J. F. Graham
(1924-1990)

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Public Policy and the Work of John F. Graham*

This paper is neither a biography of John Graham nor a complete bibliographical treatment of his written work. Nor is it a critique of his contribution to the literature of economic and public policy, nor an assessment of the impact of his writings on public policy. Its limited aim is to identify some key landmarks among his range of publications, to indicate briefly what they say, and to draw together some themes, concepts and influences that permeate his work.

To indicate at the outset the drift of this discussion, on my reading of the evidence Professor Graham's economic interests tended to narrow over time, but his non-economic interests in political, philosophical and cultural concerns broadened out with the passage of time. This way of looking at his career is not completely satisfactory, not least because he would probably reject out of hand my characterization of what is economic and what is non-economic, but it is helpful to me in thinking about his career as an economist working in Atlantic Canada, and has influenced my discussion of his work.

On a personal note, I was an economics student at Dalhousie from 1952 to 1956 and attended three classes taught by Professor Graham. Subsequently, in 1961 I joined the Department of Economics at Dalhousie University of which John Graham was Head and was a colleague of his

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in that Department from that date. He was a man of integrity, highly principled, and one who refused to cut corners. He was also a fine teacher, colleague and friend. Young economists at Dalhousie and elsewhere have expressed their appreciation for his continuous support and encouragement.

John Graham was born in Calgary, Alberta and attended the University of British Columbia and Columbia University. He joined the Department of Economics at Dalhousie University in 1949 and was Head of the Department from 1960-69, during its period of most rapid growth. He was a conscientious teacher, and took on many administrative and committee roles at Dalhousie and within the social science community in Canada. Much could be said of these contributions, but I will focus these remarks on his writings and work as an economist.

The list of John Graham's scholarly writings cover a large number of pages and runs to well over 50 items, ranging from books to Royal Commissions to Presidential addresses. Among these I have chosen 6 items to comment upon briefly before seeking out some common themes.

John Graham's field of special interest was public finance, and within that field he concentrated upon the theory of intergovernmental fiscal relations. A key publication which set the stage for his later theoretical and applied work is his book, *Fiscal Adjustment and Economic Development: A Case Study of Nova Scotia* published by the University of Toronto Press in 1963. It is a deceptive book, which I believe caused some confusion among reviewers, since the first six chapters—170 pages in a 260 page book—are a prelude to the underlying core of the book, and indeed to John Graham's lifelong interest in transfers between levels of government. That is not to say the first six chapters are lacking in interest—they contain a wealth of detail on Nova Scotia's economic history and then current economic situation, detail which is based on a careful reading of the relevant documents and on a series of interviews with well placed civil servants and others knowledgeable about local conditions. As a methodological digression, John Graham saw great merit in talking to other people, not just for his 1963 book but throughout his life. I do not think we impress upon our students the importance of such communication in advancing knowledge of a subject.

As an example of the detail in the book, consider the following:

> A fisherman buying a longliner (a versatile boat about 50-60 feet in length, which can be used for offshore fishing) costing $35,000, can get a federal subsidy of almost $9000 (at $165 per ton), a provincial loan of $19,700, and supply a down payment of only $6300 for the balance. (112)

And that is not an isolated example.

The core idea in the book is the development of the concept of fiscal equity to include provincial-municipal financial arrangements, fiscal equity of course being the principal that

> calls for equal fiscal treatment of similarly situated individuals in the different municipalities of the province. The criterion [of fiscal equity] would be met if, regardless of where he lived in the province, an individual would receive the same public services and would incur the same tax burdens with respect to his given income, wealth, expenditure and whatever other tax bases were used. (195)

The principle of fiscal equity is, in John Graham's analysis, necessary in order for an economy to be efficient: if fiscal equity does not prevail, individuals will be induced to migrate to other jurisdictions where net fiscal benefits are higher, regardless of whether their own contribution to output will be higher in the new location. The principle of fiscal equity is thus an economist's Midas touch: far from efficiency and equity being traded off, they are complementary. In this book John Graham worked out in detail what a system of fiscal equity would look like in Nova Scotia. (If you want to see the level of detail involved, look at p. 207 in the book). One strong conclusion from his analysis is that the province should provide conditional grants to municipalities to fund what he calls general services—such things as education and health—and unconditional grants to fund local services—such things as water and fire protection (242), although in an earlier discussion he suggests that "only the complete assumption of services once performed by the municipalities, is fully in accord with the principle of fiscal equity." As will be seen, in subsequent work some of these conclusions were modified.

