

PRELUDE TO EQUALIZATION:
NEW BRUNSWICK AND THE TAX RENTAL AGREEMENTS,
1941-1957

by

Corey James Arthur Slumkoski

B.A. Hons. Carleton University, 1997

A Thesis Submitted in Partial Fulfilment of
the Requirements for the Degree of

Master of Arts

in the Graduate Academic Unit of

History

Supervisor: Ernest R. Forbes, PhD, History

Examining Board: Gary K. Waite, PhD, History, Chair
David Frank, PhD, History
Will van den Hoonaard, PhD, Sociology

The University of New Brunswick

September 1999

© Corey James Arthur Slumkoski, 1999



National Library
of Canada

Acquisitions and
Bibliographic Services

395 Wellington Street
Ottawa ON K1A 0N4
Canada

Bibliothèque nationale
du Canada

Acquisitions et
services bibliographiques

395, rue Wellington
Ottawa ON K1A 0N4
Canada

Your file *Votre référence*

Our file *Notre référence*

The author has granted a non-exclusive licence allowing the National Library of Canada to reproduce, loan, distribute or sell copies of this thesis in microform, paper or electronic formats.

The author retains ownership of the copyright in this thesis. Neither the thesis nor substantial extracts from it may be printed or otherwise reproduced without the author's permission.

L'auteur a accordé une licence non exclusive permettant à la Bibliothèque nationale du Canada de reproduire, prêter, distribuer ou vendre des copies de cette thèse sous la forme de microfiche/film, de reproduction sur papier ou sur format électronique.

L'auteur conserve la propriété du droit d'auteur qui protège cette thèse. Ni la thèse ni des extraits substantiels de celle-ci ne doivent être imprimés ou autrement reproduits sans son autorisation.

0-612-54647-0

Canada

Abstract

In the 1940s the federal government, prompted by the Great Depression and the Second World War, entered into a series of Tax Rental Agreements with the provinces. The aim of these agreements was threefold. First, they would eliminate double taxation in the fields of personal income tax, corporation income tax, and succession duties. Second, they would provide the federal government the increased revenues necessary to fund first the war, then policies of post-war reconstruction. Third, they would redistribute revenue from the richer provinces to the poorer, thereby in theory tending to equalize the standard of social services throughout the nation. This system of Tax Rental Agreements laid the groundwork for both Canada's modern welfare state and the system of equalization introduced in the late 1950s. Yet this topic has been relatively neglected by scholars, lost amidst the problems of the Depression, the excitement of war, and the promise of reconstruction. What little has been written has dealt almost exclusively with the conflict between the central provinces of Ontario and Quebec with Ottawa over the question of federal-provincial income distribution. Neglected was the role and perspectives of the peripheral provinces in these negotiations.

This thesis examines New Brunswick's role in Dominion-

provincial conferences from 1941 to 1950 and in the subsequent tax rental negotiations. It argues that despite repeated failure at implementing broad social welfare and public works programmes during the 1940s, the federal government still made progress in alleviating regional disparity through the introduction of the Tax Rental Agreements. It will show that although New Brunswick was amenable to the tax agreements from the beginning, it was no pawn of the federal government. New Brunswick took an active role in promoting these agreements, a role that is surprising when one considers the province's limited bargaining power in federal-provincial relations.

Acknowledgements

The writing of this thesis has been a labourious process during which many debts of gratitude have been incurred. I would like to thank the UNB Department of History and School of Graduate Studies for their generous financial support. I would also like to express my gratitude to Dr. Ernie Forbes for his skilled, yet kind, supervision and his tasty salmon. The support of my parents, both emotionally and financially, has likewise been critical. I would also like to thank the various members of UNB's graduate program in history, but especially Mark, Martha, and Murray, who have always been the consummate graduate students. Finally, my thanks go to Meaghan, who pushed me to actually finish the thing.

Table of Contents

Abstract	ii
Acknowledgements	iv
Table of Contents	v
List of Tables	vi
List of Abbreviations	vii
Introduction:	1
Chapter 1: The Rowell-Sirois Commission and the Origins of the 1942 Wartime Tax Agreement	16
Chapter 2: Post-War Reconstruction and the 1947 Tax Rental Agreement	75
Epilogue:	112
Bibliography	126

List of Tables

Table 1.1	Financial Position of New Brunswick Under Plan I	p.56
Table 1.2	New Brunswick's Payment Under the Wartime Tax Agreement	p.69
Table 2.1	1941-45 Subsidy Payment Under Proposed Plan	p.87

List of Abbreviations

PANB Provincial Archives of New Brunswick
NAC National Archives of Canada

Introduction

The Maritime provinces of Canada are often seen as the unwilling partners in Confederation. Claims of the inequity of the union agreement between the central Canadian provinces and the Maritimes are as old as the agreement itself. From Nova Scotia's cries for "better terms" in the immediate post-Confederation period and its repeal elections of the 1880s, to the "Maritime Rights" movement of the 1920s and the "Atlantic Revolution" of the 1950s, the history of Maritime regional grievances has been well documented.

This sense of regional grievance was not without foundation. In recent decades scholars have sought to understand the process of underdevelopment and de-industrialization that has left the Maritime region lagging behind central Canada and the West. Sociologist Michael Clow identified three "schools" of thought in the analysis of Atlantic Canadian regional disparity.¹ In the 1930s and

1

Michael Clow, "Politics and Uneven Capitalist Development: The Maritime Challenge to the Study of Canadian Political

1940s "orthodox" scholars such as S.A. Saunders, Harold Innis, and B.S. Kierstead viewed the problems of Maritime regional disparity as inevitable.² The Maritimes, they argued, were doomed to a future of economic marginalization by its unfavourable geographic position (ie. its distance from Toronto, Montreal, and the all-important central-Canadian market), its lack of entrepreneurial spirit, its over-reliance on staples, and its inability to successfully make the transition from a traditional "wood, wind, and sail" based economy to one predicated upon "iron, coal, and rail." The orthodox historians did not venture an explanation of why the Maritimes failed to make the transition from wooden to iron ships or to successfully reinvest capital in the increasingly important and lucrative railways other than the backwardness and parochialness of

Economy", *Studies in Political Economy: A Socialist Review*, (Summer 1984), pp. 117-140; and Michael Clow, "Situating a Classic: Saunders Revisited", *Acadiensis*, Vol. XV, No. 1, (Autumn 1985), pp. 142-152.

2

See S.A. Saunders, *The Economic History of the Maritime Provinces*, Fredericton: Acadiensis Press, 1984. This was originally prepared as a study for the Royal Commission on Dominion Provincial Relations (1940); B.S. Kierstead, *The Economic Effects of the War on the Maritime Provinces of Canada*, Dalhousie Institute of Public Affairs, 1943; Harold Innis, "An Introduction to the Economic History of the Maritimes, Including Newfoundland and New England", in Harold Innis, *Essays in Canadian Economic History*, Toronto: University of Toronto Press, 1956, pp. 27-42.

Maritimers implicit in their analyses.

In the early 1970s the views of the orthodox school were challenged by a second school of "Liberal revisionist" historians who took exception with the lack of causality found in their predecessors' works, arguing that the Maritimes' situation was the result of harmful national policies designed to serve the needs of the politically powerful central provinces. They believed that since politics was part of the problem then perhaps it could be part of the solution.³ As such, much of the work of the Maritime liberal revisionists has examined the interaction between the federal government and the Maritime provincial governments. Their work has been complemented by historians of a "Marxist" school who have argued that regional disparity is a necessary corollary of a capitalist system. Their studies have examined the relationship between outside capital and the region's resources, and between labour and management in the Maritimes.⁴ While the number of Marxist

3

James Kenny, "Politics and Persistence: Hugh John Flemming and the Atlantic Revolution, 1952-1960", MA Thesis, University of New Brunswick, 1988, p. 3.

4

For examples of Maritime Marxist scholarship see David Frank, "The Cape Breton Coal Industry and the Rise and Fall of the British Empire Steel Corporation", *Acadiensis*, Vol. VII, No. 1, (Autumn 1977), pp. 3-34; Ian McKay, "Strikes in the Maritimes, 1901-1914", *Acadiensis*, Vol. XII, No. 1, (Autumn 1983), pp. 3-46; Ian McKay, "The Crisis of Dependent

studies of the Maritimes is impressive, the bulk of the work on regional disparity falls within the liberal revisionist camp.

In his groundbreaking essay, "The National Policy and the Industrialization of the Maritimes, 1880-1910," liberal revisionist T.W. Acheson successfully refuted orthodox claims that the Maritimes lacked entrepreneurs or failed to invest capital inland, arguing that in the decades following the National Policy of 1879 the Maritimes were marked by a significant reinvestment of capital and labour spearheaded by forward-thinking entrepreneurs.⁵ The net result was between 1881 and 1891 per capita industrial growth in Nova Scotia greater than that in either Ontario or Quebec, and Saint John's per capita increase in industrial capital, average wages, and output greater than that of Hamilton.⁶ The economic marginalization of the Maritimes occurred not because the region's entrepreneurs failed to adapt to the

Development: Class Conflict in the Nova Scotia Coalfields, 1872-1876", *The Canadian Journal of Sociology*, Vol. 13, No. 2, (Spring 1988), pp. 9-48.

5

T.W. Acheson, "The National Policy and the Industrialization of the Maritimes, 1880-1910", *Acadiensis*, Vol. 1, No. 2 (Spring 1972), pp. 3-28. For another influential article by Acheson see T.W. Acheson, "The Maritimes and 'Empire Canada'", in David Bercuson ed. *Canada and the Burden of Unity*, Toronto: Macmillan of Canada, 1977, pp.87-114.

6

Ibid., pp. 3-4.

new Canadian economy but because central Canada failed to consume the Maritime entrepreneurs' output.⁷

Acheson's colleague and fellow liberal revisionist E.R. Forbes advanced the study of regional disparity through the period of the 1920s and 1930s. His examination of the Maritime Rights movement and the Duncan Commission showed a region successful in petitioning the federal government for assistance although Ottawa's response, as has so often been the case, was insufficient and self-serving: "In 1926 a federal royal commission devised a program for Maritime economic rehabilitation, only to have the federal government turn it into a program for political pacification."⁸

Kenneth Jones, a student of Forbes, extended the study of intergovernmental relations through the 1930s. In analysing Nova Scotia's Royal Commission of Provincial Economic Inquiry, or Jones Commission, Jones argued that although the commission's recommendation for fiscal need subsidies to Nova Scotia in order to "effect a more regionally balanced distribution of the national wealth" was ignored, it did prompt the federal government to

7

Ibid., p. 28.

8

E.R. Forbes, *The Maritime Rights Movement, 1919-1927: A Study in Canadian Regionalism*, Montreal and Kingston: McGill-Queen's University Press, 1979, p. vii.

reinvestigate the Duncan Commission's subsidy question with the White Commission. Yet this investigation's "miserly award ... reflected Ottawa's desire to appease the Atlantic provinces at the lowest possible cost." Jones is also critical of Ottawa's non-implementation of the recommendations of the Royal Commission on Dominion-Provincial Relations. This he considered a failure on Mackenzie King's part as five provinces were strongly in favour of it. But this also means that four were opposed. Common in the work of Forbes and Jones is the theme that Maritime complaints were being heard and responded to, even if the response was unsatisfactory.

Maritime scholarship tended to skip over the 1940s in the study of federal-provincial governmental relations, as historians joined other scholars in examining the efforts to overcome regional disparity which climaxed in the 1960s and 1970s. Later studies on the 1940s focussed on the efforts of the provincial governments themselves to alleviate regional disparity⁹, or suggested that federal policies, far from alleviating disparities in the 1940s, helped entrench

⁹

For examples see R.A. Young, "...and the people will sink into despair: Reconstruction in New Brunswick, 1942-1952", *Canadian Historical Review*, Vol. LXIX, No. 2, (June 1988), pp. 127-166; and Kenneth Lyle Taylor, "The Pursuit of Industrial Development in New Brunswick and Saskatchewan, 1945-1960: A Comparative Study", MA Thesis, University of New Brunswick, 1995.

regional inequities. Indeed, E.R. Forbes argued this to be the case. In his article "Consolidating Disparity: The Maritimes and the Industrialization of Canada During the Second World War," Forbes took a critical look at the appropriation of industrial contracts to the Maritimes before and during the second world war.¹⁰ He argued that although "the region appeared to enjoy the strongest representation in any cabinet since Confederation," its ministers were powerless to help the Maritimes. This Forbes attributed to the influence of the powerful Minister of Munitions and Supply, C.D. Howe, whose policies towards the centralization of Canadian industries during the war served to "accentuate and consolidate" regional disparities¹¹.

Jennifer Francisco's MA thesis on New Brunswick's finances included the 1940s.¹² Based upon a systematic examination of provincial ledgers, Francisco portrayed a province struggling to meet "the educational, social welfare, and developmental requirements of a modernizing

¹⁰

E.R. Forbes, "Consolidating Disparity: The Maritimes and the Industrialization of Canada During the Second World War," in E.R. Forbes ed. *Challenging the Regional Stereotype*, Fredericton: Acadiensis Press, pp. 172-199.

¹¹

Ibid., p. 199.

¹²

Jennifer D. Francisco, "New Brunswick Finances, 1917-1952", MA Thesis, University of New Brunswick, 1988.

industrial state without the resources to do so."¹³ In an attempt to provide these much-needed services, successive provincial governments resorted to a system of taxation, retrenchment, and borrowing in order to fund massive public works expenditures. Ultimately Francisco concluded that although New Brunswick's spending practices "contributed to regional disparity ... they were not its cause."¹⁴ The cause, she maintained, was constitutional, and "[b]ecause of its small population and lack of political clout New Brunswick fared poorly in the ongoing constitutional discussions."¹⁵

Margaret Conrad continued the examination of federal-Maritime relations in an essay on the "Atlantic Revolution" of the 1950s. Conrad wrote that the Atlantic Revolution was undertaken in much the same spirit as the "Maritime Rights" campaign of the 1920s. Once again Maritimers "buried their class and cultural differences, drew upon their shared sense of regional grievance ... and produced a blueprint for development that was predicated on a radical revision of

¹³

Ibid., p. 8.

¹⁴

Ibid., pp. 121-22.

¹⁵

Ibid., p. 119.

national policy."¹⁶ Spearheaded by the four Atlantic premiers, the movement abandoned the rhetoric of provincial rights and actively sought increased state intervention in hopes of procuring greater fiscal aid from the federal government in order to combat regional disparity. Although the Atlantic Revolution fell short of its goal of Constitutional equality, Conrad argued, its remnants are still felt today in the form of the "dignified dependency" exemplified by the equalization system.

Conrad also wrote a biographical study of George Nowlan, a key Maritimer during the Atlantic Revolution. Nowlan, a cabinet minister in the John Diefenbaker administration, was instrumental in giving the Maritimes a voice disproportionate to its actual representation in the House of Commons. Nowlan, Conrad argues, was both an outspoken regionalist and a staunch nationalist:

For Nowlan, commitment to region and party in no way contradicted either nationalism or development. In fact, quite the opposite was the case. A prosperous and satisfied Maritimes would contribute to the advancement of the larger Canadian nationalism and of the Conservative Party which served the developing nation.¹⁷

¹⁶

Margaret Conrad, "The Atlantic Revolution of the 1950s", in Berkeley Flemming ed. *Beyond Anger and Longing*, Fredericton: Acadiensis Press, 1988, p. 57.

¹⁷

Margaret Conrad, "George Nowlan and the Conservative Party in the Annapolis Valley, Nova Scotia: 1925-1965", Ph.D.

But while Nowlan proved the most outspoken advocate the Maritimes had in Ottawa, his brand of "regional-nationalism" was still tempered by central and western Canadian factions:

At the very best, demands from Atlantic Canada were balanced against conflicting interests in the rest of the country and given more consideration than in the past. At worst, regional questions were looked at in terms of the number of votes they affected and whether the beneficiaries were Liberals or Conservatives.¹⁸

Although Nowlan was often successful in petitioning the government for policies favourable to the Atlantic Provinces, these policies "were rarely implemented because they were desirable for the country; rather, they were seen as the charity expected from a just and benevolent empire."¹⁹ Regional policies under Diefenbaker were not just designed to eliminate regional disparities; they were also meant to placate the complainants.

Following in the much the same vein as Conrad, James Kenny investigated the role of New Brunswick Premier Hugh John Flemming in the Atlantic Revolution. In a series of three case studies, Kenny argued that Flemming and other regional politicians were successful in petitioning the

Thesis, University of Toronto, 1979, p. 551.

¹⁸

Ibid., 418-419.

¹⁹

Margaret Conrad, *George Nowlan: Maritime Conservative in National Politics*, Toronto: University of Toronto Press, 1986, p. 250.

federal government for increased assistance. He tempered his enthusiasm for Flemming's accomplishments, however, with the observation that Maritime interests had to wait until a favourably disposed government was in Ottawa before their complaints were heard.

Yet this belief in greater federal intervention was not isolated to the 1950s. New Brunswick, for example, actively supported the federal government's interventionist plans of the previous decade. Thus when Kenny wrote that the centralization that occurred during the 1950s "paved the way for the federal regional development policies of the following decades which further increased the reliance on the federal government" he did not go back far enough.²⁰ The question of centralizing the Canadian constitution had been discussed for at least a decade prior to the 1950s. Indeed, as this thesis will show, centralization was a much bandied subject from the early 1940s on. Although the consolidation of centralization occurred during the 1950s, in the 1940s all but two provinces agreed to cede some of their tax rights to Ottawa in return for a set payment. Clearly, the centralizing process had already begun.

This thesis, written in the liberal revisionist

²⁰

James Kenny, "Politics and Persistence", p. 162.

tradition, is an examination of New Brunswick's role in Dominion-provincial conferences between 1941 and 1950, and of that province's gains in the three resultant Tax Rental Agreements. In these agreements New Brunswick agreed to "rent" its income, corporation, and inheritance or succession taxes to the federal government in return for an annual payment. This thesis helps fill the void between Kenneth Jones' study of intergovernmental relations through the 1930s and Margaret Conrad and James Kenny's investigations of the 1950s, and gives a regional perspective lacking in general surveys of the Tax Rental Agreements.²¹ This thesis argues that despite the non-implementation of the recommendations of the Royal Commission on Dominion-Provincial Relations in 1941 and the "Green Book" Proposals of the Government of Canada in 1945, progress was made in the 1940s by the federal government in alleviating the problems of Canada's poorer provinces, such as New Brunswick, in the form of the Tax Rental Agreements.

An examination of the Tax Rental Agreements and the Dominion-provincial conferences of the 1940s presents a

21

See for example R.M. Burns, *The Acceptable Mean; The Tax Rental Agreements, 1941-1962*, Toronto: Canadian Tax Foundation, 1980; David B. Perry, *Financing the Canadian Federation, 1867 to 1995: Setting the Stage for Change*, Toronto: Canadian Tax Foundation, 1997; J.H. Perry, *Taxes, Tariffs, and Subsidies, Volume 2*, Toronto: University of Toronto Press, 1955.

number of interesting themes. The first is the growing influence of the economic theories of John Maynard Keynes.²² Classical economic theory maintained that full employment was the normal state of affairs and that during times of recession minimal government intervention was necessary in order to stimulate private investment. Keynes, a Cambridge-trained economist, challenged this prevailing belief that a laissez-faire free market economy and limited state intervention was the key to recovery, asserting that full employment was not the norm and government action was required to ensure it and to regulate the economy. For instance, in times of high unemployment the government should create public works programmes, thereby employing those who would otherwise be on relief. The centralization of tax authority that occurred under the 1942 Wartime Tax Agreement laid the foundation for the Keynesian influence found in Ottawa's "Green Book" proposals for reconstruction in 1945.

The second major theme is the nationalist intent of the framers of the proposals. They hoped to increase Canadian unity and foster the growth of a "second wave" nationalism. To do so both the Rowell-Sirois Commission and the "Green

22

See John Maynard Keynes, *The General Theory of Employment Interest and Money*, London: Macmillan and Company, 1936.

Book" proposals included contingencies for the establishment of a modern nation-wide welfare state. The Rowell-Sirois Commission believed that a national minimum standard of social services was necessary to complete the work begun over seventy years earlier by the Fathers of Confederation. This idea was again manifest in the "Green Book" proposals. Both sets of proposals were cogent in arguing that regional disparities with regards to health services existed, and both contained plans for alleviating them which New Brunswick wholeheartedly supported. However, with both sets of proposals in effect vetoed by the Ontario-led "provincialists," intergovernmental relations in the 1940s were marked by the unfortunate triumph of provincialism over nationalism.

A third theme also presents itself in a study of New Brunswick and the Tax Rental Agreements. That is that each agreement was increasingly more lucrative to the provinces. This is illustrated by the fact that both Ontario and Quebec, staunch provincial-rights advocates, eventually signed rental agreements with Ottawa. This series of rental agreements eventually led to the modern system of equalization. Although it has been argued that equalization

has served only to entrench regional disparities²³, at the time the Tax Rental Agreements were introduced they were considered to be beneficial to the provinces.

