NEXT ISSUE:
SITE REVENUE
FOR AUSTRALIANS

A STABLE ECONOMY

Good Government

A JOURNAL OF POLITICAL, SOCIAL AND ECONOMIC COMMENT

Circulating in Australia, New Zealand and Overseas

DECEMBER 1986 — No. 867

VANCOUVER CONFERENCE

Resource Rents in British Columbia

Native Land Claims in British Columbia

Towards 'The Remedy'

Revenue Sharing

Registered by Australia Post — publication No. NBG1430

$1.00

PRINCIPLES OF GOOD GOVERNMENT

GOOD GOVERNMENT RESTS ON THESE FOUNDATIONS

1. The true function of government is to maintain peace and justice. This does not include interfering in national or international trade or commerce, or in the private transactions of its electors save only as these threaten peace and justice.

2. A democratically controlled and just revenue is available to governments by the collection of all site rents as their sole and proper revenue, at the same time abolishing all taxes, tariffs and unjust privileges of every description.

3. A democratic system of representation by the adoption of proportional representation in multi-seat electorates and simplified provision for the referendum, initiative and recall.

4. A continuous programme of education in the economic facts of life to enlighten the electorate.

IF YOU AGREE WITH the Principles of Good Government as set out above you are invited to support our work in one of the following ways:

(i) Write an article or a letter to the editor, expressing your views in agreement or disagreement.

(ii) Attend our meetings at our rooms at 143 Lawson Street, Redfern, or other functions as advertised from time to time.

GOOD GOVERNMENT

(Incorporating "The Standard", published since 1905)

THE PROPER REVENUE OF A NATION IS THE SITE RENT OF ITS LAND

No.867 DECEMBER, 1986

Published in every alternate month by the Proprietors,

The Association for Good Government

Business and Editorial Offices:
143 Lawson Street, REDFERN, N.S.W. 2016
Editor: R. Giles — Tel.: 74 8815
Secretary: S. Gilchrist — Tel.: 419 3632

VIEWPOINT

THE IDENTITY CARD DEBATE

As Americans are fond of saying: it could only happen Down Under. The Treasurer, Mr Keating, has revealed that he has not filed his tax returns for the last two years. The man who organises the finances of Australia cannot organise his own finances. The man who, earlier this year, said that Australia was on its way to becoming a 'banana republic' is, as he would say, 'well on target'.

Efficiency

Worse still, the Australian Taxation Office has only in the last few days caught up with the Treasurer. Although the Treasurer submitted no tax return in 1985, the tax office appears to have instituted no civil proceedings against him. Here we have evidence of what the Auditor General has twice reported: that the Tax Commissioner does not use already available information to crack down on tax evasion. This is the same Tax Commissioner who, a little while ago, made an unprecedented foray into politics to support the Treasurer's proposal for an identification card. Did he need one to catch the Treasurer?

ID Cards

Will a system of internal passports be handled with any more efficiency than the mass of information already possessed by the tax office? The Parliamentary Joint Select Committee's inquiry into the *Australia Card* (a name chosen with dark humour by the Government) found that this proposal failed to 'properly address the major problems of tax evasion, welfare fraud and the identification of illegal immigrants'. In other words, No, the Australia Card will not increase the efficiency of the tax office. But it will allow the Government and the tax office to 'pass the buck' for this inefficiency onto the general public — and in a manner which has political advantages.

No Tax System

As a recent letter to *The Weekend Australian* (22-23 November,1986) puts it 'They have neither the desire nor the wit to recognise that the system and they, its architects and administrators, are the problem— not we the people who pay their taxes... Thus taxes which are complex, difficult to collect and often easy to evade, but which are designed to persuade us that other taxpayers (of course the wealthy Ed.) have been ripping us off, are preferred to taxes that are easy to collect and difficult to evade but make no political statement'.

Unfortunately the Opposition has not been able to find out what this desirable tax system is. It does not have an alternative. So the Australia Card, this 'greatest intrusion into individual privacy ever contemplated in Australia's history' (as the Opposition so rightly says), may succeed. It may be introduced in the end because, when no alternative tax system is presented, the system of internal passports may be seen by the public as the only way to make the present system work.

The Opposition must not only oppose the Australia Card, it must propose something positive to replace the present tax system. Its arguments about efficiency and civil liberty just will not do —no matter how courageously they are put.

Identification Cards *is* an historically important issue. It is a significant invasion by the State of the personal space of the individual, and it allows for future incursions once this personal space is surrendered. For, indeed, the absence in Australia of ID cards is an

(Continued on page 2)

ASSOCIATION ACTIVITIES

Second Henry George Memorial Lecture, 1986

It is gratifying that this Lecture, delivered at the Macquarie University on 10th October 1986 by Professor Boris Schedvin of the Department of History at Melbourne University, was well attended by about 70 persons and provoked an animated discussion.

Mr Richard Braddock of the Macquarie Administration traced the history of the Walsh Bequest and reminded us that the intention and objective of the late Fred Walsh was to make Henry George's philosophy and proposals known and discussed. Professor Drane, who introduced the lecturer, outlined George's general social philosophy.

The lecturer in his opening remarks paid a tribute to George's work and influence, and showed an appreciation that the social equality which George advocated was equality of opportunity, i.e. equality before the law, and not of the idealism of socialist making.

The course of Australian Commonwealth legislation and policy in the industrial field, which formed the bulk of the lecture, was unfortunately outside the main scope of George's philosophy and proposals, although it is of engrossing interest to our politicians, reporters and orthodox economists.

We look forward to future lectures, and trust that the discussions will be more relevant to the main tenets and facets of the Georgist ideas which, being true to ethics and economics, will always attract public attention.

The lecture was reported in full in the *Sydney Morning Herald* of 11th October.

W.A.D.

The Lessons of 'The Age Explosion'

Stephen Cantor

Our conference on Saturday 25 October was, basically, a good one. The approach to demonstrate the philosophy of Henry George via a current topic (The Age Explosion) was quite successful. All speakers had good general appeal, whilst the panel ably responded to each individual presentation, demonstrating that alternatives are available. This created lively participation by the public. However, the invitation on our programme to register for discussion groups had no response.

Advertising by larger 2 column ads is certainly more effective than smaller ones. Individually mailed programmes with a precis of each speaker's theme (and photo) will create more interest than ads in local papers. More frequent talks on radio stations will help also to enhance our public image

Involvement of Universities and of all suitable groups of the 'New Age' kind and the Peer Support Foundation have to be more consciously fostered, without forgetting the traditionalists.

It is the young seekers whom we have to attract and to whom we have to make ourselves attractive. Systematic sending out of complimentary copies of *Good Government* to targetted non-subscribers should be implemented. One-hour lunch talks is another suggestion.

To hold or advertise public conferences under the name of *Association for Good Government* is inferior to *Henry George League* (or some such). Keep it simple, and uniform throughout Australia. There are a few people around who know of Henry George. They, at least, will register some instant reaction (for or against) when reading or hearing this name.

NATIONAL CONFERENCE
MELBOURNE

SATURDAY and SUNDAY, 24-25 JANUARY, 1987

INTERNATIONAL HOUSE, PARKVILLE

Conference Chairman: Mr M T Williams MLA

GEORGIST TAX REFORM

INCENTIVE TAXATION FOR PROSPERITY. (Dr G.Hardy)

PROGRESS WITHOUT POVERTY. (Mr G.Forster)

RESULTS OF TAX REFORM

THE MESSAGE AND THE MEDIA. (Mr W.A.Dowe)

THE BENEFITS OF SITE VALUE RATING IN MUNICIPALITIES. (Mr B. Kavanagh)

Each talk will be followed by panel and audience discussion.

Residence available at International House at $33.00 per day.

VIEWPOINT

(Cont. from Page 1)

important border which, when crossed by the State, will put individual liberty in increasingly indefensible positions.

It is sad that so many historically backward steps have occurred because of inefficient and unjust revenue systems.

MARGINALISM

Bernard Rooney

An interesting reflection on the nature of neo-classical economics can be gained by a consideration of Professor Blaug's treatment (in his *Economic Theory in Retrospect*, 1985) of the obscure German economist Johann Heinrich von Thunen. It has been suggested that one of the important reasons why Henry George has been neglected by economists was because of his failure to comprehend marginalism.* Although the most essential feature of his theory necessarily involves employment of the concepts of marginalism, it is true that he failed to comprehend marginal analysis as stated in general terms. Indeed he spent considerable energy in combatting 'marginalism' *as he understood it*, namely the so-called 'marginal utility theory of economic value'. But his severe criticisms of this theory (in *The Science of Political Economy*, Bk II) ought not be interpreted as an attack upon marginalism as such, but an attack upon a theory of value which he saw as being not only completely erroneous, but also as an effective instrument of confusion in the conservative reaction against any attempt (whether Georgist or socialist) to get off the ground a radical or ethical critique of existing systems of property. And indeed it seems to me that George not only showed the marginal utility theory of economic value to be an apologetic piece of nonsense, but also and somewhat incidentally perfected the theory of economic value to such a degree that a satisfying synthesis of 'right-wing' concepts of market-allocation of resources and 'left-wing' concepts of property being merely a system of exploitation can easily be had, by using the single tool of Georgean value theory. But *The Science of Political Economy* has been ignored even more so than *Progress and Poverty*. All this, however, is another story, albeit a very interesting one.