My next item is the report of *Royal Commission on Finance and Municipal Taxation in New Brunswick*, 1963, to which John Graham served as a consultant and contributed seven chapters to the Report (known as the Byrne Commission—John's turn was to come.) The Byrne Commission was an important document in the history of New Brunswick, well documented by Della Stanley in her book, *Louis Robichaud—A Decade of Power*. The Province introduced 130 bills to implement portions of the Report—large parts of it were not accepted—so it is not easy to summarize. It is sufficient to note that it incorporated the distinction between general and local services, argued that the Province take over control of education, health, hospitals, social welfare and justice, and proposed a system of grants to municipalities based on the fiscal equity principle.

In 1971 John Graham gave the Presidential Address to the Canadian Economics Association, a speech entitled "Chez Who"? and subsequently printed in the *Canadian Journal of Economics* in November 1971. It is one of two pieces I would recommend for anyone not familiar with John Graham's work who would like to sample it: the other is his piece on the property tax in a recent volume to which I will make reference later on. Let me quote a few passages from his Presidential address.

> My main point is that our present economic system works poorly for society, and that we as economists are doing very little to develop a system that will work well, because of our preoccupation with making patchwork adjustments within an unchallenged and unsuitable framework. We have a relatively productive economy that could without great effort be made more productive. Yet, in addition to our present bizarre performance and policy—I refer to our ridiculous short-run position of high unemployment engendered in part by an inflation psychosis on the part of our government—we have a combination of long-run failures; slow growth in productivity; a high degree of chronic poverty; rapid, poorly planned urbanization that imprisons people in almost intolerable conditions in nondescript or ugly cities; inadequate housing for many Canadians; chronic regional unemployment and underemployment; inordinately wasteful industrial conflict; alarming contamination of our environment; an inefficient industrial structure, to name a few.

> We have a good deal of talk about economic policy, and some good policy formulation in particular areas, often in response to crises, but no clear framework of objectives that would permit the coherent development of policy and very little effort on the part of economists to help establish that framework. It is not surprising that economists have made such a meagre contribution to and had such a small influence on policy. They have not had very much to say, except to ring the changes on a tired structure of institutions and theory.

> I think the explanation for our failures lies partly in the central role in economic theory of marginal analysis. This powerful device probably contributes more than any other analytical concept to give our discipline its refinement and precision. Yet the pre-eminence has also led to a blinding preoccupation with minutiae and nit picking.

John Graham's indebtedness to George Grant, the philosopher, is made clear in this article (and elsewhere), as is his attachment to the work of John Stuart Mill, whom he quotes as follows in the end of his speech. "When an object is to raise the permanent condition of a people, small means do not produce small effects; they produce no effect at all" (440).

In 1971, the same year as his Presidential address, John Graham began a three-year term as Chairman of the *Nova Scotia Royal Commission on Education, Public Services and Provincial-Municipal Relations*. The Report of the Royal Commission—the Graham Report—is a collaborative work by the Commission members and the staff, and even though John Graham acted as editor and was responsible for much of the conception and writing, it cannot of course be regarded as his work exclusively. Incidentally, the Report ran to 10 volumes and covered 6,740 pages. Needless to say, only the very tips of the highest icebergs can be described here.

The Report recommends that the municipal structure of Nova Scotia consisting of 3 cities, 38 towns and 24 rural municipalities be reduced to 11 single tier governmental units to be known as counties. These counties would be responsible for providing local services, funded by a residential property tax and equalization payments from the province based on the fiscal equity principle. The province would assume control of the non-residential property tax, and be responsible for funding general services to a standard level, the counties being responsible for the administration of these funds in, say, the area of education. Local improvement charges and user fees would complement the fiscal system, as appropriate. Obviously, there is much more, but this bald summary does indicate the radical nature of the changes proposed: "small means . . . produce no effect at all."

The Report was too radical, as it turned out. A prescient social commentator noted about a decade earlier that

> the [municipal] localities, with their function, have become so cemented in the political fabric of the province, that major alterations in their

> powers are not to be taken lightly by the citizenry of the province. It would not be easy, for example, to merge two small rural municipalities, even if obvious gains in administrative efficiency would ensue. (192)

The commentator, of course, is none other than John Graham himself in his 1963 book.

In 1986 John Graham presented a paper to the Atlantic Canada Economics Association in which he assessed the results of the Graham Report ("Local Government Finance: Theory and Policy in the Recent Nova Scotia Context"). In this paper, the assessment was made that the eleven-county structure was recommended to "internalize the externalities" involved in public goods, by ensuring that the province was responsible for general services which had province wide spillover effects, and the new counties would have responsibility for local services which had county-wide spillover effects. He also reiterated the equity basis of the proposals. His conclusion regarding the failure to implement the Report as a whole is worth quoting at some length.