Finally, New Brunswick was not a passive participant in the negotiations. The province was hardly in a position to reject the Tax Rental Agreements, for they would substantially increase provincial revenues. Despite this seemingly weak position, New Brunswick Premier J.B. McNair took an active role in the discussion, eventually securing what he felt were favourable rental agreements for his province.

²³

See for example Thomas J. Courchene, "Avenues of adjustment: The Transfer System and Regional Disparities", *Canadian Confederation at the Crossroads*, The Fraser Institute, 1978, pp. 145-186.

Chapter 1: The Rowell-Sirois Commission and the Origins of the 1942 Wartime Tax Agreement

The Fathers of Confederation were quite specific. They gave the federal government what they believed would be the most cumbersome responsibilities: the costs of public debt, national defence, and national government. To enable the federal government to fund these programs they gave them access to *all* sources of taxation, including exclusive access to the most lucrative tax at the time: customs and excise duties. To the smaller provincial governments the Fathers bequeathed the supposedly lighter duties of public welfare, education, provincial development and provincial administration. The provinces were expressly limited to direct taxes to fund these responsibilities, of which it was believed they would only access property taxes.¹ In a primarily rural/agrarian nation this may have sufficed. But

1

W.J. Waines, "Dominion-Provincial Fiscal Arrangements: An Examination of Objectives", *Canadian Journal of Economics and Political Science*, Vol. XIX No. 3 (August 1953), p. 304.

Canada did not remain rural and agrarian for long.

Beginning with the National Policy in 1879 Ottawa began a process designed to foster industrial growth in the new nation. Concomitant with the nation's industrialization was urbanization. As the population expanded, the municipalities, who had inherited from the provinces the responsibility for public relief, found it increasingly difficult to cope with their growing obligations. Some provinces (and some municipalities) entered the personal and corporation tax fields to try and increase revenues, but this tactic proved less profitable with the outbreak of World War I and the subsequent Dominion invasion of these tax fields.

The onset of the Great Depression in the 1930s exacerbated this inherent (and unforeseen) defect in Canada's federal system, as the provinces and municipalities struggled to cope with responsibilities they could no longer afford. A Dominion-provincial conference was convened in 1935 to investigate whether the federal government should assume full responsibility for relief. Prime Minister William Lyon Mackenzie King was reluctant to do so and he invoked the Canadian constitution in justification. But a proposal by Quebec Premier Alexandre Taschereau to patriate the constitution removed King's tried-and-true defence

mechanism. When New Brunswick vetoed the proposed patriation scheme at a subsequent conference, King gratefully allowed the issue to die.² When the National Employment Commission, designed to investigate the problem of unemployment relief, issued its report in December 1937 calling for the federal government to assume full responsibility for unemployment relief, King again delayed. By that time, with some provinces on the verge of bankruptcy, King had appointed a Royal Commission to investigate the whole problem of Dominion-provincial relations and was unwilling to implement the National Employment Commission's recommendations while the other investigation was ongoing.³ For two years the Commission commissioned studies and conducted public hearings across the country, as they developed the strategies to be outlined in their report.

Meanwhile, great changes took place on the

2

See E.R. Forbes, "The 1930s: Depression and Retrenchment", in E.R. Forbes and D.A. Muise eds *The Atlantic Provinces in Confederation*, Toronto and Fredericton: University of Toronto and Acadiensis Press, 1993, p. 302; and Kenneth H. Leblanc, "A.P. Paterson and New Brunswick's Response to Constitutional Change, 1935-1939", MA Report, University of New Brunswick, 1989.

3

See James Struthers, *Unemployment and the Canadian Welfare State, 1914-1941*, Toronto: University of Toronto Press, 1983, pp. 175-184.

international stage. Germany invaded Poland early in September thereby igniting the Second World War. Canada was quick to follow the British lead, declaring war against Germany on September 10. Eight months after Canada joined the fray the Commission tabled its report, a revolutionary document calling for a major reworking of Dominion-provincial fiscal relations. A subsequent Dominion-provincial conference to consider the Commission's report proved fruitless, however, as Ontario, Alberta, and British Columbia walked out on the second day, effectively ending the discussion.⁴

The need to fund Canada's war effort soon proved overwhelming, leading King to manhandle the provinces into the Wartime Tax Agreement of 1942. This allowed the federal government to finance the war, while stabilizing the revenues of the peripheral provinces. In the end, although Ontario, Alberta, and British Columbia blocked the adoption of the Rowell-Sirois Commission's recommendations, the

4

Little has been written on the Rowell-Sirois Conference itself, for the bulk of literature has focused on the commission. For a general survey see David Fransen, "Unscrewing the Unscrutable: The Rowell-Sirois Commission, the Ottawa Bureaucracy, and Public Finance Reform, 1935-1941", Ph.D. Thesis, University of Toronto, 1984. For an analysis of the animosity between Ontario premier Mitch Hepburn and Prime Minister King surrounding the Commission see Richard M.H. Alway, "Hepburn, King, and the Rowell-Sirois Commission," *Canadian Historical Review*, Vol. XLVIII, No. 2, June 1967, pp. 113-141.

Wartime Tax Agreement, with its fiscal need element, was still an improvement over New Brunswick's prior financial situation. Therefore, the Wartime Tax Agreement was a step towards the alleviation of regional disparity, although not as large a stride as the plan contained in the Rowell-Sirois recommendations.

In New Brunswick economic conditions were bleak during the 1930s, especially along the impoverished North Shore. There, health and educational services were inadequate, and problems in the lumber and fishing industries swelled the relief rolls until the municipalities could no longer handle the burden. Eventually the provincial and federal governments assumed 80% of the financial burden for relief in Northumberland County.⁵ Still, such collaboration between Fredericton and Ottawa proved the exception as New Brunswick was notoriously reluctant to match, much less increase, the relief contributions of its municipalities.

Much of New Brunswick's reluctance to participate in

5

E.R. Forbes, "Cutting the Pie into Smaller Pieces: Matching Grants and Relief in the Maritime Provinces During the 1930s", in E.R Forbes ed. *Challenging the Regional Stereotype*, Fredericton: Acadiensis Press, 1989, p. 159. For a detailed fiscal analysis of North Shore counties during the Depression see Jennifer Francisco, "New Brunswick Finances", MA Thesis, University of New Brunswick, pp. 75-77.

shared-cost programmes with the federal government stemmed from the trans-Canada highway construction projects. When Ottawa agreed to pay half the costs of highway construction, New Brunswick jumped at the chance to participate. They believed new construction would reduce the number of people on relief rolls while developing important infrastructure for the post-Depression era. But when Ottawa unexpectedly dropped out of the agreement in 1932, New Brunswick was left in the lurch. The province had to borrow to pay the costs of finishing construction. As a result, New Brunswick's debt charges in relation to provincial revenues almost doubled from 28% of provincial revenues at the beginning 1929 to 55% by the end of 1933.⁶ With debt payments consuming such a large part of the province's finances, New Brunswick was unwilling to participate in other federal-provincial shared-cost initiatives. When public outcry finally prompted New Brunswick to enter into joint-relief programmes with Ottawa, it did so at a level far below the national average. To compound matters the federal government slashed relief payments to the provinces by 25% between April and June 1936. The end result was that by October 1936, the average monthly relief payment in New

⁶

Forbes, "Cutting the Pie...", p. 153-159. See also E.R. Forbes, "The 1930s: Depression and Retrenchment," p. 275.

Brunswick was \$1.67, the lowest such payment in Canada.⁷ New Brunswick Premier A.A. Dysart, claiming that even this meagre payment was "sapping the morale and initiative of our people," soon announced the end of direct relief in the province.⁸

The economic situation was even more acute on the prairies. Nine years of drought, coupled with the occasional grasshopper plague, had ruined crop harvests. Fields once rich with wheat lay fallow. In fact, 1937 was the worst year in the history of the western wheat economy with only a sixth the normal yield.⁹ The poor harvest drove many farmers onto the relief rolls, straining the cash-strapped prairie governments even further.¹⁰ By November 1937 407,600 of Saskatchewan's 928,000 people were on

7

Ibid, p. 149, ff 4.

8

As cited in Forbes, "Cutting the Pie Into Smaller Pieces," pp. 170.

9

H. Blair Neatby, "The Liberal Way: Fiscal and Monetary Policy in the 1930s", in Michiel Horn ed., *The Depression in Canada*, Toronto: Copp Clark Pitman Ltd., 1988, p. 259.; John Herd Thompson with Allen Seager, *Canada 1922-1939: Decades of Discord*, Toronto: McClelland & Stewart Ltd., 1985, p.299.

10

As in New Brunswick, the interest on the prairie province's provincial debts consumed a large part of their provincial revenues, almost 50%. See Neatby, "The Liberal Way", p. 267.

relief.¹¹ The prairie provinces were soon almost totally dependent upon federal aid in the form of loans to meet their relief costs, but this proved a stop-gap measure. Soon, the prairies could not cope; in 1936 Alberta defaulted on one of its loans, and both Manitoba and Saskatchewan were in danger of doing the same. While Charles Dunning, federal Minister of Finance, had toyed with the idea of letting the other two provinces "sink or swim" on their own, he eventually decided that further provincial defaults would weaken the federal government's own financial position.¹² Therefore, Dunning decided it was time for the Bank of Canada to formally investigate the matter of prairie finances.

In January 1937, the Bank of Canada tabled its *Report on the Financial Position of the Province of Manitoba*. This report not only called for immediate federal aid to Manitoba but also for a Royal Commission to examine the problems of Dominion-provincial relations.¹³ King, at first wary of the suggestion, soon came to appreciate its value. With the

¹¹

Fransen, "Unscrewing the Unscrutable", p. 132.

¹²

Neatby, "The Liberal Way", p. 268.

¹³

Bank of Canada, *Report on the Financial Position of the Province of Manitoba*, Ottawa: King's Printer 1937.

financial position of the provinces crumbling, a Royal Commission would uncover "what should be done to secure a more equitable and practical division of the burden [of relief] to enable all governments to function more effectively ... [and] more independently ... within the spheres of their respective jurisdictions."¹⁴ Thus, on 14 August 1937, the federal government passed Order-in-Council P.C. 1908, creating a Royal Commission "to investigate the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years."¹⁵ King had come to realize that the provinces now had responsibilities, such as unemployment relief, education, and social services, that they could no longer afford with their weak economies and inadequate tax bases. Therefore, "either new revenue sources must be allotted to them [the provinces] or their constitutional responsibilities and government burdens must be replaced..."¹⁶ With this as its goal, the largest Royal

¹⁴

W.L.M. King Diary, 16 February 1937.

¹⁵

As cited in Alway, "Hepburn, King, and the Rowell-Sirois Commission," p. 115.

¹⁶

As cited in Ibid., p. 115.

Commission in Canada's brief history was set in motion.

Choosing the members to chair the Commission proved a formidable task. Provincial opinions were polarized, with Ontario opposed to the inquiry, while the cash-strapped Maritimes and prairies were strongly in favour. Furthermore, any commissioners appointed would have to be agreeable to Quebec. The Commissioners, therefore, would have to be acceptable to the central powers of Ontario and Quebec, while placating peripheral fears of undue central Canadian influence. With this in mind King and his advisors selected former Chief Justice of the Ontario Supreme Court and former Ontario Liberal leader Newton Rowell as the Commission's chairman. They felt Rowell was above reproach as he had, in the words of T.A. Crerar, "more practical knowledge of the difficulties of government, and the administrative difficulties which arise from our federal form of government" than any other candidate for the position.¹⁷ The "French lieutenant" would be Thibaudeau Rinfret, a Justice of the Supreme Court of Canada since 1924. King believed that Rinfret would satisfy not only Premier Maurice Duplessis and Quebec but, due to his reputation as a staunch defender of provincial rights, Ontario's Premier Mitch Hepburn as well. The third member

17

As cited in Fransen, "Unscrewing the Unscrutable", p. 70.

was to come from the prairies, whose financial problems had been the Commission's initial catalyst. J.W. Dafoe, editor of the *Winnipeg Free Press*, was chosen for this role. After choosing these three men King thought that the job of selecting the Commission was complete. He was mistaken.

On 24 July 1937, Under-Secretary of State for External Affairs O.D. Skelton wrote to King advising him that without a Maritime representative on the Commission "there would be tremendous agitation and an outbreak of hostility which would queer the Commission from the start and make it five times as hard for the Government to secure acceptance of its findings." Skelton went on to state that since the Maritimes comprised two of the original four members of Confederation, and had also been "the loudest complainants" of the union deal, that a Maritime Commissioner was warranted. Skelton also claimed that if a Maritime Commissioner was appointed then they would also have to need one to represent British Columbia.¹⁸

British Columbia was the easier of the two spots to fill, as King promptly chose Henry Angus, an economics professor at the University of British Columbia. The Maritimes proved more troublesome. Briefly considered for the Maritime position was Halifax lawyer James MacGregor

18

As cited in Fransen, "Unscrewing the Unscrutable", p. 75.

Stewart, but he was rejected as a Tory. King and his Maritime cabinet members, J.L. Ilsley and J.E. Michaud, soon settled on Howard Robinson, a Saint John businessman. Robinson agreed to the appointment on 11 August 1937, but his tenure as a commissioner was short-lived as he took ill and resigned the next day. His replacement was R.A. Mackay, a professor in the Department of Government and Political Science at Dalhousie University. The Commission was now complete, and identities of these "Fathers of Re-Confederation" were released to the press on August 16.¹⁹

The New Brunswick newspapers were positive in their response to both the Commission and the Commissioners. The Saint John *Evening Times-Globe* and Saint John *Telegraph-Journal* stressed the importance of the Commission's "enormous task" and emphasized the need for "generous and widespread co-operation." The Moncton *Daily Times* greeted the choice of Commissioners with "general approbation," while the Moncton *Transcript* observed that "neither the far east or the far west are neglected" and that "the Maritimes are fortunate" to have Mackay on the Commission. But by far the most enthusiastic endorsement of the Commissioners came

¹⁹

Ibid., pp. 74-79. The term "Fathers of Re-Confederation" comes from Margaret Prang, *N.W. Rowell: Ontario Nationalist*, Toronto: University of Toronto Press, 1975, p. 490.

from Fredericton, where the *Daily Gleaner* wrote:

With two outstanding representatives of the legal profession, two university professors, and a well known Canadian journalist on the Commission, and with these five well distributed geographically, the problems [of dominion-provincial relations] should be approached on a wide basis and carefully studied.²⁰

Saint John's *Evening Times-Globe* reminded its readers of the successes of the Royal Commission on Maritime Claims, or Duncan Commission, of 1926 which had called for the immediate increase in federal payments to New Brunswick by \$600,000 and for the Dominion to assume responsibility for the Valley Railway, thereby relieving the province of \$30,000 a month in debt charges.²¹

Not all New Brunswickers were as quick to endorse the Commission as were the papers. Premier Dysart was upset that no New Brunswicker was chosen for the Commission. Rowell tried to soothe Dysart about his province's lack of a Commissioner by pointing out that S.A. Saunders, who had been appointed to write an *Economic History of the Maritime*

20

See Saint John *Evening Times-Globe*, 16-17 August 1937; Saint John *Telegraph-Journal*, 16 August 1937; Moncton *Daily Times*, 16 August 1937; Moncton *Transcript*, 16 August 1937; Fredericton *Daily Gleaner*, 16 August 1937.

21

Saint John *Evening Times-Globe*, 16 August 1937.

Provinces for the Commission, was born in Saint John.²² Of greater concern to Dysart was that New Brunswick present its submission to the Commission after those of Ontario and Quebec so that the central provinces could not refute New Brunswick's claims. Although Rowell tried to reassure Dysart, stating that all provinces would have the chance to respond to the individual submissions, he eventually gave way. New Brunswick's would be the last submission heard by the Royal Commission.²³

Soon after their work had begun the Commissioners faced another dilemma. Thibaudeau Rinfret had fallen ill and would be unable to perform his duties as Commissioner, resigning on November 18. He was soon replaced by Joseph Sirois, another Francophone from Quebec. Sirois, while lacking Rinfret's national reputation, was perhaps a more prescient choice for the Commission as he had a thorough knowledge of constitutional law, which he taught at Laval University. The Commission could now begin its task in earnest.

²²

In actuality, S.A. Saunders was born in Nauwigewauk, New Brunswick, about twenty miles outside of Saint John. See T.W. Acheson's "Introduction" to S.A. Saunders, *The Economic History of the Maritime Provinces*, Fredericton: Acadiensis Press, 1984, p. 5.

²³

Fransen, "Unscrewing the Unscrutable", p. 99.

The first provincial submission heard was that of Manitoba, with public hearings opening in Winnipeg on 29 November 1937. Manitoba called for Ottawa to assume the burden of old age pensions and unemployment relief, along with joint dominion-provincial responsibility for a number of other services.²⁴ In return the provinces would give up the tax fields of personal income tax, corporation income tax, and succession duties. As the Commissioners travelled across the country the majority of provincial submissions would, to some extent, follow the "Manitoba Plan." Four provinces, however, liked neither the Commission nor the proposals of Manitoba; British Columbia, Alberta, Ontario, and Quebec.

British Columbia premier T. Dufferin Patullo was not averse to all aspects of the "Manitoba Plan." Although "Duff" believed that the federal government should assume responsibility for expanded social services, he did not favour exclusive Dominion occupation of any tax fields that the provinces had access to.²⁵ Patullo claimed that since

²⁴

Ibid., pp. 119-120. The services of which the cost would be shared by the dominion and the province were mother's allowances, hospitalization, care for the mentally afflicted, public health services, highway construction and maintenance, and technical education.

²⁵

British Columbia in the Canadian Confederation, A Submission Presented to The Royal Commission on Dominion-Provincial

the introduction of federal income tax in 1918 British Columbia had contributed more than the prairies and the Maritimes combined. When the Commission responded that income tax was a non-regional tax, and that all his documentation proved was that British Columbia had a much higher per capita income than the other six provinces did, Patullo refused to listen. When the Commission finally asked just how Ottawa was to finance British Columbia's plan for greater social services without resorting to exclusive jurisdiction in personal income tax, corporation income tax, and succession duties, his response was "I don't think that is the problem of this province..."²⁶ In the end, British Columbia's brief shed little light on how the federal government could assume a greatly expanded role in social services without additional tax revenues to pay for them.

The mood became even chillier when the Commission moved to Alberta. Tumultuous Social Credit premier "Bible Bill" Aberhart, upset that Ottawa had recently disallowed three provincial statutes, refused to meet with the Commission.

Relations by the Government of British Columbia, Victoria, 1938, pp. 351-354, esp. Recommendations 5,6,8,9; See also Margaret A. Ormsby, "T. Dufferin Patullo and the Little New Deal," *Canadian Historical Review*, XLIII (4), December, 1962, pp. 277-297.

²⁶

Royal Commission on Dominion-Provincial Relations, Report of Hearings, p. 5081.

And even though the province had prepared a brief for the Commission, Aberhart refused to submit it. Instead, much to Aberhart's chagrin, the Edmonton Chamber of Commerce presented what amounted to a *de facto* provincial brief. The Chamber's submission closely followed the "Manitoba Plan," as it called for federal responsibility for social services in exchange for Dominion control of the personal income tax, corporation income tax, and succession duties. All told, it was a well-written and well-presented brief, prompting R.A. Mackay to inform his wife that it "looks like [Aberhart made] a tactical blunder."²⁷

Ontario was little more hospitable. Premier Mitch Hepburn, ever distrustful of King, saw the Commission as a federal ploy to establish a uniform standard of social services throughout Canada. While not against equalization in theory, Hepburn felt that "Ontario should not be forced to subsidize the rest of Canada."²⁸ In a letter to Duplessis Hepburn elaborated:

[W]ith the western provinces hopelessly bankrupt, any scheme of unemployment insurance will have to be borne by the two central provinces, and if unemployment insurance is necessary it probably will be better to

²⁷

As cited in Fransen, "Unscrewing the Unscrutable", p. 208.

²⁸

Alway, "Hepburn, King and the Rowell-Sirois Commission," p. 117.

run our own show.²⁹

This attitude permeated Ontario's submission. Hepburn began by questioning the validity of a Commission to re-examine "the economic and financial basis of Confederation." Since Confederation came about as the result of a conference, only a conference had the authority to alter Confederation. The basic issue before the Commission, Hepburn argued, was where to place the 20th century social services that the Fathers of Confederation had no means of foreseeing. His answer was simple; these responsibilities lay with the provinces. This would prevent dangerous over-centralization of power in federal hands,

[f]or we are a stupid people if we imagine ourselves immune from the consequences of concentrating power in few hands. ... The accumulation of all power leads to autocracy; its distribution is the safety-zone of democracy.³⁰

Conspicuously absent from Hepburn's submission was any answer as to how provinces without Ontario's rich tax base would be able to provide the same level of social services.

