

THE UNIVERSITY OF MANITOBA

THE TWILIGHT OF FEDERALISM

A COMPARATIVE STUDY OF RECENT DEVELOPMENTS  
IN CANADIAN AND AUSTRALIAN FEDERALISM.

Being a Thesis submitted to the School of  
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BY

ALEXANDER WILLIAM RUSSELL

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#### ABSTRACT

The thesis undertakes a comparison of developments in Canadian and Australian federalism since 1945. The comparison is made more valid by the similarity of the political, economic and social problems faced by Australia and Canada, and by the fact that a discussion of all aspects of federal relations, economic and social, as well as constitutional and political, is attempted.

A brief survey of federal developments in both countries before 1945 clearly demonstrates one important point, that the shifts in the balance of power between the central governments on the one hand, and the provincial and state governments on the other, are not determined so much by the formal constitutions or by judicial interpretation of the constitutions as by the fundamental economic and social forces of the day.

To understand Australian and Canadian federalism since 1945, it is necessary, therefore, to examine what have been the new postwar forces of this type in these countries. In Chapter II it is seen that in both Australia and Canada the

new forces, arising from the experiences of the 30's and the war, have been the overwhelming desire of people for economic and social security. This desire found academic expression in the theories, usually associated with the name of J. M. Keynes, whereby governments were informed how to exercise short-term and long-term economic policies and how to make social welfare and educational payments, in order to bring about this economic and social security. But governmental exercise of such economic, welfare, and educational policies has brought about three important developments in federal relations in the two countries. They are firstly, centralisation (i.e., greater power for the central governments), secondly, equalisation (i.e., an attempt to reduce inequalities between the regions) and, thirdly, interlocking of central governmental and provincial and state governmental activity.

Chapters III, IV, V and VI examine the development of these trends as a result of central governmental activity in the fields of taxation, economics, education, and health and welfare respectively. It is seen, moreover, in Chapter VII that these three trends in federal relations have not only resulted from the action of the central governments but have also been positively encouraged by the pressure of the other power institutions in Canada and Australia. They have been encouraged by labour and businessmen's organisations, by political parties and even, to some extent, by

the provincial and state governments themselves.

But the desire for economic and social security has not been the only force causing the development of these three trends in Australian and Canadian federalism. Looking more impressionistically, they have also been caused, as mentioned in Chapter VIII, by a greater sense of nationhood in the two countries. This sense of nationhood has arisen partly from the important international position which Canada and Australia now hold and from the increasing cultural unity effected by the mass media.

Yet for all this, provincial and state governments remain important and their legislative powers are supported by political, economic and social forces. But in Chapter IX it is seen that these forces are declining and are mainly an overlap from a previous age.

Already the developments in Canadian and Australian federal relations since the war have ensured the inapplicability to federalism in these countries of the classical definition given by scholars like K. C. Wheare. No longer can it be said that there are two levels of government each wholly independent in its own sphere. Besides, these developments are almost certain to continue in the future and, consequently, the state and provincial governments, caught in a mesh of centrally initiated schemes, will more and more become administrative agencies rather than independent legislative units. It is for this reason that the thesis is called *The Twilight of Federalism*.

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## CHAPTER I

### INTRODUCTION

#### I. THE TASK OF THE THESIS

Studies in politics often become more meaningful by being made comparative. Nowhere is this more true than in the studies which have been made of the particular political system called federalism. Yet in recent years there has been a strange lack of attempt on the part of scholars to evaluate the developments in the practice of federalism since the Second World War on a comparative basis. After the classic comparative study of federalism by K. C. Wheare,<sup>1</sup> only three significant attempts have been made to follow up his work. There has been, firstly, a collection of essays, edited by A. H. MacMahon, which attempted to provide a broad general survey of the working of federal governments, both old and new. In actual fact, however, this work concentrated very heavily on developments in the United States of America alone.<sup>2</sup> W. S. Livingston, in a book entitled "Federalism and Constitutional Change,"<sup>3</sup> undertook a more evenly balanced comparison of federal systems. Attempting to cover

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<sup>1</sup> K. C. Wheare, Federal Government (3rd ed., London, 1953).

<sup>2</sup> A. H. MacMahon, Federalism, Mature and Emergent, (New York, 1955).

<sup>3</sup> W. S. Livingston, Federalism and Constitutional Change, (Oxford, 1956).

all federal countries, Livingston, however, by necessity was compelled to restrict his comparisons to a narrow field. In his own words, he says, "I have . . . tried to interpret it (i.e. the development of federalism) through the single medium of constitutional amendment."<sup>4</sup> Paradoxically the most thorough-going comparative study of recent practice in federal government has been undertaken by a scholar working in a non-federal country — Britain. A. H. Birch has compared developments in the United States of America, Canada and Australia and has drawn important conclusions from his comparison.<sup>5</sup> But Birch, like Livingston, felt it necessary, in making his comparisons, to limit his field of vision. He undertook only to compare the fiscal relationships between centre and localities in these countries and the effect on these relationships of recent trends in social legislation.<sup>6</sup>

Consequently there has been no comparative study based upon all aspects of recent developments in centre-local relations in federal

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<sup>4</sup> W. S. Livingston, op. cit., p. v.

<sup>5</sup> A. H. Birch, Federalism, Finance and Social Legislation, (Oxford, 1955).

<sup>6</sup> Throughout the thesis, the term central government is used to describe the Dominion government in Canada and the Commonwealth government in Australia. The term local government is used to describe the provincial governments in Canada and the state governments in Australia. In the thesis, local government does not refer ever to municipalities.

states. This is unfortunate. A comparison such as undertaken by Livingston of the methods of constitutional amendment in federal countries and the forces which lie behind these methods, or a comparison, as undertaken by Birch, of federal fiscal relations and social legislation may allow certain general conclusions to be drawn about developments in federal government. But a full appreciation of these developments cannot be attempted unless every element, political, social and economic, of the relationship between central and local governments is brought under review. To be effective, however, such a comprehensive comparison is best restricted to countries which face roughly similar economic, social and political problems. In reply to his own question, "in what circumstances is it fruitful to make a comparative analysis of political institutions?", A. H. Birch says that such comparisons must be made only when the institutions in the countries compared share a "common purpose" and are shaped by approximately similar forces.<sup>7</sup>

For this reason, it is doubtful if a comparative study of centre-local relations in both the "old" and "new" federal states would bear much fruit.<sup>8</sup> The social, economic and political problems of countries like the U.S.A. and Canada on the one hand are too much

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<sup>7</sup> A. H. Birch, op. cit., p. xi.

<sup>8</sup> K. C. Wheare enumerates the "old" federal states as U.S.A., Canada, Australia, and Switzerland and the "new" ones as Nigeria, India and Central Africa.

different from those like Nigeria or Central Africa to form a sufficient base of comparison. But even a comparison restricted to the "old" federal states provides immense difficulties. Livingston and Birch felt they were able to overcome these difficulties, (though the latter was compelled to exclude Switzerland from his comparison), because they limited their study to one or two aspects of centre-local relations in which there was a basic similarity in the countries compared. But if all aspects of these relations are to be considered, it is doubtful if there would still remain a sufficient similarity between the four old "federalisms" to form a base of comparison. To take but the obvious example, it is clear that many of the problems faced by governments, central and local, in the U.S.A. must differ radically from those faced by Canada, Australia and Switzerland if only because the U.S.A. has a population ten times greater than any of the other three. Likewise, Switzerland has problems distinct from those of the U.S.A., Canada and Australia if only because it, in turn, has but a twentieth of the area to govern of any of the others.

Only two of these countries in fact -- Australia and Canada -- have a sufficiently common environment and face enough similar problems to allow a comprehensive comparison of the recent developments in their federal structure to be easily undertaken. To make such a comparison is the task of this thesis.

There is, however, a further limitation to this comparative study -- a chronological one. Much has been written on developments

in the federal systems of both Canada and Australia before 1945. More than a background outline of events before that date, therefore, is unnecessary. Concentration will be placed on the developments which have occurred since then.

This chronological division is not arbitrary. It seems that the post-war period has seen the rise of distinctly new political, economic and social theories and policies common to both Australia and Canada. The basic questions which must therefore be asked in this comparative study are: What are the new post-war theories and policies in Canada and Australia? How have they affected the balance of power which existed between the centre and the localities, and has their effect produced precisely similar results in both these countries? Are these developments in centre-local relations likely to continue in the years to come? Finally, in the light of these trends, does the term "federal" remain an adequate description of the systems of government in the two countries?

## II. THE BASIC SIMILARITY OF AUSTRALIA AND CANADA

That federal institutions in Canada and Australia have operated in the past in a similar social and economic environment should at once be clear. In the first place, both countries are immense in area: Canada with 3,851,000 square miles and Australia with 2,975,000 square miles.<sup>9</sup> Though in area they, therefore, rank among the world's largest

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<sup>9</sup> Commonwealth Year Book, (Canberra, 1959), p. 26.

countries, in population they rank amongst the smaller. In 1959, the population of Canada was estimated to be 17,442,000<sup>10</sup> and that of Australia 10,183,454.<sup>11</sup> Consequently, both Australia and Canada are remarkable in their extremely low density of population. But they are further alike in that in both of them what population there is, is heavily concentrated in a small part of their huge land mass -- in Australia it is concentrated along the East and South-east coastal area; in Canada, the concentration is near the American border from coast to coast and up the St. Lawrence Valley.