As quoted before (in *Good Government*, Sept. 86), Blaug states that 'The whole of neoclassical economics is nothing more than the spelling out of this principle (the equimarginal principle) in ever wider contexts...' It seems to me that this is a fair reflection on 100 years of neo-classical economics, summing up both its strengths ('spelling out of this principle') and its appalling weaknesses ('*nothing more* than this'). Evidence of the truth of this can be seen in Blaug's treatment of George and von Thunen. As discussed before (*GG*. Sept. 86) Blaug's treatment of George is cursory and uninterested. But his treatment of Thunen is the more lengthy and very interested. And the reason for these respective treatments is simply that George did not endeavour to express any of his views using marginal analysis, whereas Thunen attempted to express all of them in that way, and was apparently the first to do so. Blaug finds space for complimentary discussions of Thunen's marginal productivity theory and wage theory (pp.322-324), and his location theory and theory of rent determination (pp.614-618). But the focus of these discussions is on Thunen as a pioneer in the use of marginal analysis, and not on what jumps out of the page at the Georgist reader: 'He (Thunen) had become convinced in the closing years of his life that the low wages and poverty of large sections of the working class in much of Europe was principally due to the absence of free land: America was less troubled by poverty, he thought, because of free land available on the frontier... Thunen claimed that his formula for the natural wage ('the square root of ap', which he had engraved on his tombstone when he died in 1850) was approximated under frontier conditions in the USA...' (p.324).

But in the final analysis marginal analysis is merely an arithmetic for understanding and expressing equilibrium in various defined conditions. The *use* of economics is not in the definition of conditions and the performance of calculations to arrive at the equilibrium value, but in the understanding of the

institutional barriers to the maximisation of the product and the equitable distribution of it. What is of greatest interest is not marginal analysis, but analysis of property rights. Determination of wage rates by productivity of marginal land is not as interesting as the implications of a system of property rights where ground rent is privately appropriated, namely the *possibility* of large-scale land under-utilisation, with *consequent depression of productivity of marginal land and privatisation of increased surplus of intra-marginal land* (the correlative of reduced wages).

* Approach to economic problems via examination of marginal cases. (editor)

THE VANCOUVER CONFERENCE, MAY 1986

As many readers of *Good Government* will already know, the most recent conference of the International Union for Land Value Taxation and Free Trade was held this year in Canada. The conference was organised by a Canadian Committee chaired by myself and the venue was the campus of the University of British Columbia in Vancouver during the week of May 18-24.

This was the seventeenth such conference. The first international conference of the International Union was held in Ronda, Spain. Joseph Fels, the 'sugar daddy' of several manifestations of the Georgist movement in those days, was without doubt the moving spirit of the Union. It is said that Fels coined the term 'Single Tax' so it is at least plausible that he did *not* support the unwieldy title of IULVT&FT. But Fels was ever the man of action and accomplishment so it is not likely that he would have spent much time arguing for a 'change of name' either.

In any event, an international gathering has been mounted by the IULVT&FT on average every 4½ years ever since. The conference venues have presented variety in content and some flavour unique to the host country as well. Having myself attended five such conferences before — Scotland (1955), New York (1964), Wales (1968), San Francisco (1979) and Holland (1982)— I reckon the Vancouver experience to be somewhere between the extremes, between the bustling, crowded , humid, hot New York hotel and the cool, leisurely measured days beside St Andrew's famous golf course in Scotland. In speculating about Union conferences to come I would like to offer a few comments that I hope will be perceived as helpful.

Given the fact that very few of us could afford a lengthy trip abroad every 4 or 5 years, we in Vancouver were determined to achieve several specific ends. We desired to avoid stale speakers. We desired to impart a Canadian flavour, if only by means of a salmon barbecue! We wanted to derail the tiresome topic of a name change. We were determined to spread out a feast stimulating to the intellect, inviting of comradeship between regions, and friendly to outsiders. We deliberately made free spaces in the program (and jealously guarded them) to provide opportunities for rest and recreation, in the belief too that such spaces in the program would provide opportunities to build, build, build friends for Henry George no matter where they be or what they call themselves.

It was not easy to achieve all these things. We faced the problem apparently perennial and ubiquitous to organisations — not just to Georgist ones of course! Non-cooperation, stalling, pettiness over picayune matters. We did quite well in one or two departments, e.g. morning seminars. We failed miserably in one or two others e.g. publicity.

The format of the conference was essentially this:(1) an evening public address by a top-notch well-informed individual of Georgist sympathies followed in the morning by a seminar of conference attendees with the same person. (2) One whole day in the middle of the week, and two afternoons on either side of it *free time* for rest, field trips, fraternisation, sight-seeing, or other activities of choice. (3) Ten slots of approximately one hour each assigned for papers by specialists, the showing of films, or reports by members. These slots were concentrated on Monday and Friday. (4) Business meetings of the IULVT&FT, as well as of the Council of Georgist Organisations, and others occurred as well.

Our Canadian Committee was able to keep control of the International Union conference agenda by insisting from the start, that the Council of Georgists (CGO) run its own conference, choose its own dates, for example, and location etc. etc. This was probably the single most important decision we took. A local group *must* have control of the general conference program, the specific venue, and dozens of organisational decisions. The further the site is away from the headquarters of the IULVT&FT in London, England, the more necessary is the local capability and prime responsibility. By keeping firm control in our *local* committee we were able to take note of other groups' plans, and to accommodate their wishes to a degree, but we were not over-ridden by them or made responsible for their debts, non-performance or other failures. We had enough of our own in any case!

The second piece of useful advice we have is, 'hang loose'! Keep options open, and be primed to deal with emergencies — such as, for us, the non-arrival of Dr Joshua Nkomo of Zimbabwe, one of our advertised evening speakers. (Dr Nkomo was detained by his government.) No one format will suit every Union conference, and we would neither expect it nor want it.

I, for one, look forward to the day we meet in the Antipodes, to hearing new speakers, and to the experience of yet another unique style of life and way of doing things in the cause of reform.

MARY RAWSON

RESOURCE RENTS IN BRITISH COLUMBIA

Robert Williams M.L.A.

I intend this morning to talk mainly about our forestry industry which is our primary industry in British Columbia. A lot of you may be more interested in urban questions or other rent collection questions; we might cover that in the question time we have.

But because forestry is our primary industry and because we generally don't tend to think of it in the Georgist sense, I think it's worthwhile to deal with it in detail.

First, a bit of an overview in terms of the nature of the beast in Canada, this little rabbit next to the giant American elephant. For B.C. an interesting model is Finland, in a similar situation, but with a less friendly neighbour, which has its advantages and disadvantages.

In Canada we are by and large controlled by externally owned firms. In terms of our economy, 63% of our mining is foreign owned, 48% of our manufacturing is foreign owned. And here in B.C. much of the rest is owned by eastern Canadian interests, primarily Ontario.

So we very much are a kind of third world semi-developed country here in British Columbia. The rents in this province are generally not collected throughout the resource spectrum. Most of you would be familiar with that. They are leaked out to external shareholders in the United States and abroad and in Eastern Canada. So the surpluses are not ploughed back into our provincial economy.

We are indeed a wealthy part of the world. Only 2½ million people in a great chunk of the planet with great resources. It is of course the leaking of the rent to external owners that reduces our regional income tremendously, reduces regional development tremendously, and limits new processing and manufacturing and value-added industries in the province.

Inadequate Forest Revenue

Tom Gunton, a professor at Simon Fraser University has carried out some excellent studies in this area and in the resource field. He points out that U.S. corporations withdrew 9.6 billion more than they invested in Canada between 1950 and 1976. Yet their equity in ownership of industries in Canada increased from 3.4 billion in 1950 to 33.9 billion in 1976, a tenfold increase in that time period. Had that been debt capital invested in Canada and not equity investments in Canada the 9

billion plus that we paid out would have wiped out the debt, and we would have been the complete equity owners of our industries in this nation in that time period. That's the nature of an underdeveloped economy, a branch plant economy adjacent to the American elephant.

Our provincial budget just came out a month or so ago. Total revenue projected in the document for the coming fiscal year from our forests (which are one of the great forests of the world) is 140 million dollars. But what are we going to spend in terms of managing the forests, administering and that sort of thing? Total expenditures will be 344 million dollars to administer our forests in British Columbia. And we don't administer them well. We don't come anywhere near the Americans of Scandinavians in managing our forests, in silviculture, in reforestation and the like. In fact, many American and Canadian academics are convinced that we *mine* our forests in British Columbia, that it is not, in fact, a renewable resource as it should be if we managed it properly.

So what's different? It costs us 344 million to administer the forests; anticipated revenue is 140 million. We sell 75 million cubic metres of goods annually from our forest industry for minus 204 million dollars. This is a right wing business method administration we have in British Columbia. If you can fit those together you're doing better than I can! We sell all the trees from here to the tundra, from the 49th parallel to the Yukon frontier for minus 200 million dollars a year.

We have some loggers from the B.C. interior here in the audience today. No logger, no individual in the province, if he owned the public lands, would abuse them in the way they are abused and end up with the minus dollars that we have in British Columbia.

How does forestry compare with other revenues? Well, liquor. We're in the liquor business. It's a state monopoly in British Columbia. $420 million net revenue from liquor, but our basic industry is minus 200 million. Lotteries? Plus 110 million dollars. Permits and licenses? 191 million dollars. Our revenues are 721 million dollars in those questionable areas of income to the province—liquor, lotteries, permits and licenses. It gives you an idea of how we twisted the poor economy of this beautiful province.

Various academics have looked at these problems internally in the province. Richard Schwindt, Professor of Public Administration at Simon Fraser, says the likely shortfall is at least half a billion dollars in uncollected rents in our forest industry, and I suspect that's understated because I don't think he looked at all the pieces.

The Tenure System

The nature of our tenure system with respect to our forests is the beginning and as Georgists I'm sure you would appreciate that. 94% of British Columbia is public domain, ninety-four percent! Only 6% of British Columbia is fee simple land.

We have a very constricted geography. Natural river systems, steep mountains, countless mountain ranges, a tremendous cordillera we have to deal with. It ends up creating a very constricted potential settlement pattern, a very constricted communication system, highway system, rail system and the like. And that, of course, confers, as you would all appreciate, monopolies of rental values at critical locations relative to that geography.