Soon after the Ontario presentation the Commission experienced another disruption. Newton Rowell suffered a

²⁹

As cited in Alway, "Hepburn, King and the Rowell-Sirois Commission," p. 117.

³⁰

Statement by the Government of Ontario to the Royal Commission on Dominion Provincial Relations, Book I, The Prime Minister's Statement (undated), p. 7.

heart attack and stroke which left him unable to perform his duties. The Commission appointed Joseph Sirois to succeed him; a diplomatic gesture considering that Quebec was the next stop on their tour and Duplessis was hostile to the Commission's inquiry.

Duplessis' position echoed that of Ontario. Like Hepburn, he questioned the usefulness of the Commission and opposed any over-centralization of power in Ottawa's hands. Essentially he was unwilling to relinquish any authority granted to the provinces under the British North America Act. For this reason he refused to meet officially with the Commission on its arrival in Quebec or to present an official brief. Duplessis did meet with the Commissioners unofficially, however. On May 13, at a dinner at the Chateau Frontenac, writes Donald Creighton, an inebriated Duplessis "subjected the commissioners to a good deal of vulgar banter," before hurling champaign glasses at the overhead lights "with such accuracy that the restaurant was soon in semi-darkness and the floor and tables littered with broken glass."³¹

Shortly after Duplessis' display of marksmanship, the Commission journeyed to Fredericton where they met a much

³¹

Donald Creighton, *Canada's First Century: 1867-1967*, Toronto: Macmillan of Canada, 1970, p. 232.

warmer reception. The Fredericton meetings opened on Loyalist Day, May 18, and ran until May 23. New Brunswick's brief argued for assistance to the poorer provinces based on fiscal need, but at the same time invoked the compact theory of Confederation. This apparent discrepancy has caused historians Donald Fransen and Jennifer Francisco to describe the New Brunswick brief as "inconsistent."³² In actuality, New Brunswick's submission was not nearly as inconsistent as Fransen and Francisco claim. The compact theory as originally advanced by Ontario opposition leader Edward Blake in 1869 maintained that Confederation was the result of a treaty or compact among the provinces and therefore could not be altered without provincial consent. This position was later championed by Ontario Premier Sir Oliver Mowat. Given legal validity by favourable Privy Council decisions, Mowat utilized the compact theory to effect a weaker federal union whereby the provinces were granted greater powers than the Fathers of Confederation had intended.³³

³²

See Fransen, "Unscrewing the Unscrutable", pp. 252-262; and Francisco, "New Brunswick Finances", p. 91.

³³

See Christopher Armstrong, *The Politics of Federalism: Ontario's Relations with the Federal Government, 1867-1942*, Toronto: University of Toronto Press, 1981, pp. 13-14, 31-32.

New Brunswick, however, advanced a version of the compact theory that was subtly different from that held by Ontario. New Brunswick agreed in principle that Confederation was a compact among four autonomous provinces. As A.P. Paterson, New Brunswick's main proponent of the compact theory, argued, although New Brunswick had surrendered certain powers through the British North America Act it retained the right to retrieve these powers if it felt the federal government had not honoured the terms of the British North America Act.³⁴ Of even greater importance to New Brunswick, however, was the statement in the preamble to the British North America Act that Confederation was designed "to conduce to the welfare of the provinces and promote the interests of the empire."³⁵

For New Brunswick, the intent of Confederation to improve the position on the provinces superceded any claims of provincial rights or, more precisely, was in itself an aspect of provincial rights. Since New Brunswick's position had not improved in the years following union, the federal government was guilty of not living up to the treaty. The

³⁴

Kenneth H. Leblanc, "A.P. Paterson and New Brunswick's Response to Constitutional Change, 1935-1939", MA Report, University of New Brunswick, 1989, pp. 13-14.

³⁵

Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1938, p. 138.

apparent inconsistency that Fransen and Francisco cite lies in their application of the "Ontario version" of the compact theory with its emphasis on provincial autonomy; as Confederation was a contract among four separate states why should one state make equalization payments to another to improve the second's standards? In the "New Brunswick version" of the compact theory, however, this was not an inconsistency; federal fiscal need grants were required on constitutional grounds. New Brunswick had not benefited from the centralization of population and industry that had occurred since 1867. It had in essence been hindered by national policies. Since the British North America Act stated that one of the union's aims was "to conduce to the welfare of the provinces," the federal government should make payments to New Brunswick to amend its lack of fidelity to the original goals of the British North America Act and to effect a more equitable union.

In any event, the importance of the compact theory may be overstated. During the 1938 session of the New Brunswick Legislature a schism developed within the New Brunswick Liberal Party over the provincial government's policy of supporting the compact theory. Led by provincial MLAs W.W.V. Foster and Frank Bridges, the dissidents believed that the government's position, whereby they used the

compact theory to justify not transferring the responsibility of unemployment relief to Ottawa at the Dominion-provincial Conference of 1935, was unthinkable in times of depression. In essence the dissidents were espousing nationalism over provincialism, arguing that the interests of New Brunswick and the Dominion were complementary, not opposed. Bridges summed up the position in the 1939 legislative session when he stated that "[n]othing in the wide world is going to hinder and retard the growth and progress of Canada ... more than this doctrine [of the compact theory]."³⁶ In the New Brunswick provincial election of 1939 the electorate apparently chose nationalism over the compact theory, retaining a Liberal government but casting Paterson from office. When Paterson offered his services to the government in an advisory role free of charge he was rebuffed. With his rejection New Brunswick's adherence to the compact theory had come to an end.³⁷ It is likely that had New Brunswick presented its submission to the Rowell-Sirois Commission even one year

³⁶

Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1939, p. 51.

³⁷

For a discussion of the fall of Paterson and the compact theory see Kenneth H. Leblanc, "A.P. Paterson and New Brunswick's Response to Constitutional Change, 1935-1939," pp. 29-48.

later there would have been minimal mention of the compact theory, if any.

Apart from the compact theory, New Brunswick's submission highlighted the theme of a more equitable union. If a province "is not able to provide for its people the same privileges which are enjoyed by those in other provinces..." then Dominion assistance is required to ensure "that living conditions [in the province] be on par with those obtaining elsewhere." Although New Brunswick did not advocate "a redistribution of all the wealth in Canada...", the province did believe that "the burden [of providing the money for fiscal need grants] should fall upon those provinces which have profited most" in Confederation.³⁸ The provision of these fiscal need grants would help to bring about a minimum standard of social services throughout Canada thereby remedying the inequities of the 1867 agreement.

Walter Jones, a distinguished lawyer and provincial Liberal MLA, reiterated these points when he presented New Brunswick's brief to the Commission. In strong terms he took Ontario to task for arguing against the concept of equalization:

38

Submission of the Government of New Brunswick to the Royal Commission on Dominion-Provincial Relations, 1938, p. 11.

[I]n one large province the point is taken that ... certain means of taxation should be left to the province, which had been invaded by the federal government. There is no suggestion, however, that there should be a contribution by the wealthier provinces to the other provinces. In a self contained province with plenty of manufacturing and plenty of resources and plenty of wealth, where they have the taxation facilities, income tax and that sort of thing, they are sufficient unto themselves and they would be quite satisfied and no doubt are quite satisfied that that condition should continue. But as I say, in a Federal system our point is that the strong should help the weak, and I think you cannot carry out the Federal system unless that principle is recognised.³⁹

Jones also stated, in an obvious reference to New Brunswick's North Shore, that "[t]here are certain parts of this province where it is impossible to provide schools, ... nursing or doctors" and that "there ought to be a reasonable standard of life for every citizen and his family in Canada."⁴⁰ However, Jones was not immediately clear about where the revenue to provide a reasonable standard of life was to come from. New Brunswick's written submission to the Rowell-Sirois Commission had called for the Dominion to vacate the personal income tax field.⁴¹ At first Jones

³⁹

Royal Commission on Dominion-Provincial Relations, Report of Hearings, pp. 8532-33.

⁴⁰

Ibid., p. 8561.

⁴¹

Submission of the Government of New Brunswick to the Royal Commission on Dominion-Provincial Relations, 1938, pp. 28-29.

defended the province's written position, although he stated that if the Dominion did collect income tax then it should give some of the revenue back to the provinces.⁴² Finally, after being pressed on the subject by J.W. Dafoe, Jones said that "I think that we would prefer that they [the federal government] should tax the rich and give us a fair proportion of it."⁴³ With these words Jones dovetailed New Brunswick's submission with those that followed the "Manitoba Plan."

After the hearings in Fredericton the Commissioners returned to Ottawa to hear a few more federal presentations, before recessing in early June. They had planned on having one more plenary session with the provinces on September 7 before beginning the process of writing the actual report, but actions by Mitch Hepburn made this impossible. On July 13 the Ontario Premier announced that he and his province would have nothing more to do with the Commission. With three provinces now refusing to deal with the Commission, the proposed plenary session would have been futile.

Still, one final meeting with the provinces did occur. On 24 November 1938, any province that wanted to have a

⁴²

Royal Commission on Dominion-Provincial Relations, Report of Hearings, p. 8606.

⁴³

Ibid., p. 8607.

final meeting with the Commission before the writing of the Report commenced could do so. Surprisingly, only four provinces took advantage of this opportunity; New Brunswick, British Columbia, Prince Edward Island, and Manitoba all made the trek to Ottawa. As to their presentations, as Fransen put it, "while the tunes had not changed, the tones were much softer."⁴⁴ Walter Jones continued to invoke New Brunswick's version of the compact theory, arguing that "Confederation has not conduced to the welfare of New Brunswick and has been disastrous to this Province."⁴⁵ When these submissions ended on December 1, the Commission's hearings officially drew to a close. All that remained was the long, drawn-out writing of the Report.

During the year and a half that it took the Commission to write the Report major changes took place throughout the world, the greatest of which was the outbreak of war in Europe. The Germans, protesting the terms of the Treaty of Versailles, had begun to reclaim land that they felt was rightfully theirs. They re-militarized the Rhineland in 1936 and annexed Austria in 1938. They followed these moves

⁴⁴

Fransen, "Unscrewing the Unscrutable", p. 304.

⁴⁵*Supplementary Submission by the Government of the Province of New Brunswick to the Royal Commission on Dominion-Provincial Relations, November 1938, p. 3.*

later that year with the annexation of the Sudetenland, and the subsequent dismantling of Czechoslovakia. Great Britain, who had looked with a seemingly blind eye on German aggression for over three years, took a firm stand on the defence of Poland, which was known as the next target of German aggression. On September 1, 1939, the Germans attacked Poland. Two days later Great Britain declared war on Germany. On September 10 Canada followed the British lead and formally entered the war.⁴⁶

Overshadowed by the events in Europe were changes on the home front. In Quebec, Maurice Duplessis and his Union Nationale Party went down to defeat at the hands of Adélard Godbout's Liberals. In New Brunswick, shortly after leading his Liberals to another electoral victory, A.A. Dysart decided to retire from public life. His replacement, sworn in on March 13, 1940, was John Babbitt McNair. Born November 20, 1889, in Andover, New Brunswick, McNair was a "logical successor" to Dysart, "having distinguished himself both as a scholar and in public life."⁴⁷ He excelled at the

⁴⁶

For a summary of the events leading to the outbreak of World War Two see M.K. Dziewanowski, *War At Any Price: World War Two in Europe, 1939-1945*, Englewood Cliffs, New Jersey: Prentice Hall, 1991, pp. 41-60.

⁴⁷

"New Brunswick's Premier", *The Liberal Advocate*, Vol. V, No. VII, (July 1941), pp. 4.

University of New Brunswick, receiving a B.A. with double honours in 1911, in the process winning the Governor-General's Medal and the Lieutenant-Governor's Prize, as well as being Valedictorian of his class. These achievements earned him a Rhodes Scholarship to Oxford University, where he received a B.A. in jurisprudence in 1913 and a B.C.L. in 1914. Following his service in the First World War, McNair returned to New Brunswick where he practised law in Fredericton, "... a good lawyer, among New Brunswick's best," until entering politics in 1935.⁴⁸ He quickly made his presence felt in Dysart's cabinet as Attorney-General, fast becoming the Premier's "chief lieutenant." Furthermore, McNair had achieved "national prominence" as New Brunswick's spokesman at the Dominion-Provincial Conference of 1935.⁴⁹

A few months after McNair's inauguration as premier the Commission completed its Report. It was originally to have been presented to King with great fanfare on May 10, but the German invasion of Belgium, Luxembourg, and the Netherlands stole the headlines for that day. King was presented with

⁴⁸

G. Percy Burchill, President of the New Brunswick Liberal Association, Speech at the Northumberland County Convention, Newcastle, New Brunswick, 15 June 1944, J.B. McNair Papers, PANB, RS 414.

⁴⁹

"New Brunswick's Premier", The Liberal Advocate, p. 5.

The Report of the Royal Commission on Dominion Provincial Relations at a small ceremony on 11 May 1940 and he tabled it in Parliament on 16 May 1940.⁵⁰

The Report was an extraordinary document calling for a complete revamping of Dominion-provincial fiscal relations. The commissioners recognized that regional disparities existed. Throughout their investigation they had seen that some provincial governments had budgetary surpluses while others struggled to provide "those community services which Canadians have come to look on as the minimum which their governments should supply."⁵¹ To try and ensure that these minimum standards would be met across Canada the Commission advanced two sets of financial recommendations known as Plan I and Plan II.

Plan I, as the title suggests, was the set of recommendations that the Commission favoured.⁵² Key among its recommendations was that the provinces grant Ottawa sole authority to levy income, corporation, and succession taxes, thereby simplifying the tax structure and doing away with

⁵⁰

Fransen, "Unscrewing the Unscrutable", pp. 374-5.

⁵¹

Report of the Royal Commission on Dominion-Provincial Relations, Ottawa: King's Printer, 1940, Book II, p. 79.

⁵²

See Ibid., pp. 81-86.

double taxation. In return for granting the Dominion this concession, the provinces would be relieved of having to provide for the unemployed. The provinces would also forego all federal subsidies that they were receiving, but in return Ottawa would absorb all provincial debts.

Meanwhile, a system of National Adjustment Grants, designed to ensure a minimum standard of social services for all Canadians, would be instituted. To arrive at the amount that each province was to receive the Commission calculated the expenditure required to ensure the desired minimum standard of services and compared it with the province's revenues. If there was a deficit, that is if the province's revenue was less than the required expenditure, then the province was to receive a National Adjustment Grant.⁵³ The Commission was hopeful that establishing a national minimum standard of social services would help foster a sense of national unity. According to the Commission's calculations six provinces, New Brunswick among them, were to receive these National Adjustment Grants. Only Ontario, Alberta, and British Columbia would not. Yet the Commission was careful to emphasize that although Ottawa would pay the provinces these grants to ensure a national minimum standard of social services, the actual responsibility for

⁵³

Ibid., pp. 125-130, 269-275.

administering these services would remain with the provinces. Social services had been delegated to the provinces under the British North America Act; there was to be no redistribution of jurisdiction.⁵⁴

Plan II, on the other hand, was less involved.⁵⁵ It merely called for the federal government to assume the responsibility for unemployment relief. In fact, the second plan was purposely designed to be inferior to the first to increase the pressure on the provinces to accept the one favoured by the Commission.⁵⁶

The Report also addressed the issue of the war. While recognizing that "the decisions underlying the recommendations contained in the Report were reached before the outbreak of War," the Commission stressed that their recommendations were "framed with the possibility of emergencies in mind and are ... sufficiently flexible to be adjusted to any situation which the War may produce." The Commission even went so far as to state that the need to adopt the Report's recommendations "is far greater and far more urgent in time of War and post-War reorganization than

⁵⁴

Ibid., pp. 31-35, 276.

⁵⁵

See Ibid., pp. 131-136.

⁵⁶

Fransen, "Unscrewing the Unscrutable", p. 383.

it is in time of peace."⁵⁷ They saw that Dominion control of the lucrative direct tax fields was vital to fund Canada's maximum war effort.

In their conclusion the Commissioners emphasized the fact that although their financial recommendations may appear at odds with the British North America Act there were also some remarkable similarities. In 1867 Ottawa was given the chief taxing power of the day: the customs and excise tax. Likewise the Commissioners recommended that Ottawa be granted what in 1939 was the chief taxing power: personal income, corporation, and succession taxes. In 1867 the Dominion paid the provinces subsidies to assist them in performing their responsibilities. In 1939 the proposed National Adjustment Grants would fill this role.⁵⁸ In essence, the Commissioners did not believe that they were rewriting the constitution; they were merely updating it. In this manner they hoped to consolidate what the Fathers of Confederation began over 70 years earlier.

But the tabling of the Report was not acceptance. King, wary of implementing the report during wartime, hoped that the Dominion would be able to raise enough money to

⁵⁷

Report of the Royal Commission on Dominion-Provincial Relations, Ottawa: King's Printer, 1940, Book II, p. 275.

⁵⁸

Ibid., pp. 273-274.

fund the war without having to act on the Commission's recommendations to exclude the provinces from the income and corporation tax fields. To this end the September 1940 budget called for the Dominion to increase its personal and corporation income taxes by 20 per cent. This, when combined with "substantial increases in taxes on liquor, tobacco, etc." was expected to increase federal tax revenue by 14 per cent.⁵⁹ This proved insufficient.

Finally Graham Towers, Governor of the Bank of Canada, met with King on the precarious position of provincial finances. Arguing that both New Brunswick and Saskatchewan "had maturities coming due which they would be unable to meet without federal assistance," and that one provincial default would likely lead to others, he implored King to adopt the Commission's recommendations.⁶⁰ Although not entirely convinced, King did concede that a Dominion-provincial conference to discuss the Rowell-Sirois Report might be feasible before the war's end.

But still King delayed. Always the politician, he was concerned that Hepburn would use such a conference as a

⁵⁹

Financial and Economic Aspects of Canada's War Effort, undated, unsigned, PAC, RG 19 Vol. 3538. There were also increases in taxes on beer, wine, tea, coffee, and soft drinks.

⁶⁰

Fransen, "Unscrewing the Unscrutable", pp. 394-95.

platform to criticise the federal government, making King look bad in the process.⁶¹ As the need for the Dominion to have exclusive access to major tax fields in order to finance the war become more pressing, a conference appeared necessary. King and his Cabinet quickly developed a plan for circumventing the expected Hepburn onslaught. "[O]nly the conciliatory approach ... would get us anywhere in the discussion," King believed, "and if we take the 'take it or leave it' attitude, that attitude would be blamed for the failure of the conference." Furthermore, King thought that there was nothing

Hepburn and Aberhart would like better than for the Federal Government and myself in particular to take an arbitrary and dictatorial position. Hepburn would run his provincial campaign on the effort of Ottawa to take from Ontario all its powers, privileges, rights, to sacrifice them to Quebec or to the Prairies.⁶²

By taking this conciliatory tack King hoped that should the conference prove a success Ottawa would receive credit for its bold initiative; if it failed the dissenting provinces would be to blame. With this strategy firmly in place, King was prepared to meet the premiers.

Provincial invitations to attend the Dominion-

⁶¹

J.W. Pickersgill, *The Mackenzie King Record: Volume 1, 1939-1944*, Toronto: University of Toronto Press, 1960, p. 159.

⁶²

Ibid., p. 160.

Provincial Conference of 1941 were tendered on 2 November 1940. In these letters King made the Dominion's position clear:

The Report commends itself strongly to our judgement [and] ... no time should be lost in arranging for a conference with the Provinces, in order to secure ... the adoption of the Commission's recommendations.⁶³

King criticised the "overlapping, cumbersome, and discriminatory character" of the Canadian tax structure that had led to "struggles between the Dominion and the Provinces" to secure revenues. Arguing the Canadians "must think first of winning the war," he urged the provinces to come to Ottawa willing to accept the Commission's recommendations in order to "pursue a policy which will achieve the maximum war effort and ... lay a sound foundation for post-war reconstruction."⁶⁴

King continued with this conciliatory approach during his opening address to the conference on 14 January 1941. He reiterated the Dominion's belief that adoption of the Commission's recommendations was "necessary" to ensure the maximum war effort, while at the same time laying the foundation for post-war reconstruction. He stressed that

⁶³

W.L.M. King to J.B. McNair, 2 November 1940, J.B. McNair Papers, PANB, RS 414. Identical invitations were mailed to each of the provincial premiers.

⁶⁴

Ibid.

Ottawa was not trying to "impose the recommendations of the report upon the provinces," stating that "it is one thing ... to try to force a solution, and quite another to do our utmost to find one." Ottawa was approaching the conference "in a spirit of conciliation and cooperation," King said, and it was hoped the provinces would do the same.⁶⁵

Any hopes King had of an amicable meeting with the provincial premiers were dashed, however, when Mitch Hepburn took the floor. Hepburn had come to the conference, he said, "with blood in my eye and dandruff in my mustache."⁶⁶ With characteristic bluster, he condemned the Report as "the product of the minds of three professors and a Winnipeg newspaperman."⁶⁷ He maintained that wartime was not the time to hold a conference on what was, he argued, a peacetime document. In a strong indictment of King, he accused the prime minister of "fiddling while London is burning," and trying to "fight this war with the last drop of printer's ink and to the last page of Hansard."⁶⁸ But

⁶⁵

Proceedings of Dominion-Provincial Conference 1941, p. 5-6.

