

## CANADIAN MATTERS: A TRIBUTE TO RICHARD BIRD

*Enid Slack, University of Toronto*

*François Vaillancourt, Université de Montréal*

**W**E ARE DELIGHTED TO HAVE THE OPPORTUNITY to honor Richard Bird as he receives the Daniel M. Holland Medal for “distinguished lifetime contributions to the study of the theory and practice of public finance.” Although the other authors who are honoring Richard may have known him longer than we have, we are the only ones who are from north of the 49<sup>th</sup> parallel and, indeed, Enid is the only one who was a student of Richard’s. François has coedited two books of readings and coauthored eight papers with Richard, including the only one in French in his CV. Enid has coauthored 3 books, coedited 1 book, and coauthored 19 papers. We are not sure what all this collaboration shows – patience on Richard’s part or self-interest on ours!

François first met Richard in 1980 when Richard was acting as an informal director of economic research for the Canadian Tax Foundation and François was just starting his research in public finance. Richard strongly encouraged François to pursue his work on Canadian public finance – and François did. Ten years later, Richard launched François’ international work by recommending him to the World Bank to work in Morocco. Richard sometimes refers to himself as François’ travel agent.

Enid first met Richard in 1974. When she came to the University of Toronto as a graduate student in 1972, Richard was serving as Chief of the Tax Policy Division at the IMF’s Department of Fiscal Affairs. His reputation preceded him and Enid remembers being quite intimidated when she approached him to supervise her thesis. He suggested that they coauthor a book on residential property taxes, which they did (Bird and Slack, 1978). Enid really owes the completion of her thesis to Richard’s wife, Marcia, however. Marcia told her that Richard had a million ideas for books and articles and she simply had to say no to these diversions and get her thesis done!

After more than 30 years of working with Richard, we continue to be impressed by the breadth of his knowledge, the range of his interests, the quality of his analysis, the clarity of his prose, and the sheer volume of his writing. Richard not only sets high

standards but he also provides a wonderful example to others and gives genuine encouragement to so many people. He has been a true mentor.

### CANADIAN CONTRIBUTIONS

Richard is probably best known for his international contributions (having worked in about 50 countries), but we want to focus on the important contribution he has made in his own country. We recognize, of course, that Richard’s work is not that easily separated into what is Canadian and what is not – there is much overlap. Nevertheless, we will focus on three major areas in Canadian public finance – taxation, fiscal federalism, and urban public finance.

When we looked at Richard’s many books and articles on public finance in Canada, we were struck by three things. First, Richard’s contributions to public policy in Canada (as elsewhere) result from his ability to combine general theory with institutional realities and politics. Richard always questions whether economic theories are appropriate in different institutional settings and whether policies can be implemented in different contexts. That context includes, for example, the importance of administrative limitations. As Richard shares the belief that tax administration is tax policy. The result is that Richard provides policy advice that is relevant to the circumstances at hand and can actually be implemented.

Second, Richard has the capacity to stand back when he analyzes issues and come up with new ways of doing things that others have not suggested. In other words, he does not always follow the conventional approach.

Third, his Canadian experience has informed his international work and his international experience has informed his Canadian writing. On many topics, the Canadian experience provides useful guidance; on others, the Canadian experience provides an example of what not to do.

One final point: Richard has always attempted to ensure a wide dissemination of the content of his work. Work carried out for a government that led to an obscure report, for example, is also circulated

to a wider audience as a journal article or chapter of a book. In this way, he has ensured that policy makers from a variety of backgrounds (economists, lawyers, and politicians) and from many countries gain access to his ideas. No work is ever buried; no ideas are ever wasted.

### TAXATION

Richard has written on various topics in taxation in Canada. One of his first monographs was about tax reform and private philanthropy (Bird and Bucovetsky, 1976). The paper examines various aspects of the tax treatment of philanthropy at a time of turmoil in the taxation of bequests in Canada following the introduction of capital gains taxation with deemed realization at death and the abolition of death taxes. In this paper, we begin to see the hallmarks of Richard's work. First, he gets the numbers right. The first section of the paper is devoted to measuring the amount of private philanthropy in Canada with a detailed discussion of the various data sources available. Second, the clarity of prose makes the paper widely accessible. Third, the graceful aging...of the paper...means that many of the points raised are still relevant today. Indeed, the comment that "the whole episode illustrates the importance of fiscal psychology as well as economic fact in the design, presentation, and implementation of tax reforms" (p. 41) is still very relevant today.

