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THE SIROIS REPORT

AN EVALUATION

By B. S. KEIRSTEAD

MOST teachers find that a book or document can be more easily understood if the student knows exactly what is the problem that the author is trying to solve. To understand the question, to appreciate the difficulty which he who poses the question has unsettled in his mind, to know why the question is asked, is, Professor Collingwood tells us, the first step in understanding the answer to the question, and in fitting in the answer with our general body of knowledge. That is, a discussion only becomes significant to us when the problem discussed is a real one and arises from our own system of knowledge and from contradictions or gaps within it.

The true significance of the Sirois Report is thus to be appreciated in terms of the problem the Commissioners were set to study and to solve. An evaluation of the Report must be an evaluation both of the recommendations made in the light of the problem as it was set the Commission by the terms of reference, and also, if possible, an evaluation of the terms in which the problem was conceived and defined.

I

The terms of reference which define the field of the Commission's study, re-cite the strains and stresses which have grown up in the governmental structure of Canada and instruct the Commission to inquire into the nature of these strains and stresses and the general field of Dominion-Provincial relations. More particularly the Commission is instructed to inquire into the allocation of revenues and governmental burdens, the distribu-

tion of taxation and its incidence, public expenditures and debts, and subsidies and grants-in-aid from the Dominion to the provinces. The general nature of the inquiry was limited by two things: (1) the implicit assumption that no important modifications would be made in the economic system of unrestricted private enterprise and (2) that whatever should be done must be "subject to the retention of the distribution of the legislative powers essential to the carrying out of the federal system..."¹

It is clear that the Privy Council, in instructing the Commission, thought of the problem chiefly in terms of the fiscal relations of the Dominion and provinces. But it is pretty clearly indicated that back of the question of fiscal relations is something much more important, the question of national unity itself. Book One of the Report throws a great deal of light on the nature of the problem as the Commissioners saw it, for it is largely devoted to an historical analysis of the nature of the stresses and strains which have grown up in the Canadian economy and which are operating on the governmental system to the detriment of national unity and general welfare. They conceive the problem along lines which might almost be called classical in Canadian historical scholarship. Confederation was an attempt to create a nation state of separate colonies all under the British Crown, at the same time preserving a degree of provincial autonomy necessary to meet the demands of the people of Quebec and, to a lesser extent, of the Maritime Provinces. It created an east-west economy and was

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1. Report of the Royal Commission on Dominion-Provincial Relations, Terms of Reference, page 10.

dependent on a national railway system, and the economy flourished with the development of the West. Since Confederation there has been a tremendous expansion in governmental activities. This is particularly noticed in the growth of the social and educational services. The Fathers of Confederation never envisaged this expansion and the B.N.A. Act, as interpreted, has created difficulties in the proper allocation of the new functions of government. In some cases the provinces are not fitted to be the administrative unit; in some cases the provinces have not the financial resources to finance the new duties. Provincial sources of taxation are not sufficiently elastic, and the effort to make them so has led to inequitable, burdensome and sometimes discriminatory taxation, which has interfered with the free flow of inter-provincial trade.

Again the development of the national economy has led to unforeseen sectional interests. Industry has tended to become concentrated in the central provinces; in the prairies a single crop economy, with all its vulnerability, has grown up. The interests of the small manufacturing and the extractive industries of the Maritimes have not always been identical with those of the industrial centre. Differing economic interests have made the concept of national policy and national interest a difficult one. These differences have been accentuated by different standards of living and welfare. Rigidities have appeared which have made not only market adjustments imperfect but have also prevented the mobility of labour and the attainment of national standards. Since the depression the inequalities have become more marked, as between sections, and the unequal financial capacities of the provinces and the unequal incidence of unemployment have underlined the welfare differences as between the provinces. Efforts on the part of the provinces to provide relief have led to taxation which has the effect of internal customs barriers. The inability of the national government in any adequate manner to go to the relief of the areas in the provinces which

have been hardest hit, all these things have added to the feeling in some provinces that they have been neglected, their interest passed over by the Dominion as a whole. Sectional jealousies have grown up and become, sometimes intense, and the governmental system has been unable to adjust itself to handle what are truly national problems. In these circumstances national unity is in danger. Always a difficult goal in a young country of differing races and religions it has in recent days receded from our grasp. To achieve once again the essential economic and political conditions of permanent national unity, this is in reality the problem the Commission found underlying its terms of reference.