⁶⁶

As cited in Alway, "Hepburn, King, and the Rowell-Sirois Commission", p. 135.

⁶⁷

Proceedings of Dominion-Provincial Conference 1941, p. 11.

⁶⁸

Ibid., pp 15-16.

Hepburn made one important concession. The Ontario premier, recognizing the "extreme, even dictatorial, power" granted the central government under the War Measures Act, stated that

[i]f there is anything specific that the dominion government wants to help in its war effort, say so, and I am sure every province will assist by passing immediately the necessary enabling legislation.⁶⁹

With these words Hepburn committed Ontario to supporting the federal government's actions, so long as they were limited to the period of the war.

Next up was Quebec's Adelard Godbout, followed by Nova Scotia's A.S. MacMillan. Godbout, though not hostile to the Report, was noncommittal about whether he would endorse it; and MacMillan stated he could not endorse the Report as it stood. Both, however, pledged to study the document and affirmed their commitment to the war effort.⁷⁰

Following Godbout and MacMillan come New Brunswick's new premier, J.B. McNair. Although McNair felt that the financial plan recommended by the Commission "was really the crux of the report," he refused at that early date "to

⁶⁹

Ibid., p. 16.

⁷⁰

Ibid., pp 16-17.

express a definite opinion thereon."⁷¹ Personally, although opposed to any over-centralization of authority, McNair was "very favourably disposed towards the Report and he considered it of great value."⁷² In closing, McNair affirmed New Brunswick's desire to "cooperate fully" in studying the Report while at the conference.⁷³ Of the provinces to speak after New Brunswick, Alberta and British

71

Ibid., p. 19. See also B.M. Hill to W.L.M. King, 26 December 1940, W.L.M. King Papers, NAC, MG 26 J1, Vol. 289 244281-2, where Hill states that McNair considered "the financial recommendations as between the Dominion and the Provinces ... [are] the most important at present time and will require the entire time given for the Conference to come to a decision."

72

B.M. Hill to W.L.M. King, 26 December 1940, W.L.M. King Papers, NAC, MG 26 J1, Vol. 289, 244281-2.

73

Proceedings of Dominion-Provincial Conference 1941, p 20. Interestingly, an earlier draft of McNair's opening remarks concluded with a strong cry for cooperation. "This is an occasion for us to prove to the world how democracy functions at its best. Differences of opinion are bound to be found here. It would be strange if it should prove otherwise. But such will not make for disunity if our proceedings are carried on in a spirit of mutual understanding, tolerance and good-will. Any other attitude in these days would savour of treason; certainly no other attitude would be in taste. There are too many enemies at our gates that we should in these critical times when our national existence is at stake to permit ourselves the luxury of domestic quarrels." It is unknown whether this passage was removed prior to the start of the Conference, or if in light of Hepburn's fiery opening statement McNair felt that this paragraph was redundant. See Untitled Draft of Speech, undated, unsigned, J.B. McNair Papers, PANB, RS 414.

Columbia not surprisingly condemned the Report while Prince Edward Island, Manitoba, and Saskatchewan endorsed it.

New Brunswick's position was influenced primarily by two memos concerning the Commission's Report. The first, dated 29 November 1940, was written by Walter Jones. Jones claimed that "[t]he recommendations of the Commission seem ... quite favourable to this province." He also claimed that he had impressed upon the Commission the point that provincial assistance should be based upon the principle of fiscal need, "and our suggestions in that respect have been followed by the Commission."⁷⁴ Furthermore, ceding the right to levy corporation taxes to Ottawa favoured New Brunswick "because of our relatively small corporations taxes."⁷⁵ All told, according to Jones' calculations New Brunswick's financial position would improve by \$1,315,000 annually. This was in part offset by the fact that the position of the province's municipalities would be impaired to the tune of \$40,000, necessitating "some financial readjustment between the Province and some at least of its

⁷⁴

Walter P. Jones, Royal Commission on Dominion-Provincial Relations: Preliminary Report, 29 November 1940, J.B. McNair Papers, PANB, RS 414, p. 9.

⁷⁵

Ibid., p. 10. Although New Brunswick had not made use of the personal income tax some of the province's municipalities had. These were the municipalities that Jones claims should be reimbursed.

municipalities."⁷⁶ Still, New Brunswick would end up with a budgetary surplus of \$2,250,000 or \$5.51 per capita, the highest per capita surplus in Canada.

Table 1.1 Financial Position of New Brunswick under Plan I	
Provincial Revenues:	\$5,100,000
National Adjustment Grant:	<u>+\$1,500,000</u>
Total:	\$6,600,000
Provincial Expenditures:	<u>-\$4,350,000</u>
Surplus:	\$2,250,000

Source: Walter P. Jones, Royal Commission on Dominion Provincial Relations: Preliminary Report, 29 November 1940, J.B. McNair Papers, PANB, RS 414, p. 5.

The second memo, included without signature in the McNair papers, was not so optimistic. It based its pessimism on the fact that Plan I would cost \$40,000,000, of which Ontario, since it paid approximately 50% of all taxes levied in the Dominion, would be expected to pay \$20,000,000. It assumed that Ontario would be unwilling "to contribute the 20 millions in the interests of the other provinces" and thus would refuse to participate, thereby leaving the other provinces to make up this lost revenue. New Brunswick's share of this would amount to an extra contribution of \$1,170,000 per year, practically negating the province's National Adjustment Grant of \$1,500,000 leaving only \$330,000. In addition, the province would have

⁷⁶

Ibid., p. 5

to reimburse the municipalities \$1,300,000 for relinquishing the income tax, thereby wiping out what remained of the improvement shown by the Report of \$1,330,000 before the adjustment grant was considered, leaving only \$30,000.⁷⁷ The net gain to the province, therefore, was only \$360,000 (\$330,000 + \$30,000). This led the memo to conclude "it would seem that this province would do no better even from a financial standpoint under Plan I than it is doing at present." Furthermore, the memo recommended that McNair not "lightly throw away" New Brunswick's right to levy personal income and corporation taxes, for "it is impossible to foretell how valuable such powers may be in the future" and that he "defer the making of any agreement especially during the war period."⁷⁸ It is likely that McNair's reluctance to express any opinion on the Commission's recommendations while at the conference came from the widely divergent views of his advisors.

77

See Report of the Royal Commission on Dominion-Provincial Relations, Ottawa: King's Printer, 1940, Book III, p. 74. The actual surplus for New Brunswick prior to the National Adjustment Grant was calculated as \$1,336,000. Walter Jones calculated this surplus as being \$1,315,000. See Walter Jones, Royal Commission on Dominion-Provincial Relations: Preliminary Report, 29 November 1940, p. 5, J.B. McNair Papers, PANB, RS 414.

78

Memorandum for the Honourable J.B. McNair, Premier, Fredericton, 26 December 1940, unsigned, J.B. McNair Papers, PANB, RS 414.

Following New Brunswick at the conference came the addresses of John Bracken of Manitoba, British Columbia's T. Dufferin Patullo, Thane Campbell of Prince Edward Island, Saskatchewan Premier W.J. Patterson, and Alberta's William Aberhart. Their respective positions concerning the Report were hardly surprising; Patullo and Aberhart were still against it while the other premiers, leading provinces hard hit by the Depression, endorsed it. When the opening remarks of all the premiers had been heard, the conference adjourned for the day.

The next day called for the provincial premiers to meet in various committees to discuss different aspects of the Report. Hepburn, Aberhart, and Patullo, perhaps motivated in part by their provinces' exclusion from the National Adjustment Grant system, refused to "sit on committees for the purpose of considering and discussing matters predicated upon the Rowell-Sirois report, as they were opposed to it on principle."⁷⁹ Thus no committees were appointed and the conference had for all purposes come to an end.

But prior to formally dissolving the conference King allowed Minister of Finance J.L. Ilesley to make a brief statement. Ilesley made it clear that unless the Report was adopted the Dominion would have to increase its rate of

⁷⁹

Proceedings of Dominion-Provincial Conference, 1941, p. 70.

personal income tax and corporation income tax, which would mean a decline in provincial revenue. Likewise, Ottawa would probably have to "invade provincial tax fields such as succession duties." Ottawa would also be forced to opt out of assisting the provincial governments in paying the cost of unemployment relief, for which the Dominion paid 40%. They would also likely have to ration gasoline, thereby curtailing provincial revenues from gasoline taxes and automobile licences. Ilesley left no room for misinterpretation; "[w]e shall do it reluctantly, but do it we will, if necessary to win this war."⁸⁰ As Jack Granatstein has written, "[t]he velvet glove that Mackenzie King ... had carefully drawn on had been removed by the Minister of Finance."⁸¹

Hepburn could not let Ilesley's remarks go unchallenged. "[I]f you want to do something as a war measure," he yelled, "go ahead and do it. But don't smash this confederation and stir up possible racial feud in you efforts. ... If you want to prosecute the war on a basis of cooperation with the

⁸⁰

Ibid., p. 75.

⁸¹

Jack Granatstein, *Canada's War: The Politics of the Mackenzie King Government, 1939-1945*, Toronto: Oxford University Press, 1975, p. 171.

provinces," he continued, "we are prepared to cooperate;"⁸²

but if the Prime Minister insists that everything has to be predicated upon the principle of a report to which we object, then there is no alternative open to my colleagues and myself but to withdraw and to leave these wreckers of confederation, under the guise of patriotism, to carry on their nefarious work.⁸³

So ended what Alex Skelton, who was present, deemed "the goddamnedest exhibition and circus you can imagine."⁸⁴

Still, to Mackenzie King the conference was a success. While admitting that on the surface it may have appeared a failure,

in reality it has served the purpose we had in view, of avoiding attack for not having called the Conference, and particularly what would certainly have followed, invasion of provincial sources of revenue. We now have the pledge of the Provinces to let us take their revenues if we need them- a tremendous achievement.⁸⁵

Yet the question remained, just how would the federal government go about doing this?

The answer came from Walter Gordon, an assistant to Clifford Clark in the Department of Finance. Gordon suggested that the tax proposals should be concerned only

⁸²

Proceedings of Dominion-Provincial Conference, 1941, p. 79-80.

⁸³

Ibid., p. 80.

⁸⁴

As cited in Fransen, "Unscrewing the Unscrutable", pp. 440-441.

⁸⁵

Pickersgill, *The Mackenzie King Record*, p. 162.

with funding the war and not with the Rowell-Sirois Report social aims. He proposed that the federal government announce the taxes it intended to impose, while at the same time offering to enter into an agreement with any province willing to forego its right to levy personal income and corporation taxes for the duration of the war. In return for granting the Dominion this privilege the province would receive a fixed annual payment based upon "the amounts of their tax revenues augmented slightly in the case of the poorer provinces." Ottawa was to make it explicit that the provinces were not being forced into this agreement and that they were able to continue levying their own taxes. But if a province decided to remain in these tax fields they would not receive the federal payment. The key to Gordon's proposal was that the taxpayers in a province that failed to enter an agreement with Ottawa would be forced to pay both the federal and provincial taxes applicable, something that would undoubtedly be unbearable.

[T]he full tax rates to be levied by the federal government, plus the taxes imposed by a province that was unwilling to enter an agreement, would exceed one hundred percent of taxable income in many cases. ... [Every province would have to accept it [the agreement] if the federal government was firm enough.⁸⁶

⁸⁶

Walter L. Gordon, *Walter L. Gordon: A Political Memoir*, Toronto: McClelland and Stewart, 1977, p. 38. See also Denis Smith, *Gentle Patriot: A Political Biography of Walter Gordon*, Edmonton: Hurtig Publishers, 1973, pp. 22-24; and

As Minister of Public Works P.J.A. Cardin put it, "[i]t would be like playing poker with the provinces, but this time the federal government would have all the aces."⁸⁷

On March 31, Ilesley made good on his threat to end Dominion assistance for direct unemployment relief. Almost one month later, Ilesley incorporated Gordon's suggestion into his budget address of April 29. The provinces were asked to refrain from levying income and corporation taxes. In return the provinces would receive either:

1. The greater of:
 - a) The revenues actually received from those sources during the fiscal year ending closest to December 31, 1940; or
 - b) The cost of the net debt service, less succession duties received, in the same fiscal year; and
2. A fiscal need subsidy, where the necessity was demonstrated

Furthermore, the Dominion agreed not to interfere with the special taxes that the provinces levied on timber limits, oil wells, mining, or other natural resources. Ottawa also guaranteed that should provincial revenues from gasoline taxes fall below the 1940 level the federal government would

David W. Slater with R.B. Bryce, *War, Finance and Reconstruction: The Role of Canada's Department of Finance, 1939-1946*, Ottawa, 1995, pp. 47-49.

⁸⁷

Ibid., p. 38.

make up the difference. Ilesley also made it clear that the provinces could withdraw from the agreement at any time.⁸⁸

Ilesley's proposals necessitated another round of meetings between the Dominion and the provinces. On 18-19 December 1941, representatives of the Dominion and the provinces gathered in Ottawa "to discuss the proposed draft agreements to implement the offer made to the provinces in the last Dominion budget." As this was not "a formal inter-provincial conference in the ordinary sense" the minutes were not published, because, according to a government memo,

in a meeting of this sort between governments in which certain aspects of the financial and position of the various governments were discussed, the freedom of discussion would have been seriously impeded in any other decision had been reached.⁸⁹

In his opening remarks Ilesley reiterated what he had said at the prior conference. Since "the whole world is in flames" Ottawa must be able to utilize "the powerful instrument of taxation" without having to consider "what effect it would have upon ... the nine provinces." This set the tone for this "unofficial" conference; the federal government had announced what it was going to do and the

⁸⁸

R.M. Burns, *The Acceptable Mean; The Tax Rental Agreements, 1941-1962*, Toronto: Canadian Tax Foundation, 1980, p. 26.

⁸⁹

Memo Re: Mr. Pouliot's Question Concerning Dominion Provincial Conference, undated, unsigned, PAC, RG 19, Vol 2702.

provinces had little choice but to accept. This meant that the bulk of the meeting was taken up with provincial griping. Most of the first day was consumed by Ontario's problems with Ottawa's definition for corporation tax. G.D. Conant, the leader of the Ontario delegation, felt that the federal government's definition was too broad. The federal government, in turn, believed that Conant's explanation of the term was too narrow. Finally New Brunswick's McNair stepped in to alleviate the growing quarrel. He suggested that they merely enumerate in a list those taxes that were to remain in the provincial realm and those that would be transferred to the Dominion. This idea proved agreeable to all parties.⁹⁰ But still Ontario was not pleased with the Dominion's actions. They felt that the Dominion had left them "in the position where we shall not be able to continue some of the services which we at present maintain without creating deficits that will entail borrowing."⁹¹

At this conference the federal government made an important concession to the Maritime provinces regarding non-statutory subsidies that had been paid to the eastern

⁹⁰

Meeting of Provincial Treasurers with Dominion Government, 18-19 December 1941, Ottawa, pp. 30-34, PAC, RG 19, Vol. 2702.

⁹¹

Ibid., p. 61. These services included mother's allowances and cost of living bonuses.

provinces. The Maritimes held that in reality these payments amounted to *de facto* statutory subsidies. Faced with this petition the federal government adopted a curiously incongruous position. Although they would not pay the subsidies while the Wartime Tax Agreement was in effect, they apparently agreed with the Maritime position:

It has been pointed out and the dominion government agree that the special grants to the Maritime Provinces awarded as a result of the Duncan and White Commissions represent in fact, an additional subsidy which the Dominion is morally bound to continue. It is for this reason that a special clause is to be inserted in the agreements with the Maritime Provinces that the Dominion recognizes that these grants are in the nature of a subsidy and undertakes to continue paying them upon the termination of the proposed agreement.⁹²

The Dominion also promised to incorporate this in a new statute "so as to avoid any possibility of misunderstanding at a later date."⁹³

On the second day it was Quebec's turn to gripe. Quebec had recently switched the end of their fiscal year from March 31 to June 30. The province was therefore upset when the Dominion calculated their payment in the agreement

⁹²

Ibid., p. 58.

⁹³

Ibid., p. 58. This act, *The Maritime Provinces Additional Subsidies Act (1942)*, guaranteed New Brunswick \$900,000, Nova Scotia \$1,300,000, and Prince Edward Island \$275,000. This amount was not payable, however, as long as *The Dominion Provincial Taxation Agreement Act (1942)* remained in effect.

based upon a fiscal year ending on March 31. At issue were two months of lucrative wartime revenue being included in their payment. When all the other provinces backed Quebec, more out of apathy than any genuine sense of comradeship, the Dominion acquiesced. For the purposes of calculating Quebec's rental payment the fiscal year would end June 30. Following the solution of Quebec's grievance the leaders of the provincial delegations were allowed to make their closing statements.

J.B McNair, in his speech, made clear New Brunswick's position. He felt that the atmosphere at this conference "compared more favourably" with that of the Rowell-Sirois conference. He never believed that the January conference to consider the Rowell-Sirois Commission's recommendations had any hope of success. He regretted that "we did not get to the point where we could have discussed what had been presented by a competent body as something in the nature of a constructive plan." Furthermore, McNair was of the opinion that had the premiers of Ontario, British Columbia, and Alberta not walked out on that prior meeting that they

would have reached some arrangement akin perhaps to that which we are trying to work out at the present time. If we had done so we would have approached this problem ... in a more favourable light than we were actually able to do.⁹⁴

⁹⁴

Ibid., p. 229.

McNair was displeased with Ottawa's use of 1940 as the base year for calculating the rental payments. He argued that Ottawa was entering the provincial tax fields when their yields were on the increase and then would return them when the yields were declining.⁹⁵ To this Ilsley's answer was simply that 1940 had been chosen as the base year because its revenues were "neither unduly low nor unduly high." McNair was also unsatisfied with New Brunswick's \$300,000 fiscal need subsidy, for under the Rowell-Sirois recommendations the province would have received "in round figures, ten times the amount indicated."⁹⁶ Yet still, as the threat of the war was of paramount concern, he would accept it as it was, "the sincere effort of a sincere man [Ilsley] to arrive at an equitable settlement." He would, therefore, "recommend to the legislature, as soon as possible, the adoption of the agreement."⁹⁷

On 27 March 27 1942, the Legislative Assembly of New Brunswick assented to *An Act To Suspend Temporarily the Imposition of Income Taxes, Corporations Taxes, and Taxes on*

⁹⁵

Francisco, "New Brunswick Finances", p. 96.

⁹⁶

Meeting of the Provincial Treasurers with Dominion Government, 18-19 December 1941, Ottawa, p. 7, PAC, RG 19, Vol. 2702.

⁹⁷

Ibid., p. 232.

Securities. They, along with Nova Scotia, Prince Edward Island and Saskatchewan, opted for the funded debt option of the Dominion's proposal. This guaranteed Fredericton an annual payment of \$3,278,574.15, although the province was giving up revenues of \$3,350,067.45. This meant that New Brunswick suffered a net loss of \$71,493.30 under the agreement. Ottawa agreed to make up this net loss, as well as pay a yearly fiscal need subsidy of \$300,000. In essence, although New Brunswick's fiscal need subsidy was stated as \$371,493.30, the province only experienced a net gain of \$300,000. This effectively stabilized the revenues of New Brunswick for the duration of the war. Yet it was still a substantial increase in provincial revenue, and with the anticipated boom that the war would bring the province's financial position would surely improve.

The adoption of the Wartime Tax Agreement laid the groundwork for the Keynesian revolution that was to influence government economic planning during the post-war period. Based upon theories espoused in Cambridge economist John Maynard Keynes' *The General Theory of Employment Income and Money*, Keynesian theory maintained that the state could help regulate the economy.⁹⁸ By implementing counter-

⁹⁸

John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, London: Macmillan and Co. Ltd., 1936.