He comes back to some of these issues in Bird (1991) when he examines, for Canadians, the international use of personal wealth taxation. In that paper, he suggests that wealth taxes were sacrificed to the desire for tax reduction that came to the fore in the 1980s. Of interest to those working in federal states, he queries if subnational governments can maintain wealth taxes in the absence of federal wealth taxes.

In the early 1980s, Richard returns to an old topic of interest to him: taxation and investment (Bird, 1980), first addressed in his Ph.D. thesis (Bird, 1961) and re-examined in the context of regional development (Bird, 1969). In this work, he develops an interesting taxonomy of incentives. Richard also demonstrates the three themes outlined above. For example, he writes that "a much closer look at the political economy of incentive policy seems desirable" (p. 58). He also says that "most business decisions are not made in the perfectly competitive world of the economic theorist,

and it serves no useful purpose to pretend that they are" (p. 27). Finally, the systematic use of references to a wide range of international studies shows the value for Canada of Richard's international experience.

Richard examines tax incentives in general but also as they apply to specific sectors, for example, the film industry (Bird, Bucovetsky, and Yatchew, 1985). The film sector is of special interest to Canadians who live in the shadow of the American film industry. The paper was written with the purpose of drawing lessons from a Canadian policy measure that could be useful to other countries.<sup>1</sup> The paper provides a cost-benefit analysis of the policy. The key difficulty is determining the goal of the policy -- to promote the production of films in Canada or to increase the number of films with a Canadian theme. One interesting finding of the paper is that, although "tax incentives may sometimes be the preferred way to achieve certain goals...attempts to direct tax incentives too narrowly ...run the risk of restricting private initiative as to remove what is, in the end, the major virtue of the tax incentive approach; namely that government does not decide how much gets spent on what" (p. 417).

Richard has written little on personal taxation as such. One issue he addressed (Bird and Slack, 1983) was the taxation of residents of Northern Territories where the authors criticized a federal proposal that favored in-kind benefits and proposed a simple, yet elegant, solution of spatially differentiated personal exemptions.

As will be shown in the next section, Richard wrote at length on taxation in the Canadian federal context. It is thus appropriate to end this brief overview by noting a paper by Bird and Brean (1986) on unitary taxation. In that paper, they show that lessons from federal states with respect to subnational apportionment formulas may well be useful at the international level.

### FISCAL FEDERALISM

Another work by Richard that illustrates the three themes noted above is a book on *Federal Finance in Comparative Perspective* (Bird, 1986). Referred to by Richard as his "old man and the sea" (p. x), it presents a wealth of knowledge on federations other than Canada. Richard makes the key point (obvious some will say but then why so often neglected?) that meaningful comparisons must focus on specific points and be informed

by the institutional context. Richard writes that “since every country is both unique and in some sense constitutes an organic unity, it is only by close study of the whole range of its problems and institutions that an observer can come to appreciate the peculiar characteristics that stem from the interdependence and historical evolution of those institutions, including of course the system of federal finance” (p. 11). An interesting aspect of this book, particularly in light of more recent work by authors such as Ebel and Yilmaz (2002), is the careful discussion of what it means to measure decentralization.

Richard concludes that “a federation is a political creation... its peculiar variety of fiscal federalism must therefore be understood and assessed within a political framework. The two most important characteristics of fiscal federalism are, therefore, who determines the rules of the game and how are these rules changed -- all else follows” (p. 246). He comes back to comparative federalism for Canadian readers in Bird (1994).