The recommendations which the Commissioners make, conceived in the spirit of the original confederation, are designed to meet this problem. Heavy upon their minds weighed the necessity of preserving a large measure of provincial autonomy. Basic to their recommendations is the national philosophy of the Commissioners. National unity, they believe, requires that national policy should be directed to the greatest benefit of the nation as a whole and not to sectional interests, that national policy should not be a mere totality of measures undertaken in this or that sectional interest, and that a minimum standard of social welfare should obtain throughout the Dominion.

The concept of national welfare is always a difficult one, and especially so in a federal country like Canada. In their effort to clarify this notion the Commissioners have rendered great service. They have rejected in moderate, but conclusive language such extreme claims to provincial autonomy as were advanced in the New Brunswick Brief, based on the "Compact Theory", and at the same time have avoided the theory that any policy is justified which benefits the most populous areas (measured on the summum bonum counting of heads principle) at the cost of disproportionate sacrifice on the part of some sections.

The Commissioners indeed follow loyally the pattern of Confederation. Just as the Fathers attempted to allocate functions of Government as they existed at that time, so now do the Commissioners. They argue that there can be transferred to the Dominion only those powers which are absolutely essential for the proper discharge of such functions as have clearly grown beyond the competence of the provinces in their separate capacities. The relief and prevention of unemployment is placed in this category. Then the Commission has a category of functions which they believe should be shared. Public health is traditionally in this category. National standards may be set and certain administrative functions may be carried out by the Dominion. That part of the work which requires intimate contact with local conditions is best left, they argue, in the hands of the provinces. In this category, in addition to public health are placed wage and labour legislation and jurisdiction in industrial disputes. Some readers will find the Report unsatisfactory in its treatment of this category. For example the Report admits that labour legislation "requires vigilant enforcement and in matters in which inter-provincial friction may arise any suspicion that legislation is not being adequately enforced may lead to ill-feeling." It may also lead, as it has in the past, to a form of bargaining as between the provinces by means of the reduction of minimum wage standards and other protective legislation in order to attract industrial investment and development. Yet the conclusion that "in a general way, enforcement seems to be appropriately a provincial problem"² may not commend itself as following properly from the previous argument. The Commission has, however, faith in the principle of voluntary cooperation between provinces and Dominion and believes use can profitably be made of the device of Dominion-Provincial conferences.

Concurrent jurisdiction is also the re-

commendation with respect to the marketing of natural products, the incorporation of companies, the administration of the fisheries and, with "a clear-cut division of functions", in the regulation of insurance. Apart from this the rights of the provinces under the "property and civil rights" clause of the B. N. A. Act remain substantially as before. To the present reviewer these recommendations are not satisfactory but the reasons for dissatisfaction can be more clearly indicated at a later point in this discussion.³

The Commission then turns its attention to the problem of Dominion-Provincial financial relations. The great burden on provincial revenues is debt service. The provincial debts have grown partly as a result of special relief and public works expenditures, and partly as a result of persistent deficits on current account. Even if unemployment insurance is carried by the Dominion Treasury, the provinces will be unable to maintain their ordinary services of government, establish decent standards of social welfare and keep up their debt service. The Commission recommends that the public debts be transferred to the Dominion, that the provinces receive, in lieu of subsidies, national adjustment grants and, in cases of crisis, such as a crop failure in the prairies, an emergency grant. (It is interesting to note here how once more the precedent of Confederation and the traditional principle of fiscal need have affected the Commission's recommendations on provincial debts and subsidies). In return the Commission believes the provinces must give up to the Dominion exclusive rights to certain fields of taxation, notably the income tax, the death duties or inheritance taxes, and corporation taxes. The Commission believes that considerable savings can be effected both in tax administration and debt payments—through refunding—by the Dominion. Nevertheless it is admitted that increased payments must be made by the Dominion in excess of its increased

