

The Rowell-Sirois Report

Some Observations on the Report following
the Close of the January 1941
Dominion-Provincial Conference

BY

the Late PROFESSOR ROBERT McQUEEN

(Professor of Political Economy at the University
of Manitoba at time of death)

Reprinted from
the February and March 1941 issues of
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The Late PROFESSOR R. McQUEEN

(Taken from the Editorial Column of the March 1941 issue)

Professor McQueen had become known to our readers through his monthly articles in THE CANADIAN CHARTERED ACCOUNTANT, and his untimely death in the aeroplane crash on 6th February was a shock to us all. In the words of President Sydney Smith of Manitoba University "He was a great Canadian, preferring always the national to the sectional viewpoint." That helps to explain why he had been chosen as one of the directors of the Bank of Canada—and it was during his return from a meeting of the directors that his death took place. He had taken a personal interest in the educational programme of our profession and at the time of his death was active in the student training courses of the Manitoba Institute. An observant student of economic and political problems, a teacher of unusual ability and an after-dinner speaker of rare charm, Professor McQueen's passing is a loss that will be keenly felt by a host of friends and acquaintances right across the Dominion.

Just before the March issue went to press we received from Mrs. McQueen another in the series of articles written by her late husband for THE CANADIAN CHARTERED ACCOUNTANT. The preparation of it by Professor McQueen a few days before his death emphasizes the fact that the articles in this series, from the pen of one whose time and talents were occupied in numerous directions, were not written hastily but were the product of an ordered mind and of a heart set on Canada's good. Though dead he still speaks.

—Austin H. Carr, Editor.

ECONOMIC NOTES

I

(From the February issue)

The Rowell-Sirois Report

THE morrow of the collapse of the Dominion-Provincial conference at Ottawa to consider the Rowell-Sirois report is dismal indeed to those who had laboured for its implementation. And yet it is well to remember that the first function of a democracy is to preserve at all costs those conditions which permit the citizens to agree or disagree among themselves and with their established governments, for it is for nothing else greater than this that we fight. What is most discouraging to those who laboured in the preparation of the report and to those who believed in its fundamental recommendations is the manner of its rejection. The conference broke up with a refusal on the part of important parties in interest to even consider the report or even more to consider any alternative proposals. It was this refusal to discuss at all which is disturbing and the more so at a time when we are in the midst of the sternest struggle we have ever known or shall quite likely ever know.

And yet it is well to remember too that it was events and not men that called this report into being and that it will be events and not men which will call for solutions to the problems the report dealt with. The believers in the report may comfort themselves that there is a logic in events which transcends the logic of current politics and current politicians. To those who doubt this let them consider the rapid change in the attitude of the American people toward the question of aid to Britain and it at once becomes clear that the politicians can change as quickly as the people. If in one year the logic of events can so change the opinions of a non-belligerent United States what can it not do in a Canada fighting for her life?

The Minister of Finance agrees with the premier of Ontario that the war is the first consideration. That being so the federal government must have sufficient revenues to carry on that war and it can only get them by widening and deepening its tax structure and this it can only do by transgressing upon the traditionally exclusive fields of pro-

vincial taxation. These are only traditionally exclusive fields for the province since our constitution permits the federal government to levy any and every kind of taxation anywhere in Canada. The federal government has not utilized this complete power solely because certain of the provinces would not be able to carry on their normal peace time functions if it did so. With war now the paramount consideration this traditional respect for provincial taxation jurisdiction on the part of the federal government can no longer be commended and the consequences of the change in view must soon be apparent.

What the report offered was a quid pro quo to the provinces for their relinquishment of certain taxation fields. What we shall have now is a partial but substantial relinquishment of these taxation fields by the provinces with no agreement for a quid pro quo. The relinquishment will be involuntary but none the less real in that the provincial revenues from these taxes must decline with the intrusion of the Dominion into the already occupied field. This will be more obvious a year from now than it was last week and in that fact there is hope for a new conference which will really confer. The biggest single factor in Canadian politics is after all not the federal government or the provincial governments but Herr Hitler, and his logic is intelligible to every Canadian citizen whether he lives in British Columbia or Manitoba or Nova Scotia.

Such an argument as this however is open to the charge that the federal government is using the war to force through an increased degree of centralization of government in Canada. Many honest minds are disturbed by such a possibility and possibly one reason why the conference failed was that such persons had not been relieved of their fears by sufficient preparatory discussion. Premier Bracken of Manitoba discussed the matter in some detail in his speech but the matter received no adequate discussion before the conference broke up. Those who believe in the report would do well for the cause to air this matter thoroughly before another conference is called.

Even were the war to end tomorrow the problem of post-war readjustments would be so formidable as to require a new consideration of Dominion-Provincial relations. Western Canada faces a problem of over production and

diminished world markets for its staple product which will defy any palliative devices we have heretofore utilized and the effect on the rest of Canada, particularly central Canada, will be intimate and very direct. And the cessation of war industries in central Canada will resurrect with the suddenness of an explosion the unemployment problem there. These problems of readjustment will be beyond the capacity of the provinces and it was just such a situation which occasioned the Rowell-Sirois report. Both during and after the war the logic of the politicians will conform itself to the logic of events. We may not implement the Rowell-Sirois report but we shall not evade the realities it deals with.

II

(From the March issue)

IT has been said by some that the implementing of the recommendations of this Report would mean that we had made constitutional certain procedures by which poor or profligate provinces could raid at will the accumulated wealth or current income of richer or less profligate provinces in the federation. As thus stated, the objection seems plausible. But to state the matter thus involves a misunderstanding of the reasoning lying behind the recommendations of the report.