Historically our trees were allocated on a bid basis for timber only, and so for most of our history in this province it was an open bidding system for public timber, similar in many ways to the American system. That changed dramatically in the 1950s when cutting rights were allocated to those who were already in the business, and bidding was effectively ended, and no newcomers were allowed into the system. So that is the nature of our basic industry now in British Columbia and that has been the case for about 30 years. We are beginning to wrestle with the tremendous price that it is costing us, allocating that privilege 25-30 years ago.

Constriction of Settlement

The tree farm licenses are currently area-based with respect to timber rights on the public land. These are huge, no-bid geographic enclaves controlled by one company. Over the years, with the interlinking of government and the companies, the Crown, the public, has lost out dramatically as the numbers I mentioned earlier suggest. But we have lost out in almost every conceivable way, In revenues, indeed, but well beyond that. As I suggested, we have been locked into a settlement pattern almost a hundred years old by nature of our geography *and* by nature of our licensing system. As a result settlement and urban development have been constricted. You can visit a region like Vancouver Island in the province, see the diverse south part of Vancouver Island where Victoria, Nanaimo and the main communities are. If you visit the rest of the island you will find virtually no settlement. It was controlled by early railway land grants like the CPR (Canadian Pacific Railway), or huge tree farm licenses of the major forest companies. Up until a decade ago, when we became government, you had to pay a toll to enter those public land regions of the province. People who lived in those areas had to pay a toll on bread and groceries and everything that went in and out of those regions despite the fact that they were public domain. That at least has changed.

So we pay a price now in terms of this great allocation of privilege that has occurred. We pay a price in lost entrepreneurship. Probably our greatest problem in the province economically is the loss of two generations of genuine entrepreneurs in the forest industry. They are all now essentially bureaucrats along with the government. People in the companies are essentially paper shufflers, and controllers of privilege who milk the Crown in every possible conceivable way, using every angle and every subterfuge imaginable, and I intend to document that now and in subsequent speeches in the legislature.

Efficiency of Mills

It's ended up in lack of efficiency in mills. This land of ours with its great forest resources as significant as the American northwest, and larger, has the most costly production in pulp and paper in the world, as a result of the inefficiency and control patterns that we're harnessed with. Our pulp and paper costs are running 175 dollars a unit higher than the North Scandinavian countries right now. That's working with a price level of $550 for example in newsprint. Incredible differences in terms of efficiency. We're working with 1960 technology throughout this industry right now. We're now a generation and a half, two generations behind the Scandinavians, our main competitors. Our labour cost, because of the nature of the technology we use which is antiquated, is four times that of the North Scandinavian countries. Right now, four times. Our energy costs in production are four times that of the North Scandinavian countries. All of this is documented in a secret report by Price Waterhouse of just a few months ago that I will be releasing to the Legislature.

In terms of turning our valuable wood into valuable products, and creating wealth for the province, compare us with Scandinavia. They are about four times up in terms of wealth generation out of a piece of wood. So the North Scandinavian countries get four times more than we do in British Columbia, with our constricted ownership system— the system of absentee control, lack of new players, lack of innovation, lack of new blood, greater and greater monopoly control, and less and less efficient over time. And the Georgists can see this world very clearly indeed.

Academic Studies

The first academic study looking at how we price our timber was actually done only recently, in 1980, by Professor David Haley, who is on the University of British Columbia Forestry Faculty. He looked at the difference between stumpage in the U.S. Northwest and British Columbia, and he found huge differences between the two. The Americans still essentially have a 'bid' system, although their industries are looking enviously at ours saying 'Well, that's exactly what we should have.' (We have civil servants trying to simulate the market. I'm sure many of you appreciate how well civil servants might do trying to simulate all the markets of the province.) Haley's data, which were damning, needed some further work in terms of costs that might have been deducted, but he received a firestorm of criticism from our industry, needless to say. American academics however had paralleled his work at an earlier stage. Walter Meade's studies twenty to twenty-five years ago of the U.S. Northwest clearly showed what bidding does in terms of pricing public timber. They clearly showed that when there was open bidding and many bidders the rent paid increased dramatically for public timber. We now have countless examples on file here in British Columbia that indicate the weaknesses of our system, and these various reports are sitting like smoking guns on Ministers' desks pointed at our own provincial economy...

What Margolick and Ewart (1986) didn't really focus on was the incredible difference between the real market and our local market. Just to give you a rough picture of the pattern of differences, a chart in their report completed in the last month indicates that Douglas Fir, high quality, is 17% higher, real market versus local market. Balsom Fir, high quality, and I'm only going to use the high quality sections of the species,

96% higher than local markets. Cedar, 88% higher than local markets. Hemlock, 58% higher than local markets. Spruce,29% higher than local markets. And some types of pine, 418% higher than local markets. So it gives you an indication of the tremendous uncollected rent in this basic industry of ours.

Uncollected Rent

But there are other points indicating uncollected rent in this one industry of ours where these fat, slothful businessmen carry on as they do. One is in the simple measurement of the volume of wood, what we call 'scaling', where we weigh and measure the trees that are cut off the public land.

On the coast off Vancouver Island is a location called Shoal Island where one of the largest companies, B.C. Forest Products, was measuring public timber coming through their gates for 6 years. For 6 years the Crown, that is, the government, never checked the measuring or weight. For 6 years! The only time a Ministry of Forests employee was on the site (and this isn't public information yet, it's from an Examination for Discovery, a court case that will be coming up in 2 months that I am anxious to see made public), the only time a Ministry of Forests person was on that site was at a cocktail party opening the facility. Our Ombudsman, who has since been fired by the government, looked at the matter and he said for the short time period he looked at it, with respect to one company, a private company that was selling logs to the big company, that he guessed that there had been ten million in cheating in the time period he looked at. There were six similar facilities on this coast owned by the same company and the Ombudsman thought it was reasonable to assume the same level of cheating existed. So there was something like 60 million in cheating on just a limited volume in that 6-year time span. He only looked at part of one year in terms of faulty measurement. So another major leakage of rent exists besides the fact that we don't have market rent in this industry...

Yet another case of uncollected rent in our forest industry is with respect to wood chips, the residual from sawmills that go to the pulpmills and newsprint.

Around the world the pattern has been for wood chips to become the main feed for pulp and paper industries, the waste from sawmills being effectively used by this other sector of the industry, pulp and paper. And around the world where they have market systems working there has been a consistent pattern of the roundwood (i.e. the cost of logging the the log and and bringing the log into the pulpmill) being equal to the cost of chips from a sawmill. And in a normal market situation you get that kind of equilibrium.

In British Columbia, because of our constricted geography and the oligopolistic pattern that exists, the pulpmills can control the price. And they do. As a result, the pulp mills consistently pay half of the cost of roundwood production. So unlike pulp mills in the rest of the world, our pulp mills get their fibre at half cost, *half cost*, and our sawmills and the Crown are the losers in the exercise. Half price! Now despite this, they are still the most inefficient producers in the world. They are the most costly producers in the world — more costly than Eastern Canada, more costly than the United States, more costly than Norway, more costly than Sweden, more costly than Finland. And those are all our competitors. That too is rent leakage.

Louisiana Pacific

Now because we're worried, because we've got problems of unemployment, the present administration is saying 'What can we do?' Their answer, of course, is to throw more money at the inefficient producer. Or gifts? Or maybe bring in more American enterprisers and give them money to come? And that, we are currently doing.

We have invited Louisiana Pacific in, which didn't operate in this province up till now. We have offered them money for the building of a waferboard plant in the northeastern part of the province. It will use aspen. Aspen is now one of the most valuable species for waferboard. But our administration doesn't yet realise that. With the result they have made a 25 million dollar loan to Louisiana Pacific at zero percent interest for three years, and then half of the prime for three years thereafter.

I didn't bring the letter that lists everything that Louisiana Pacific requested, but my memory will serve reasonably well. They asked for the land for the manufacturing site free. They asked for railway spurs to the site free. They wanted special freight rates on our publicly-owned railways to ship to the Los Angeles market and not to exceed $30 a unit all the way to L.A. They wanted labour rates not to exceed $8.50 U.S.,

and on and on. They wanted electric rates at 50% of industrial market rates in the province. This is a plant that will employ 125 people. That's where this whole exercise of giving away rent has got us in British Columbia.

I'm sure the American citizens in the audience will be pleased to hear that this has not gone unnoticed by your Administration because we have been competing in the U.S. domestic market.

American Reaction

I should say we do have efficient sawmills in the Interior of the province, in the north-central interior especially. Given my background I would say the reason they are more efficient is because their tenure is less secure, and there is what they call a 'third-man' system, a benefit system based on efficiency, in the Interior. That has resulted in more efficient production of low value products, of two-by-fours, and the like. At any rate, they are efficient at turning out those low-value products in the centre of the province.

Between all the concessions we give, and some efficiencies in the interior, we have moved from 18% of the domestic lumber market in the United States to 30%. And as a result many industries have crashed, especially in Oregon and the Northwest because of these plain unfair elements of our system in Canada. British Columbia is not the exception in Canada, it is part of the pattern. Because we in B.C. have half of Canada's forests we're a model (quote, unquote) for the rest of the country.

At first, the U.S. producers thought we might just be more efficient, and they might live with that. But as they analysed the problem, more and more they came to the conclusion that it was the tenure system, the stumpage system, and the rest, and the leakage of rent that was the *root* of their problem because they still got timber on a bid basis from their public forests.