2. Report of the Commission Book Two, page 47.

3. See Part II, of this article.

income. However the Dominion, through its tax system, can distribute the burden more equitably, and its sources of taxation are more elastic and can respond more readily to emergency needs. The provinces would, without exception, gain, and the poorest provinces would be able to maintain their social welfare and educational services up to a somewhat statistically defined national average.

This section of the Report will meet with the most severe criticism. On three points it is subject to attack.

The principle of financial responsibility of the administrative body is violated. The provinces are to administer services for the upkeep of which they will not be financially responsible. Moreover the provinces can continue to contract public debts. True it is provided that unapproved debts are contracted on the province's own responsibility and that they will lose the benefits of borrowing under the proposed scheme whereby the Dominion approves the purpose of the debt and arranges the flotation of the loan through its agencies at—probably—preferential rates. But the records of some of the provinces in public administration are not such as to justify the faith that they will not again run up heavy debts for public works—it's in the contracts the "heavy gravy" is found—trusting that the Dominion will a third time come to their rescue when the burden becomes too heavy as it undoubtedly would. It is surely dangerous to put the spending power into the hands of provincial administrations and free them of the responsibility of finding the funds.

Again one cannot read the analysis of taxation without demur.

A sales tax figures as a cost of production. But whether or not it "crushes out marginal enterprise" will depend in part on the shape of the cost and demand curves of the industry and the degree of competition.

The licenses, which the provinces would possess under the recommendations of the Report, could still be used as a form of corporation tax. The most careful drafting of legislation would be necessary if the provinces were really meant to be

deprived of the right to tax corporations. Indeed, while one agrees heartily with the strictures on the welter of corporation taxes in the Dominion at present and with the principle that personal income taxation is the ideal tax from the point of view of an equitable distribution of the burden, one wonders why, where the principle of divided jurisdiction was used in administration, the principle of a shared standardised tax was not used in the fiscal recommendations. Taxation of personal incomes and corporations could have been standardised, and administered by one collecting agency acting jointly for the provinces and the Dominion. This would give all the advantages of standardisation and the economies of single collection, but would enable the provinces, on the principle of the *centimes additionals*, to vote and receive their own revenues, take the responsibility for the services with which they were charged, and it would have given them more elastic sources of revenue. As it is the province is responsible for administering services financed by the Dominion. In times of emergency the province has no elastic revenues and is dependent on the emergency grant from the Dominion. All this is in the name of provincial autonomy, but surely autonomy is not an end in itself; it has value simply as it encourages strong, responsible democratic local or provincial governments. The provincial autonomy which the recommendations of this Report would confer, would not be entirely healthy.

Again one would like to add a word to the treatment of taxes on net corporation gains. It is true, as the Report says, that though these taxes cannot be immediately shifted, they do eat into the available sums for new capital disposal and by altering the terms on which new capital can be obtained, and restrict the rate of new investment and discourage industry. The inference is that such taxes are bad. But, coupled with other controls, such taxes on net gains may be an important instrument of control over the capitalist economy and should be recognised as such. The stress the

Report lays on the equitable distribution of the tax burden through the personal income tax tends to obscure certain other desiderata of a national taxation system.

Finally, objection must be taken to a detail in the treatment of the personal income tax. There is surely no warrant for the Report's refusal to recognise the municipal income taxes of such towns as Fredericton and Saint John as proper income taxes. It is true that these are combined property and income taxes and that they are not graduated. But they are taxes on income just the same, and the citizen of St. John, married but without children, with an income of \$3,000, pays, not \$30.00 in total income tax to the Dominion and municipality, as the Report says, but \$150, which is higher than anywhere else in Canada. (These figures are those which existed prior to the outbreak of the War). If the methods of the Report were followed in carrying out the recommendations with respect to income tax, the St. John citizen would find himself paying an increased income tax but without any relief with respect to his local income tax, whereas taxpayers in Ontario and the West would pay the increased federal tax but would be relieved of their local taxes on income. This may be a minor point, but it would result in serious injustices and deserves to be noted.