These fundamental geographic facts have, of course, in the past greatly shaped development in Australia and Canada. It is perhaps trite, but nonetheless true for that, to say that for long both countries, like the U.S.A., were dominated in their thought and methods by "a moving frontier of settlement" and that in both "the pioneer mentality" produced a "political democracy in temper somewhat like that of the United States".<sup>12</sup>

What is perhaps not emphasized so often is the fact that today Canada and Australia still have a "moving (if different) frontier". The Gordon Commission on Canada's Economic Prospects was especially struck by the continuing importance of this fact and its observations

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<sup>10</sup> Canada Year Book, (Ottawa, 1960), p. 196.

<sup>11</sup> Commonwealth Year Book, 1959, p. 282.

<sup>12</sup> A. Brady, Democracy in the Dominions, (3rd ed., Toronto, 1958), p. 1.

on Canada could in this respect still be made equally appropriately on Australia.

"Unlike the United States," its final report said, "Canada still has a frontier. It is perhaps unwise to stress that fact too much since it can draw attention away from the problems of social organization in the cities and towns where most Canadians live. It can also cloud the importance for economic growth of the technological frontier. That is perhaps the chief cutting edge of the economy and anything that can be done to enable Canadian industry of all kinds to profit from technological change will probably yield larger dividends than deliberate efforts to press the physical frontier further north (in the case of Australia, 'inland' or 'centre' would be used instead of 'north') although that may be highly desirable on other than economic grounds. Yet the wilderness remains a partner in the venture. (Italics not in the original). That fact alone is bound to lead to significant differences between economic development in Canada and in the United States."<sup>13</sup>

The frontier today to the north in Canada and to the centre in Australia depends for its advancement very largely on the development of mineral resources. The original frontier, however, was advanced by agricultural and pastoral settlement and even today, the primary production of wheat (along with wood products) in the case of Canada and wool, along with wheat, in the case of Australia forms a large part of the Gross National Production of these countries, and possibly more important, an even larger part of their total exports. Thus, in 1957-58 the value of exports of pastoral products was no less than 58.0% of the total Australian export value.<sup>14</sup> In Canada,

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<sup>13</sup> Royal Commission on Canada's Economic Prospects, Final Report, (Ottawa, 1957), p. 6.

<sup>14</sup> Commonwealth Year Book, (Canberra, 1959), p. 488.

the value of exports of farm and forest origin represented considerably more than half the total Canadian export value.<sup>15</sup> To a very large extent, therefore, the Balance of Trade in both Australia and Canada depends still on the value of their primary products, on the value that is in each case of a few bulky and relatively low-value exports. The significance of the size of these bulky exports from Canada and Australia is only appreciated when it is recalled that, despite their relatively small population, these countries stand high in the list of countries measured in terms of world trade. Thus, in the value of its total trade, Canada in 1957 and again in 1958 was the fourth leading country in the world; Australia, the twelfth. But if the size of trade per capita is measured for these years, Canada in fact ranks ahead of any other country, and Australia falls into fifth position. (See TABLE I overleaf). Along with countries like Belgium, the Netherlands and Sweden, Australia and Canada are clearly relatively more dependent on world trade than other countries in the world. But equally important is the fact already mentioned that the huge trade of both Australia and Canada consists so much of a few bulk products. Thus Canada produces on an average 30% of the total wheat exported in one year in the whole world; and Australia, more than this percentage of the total wool exported. The result is that the trading position of Australia and Canada is more precarious by far than that in any other federal country. Even

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<sup>15</sup> Canada Year Book, (Ottawa, 1960), p. 1042.

TABLE I  
TRADE PER CAPITA OF VARIOUS COUNTRIES COMPARED

Country	\$'000,000 Total Trade 1957	1958	'000 Pop.(est) 1958	U.S.\$ Trade Per Capita 1957	1958
<u>Canada</u>	11,802	11,230	17,048	711	659
Belgium	6,618	6,175	9,373	711	658
Netherlands	7,203	6,843	11,173	654	612
Sweden	4,565	4,454	7,415	619	601
<u>Australia</u>	4,148	3,720	9,846	430	378
Great Britain	21,096	19,978	51,925	408	385
U. S. A.	35,159	31,848	177,184	202	180

Sources: International Monetary Fund, International Financial Statistics, Sept. 1959; and United Nations Statistical Office, Population and Vital Statistics Reports, Series A, Vol. XI, Nos. 2 and 3.

a slight fluctuation in the world market of these bulk exports has an immediate and important effect on their whole economy. The observation of the Rowell-Sirois Commission in 1940 on Canada is still appropriate today, not only to Canada but also to Australia.

Every country could display a list of surplus and deficit resources, but in few would the extremes be so great. Thus Canada is at once the world's largest exporter of wheat, newsprint, and non-ferrous metals and one of the world's largest importers of coal, oil and steel products. It is in this distribution and peculiar character of Canada's resources (those of Australia are equally 'peculiar') that we find the explanation for many of Canada's distinctive economic, and related public finance, problems.<sup>16</sup>

These problems, then, are common to Canada and Australia and provide yet another base for effective comparison.

To present Australia and Canada as essentially primary producing countries is, however, false. In fact, since at least the 1930's, a rapid process of industrialization has occurred in both these countries. With almost uncanny precision indeed, the pace and extent of their industrial development have coincided. Today, the proportion of the net value of industrial production to total net value production is remarkably alike in Canada and Australia — c. 55% in both countries.<sup>17</sup> The similarity can be taken a stage further. Not only has there been industrialization in Australia and Canada, but

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<sup>16</sup> Report of the Royal Commission on Dominion-Provincial Relations, (Ottawa, 1940), Bk. I, p. 179.

<sup>17</sup> I have calculated this approximate figure from statistics given in Commonwealth Year Book, op. cit., p. 1086; Commonwealth Grants Commission, Twenty-Seventh Report, (Canberra, 1960), p. 123 and 124; Canada Year Book, op. cit., p. 1266.

to a considerable degree that industrialization has been concentrated in certain particular regions in both countries.

"The concentration of nearly two-thirds of the population of the Commonwealth in New South Wales and Victoria," the Grants Commission in its most recent Report lucidly states, "has entailed a relatively greater development of secondary industry there. In those two States . . . the per capita value of secondary production and the proportion of the population employed in factories are roughly twice as high as in Queensland or Western Australia. South Australia and Tasmania occupy an intermediate position."<sup>18</sup>

Likewise, in an introduction to a statistical section in the Canada Year Book dealing with the question of provincial distribution of manufacturing production, it is stated: "Ontario and Quebec are by far the most important manufacturing provinces of Canada. Their combined production in 1957 amounted to 80% of the total factory shipments of manufactured products." Such a disparity in industrial production is, of course, significant in any country, but is especially so in countries with a federal system of government. A return to this point will be made later.

In this necessarily brief review of the similarity of the fundamental social and economic problems which Canada and Australia have faced and still face, one other development should perhaps be mentioned. Today, Australia and Canada are both fully independent nations making their own foreign policy and their own substantial

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<sup>18</sup> Commonwealth Grants Commission, op. cit., p. 20

<sup>19</sup> Canada Year Book, op. cit., p. 691.

contribution to the collective defence of the "west". It should not, however, be forgotten that this international position of these two countries is of recent origin. Even for long after the official declaration of 1926 and the Statute of Westminster in 1931, neither Australia nor Canada felt it necessary to take an important or independent stand in international affairs. Illustrative of this is the fact that neither country made any extensive contact with other countries through embassies. During the war itself, of course, the exigencies of the situation demanded that the policies of Australia and Canada be closely integrated with and subordinated to the aims of the main Allied countries. In fact, it is only since 1945 that in the United Nations, in the British Commonwealth negotiations, and through a wide network of embassies, these two countries have come to play an important and significant role in international affairs, and have been prepared -- especially in the case of Canada -- to bear the burdens imposed by such a role. Together they have reached international "maturity".

Clearly, then, there can be few countries in the world which provide, by the similarity of their political, economic and social environment, such a firm base of comparison as Australia and Canada.

It would be a mistake, however, not to recognize in passing that there are at least two important problems -- or factors -- which Canada, but not Australia, must take into consideration.

In the first place, Australia enjoys a much greater ethnic homogeneity than Canada. In the census of 1954, it was found that in Australia no less than eight and a half million out of a total population of nine million were people of British origin.<sup>20</sup> The Canadian census of 1951, however, demonstrated that in Canada only six and a half million out of fourteen million could thus be designated.<sup>21</sup> Whereas it is obvious from these figures that there is no significant non-British element in Australia, there were counted at the Canadian census no fewer than four and a quarter million people of French stock, speaking French as their mother tongue.<sup>22</sup> This, of course, has exceedingly important consequences for the balance of federal-provincial power in Canada. The large French-speaking minority has been largely concentrated in the province of Quebec, whose government has traditionally defended their special social and cultural interests. In Canada, therefore, unlike in Australia, the pressures for provincial autonomy have been greatly strengthened by the interests and demands of a large and powerful cultural minority.