Canadian Administrations historically have not been interested , as I have indicated, in getting a proper price for timber compared to the Americans. What happened in 1982 is that the U.S. industry formed a coalition, called the 'Fair Lumber Coalition' or something similar, and they pursued a countervailing tariff under the trade laws in the United States. Our monopoly forest companies hired a hotshot lawyer in Washington, DC, paid him four million dollars, and defeated the countervail proposal. Now, however, the pressure is on. It's on very heavily. The countervail is being applied for again, and the industry in the U.S. expects that they will do very well. They think they learned a great deal last time. I don't know if they've hired our lawyer. At any rate, they understand our system all too well. They understand it far better than we do.

They have all of these Canadian studies that I've mentioned, and more. They are smoking guns pointed at us, and written by us. They think they are going to win, and if they win,— establish a tariff, a countervailing duty— for British Columbia it will be the worst impact on us that we have had since the great depression of the 1930s.

What they are arguing for is a 27% tariff on these products going into the United States. The only analysis I've seen done by academics here in Canada is that of Professor Michael Percy at the University of Alberta, who constructs a model using a 15% duty. With a 15% duty he thought there would be a massive contraction of the British Columbia economy and a 10% drop in the labour force in the province. We have 1.3 million employed in the province right now. That would mean 130,000 added to the rolls of the unemployed which is already above 190,000 level. In a province of two and a half million it would mean 320,000 of the work force unemployed along with the 220,000 we have on welfare. That's what it will mean.

Conclusion

So it's the classic Georgist story. The non-collecting of rent is a massive subsidy from the provincial government and has led to quasi-monopoly control of our major industry. That has resulted in inefficiency and the lack of wealth creation, plus unfair competition with our major trading partner. And we now face the prospect of tariffs from the U.S. In effect the Americans collect rent that we foolishly didn't collect in British Columbia, and the rest of

Canada, and we will pay a penalty on top of this as well. Our subsequent decline could make poor old Henry whirl around in his grave.

TOWARDS 'THE REMEDY'

Ronald Burgess

This year 1986 marks, as many of you will know, the centenary of Henry George's book *Protection or Free Trade*. As a Vice-President of The Free Trade League this particular conference is then for me a special occasion and I deem it an honour to all Free Traders to have been invited to read a paper. After a hundred years *Protection or Free Trade* remains a must for all economists and others who are interested in the subject for in it Henry George carries the argument through to its logical conclusion, a mark of his genius.

'Free Trade', wrote George, 'cannot logically stop with the abolition of customs-houses. It applies as well to domestic as to foreign trade, and in this sense requires the abolition of all internal taxes that fall on buying, selling, transporting or exchanging, on the making of any transaction or the carrying on of any business,...'

He went on. 'Trade... is a mode of production, and the freeing of trade is beneficial because it is a freeing of production. For the same reason, therefore, that we ought not to tax anyone for adding to the wealth of a country by bringing valuable things into it, we ought not to tax anyone for adding to the wealth of a country by producing within that country valuable things. Thus the principle of free trade requires that we should not merely abolish all indirect taxes, but we should abolish as well all direct taxes on things that are the produce of labour; that we should, in short, give full play to the natural stimulus to production— the possession and enjoyment of things produced— by imposing no tax whatever upon production, accumulation, or possession of wealth, leaving everyone free to make, exchange, give, spend, or bequeath.'

Protection in Britain

At the time *Protection or Free Trade* was published the British economy was no more than a step or so away from what George called 'true free trade'. Protection had been abandoned leaving only a few small revenue tariffs. The British people complained of the burden of taxation, as is the prerogative of taxpayers, but total tax revenue appropriated less than an 8 percent slice of the 'national cake'. About all that was needed to bring about 'true free trade' was the application of 'The Remedy' Henry George had put forward in his earlier work *Progress and Poverty*.

Today in Great Britain circumstances are very different. We are now fully protected as a member of a continental customs union— a bad arrangement for an off-shore island. Internally, production and trade are also heavily taxed and extensively regulated. During the hundred years since Henry George carried his message across the Atlantic the British tax take has multiplied more than five times so that it appropriates now over 40 percent of the 'national cake'. Even worse is the method used now by central government to raise half this tax revenue. Henry George argued that all taxes on things produced by labour should be abolished. He did not argue explicitly that taxes on labour itself should be abolished. He did not envisage that a democratic government would be so foolish as even to attempt the imposition of such a tax and if they were so foolish no doubt he assumed that a free electorate would give them short shrift. Yet in Great Britain the electorate have allowed circumstances to come about in which government raises half its tax revenue from taxes imposed directly on the employment of labour. It is this particular method of tax and its effects that I consider in this paper, for, from this British experience, the Georgists and Free Traders of today can learn an important lesson.

The Labour Market

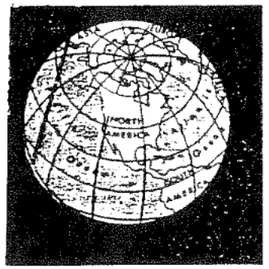
Great Britain, in common with other western industrialised economies, is a trading economy. This is to say an output is produced not primarily for the consumption of those directly engaged in that production process but for sale and eventual consumption by others. One may distinguish between two kinds of trading economy. One kind conforms to the second principle of 'true free trade' which Henry George formulated as, 'That each man has an exclusive right to the use and enjoyment of what is produced by his own labour'. In other words, persons who supply the labour to a particular productive process enjoy title to the output of that process. This happens only very rarely in the British economy. The general case in Great Britain is, as in most other western industrialised economies, that those persons who supply labour to a particular productive enterprise do not enjoy title to the output of that enterprise. It follows, when in a trading economy those persons who supply labour have no title to the output produced by their labour then they have nothing to sell, or trade, but their labour. On the other side, as labour is a necessary factor of production then those who will enjoy title to output must buy in, along with everything else, the labour necessary to produce the output to which they will enjoy title. Thus in this kind of trading economy there arises a labour market in addition to the markets for output. In a labour market those who have nothing to sell but their labour come together with those who must buy labour so that they may have something to sell and these two parties, through the process of bargaining, determine what is, in effect, the market price for labour.

The process of bargaining is the basic mechanism in any market. Any particular exchange is the result of a bargain struck between two contracting parties. In a monetary trading economy the party offering a money sum in return for goods and/or services is called, by convention, the buyer. The party offering goods and/or services in return for a money sum is called the seller. The money sum which on an exchange is passed from the buyer to the seller is called the price. But bargaining is not a zero sum game. As Henry George wrote, 'If I did not want the thing I am to get more than the thing I am to give, I would not wish to make the trade'. Thus as measured by the money sum the price at which any particular bargain may be struck is confined within certain limits. The top limit above which the price cannot rise is determined by the buyer. The buyer will have a certain money sum in mind above which he is not prepared to strike a bargain with a seller for the goods and/or services offered. The bottom limit below which the price cannot fall is determined by the seller. For the goods and/or services offered the seller will have in mind a certain money sum below which he is not prepared to strike a bargain with a buyer. It is important to note that for a bargain to be freely struck then the top limit for the price as set by the buyer must exceed the bottom limit for the price as set by the seller and between these limits the price at which the bargain is struck depends on the bargaining skills and bargaining powers of the two parties.

As for markets in general so for the labour market in particular. Employers are buyers of labour and, therefore, for any given amount of labour the cost of that labour cannot rise above the most employers can afford to pay. However, as employers are sellers of output an employer's demand for labour is derived from the demand for the output of that labour. It follows, the most employers can afford to pay for any given amount of labour will be responsive, not to conditions in the labour market, but to conditions in the markets for output. Thus, it is to be expected, the most employers can afford to pay for any given amount of labour, which determines the top limit in the bargaining process, will tend to rise during good times and fall during bad times.

On the other side, once again quoting Henry George, 'men who work for wages are not sellers of commodities; they are sellers of labour. They sell labour in order that they may buy commodities'. As sellers in the labour market employees determine the bottom limit in the process of pay bargaining which is the least they are prepared to accept in return for supplying any given amount of their labour. But how is this least determined? In the nineteenth century a widely held view was that wages tended towards a subsistence level just sufficient to maintain the so-called labouring classes. In the previous century Adam Smith had come to a different conclusion and one more in line with twentieth century experience. Adam Smith concluded one of the circumstances regulating the money price of labour to be 'the price of the necessaries and conveniences of life'. The price of what twentieth century economists call 'wage goods'; the kind of goods and services that employees purchase out of their take-home pay. Adam Smith observed that what are considered to be 'the necessaries and conveniences of life' varied significantly from place to place and from time to time. This also is in line with present day experience. In contemporary western industrialised economies it is not the price of a subsistence allowance of

bread or porridge that matters but the price of television sets, videos, cars, holidays abroad and the like. What in any economy are considered 'the necessaries and conveniences of life' seem to be related to the wealthiness of that economy, as Adam Smith acknowledged, or, as Milton Friedman expressed it when formulating his 'natural unemployment rate hypothesis', "after subtracting for growth". Thus the bottom limit in the process of pay bargaining, the least employees are prepared to accept in return for supplying their labour, takes into account changes in both productivity and prices with the result that it tends to fluctuate around some particular product share sustained by psychological and other barriers which respond only slowly, if at all, to labour market conditions.



Providing there exists a positive gap between the most employers can afford to pay for the amount of labour they demand and the least employees are prepared to accept in return for supplying that amount of labour then it is to be expected that actual pay settlements will be responsive within limits to changing conditions in the labour market. In good times the most employers can afford to pay will tend to rise, their demand for labour will expand and cause unemployment to fall. All this will shift the balance of bargaining power in the labour market to favour employees and as a result actual pay settlements will tend to rise as unemployment falls. In bad times the most employers can afford to pay will tend to fall, their demand for labour will contract and cause unemployment to rise. All this will shift the balance of bargaining power in the labour market away from employees and as a result actual pay settlements will tend to fall as unemployment rises.