But, though there may be reserve in accepting the argument of the Report in all detail, its recommendations must be regarded in toto, as forming a coherent and constructive plan to enable the governmental machinery of Canada to respond to new problems, to divide governmental powers in a manner more in keeping with modern needs, to restore the solvency of the provinces and to enable them in all cases to provide adequate social services for their people up to a national standard. If the problem of national unity really is a problem of sectionalism within a federal state, then this Report will deserve an enthusiastic reception as the first step in a constructive solution.

II

But is the problem of national unity a problem of provincial sectionalism within a federal state? Was the problem properly and profoundly conceived in the terms of reference handed the Commission? It has been formulated here, both in the terms of reference and the Report, as consisting chiefly in the allocation of duties and functions as between the Dominion and the provinces and in the reciprocal relations of a fiscal and financial nature. But the allocation of functions and revenues and the distribution of sources of revenue is purely formal and meaningless without some fairly clear picture of the future social objectives of the state. The reason that the terms of Confederation are no longer satisfactory is that we have outgrown the social philosophy of *laissez faire*. Our problems are not those of 1867 and our notions of what that state ought to do for its citizens are not those of 1867. We cannot look into the future to-day and foresee the nature of the state which is developing without a clear understanding of what is happening both in Canada and in the rest of the world and of the causes of our problems and our discontents. The strains and stresses on the Canadian governmental structure are admittedly to be found partly in regional cleavages and a provincial sectionalism that are peculiar to this country. But the way our regional economy has grown up and some of the causes of our provincial sectionalism may be explained, in part, as a manifestation of a general, social and industrial problem, namely the problem of economic instability, that is common to the western world. This central problem, which for its solution requires planning the economic system, imposes on government a vast new range of duties and on citizens a new social philosophy. No mere rearrangement of existing functions will provide the constitutional basis which will enable a government successfully to cope with it. That would simply provide the constitutional snares which

can so easily serve the obstructive tactics of reactionaries. It is a mistake to suppose that in Canada we do not have this problem to face in the immediate future. We are bound to ask how far the problems discussed in this Report stem from this central problem.

How far has the exhaustion of the topsoils from wasteful, exploitative and unplanned methods been the cause of western crop failures? How far has the world depression been responsible for the lack of market for the crop when produced? How far is the debt burden of the West and the feeling of national dissension between the western farmer and the eastern financier not a sectional grievance but a manifestation of another and broader cleavage, that of possessor and dispossessed? How far can the problems of sectional disturbance and provincialism—breaking down national unity—be considered apart from the consideration of national policies which have been formulated and carried through for the benefit of concentrations of capital which have naturally grown up in the commercial urban communities of the centre? Is New Brunswick a section that has been geographically unhappy and must be offered fiscal assistance on a paternalistic—or fraternal—basis, or is it a community of small producers, an economy of small extractive industries (with one or two notable exceptions) which have been steadily exploited by national policies carried out in the interest of the big manufacturer and financier?

The answers to these questions may well be eclectic. New Brunswick, for example, is poor in resources compared with other provinces. But also the great mass of her people, small farmers, fishermen, lumbermen and other workers, have been sadly exploited by the economic policies—the economic system—of Canada. The problem of Canadian national unity is partly a problem growing from geographic sectionalism and provincialism. It is partly a manifestation of the social cleavages which have grown up in the industrial civilisation of the western world. To state the problem in its nar-

rowest sense only is to misstate it and to misunderstand it.