Table 1.2 New Brunswick's Payment Under the Wartime Tax Agreement	
Payment to Province	
Net Debt Charges:	\$3,826,396.98
Less Succession Duty Receipts:	<u>-\$547,822.83</u>
Total:	\$3,278,574.15
Provincial Revenue Lost	
Provincial:	\$1,065,657.22
Municipal:	<u>+\$1,384,410.23</u>
Subtotal:	\$2,450,067.23
Plus Subsidies:	<u>+\$900,000</u>
Total:	\$3,350,067.45
Net Loss of Revenue	
Payment to Province:	\$3,278,574.15
Provincial Revenue Lost:	<u>-\$3,350,067.45</u>
Net Loss:	\$71,493.30
Total Fiscal Need Subsidy:	\$300,000 <u>+\$71,493.30</u> \$371,493.30
Total Amount Payable:	\$3,278,574.15 <u>+\$371,493.30</u> \$3,650,067.45

Source: Meeting of the Provincial Treasurers with Dominion Government, 18-19 December 1940, Ottawa, PAC, RG 19, Vol. 2702

cyclical budgeting the state could control the natural upward and downward trends found in capitalist economies. For example, in periods of depression and high unemployment the state should increase its budget, spending the capital on public works programs. The money paid to those working on the projects would then be reinjected into the economy, in theory boosting it and alleviating the depression. The state could then budget for a surplus during times of prosperity and use this excess money to pay off the deficits incurred during times of hardship. One of the prerequisites for this type of massive state intervention is access to sufficient revenue necessary to implement these counter-cyclical budgets. Under the Wartime Tax Agreement Ottawa had access to this type of revenue in the form of income, corporation, and inheritance taxes. As Keynesianism spread through Ottawa's backrooms, winning over the mandarins and planners in the Department of Finance, it became increasingly apparent that Canada's post-war economic planning would be heavily influenced by the theories put forth by the British economist.⁹⁹

⁹⁹

J.L. Granatstein, *The Ottawa Men: The Civil Service Mandarins, 1935-1957*, Toronto: Oxford University Press, 1982; See also Alvin Finkel, "Paradise Postponed: A Re-examination of the Green Book Proposals of 1945", *Journal of the Canadian Historical Association*, New Series, Volume 4, 1993, pp. 132, which explains that the version of Keynesianism adopted by Canada's Department of Finance was,

Noted Canadian historian Ramsay Cook has criticised King's handling of the Rowell-Sirois Report. "Mr. King", writes Cook, "...receives poor marks for his dealings with the provinces ..." for failing to implement the recommendations of the Commission.¹⁰⁰ Yet the Commission's recommendations were rejected outright by three of the nine provinces, Ontario, Alberta, and British Columbia, and it is likely that Quebec would have joined them in their opposition. Furthermore, Nova Scotia had announced that it could not accept the proposals as they stood and New Brunswick's position went unstated, leaving only three provinces that gave the recommendations their outright endorsement. True, the Commission's recommendations required little in the way of constitutional reform, meaning King could have forced the dissenting provinces to accept the implementation of the Report. Indeed, that is precisely what he did with the Wartime Tax Agreement.

But that agreement was necessitated by the exigencies of the war. To have forced the provinces to accept the Rowell-Sirois Report would have been contrary to the

in the words of Harold Chorney, "a rather mechanical counter-cyclical conservative version of Keynes' ideas."

100

Ramsay Cook, "Nationalism in Canada", in Ramsay Cook, *The Maple Leaf Forever: Essays on Nationalism and Politics in Canada*, Toronto: Macmillan of Canada, 1977, p. 194.

Commission's intent. In attempting to foster a spirit of "second wave" nationalism the Commissioners were careful to respect provincial autonomy. As they stated in their conclusion, "National Unity and Provincial Autonomy must not be thought of as competitors for the citizen's allegiance for they are but two facets of the same thing -- a sane federal system."¹⁰¹ To have forced the acceptance of the Report's recommendations would have done more to rend the fabric of nationalism than to mend it. National unity was not something that could be arbitrarily imposed; it had to be fostered. In implementing the Wartime Tax Agreement King did not give up hope that a broader, more beneficial plan such as that advocated by the Rowell-Sirois Commission could be adopted. In fact, he hoped the Wartime Tax Agreement might in the long run help with that desired goal. Perhaps after the war, he mused, "the provinces will have come to see that the Sirois Report is, after all, what is best for them as well as for us."¹⁰²

Likewise, Ken Jones has criticised the 1942 Wartime Tax Agreement, and by implication the federal government, for "[freezing] the regional imbalance at its 1940 level." The

¹⁰¹

Report of the Royal Commission on Dominion-Provincial Relations, Ottawa: King's Printer, 1940, Book II, p. 269.

¹⁰²

Pickersgill, *The Mackenzie King Record*, p. 177.

1942 agreement, Jones argues, "inevitably allowed that the largest payments would go to the provinces where the tax fields had been [of] most value."¹⁰³ While this is true, it is unfair to fix the blame upon Ottawa. Had Hepburn, Patullo, and Aberhart not walked out of that conference on that cold January afternoon it is possible, albeit unlikely, that an equitable arrangement could have been worked out. But when it became apparent that the conference would end in failure, Ilesley made clear the government's intentions; Ottawa would have to commandeer personal income tax, corporation taxes, and succession duties to finance the war. To forcefully take these tax fields from the provinces caused Ilesley many "sleepless nights," but he did what was required of him by the situation.¹⁰⁴ And it must also be remembered that Ilesley's agreement with the provinces included a fiscal need subsidy. Although not designed to bring social services up to a minimal national standard, but instead to "permit the provinces to stand on their own feet until the end of the war, without coming back to the Dominion for further assistance," it still improved New

103

Ken Jones, "Response to Regional Disparity in the Maritime Provinces, 1926-1942: A Study in Canadian Intergovernmental Relations", MA Thesis, University of New Brunswick, 1980, p. 175.

104

Ibid.

Brunswick's financial position by \$300,000 per year for the duration of the war.¹⁰⁵ Moreover, the expected wartime boom would help to trim provincial expenditures. Although Jones argues that the Wartime Tax Agreement benefited the richer provinces, their financial position remained static. Thus the Wartime Tax Agreement made progress towards alleviating regional disparity, albeit more limited progress than the Rowell-Sirois Commission's recommendations had called for.

105

Minutes of the Meeting of Provincial Treasurers with Dominion Government, 18-19 December 1941, p. 54-56, PAC, RG 19, Vol. 2702.

Chapter 2: Post-War Reconstruction and the 1947 Tax Rental Agreement

The years following the adoption of the Wartime Tax Agreement were tumultuous indeed. The conflict with Germany raged on, its outcome in doubt until the allied invasion of Normandy on 6 June 1944. With the expected cessation of hostilities in the European theatre, the federal government, on 21 June 1944, invited Canada's provinces to a Dominion-provincial conference on reconstruction to be held on 6 August 1945.¹ The federal government came to the conference

1

This conference has received limited attention from historians. For the orthodox viewpoint, which blames the central provinces of Ontario and Quebec for the conference's failure, see Marc J. Gotlieb, "George Drew and the Dominion-Provincial Conference on Reconstruction of 1945-1946," *Canadian Historical Review*, Volume LXVI, No. 1, 1985, pp. 27-47, who provides an analysis of the personality conflict between George Drew and Mackenzie King; and John English, "Dominion-Provincial Relations and Reconstruction Planning, 1943-1946," *Proceedings of Canadian Committee for the History of the Second World War*, Saint-Jean, Quebec, 1977. For a differing interpretation see Alvin Finkel, "Paradise Postponed: A Re-examination of the Green Book Proposals of 1945," *Journal of the Canadian Historical Association*, New Series, Volume 4, 1993, pp. 120-142, which places the blame for the Conference's breakdown upon Prime Minister Mackenzie King's shoulders. It is likely that Drew and King were each

with a sweeping set of initiatives in the fields of health, old age pensions, and unemployment relief which appeared of substantial benefit to the poorer provinces. So too was their offer of an extension of the Wartime Tax Agreement. But Ontario would not agree. The deadlock between the province of Ontario and the federal government resulted in the conference's apparent failure. In spite of Ontario's blocking the implementation of the broad social welfare and public works programmes, the federal government still succeeded in negotiating tax rental agreements beneficial to the poorer provinces, such as New Brunswick. Clearly, progress was being made.

Part of the impetus behind the 1945 conference came from Ontario. There Tory leader George Drew had replaced Liberal Mitch Hepburn as premier, but the strong feelings of animosity that had characterized Dominion-Ontario relations

partially to blame for the conference's demise, for the personal and political animosity between the two men make it doubtful that either would be willing to reach an agreement with the other. For brief treatments of New Brunswick's role in the Conference one should consult R.A. Young, "... and the people will sink into despair: Reconstruction in New Brunswick, 1942-1952," *Canadian Historical Review*, Volume LXIX, No. 2, 1988, pp. 145; and Jennifer Francisco, "New Brunswick Finances, 1917-1952," MA Thesis, University of New Brunswick, 1993, pp. 95-104. See also Penny Bryden, "Pawn or King-Maker: The Maritimes, Ontario, and the Politics of Federalism", Paper presented at Atlantic Canada Studies Conference, University of Prince Edward Island, May 16, 1998, which provides an analysis of Maritime-Ontario relations at the conference.

for the past decade persisted.² Drew wrote Mackenzie King to suggest "the holding of a Dominion-Provincial Conference to consider the questions of post-war employment, reconstruction, and the financial relationship between the Dominion and the Provinces."³ The federal government agreed and invited the provinces to attend.

McNair too welcomed the idea of a Dominion-provincial conference on reconstruction. Such a conference was a fiscal necessity for New Brunswick. Like every province in the Dominion, New Brunswick's taxation structure and economy had been greatly affected by the Second World War. Early in the conflict, New Brunswick had accepted Minister of Finance J.L. Ilsley's proposal that the provinces surrender to the Dominion the right to levy personal income and corporation taxes in return for cash payments. The effect of this tax rental agreement was to stabilize New Brunswick's revenues during the war years, but its temporary nature made

2

George Drew did not immediately succeed Mitch Hepburn. Following Hepburn's sudden retirement from politics in 1942 Gordon Conant became premier. He was soon replaced by Harry Nixon, who in turn was defeated by Drew in the Ontario provincial election of 1943.

3

A.D.P. Henry, Clerk of the Privy Council, to J.B. McNair, 13 January 1944, John Babbitt McNair Papers, Provincial Archives of New Brunswick, Fredericton, RS 414.

inevitable further negotiations after the war's conclusion.⁴

The system of taxation was not the only change initiated by the war. There was a dramatic increase in industrialization in New Brunswick, though not on a par with that of central Canada.⁵ While few war orders were placed within the province, "[t]he general economic prosperity of the nation ... overflowed into [the] region."⁶ An indication of this wartime 'economic prosperity' was the rise in manufacturing output in the province by 112 per cent during the war.

McNair was eager that his province not lose out on the benefits the wartime boom had brought. He knew that although "the fiscal position of the province [had] been strengthened from its precarious pre-war position ... [the]

4

In 1945, for example, New Brunswick received \$ 2,971,578 from the federal government per annum, of which \$ 1,965,657 was "in lieu of corporation and other taxes temporarily surrendered" to the Dominion. See *Synoptic Report of the Proceedings of the Legislative Assembly of the Province of New Brunswick*, 1945, p. 23.

5

For a discussion of Maritime industrialization during World War Two see E.R. Forbes, "Consolidating Disparity: The Maritimes and the Industrialization of Canada during the Second World War", in E.R. Forbes ed. *Challenging the Regional Stereotype*, Fredericton: Acadiensis Press, 1989 pp. 172-199.

6

J.R. Petrie, *The Regional Economy of New Brunswick*, Study Prepared for the New Brunswick Committee on Reconstruction, 1944, p. 410.

situation is temporary."⁷ As R.A. Young has argued, New Brunswick's "competitive position had deteriorated" and the prospect of numerous returning veterans, combined with the end of the "extraordinary demand" brought about by the war, would "accentuate the re-emergence of the old economic weaknesses."⁸ McNair believed that New Brunswickers would not tolerate a return to pre-war conditions. As his secretary later recalled, he "used to say that people just won't believe, after the war effort, that we can't stop people from being unemployed and can't provide three square meals for everyone. They just wouldn't believe that it couldn't be done."⁹

The purposes of the conference as set out in the invitations to the provinces included the identification of future needs and problems, the delineation of the "broad lines of Government policy and action which would be appropriate to assist in meeting these problems and needs," and specifically to "recommend the most effective allocation

7

Petrie, *The Regional Economy of New Brunswick*, p. 449.

8

Young, "... and the people will sink into despair: Reconstruction in New Brunswick, 1942-1952", p. 134.

9

Quotation attributed to R.A. Tweedie, Fredericton, 22 June 1976, in R.A. Young, "...and the people will sink into despair: Reconstruction in New Brunswick, 1942-1952", p. 135.

of responsibility between governments in Canada for carrying out policies generally agreed on as desirable."¹⁰ The federal government offered specific proposals to achieve these goals. Commonly called the "Green Book" proposals, these included a three-tiered plan in the areas of public investment, social services, and such fiscal matters as an extension of the Wartime Tax Agreements.

The federal government's public investment policy was an attempt to control unemployment via Keynesian means. It was hoped that large-scale state expenditures would help to regulate the economy at a high level "offset[ting] deficiencies in export income or private investment expenditures." It encouraged the provinces to co-operate with the municipalities in the timing and direction of their public investments.¹¹ To this end Ottawa would provide factual information, technical assistance, and 20 per cent of the cost of approved (by the federal government) provincial and municipal public works programmes.¹²

¹⁰

Memorandum of Suggestions for the Agenda and Procedure, 15 May 1944, J.B. McNair Papers, PANB, RS 414.

¹¹

Wilfrid Eggleston, *The Road to Nationhood*, Toronto: Oxford University Press, 1946, p. 215.

¹²

Dominion-Provincial Conference (1945), *Proposals of the Government of Canada*, p. 26.

Ottawa also made proposals regarding social security. It hoped that a "nationally based and nation wide social security programme can strengthen true Canadian unity."¹³ To achieve this desired goal the Dominion proposed programmes of "Health Insurance, National Old Age Pensions, and Unemployment Assistance ... [which would] give Canadians a system of social welfare which will meet the main needs of our whole population."¹⁴ The National Health Programme would include a "Grant for Planning and Organization" of provincial health insurance in the sum of \$5000 per province, plus 5 cents per capita according to the 1941 census, with which each province was expected to "establish a full-time planning staff to prepare for and organize health insurance benefits within the province."¹⁵ The Dominion would also pay a basic grant of one-fifth of each province's *estimated* cost of health services, as well as one-half of the additional *actual* cost of providing said services, so long as the federal contribution did not exceed a maximum of \$12.96 per person.¹⁶ Moreover, Ottawa also

¹³

Ibid., p. 28.

¹⁴

Ibid., p. 27.

¹⁵

Ibid., p. 31.

¹⁶

Ibid., p. 31.

offered \$13,600,900 for a series of eight health grants, of which New Brunswick's share was to be \$627,000.¹⁷ These grants proved very attractive to McNair, as in 1944 New Brunswick had spent only \$212,000 on public health services, the lowest per capita expenditure in Canada.¹⁸ Furthermore, the federal government was willing to provide low interest loans to the provinces to aid in the construction of hospitals.

In making these proposals Ottawa recognized the "wide variations in the quality of [health] services across Canada." The federal government hoped that adoption of their plan would remove these

disparities in standards of health services in different parts of Canada, to avoid the risks of sudden heavy expenditures, and distribute health costs more widely and equitably, and above all, to obtain the benefits of better health for the great majority of our people.¹⁹

Ottawa's proposals on Old Age Pensions included the Dominion's assumption of sole responsibility for providing a

¹⁷

These health grants included a General Public Health Grant, a Tuberculosis Grant, a Mental Health Grant, a Venereal Disease Grant, a Crippled Children Grant, a Grant for Professional Training, a Grant for Public Health Research, and a Grant for the Civilian Blind. *Ibid.*, pp. 34-35.

¹⁸

Dominion-Provincial Conference on Reconstruction (1945), *Health, Welfare and Labour Reference Book*, p. 14.

¹⁹

Ibid., p. 29.

payment of \$30 per month to all aged 70 or older "regardless of means."²⁰ The federal government would also split equally with the provinces the costs of a needs-based pension to those aged 65-69 to a maximum of \$30 per month. For New Brunswick to provide a pension of \$30 per month to all eligible under the system then in operation would have cost the province \$3.1 million. Under the Dominion's proposed system more people would be eligible, yet New Brunswick's cost would fall to \$1.1 million, with Ottawa contributing \$9 million.²¹ Thus a greater number of New Brunswickers would receive a larger pension payment, while the provincial government would spend less.

In the case of unemployment insurance, Ottawa would assume responsibility for providing a "reasonable minimum payment" to unemployed employables. To do so the federal government would extend unemployment insurance to cover all employees. In the transitional period, when this extension of the Unemployment Insurance Act was being implemented and while insurance benefits were being built up, Ottawa would institute "a system of unemployment assistance to be administered in close co-operation with the Unemployment

²⁰

Ibid., p. 38.

²¹

Ibid., p. 40

Insurance Commission and applying the same tests and procedures [as the Unemployment Insurance Act]."²² The provincial governments would still be responsible for providing unemployment benefits to self-employed persons and to those who had been on federal unemployment assistance for two years without acquiring work.

The bulk of discussion at the conference, however, revolved around financial matters and the economy. The federal government and New Brunswick were in agreement on the direction that the economy must take. On the second day of the conference's plenary sessions J.L. Ilsley echoed both the thoughts of McNair and the sentiments of New Brunswickers when, in discussing the Dominion's financial proposals, he stated

that reversion to the conditions of 1939 and earlier years is not what the Dominion Government considers to be a satisfactory transition from war to peace. A relapse to pre-war conditions will not be considered tolerable by the vast majority of this country ... [Canada] must go forward from her wartime achievements and not backward.²³

In order to maintain the nation's economic prosperity, and push Canada "forward from her wartime achievements," Ilsley

²²

Ibid., p. 43.

²³

Dominion-Provincial Conference (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, Ottawa, 1946, p. 112.

proposed a three year extension of the Wartime Tax Agreement of 1942. Since the Ottawa intelligentsia had bought into Keynesian theory, the justification for the federal government's continued exclusive occupation of the personal income, corporation, and succession tax fields²⁴ was based upon the Keynesian lines of counter-cyclical budgeting.

Retention of these tax fields would give the Dominion

the financial resources to finance, when necessary, substantial deficits with unquestionable credit. ... It is to carry deficits at times when they are necessary for the maintenance of employment and income, the Dominion should be in a position to recapture in periods of high employment and vigorous business activity revenue from rising incomes and profits.²⁵

It was hoped that Dominion retention of these tax fields, with the concomitant of Keynesian economic planning, would help avert a post-war depression such as that which followed the First World War.

This statement marked the federal government's first invocation of the policy ideals set forth in its "White

²⁴

The only exception to the Dominion's exclusive jurisdiction of these tax fields was "in the case of taxes on profits from mining and logging operations." This would be beneficial to New Brunswick, as much of the province's economy was based upon forestry. See Dominion-Provincial Conference (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions* p. 114.

²⁵

Dominion-Provincial Conference (1945), *Proposals of the Government of Canada*, p. 48. For more on the federal government's belief in Keynesianism see *Ibid.*, p. 8.

Paper" on Employment and Income(1945), released a few months before. This document, written by Queen's University economist W.A. Mackintosh, set out Ottawa's economic policy for the post-war period. It called for, in almost the same language as the "Green Book" proposals, the federal government in times "when unemployment threatens, to incur the deficits and increases in the national debt resulting from its employment and income policy ... In periods of buoyant employment and income, budget plans will call for surpluses."²⁶

Ottawa now offered substantially larger payments to the provinces than in 1941. The federal government offered to pay the provinces \$12 per capita based upon the Gross National Product of 1941.²⁷ As the GNP increased, so too

²⁶

"White Paper" on Employment and Income(1945), p. 21.

²⁷

Although the official sources do not specify why 1941 was selected as the base year, one can speculate as to why it was chosen. First, 1941 was a census year, thereby ensuring that population and GNP figures were accurate. Secondly, since the payment to the provinces was based upon the premise of \$12 per capita, to increase in proportion to increases in GNP, a base year with a relatively low GNP, such as 1941, would be more attractive to provincial leaders, as it meant that so long as the GNP was greater than in 1941 the actual per capita payment to the provinces would be greater than the \$12 guaranteed minimum. Furthermore, as fears of a post-war depression such as that which followed the First World War were rampant, the use of 1941 as a base year ensured that should the GNP fall, Ottawa would only be responsible for \$12 per capita minimum payment as opposed to a higher amount were another year chosen as

would the per capita subsidy. Furthermore, the \$12 per capita subsidy was a guaranteed minimum, regardless of the GNP. The amounts that would have been paid from 1941 until 1945 had this system been in effect were:

Table 2.1 1941-45 Subsidy Payment Under Proposed Plan		
Year	Gross National Product	Per Capita Subsidy
(Thousands)		
1941	\$ 8361	\$ 12.00
1942	\$ 10268	\$ 15.00
1943	\$ 11137	\$ 16.00
1944	\$ 11727	\$ 16.80
1945	\$ 11300	\$ 16.20

Source: *The Dominion-Provincial Conference: An Interim Report*, Winnipeg Free Press Pamphlet No. 6, Winnipeg, 1946, p. 34.

At the conclusion of Ilsley's presentation George Drew moved that the conference use "these proposals as the basis for our discussion and consideration."²⁸ The conference's plenary sessions adjourned on August 10 at 3:20 p.m., to reconvene on 26 November 1945. By that time, "it was expected that all the provinces would be prepared to submit their views on the Dominion Proposals as well as any counter-proposals they might wish to bring before the

the base.