Richard examines the issue of tax assignment in Canada in various papers (Bird, 1993a, 1993b, 1994, and Bird and Mintz, 2000). In his earlier work, he was pessimistic about both the likelihood of VAT-like taxes working at the provincial level and of provinces giving up capital and corporate income taxes. With respect to corporate income taxes, he notes that to the extent that corporations derive services from provinces, it is reasonable for them to tax corporations. To the extent that businesses (and their non-resident owners or customers) benefit from the services provided by provincial governments, there is a strong efficiency case for taxing them. Work with Gendron (Bird and Gendron, 1998) shows that, after examining the Canadian experience with the presence of the Canadian national VAT, introduced in 1991 as the Goods and Service Tax (GST) and a subnational VAT with Québec levying it as of July 1992 in place of an RST, Richard concludes that well-designed subnational VATs could work. This finding has been well received by international experts and reflects the capacity to both look carefully at the facts and to come up with new solutions.

On the second point, he and Jack Mintz propose a business value tax (Bird and Mintz, 2000) that both improves the efficiency of taxation of business activities and allows for efficient subnational taxation of businesses without using capital or corporate income taxes. This proposal takes into account

that “there is both an economic (benefit) case for some regional and local taxation of business and, it seems, often an overwhelming political need for local leaders to impose such taxes” (p. 289).

Another theme taken up by Richard is the perspective used to examine federations: fiscal federalism or federal finance (Bird, 1984, and Bird and Chen, 1998). In the 1984 paper, he reviews papers on economic union and tax harmonization. He ends with an explicit and elegant *cri du coeur*: “much of the economic contribution to the ongoing discussion of federal finance and economic union in Canada, ... (shows) that... there are real and important issues in discussions of federal finance that cannot be fit neatly into the relatively empty box of the theory of multi-level finance” (p. 262). In the paper with Chen, similar conclusions are drawn about the applicability of federal finance and fiscal federalism models to federal-provincial relations in Canada: “we have provided some broad evidence to support the case for applying the *federal finance* label to federal-provincial fiscal relations” (p. 69).

An additional conclusion is that the application of the fiscal federalism label to provincial-local fiscal relations, while correct, may not be tenable in the long run due to the concentration of international migrants in the urban areas of Toronto and Vancouver. This explicit comment on the role of migration in financial relations can be seen as a first example of an interest in addressing in greater depth less standard (if such a label can be applied to intergovernmental finance) issues in recent papers with Vaillancourt (Bird and Vaillancourt, 2001, 2006). The first paper examines how financial mechanisms help maintain Canada whole; the second paper departs from financial issues to examine three changes in Canada: tax sharing (a success), constitutional reforms (a failure), and securities and exchange regulations (inertia).

#### URBAN PUBLIC FINANCE

Summarizing all of Richard’s work on urban public finance is not that easy because of the breadth of his work. He has coauthored a book on urban public finance in Canada (Bird and Slack, 1993) and written on a variety of topics. Although Richard is probably best known for his books and articles on property taxes (both in Canada and internationally), he has also written about user fees, development charges (impact fees), municipal bor-

rowing, municipal expenditures, and metropolitan governance.

### Property Taxes

In his early work on the property tax in Canada, Richard questions the application of the new view of property tax incidence in the Canadian context (Bird, 1976a). Richard concludes that the unmodified new view is clearly wrong for Canada because, Canada is, relative to the United States, an economically small country and one which is very open. Capital is highly mobile across the border, which means that the rate of return on capital in Canada is probably set in a fundamental way by that in the United States.

Notwithstanding all of his work on the incidence of the property tax, Richard concludes (Bird, 1976a) that the “most sensible attitude to property tax incidence is probably that of the agnostic rather than the true believer in one or the other creed” (p. 331). It doesn’t matter, though, because the search for a single answer to a complex question is a “useless and misleading search anyway” (p. 331) and one’s view of equity depends largely on what one thinks of the property tax in the first place (Bird and Slack, 2004). He does have useful advice for policy makers, however. Regardless of what one thinks of the property tax in theory, the way in which the tax is actually administered remains vitally important, not only to the actual incidence of the tax but also to how citizens perceive the tax, and consequently to how they react to proposals to change its role in the fiscal system. In terms of incidence, he suggests that policy makers pursue policies that would be desirable whatever the incidence of the tax, such as administrative reforms and policies to alleviate financial stress in certain groups of the population.