Let us carry this further. In the Report it is admitted in so many words that unemployment is a phenomenon of industrial depression. Yet the emphasis is repeatedly thrown on the suggestion that unemployment is to be found in the West when the crop fails, or when the market is bad. Repeatedly the Report states the truth, that unemployment is an industrial problem and that the causes lie in the economic system and that methods of prevention require centralised controls over income and the private disposal of capital. Yet in spite of these suggestions such powers of economic control as the Report recommends for the federal government are made incidentally, it seems, to the general scheme. A planned economy on a national scale requires two things, (a) adequate powers in the hands of the planning authority and (b) controls set up by the representatives of the people, put in the hands of personnel selected on a basis of competence and ability and not on a basis of political allegiance or on a basis of business interest. No planning authority can work manned by the personnel of big business, because it ought to control big business in the public interest. It does not matter whether the planning be socialistic or within the legal framework of private property. Indeed the differences are becoming blurred. It is hard to say when a capitalistic system regulating prices, the conditions of employment, and new investment and taxing profits above a certain minimum passes into a socialist system where the former owners have been brought out and are paid interest on state expropriation bonds. Indeed it is quite conceivable that in a socialist system the present owners of capital wealth would be better off. Suppose, as is most reasonable for this country, that the trend is towards controls within the private capitalist system. What controls would the planning authority have under the recommendations of this Report?

The federal government would have

control over income and corporation taxation and the tariff system. That is an excellent beginning, for it gives the weapon of redistributive taxation to one central authority. In controlling the economy this weapon can be used in combination with control over the banking system. The Report comments on this fact and points out that through the Bank of Canada the Dominion Government Treasury can control the banking system of Canada. But in reality the Bank of Canada has most ineffective instruments of control over the chartered banks in peace time. It is only since the outbreak of war that real control over the monetary and banking system has passed into the hands of the Treasury. Moreover cycle control theory supposes that one authority will control public spending on capital account. The Swedish doctrine of the unbalanced budget would require that the Dominion control public borrowing. As we have seen under the recommendations of this Report the Dominion would not have such complete control. Again the Report recommends the division of jurisdiction over insurance companies, marketing and corporations. This division of jurisdiction does not permit single planning of marketing and a united control over new private investment.

We cannot here undertake even a sketch of business cycle control, but there are clear indications from what has already been said that, if the fluctuations of the industrial system are to be considered as a partial cause of Canadian disunity, then this Report studies too partial an aspect of the problem and its recommendations are incomplete.

It will be said that these aspects of the problem were not given the Sirois Commission to study, that their terms of reference excluded them. That is true. But we are not here trying to make unfavourable comments on the work of the Commission. On the contrary there cannot be any Canadian student of public affairs who is not conscious of the tremendous industry and scholarship which has gone into the

preparation of this Report and who is not grateful for this exhaustive and clarifying study. But if the Report is to be evaluated as a contribution to Canadian national unity, and if the problem was but partially conceived and over-restricted in the terms of reference, then this becomes of real significance in the evaluation.

Undoubtedly Canadian national unity has been threatened by the breakdown of the Confederation arrangements. The Report recommends new arrangements which would strengthen national unity, make possible new achievements, and do this in a manner consistent with provincial pride and the keen desire of some provinces for a large measure of autonomy. But as the Report repeatedly suggests new social and industrial problems are looming which will require still further adjustments of governmental structures and machinery. Yet only incidentally could these problems be treated under the terms of reference. It is the contention of this reviewer that these social problems are not incidental and that any reallocation of governmental powers and revenues must be made with a view to the successful handling of them. As far as they could the Commissioners seem to have maintained this view. In their treatment of fiscal policy, in references to banking and in their chapters on unemployment insurance they argue that the Federal Government must have power to establish and direct economic controls. But this is never placed in the forefront of their scheme. It is never argued that the reallocation of governmental powers should be primarily directed to these needs of the future. It seems almost impertinence to suggest inadequacy in this encyclopaedic Report, yet one cannot avoid the feeling that the war is going to intensify the need for economic controls and that that need is going to necessitate changes in the federal and governmental structure in Canada which go beyond anything contemplated in this Report.