and 5(b) as extra-budgetary transfer payments. Payments to the Canadian Wheat Board are also included here. The operations of the Wheat Board are analyzed separately and the trading loss, which is treated as a subsidy in Table 5, page 18, is shown under item 6(b).
4. (ciii) Purchases of land and used capital assets, and capital assistance to industry are included here. The former items have no place in the measurement of current gross national expenditure. The latter item is included in gross domestic investment at the time the capital expenditures are made by industry.
5. (a) (b) See item 4(cii).
5. (d) The expenditures of the Canadian Broadcasting Corporation and War Assets Corporation are included here. These agencies are not classified as government business enterprises since their activities are not conducted on the conventional profit and loss basis.
6. (a) Under the Dominion-Provincial Taxation Agreements the amount of these taxes is deductible from the tax rentals payable to the provinces. In the National Accounts this adjustment is made against the year in which the taxes are collected by the federal government rather than against the year in which they are transferred to the provincial governments.
6. (b) Since the government assumes the loss, deficits incurred by the Wheat Board as a result of selling below cost are treated as subsidies in the National Accounts. [See item 4(cii)].

6. (c) Includes change in inventories of Commodity Prices Stabilization Corporation, Canadian Wool Board, Meat Board, Dairy Products Board, Special Products Board, Agricultural Prices Support Board and Fisheries Prices Support Board. Does not include inventories financed out of the Defence Production Revolving Fund.
6. (d) Includes National Defence recoverable expenditure, adjustment for the carryover of Munitions and Supply revolving fund balances, C.N.R. equipment purchases, inventories financed out of the Defence Production Revolving Fund, expenditures of the Defence Equipment Replacement Account, and commissions on new bond sales.
8. See item 1.
9. See item 2.
11. (ai) See item 4(ai).
11. (aia) See item 4(aia).
11. (bi) See item 4(bi).
11. (bii) See item 4(bii).
11. (biii) See item 4(biii).
11. (biv) See item 4(biv).
11. (c) This amount includes the write-up of assets, sales of capital assets, capital gains such as the mint gain on coinage, and the balance of war assets sales not included in 11(bii). These items have no relevance for the National Accounts.
12. (b) Interest on pension and retirement funds and the Unemployment Insurance Fund is included here.
12. (c) This item is treated as an indirect tax in Table 9, page 22.
12. (d) This item is treated as a direct personal tax in Table 7, page 20.
13. (b) Includes investment income not specified above, adjustment allocating war refunds to prior years, and adjustment for estimated refundable portion of the personal income tax.



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