Richard has always argued that the property tax is a good tax for local governments. Yet his support for property taxes is not unconditional. He argues that the tax is surprisingly difficult and costly to administer, for example. He recognizes that valuation is an art, not a science, and there is much room for discretion and argument with respect to the determination of the base of the tax. It is particularly difficult to administer the tax equitably in a rapidly changing environment, and it is always difficult to increase revenues from this source very much or very quickly.

The practicality of how to reform property taxes is a theme to which Richard and Enid return in

subsequent publications (Bird and Slack, 1978; Bird and Slack, 1981; and Bird and Slack, 2004). International experience as well as experience with property tax reform in at least one Canadian province (Ontario) led these authors to conclude that the implementation of property tax reform requires strong tax administration and taxpayer support. Taxpayers need to feel that they are receiving adequate services and that the process of taxing property is fair and accountable. The Ontario experience with property tax reform, in particular, shows that moving to a fairer system is difficult because it invariably means shifts in taxes among taxpayers (Bird and Slack, 1981). The longer the reform is delayed, the bigger the shifts needed and the stronger the reactions from those adversely affected. The Canadian experience with tax reform has influenced Richard’s international work (for example, it is harder to reform taxes when reform is delayed); his international experience on property taxes has also influenced his recommendations for Canada (for example, the need for local governments to set their own tax rates for local autonomy and accountability).

### User Fees

With respect to user charges, Richard argues that it is not only important to impose them where appropriate but it is also important to get the prices right (Bird, 1976b; Bird and Tsiopoulos, 1997; Bird, 2001). “Getting the prices right” is a theme revisited in many of Richard’s papers, not only his papers on user fees but also his work on other municipal revenues.

In his work on user fees, he provides a comprehensive analysis of various forms of public sector pricing and provides advice on which public sector activities should be charged for and what charges should be imposed. Once again, Richard combines economic theory and institutional realities. After setting out how user charges should be structured, for example, he recognizes that prices set by public agencies inevitably reflect the outcome of a political and administrative process (Bird, 2001). He also recognizes the need to set prices correctly, particularly since public sector prices are so difficult to change once they have been set.

Since user charges are inevitably determined at the political level, at least to some extent, he stresses the importance of consultation with those

affected by the charge and a review by the public to ensure that the charges are reasonable and acceptable (Bird, 2001). To do this, he sets out five principles to follow: first, clearly set out the parameters within which individual public sector managers can determine prices; second, provide incentives for managers to impose efficient charges; third, if prices are set by a particular agency or are subject to central review, the principles that will provide the review need to be clearly stated; fourth, the relevant public interest is the public at large and not just those who pay the charges; and fifth, there is a need to address the public perception that charges are unfair or regressive. This latter principle requires a study of the distributional effects of the particular charge. If the charge is not regressive, this result needs to be communicated; if it is regressive, it is necessary to demonstrate how this impact will be addressed (e.g., through lifeline pricing schemes). Richard concludes that “close attention to such political-economy issues is often the key to public acceptance of more rational policies on user charges” (p. 182).

### Municipal Borrowing

In two papers with Almos Tassonyi, the authors use Canadian experience with borrowing at the provincial and local levels to illustrate how market and politics will lead to the same result as a hierarchical rules-driven approach to borrowing (Bird and Tassonyi, 2001, 2003). Canada offers a clear example of the strength of market and political budget constraints in the face of very soft – indeed, nonexistent – hierarchical constraints at the provincial level. Generally prudent fiscal behavior “has become an institutionalized norm in Canada, in part because fiscal profligacy ... has not proven an effective long-run electoral strategy” (2003, p. 113). Canada also offers an equally clear example of almost the opposite in the highly controlled and tightly constrained world of local government, however. Both systems were largely effective in coping with recent crises. Countries, like individuals, may learn from experience and inculcate norms of behavior that constrain their actions even when none of the more obvious forms of hard budget constraints would seem to be applicable at the margin. These two papers on institutions in Canada have informed the literature on fiscal federalism by providing new insights on the relationships between levels of government.