Let us look for a moment at the charge that profligate provinces will, if the report is implemented, be able to conduct raids upon the wealth or income of the less profligate provinces. We speak only of degrees of profligacy, for the Commission was not able to classify the provinces into profligate and unprofligate. Over a now somewhat prolonged life each of the provinces has had opportunity to sin and some have made more of their opportunities than others, but not enough more that their brethren may safely point the finger of shame. Our past sins are hidden in our public debts and the frequency and magnitude of our errors were so much alike that the Commission wisely recommends similar treatment for us all for our past and a promise of similar treatment to all for the future. They assume the past debts and remove occasions for provincial profligacy in the future.

Granting then that profligacy has been so evenly distributed that no charge that the profligate will raid the unprofligate could be sustained, let us turn to the argument that the poor provinces will, if the report is implemented, raid the wealth and income of the rich provinces. It must be remembered at the outset of any such argument that areas or provinces as such are not raided and do not raid. Raider and raided, if such there be, are Canadian citizens and not places on the map of Canada. That one spot in Canada is inhabited wholly by raiders and some other spot wholly by raided persons is most unlikely and contrary to all experience. Why, then, it may be asked, has the Commission recommended national adjustment grants in the case of some provinces while it has not done so in the case of others? If Manitoba has been given an adjustment grant and Ontario has not, there is no warrant for assuming that every citizen of Manitoba is benefitting from a raid on every citizen of Ontario. If it did mean that, it would be a most unwarranted and heartless proceeding, for a great part of the Ontario citizenry are themselves already the victims of the inequitable system of taxation which prevails in Canada at the present time. As will be outlined in greater detail elsewhere, those citizens of Ontario in the lower income groups—and they are the great part of the population in any jurisdiction—are now being subjected to a degree of regressive taxation which is common to all their income group in all parts of Canada. The difficulty is that the Canadian tax structure considered as a whole—namely, the federal, provincial and municipal tax load on the typical citizen wherever he dwells—bears unduly on the low income earner. The remedy for this inequitable situation is more progression in the whole tax structure and this the Commission embodies in its recommendations.

Until 1917 the Dominion government withheld its undoubted right to levy a progressive income tax and since that time it has relented in the further imposition of this tax and remained completely out of the succession duty field largely out of concern for the fiscal requirements of the provinces. Some of the provinces have been forced to increase very greatly these taxes while others have imposed them at more moderate rates or completely refrained from their use. The result has been that in certain provinces (often wrongly called wealthy provinces) there have

been unutilized reserves of potential progressive taxation while in other provinces there have not. But it must not for a moment be concluded that because there were some unutilized reserves of potential progressive taxation in a given province, the lower income groups in that province were not heavily taxed and heavily taxed in a regressive manner by the working of the tax structure as a whole.

It may be, then, that a province may contain a significant aggregation of wealthy people who are not taxed as heavily as they should be because the instrument of progressive taxation has not been utilized to the degree it could have been in that area. It has not been so utilized as the Dominion had restricted its use of progressive taxes in order that it should not embarrass a few provinces who relied on these taxes and which had utilized them to the full. Where, however, progressive taxation has not been utilized to the full in certain provinces, we may still find the large part of the lower income groups heavily taxed. This so-called rich province is rich in that it has millionaires who are not taxed to the degree they would be in other provinces; but it is as poor as the rest of the provinces in that the great majority of its citizens are regressively taxed. It is time that we stopped talking about rich and poor provinces and began to talk of rich and poor Canadian citizens in every province and to adjust our whole tax structure accordingly. The present distribution of taxing powers bears heavily on the lower income groups everywhere in Canada and has left islands of unutilized progressive taxation in some areas; but there is no warrant for designating certain provinces as rich provinces and others as poor provinces.

The provinces hesitated for long after Confederation to enter into the direct progressive taxation field and the Dominion only came into the field, and only then with an apology for its boldness, in 1917. The result of the divided jurisdiction is that a powerful fiscal weapon has been but feebly wielded. The war we are engaged in will require the full use of the weapon and the hesitancy in its use by the federal government must of necessity disappear. The Commission suggests that the provinces give up their progressive taxes in return for something. If the bargain is not made, the productivity of provincial progressive taxes

must decline, for the Dominion must have the revenues and Hitler will not wait.

The National Adjustment Grants mechanism is the suggested device whereby among other things more progressiveness can be injected into the whole Canadian tax structure and whereby some regressiveness may be removed. This correction in our now distorted tax structure will apply in Ontario as in Saskatchewan and the ordinary Saskatchewan citizen will in no sense be raiding the ordinary Ontario citizen.

If there is any raid involved in the recommendations of the report, it is a raid by the regressively taxed in all parts of Canada on the resources of some who are not as progressively taxed as they should be in all parts of Canada. The additional revenues necessary for implementing the report, it is suggested, and we agree, should come from a broadening of the income tax basis and from a heavier imposition of succession duties by the Dominion.

The Commission has stressed the fact that when considered as a whole the Canadian taxation falls too heavily upon consumption and upon the costs of doing business, instead of falling upon the profitable results of business. If the report is implemented, there is provision for the correction of this situation. If the report is not implemented, there will be no correction of the situation and in addition the Dominion will have to enter the provincial taxation field to a degree that must gravely embarrass all provincial treasuries.