The Phillips Curve

This conclusion is consistent with the conclusion reached by Professor A. W. Phillips in his paper *The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957* which was published in 1958 and gave rise to the so-called Phillips curve hypothesis. Unfortunately for Phillips the stable statistical relationship which he had found to hold for nearly a hundred years previously was found not to hold in the conditions of the second half of the twentieth century. Over the years many economists and non-economists have joined the bandwagon slamming Phillips but Professor Phillips was a competent experienced researcher and his paper was well researched. Admittedly he made some errors, but who does not make mistakes. It was a piece of statistical research and as it is said 'a trend is a trend is a trend so long as it does not bend'. In this instance the timing of the bend went against Phillips and the vast literature it spawned obscured a matter of importance. Why should a functional relationship which had held for nearly a hundred years suddenly become unstable? What had changed in the British economy?

One change was, as Milton Friedman pointed out, post-war persistent inflation. As prices in general rise then the most employers can afford to pay for any given amount of labour rises. As the prices of wage goods rise then the least employees are prepared to accept in return for supplying any given amount of their labour rises. Thus, not surprisingly, the actual level of nominal pay settlements rises irrespective of the prevailing conditions in the labour market and as this proceeds the precise statistical relationship calculated by Phillips on the basis of nominal pay must break down. But whilst persistent inflation was a factor it was not the only factor in the breakdown of what is called today 'the crude Phillips curve hypothesis'. This label is intended to distinguish the Phillips original from the 'expectations augmented Phillips curve hypothesis' formulated a few years back by Professor Laidler; in the free trade of economists an export from Manchester University to the University of Western Ontario.

The Pay Bargain Gap

In Great Britain the most important factor causing the failure of the relationship hypothesised by Professor Phillips has been the erosion of the difference between the top and bottom limits in the pay bargaining process, the pay bargain gap, by the imposition of pay-roll and withholding taxes. A pay roll tax does not affect directly the most employers can afford to pay for the amount of labour they demand but it does reduce directly by the full amount of the tax the most employers can afford to pay employees in return for supplying that amount of labour. On the other side a withholding tax does not affect directly the least an employee is prepared to accept in return for supplying any given amount of labour but in its formal incidence it does reduce directly by the full amount of the tax the sum actually received as take-home pay and this leads to retaliation. In Great Britain the post-war evidence indicates that retaliation by employees demanding and getting higher gross pay has been successful in shifting withholding taxes on to employers. From a paper published in *The Economic Journal* based on research done at the University of Calgary I gather this holds true also for Canada. Recently the Organisation for Economic Cooperation and Development admitted net of tax wage bargaining to be common in all OECD countries. None of this need be a matter of surprise for the canny Scot argued to the same conclusion without statistics or a computer two hundred years ago.

Pay-roll and withholding taxes— they may be described accurately as pay bargain taxes— appropriate, one way or another, some part of the pay bargain gap and so leave less room for manoeuvre in the process of pay bargaining. This leads inevitably to worsening industrial relations, more strikes and a loss of output. Worse, by tending to increase the cost of labour to employers pay bargain taxes place a premium on labour saving investment and this in turn distorts an economy and destroys jobs. Of course labour saving investment is not always labour saving from the point of view of an economy as a whole. More often than not the result is a transfer from paid labour to unpaid labour. For example, the British ceased to be a nation of shopkeepers when a Labour government during the sixties imposed a pay-roll tax called Selective Employment Tax which was intended to increase the cost of labour in the services sector. For once the intention of the Administrators was fulfilled. The tax hit small family retailers hard and their trade was taken over by large groups with ample funds available for labour saving investment in self-service supermarkets. From the point of view of the retail trade it was labour saving and brought about measurable improvements in productivity. From the point of view of householders it was quite the reverse. Even after World War II it had been commonplace in Great Britain for a household to place its weekly order for groceries with a shopkeeper and for these then to be delivered to the doorstep by a rounds man or errand boy. Today a householder has to get out the car, drive to the supermarket, have the hassle of finding a parking space, wander round the supermarket and collect the groceries needed from the shelves, queue at the checkout point, load the car, drive back and then unload the car— all very time consuming hard labour. Has the enormous investment in response to the new tax saved labour? I wonder. Certainly the new tax contracted the sphere open to profitable trade and in so doing destroyed paid jobs. The old success story of errand boy to boss is a possibility no longer—taxation has knocked out the bottom rungs of the ladder.

All this is only a beginning. When government persists in increasing the amount of pay bargain taxes then eventually taxation appropriates the whole of the pay bargain gap. This appears to have happened in Great Britain already. After the last war pay bargain taxes amounted on average to less that a 10 percent addition to take-home pay, now these taxes verge on a 40 percent addition. This means that for every 1 pound an employee receives as take-home pay the employer has to pay on average another 40 pence to the taxman. At the margin it is much worse for these pay bargain taxes are progressive. It can happen that for the last 1 pound an employee receives as take-home pay the employer has to hand over to the taxman more than 90 pence

Closure of Gap

As pay bargain taxes begin to appropriate the whole of the pay bargain gap then a fundamental change takes place in the labour market. Once taxation has appropriated the whole of the difference between the most an employer can afford to pay out as labour cost and the least an employee is prepared to accept as take-home pay there is no room left for bargaining manoeuvres. More, as take-home pay is unresponsive to market conditions when it has been forced down by tax to the least an employee is prepared to accept then, for the employer, the cost of any given amount of labour is fixed, more or less, by the amount of the pay bargain taxes. With this the labour market ceases to operate as a place where buyers and sellers of labour are brought together to agree to a price for

labour and begins to operate as if it were a fixed price monopoly market. The effective price, or cost, of labour to an employer is fixed exogenously; in the case of Great Britain it is fixed by a majority vote in the House of Commons.

When politicians create by means of taxation a fixed price monopoly labour market then both employees and employers find themselves in a take it or leave it position. However, in a contemporary trading economy the employers can offer employment only when and to the extent it is profitable for them to do so given the current cost of labour. The result of this is that a kind of Phillips curve relationship continues to hold but the direction of causation is reversed. Instead of pay settlements responding to changing conditions in the labour market, as Professor Phillips hypothesised, it is the amount of pay bargain taxes that determines both labour costs and the conditions in the labour market. The post-war evidence from Great Britain shows conclusively that when pay bargain taxes are increased then 12 to 15 months later the rate of unemployment rises and on those rare occasions when pay bargain taxes have been cut then 12 to 15 months later the rate of unemployment falls.

Conclusion

What is the lesson in all this for Georgists and Free Traders in the closing decades of the twentieth century?

Labour is a necessary factor of production, it may not be sufficient but it is necessary, and from this it follows — the condition in the labour market is a major factor determining conditions in the markets for outputs. When taxation causes the labour market to operate as if it were a fixed price monopoly market then free trade in the markets for outputs becomes an impossibility. Today the first step on the road towards 'true free trade' is the freeing of the labour market. First things must be tackled first.

Again, when, as is the case in Great Britain, taxation appropriates around 40 percent of the 'national cake' including the whole of the pay bargain gap, so causing millions of unemployed and widespread hardship then no good purpose is served by proposing what to the general public will appear to be yet another new tax. They will refuse to know. In these circumstances the emphasis must be on the first part of Henry George's remedy — the abolition of taxation. First things must be tackled first.

In Great Britain, and I can speak only of that country, the Georgist movement including the Free Trade League is languishing in obscurity. A major reason for this state of affairs lies in a failure to recognise that conditions have changed since the time Henry George wrote and published. Nonetheless the works of Henry George continue to provide the clues, for he always followed his argument through to their logical conclusion, but his remedy is not an immediate cure-all for every economic disease irrespective of the conditions in an economy. George's remedy is not so much a panacea as an objective. An economy may proceed towards an objective only from wherever it happens to be and the British economy is not where it was a hundred years ago. First things must be tackled first. A man dying of starvation cannot be saved by offering a juicy T-bone steak, he needs first some nourishing gruel to build up his strength. Having digested the gruel, he will demand the steak.

NATIVE LAND CLAIMS IN BRITISH COLUMBIA

Douglas Halverson

Over the past decade, native land claims have become a major focus of public attention in Canada, and especially in British Columbia.

The matter is inexorably bound to the political and social destiny of Canadian aboriginal peoples. Canadian native leaders, with no apparent exceptions, link the social and individual health of their people to the removal of federal government control over their affairs. But few native leaders propose the removal of the federal presence without the creation of a new regime that would make native communities and tribal groups viable social and economic units.

Often excluded through social, economic and geographic barriers from participating in mainstream Canadian life, native groups demand that independence from government tutelage be accompanied by an economic base. Hence a requirement for a share in the control— and derived revenues— of the land. In some instances native groups enter the land claim arena for historical and cultural reasons. They claim to have never given up the land, and express no desire to trade their land tenure and cultural systems for those of industrial society. To mainstream Canada, the impact on land tenure in areas under native claim is the same.

The topic of land claims is as broad and diverse as Canada and the peoples who compose it. This paper will concentrate on a few general aspects of land claims in order to allow the reader to better appreciate specific claims as they arise.

The paper opens with a brief review of the legal considerations. This is not to say the matter is primarily a legal one, but it reflects the historic course of events. It was only under threat of losing in the courts that the federal government began to deal with the land claims as a legitimate political issue. The paper correspondingly moves from the legal to the political, summarising the reasoning of the governments of Canada and British Columbia. It includes a list of land claims in British Columbia and a discussion of the relationship of land claims and resource development.

The Legal Concept of Native Title

In Canada, native leaders have continually, if sometimes weakly, pursued their rights and titles since before confederation. From time to time the courts have discussed native title and early in Canadian history the Crown ackowledged the existence of specific rights through the Royal Proclamation of 1763 and through treaties, the last of which was signed in 1923.

The case law, however, is anything but consistent in regard to native claims. In fact, there appears to be two opposed lines of argument in our law concerning native rights and title.