### CONCLUDING COMMENTS

It would not be right to end a discussion of Richard’s contribution to Canadian public finance without recognizing some of the classic books he has written on the growth of government spending (Bird, 1970), financing Canadian government (Bird, 1979), the growth of government employment (Bird, Bucovetsky, and Foot, 1979), and the Canadian edition of *Public Finance* (Musgrave, Musgrave, and Bird, 1987), which was a standard textbook for many years. As Richard will tell you, “life is seldom really simple, however; certainly not the life of anyone who tries to work with Canadian public sector data.” These books, which were really among the first to tackle the data on expenditures and revenues (or lack of data), are classics in public finance in Canada.

Richard’s influence on tax policy in Canada and elsewhere is the result of his ability to understand not only the economics but also the politics and institutional framework in which policy is being made. In an article he wrote with Michael Smart a few years ago (Bird and Smart, 2001), the authors suggest that tax economists who want to influence public policy have to do three things. First, they need to pay more attention to the issues that motivate policy makers. For example, policy makers are interested in distributional considerations and economists have to be too. Second, economists need to understand the political economy of taxation if they are to understand how economic analyses of tax issues are likely to be perceived to affect policy outcomes. In other words, tax policy is not just about economics, it is also about politics. Third, economists have to write in a way, and in a forum, that will come to the notice of policy makers. Indeed, Richard has followed his own advice and that is why his contributions to Canadian public finance are so important. Richard sometimes argues in informal discussion that he has done little work on Canada and that it has had little impact on public policy. We believe that this review of his extensive body of work on Canada, or for Canada, convincingly demonstrates otherwise.

### Note

- <sup>1</sup> Twenty years later, this issue is still relevant with Canada a key proponent of the cultural exception in trade liberalization policies (see [http://www.unesco.org/culture/industries/trade/html\\_eng/question.shtml](http://www.unesco.org/culture/industries/trade/html_eng/question.shtml) for more information on the cultural exception).