In the second place, again unlike Australia, the development of Canada has been all along shaped to a large extent by the existence immediately to the south of her, of a large and powerful country, ten

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20 Commonwealth Year Book, op. cit., p. 306.

21 Canada Year Book, op. cit., p. 191.

22 Loc. cit.

times greater than her in population. Much has been written of the effects of the U.S.A. upon Canada in the past -- effects at times tending to unify Canada; at times tending to increase her diversity.<sup>23</sup> And the continuing nature of these effects since 1945 will be a recurrent theme later in this thesis. It is, however, sufficient to emphasize here that the existence of the United States as a neighbour of Canada has meant that Canada has faced, and still faces, certain political and economic problems unknown in Australia.

To ignore the significance of these two differences in environment between Canada and Australia would be greatly to reduce the validity of any comparison between them today. Yet it remains true to say that the developments in the federal institutions of the two countries and the developments in the balance between centre and localities have been shaped by basically similar political, economic and social forces.

### III. SOME GENERAL DEVELOPMENTS IN AUSTRALIAN AND CANADIAN FEDERALISM BEFORE 1945

What have been these developments in federal institutions and in the balance between centre and localities? To understand events since 1945, a brief outline of them up to that date is necessary.

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<sup>23</sup> A. Brady, op. cit., p. 36.

Canadian and Australian federalism had, of course, a common historical origin. In both cases a federal system was achieved by uniting for certain purposes under a central government a number of British colonies which had previously enjoyed distinct governments. In both cases the reason for making this move was essentially threefold -- a desire to secure defence; a desire to evolve a common customs and tariff policy; a desire to have a unified control over immigration. But there was an important difference. The immediate pressures on the Canadian provinces to achieve some kind of federation were much greater than those on the Australian states. Whereas the latter were faced by a far-off potential threat from Asian countries or from European countries colonizing islands near Australasia, the former were actually being threatened by an expansionist country geographically contiguous to them and much more powerful than them. Besides, the impasse which relations between Upper and Lower Canada had reached in the 1860's was a particular and additional reason for federation in Canada.<sup>24</sup>

It was not, however, purely negative reasons which caused a greater desire for federation in Canada than in Australia. It seems that much more than in the latter country, there was a strong positive desire on the part of some Canadian statesmen that the central govern-

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<sup>24</sup> For a full discussion of reasons behind Canadian and Australian Federation, Cf. R. M. Dawson, op. cit., Pps. 25-49, and A. Brady, op. cit., pps. 152-155.

ment should be powerful. The most extreme expression of this desire was given in the Confederation Debates by Sir John A. MacDonald.

"The true principle of a Confederation," he said, "lay in giving to the General Government all the principles and powers of sovereignty and that the subordinate or individual states should have no powers but those expressly bestowed upon them. We should thus have a powerful Central Government, a powerful Central Legislature, and a decentralized system of minor legislatures for local purposes."<sup>25</sup>

The result of all this was that the Canadian constitution which was drawn up in 1867 gave far greater power to the new Dominion government than the Australian constitution drawn up in 1900 gave to the Commonwealth. Most notably, whereas the Dominion was given residual power to legislate on any topic not specifically enumerated in the list of Dominion (clause 91) or provincial (clause 92) powers, in Australia it was the states which received this important residual power.<sup>26</sup> Besides, the Dominion was given the right to disallow provincial legislation and, through its appointment of lieutenant-governors, the power to influence provincial affairs.

Yet "such is the vanity of foresight in constitutional matters" that in practice up to 1939 (and indeed, as will later be seen, thereafter), the Dominion has in fact wielded less power than the Commonwealth. It is true that for a time after Confederation the Dominion

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<sup>25</sup> Confederation Debates, 1865, p. 1002, quoted in R. MacGregor Dawson, op. cit., p. 34.

<sup>26</sup> The relevant sections of the constitutions are: B.N.A. Act, cl. 91, Cf. A Consolidation of the British North America Acts, (Ottawa, 1958), p. 24, and Commonwealth of Australia Constitution Act, Part V, cl. 107, Cf. Commonwealth Year Book, No. 45, p. 20.

exercised something approaching the important position accorded it by the constitution. By establishing a tariff, by underwriting <sup>extensive</sup> ~~exclusive~~ railway construction and by encouraging land settlement, the Dominion took the initiative in developing the open areas of the west of Canada. Besides, in the years immediately after Confederation, it was the Dominion which had by far the greatest share of the tax revenues and the provinces, having lost their main source of revenue -- customs and excise -- were heavily dependent on the Dominion government's transfer payments to them.<sup>27</sup> In 1874, for example, the provincial revenue of Manitoba per capita was \$~~.65~~<sup>.33</sup> and the amount of its Dominion subsidies per capita no less than \$2.59. Even Ontario and Quebec, the richest provinces, gained almost as much from these subsidies as from their own revenues.

But this predominant position of the Dominion government did not last for long. Its decline in power has been attributed perhaps too much to the judicial interpretation of the constitution made by the Judicial Committee of the Privy Council. It is true that from the mid-eighties under the powerful influence of Lord Watson and then Lord Haldane, the Judicial Committee began to minimize the power of the

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<sup>27</sup> These transfer payments were called "statutory subsidies" and were mentioned in the constitution. At first the main subsidy<sup>paid</sup> on the basis of 80 cents per capita to each of the provinces. But there were also interest-on-debt allowances and allowances for provincial expenses for government and legislature. Cf. B.N.A. Act clauses 111 to 120, Cf. A Consolidation of B.N.A. Acts, p. 33 and 34. These subsidies were increased and additional ones made according to an amendment to the constitution passed in 1907 (Cf. B.N.A. Act, 1907, 7 Ed VII, c. 11 (UK)).

Dominion in its decisions. Most especially, wide residual power of the ~~Commonwealth~~ <sup>Dominion</sup> was denied and its authority restricted to the twenty-nine specific subjects enumerated in Section 91. At the same time, of course, the judges enlarged the power of the provinces, largely by giving an extremely wide interpretation to the right of the provinces to "legislate in matters relating to Property and Civil Rights in the province".

But though this judicial interpretation was important in itself, there is good evidence to show that it merely reflected the economic and social forces of the day. This point is clearly made by Brady.

"For decades," he writes, "it has been the customary practice of many Canadian writers on the constitution sharply to criticize the Judicial Committee for what appeared to be their provincial bias, or perhaps even their obtuseness, which frustrated the intentions of the Fathers of Confederation. Yet in all justice to the Judicial Committee they probably did no more than what the majority of Canadians in the earlier period desired. They gave judicial expression to the upsurge of provincialism, evident from the eighties to the decade after the First World War, and associated with . . . the varied exploitation of natural resources, and the steady expansion of secondary industry, particularly in Ontario."<sup>28</sup>

In the 1920's especially, when there was a tremendous emphasis upon the development of natural resources, the provinces were economically strong and highly ambitious. That judicial interpretation merely reflected the pressures of the day is further suggested by the fact that the Dominion government made less and less use of powers given

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<sup>28</sup> A. Brady, op. cit., p. 46.

to it by the constitution and which no interpretation could have taken away from it. The power of disallowance of provincial legislation, for example, was energetically exercised by the Dominion for about thirty years after Confederation. But from the mid-nineties, the principle was more commonly recognized that the Dominion was neither obliged nor entitled to correct the mistakes or injustices committed by provincial legislatures.

This shift in the balance of power from centre to provinces was reflected in financial relations. The Dominion made no great effort to increase its tax revenues, whereas the provinces did. The consequence was that the Dominion statutory subsidies became a much less important part of total provincial revenues. (See TABLE II overleaf). Financially, the provinces by 1939 were considerably less dependent on the Dominion than they had been in the immediate years after 1867.

Table II also illustrates the interesting fact that the Dominion, by means of its subsidies, was effecting a considerable amount of financial redistribution between the provinces. From these figures, it is clear that subsidies were not paid on an even per capita basis to all provinces alike.