²⁸

Dominion-Provincial Conference (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, p. 121.

Conference."²⁹

The financial proposals made by Ilsley suited McNair just fine. He was not averse to an extension of the Tax Rental Agreement. Indeed, this was what he wanted. Earlier that year, in the Legislative Assembly of New Brunswick, McNair had stated that

The plan of operation which brought about the existing financial arrangements between the Dominion and the Provinces may well prove the pattern of action in the post-war period. It makes possible the negotiation of proper financial terms between the Dominion and the Provinces.³⁰

This was not an attitude that McNair came to blindly. In *The Regional Economy of New Brunswick*, a study commissioned by the New Brunswick Committee on Reconstruction, J.R. Petrie, a professor of economics at the University of New Brunswick and the committee's secretary, argued that "income and corporation taxes, and succession duties be transferred to the federal authority ... [and a] system of federal grants in lieu of these taxes should be worked out."³¹

²⁹

Ibid., p. 197.

³⁰

Synoptic Report of the Proceedings of the Legislative Assembly of the Province of New Brunswick, 1945, p. 273.

³¹

Petrie, *The Regional Economy of New Brunswick*, p. 234. For other examples of Petrie proposing an extension of the Tax Rental Agreement see also pp. 231, 442-4, 471. See also B.S. Keirstead, *The Economic Effects of the War on the Maritime Provinces of Canada*, Dalhousie Institute of Public

Petrie's sentiments echoed the recommendations put forth by the Rowell-Sirois Commission for federal control of these tax fields in return for payments to the provinces.³² Furthermore, New Brunswick's experience with the Wartime Tax Agreement had already shown McNair the merits of a guaranteed source of provincial revenue.

While McNair agreed in principle to the idea of transferring these tax fields to the federal government he was not enamoured with the terms. He was particularly wary of a subsidy based upon the GNP. Such a subsidy could, in the event of an economic downturn, cut the revenues and rental fees paid to the provinces when they needed these funds the most. McNair considered a fixed annual grant preferable to the GNP-based subsidy. Moreover, a common \$12 per capita grant was unacceptable as it ignored the concept of fiscal need critical to the poorer provinces and it did not take into consideration the existing standards of provincial services.

While apprehensive of the terms set out by the Dominion, McNair certainly had reason to be optimistic when

Affairs, 1943, p. 222. Here Keirstead advocates "a concentration in the hands of the Dominion of complete monetary and fiscal authority."

³²

Report of the Royal Commission on Dominion-Provincial Relations, Ottawa: King's Printer, 1940, Book II, pp. 112, 114, 120-1.

he returned to Ottawa that November. His hopes would be dashed on 8 January 1946, however, when the Government of Ontario made its counter-proposals. George Drew, perhaps partially motivated by his ambition "to see an end ... [to] the weak and incompetent government in power at Ottawa," opposed vacating the personal income or corporation tax fields, or of giving up his province's right to levy succession duties.³³ While he veiled his objections in terms set out by the British North America Act³⁴, his primary concern was that because of

Ontario's increasing industrial and other production, it is certain that the revenue from personal income and corporation taxes and succession duties will increase more rapidly than the increase in the suggested subsidy payment to the Province based on gross national product per capita as estimated by the Dominion Government.³⁵

Drew also worried that in the past temporary agreements such

³³

George Drew, speech given on 21 July 1944. Cited in *Hansard*, 1944, p. 6649.

³⁴

Drew argued that the vacating of these tax fields would violate Section 92 of the British North America Act, under which "the Provincial Governments were given the rights to impose direct taxes for the purpose of carrying on the legislative and administrative responsibilities conferred upon them." See Submission of the Government of Ontario to the Dominion-Provincial Conference (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, p.226.

³⁵

Submission of the Government of Ontario to the Dominion-Provincial Conference (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, p. 237.

as this had a habit of becoming permanent.

In his presentation Drew acknowledged that some of the provinces would not be able to provide adequate services funded solely by the monies collected through their income and corporation taxes. In place of a per capita subsidy, Drew proposed the establishment of what he termed "The National Adjustment Fund." This fund would be comprised of 10 per cent of each province's income garnered from personal income taxation, corporation taxation, and succession duties. This pooled revenue would then be

apportioned among those provinces which are unable to provide a national minimum of social services. The amount of the Provincial Adjustment Grants would be determined by the Dominion-Provincial Co-ordinating Committee upon the recommendation of the Dominion-Provincial Economic Board. Grants would be made only on the basis of need, and they would be periodically reviewed and adjusted in conformity with the changing requirements of the several provinces.³⁶

Ontario's counter-proposals were not well received by

36

Ibid., 242-3. The Dominion-Provincial Economic Board and The Dominion-Provincial Co-ordinating Committee were earlier aspects of Ontario's proposals. They were to be comprised of various Dominion and Provincial representatives, and were intended to ease relations between the federal and provincial governments. For a full description of their responsibilities see *Submission of the Government of Ontario to the Dominion-Provincial Conference (1945), Dominion and Provincial Submissions and Plenary Conference Discussions*, p. 239-40.

New Brunswick.³⁷ R.S. Fitzrandolph, New Brunswick's chief financial advisor at the conference, cautioned McNair that although the "Ontario proposals appear at first glance to be advantageous to New Brunswick ... [they do not] offer a satisfactory substitute or alternative to those of the Dominion."³⁸ Specifically, his objections were:

1. The Ontario proposals placed an additional burden of about \$ 300,000,000 per annum on the Dominion;
2. There was no guaranteed minimum of assistance to the poorer provinces (ie. New Brunswick);
3. There was uncertainty of the amount or proportion of the National Adjustment Grant receivable by any province;
4. The proposal required continuous study and discussion by a body representing all provinces of the budgets and policies of each; and
5. There was the necessity of checks and audits by representatives of each Province of the collection of certain taxes by the Dominion and other Provinces to insure that the correct distribution of these revenues was made.³⁹

³⁷

Penny Bryden claims that Ontario Minister of Finance Leslie Frost convinced McNair "of the utility of using the Ontario proposals as a basis of discussion." However, there is little corroborating evidence to support this statement at the Provincial Archives of New Brunswick. In fact, much the opposite is the case, as McNair's advisors quickly dismissed the Ontario counter-proposals. See Bryden, "Pawn or King-Maker", p. 9.

³⁸

R.S. Fitzrandolph to J.B. McNair, 14 January 1946, J.B. McNair Papers, PANB, RS 414.

³⁹

Province of New Brunswick Brief Report on Conference of Economic Committee, R.S. Fitzrandolph, 21 January 1946, J.B.

W.B. Trites, New Brunswick's Deputy Provincial Secretary-Treasurer, agreed, advising McNair that Ontario's proposals "would cause a great many difficulties and ... would not be advantageous to the provinces."⁴⁰

Three days later, on January 24, New Brunswick presented its submission to the conference. It contained no mention of Ontario's counter-proposals. Instead, it stressed the inadequacy of a \$12 per capita subsidy based upon the 1941 census to meet New Brunswick's needs. New Brunswick required a fiscal need subsidy "to permit local and provincial services to be raised to the average standard prevailing throughout Canada without raising internal taxation beyond the general level in all provinces."⁴¹

The Dominion appeared to heed the advice of New Brunswick in agreeing to change the base year of the per capita subsidy from 1941 to 1942. This would effectively change the guaranteed minimum subsidy from \$12 to \$15 per

McNair Papers, PANB, RS 414.

⁴⁰

W.B. Trites to J.B. McNair, 21 January 1946, J.B. McNair Papers, PANB, RS 414.

⁴¹

Submission of the Government of New Brunswick on Certain Proposals of the Dominion (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, p. 313.

capita.⁴² This was of vital importance to New Brunswick. Although the province had not previously been exploiting the field of personal income tax, the municipalities had. Therefore, to reimburse them for their lost revenue Fredericton would have to provide them approximately \$3 per capita. This would have the effect of lowering the net amount of revenue available to the province from \$15 to \$12 per capita. Thus the province had to increase the subsidy by \$3 just to be able to receive the original per capita payment.⁴³

The conference was now faced with three broad alternatives, the first of which the members agreed was neither realistic nor desirable:

1. To return to the pre-war status quo;
2. To accept the modified Dominion proposals; or

⁴²

Summary of Modified Proposals of the Dominion-Provincial Conference, unsigned, 31 January 1946, J.B. McNair Papers, PANB, RS 414. See also Dominion-Provincial Conference (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, p. 384, and R.S. Fitzrandolph to J.B. McNair, 14 January 1946, J.B. McNair Papers, PANB, RS 414, in which Fitzrandolph takes credit for the idea of changing the base year of the per capita subsidy from 1941 to 1942.

⁴³

Submission of the Government of New Brunswick on Certain Proposals of the Dominion (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, p. 312.

3. To accept the Ontario proposals.⁴⁴

McNair stated that New Brunswick was "prepared to accept the Dominion proposals in broad principle." This was because the "Ontario proposals would not work (1) because they did not meet New Brunswick's needs, (2) because they were not constitutional, and (3) because they were not practical."⁴⁵ The Co-ordinating Committee adjourned on February 1, to meet again that April.

When the conference reconvened on April 29, Ontario appeared more amenable to the Dominion's proposals. While Drew was willing to rent the fields of personal income and corporation taxes to the Dominion he was still adamant in his refusal to vacate the field of succession duties. Drew argued that succession duties must remain in the realm of provincial authority because "laws relating to wills, to inheritance, and to the various legal aspects of the transmission of property are provincial laws."⁴⁶ He was

⁴⁴

Minutes of the Dominion-Provincial Conference Co-ordinating Committee, 28 January 1946, p. 18. J.B. McNair Papers, PANB, RS 414.

⁴⁵

Minutes of the Dominion-Provincial Conference Co-ordinating Committee, 29 January 1946, p. 20, J.B. McNair Papers, PANB, RS 414.

⁴⁶

Dominion-Provincial Conference (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, p. 405.

also opposed to a flat rate per capita subsidy, such as that proposed by the Dominion. Instead, Drew advocated the use of a complex algebraic formula to determine the subsidy received by each province. R.M. Burns summarized this as follows:

... payment for the surrender of the tax fields should be determined by a minimum per capita payment of X multiplied by the GNP per capita for the year preceding payment, divided by the GNP per capita for the year 1941, multiplied by the population of the province for the year preceding the rental payment. The minimum annual payment would be X dollars multiplied by the population for the year preceding the payment or of 1941, whichever was the greater.⁴⁷

This proposal proved unacceptable to most of the provinces, as only Prince Edward Island and Ontario could benefit from it, unless the value of X was raised to a level that would be unsatisfactory to the Dominion.⁴⁸

Meanwhile, McNair continued to call for revisions to the Dominion's proposals to include a "plan to provide for the more needy provinces supplementary grants based on their financial circumstances."⁴⁹ These grants were to be a

⁴⁷

R.M. Burns, *The Acceptable Mean; The Tax Rental Agreements, 1941-1962*, Toronto: Canadian Tax Foundation, 1980, p. 65.

⁴⁸

Ibid., p. 66.

⁴⁹

Dominion-Provincial Conference (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, p. 421.

percentage of the basic grant and be arrived at by the application of the gross national production formula. "Subject to some such modification of the proposed financial arrangements," McNair continued, "we are prepared to recommend to our legislature the acceptance of the Dominion's program."⁵⁰

Over the next week the conference deteriorated. It was becoming apparent that neither Ontario nor the Dominion was willing to budge from its position, and that without a compromise the conference was doomed to failure. The deadlock angered McNair. He knew that Ontario could afford to refuse an extension of the Wartime Tax Agreement, for with its large population and mass of industrialization Ontario could raise enough money to support its needs through its own personal income and corporation taxes. The poorer provinces, such as New Brunswick, could not. On May 2 McNair addressed the conference in strongly nationalist terms:

I am not here to ask consideration for the people I represent because they live in New Brunswick. I base my case for them on higher ground, on the fact that they live in Canada and as Canadians are entitled to a fair show and a square deal at the hands of their

⁵⁰

Ibid., p. 423.

fellow Canadians - nothing more, nothing less.⁵¹

McNair's words had little effect. The conference adjourned *sine die* at 5:33 p.m., 3 May 1946, never to meet again.

McNair continued to hope that his province could reach some kind of an agreement based upon the Dominion's programme. Behind the scenes he wrote to former New Brunswick Liberal MLA Frank Bridges, now Minister of Fisheries and the province's strongest ally in the federal cabinet, urging him to move the process forward and, specifically, to press Ottawa to modify its proposals so that "in addition to all other payments" the provinces would also receive "the amount of the statutory subsidies." For New Brunswick this would amount to an increased payment of \$1,600,000, "and would make the proposals look very attractive to us [New Brunswick]."⁵²

Bridges' reply did not give McNair much reason for optimism. The Minister of Fisheries doubted that Ottawa would make any sort of agreement that might be acceptable to seven of the provinces, but unacceptable to Ontario and Quebec. Bridges did, however, assure McNair that "the

⁵¹

Dominion-Provincial Conference (1945), *Dominion and Provincial Submissions and Plenary Conference Discussions*, p. 561-2.

⁵²

J.B. McNair to H.F.G. Bridges, 6 May 1946, J.B. McNair Papers, PANB, RS 414.

matter will undoubtedly receive Cabinet discussion sometime before the budget is brought down and I shall certainly keep in mind your suggestion."⁵³

With the failure of the conference to reach a consensus, the Dominion set out to negotiate tax agreements with the provinces on an *ad hoc* basis. This was something Ottawa was well prepared for, having discussed the possibility of negotiating with individual provinces solely regarding the tax agreements as early as 20 June 1945.⁵⁴

Although McNair perceived the necessity of these tax rental agreements, he reminded the federal government that they were "only one aspect or part of that programme" advanced by Dominion at the conference.

Of equal importance, particularly as affecting the people in the smaller Provinces, were the public investment and resources development proposals and the social security and health plans which formed integral parts of the Dominion's original program [sic].⁵⁵

While this agreement would stabilize the province's finances, without the allocations for public investment and social security and health grants the level of services in

⁵³

H.F.G. Bridges to J.B. McNair, 11 May 1946, J.B. McNair Papers, PANB, RS 414.

⁵⁴

Cabinet Committee on Dominion Provincial Relations, 20 June 1945, NAC, RG 47, Vol. 80.

⁵⁵

Attachment to a letter from J.B. McNair to H.F.G. Bridges, 30 September 1946, J.B. McNair Papers, PANB, RS 414.

New Brunswick would still fall short of the Canadian average. King wrote McNair to reassure him that

As soon as there is a sufficient acceptance of the proposed tax agreements we shall be ready to explore ... the possibility of working out mutually satisfactory arrangements in regard to the whole or any part of our earlier public investment and social security proposals.⁵⁶

McNair was also under pressure to reach an agreement by November 1, the date that New Brunswick's Wartime Tax Agreement expired and also the beginning of the province's fiscal year. This was the earliest beginning to a provincial fiscal year in Canada, giving McNair added incentive to complete negotiations with Ottawa and ensure New Brunswick a guaranteed source of revenue. The Dominion's proposals were attractive because they guaranteed greater provincial income than if the province retained control of its personal income, corporation, and succession tax fields. The assurance of the Prime Minister that Ottawa had no intention of forgetting the entire programme helped to cement New Brunswick's position. On 31 October 1946, McNair issued a press release stating:

It should be definitely understood that our negotiations with Ottawa have been proceeding most satisfactorily. Full agreement has been reached on all essential points. In this connection there now remain only the settling of minor details and the final

⁵⁶

W.L.M. King to J.B. McNair, 6 October 1946, J.B. McNair Papers, PANB, RS 414.

drafting of the formal agreement.⁵⁷

The actual terms of the deal, however, were not released at this time.

This press release proved quite controversial. Manitoba Premier Stuart Garson, who had not yet reached an agreement with the Dominion, resented it when McNair claimed all that remained was the settling of minor details, as he felt it weakened his bargaining position. Garson claimed, in the *Winnipeg Free Press*, that McNair's statement had given him "a pain in the neck."⁵⁸ When word of this story reached New Brunswick, Garson wrote McNair saying it was all a "mistake," that he was "deeply mortified by the whole business," and he offered McNair his "unqualified regrets that it has happened."⁵⁹ All was apparently forgiven.

The *Saint John Telegraph-Journal* greeted the announcement that New Brunswick had struck a deal with cautious optimism. While it stated that "[t]he person who makes the 1st deal doesn't always necessarily make the best [deal]..." it took comfort in the fact that "...McNair has

⁵⁷

Press Release, 31 October 1946, J.B. McNair Papers, PANB, RS 414.

⁵⁸

Winnipeg Free Press, 1 November 1946.

⁵⁹

Stuart Garson to J.B. McNair, 15 November 1946, J.B. McNair Papers, PANB, RS 414.

always upheld the rights of New Brunswick." Furthermore, it was "expected ... that the interests of the province have been safeguarded."⁶⁰ Unfortunately, the *Telegraph-Journal's* initial sentiments soon proved prophetic.

On December 17, the terms by which New Brunswick entered the tax rental agreement came to light under a storm of controversy. On that day, the *Telegraph-Journal* published not only the terms of New Brunswick's deal, but that of British Columbia's as well. It was revealed New Brunswick had been offered two choices: \$15 per capita based on either the 1941 or 1942 census to increase proportionately with population and GNP; or 150% of what it would have collected under the Wartime Tax Agreement. McNair opted for the per capita option. British Columbia's arrangement appeared essentially the same, save for one minor clause that would have enormous repercussions. For New Brunswick, only the per capita payment would rise relative to population and GNP increases; the 150% option was a static payment. For British Columbia, both choices would be influenced by population and GNP growth. Therefore, by choosing the 150% option, British Columbia had a guaranteed minimum payment of \$21 per capita that would increase proportionate to the GNP. Accordingly, were the GNP to increase by 10%, New Brunswick

⁶⁰

Saint John *Telegraph-Journal*, 2 November 1946.

would receive \$15 per capita plus 10% (\$1.50), for a total payment of \$16.50 per capita. British Columbia, on the other hand, would receive \$21 per capita plus 10% (\$2.10), for a total payment of \$23.10. Thus, under this arrangement, British Columbia "...must permanently and progressively receive a higher price for its taxes than any other province."⁶¹ This inequity was not tolerable to McNair. Fortunately for New Brunswick, the Legislature had not yet ratified the agreement.

That same day McNair sent a telegram to King outlining his take on British Columbia's deal. He felt that it was a "radical departure" from previous negotiations and could not understand how Ottawa could negotiate such a deal with British Columbia without "counterbalancing adjustments" to those provinces that had already finalized deals with the Dominion. McNair went on to state that "the present situation is entirely unacceptable to [New Brunswick]" and that, until such time as the situation was remedied, New Brunswick would "treat [its] negotiations as suspended."⁶² Even King felt that his people "had not been wholly fair and

⁶¹

From Charlottetown *Guardian*, reprinted in Saint John *Telegraph-Journal*, 11 January 1947.

⁶²

J.B. McNair to W.L.M. King, 17 December 1947, W.L.M. King Papers, NAC, MG 26.

square with [McNair]."⁶³ King asked McNair on January 6 to hold off publicising the telegram, but McNair had already released it to the press. It was printed on January 7.

The *Telegraph-Journal* wholeheartedly supported McNair's stance. The same day that McNair's telegram to King was made public, the paper ran an editorial entitled "Every New Brunswick Citizen Should Back the Premier's Stand" on the front page. In this editorial the paper urged its readers that "[t]his at last is the showdown-- and all the people of New Brunswick should be in it, shoulder to shoulder."⁶⁴ New Brunswickers answered the *Telegraph-Journal's* rallying cry, with a number of the province's city councils and boards of trade passing resolutions to show their support for McNair.⁶⁵

On January 11 the federal government gave in to McNair's hardline stance and invited representatives from

⁶³

J.W. Pickersgill and D.F. Forster, *The Mackenzie King Record, 1947-1948*, Volume 4, Toronto: University of Toronto Press, 1970, p, 7.

⁶⁴

Saint John Telegraph-Journal, 7 January 1947.

⁶⁵

See J.T. Cannon, Secretary-Treasurer Dalhousie N.B., to J.B. McNair, 9 January 1947; H.D. Hopkins, Common Clerk City of Saint John, to J.B. McNair, 11 January 1947; Mary Whervis, Secretary of Saint John Board of Trade, to J.B. McNair, 13 January 1947; J.P. Chiasson, Secretary-Treasurer Municipality of Gloucester N.B., to J.B. McNair, 14 February 1947.

New Brunswick, Manitoba, and Saskatchewan to Ottawa to renegotiate their agreements. McNair could see that his tactic of suspending negotiations with the Dominion had forced King's hand. The federal Liberals had won the 1945 election by only a slim majority, and could ill afford to be seen in a bitter dispute with one of their provincial counterparts. Thus McNair journeyed to Ottawa to renegotiate.