> In the event, the provincial government chose not to implement the report as a package. In spite of a number of reforms, some of which are substantial and commendable in themselves and some of which may be linked to recommendations in the report, the situation remains essentially as described by the Commission, as summarized earlier in this article. That is, the province still has a fragmented municipal structure that is ill-equipped for the planning and provision of local services, which are virtually all regional in character, and the municipalities still have substantial mandatory responsibilities for general services, with very little local autonomy in their provision. In my own judgement, the comprehensive and integrated recommendations in the report and the rationale on which they are based are as valid today as they were twelve years ago when the report was issued.
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> Some recommendations have been adopted piecemeal. For example, the province has assumed full responsibility for assessment of property. Under the *Municipal Grants Act* that came into effect in 1980, it has revised its programme of unconditional grants to the municipalities in accordance with the recommended equalization formula, indeed with some improvements on that formula. However, as a cost control measure, the province limited the total increase in these grants to the percentage increase in total provincial revenues. This measure, while maintaining the principle of revenue sharing, meant that the formula became a formula for

distribution of the total grant, so determined, rather than being a formula for open-ended and full equalization as the Commission proposed.

Thus, it is evident that some of the Report's recommendations have been implemented, in one way or another. Moreover, it is impossible to record fully the extent to which the Report has influenced policy indirectly. But there has been little change in the field of social services; and escalating municipal costs of homes for special care have been a particular concern of the municipalities. Likewise, there has been little change in the quite limited municipal responsibility for health care, although there has been some reduction in municipal responsibility for capital costs of hospitals.

In his brief review, "The Graham Report—Ten Years After," already referred to, John Cameron concludes: "This brief review should show that even measured in terms of specific recommendations adopted, the Graham Report was far from a dead letter. However, that is not its main contribution. It engendered a general acceptance of the need of reforming municipal government, a process which continues with the new provincial-municipal consultative mechanism being established by the Minister of Municipal Affairs [including the joint Municipal/Provincial Task Force, and more recently, the Fact Finding Committee]. From the vantage of ten years after, the co-operative spirit and willingness of both sides to change, and co-operate in change, may be the Commission's most valuable legacy." Cameron is right to emphasize the accomplishments, and these should not be under-rated. Even so, the shortcomings are considerable.

In addition to New Brunswick and Nova Scotia, John Graham had "lesser involvement" with similar commissions on public finance in Newfoundland, Ontario and British Columbia. Rather than pursue these threads, however, it seems best to jump to his paper on the property tax, "The Place of the Property Tax in the Fiscal System," in the recent volume edited by Lorraine Eden. This is a clear and pervasive treatment of a complex tax question, a question that occupied John Graham's attention throughout his professional career. The paper distinguishes between the Old View of the property tax (that the tax is subject to little shifting and is a regressive tax) and the New View (the property tax lowers the rate of return on all capital throughout the country and, since capital is owned by the richer segments of society, the tax is progressive). The article opts for the Old View

try to tell the hard-pressed pensioners striving to meet their property tax bill that they are not bearing the tax, but that it is borne by and is

> progressively distributed among all capital owners throughout the land in proportion to the value of their capital! (155)

The paper has themes that link it to his 1963 book—the distinction between general and local services (not universally accepted in the literature) and the importance of fiscal equity and equalization payments. The key theoretical proposition developed is that the public goods and merit goods attributes of municipal services render inappropriate the concept of user payer or a narrowly conceived benefit principle in paying for these municipal services. The property tax is seen as an equitable tax to use to finance local services, since citizens collectively should pay for these services from which they benefit, and since by and large residents in higher valued properties have a greater ability to pay. Professor Irwin Gillespie, in a comment on the paper, notes the "intertwining of theory and practice" it contains—a common feature of John Graham's work. He concludes that "the strength of the paper is the development of a comprehensive conceptual framework that stresses the crucial link between the spending and financing of the local-provincial level" (73).

John Graham's output of published work ranges over a much wider range of topics than those considered briefly here—from Maritime Union to national unity, from financing of postsecondary education to pollution control, from equalization formulae to academic freedom, from regional development to the prospects of modern capitalism in Canada. He has something of interest to say in all of these areas.

Public finance is in many ways a nuts-and-bolts subject where detail is critical, and intergovernmental fiscal relations as a subset of public finance is even more so—witness the complexity of the federal-provincial equalization formula. John Graham did not avoid the nuts and bolts—he worked with numbers, assessment-rolls, tax rates, formulae and incidence problems. Nevertheless, his work was motivated by a strong theoretical underpinning, which focused essentially on the concepts of fiscal equity, public goods and externalities. These three concepts led him through the morass of detail to recommend, for example, a radical transformation of municipal government in Nova Scotia.