But one point must be noted about this redistribution. There was no recognized principle determining the variation between provinces in the payment of these subsidies. Additional payments to some provinces were made, ostensibly at least, on grounds of compensation for harm which such provinces had suffered from Dominion policies (especially

TABLE II

## REVENUE AND SUBSIDIES PER CAPITA OF CANADIAN PROVINCES

Province	1874		1913		1937	
	Rev. excl. Subsidies, Per Capita	Subsidies Per Capita	Rev. excl. Subsidies Per Capita	Subsidies Per Capita	Rev. excl. Subsidies Per Capita	Subsidies Per Capita
	\$	\$	\$	\$	\$	\$
Ontario	0.85	0.74	2.76	0.95	24.68	0.86
Quebec	0.89	0.79	3.35	0.98	19.11	0.90
N. S.	0.35	1.17	2.12	1.30	15.90	3.78
N.B.	0.16	1.72	2.17	1.81	14.65	3.84
P.E.I.	0.95	1.60	1.64	4.06	10.66	7.47
B.C.	3.97	4.11	20.74	5.09	42.79	2.34
Man.	0.32	2.59	5.73	3.15	18.35	3.50
Sask.	---	---	6.89	3.69	12.44	6.10
Alta.	---	---	8.49	3.37	23.37	2.43

Source: Calculated from Appendix I of the Royal Commission on Dominion-Provincial Relations, Report,  
in A. M. Birch, op. cit., p. 122.

the tariff). Even fictitious population figures were employed to allow extra payments to the prairie provinces. There was most certainly, as Birch says, "in 1937 no simple relationship between the ability of a provincial government to raise revenue internally and the subsidy paid to it by the Dominion."<sup>29</sup> What redistribution there was before the Second World War, therefore, was effected on a completely ad hoc basis.

During the 30's, however, with the wide regional disparities in wealth and with some provinces financially unable to cope with their burdens, the completely decentralised federalism which had grown up since the 1880's began to show important defects. The clearest exposition of these defects and the most thorough-going outline of remedies for them came in 1940 when the Report was published of the Royal Commission (called the Rowell-Sirois after its chairman) which had been set up three years previously to examine all aspects of Dominion-Provincial Relations.<sup>30</sup>

Basically, the Rowell-Sirois Commissioners recommended that the balance of power should shift back somewhat from the provinces to the Dominion. They suggested, for example, that the provinces had been unable to undertake certain tasks efficiently and that, accordingly

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<sup>29</sup> A. H. Birch, op. cit., p. 122.

<sup>30</sup> Royal Commission on Dominion-Provincial Relations, Report, Books I, II, and III. For all the next section, cf. especially Book II, passim.

these tasks -- especially unemployment relief -- should be handed to the central government. Partly to allow the Dominion to have the financial strength to exercise those functions handed to it and partly to allow it to assume the entire burden of provincial debt, the Commission also recommended that the provinces should renounce their right to levy income tax and succession duties and that no longer should they receive any statutory subsidies.

However, to ensure that disparities between regions be reduced and that no province become bankrupt, a third basic recommendation was made in the Report. This was that the Dominion government effect financial redistribution from the richer to the poorer provinces through National Adjustment Grants to be paid no longer as ad hoc compensations, but according to a fixed principle of fiscal need. By fiscal need was meant the money which a province needed not merely to prevent bankruptcy but also to discharge its functions at a standard "not appreciably below that of other provinces" without having to impose on its subjects a rate of taxation heavier than the national average. This principle of equalisation, though that term was not yet used, was to be applied by an independent Grants Commission which would calculate in a scientific manner the fiscal need payments to be paid by the Dominion.

But at a Dominion-Provincial Conference held early in 1941 the Rowell-Sirois Report, with all its comprehensive recommendations, was rejected.<sup>31</sup> Nevertheless, largely as a result of the tremendous

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<sup>31</sup> Proceedings of the Dominion-Provincial Conference, 1941.

pressures of war, its demand that the Dominion government become more powerful, was in practice fulfilled. Already in 1940 a constitutional amendment had been passed allowing the Dominion to undertake the function of unemployment insurance. And an even more dramatic development occurred the following year.

"The drastic federal war taxes" as R. M. Dawson puts it, "imposed in 1941 as part of the comprehensive financial policy of the government, compelled the provinces to enter into an agreement with the Dominion whereby for the war period they relinquished certain taxes (i.e. personal and corporation income taxes) in return for guarantees and payments by the Dominion."<sup>32</sup>

Besides, between 1941 and 1945, the central government became more and more powerful in almost every area of action.

The Second World War, therefore, much more than the First caused a shift back in the balance of power towards the centre.

That in Australia up to 1939, the states should be more powerful than the central government is easier to explain, because as already noticed, the Constitution of Australia, much more than that of Canada, was "federal in the strict sense of the term." In other words, the states were accorded far greater power than the provinces. The division

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<sup>32</sup> R. M. Dawson, op. cit., p. 130

For the full terms of the agreement Cf. Statutes of Canada, 6 - 7, Geo 6, Chap. 13.

The payments made by the Dominion were to be on the basis either of the revenue from income and corporation taxes which each province had collected in 1940 or the net debt interest minus revenue from succession duties (the latter alternative suiting the poorer provinces). Statutory subsidies were continued.

of particular specified powers was roughly the same in both constitutions but since in the Australian Constitution it is the states who alone can legislate on matters "not prescribed within either the exclusive or concurrent powers of the Commonwealth", it is they who possess the all-important residual power.<sup>33</sup>

Yet, like its Dominion counterpart in Canada, the Commonwealth was relatively active in the immediate years after Confederation. Making use, for example, of one of its prescribed powers, it initiated a nation-wide scheme of old age pensions in 1909. It followed this up by paying invalid pensions in 1910 and maternity benefits in 1912. Of course, the First World War, also as in Canada, gave a further boost to central power. Federal expenditures in the period between 1914 and 1918 shot up five times, whereas state expenditures were rigidly held down.

This Commonwealth activity, reaching a crescendo during the First World War, was reflected in centre-local financial relations. Under section 51 of the Constitution, the Commonwealth was empowered to make any law with respect to taxation (only "so as not to discriminate between states or parts of states"). Sections 86 and 90 granted the Commonwealth exclusive power over the imposition of customs and excise

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<sup>33</sup> A. Brady, op. cit., p. 154.

duties, which had previously been an important source of revenue for the states.<sup>34</sup>

The terms of the constitution demanded, therefore, that the states receive compensatory transfer payments from the Commonwealth. At first these grants -- the equivalent of the Canadian statutory subsidies -- took the form of 75% of the customs duties collected by the central government. In 1910 the Commonwealth substituted fixed payments to the states of 25/- per capita.

But the important point about all this was that up to the end of the First World War the states were heavily dependent for their financial security upon these Commonwealth payments. Throughout this period, the states as a whole gained more per capita from these payments than they did from their own tax revenues.

After 1918, however, despite some judicial decisions favouring Commonwealth power,<sup>35</sup> the balance of power rapidly shifted away from the centre. In the 20's the states, confident and expanding, were undertaking energetically, perhaps too energetically, vast schemes of

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<sup>34</sup> For the most lucid description of early Commonwealth-state financial relations, cf. E. J. Hanson, Australian Commonwealth Grants Commission, (Canadian Tax Paper No. 20), (Toronto, 1960), pps. 11-25.

The loss of excise and customs revenues has been particularly crippling for the Australian States because the courts have interpreted sales taxes as excises.

<sup>35</sup> Cf. especially the judgment in the Engineers Case (1920) which reversed the earlier decision taken in the Railway Servants' Case. The 1920 decision allowed the Commonwealth to interfere with the instrumentality of a state.

land settlement and railway construction. Now, while federal revenue and expenditure actually declined, that of the states increased greatly.

A major consequence of this, of course, was that the states were not nearly so dependent on Commonwealth transfer payments. This is clearly seen by comparing state taxation revenues with the Commonwealth payments which they received in selected years between 1900 and 1939. (See TABLE III overleaf). It should be noted that there was a further change in the basis of paying Commonwealth grants, though this did not affect the amount actually paid. In 1927, a financial agreement was made between the Commonwealth and the states. According to this, the Commonwealth took over existing state debts, but ended its per capita payments. However, it agreed to advance £ 7.6 million annually towards paying off interest on future state debts, and this sum was exactly what it had previously been paying on its per capita grants.

As in Canada, the 30's ruthlessly revealed the underlying regional disparities in Australia and forced the more financially insecure states, especially West Australia, to virtual insolvency. Additional payments to these financially weaker states had, of course, been made by the Commonwealth before the 30's. In 1910, special grants had been paid to West Australia, in 1912 to Tasmania, and in 1928 to South Australia. In the financial year 1929-30, these payments totalled close on a million pounds.<sup>36</sup> But these payments were clearly insufficient

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<sup>36</sup> Australian Grants Commission, Sixth Report, 1939, Appendix No. 19, p. 136.

TABLE III  
 REVENUE AND SUBSIDIES PER CAPITA  
 OF THE AUSTRALIAN STATES

Year	State Taxation excluding Subsidies Per Capita	Commonwealth Subsidies Per Capita
	£ .s.d	£ .s.d
1909 - 10	19: 1	1: 17: 6
1917 - 18	2: 7: 0	1: 5: 6
1928 - 29	5: 1: 4	1: 14: 10
1938 - 39	7: 3: 8	2: 5: 9

Source: Calculated from Australian Grants Commission, Sixth Report, 1939, Appendix, No. 22, p. 139 and Appendix No. 27, p. 147.

to meet the financial crash which hit these states after 1930. "For," as E. J. Hanson puts it, "if the overall federal-state financial balance was disturbed by the depression, it was practically destroyed in the case of the three 'marginal' states."<sup>37</sup>

Much earlier than in Canada, a review of centre-local relations was undertaken in order to find remedies for the situation. A Joint Committee of the House of Representatives and the Senate which conducted the survey proposed that an independent commission be established in order to calculate the payment of greatly increased special grants to the three "claimant" states.<sup>38</sup> The Commonwealth followed their recommendations and in 1933 set up the Australian Grants Commission.