The first line of argument is as follows:

- Discovery gave title to the government of the discoverer;
- The government of the discoverer had the exclusive right to extinguish native title of occupancy by purchase or conquest;
- Until the government extinguished native title, the natives maintained a legal and just possession, diminished only insofar as their power to dispose of the soil passed to the government of the discoverer;
- The native title was a usufructary right;
- The native title, while one of only use and enjoyment, was as exclusive and sacred as the fee-simple possession of the whites.

The second line of argument is less generous to native claims. It has developed mainly in the English Appeal Courts concerning colonial cases and is as follows:

- A change in sovereignty ought not to affect private property, but if it did, the court system of the nation is not able to remedy such an injustice. This is because a change of sovereignty is a matter between sovereigns, not a matter within the nation;
- In order for a native claim to be actionable by a national court, it must be shown that the object of that claim was ensured by prerogative or legislative act of the new sovereign. That a right existed before the change in sovereignty,

gains the native nothing.

These two arguments twine through the case law concerning native claims, often appearing as majority and minority decisions concerning the same matter. While the first argument holds the most comfort for the native claimants, both arguments indicate avenues through which native interests can be pursued.

The first argument would encourage natives in territories with no record of treaties, purchase or conquest to assert their title. This was attempted in the case of Calder et al v. Attorney General of British Columbia (1973) in which the Nishga Indians sought a declaration that their aboriginal title had never been lawfully extinguished.

The second argument encourages natives to seek legislative recognition of their rights as they now have done in regards to the Canada Act. Furthermore, the second line of argument points natives to international courts and the United Nations, which they have now approached on several occasions.

As natives and their advocates have become more sophisticated and resourceful, political leaders in the legislative branch of the federal government have come to realise that even the apparently unsympathetic second line of argument will not buy peace or security from native claims. No federal party dares leave the resolution of these matters to federal or international courts, for the judicially correct solution might be politically disastrous to the party in power.

The Response of Government

THE IMPORTANCE OF THE CALDER CASE

The Calder case precipitated an abrupt change in federal government policy concerning native land claims. The plaintiffs based their 'argument' on the Royal Proclamation of 1763, in which George III forbade settlement and purchase of lands not included in the existing colonies and the territories granted to the Hudson Bay Company, and of all lands west of the Atlantic watershed, unless they were first ceded to, or purchased by, the Crown. The court held that the Royal Proclamation of 1763 did not apply to Nishga territory, because it was terra incognita at that time. The Nishga lost their case through two appeals ending with the Supreme Court of Canada. But they did so by a narrow margin: three justices concurring, three dissenting and one dismissing the appeal on a technicality. The dissenting justices Hall, Spence, and Laskin argued strongly that earlier judgements were impaired by ill-founded assessments of Indian society. They adopted the first line of argument described above, and turned responsibility around so that the province, and not the Nishgas, should bear the burden of establishing a right to possession.

As late as 1969, Prime Minister Trudeau had categorically refused to consider questions of aboriginal rights and claims. Immediately following the Calder decision in 1973, however, the federal government committed itself to negotiating the settlement of aboriginal claims and established the Office of Native Claims the following summer.

What had happened was that the federal government, upon examining the Calder case, came to realise how possible it was that the courts could render a decision regarding native claims which would be economically and politically devastating and therefore unacceptable to white Canadians. Justice Hall's dissenting argument in favour of the existence of Nishga title, regardless of legislative act, was made with such force and eloquence that it became the memorable aspect of the case. Native leaders, realising that the court had afforded them only a moral victory and might not do so again, accepted the federal government's offer to negotiate claims. Both sides realised the wages of losing in court were high, and a political compromise made more sense.

Furthermore, the government became aware of growing unanimity of discussion among those informed about the lives of natives in Canada. The position of native people at the bottom end of social, political and economic power structures—in spite of the costly intervention of the State in the details of their lives—was an affront to everyone. While there was—and still is—great debate in both native and white society as to what should be done, there was little difference of opinion that the present situation was inconsistent with Canadian values of human and democratic rights.

This sense of moral sympathy with the native cause was expressed in all three hearings of the Calder case. Justice Gould of the Supreme Court of B.C., who found against the Nishgas, bore evidence of this in concluding his judgement with these words:

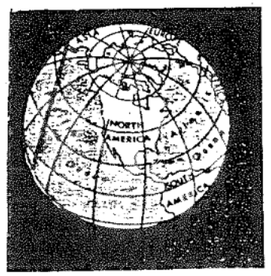
'One would have to be self-blinded to events and attitudes of the day to ignore the fact that the litigation is of great concern, and this judgement a deep distress, to the Indian peoples of British Columbia. I take the judicial liberty of recording my opinion that should the Nishgas wish to appeal this judgement, the cost of preparing the appeal books because of the historical documents germane to the issue, would amount to a sum probably beyond their financial resources. The same sum, in the context of the provincial treasury, would be insignificant.'

Position of British Columbia

The provinces have not been anxious to take part in discussions of land claims. British Columbia consistently avoids discussion of native claims and takes the following position:

- 'Native title' is not a concept that existed in common law when the English Crown exercised claims of sovereignty over those lands which became British Columbia;
- If such a concept did exist, it was dependent upon executive or legislative order;
- The Royal Proclamation of 1763 could not apply to B.C. because B.C. was terra incognita at the time of the Proclamation.

This position was approved by the trial judge in the Calder case and supported in the Supreme Court of Canada by Justices Martland, Judson and Ritchie. It is, indeed, the interpretation that the federal government believes has the most firm legal basis. But as stated above, the federal government has taken note that three other judges of the Supreme Court took the opposite view. In fact, it has been a source of wonder to senior officials of the federal Department of Justice that the Calder case did not cause the Province of British Columbia to become at least as perturbed as the federal government about the possibility of a subsequent court being composed of a majority of judges who would support aboriginal rights.



The federal government's concerns about British Columbia's continued reticence to review its position on land claims can be summarised as follows:

- The provisions of the Constitution Act of 1867 which limit the effect of provincial land laws on 'land reserved for Indians' may apply to all lands on which native title has not been extinguished, as Justice Judson, in Calder, found to be the case in pre-Confederation British Columbia, and as the trial judge in Hamlet of Baker Lake found to be the case in Ruperts land;
- If the courts follow Justice Judson's definitions of Indian lands, the major part of British Columbia (and much of Quebec and Labrador) maybe so defined;
- If Indian title is found to survive in areas of the province, and if federal exclusivity over Indian lands were to be given in accord with the Constitution Act of 1867, serious holes could be opened in the provincial land regime.

Aboriginal Rights Section

The Constitution Act of 1982 strengthened the argument for native land claims. Historically, provinces could pass legislation which was detrimental to native rights, as long as the legislation pertained to valid provincial objects and affected natives as citizens of the province rather than natives, per se. Now, Section 52(1) of the Constituion Act of 1982 provides:

'The Constitution of Canada is the supreme law of Canada, and any law that is inconsistent with the provision of the Constitution is, to the extent of the inconsistency, of no force or effect'.

and in regard to natives rights Section 35(1) declares:

'The existing aboriginal and treaty rights of the aboriginal peoples of Canada are hereby recognised and affirmed'.

The constitutionality test, therefore, is no longer whether provincial laws are in relation to provincial objects, but rather if they are consistent with existing aboriginal and treaty rights. The Department of Justice has concluded that this section will give native groups a considerable advantage in the courts, as judges will be quite willing to issue interim injunctive relief while the effect of a law on existing aboriginal rights is determined.

The Department of Justice, in fact, looks ahead to some very serious problems for the province:

- Future provincial enactments regarding natural resources could be overturned because they are inconsistent with Section 35(1) of the Constitution Act of 1982;
- Federal laws, such as the Fisheries Act, could be held ineffective to limit aboriginal fishing rights;

- The native leadership of B.C. has made clear that it will press for sweeping interpretations of Section 35(1);
- Until the courts have resolved the interpretive issues of the constitution, the natives will likely enjoy easy access to interim injunctive relief until their cases are disposed of;
- This interim relief will in some cases stop major projects;
- When the courts finally decide on aboriginal and treaty rights, the interim injunctive relief could well become permanent.

Federal Policy

There is no question that the federal government has determined the only safe avenue away from the risks associated with court decision is through formalised land claim negotiations.

Following the Calder decision of 1973, the federal government in 1974 prepared a policy concerning land claims and established the Office of Native Claims within the Ministry of Indian Affairs and Northern Development to represent the Minister and federal government, for the purposes of settling claims through the negotiation of agreements. Although the office and its procedures were unilaterally established by the federal government, native leaders have generally accepted the federal approach.

The federal land claims policy divides native claims into two categories: specific and comprehensive.

Specific claims are those claims based on unfulfilled lawful obligations such as a failure to keep a treaty, a breach of the Indian Act, a breach of trust, the illegal disposition of Indian lands, failure to compensate for lands taken by the federal government, or fraud by federal government agents.

Hundreds of such claims have been presented to Indian Affairs, and the Province of British Columbia has participated in negotiations to settle them. It is under this policy that the claim of the Penticton Band was settled resulting in the return to the Band of 4,855.2 hectares of provincial Crown land as well as $14.2 million from federal and provincial governments. The recent return of large portions of Ambleside Park to the Squamish Band also took place under this policy. The motivation for these settlements is not goodwill on the part of the province and Canada: it is prompted by the very real likelihood that a court would have found in favour of the native claimants.

Comprehensive claims are those based on the concept of native title. Because the Province of British Columbia does not accept the existence of native title, it has not participated in the negotiation of comprehensive claims. The federal government has accepted claims from twenty-four (24) native groups, fourteen (14) of which are located in British Columbia. A further thirteen (13) claims are under review or anticipated in the province. If all claims are accepted, very little of the province's surface will remain unclouded.