He was always scrupulous in giving credit to others, and among public finance economists of his time he was strongly influenced by Carl Shoup, James Buchanan, Tony Scott, Scott Gordon and Milton Moore. Richard Bird, a former student, should be added. In terms of understanding Nova

Scotian and Canadian history, Norman Morse was his acknowledged mentor. Among economists of an earlier day, John Stuart Mill stands out, as noted, but Professor Pigou and Hugh Dalton were influential in his thinking. Without question there were many others, including those with whom he worked on Royal Commissions, and, as mentioned, George Grant. In "Canada versus the Market," a discussion of centralization and decentralization written in 1980 but relevant in 1991, the following passage is obviously Grant-inspired.

> Unfortunately, it is not easy to find a solid basis for a Canadian community in our society, dominated as it is by a market orientation combined with technological determinism. . . . The idea of a community, in the sense of transcending and animating the individuals who comprise it and in the sense of their being a metaphysical end that binds citizens together, is foreign. (9-10)

A word or two on John Graham's view of economic development in the Atlantic Provinces is in order. Three points stand out:
1) His conception of economic development equated development and economic efficiency. The first sentence in his 1963 book reads "It is the purpose of this study to determine principles of provincial-municipal, or state-municipal, fiscal adjustment consistent with sound *economic development, that is with optimum allocation of resources*, and to apply these principles in a case study of Nova Scotia" (1, emphasis added) I do not think he ever changed his view of this—certainly I heard him express the same point on several occasions.
2) He recognized that economic development is nevertheless not a simple problem. In a paper presented in 1975 he noted that questions relating to the provision of public services are easy relative to questions relating to economic development.
3) He was unflappable in the face of changing fads relating to regional economic development in general or Atlantic Provinces economic development in particular: growth poles, dependency theories, maritime union, large firms, small firms, manufacturing, tourism—he tended to ignore them all, while focussing on improving the economic efficiency of resource allocation. Poor provinces, with fewer resources, had to use that which they had more efficiently than rich ones (1963, 4 and 22). Moreover, the objective of regional development policy was not "to raise the Nova Scotian economy to the per capita level of the nation or some

other province" (1963, 24). At one point, in his 1975 paper, he wavered on this matter and said that the *reduction* (not elimination) of regional development is a "legitimate aim" (1975, 121), but by 1980 he was back to his original position, "a fundamental flaw in the way the problem of regional development is viewed . . . lies in the avowed goal of eliminating or reducing regional disparities, usually measured in provincial personal income per capita" (1980, 12). I am not so sure I agree with this, but will let it pass. His most detailed discussion of the problems of economic development appears in his 1963 book, in chapters 5 and 6, and his general solution to structural adjustment problems in the primary industries of Nova Scotia is to raise the capital/labor ratio. Equalization payments based on the fiscal equity principle would not, in general, delay the adjustment of labor implied in this solution, but there might be exceptions [i.e. "good roads facilitate the continuance of inefficient fishing and fish processing in the many small villages and so impede the rationalization of the industry . . . and continues the unnecessary duplication of social capital" (1963, 161)]. His main contribution to the debate on regional development is, I believe, to be found in his emphasis on governments' role in providing the appropriate physical infrastructure and in delivering education, health and other services to all residents—given a system of federal-provincial and provincial-municipal equalization payments based on the principle of fiscal equity.

In terms of economics, John Graham began, as exemplified in his 1963 book, by including an extremely wide range of issues within his orbit. Over time, he narrowed his focus, concentrating on issues relating to fiscal equity, public good and externalities. On political and philosophical issues, his area of concern appeared to broaden out, from regional problems to national issues, from sociological aspects of casual labor in Nova Scotia to the elements of the "good society" and the "metaphysical bond" among citizens. This created a certain tension in his thought—on the one hand, he strongly denied that the state was an "organic unit" with wants of its own, independent of the wants as felt by individuals (1963, 172), but on the other hand, he regretted the absence in Canada of "a community . . . transcending . . . the individuals who comprise it" (1980, 10). Probably it needs a philosopher to unwind and reconcile these positions. From a personal view, John Graham had a concern for people as individuals which was expressed in different ways at different times. The concern was constant: the manner in which society might best serve the individual may have changed. Markets and governments in a shifting and uneasy balance had to provide the economic and political answers, with human intelligence motivating and influencing both.

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