At first the Commission advised the payment of special grants on no fixed principle. Its only aim was to avoid the financial collapse of any state and all sorts of reasons were employed to justify the payments.<sup>39</sup> But by their Third Report in 1936, they had formulated a fixed principle of payment by fiscal need, exactly as the Rowell-Sirois Commissioners were to do four years later in Canada. The basis

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<sup>37</sup> E. J. Hanson, op. cit., p. 22

<sup>38</sup> The Report of the Commonwealth Joint Committee on Public Accounts entitled The Finances of South Australia and Tasmania as Affected by Federation (1931).

<sup>39</sup> As in Canada, the favourite excuse for paying additional grants to some states up to the 30's was on the grounds of compensation for disability suffered by a state due to Commonwealth policies. It was on the basis of compensation, too, that the "claimant" states had always based their claim for special grants. e.g. The Case for Tasmania (1926), or The Disabilities of South Australia under Federation (1931).

of fiscal need payments has already been discussed, but it might be well to quote the words of the Grants Commission itself on the subject. "The fiscal need of a state is to be determined by comparing its financial position to a 'normal standard'," the Commission said, and the "normal standard" was defined thus:

We must first think of the States which are not in financial difficulties and which are in fact balancing their budgets . . . or keeping their deficits within certain limits without any special strain on their people. From their experience we deduce a "normal" standard for Australian State Governments under present economic conditions. The normal standards must be determined for the chief functions of government on the side of both expenditure and revenue -- for administrative economy and scale of social services on the one side, and for the severity of taxation . . . on the other, as well as for the net results of all these expressed in the budget position.<sup>40</sup>

With this fixed basis of calculation, the Grants Commission recommended greatly increased special grants to the three "claimant" states. From 1934 to 1939, they totalled over two million pounds a year.<sup>41</sup>

Yet despite these increased special grants paid by the Commonwealth to some of the states, it remains true that on the whole the states became less and less dependent on Commonwealth payments in the period between the wars. The pendulum of power had clearly swung towards the states.

As in Canada, it took the immediate pressures of war to swing the pendulum back. And again as in Canada, the shift in the balance of

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<sup>40</sup> Australian Grants Commission, Third Report, 1936, p. 85, paragraph 206.

<sup>41</sup> Australian Grants Commission, Twenty-Seventh Report, 1960, Appendix No. 4, Table No. 2, p. 110.

power towards the centre received its most dramatic expression in financial arrangements. In 1942 the Commonwealth government assumed a monopoly of the all-important income tax. By way of compensation for the loss of rights thereby incurred by the states, it agreed to pay to them an unconditional payment based upon the amount they had collected from their own income taxes in the immediate pre-war years. The heavy blow which this Uniform Tax Act of 1942 dealt to the independent and powerful inter-war position of the states will be realized if it is recalled that in 1937-38, for example, income taxes provided nearly two-thirds of all state revenues.<sup>42</sup> By this single measure, therefore, the dependence of the states upon Commonwealth payments increased by literally tenfold. Of course, also as in Canada, the Commonwealth became more active in every area of government during the war years and especially in the area of social welfare. Its new war-time welfare schemes will be discussed later.

From this very brief survey, it would appear then that from the time of Confederation to 1945, centre-local relations in Canada and Australia followed a roughly similar pattern. In both countries, the central government exercised considerable power and initiative in the years immediately following Confederation. But then, except for a boost during the First World War, they declined in importance and

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<sup>42</sup> Australian Grants Commission, Sixth Report, 1939, Appendix No. 6, p. 120

from 1920 to 1939 the initiative lay with the provinces and states. But again under the stimulus of war, the balance of power shifted back to the centre between 1939 and 1945. It is not surprising that K. C. Wheare, writing his first edition of *Federal Government* in 1946, should conclude that: "War and economic depression unavoidably produce an increase in the powers of general governments . . . Peace and prosperity are in truth pre-requisites for the successful working of federal government."<sup>43</sup> But the question remains -- are even peace and prosperity guarantees of the continuation of federalism? Events since 1945 may provide an answer.

But equally interesting as this similar pattern of development in Canada and Australia throughout the period, is the fact that these developments occurred within the framework of radically different constitutions. In other words, the "centralist" constitution of Canada and the "decentralised" constitution of Australia did not drive the two countries along different paths. It can only be concluded that neither the formal constitutions, nor the varying judicial interpretations of them, really determined the balance of governmental power in these countries. Much more important were the underlying social and economic forces of the day. It is perhaps best, therefore, in order to understand federal developments since 1945 to discuss first what have been the new post-war forces of this kind.

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<sup>43</sup> K. C. Wheare, op. cit., p. 254.

## CHAPTER II

### THE NEW PHILOSOPHY

Recent economic and social developments in both Australia and Canada can only be understood if the traumatic experiences of the "dirty 30's" and of the Second World War are recalled.

These experiences were felt of course in almost every trading country in the world. But they affected Canada and Australia more than most. The extreme vulnerability of their economies to international fluctuations in trade was noted in the introductory chapter. The comment of D. C. Rowan on Australia could be applied with equal force to Canada.

The economic position of Australia would be less disturbing than it is if it were characterised by great stability in the domestic sphere and invulnerability to fluctuations originating overseas. These, however, are precisely the characteristics which it does not possess.<sup>1</sup>

Consequently, for both countries, but especially for Canada, the economic depression of the 30's presented a disaster more severe than for almost any other country.

After the initial suffering and devastation caused by the economic depression of the 1930's, the first really long-term effect of the events of that unfortunate decade ~~were~~<sup>was</sup> to force a complete reappraisal of the economic and social duties of governments. Confidence in the future and the knowledge that progress will continue — always strong attributes of pioneer nations like Australia and

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<sup>1</sup>D. C. Rowan, \*Inflation and Deflation\*, (Melbourne 1951), p. 27.

Canada -- had been swept away. Clearly the unaided efforts of individual men were no guarantee of economic security. It was seen that security could only be attained through a stronger agency than the individual or a group of individuals; that, in fact, it could only be achieved through the agency of governments. The spirit of adventure in Canada and Australia, if it was perhaps not completely crushed by the 30's, was certainly dulled. The overriding feeling of those who experienced that decade was that governments should do all in their power to prevent such a disaster occurring again, or that at the worst, if such a disaster should inevitably reoccur, a basic minimum of decent existence should be ensured for each individual by means of government payments of social security benefits. Security, economic and social, became a slogan equally if not more powerful than the older slogans of "progress" and "freedom". But the fulfillment of security meant a huge increase in government, social and economic action.

If, however, the exceptionally grave effects of the depression caused a correspondingly greater desire for security in Australia and Canada than in most other countries, increased governmental powers which were the logical consequence of this desire were also readily accepted. For, despite their theoretical addiction to free enterprise, both Canadians and Australians had found it necessary in the past to allow considerable governmental action. This was especially so in Australia.

The traditions of a centralized paternalism became entrenched and never entirely disappeared, for they were further fostered by stern and unchanging facts in the geographic environment . . . . Thus Australia, earlier and more easily than the other dominions, became a land of collectivism, accepted the state as a positive force, and relied upon it for initiative in the development of the community.<sup>2</sup>

But in Canada, too, a similar geographical environment<sup>3</sup> forced governments early on to undertake basic developmental policies such as aid to land settlement and aid to transportation. This government intervention in economic development, however, had declined in both Australia and Canada in the 1930's, and it was in any case something rather different from and certainly much less than the wholesale governmental action which would be necessary to achieve or attempt to achieve economic and social security.

It was just here that the second traumatic experience undergone by Canada and Australia -- the Second World War -- had its main long-term effect. For during this war it was clearly seen that governments were able to exercise control over the economy to a degree previously thought impossible and that they were also able and willing to pay immensely greater social pensions and benefits. The depression had given Australians and Canadians a desire for economic and social security. The war had shown them a glimpse of how governments could attempt to achieve this.

Besides, far more Canadians and Australians had been closely

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<sup>2</sup>A. Brady, op. cit., p. 133.

<sup>3</sup>Supra P. 5.

touched by the course of the Second World War than had been by the First. Consequently there was a much stronger feeling in 1945 than in 1919 amongst the people that, having given so much to the country, the country in return should at least ensure them employment and a decent standard of social services. Moreover, employment and a decent standard of services, it was felt, should be ensured for everyone no matter in what region they lived. After all, had not Maritimers or Tasmanians contributed as much to the war effort as residents of Ontario or New South Wales?