Within a week the *Telegraph-Journal* was announcing that New Brunswick had completed its negotiation of a new tax deal.⁶⁶ McNair did not make a formal statement, however, until January 24, when he announced that New Brunswick "was prepared to accept the new Dominion tax proposals as the basis of a new agreement with the Dominion."⁶⁷ The details of the agreement were made public the next day.

The new proposal gave the province two options from which to choose, each of which was to be in effect for 5 years:

Option 1

1. \$ 12.75 per capita based on the 1942 population of the province; plus
2. 50 per cent of the revenue received by the province

⁶⁶

Saint John Telegraph-Journal, 18 January 1947.

⁶⁷

Saint John Telegraph-Journal, 24 January 1947.

from personal income and corporation taxes in the 1940-1 fiscal year; plus

3. Statutory subsidies payable in 1947; OR

Option 2

1. \$ 15 per capita based on the 1942 population of the provinces; plus

2. Statutory subsidies payable in 1947.⁶⁸

In exchange the provinces must agree to grant the Dominion sole authority to levy personal income taxes, corporation taxes, and succession duties. By forcing the federal government to renegotiate, McNair saw New Brunswick's payment for 1947 jump from an estimated \$7.5 million to over \$9.5 million.⁶⁹

New Brunswick formally announced its position with the opening of the legislative session of 1947. On March 4, in his Speech from the Throne, J.K. McKee stated that while the original programme advanced at the Conference did not survive, "recent discussions between the Dominion and the Provinces on a post-war taxation plan have made substantial progress.." McKee then said that McNair's government had "successfully negotiated a new taxation agreement which will

⁶⁸

Burns, *The Acceptable Mean*, p. 79.

⁶⁹

Saint John *Telegraph-Journal*, 22 January 1947.

be placed before the House for approval."⁷⁰

New Brunswick chose the first of the Dominion's two options, because its guaranteed minimum payment was \$8,773,420, whereas the guaranteed minimum payment under the second option was only \$8,592,386. Furthermore, both options recognized the fiscal need of New Brunswick through the retention of the statutory subsidy.⁷¹

Reg Whitaker observed that, with regards to New Brunswick, "there has never been any important friction between the federal and provincial wings of the Liberal party."⁷² While on the surface this may appear to hold true for the reconstruction conference of 1945-6, New Brunswick certainly did not blindly acquiesce to the Dominion's demands. The province voiced its criticisms of the Dominion's proposals, and these criticisms were usually

70

Synoptic Report of the Proceedings of the Legislative Assembly of the Province of New Brunswick, 1947, pp. 5-6.

71

British Columbia, Alberta, and Manitoba also chose the first of the Dominion's options, while Saskatchewan and Nova Scotia chose the second. Prince Edward Island was given a third option of a \$2,100,000 flat rate payment as it was felt that the payment to the island under either of the first two options was insufficient. Ontario and Quebec did not enter into a Tax Rental Agreement with Ottawa.

72

Reg Whitaker, *The Government Party: Organizing and Financing the Liberal Party of Canada, 1930-1958*, Toronto: University of Toronto Press, 1977.

recognized. New Brunswick's role in negotiations can be appreciated only when one considers the financial pressures they were under. They had to reach an agreement on the transfer of taxes. New Brunswick could not afford to fund its existing services and programs if it were to rely solely upon personal income taxes, corporation taxes, and succession duties collected within the province. Despite this seemingly weak position McNair did not simply defer to Ottawa. When he found out that British Columbia had received what he felt was preferential treatment, he suspended negotiations with the federal government until they were willing to renegotiate. This new agreement with the Dominion was one that McNair felt would be truly beneficial to New Brunswick. The *Saint John Telegraph-Journal* summed things up quite succinctly: "...because of the fight put up by New Brunswick's premier, we are to get the consideration we are entitled to..."⁷³ McNair had negotiated a reasonably favourable Tax Rental Agreement for New Brunswick, with the first fiscal year of the 1947 agreement yielding the largest financial surplus in New Brunswick's history.⁷⁴ In fact, federal payments to the

⁷³

Saint John Telegraph-Journal, 25 January 1947.

⁷⁴

Fredericton Daily Gleaner, 31 October 1947; *Saint John Telegraph-Journal*, 1 November 1947.

province increased from \$ 3 million in 1946 to \$ 9.8 million in 1948.⁷⁵ While the Dominion-provincial conference on reconstruction had ended in a stalemate, New Brunswick's suggestions had been heeded. By taking his hardline stance McNair had succeeded in replacing the original Tax Rental Agreement of October 31, an agreement that in itself "was not an unfavourable transaction,"⁷⁶ with a much more lucrative deal. Furthermore, McNair had King's word that after the Tax Rental Agreements had been finalized negotiations would resume concerning the public investment and social security aspects of the Dominion's original proposals.⁷⁷ Had it not been for the abortive conference and the policy of individual negotiations, the financial terms put forth by the Dominion might not have been as favourable to New Brunswick. Thus, although Ontario's provincialist stance caused the conference's apparent failure, Ottawa still made progress in improving the

⁷⁵

Young, "...and the people will sink into despair: Reconstruction in New Brunswick, 1942-1952", p. 146.

⁷⁶

Saint John *Telegraph-Journal*, 7 January 1947.

⁷⁷

See W.L.M. King to J.B. McNair, 6 October 1946, J.B. McNair Papers, PANB, RS 414, where King writes "[a]s soon as there is a sufficient acceptance of the proposed tax agreements we shall be ready to explore ... the possibility of working out mutually satisfactory arrangements in regard to ... our earlier public investment and social security proposals."

position of the peripheral provinces through the negotiation of the Tax Rental Agreements, which significantly buoyed the revenues of Canada's poorer provinces.

Yet sadly, Ottawa's efforts to alleviate regional inequities were flawed as they did not take into consideration the structural causes of Maritime disparity. As such, the Canadian version of Keynesianism advanced at the Dominion-provincial conference on reconstruction neglected one key element of Keynes' theory. That is, in the words of W.Y. Smith, that "high levels of income and employment in the national level could not be relied upon to solve the problems of economically retarded regions." Except for the proposals regarding Dominion-provincial fiscal arrangements "the economic problems of provinces and regions were ignored." While the 1947 Tax Rental Agreement significantly improved New Brunswick's financial position it did little to remedy the structural causes of the depressed position of the Maritimes with regards to the broader Canadian economy. The post-war era was to be little different from the pre-war period for, as Smith has argued, "in the critical years after World War II the management of the Canadian economy evolved without a regional

dimension."⁷⁸ Still, the fact remains that following the signing of the 1947 Tax Rental Agreement New Brunswick was in a much better financial position than it had been in years past. For this reason alone, the agreement must be considered a success for both the province and the federal government.

78

W.Y. Smith, "Recognition of Regional Balance", *Policy Options*, Volume 2, No. 5, (November/December 1981), pp. 42-44; for more on Canada's conservative brand of Keynesianism see Finkel, "Paradise Postponed", pp. 132-133.

Epilogue

Following the signing of the 1947 Tax Rental Agreement J.B. McNair did not give up hope of the implementation of the broader plan contained in Ottawa's "Green Book" proposals. When, in 1948, Mackenzie King decided to step down after almost 30 years in office, McNair used the convention to chose a successor as a national forum for his views. Speaking to the assembled delegates McNair stated that "the maintenance of our national income at a high level" should be one of the ongoing goals of the Liberal Party. This was "dependent on the production of goods and services, ... construction and other works projects, and ... social security measures." Characteristic of a premier whose province was undertaking a massive road building scheme, McNair believed that Canada's future prosperity was contingent upon increased state intervention. Lest anyone misunderstand him, he stated in language reminiscent of

Keynes that "a full scale public works program ... is essential to the nation's well being."

He also used the convention as a platform to air his complaints about previous national policies and to make suggestions about the direction he felt future policies should take. When one surveys the nation, he said, "one must inevitably come to the conclusion that ... economic injustices still exist and must be ... alleviated." Future Liberal policies should take into consideration the special needs of Canada's regions, ensuring that "those sections less fortunately endowed by nature or geography should not become the poorer because of those policies."¹ He was hopeful the new prime minister would heed his advice.

The new prime minister chosen was Louis St. Laurent. A relative newcomer to politics having been in the cabinet for less than seven years, St. Laurent quickly led the Liberals to a stunning defeat of the Conservatives, now led by George Drew. In fact, the federal election of 1949 was a landslide with the St. Laurent-led Liberals receiving 49% of the popular vote and 193 of 262 seats in the House of Commons.²

1

Speech Given by J.B. McNair, Liberal National Convention, 1948, J.B. McNair Papers, PANB, RS 414.

2

Robert Bothwell, Ian Drummond, John English, *Canada Since 1945: Power, Politics, and Provincialism*, Toronto: University of Toronto Press, 1981, pp. 131-133.

A few months after the victory, on 7 December 1949, St. Laurent sent a letter to the provincial premiers urging a conference to be held during the autumn of 1950 "to discuss questions of common concern to the provincial and federal governments." But owing to the escalation of hostilities in the Korean War, a war that Canada was actively involved in, the proposed conference was delayed until December.

When the conference convened on December 4 it had two main objectives. First, and most importantly to Ottawa, it was to negotiate an extension of the Tax Rental Agreements. Significantly, this was the first Dominion-provincial conference where receiving provincial assent to a Tax Rental Agreement was the primary goal and not the "backup plan". Secondly, the conference was to discuss the possibility of implementing universal old age pensions. The Dominion had considered proposing a broader social services plan. In fact, Minister of National Health and Welfare Paul Martin had emphasized that

our continued adherence to the objectives of social security policy set forth in the 1945 proposals form a now highly important part of the framework within which we approach our discussions with the provinces in December [1950]³

But with the excuse that the conflict in Korea could

3

As cited in Penny Bryden, *Planners and Politicians: Liberal Politics and Social Policy, 1957-1968*, Montreal and Kingston: McGill-Queen's University Press, 1997, p. 5.

escalate into a third world war, the federal government confined the social policy discussions to just old age pensions.

The conference itself was rather mundane and predictable. Ottawa had learned from its mistakes and now the social security proposals and the tax rental proposals were no longer interconnected. Outright refusal of one did not negate the adoption of the other. Furthermore, the adoption of the universal old age pension was almost a forgone conclusion as all provinces favoured it to some extent. Indeed, the conference quickly reached agreement on this issue, the result having since been renamed the Old Age Security Act.⁴

Almost as congenial was the discussion surrounding the proposed extension of the 1947 Tax Rental Agreement. In his opening statement Minister of Finance Douglas Abbott summed up Ottawa's position. Due to the threat of increased hostilities in Korea and the concomitant increased federal expenditures

no federal minister of finance can undertake to negotiate tax-rental agreements much in excess of what the present formulae contemplate; though ... we have in mind suggesting a number of modifications in the

4

Bryden, *Planners and Politicians*, pp. 5-6.

formulae.⁵

This was what most provinces desired. By now those provinces that had accepted the 1947 Tax Rental Agreement were quite willing to enter into another. For them this conference was nothing more than a formality, and a chance to perhaps effect a more profitable financial agreement with Ottawa. New Brunswick's McNair summed up the opinion of all but Ontario, Quebec, and Nova Scotia⁶ in his opening address:

the principle underlying them [the Tax Rental Agreements] should not be abandoned at this time ... [although] the formulae in which the existing agreements are based might be revised to provide more fully for the needs of all the provinces.⁷

By no means was McNair opposed to an extension of the 1947 agreement.

5

Proceedings of the Conference of Federal and Provincial Governments, 4-7 December 1950, Ottawa: Queen's Printer, 1953, p. 16.

6

Nova Scotia is a curious exception among those provinces that were already involved in the 1947 Tax Rental Agreement. While Premier Angus L. Macdonald did not believe that subsidies were the answer to his province's woes, but unlike Ontario and Quebec he was not in the financial position to reject Ottawa's overtures. See *Proceedings of the Conference of Federal and Provincial Governments, 4-7 December 1950, Ottawa: Queen's Printer, 1953, p. 28-29.*

7

Proceedings of the Conference of Federal and Provincial Governments, 4-7 December 1950, Ottawa: Queen's Printer, 1953, p. 30.

The only question that remained with regards to the Tax Rental Agreement was whether or not Ontario or Quebec would sign. In their opening remarks both Premier Maurice Duplessis of Quebec and Premier Leslie Frost of Ontario expressed their support of provincial retention of the income, corporation, and succession taxes, although Frost did appear less obstinate in his objections than the Ontario premiers that had preceded him. Indeed, relations between Frost and St. Laurent were much more hospitable than those Mitch Hepburn or George Drew had enjoyed with Mackenzie King. In fact, Robert Bothwell *et al.* contend that "[b]etween St Laurent and Leslie Frost ... there was positive warmth."⁸

The Dominion's offer to the provinces was rather simple. It was the same as the 1947 proposals but with 1948 as the base year for Gross National Product and population figures instead of 1942. This took advantage of the post-war growth in both GNP and population, thereby raising each province's guaranteed minimum payment. For New Brunswick this would have the effect of raising the guaranteed minimum payment by over 50 per cent, from \$8,733,000 to \$12,758,000. In actuality New Brunswick's payment for 1952-53 would be

⁸

Robert Bothwell, Ian Drummond, John English, *Canada Since 1945*, p. 150.

even greater: \$14,502,000.⁹

But Ottawa also put forth another option. Perhaps motivated in part by this new warmth that existed between Ottawa and Toronto, the Dominion made what can only be regarded as a blatant overture to get Ontario into the tax rental fold. A statement by Minister of Finance Douglas Abbott at the close of the conference articulated the terms of this option. In return for suspending the right to levy income and corporation taxes a province would receive:

1. The yield of a personal income tax at 5 per cent of 1948 federal rates applied to 1948 incomes in the province.
2. The yield of a tax of 8½ per cent on corporation profits earned in the province in 1948.
3. The average revenue received by the province from succession duties.
4. Statutory subsidies payable to the province for 1948.¹⁰

While this option was open for any province to pursue, Abbott recognized that it would only be of financial benefit

9

Proceedings of the Conference of Federal and Provincial Governments, 4-7 December 1950, Appendix VIII, Ottawa: Queen's Printer, 1953, p. 145.

10

"Statement by the Hon Douglas Abbott, Outlining Basis for the Proposed New Tax Rental Agreement", *Proceedings of the Conference of Federal and Provincial Governments, 4-7 December 1950, Appendix VII, p. 142.*

to Ontario.¹¹ Following Abbott's statement the conference was adjourned. Although no concrete agreements had been made at the conference this was to be expected as the 1947 agreement did not expire for another 16 months. All that was left was for Ottawa to wait and see who would enter the agreements.

Not surprisingly, Maritime provinces were the first to express their willingness to join up for another 5 year term. On 13 February 1952, both New Brunswick and Prince Edward Island informed Ottawa of that they would accept the Dominion's offer.¹² Soon all the provinces except Ontario and Quebec had entered agreements with Ottawa. Quebec was against tax rental and Premier Duplessis had already informed St. Laurent of his province's rejection of the agreement. Ontario was a different story. On 29 October 1952, Ontario entered a Tax Rental Agreement with Ottawa giving up its right to income and corporation taxes, but retaining the right to levy succession duties.¹³ Premier Frost had selected the newest Dominion option, the only premier to do so, as its guaranteed minimum to Ontario was

¹¹

Ibid., p. 142.

¹²

R.M. Burns, *The Acceptable Mean; The Tax Rental Agreements, 1941-1962*, Toronto: Canadian Tax Foundation, 1980, p. 104.

¹³

Ibid., p. 105.

\$4,000,000 greater than the older options.¹⁴ With that, the federal government had access to income and corporation taxes in all the provinces but Quebec. Five years later Ottawa would rework its formula for provincial payments, rename it tax sharing, thereby enticing Quebec to join the fold.

The 1957 tax sharing plan was merely an extension of tax rental, except that provincial remuneration took the form of a percentage of the revenue collected.¹⁵ The rental payment offered to the provinces was:

1. 10 per cent of the personal income tax collected in the province.
2. 9 per cent of the corporation tax collected in the province.
3. 50 per cent of all succession duties levied in the province.¹⁶

The federal Liberals recognized that for some provinces this payment would be insufficient to meet their responsibilities. To remedy this they also introduced a system of equalization payments. These payments were calculated by taking the average per capita amount of tax

¹⁴

Ibid., p. 98.

¹⁵

J.C. Strick , *Canadian Public Finance*, Toronto: Holt, Rinehart and Winston of Canada Ltd., 1978, p. 110.

¹⁶

Ibid., p. 110.

collected in the two most prosperous provinces, without fail Ontario and British Columbia, and then subtracting the amount of tax collected in the province to receive the payment. For example, New Brunswick would collect \$13,209,000 or \$23.45 per capita in taxes, far short of Ontario and British Columbia's average of \$38.73 per capita. Thus New Brunswick's equalization payment would be \$15.28 per capita, or \$8,607,000. New Brunswick's total revenue under this system would therefore be \$21,816,000 (\$13,209,000 + \$8,607,000). Essentially each province received a per capita payment of \$38.73.¹⁷

This system was much welcomed in the poorer provinces as it increased the rental payments and gave explicit recognition of regional disparities. This was the outcome that McNair had desired as early as 1940, yet sadly he was not in power to see its adoption, having been defeated by Hugh John Flemming and the Conservatives in New Brunswick's 1952 election. Ironically, although equalization was originally designed as a means of alleviating regional disparities, in practice it has only served to increase the Atlantic provinces' reliance on equalization payments from

17

David B. Perry, *Financing the Canadian Federation, 1867-1995: Setting the Stage for Change*, Toronto: Canadian Tax Foundation, 1997, p. 121. The exception was Ontario which as the richest province collected \$39.72 per capita under the tax sharing system.

the federal government. It is a vicious circle. On the one hand, each Tax Rental Agreement offered substantially larger rental payments to the provinces. On the other hand, as the rental payments increased in amount the poorer provinces became progressively more dependent upon federal funds. In fact, a debate has been fostered as to whether the equalization system has led the Maritimes to the "dignified dependence" of Margaret Conrad's Atlantic Revolution, or whether it has merely made them Thomas J. Courchene's "wards of the state."

It is clear that the arrival of equalization policies did not occur in a vacuum. Beginning with the Rowell-Sirois Report's recommendations and the subsequent Wartime Tax Agreement, a gradual process began, with the end result being the introduction of equalization. Yet the evolution was circuitous, for as D.O. Sewell and D.W. Slater have observed, "the stated objectives of the equalization program which was subsequently introduced in 1957 ... are virtually identical to those stated by the Rowell-Sirois Commission['s National Adjustment Grants.]"¹⁸ But when that commission's

¹⁸

D.O. Sewell and D.W. Slater, "The Case for Equalization", *Policy Options*, Volume 3, No. 3, (May/June 1982), p.17. The equalization aspect of the Rowell-Sirois recommendations to which Sewell and Slater refer are the National Adjustment Grants.

proposals were rejected by Ontario, Alberta and British Columbia, the three provinces that did not qualify for a National Adjustment Grant, Ottawa began anew. Thus the Wartime Tax Agreement was the first step in a fifteen year process that led to equalization grants.

The Tax Rental Agreements also marked the beginning of Ottawa's foray into the world of Keynesian economics. The federal government justified its acquisition of exclusive access to income, corporation, and succession taxes in distinctly Keynesian terms: such access was required in order to implement counter-cyclical budgets. But while the rhetoric of the day was profoundly Keynesian the finance department's actions were not. As H. Scott Gordon has observed, in the years following the Second World War, when the economy was booming, the federal government decided to forego the theories of Keynes in its budget practices. Instead of budgeting for a surplus, Ottawa strived for the distinctly unKeynesian goal of a balanced budget.¹⁹

¹⁹

H.Scott Gordon, "A Twenty Year Perspective: Some Reflections on the Keynesian Revolution in Canada", in S.F. Kaliski ed. *Canadian Economic Policy Since the War*, Toronto, 1966. pp. 23-46. See also David A. Wolfe, "The Rise and Demise of the Keynesian Era in Canada: Economic Policy, 1930-1982", in Michael S. Cross and Gregory S. Kealey eds. *Modern Canada: 1930-1980's*, Toronto: McClelland and Stewart, 1984, pp. 46-78; and Robert Malcolm Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975*, Peterborough, Ont.: Broadview Press, 1987.

This was something that J.B. McNair would not have foreseen, nor is it likely that it would have affected his actions. When conducting federal-provincial fiscal negotiations in the 1940s and early 1950s he actively supported Ottawa's position while trying to acquire the most financially beneficial deal for New Brunswick. His support of the Tax Rental Agreements is easy to comprehend; New Brunswick was giving up taxes it did not collect in return for a guaranteed annual payment, thereby stabilising and improving the province's finances.