When the federal government accepts a comprehensive claim, it admits that a review by the Office of Native Claims and the Department of Justice has indicated there is sufficient substance in the claim to merit the cost and time involved in negotiating a settlement. Claims negotiations have been successfully concluded only twice: the James Bay and Northern Quebec Agreement of 1975 and the supplementary Northeastern Quebec Agreement of 1978. The federal government and natives have hovered near agreement in the Yukon and Western Arctic for a decade. The Western Arctic claim, in fact, appears to be awaiting only the formalities of signing.

In 1979 a test for native title was established for the first time in the case of *The Hamlet of Baker Lake et al v the Minister of Indian Affair and Northern Development et al*. The court held that 'the elements which the Plaintiffs must prove in order to establish an aboriginal title cognizable at common law ...' are:
- That they and their ancestors were members of an organised society;
- That the organised society occupied the specific territory over which they assert the aboriginal title;
- That the occupation was to the exclusion of other organised societies;
- That the occupation was an established fact at the time sovereignty was asserted by England.

In British Columbia, claims negotiations have commenced with the Nishgas, but have made little progress because of the refusal of the province to actively participate. The leaders of all claimant tribal councils are also reluctant to proceed too quickly with the terms of settlement because each council wants to build its settlements on that of the others: no one wants to be the first. In addition, natives are dissuaded from making hasty settlements by the ongoing constitutional talks concerning native rights, which offer them the promise of an improved bargaining position in a few years.

REVENUE SHARING

Dr. Mason Gaffney

It seems to me therefore that we need to face up to the question that is known in my trade as Fiscal Federalism, that is, how is money going to be distributed by the federal government out of its so-called surplus, either to people or the States, or localities? When we look at this issue, which is definitely a Georgist issue, we'll find interestingly enough that a lot of economists have gotten there first. Many of these are Canadian economists, and without exception they talk about *rent*. They talk about rich provinces and poor provinces, and the rich provinces are those that have resource rents. And when they say *rent* they are not talking about Frank Sinatra's voice, or Bridget Bardot's figure. They're talking about the income of natural resources. Now it's not just a question of distribution here... but a whole question of whether a growth oriented policy will sell at the local level.

The reason it's so hard to sell growth policies at the local level today in the United States is very much due to the fact that the United States federal government taxes people and it gives subventions to landlords. So the landlords can get the subventions without having the people. So who needs people? That's it in a nutshell. We need to reverse that, I think, if we're going to be able to make Georgism work at the local level.

Cannan's Law

The last time I discussed this subject was in Las Vegas before a tax group. I started out by saying 'I hope there are no Canadians here!' It would be vain to say that to this group, so I'll say I hope there are no sober Canadians here, at least none who possess a high degree of expertise on this subject, because I may have to skip over some of the high spots. I lay some claim to being Canadian myself, I should say. I have two children who have dual citizenship because they originated in Canada, or possibly three children depending on where you stand on the right-to-life controversy. But at any rate I would like to emphasise that the Canadian system of revenue distribution, fiscal sharing, or equalisation as we call it in Canada, is much more based on correct principle than the one you find in the United States. By 'correct principles' I mean the ones I just enunciated. At any rate, let's begin by looking at the similarities between the federal systems in the United States and Canada. In both countries we find something called 'vertical balancing' which means that the senior governments send money to the junior governments. We find also something called 'horizontal balancing' which means that the payments are made more to the poorer governments, those that are poorer on a per capita basis, than to richer ones. We have the principle that the Crown may not tax the Crown. We've an economic principle, which I'll call Cannan's Law. The cannan here is not a weapon, but an economist of very little note, Edwin Cannan, who however did make one very important point. He made it in the period when the single tax in England was on everyone's lips. And if you read the *Economic Journal*, the stuffy, establishmentarian journal of the economics profession, it's full of criticisms of the Single Tax. No respectable English economist could fail to write at least one article criticising the Single Tax. And Edwin Cannan criticised it in the following way. He said, in effect, local taxation of land makes private land an open range. His idea was something like Garret Hardin's idea of the 'tragedy of the commons'. Or I should put it the other way around because Hardin came later and he obviously borrowed from those who wrote earlier. But the general idea is, you may think you have tenure control of land but if the municipal government can tax that land and use that money to finance public welfare services, public education and other things that are open to all comers, then you will end up with an uneconomical distribution of population. You'll have more people clustered around the honey pot in places like Vancouver where there's a lot of economic rent per capita than you will in areas with less economic rent per capita.

So we found in the mining country of Northern Minnesota back in the days when iron ore was worth something. They had the best schools in the mid-west there at the iron mines and all those Finnish miners' kids got first rate educations. You run into them everywhere now: they've become an awful nuisance— very well educated though.

All this tends to distort the economical allocation of population and also to reduce the incentive of local government to provide public services that are open to all comers. That I refer to as Cannan's Law. And you find that, of course, in all countries. It's an economic law.

Hammer's Law

At the same time, in both countries you find something I will call Hammer's Law. This is not a carpenter's tool but again the name of a man, an economist in Missouri, who observed in 1935 that if you compared population to land values in the different counties of his State (in the very poor counties of the Ozarks the land was hard scrabble land of very little value, with the very rich lands in the north-western part of the State, which resembles Iowa) you found that the population density was much greater on the very poor land of the Ozarks than it was on the very rich land of the north-west. He took this to be a sign of market failure. Three years later the Establishment got to him and he said, well maybe I can rationalise this after all. But actually it's the American counterpart of the familiar pattern in the less developed countries where the flat land, the good flat land, is used for grazing cattle at a very low level of productivity, and the mass of the people in their minafundia are found on the hard scrabble land on the steep hill sides. I call it Hammer's Law of Market Failure where, because of the operation of the land market, whose evils we are so familiar with, you do not get the population distributed over the land in an economically rational manner, because of the tendency of the better land to be agglomerated into large holdings which are not optimumly developed. Comparing States, this results in the fact that a poor State like West Virginia has large numbers of people living on very poor land, and a wealthy State like Iowa (speaking now just of farming) has a small number of people on very good land. And this results in inter-jurisdictional equalisation problems. In Canada this takes the form of the Maritime provinces in the east being densely populated like the Ozarks, and the wealthier, in a resource sense, western provinces being relatively underpopulated.

Now another similarity to the two countries is that the subventions that do go from the federal government to the provinces in Canada (and you find a similar thing in the United States) do not come from the richer provinces. They come instead from the general fund, the general taxpayer. There is in other words more vertical balancing than there is horizontal balancing (horizontal balancing you remember means equalisation among the different jurisdictions). It's a little like what somebody said about foreign aid. 'Foreign aid is a device by which poor people in rich countries are taxed to subsidise rich people in poor countries.'

We'll see that equalisation in most countries works something like that; that is, in addition to this inter-provincial equalisation, there's a tax shift involved where local sources of taxation like the property tax are being displaced by the federal income tax. I suppose Ferdinand Marcos would be a splendid example of the kind of person I was talking about in the poor country and in West Virginia you have all these coal companies whose owners live in Palm Beach, whose shareholders live in Palm Beach and such places, who benefit from an inter-state equalisation that benefits West Virginia. Well these are similarities. Now differences.

Amount of Equalization

I learned that if you want to get along in this country you have to emphasise the differences. If there's anything a Canadian fears, it's not the hostility of the United States, it's the embrace. When Canadians say 'Vive la difference' they are not being male chauvinists, just regular chauvinists. So, let's look at the differences.

The federal aid in Canada goes to provinces, whereas in the United States it goes to specific cities, The U.S. Congressman likes to have his fingerprint, as they say, on every dollar that goes from Washington. The Canadian provinces are much larger and stronger, and fewer than the American States. There is much more horizontal balancing among provinces in Canada than there is among States in the United States. The Maritimes for instance get about 50% of their provincial revenues from equalisation entitlements. Fifty percent. Nothing in the United States matches that. In fact, if you look at the U.S. Constitution, it's quite specifically planned to prevent that sort of thing. Equalisation is not what the Founding Fathers had in mind. On the contrary, there is a provision which you may be familiar with which says that direct taxes will be apportioned among the States according to their respective populations. So in the States the idea has been: Tax the States according to their population and then give the money back according to political power. In the United States Senate it means that the smallest State has just as much clout as the biggest State or would have if their senators weren't so merchantable. (I mean, in California when we need something we just look to Nevada or one of those places for a Senator who is having difficulty raising funds for his next election. But that's another story.)

Another difference is that the Crown provincial owns a very large share of the public domain, especially in the western provinces. I wouldn't want to overstate that difference. Alaska after all owns Prudhoe Bay and California owns three miles offshore— that includes the Wilmington Basin off Long Beach. You get a lot of State revenue from those things. But it doesn't really compare with 94% of British Columbia being owned by the Crown provincial. That makes a difference. We'll see that part of the game in Canada is the effort on the part of the federal government to prevent the provinces from fully extracting that economic rent from their Crown lands for public purposes.

Surpluses

Another difference is that Canadians are much more restrained and self-controlled than Americans, and therefore they've managed to build up enormous surpluses. There's something called the Alberta Heritage Fund, where instead of just blowing that money as it came in, they squirreled it away and saved it up and it's now considered I believe the largest single block of available capital in North America: $6-10 billion (I lost sight of the figures somewhere as they were going up). But can you imagine Howard Jarvis in Alberta with his beady eyes on the Alberta Heritage Fund? Why, when we built up a surplus of just a few million dollars in Sacramento Howard Jarvis climbed all over everybody,'We've got to cut taxes.' And that's when we got 'Proposition 13'. Saskatchewan has a Heritage Fund too, quite modest compared with Alberta's, but worth mentioning.

Then of course Canada has a high degree of separatism to overcome, for a variety of reasons which I'll let Canadians speak to. You're familiar of course with some of those problems.