This widespread desire amongst the people for equal economic and social security for all ensured by governmental action was given by 1945 the stamp of academic authority. For these popular desires chimed in perfectly with the new theories gaining favour at this time about the role of government in society -- theories primarily associated with the name of Keynes.<sup>4</sup> Essentially these theories were based on the belief that man, through the agency of government, can mould the economy, thereby ensuring that economic fluctuations so disastrous in the past would be greatly diminished, if not completely prevented. Governments can achieve this aim without circumscribing the basic freedoms of man by performing two tasks -- a short-term policy and a long-term policy.

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<sup>4</sup> J. M. Keynes, The General Theory of Employment, Interest and Money, (London, 1936).

For a Canadian commentary on this:

A. F. Burns, Economic Research and the Keynesian Thinking of Our Times, (National Bureau of Economic Research, Annual Report, 26, 1946).

In the short-term, the task of the government is, in the words of the Gordon Commission, "to iron out the peaks and valleys in the level of cyclical economic activity."<sup>5</sup> In other words, from year to year governments must regulate public investment in such a way that there will be more public investment in the economy at a time when there is less than usual private investment, and vice versa. Thus, governments would attempt to use the effects of their financing as a counterweight against destabilizing movements in the private sector of the economy: they would, as some have put it, "lean against the wind". Governmental power to regulate public investment in this manner would be gained by fiscal controls (control over the rate and timing of taxation); monetary controls (control, e.g. over the rate of interest for public loans); and, to use the term of the Radcliffe Report in Britain, "physical" controls (control by rationing, marketing, quotas and price-fixing). But all these measures would be of no avail unless natural resources were conserved and the whole economy developed. No amount of "leaning against the wind" would help the economy if over a long period a chronic lack of natural resources developed, or if there was a failure to make technological advances. For the long-term, therefore, it was the duty of governments to increase greatly their share in the conservation of resources and the development of the economy. Their share in this task was no

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<sup>5</sup> Royal Commission on Canada's Economic Prospects, Final Report, p. 421.

longer to consist of aid given arbitrarily and occasionally, but was to form instead a consistent and well-organized plan. Moreover, not only must there be a plan for the development of the economy, but it must be a plan which would undertake the development of every part of the country. For the economic health of the whole country would be seriously impaired should one or two regions remain economically "backward".

The new theories associated with the name of Keynes were not, however, solely concerned with the purely economic policies of governments. For it was realized that the success of both the short-term and long-term policies demanded that governments also undertake to increase greatly their expenditure on education of all kinds and on social welfare payments. Such welfare payments would, on the one hand, help to make the short-term anti-cyclical policies of governments effective, since by increasing in times of depression they would help to keep consumption at a higher level. On the other hand, welfare payments would also aid the long-term development of the economy. For such payments would provide a basic platform of a decent standard of living to be put under the feet of the poorer members of society, thereby allowing them to take an active and useful part in the economic development of the country.

That increased educational activity on the part of governments was also necessary to fulfil a policy of economic development was obvious. Economic development clearly demands a rich reserve of

trained and skilled men on a scale which only an active and enlightened educational policy could achieve.

With their arguments that governments should exercise bold short-term and planned long-term economic policies, that they should undertake greatly increased educational activity and social welfare payments, it was patent that the new theories precisely supplied the ways and means by which the widespread desire of the people for economic and social security could be achieved. As the war came to a close, a new belief, nourished by academic theories and popular desires, was uppermost -- a belief that, if governments assumed a directing role in peace-time similar in some ways to that which the exigencies of the situation had forced them to assume during the war, then the insecurity of the past might never recur. This was the "new philosophy". This was the atmosphere of the "Brave New World".<sup>6</sup>

It was an atmosphere common at the time in many countries of the world. It can well be argued, however, that nowhere was it more in evidence than in Australia and Canada. There were obvious reasons for this. In the first place, it has already been noticed that the disaster of the 30's was perhaps greater in these countries than elsewhere and that, consequently, there was there a more desperate desire for economic security, ensured by governmental action. Secondly, there was an increasing recognition in both Canada and

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<sup>6</sup> The phrase is used by J. Harvey Perry in Canadian Tax Foundation, Annual Report, 1958.

Australia that the relatively more disastrous effects of the 30's on these countries was due to the basic vulnerability of their economies to market fluctuations. To counter economic instability, greater than in most other countries, it was rightly felt that in Australia and Canada correspondingly stronger governmental action was necessary. Thirdly, such action was more likely to be adopted in Canada and Australia because -- as seen above -- there had been for long a tradition of at least some governmental intervention in economic affairs. Finally, and partly as a result of the other reasons, it does appear that there was greater intellectual enthusiasm for the new theories amongst the politicians and government officials in Canberra and Ottawa than anywhere else. Certainly it was true of those in Ottawa and A. F. W. Plumptre, reviewing a biography of Keynes, could bring himself to say, "The teaching of Keynes carried increasing weight in his own country . . . . But it may be argued that . . . the capital it has influenced most is Ottawa."<sup>7</sup>

The post-war Australian and Canadian governments were, then, prepared more than most to attempt to implement the new philosophy in practical action. But Australia and Canada are federal countries and any implementation of the new theories was bound to have all-

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<sup>7</sup> A. F. W. Plumptre, "A Prophet Not Without Honour" in University of Toronto Quarterly, Vol. XXI, 1951-52, p. 82.

important effects on the balance of power between the central and local governments in these countries. This inevitable consequence of the new theories and of the pressures of the new popular desires is the crux of the development of federalism in Australia and Canada since 1945.

If governmental action was to secure effective economic and social security, at least three distinct but closely connected trends in Canadian and Australian federal relations would of necessity emerge.

There must, firstly, be a great centralisation of powers. In other words, it would be necessary for the central governments to increase greatly their power in relation to the local governments. Why this should be so is obvious. A full attempt to implement the new theories would throw all the extreme fluctuations of Canadian and Australian public finance on the central government. "This would be essential", quoting J. Harvey Perry, "if fiscal, monetary and economic policies are to be co-ordinated with a view to reducing Canadian [and Australian, it could equally be added] overhead costs and to minimizing and helping control the swings of the business cycle."<sup>8</sup> Such a centralisation of power would, Perry continues at a later point, "lead to integration of fiscal policy with monetary

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<sup>8</sup> J. Harvey Perry, "Some Aspects of Recent Fiscal Policy" in Canadian Tax Journal, July, 1957, p.285.

and economic policies in a manner which could be made highly beneficial to general welfare."<sup>9</sup> Clearly, the very nature of the short-term and long-term economic policies demanded by the new theories would necessitate a large number of economic controls in the hands of one government. Neither fiscal nor monetary controls can be effective unless they are directed by a single authority. If, for example, the rate of taxation and the rate of interest on public loans are used as instruments to regulate public investment, then the control of such rates cannot be left to any important extent to the arbitrary and possibly conflicting decisions of a host of local governments. In the words of the Gordon Commission Report:

Responsibility for preventing any substantial unemployment and for controlling inflation cannot successfully be distributed among ten provincial parliaments. Those who believe as we do that this twin objective is of cardinal importance will wish to see federal authority kept strong enough to shoulder its responsibility effectively in this difficult and complex field.<sup>10</sup>

It is, of course, equally true that an effective long-term policy of economic development is best planned and directed from one centre — the central government. And, of course, only a central government with a wide tax base could possibly afford, or have the flexibility to undertake, the huge increases in social welfare payments and payments for educational purposes which were also demanded by the

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<sup>9</sup> Ibid., p. 286.

<sup>10</sup> Royal Commission on Canada's Economic Prospects, op. cit., p. 434.



new theories. All this is not to say that the effective implementation of these theories would not require considerable local government activity. It is merely to say that for such implementation a greatly increased central initiative and direction would be necessary.

But it was also noted that one of the main elements in the "Brave New World" atmosphere at the end of the war was the widespread feeling that not only should governments attempt to ensure economic and social security but also that that security should be ensured for every individual no matter in what region of the country he lived: that, in other words, there should at least be an attempt to achieve a common standard of living and of services throughout the land. The feeling for equality was backed by both moral and economic arguments. On moral grounds, it was argued that Canadians and Australians had fought a desperate war as united nations: people in all regions had made equal sacrifices. Was it right, therefore, that in the "new post-war deal" all the best cards should be served continually to people in certain regions? Was it not right that there should be a basic minimum equality for all? On economic grounds, it was argued that to have economically depressed regions would greatly hinder the development of the whole nation. Subsidies and loans spent upon such "backward" areas would, therefore, not be a loss, but rather, in the long run, a gain for the economy.

Equalisation, then, was the second trend inherent in the new philosophy. But equalisation could only properly be effected through

the agency of the central government. It would, of course, be possible to imagine that through some inter-state (or provincial) organization, rich states would grant subsidies directly to their poorer brethren. But even were this to take place, it would only cover the most obvious and direct form of equalisation. Equally important would be equalisation through the application of credit restrictions or the distribution of public investment or equalising devices in social welfare payments. But these forms of equalisation could only be achieved through an agency standing above the individual local governments; in other words, through the central government. Consequently, any trend towards equalisation would automatically lead to more centralisation and both these trends would be closely associated.