But although the Tax Rental Agreements proved a financial boon to New Brunswick they were not nearly as beneficial as the broader plans contained in either the Rowell-Sirois recommendations or the "Green Book" proposals for reconstruction, both of which made provisions for the establishment of a minimum national level of social services. When the provincialist factions led by Ontario, whose rich tax base was required to fund these wide-ranging proposals, did not agree to the implementation of these programmes, the chance for their adoption was eliminated. And by the time Ontario was finally willing to enter the tax rental fold the federal government, with the excuse that the conflict in Korea might escalate into a third world war, had abandoned the practice of linking social welfare programmes

to the Tax Rental Agreements. The time for such endeavours was past; Ottawa was now resigned to implementing social welfare programmes on a piecemeal basis.²⁰ Sadly for New Brunswickers, when nationalism confronted provincialism during the 1940s provincialism was the victor.

Yet it is wrong to remember the 1940s as a decade of failure. Although the Ontario-led provincialists did block the implementation of the Rowell-Sirois recommendations and the "Green Book" proposals, progress toward alleviating regional disparity was made. The Tax Rental Agreements both stabilized and improved the financial position of the poorer provinces such as New Brunswick. Only when compared with "what could have been" can they be considered anything but successful. But to make such a comparison is unfair. The provinces did not have the choice between the Rowell-Sirois or "Green Book" proposals and the Tax Rental Agreements. Ontario had seen to that. Instead, the provinces were faced with a choice between the Tax Rental Agreements or maintenance of the status quo. When viewed in this light, the benefits of the tax rental agreements become even more manifest, and they represent the first steps on the path to equalization and the (theoretical) alleviation of regional disparity through state spending.

²⁰

Penny Bryden, *Planners and Politicians*, p. 6.

Bibliography

PRIMARY DOCUMENTS

ARCHIVAL HOLDINGS

Department of Finance Papers. National Archives of Canada.
Ottawa. RG 19.

Department of Munitions and Supply Papers. National Archives
of Canada. Ottawa. RG 28.

Dominion-Provincial Conference Papers. National Archives of
Canada. Ottawa. RG 47.

John Babbit McNair Papers. Provincial Archives of New
Brunswick. Fredericton. RS 414.

Leslie Frost Papers. Archives of Ontario. Toronto. RG 3-24.

Louis St. Laurent Papers. National Archives of Canada.
Ottawa. MG 26L

William Lyon Mackenzie King Diary. National Archives of
Canada. MG 26.

William Lyon Mackenzie King Papers. National Archives of
Canada. Ottawa. MG 26.

GOVERNMENT DOCUMENTS

Bank of Canada. *Report on the Financial Position of the
Province of Manitoba.* Ottawa: King's Printer. 1937.

British Columbia in the Canadian Confederation. A Submission
Presented to the Royal Commission on Dominion-
Provincial Relations by the Government of British
Columbia. Victoria. 1938.

Dominion-Provincial Conference (1941). *Report of
Proceedings.* Ottawa. 1941.

Dominion-Provincial Conference (1945). *Proposals of the
Government of Canada.* Ottawa. 1945.

Dominion-Provincial Conference (1945). *Dominion and
Provincial Submissions and Plenary Conference
Discussions.* Ottawa. 1946.

Petrie, J.R. *The Regional Economy of New Brunswick*. Study Prepared for the New Brunswick Committee on Reconstruction. 1944.

Proceedings of the Conference of Federal and Provincial Governments. 4-7 December 1950. Ottawa: Queen's Printer. 1953.

Report of the Royal Commission on Dominion-Provincial Relations (1937). Ottawa. 1940.

Submission of the Government of New Brunswick to the Royal Commission on Dominion-Provincial Relations. 1938.

Supplementary Submission of the Government of the Province of New Brunswick to the Royal Commission on Dominion-Provincial Relations. 1938.

Submission on Behalf of the Province of New Brunswick to Special Committee of the House of Commons on Reconstruction and Re-Establishment. 1943.

Submission on Behalf of the New Brunswick Committee on Reconstruction to Special Committee of the House of Commons on Reconstruction and Re-Establishment. 1943.

Synoptic Report of the Proceedings of the Legislative Assembly of the Province of New Brunswick. 1936-1952.

"White Paper" on Employment and Income. Ottawa. 1945.

NEWSPAPERS

Fredericton Daily Gleaner
 Moncton Daily Times
 Moncton Transcript
 Saint John Evening Times-Globe
 Saint John Telegraph-Journal

SECONDARY SOURCES

ARTICLES

Acheson, T.W. "The National Policy and the Industrialization of the Maritimes, 1880-1910". *Acadiensis*. Vol. I, No.

2. (Spring 1972). pp. 3-28.

- Acheson, T.W. "The Maritimes and 'Empire Canada'". In David Bercuson ed. *Canada and the Burden of Unity*. Toronto: Macmillan of Canada. 1977. pp.87-114.
- Alway, Richard M.H. "Hepburn, King, and The Rowell-Sirois Commission". *Canadian Historical Review*. Vol. XLVIII, No. 2. (June 1967). pp. 113-141.
- Burns, Ronald M. "The Royal Commission on Dominion-Provincial Relations: The Report in Retrospect". In Robert M. Clark ed. *Canadian Issues: Essays in Honour of Henry F. Angus*. Toronto: University of Toronto Press. 1961. pp. 143-157.
- Clow, Michael. "Politics and Uneven Capitalist Development: The Maritime Challenge to the Study of Canadian Political Economy". *Studies in Political Economy: A Socialist Review*. (Summer 1984). pp. 117-140.
- Clow, Michael. "Situating a Classic: Saunders Revisited". *Acadiensis*. Vol. XV, No. 1. (Autumn 1985). pp. 142-152.
- Conrad, Margaret. "The Atlantic Revolution of the 1950s". In Berkeley Fleming ed. *Beyond Anger and Longing*. Fredericton: Acadiensis Press. 1988. pp. 55-96.
- Cook, Ramsay. "Nationalism in Canada". In Ramsay Cook. *The Maple Leaf Forever: Essays on Nationalism and Politics in Canada*. Toronto: Macmillan of Canada. 1977. pp. 188-205.
- Courchene, Thomas J. "Avenues of Adjustment: The Transfer System and Regional Disparities". In *Canadian Confederation at the Crossroads*. The Fraser Institute. 1978. pp. 145-186.
- Creighton, Donald. "Federal Relations in Canada Since 1914". In Chester Martin ed. *Canada in Peace and War*. Toronto: Oxford University Press. 1941.
- Deutsch, John J. "Canadian Economic Policy 1945-65: A Summing Up". in *Canadian Economic Policy Since the War*. 1965. pp. 123-134.
- English, John. "Dominion-Provincial Relations and Reconstruction Planning, 1943-1946". *Proceedings of*

Canadian Committee for the History of the Second World War. Saint-Jean, Quebec. 1977.

- Finkel, Alvin. "Paradise Postponed: A Re-examination of the Green Book Proposals of 1945". *Journal of the Canadian Historical Association.* New Series, Vol. 4. Ottawa. 1993.
- Forbes, E.R. "Cutting the Pie into Smaller Pieces: Matching Grants and Relief in the Maritime Provinces during the 1930s". In E.R. Forbes ed. *Challenging the Regional Stereotype: Essays on the 20th Century Maritimes.* Fredericton: Acadiensis Press. 1989. pp.148-171.
- Forbes, E.R. "Atlantic Provinces, Free Trade and the Canadian Constitution". In E.R. Forbes ed. *Challenging the Regional Stereotype: Essays on the 20th Century Maritimes.* Fredericton: Acadiensis Press. 1989. pp. 200-216.
- Forbes, E.R. "Consolidating Disparity: The Maritimes and the Industrialization of Canada during the Second World War". In E.R. Forbes ed. *Challenging the Regional Stereotype: Essays on the 20th Century Maritimes.* Fredericton: Acadiensis Press. 1989. pp. 172-199.
- Frank, David. "The Cape Breton Coal Industry and the Rise and Fall of the British Empire Steel Corporation". *Acadiensis.* Vol. VII, No. 1. (Autumn 1977). pp. 3-34.
- Galbraith, John Kenneth. "How Keynes Came to America". In Milos Keynes ed. *Essays on John Maynard Keynes.* London: Cambridge University Press. 1975. pp. 132-141.
- Gordon, H.Scott. "A Twenty Year Perspective: Some Reflections on the Keynesian Revolution in Canada". in *Canadian Economic Policy Since the War.* 1965. pp. 23-46.
- Gotlieb, Marc J. "George Drew and the Dominion-Provincial Conference on Reconstruction of 1945-6". *Canadian Historical Review.* Volume LXVI, No. 1. 1985. 27-47.
- Innis, Harold. "An Introduction to the Economic History of the Maritimes, Including Newfoundland and New England". In Harold Innis. *Essays in Canadian Economic History.* Toronto: University of Toronto Press. 1956.

pp. 27-42.

- McKay, Ian. "Strikes in the Maritimes, 1901-1914".
Acadiensis. Vol. XII, No. 1. (Autumn 1983). pp. 3-46.
- McKay, Ian. "The Realm of Uncertainty: The Experience of Work in the Cumberland Coal Mines, 1827-1927".
Acadiensis. Vol. XVI, No. 1. (Autumn 1986). pp. 3-57.
- McKay, Ian. "The Crisis of Dependent Development: Class Conflict in the Nova Scotia Coalfields, 1872-1876".
Canadian Journal of Sociology. Vol. 13, No. 2. (Spring 1988). pp. 9-48.
- Neatby, H. Blair. "The Liberal Way: Fiscal and Monetary Policy in the 1930s". In Michiel Horn ed. *The Depression in Canada: Responses to Economic Crisis*. Toronto: Copp Clark Pitman Ltd. 1988. pp.257-273.
- Ormsby, Margaret A. "T. Dufferin Pattulo and the Little New Deal". *Canadian Historical Review*. Vol. XLIII, No. 4. (December 1962). pp. 277-297.
- Phillips, Paul and Stephen Watson. "From Mobilization to Continentalism: The Canadian Economy in the Post-Depression Period". In Michael S. Cross and Gregory S. Kealey eds. *Modern Canada: 1930-1980's*. Toronto: McClelland and Stewart Ltd. 1984. pp. 20-45.
- Sager, Eric. "Dependency, Underdevelopment, and the Economic History of the Atlantic Provinces". *Acadiensis*. Vol. XVII, No. 1. (Autumn 1987). pp. 117-137.
- Sewell, D.O. and D.W. Slater. "The Case for Equalization". *Policy Options*. Vol. 3, No. 3. (May/June 1982). pp. 17-24.
- Smiley, D.V. "The Rowell-Sirois Report, Provincial Autonomy, and Post-War Canadian Federalism". *The Canadian Journal of Economics and Political Science*. Vol. XXVIII, No. 1. (February 1962). pp. 54-69.
- Smith, W.Y. "Recognition of Regional Balance". *Policy Options*. Volume 2, No. 5. (November/December 1981). 41-44.
- Taylor, John. "'Relief from Relief': The Cities' Answer to Depression Dependency." In Michiel Horn ed. *The*

Depression in Canada: Responses to Economic Crisis.
Toronto: Copp Clark Pitman Ltd. 1988. pp. 245-256.

Taylor, Malcolm G. "Health Insurance: The Roller-Coaster in Federal-Provincial Relations". In David P. Shugarman and Reg Whitaker eds. *Federalism and Political Community*. Peterborough, Ont.: Broadview Press. 1989. pp. 73-92.

Waines, W.J. "Dominion-Provincial Financial Arrangements: An Examination of Objectives". *The Canadian Journal of Economics and Political Science*. Vol. XIX, No. 3. (August 1953). pp. 304-315.

Wolfe, David A. "The Rise and Demise of the Keynesian Era in Canada: Economic Policy, 1930-1982". In Michael S Cross and Gregory S. Kealey eds. *Modern Canada: 1930-1980's*. Toronto: McClelland and Stewart Ltd. 1984. pp. 46-78.

Young, R.A. "...and the people will sink into despair: Reconstruction in New Brunswick, 1942-1952". *Canadian Historical Review*. Volume LXIX, No. 2 (June 1988). 127-166.

UNPUBLISHED PAPERS

Bryden, Penny. "Pawn or King-Maker: The Maritimes, Ontario, and the Politics of Federalism". Paper presented to The Atlantic Canada Studies Conference. University of Prince Edward Island. May 16, 1998.

Taylor, Kenneth L. "The Road to Hell is Paved...: Reconstruction in New Brunswick, 1945-1952". Paper presented to Open Seminar on Regional History. University of New Brunswick. February 23, 1999.

BOOKS

Armstrong, Christopher. *The Politics of Federalism: Ontario's Relations with the Federal Government, 1867-1942*. Toronto: University of Toronto Press. 1981.

Auld, Douglas A.L. *Contemporary and Historical Economic Dimensions of Canadian Confederation*. Canberra, Australia: Centre for Research on Federal Financial Relations. 1979.

- Beck, J. Murray. *The Government of Nova Scotia*. Toronto: University of Toronto Press. 1957.
- Bickerton, James P. *Nova Scotia, Ottawa, and the Politics of Regional Development*. Toronto: University of Toronto Press. 1990.
- Bliss, J.M. ed. *Canadian History in Documents, 1762-1966*. Toronto: The Ryerson Press. 1966.
- Bliss, Michael. *Right Honourable Men*. Toronto: HarperCollins. 1994.
- Bothwell, Robert, Ian Drummond and John English. *Canada Since 1945: Power, Politics, and Provincialism*. Toronto: University of Toronto Press. 1981.
- Brecher, Irving. *Monetary and Fiscal Thought and Policy in Canada, 1919-1939*. Toronto: University of Toronto Press. 1957.
- Bryce, R.B. *Maturing in Hard Times: Canada's Department of Finance through the Great Depression*. Montreal and Kingston: McGill-Queen's University Press. 1986.
- Bryden, Penny. *Planners and Politicians: Liberal Politics and Social Policy, 1957-1968*. Montreal and Kingston: McGill-Queen's University Press. 1997.
- Buck, A.E. *Financing Canadian Government*. Chicago: Public Administration Service. 1949.
- Burns, R.M. *The Acceptable Mean; The Tax Rental Agreements, 1941-1962*. Toronto: Canadian Tax Foundation. 1980.
- Burns, R.M. *Intergovernmental Fiscal Transfers: Canadian and Australian Experiences*. Canberra, Australia: Center for Research on Federal Financial Relations. 1977.
- Camp, Dalton. *Gentlemen, Players and Politicians*. Toronto: McClelland and Stewart Ltd. 1970.
- Campbell, Robert Malcolm. *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975*. Peterborough, Ont.: Broadview Press. 1987.
- Cohen, Maxwell. *The Dominion-Provincial Conference: Some*

- Basic Issues*. Toronto: Ryerson Press. 1945.
- Conrad, Margaret. *George Nowlan: Maritime Conservative in National Politics*. Toronto: University of Toronto Press. 1986.
- Creighton, Donald. *Canada's First Century*. Toronto: MacMillan of Canada. 1970.
- The Dominion-Provincial Conference: A Interim Report*.
Winnipeg Free Press Pamphlet No. 6. Winnipeg. 1946.
- Doyle, Arthur T. *The Premiers of New Brunswick*. Fredericton: Brunswick Press. 1983.
- Dziewanowski, M.K. *War At Any Price: World War Two in Europe, 1939-1945*. Englewood Cliffs, New Jersey: Prentice Hall. 1991.
- Eggleston, Wilfrid. *The Road to Nationhood: A Chronicle of Dominion-Provincial Relations*. Toronto: Oxford University Press. 1946.
- Eggleston, Wilfrid. *While I Still Remember: A Personal Record*. Toronto: The Ryerson Press. 1968.
- Evans, A. Margaret. *Sir Oliver Mowat*. Toronto: University of Toronto Press. 1992.
- Finkel, Alvin. *Our Lives: Canada After 1945*. Toronto: James Lorimer & Company Ltd. 1997.
- Forbes, E.R. *The Maritime Rights Movement, 1919-1927: A Study in Canadian Regionalism*. Montreal: McGill-Queen's University Press. 1979.
- Forbes, E.R. and D.A. Muise ed. *The Atlantic Provinces in Confederation*. Toronto: University of Toronto Press. 1993.
- Gordon, Walter L. *A Political Memoir*. Toronto: McClelland and Stewart Ltd. 1977,
- Granatstein, J.L. *Canada's War: The Politics of the Mackenzie King Government, 1939-1945*. Toronto: Oxford University Press. 1975.

- Granatstein, J.L. *The Ottawa Men: The Civil Service Mandarins, 1935-1957*. Toronto: Oxford University Press. 1982.
- Keirstead, B.S. *The Economic Effects of the War on the Maritime Provinces of Canada*. Dalhousie Institute of Public Affairs. 1943.
- Keynes, John Maynard. *The General Theory of Employment, Interest and Money*. London: Macmillan & Co. Ltd. 1936.
- Mackintosh, W.A. *The Economic Background of Dominion-Provincial Relations*. Toronto: McClelland and Stewart Ltd. 1964.
- Maxwell, J.A. *Recent Developments in Dominion-Provincial Fiscal Relations in Canada*. New York: National Bureau of Economic Research. 1948.
- Neatby, H. Blair. *The Politics of Chaos: Canada in the Thirties*. Toronto: Macmillan of Canada. 1972.
- Perry, David B. *Financing the Canadian Federation, 1867 to 1995: Setting the Stage for Change*. Toronto: Canadian Tax Foundation. 1997.
- Perry, J.H. *Taxes, Tariffs, & Subsidies*. Volume 1. Toronto: University of Toronto Press. 1955.
- Perry, J.H. *Taxes, Tariffs, & Subsidies*. Volume 2. Toronto: University of Toronto Press. 1955.
- Pickersgill, J.W. *The Mackenzie King Record: Volume 1, 1939-1944*. Toronto: University of Toronto Press. 1960.
- Pickersgill, J.W. and D.F. Forster. *The Mackenzie King Record: Volume 2, 1944-1945*. Toronto: University of Toronto Press. 1968.
- Pickersgill, J.W. and D.F. Forster. *The Mackenzie King Record: Volume 3, 1945-1946*. Toronto: University of Toronto Press. 1970.
- Pickersgill, J.W. and D.F. Forster. *The Mackenzie King Record: Volume 4, 1947-1948*. Toronto: University of Toronto Press. 1970.

- Prang, Margaret. *N.W. Rowell: Ontario Nationalist*. Toronto: University of Toronto Press. 1975.
- Saunders, S.A. *The Economic History of the Maritime Provinces*. Fredericton: Acadiensis Press. 1984.
- Slater, David W. and R.B. Bryce. *War, Finance and Reconstruction: The Role of Canada's Department of Finance, 1939-1946*. Ottawa. 1995
- Smith, Denis. *Gentle Patriot: A Political Biography of Walter Gordon*. Edmonton: Hurtig Publishers. 1973.
- Strick, J.C. *Canadian Public Finance*. Toronto: Holt, Rinehart, and Winston of Canada Ltd. 1973.
- Struthers, James. *No Fault of Their Own: Unemployment and the Canadian Welfare State, 1914-1941*. Toronto: University of Toronto Press. 1983.
- Thorburn, Hugh. *Politics in New Brunswick*. Toronto: University of Toronto Press. 1961.
- Tweedie, R.A. *On With the Dance: A New Brunswick Memoir, 1935-1960*. New Ireland Press. 1986.
- Whitaker, Reg. *The Government Party: Organizing and Financing the Liberal Party of Canada, 1930-1958*. Toronto: University of Toronto Press. 1977.
- Woodward, Calvin A. *The History of New Brunswick Provincial Election Campaigns and Platforms, 1866-1974*. Micromedia Ltd. 1976.

THESES

- Conrad, Margaret. "George Nowlan and the Conservative party in the Annapolis Valley, Nova Scotia: 1925-1965". Ph.D. Thesis. University of Toronto. 1979.
- Fransen, David. "Unscrewing the Unscrutable: The Rowell Sirois Commission, the Ottawa Beauraucracy, and Public Finance Reform, 1935-1941". Ph.D. Thesis. University of Toronto. 1984.
- Fransisco, Jennifer. "New Brunswick Finances, 1917-1952". MA Thesis. University of New Brunswick. 1993.

- Jones, Kenneth. "Response to Regional Disparity in the Maritime Provinces, 1926-1942: A Study in Canadian Intergovernmental Relations". MA Thesis. University of New Brunswick. 1980.
- Kenney, James L. "Politics and Persistence: Hugh John Fleming and the 'Atlantic Revolution', 1952-1960". MA Thesis. University of New Brunswick. 1988.
- Leblanc, Kenneth H. "A.P. Paterson and New Brunswick's Response to Constitutional Change, 1935-1939". MA Report. University of New Brunswick. 1989.
- Taylor, Kenneth L. "The Pursuit of Industrial Development in New Brunswick and Saskatchewan, 1945-1960: A Comparative Study". MA Thesis. University of New Brunswick. 1995.
- Young, R.A. "Development, Planning and Participation in New Brunswick, 1945-1975". Ph.D. Thesis. Oxford University. 1979.