Another difference is that populism is much stronger in Canada, western Canada especially, than it is in the United States— both left wing and right wing populism. We are now under the aegis of a government of right-wing populists called the Social Credit Party. Although the name sounds rather left-wingish, the party obviously isn't. And Bob Williams represents a left-wing populist party. Even the Conservatives are called 'Progressive' Conservatives in Alberta, and they collect a large amount of economic rent, more in fact than anyone else.

Shared Rent

But the most delightful distinction about Canadians is the strong and explicit recognition among almost everyone, even if he's an economist, who discusses this subject, that different resource endowments are the basis of inter-provincial differences. Equalisation in Canadian politics means sharing the economic rent. Everybody talks that way. Canadian economists even when they come to the States talk that way. Just as though rent were a permissible word in polite discourse. It's very refreshing. However there's a very selective attitude towards rent— towards what rents are shareable, I should say. Rents from oil and gas are fair game. Forest revenues are fair game. Mineral revenues of other kinds are fair game. Water power is fair game. But now how about the rents that are generated by the valuable lands of Montreal, or Toronto, or some of those other big and powerful cities in the east? They are not fair game. As a matter of fact, if you pore through the fine print of the equalisation law, which I did on the airplane, you find the most interesting exception to what's included in the formula, I'll explain the formula to you in a moment if you are still awake.

The formula says that the greater the capacity to raise taxes that a province enjoys, the less will be its equalisation payment. And various potential tax bases are included in this formula. And one of those is the property tax. But then you look at the fine print and only the improvements are included. The land is specifically excluded. Very peculiar. In the formula as it's commonly printed you don't see that exclusion; it's only in the footnote. But in the footnote it

says 'Instead of the value of land we will substitute the gross provincial product.' Of course, all right thinking people know that land value is in direct proportion to the growth of the provincial product. Or do they? I always thought that was the product of *other* inputs. What it means is that if a province has a great deal of valuable land which is not being used to a highest and best use, that valuable land will not be included in its potential tax base, and it can continue to get subventions from the federal government. Whereas on the other hand if its potential tax base includes oil and gas, then the revenues that it receives from that, or the ability it has to receive revenues from that, is counted against it in the sharing formula. So this is a very peculiar sort of rent sharing. Some rents are shared and others are not. You might even call it a conspiracy against Alberta. I'm sure that's the way they look at it.

Now another difference is the high degree of foreign ownership. Actually there's no higher degree of absentee ownership in Canada than there is in the United States but it is much more visible because it's international absentee ownership, whereas our absentee owners live in some other corner of the United States, at least some of them do, or in Canada— we have quite a few of them. Of course Hong Kong, Belgium, you name it. This high degree of absentee ownership, as Bob Williams more than hinted this morning, is one of the reasons for the success of the populist parties. They recognise property ownership is an alien phenomenon in some considerable measure and therefore a legitimate target for attack. Some economists say that the ideal taxpayer is a non-resident alien. In the case of these foreign owned resources you're getting pretty close.

Sharing Formula

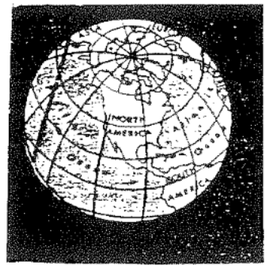
Now another thing about Canada is that it is a net exporter of these resources which are being shared and, because of this, price control is a major mechanism for sharing the rents. In short, the price of Alberta oil is being held down below free market levels and thus that economic rent, in part, is being shared with the consumers in the eastern part of the country. This works out well, coupled with a phenomenon that might be called negative dumping. (Dumping is when you sell things overseas for less than you sell them at home.) Canada is more rational, they sell them for more, especially in the United States. They even have export duty on oil. Of course if United States puts an import duty on, that's not fair.

Another characteristic is eastern population dominance. Alberta and British Columbia have the resources of Texas and California, without the votes, which makes them more vulnerable of course.

Now let's look at the sharing formula. The sharing formula in Canada is essentially based on population and potential tax base. And it can be made to look very complicated but I think I've boiled it down to its essence. You take a province's percentage of the population of Canada, and then you take the percentage of the tax base that it has, subtract that and that gives you another percentage. And then you multiply that times the total tax revenue that's collected throughout Canada from that tax source, and then you pay them that amount out of the provincial treasury. Let's give an example here. Let's say Alberta has, what, 7% of the population (don't make a liar out of me now for a percentage point)— this is only for illustration. Say it has 7% of the population and it has 85% of the oil and gas base. Well, you subtract 85% from 7%, you get 78%, minus 78%. Very important, minus 78%. And then you multiply that times the total amount of money that's collected by all the provinces from oil and gas, and well, what that means in effect is that Alberta doesn't get any money from the federal government. Now if it had worked out the other way, Say Prince Edward Island, and again these are hypothetical figures, (although I've got the real figures in here, but you don't want me to take the time to look them up), say it's got 8% of the population and 4% of the tax base, Then you subtract the 4 from the 8 and you get 4% and you multiply that times all the money that's collected from this tax base, and hypothetically say we're talking about oil and gas. Then 4% of that tax base is paid from Ottawa to Prince Edward Island to help them run their government. That is basically the equalisation formula. But you do it tax by tax, then you add them all up.

Now the way this works is: Prince Edward Island gets paid some money because their equalisation number came up positive. But if it comes out negative, as in the case of Alberta, that doesn't mean that they have to pay any money to Ottawa. It's strictly a one-way street. So who does pay this? Well, it's the general taxpayer. And that's what I meant of course when I said that this is a system where poor people in rich provinces subsidise rich people in poor provinces. But let me get back to that

in a moment. Now it helps us understand this if we look at the impact of the oil price revolution on this formula because it was originally set up before the oil price revolution. And then when that occurred it naturally changed the quantities.



Actually the difference in per capita income is not very great, personal income that is, as reported for tax purposes. The difference between Alberta and almost any other province in terms of oil revenues per capita is extremely great. So that's where most of the interprovincial differences come from, and therefore that's what triggers off most of the payments.

When the oil price revolution came it meant of course the oil rich provinces got a lot more money out of oil. The royalties went up. Leasehold sales brought more money, there was more profit from Crown corporations, which is a form of royalty as Bob Williams explained this morning. They also levy taxes on the industries in the normal way. All this increased the payments that were due to the have-not provinces, without increasing the contributions from the have provinces. Because, remember, this thing just works in one way. So the median taxpayer in Ontario got soaked because he, and median taxpayers everywhere who paid the federal tax bills, were called upon to increase their payments to the federal government so that the federal government could pay more money to the poor provinces.

Royalties

The next episode in this drama might be called 'the Empire strikes back', with John Turner as Darth Vader. This was back in '74 or so. He said, since these pesky western provinces are collecting so much economic rent from their Crown lands by raising their royalties and going up with the market, what we are now going to do is to fool them. We are going to say that these royalties are not deductibles for federal income tax purposes. And since all the provincial income taxes are piggyback on the the federal tax, or most of them, that also went for provincial income tax purposes. Thus in effect the provinces were penalised for this effort to collect economic rent at the provincial level. This had two objectives. The good reason and the obvious reason was to protect the federal revenues. But the subtler one, I think, was one of protecting the major rent barons by assuring that the provinces would not get carried away with raising their royalties. In effect, the provincial governments were being penalised by the federal government for raising royalties. And although in the short run this obviously damaged the lessees and they screamed bloody murder, in the not so long run it forced the provinces to back off on their royalties and it certainly forced them to sell their leaseholds for lower prices in the future. Those that hadn't yet been sold because the anticipation that the royalties would not be deductible. So as it was viewed in the western provinces, and I think correctly, this was an attempt on the part of the government in Ottawa to protect the absentee owners of western resources from provincial populism.

It must not be forgotten that John Turner got his training with the Bechtel Corporation, just like George Schultz, or perhaps with him.

It was at this time I think that the profit made by the British Columbia Petroleum Corporation that exported gas and extracted economic rent on the pipeline — that was recognised as a royalty and was not deductible. Price control of oil was made very stringent and the export tax on oil was imposed at a high level. Well, in that wonderful Canadian way, there was a compromise. There's always a compromise. The compromise here that affected Alberta especially was that the weight of oil in the equalisation formula was reduced in that the only revenues that were counted in the formula were revenues that were taken for current use, and when they put money into the Alberta Heritage Fund that wasn't counted. And that I suppose helps account for the build up of the Heritage Fund.

The conclusion of all this is that the Canadian system is really better in terms of its Georgist implications because the payments to the provinces, with all the faults that I've described, are essentially based on population. Population is in the formula. And if you compare this with the way things are done in the States, population plays a

very minor role in the formula for equalisation payments in the United States.

What To Do

Now, how should it be done? Well, there's a well known Georgist economist who figured this out a long time ago and wrote an article about it. His name is Colin Clark. There are two Colin Clarks extant. There's one in Vancouver, who is a Marxist mathematician turned resource economist, who's written some very interesting things, and I wouldn't criticise him for the world, especially if he's here. But he's not the one I'm referring to. The other one was a premature Arthur Laffer who wrote about 20 years ago that once a government took 25% of GNP, that was an upper limit on taxation. And he made a great name for himself writing that, and it's probably not true, but that's how he became famous. But aside from becoming famous, he's a very good Georgist economist. He came up with a plan for collecting economic rent at the federal level, and he said what we really should do, and this I think is the ultimate equalisation payment, is we should classify local jurisdictions according to land value per capita, and those that have the least land value per capita, we'll leave all of that land value for them to use for local purposes. But then we will graduate the federal land tax according to the amount of land value per capita in the jurisdiction, and thus we will have a federal tax that automatically achieves inter-regional equity, without all this razzmatazz that I've been describing about inter-regional equalisation payments.

Link Printing Pty. Ltd., 145 Darling Street, Balmain