The successful execution of the new theories, however, would necessitate yet another development in centre-local relations: it would necessitate a vast interlocking of activity. The increased role, mostly for central governments but also for local governments, demanded by public opinion and by the theories of Keynes would require a closely and delicately integrated activity between them. The sheer complexity of governmental action which was now envisaged would demand co-ordination of the work of all levels of government and machinery to make co-operation effective.

The main interest in the development of centre-local relations in Canada and Australia since the war is, in fact, then to examine

the far-reaching effects of these trends -- centralisation, equalisation and interlocking of activity. Before undertaking such an examination, however, it is necessary to counter an objection which may be made.

It may be argued that these trends in centre-local relations could be discerned long before 1945. And to some extent this is true. There were many examples before that date of centralisation and, especially in Australia, of equalisation. A considerable number of these have already been discussed. But two important points should here be noted. In the first place, almost all development towards centralisation of power in the hands of the central government and most moves towards equalisation before 1945 occurred in time of war. It was, therefore, in special and unusual circumstances that any such development took place. The novelty of the developments in centre-local relations since 1945 lies in the fact that they have occurred in time of peace.<sup>11</sup> The important point is that, unlike after the First World War, the period since the end of the Second World War has seen the continuation and indeed the extension of federal developments to which the circumstances of the war had first given rise.

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<sup>11</sup> With the exception, of course, of the war in Korea. The importance of this war in centre-local relations in Australia and Canada will be discussed later, Cf. infra p. 58

In the second place, the moves towards centralisation and equalisation before 1945 were always, whether in time of war or, more rarely, in time of peace, the result of ad hoc actions taken to meet a specific problem. To take but one example, the Grants Commission was set up in Australia in 1933 — the first real step towards equalisation — not because of any fundamental desire for equality but because of the particular fact that the State of Western Australia could no longer continue to function without financial aid. But since 1945, for the first time, a basic continuity has been given to the developments in federal relations. This is due to the fact that the trends of centralisation, equalisation and interlocking of activity have in the last fifteen years been part of one consistent movement towards achieving economic and social security. Given the premise that such security has in fact been desired in Canada and Australia, there has been a certain inexorability about the recent trends in their federal systems.

## CHAPTER III

### THE TAX BASE

In examining in detail the recent trends of centralisation, equalisation, and interlocking of activity in Canadian and Australian federalism, it is appropriate to begin with a discussion of developments in central and local government taxing powers. For it has become almost an axiom that the power of taxation is the crux of federal relationships.

"As the power of the purse in Great Britain," prophesied Alfred Deakin in 1902, "established by degrees the authority of the Commons, so it will ultimately establish in Australia the authority of the Commonwealth. The rights of self-government of the states have been fondly supposed to be safeguarded by the constitution. It left them legally free, but financially bound to the chariot-wheels of the Commonwealth. Their need will be its opportunity."<sup>1</sup>

As Brady says, "The history of the last fifty years has revealed the force of this prophecy."<sup>2</sup> And a similar prophecy could equally have been made for Canadian federalism. In short, whoever has the money has the power. But this can be reversed to read: whoever has the power needs the money. This is how treasurers of the central governments in Australia and Canada have viewed the situation since the war. If the central governments were to have the power to achieve economic and social security for their subjects, then clearly they needed large revenues to exercise these powers. It was necessary for the central

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<sup>1</sup> Quoted in W. Murdoch, Alfred Deakin, p. 234.  
For a similar comment: G. Greenwood, Australia, p. 240.

<sup>2</sup> A. Brady, op. cit., p. 162

governments to have a wide tax base in order that they could undertake flexible fiscal policies to control the economy and in order that they could have access to money sufficient enough for them to finance the new economic, educational, and social welfare expenses demanded of them.

### I. CENTRALISATION

There are two aspects of the trend towards centralisation of taxation powers: on the one hand, there is the tendency for the central government to collect more and more of the nation's taxes, leaving the local governments a smaller share of the "tax-dollar". On the other hand, there is the natural corollary of this, which is the tendency for local governments to be dependent for an increasingly greater proportion of their revenues upon transfer payments made to them by the central governments. These transfer payments take the form of conditional and unconditional grants.<sup>3</sup> In this chapter, however, only unconditional grants will be discussed because they, unlike the conditional grants, have alone been the method by which the central governments have directly compensated the local governments for their loss of tax revenue.

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<sup>3</sup> Conditional grants are those which are given by the central governments with demands that the provinces and states undertake certain actions. Conditional grants will be discussed on pps. 112, 152 et seq and elsewhere.

It was seen in the Introduction that already during the Second World War the Dominion government had taken a significant step towards centralisation in the tax field. According to the arrangements made in 1941, it had taken over exclusive rights in income tax, corporation tax and succession duties in all provinces in return for giving them an unconditional grant.

With the end of hostilities, however, it might perhaps have been expected that the taxation agreements, which had been made under the extreme pressures of war, would come to a quiet end. But the Dominion government desired otherwise.

In 1945 it drew up a programme which it called the Proposals of the Government of Canada.<sup>4</sup> In this, it outlined schemes for economic policies, social welfare and education payments which, if implemented, would have been a perfect expression of the new philosophy in action. The tone was set in the opening page of the document.

The accomplishment of our aims in the post-war period must, no less than in war, be an object of national endeavour. Success in the attainment of high levels of employment, increased welfare and security, is dependent upon the fruitful co-operation between all governments and groups in the country. It is the responsibility of government to pursue policies that create conditions in which the initiative, energy and resourcefulness of individual citizens can achieve rising standards of life.<sup>5</sup>

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<sup>4</sup> Proposals of the Government of Canada, (Ottawa, 1945).

<sup>5</sup> Ibid., p. 5.

The Federal government went on to enumerate its post-war objectives as:

First, to facilitate private enterprise to produce and provide employment; secondly, to promote bold action by the state in those fields in which the public interest calls for public enterprise in national development; thirdly, to provide, through public investment, productive employment for our human and physical resources when international and other conditions adversely affect employment; and fourthly, to provide, on the basis of small regular payments against large and uncertain individual risks, for such hazards and disabilities as unemployment, sickness and old age.<sup>6</sup>

But clearly the fulfilment of these tasks demanded that the Federal government have a large and flexible tax base. Consequently, in its Proposals the Dominion government suggested the following tax arrangements. It proposed that:

. . . after the war the provincial governments should continue by agreement to forego the imposition of personal income taxes, corporation taxes and succession duties, leaving to the Dominion government the full and exclusive access to these revenue sources.

It also proposed that:

. . . as a condition of such agreement the Dominion should substantially expand its present payments to the provincial governments under an arrangement which would ensure stable revenues and provide for their growth in proportion to increases in population and per capita national production.<sup>7</sup>

But in drawing up this far-reaching programme, the Federal government had reckoned without the strength of provincial opposition.

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<sup>6</sup> Ibid., p. 7.

<sup>7</sup> Ibid., p. 48.

At a long drawn-out Dominion-Provincial Conference which lasted from August, 1945 to May, 1946, the Proposals were rejected.<sup>8</sup>

It will, however, be seen in later chapters in this thesis that the varied economic and social measures proposed by the Federal government in 1945 have, in fact, since been implemented in a piecemeal and gradual fashion. That a similar piecemeal implementation of the tax arrangements of the 1945 Proposals has taken place will be demonstrated in this chapter.

With the rejection of its uniform and comprehensive tax scheme, the Federal government decided to make individual tax rental agreements -- based on the 1941 arrangements -- with any province which was willing. To be at all effective, of course, the Federal government had to make as many of these agreements as possible and, accordingly, it suggested three different formulas, each designed to attract different provinces -- though all the formulas were more favourable to the "poorer" provinces. (See APPENDIX I). After long and complicated negotiations, tax agreements were finally concluded bilaterally with every province except Ontario and Quebec. All the agreements had this in common, that the Federal government was allowed to maintain exclusive control of the three standard taxes in the provinces with which agreement was made.

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<sup>8</sup> The reports of the proceedings of this long conference are gathered together in a document entitled Dominion-Provincial Conference, (1945): Dominion and Provincial Submissions and Plenary Conference Discussions.

The continuing pressure from the Federal government for increased tax powers next resulted in a reluctant Ontario making a Tax Rental Agreement in 1952. A fourth formula was introduced to satisfy it. Ontario was to be paid, as compensation for its loss of rights, 5% of income tax at the federal rates in 1948:  $8\frac{1}{2}\%$  of corporation tax and 50% of succession duties. In addition, of course, its statutory subsidies would continue.