## References

- Bird, Richard, M.  
Initial and Investment Allowances under the British Income Tax and Countercyclical Policy. PhD diss., Columbia University, New York, 1961.
- Tax Incentives for Regional Development. In *Proceedings of the 21<sup>st</sup> Tax Conference*. Toronto: Canadian Tax Foundation, 1969, pp. 192-199.
- The Growth of Government Spending in Canada*. Toronto: Canadian Tax Foundation, 1970.
- The Incidence of the Property Tax: Old Wine in New Bottles? *Canadian Public Policy* 2: (1976a): 323-334.
- Charging for Public Services: A New Look at an Old Idea*. Toronto: Canadian Tax Foundation, 1976b.
- Financing Canadian Government: A Quantitative Overview*. Toronto: Canadian Tax Foundation, 1979.
- Tax Incentives for Investment: The State of the Art*. Toronto: Canadian Tax Foundation, 1980.
- Tax Harmonization and Federal Finance: A Perspective on Recent Canadian Discussion. *Canadian Public Policy* 10 (1984): 253-266.
- Federal Finance in Comparative Perspective*. Toronto: Canadian Tax Foundation, 1986.
- The Taxation of Personal Wealth in International Perspective. *Canadian Public Policy* 17 (September 1991): 322-334.
- Federal-Provincial Taxation in the 1990s: Should Taxes Be Reassigned?" In Roy D. Hogg and Jack M. Mintz, eds. *Tax Policy for Turbulent Times*. Kingston, ON.: John Deutsch Institute for the Study of Economic Policy, 1993a, pp. 33-53.
- Federal-Provincial Taxation in Turbulent Times. *Canadian Public Administration* 36 (Winter 1993b): 479-96.
- A Comparative Perspective on Federal Finance. In Keith G. Banting, Douglas M. Brown, and Thomas J. Courchene, eds. *The Future of Fiscal Federalism*. Kingston, ON: School for Policy Studies, Queen's University, 1994, pp. 293-322.
- User Charges in Local Government Finance. In Richard Stren and Maria Emilia Freire, eds. *The Challenge of Urban Government*. Washington, D.C.: World Bank Institute, 2001, pp. 171-812.
- Bird, Richard, M. and Meyer W. Bucovetsky *Canadian Tax Reform and Private Philanthropy*. Toronto: Canadian Tax Foundation, 1976.
- Bird, Richard, M. and Donald J .S. Brean. The Interjurisdictional Allocation of Income and the Unitary Tax Debate. *Canadian Tax Journal* 34 (November-December 1986): 1377-1416.
- Bird, Richard, M., Meyer W. Bucovetsky, and David K. Foot. *The Growth of Public Employment in Canada*. Toronto: Butterworth & Co. (Canada) Ltd. for the Institute for Research on Public Policy, 1979.
- Bird, Richard, M., Meyer Bucovetsky, and Adonis Yatchew. Tax Incentives for Film Production: The Canadian Experience. *Public Finance Quarterly* 13 (1985): 396-421.
- Bird, Richard, M. and Duanjie Chen. Federal Finance and Fiscal Federalism: The Two Worlds of Canadian Public Finance. *Canadian Public Administration* 41 (Spring 1998): 51-74.
- Bird, Richard, M. and Pierre-Pascal Gendron. Dual VATS and Cross Border Trade: Two Problems, One Solution. *International Tax and Public Finance* 5 (1998): 429-442.
- Bird, Richard, M. and Jack Mintz. Tax Assignment in Canada: A Modest Proposal. In Harvey Lazar, ed. *The State of the Federation, 2000-01: Toward a New Mission Statement for Canadian Fiscal Federalism*. Montreal: McGill-Queen's University Press for School of Policy Studies, Queen's University, 2000, pp. 263-292.
- Bird, Richard, M. and Enid Slack. *Residential Property Tax Relief in Ontario*. Toronto: University of Toronto Press for Ontario Economic Council, 1978.
- Can Property Taxes Be Reformed? Reflections on the Ontario Experience. *Canadian Public Administration* 24 (Fall 1981): 366-385.
- The Taxation of Northern Allowances. *Canadian Tax Journal* 31 (1983): 783-797.
- Urban Public Finance in Canada*. 2<sup>nd</sup> ed. Toronto: John Wiley and Sons, 1993.
- International Handbook of Land and Property Taxation*. Cheltenham, UK and Northampton, MA: Edward Elgar, 2004.
- Bird, Richard, M. and Michael Smart. Tax Policy and Tax Research in Canada. In Patrick Grady and Andrew Sharpe, eds. *The State of Economics in Canada*. Montreal: McGill-Queen's University Press, 2001, pp. 59-78.
- Bird, Richard, M. and Almos Tassonyi. Constraints on Provincial and Municipal Borrowing in Canada: Markets, Rules, and Norms. *Canadian Public Administration* 44 (Spring 2001): 84-109.
- Constraining Subnational Fiscal Behavior in Canada: Different Approaches, Similar Results? In Jonathan A. Rodden, Gunnar S. Eskeland and Jennie Litvack, eds. *Fiscal Decentralization and the Challenge of Hard Budget Constraint*. Cambridge: MA: MIT Press, 2003.
- Bird, Richard, M. and Thomas Tsiopoulos. User Charges for Public Services: Potentials and Problems. *Canadian Tax Journal* 45 (1997): 25-86.
- Bird, Richard, M. and François Vaillancourt. The Role of Intergovernmental Fiscal Arrangements in Maintaining an Effective State in Canada. In Richard, M. Bird and T. Stauffer, eds. *Intergovernmental Fiscal Relations in Fragmented Societies*. Fribourg: Institut du fédéralisme, 2001, pp. 189-230.

- Changing with the Times: Success, Failure and Inertia in Canadian Federal Arrangements, 1945-2002. In Jessica Wallack and T.N. Srinivasan, eds. *Federalism and Economic Reform International Perspectives*. New York: Cambridge University Press, 2006, pp. 189-248.
- Ebel, Robert and Serdar Yilmaz. On the Measurement and Impact of Fiscal Decentralization. New York: World Bank Institute, 2002. WB Policy Research Working Paper 2809.
- Musgrave, Richard A., Peggy B. Musgrave, and Richard Bird. *Public Finance in Theory and Practice*. Toronto: McGraw-Hill Ryerson, 1987.