The tax rentals were by now, therefore, a mass of complicated formulas. This was largely due to the fact that in making its compensatory unconditional grants the central government was attempting to do two things. It was attempting not only to compensate the provinces for a loss in their tax powers, but also to use the unconditional grants to achieve a certain amount of equalisation between the provinces. For this reason, the tax rental transfer payments from centre to provinces could not be made on a uniform per capita basis. In 1957, however, by a remarkably ingenious arrangement, the tax rental payments as such were completely shorn of all equalisation elements and, as will be later seen, equalisation payments were now paid separately.<sup>9</sup>

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<sup>9</sup> Cf. below p. 67. There was in this "1957" arrangement, of course, a good deal of "politics". The separation of the tax rental agreements from equalisation payments was not only done on principle, but was also undertaken with the specific intent of attracting Quebec, which had previously remained aloof. In this, the new arrangements were successful.

This cleared the way for a great simplification of the tax rentals. The Federal government continued to have exclusive right over income tax, corporation tax and succession duties except in Quebec and to some extent in Ontario; but, in return, it now paid grants according to a common formula to all provinces with which agreement had been made. This formula was an adaptation of that which had been used for Ontario since 1952. It allowed the provinces a fixed percentage rebate from the standard taxes collected by the Federal government: 10% of income tax, 9% of corporation tax and 50% of succession duties.<sup>10</sup> This tax agreement of 1957 is what determines today the method of tax collection and it will continue in force until 1962. One important change, however, has been made in the agreement since it first came into operation. At the end of 1957, the Federal government decided to increase the provincial share by allowing them a rebate of 13% instead of 10% on the income tax.<sup>11</sup>

Looking at these post-war developments in Canadian tax collection arrangements, it may at first sight be argued that there has not been a significant amount of centralisation. After all, on the surface at

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<sup>10</sup> It should be noted, however, that though Quebec has not entered any tax rental agreement and Ontario only for income tax, the Federal government since 1957 has undertaken to abate its rates for the standard taxes in these provinces according to this 10: 9: 50 formula.

<sup>11</sup> There have been other increases in unconditional grants since 1957 but these have been in the form of increased equalisation payments, Cf. below p. 70-72.

least, it appears that the two largest provinces of the Dominion, Ontario and Quebec, are now free to levy any direct taxes they wish (with the exception of income tax in Ontario).<sup>12</sup> Besides, some commentators have noticed in recent years a tendency for the Federal government to desire a loosening of the tight knot of the tax rental arrangements. Proof of this is the recent Federal government proposal at the Dominion-Provincial Fiscal Conference of November, 1960, that major and fundamental changes be made in federal-provincial financial arrangements.<sup>13</sup>

In an attempt to explain this apparent desire to decentralize, J. Harvey Perry wrote as far back as 1957: "As the faith in a busy policy of taxation for economic purposes gradually waned so did the desire for complete centralization of the tax system that was felt essential for carrying out that policy."<sup>14</sup> Another attempted explanation has been that the Federal government is growing weary of always appearing in the public eye as the great tax collector and desires the provinces to bear the political disadvantage of collecting more of their own taxes.

All this, however, is to miss the reality of the developments since 1945. Even were the present tax rental agreements not renewed,

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<sup>12</sup> Cf. above p. 52.

<sup>13</sup> Cf. Appendix II, p. 232.

<sup>14</sup> J. H. Perry, Twelfth Annual Report, Canadian Tax Foundation, 1957, p. 22.

it is questionable if this would at all reduce federal control over taxation. The provinces would, it is true, have a right to fix their own rates of taxation as they had before the Second World War. But the practical power to exercise that right is another matter and the events since 1939 have ensured that today such power would be lacking to the provinces. To put it simply, there is a limit to which in the near future it will be politically possible to raise taxes from Canadians. But, as will be seen below, since 1939 and even since 1945, the Federal government has taken an increased share in the total amount of taxation. If the Federal government, therefore, continues its heavy taxation (and this is an almost certain hypothesis), then the provincial governments will have little independent room to manoeuvre. It is almost certain that, if the tax rental agreements are not renewed, the provinces will find it expedient -- indeed necessary -- to levy roughly the same rate of standard taxes as they had received as rebate under the tax rental schemes. To levy more than they now receive from the 13: 9: 50 formula would be to launch out on what is generally called "double taxation". In other words, a province would be forced to increase the total amount of taxation paid by its residents and accordingly might find itself in the unenviable position of having higher rates of taxation than elsewhere in Canada. To impose such "double taxation" would be political suicide, except perhaps in Quebec.

It would be equally impossible for the provinces to make significant reductions in their standard taxes. Even with their existing

revenue, almost all Canadian provinces find it difficult to balance their accounts.<sup>15</sup> To reduce that revenue would be to encourage immediate insolvency.

In short, the pressure of existing Federal taxation would put provincial taxation in a strait-jacket, whatever their rights. This is clearly illustrated by the fact that since 1957 Ontario, the most heavily populated and wealthy province in Canada, has not found it advisable to make significant changes in the rates of corporation, tax, or succession duties, though it has a right to do so.<sup>16</sup> Consequently, today, even without the legal force of the tax rental agreements, the Federal government could keep effective control over rates of taxation.

Besides, this control could further be ensured by federal use of a constitutional judgment made in the 1930's. In a judgment on a case which arose in 1932, the Judicial Committee of the Privy Council said: "The two taxations, Dominion and Provincial, can stand side by side without interfering with each other, but as soon as you come to the concomitant privileges of absolute priority they cannot stand side by side and must clash: consequently the Dominion must prevail."<sup>17</sup> The

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<sup>15</sup> Cf. below p. .

<sup>16</sup> All in fact it has done is to increase corporation tax from the 9% abated from federal taxation to 10%. In other words, the province most able to do so has only dared to incur 1% of "double taxation". And even this has caused the Ontario government much unpopularity.

<sup>17</sup> Cf. In Re Silver Bros. Ltd. (1932), A.C. 514 at p. 521.

significance of this judgment is not seen while tax rental agreements are in force with most provinces. But should these not be renewed, then clearly this judgment would give the Federal government an effective way of retaining tax control. For due to its priority in "concomitant taxation", the Federal government could, if it wished, in practice exclude the provinces from all direct taxation by raising its own tax rates to abnormal heights. With or without tax rentals, the Federal government is now in a position to exercise effective fiscal policies, as demanded by the new philosophy. That, contrary to the implication of Perry, the federal authorities still intend to use such fiscal policies will later be seen by examining recent budget speeches and measures.<sup>18</sup>

Leaving for a moment the likely effects of a termination of the tax rental agreements, however, even a brief glance at certain statistics clearly shows that since 1945 the Federal government has greatly increased its share of the national revenue. It is only fair to compare peacetime figures, since the abnormal situation of war naturally demands a huge increase of the central revenues. Two figures from the 30's, therefore, are compared with selected years from 1949, since by that time the abnormal war-time federal expenditures had ended. (See TABLE IV overleaf).

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<sup>18</sup> Cf. below p. 98 and 99.

TABLE IV  
FEDERAL AND PROVINCIAL REVENUE COMPARED

	1930	1939	1949	1951	1954	1956	1958
	(in millions of dollars)						
Federal revenues	231	459	2,654	4,110	4,528	5,578	5,287
Provincial revenues	180	295	887	1,144	1,246	1,598	2,008

Source: National Accounts: Income and Expenditure, 1926 - 56, Table 36, pps. 74 and 75: and, 1958, Table 36, pps. 40 and 41.

Transfer payments from the Federal <sup>government</sup> ~~govern~~ to the provinces have not been included in provincial revenue.

The main observation from this Table must be that, in peacetime conditions, the revenues of the Federal government have increased relatively to those of the provinces between the pre-war and post-war years. In the 30's, federal revenues were at the most 50% more than provincial; since 1945, they have at the least (1958) been 150% more. It will be noted, however, that the federal share in tax revenue has not increased consistently in the post-war period. It reached its peak in the years between 1951 and 1954 and it has declined considerably since. This can be partly explained by the large federal defence expenditures for the Korean War during those peak years and by the fact that since 1957, federal revenues have been more severely hit by the recent depression than those of the provinces. Yet the fact that there has been a decline in the last few years of the federal share of taxation will perhaps remind us that even in the post-war era the significance of provincial taxation must not be under-estimated.

The Commonwealth government in Australia was equally imbued with the dictates of the new philosophy as the Dominion Government in Canada. But, at least in the matter of fiscal control, it was able to fulfil its post-war reconstruction plans more readily than the latter. For, unlike the Dominion, the Commonwealth was able to extend its war-time tax agreements with the states<sup>19</sup> into peacetime, basically unaltered.

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<sup>19</sup> Cf. above p. 30.

In fact, only one change was made. Contrary to the war-time arrangements, it was now decided under the new States Grants (Tax Reimbursement) Act of 1946 that the compensatory payment from the Commonwealth to the States should be a fixed amount of £ 45 million. In 1948-49 and thereafter, however, this set amount served only as the base standard of the tax reimbursements which were now determined — as in Canada— according to an escalator formula.<sup>20</sup>

The payments made under this common formula were still not wholly satisfactory. In the acute period of inflation between 1949 and 1952, the States, whose revenues by their nature could not reflect the rise in prices, found themselves in a desperate financial position. Accordingly, in the years between 1953 and 1958, the central government found it necessary to pay additional, arbitrarily determined grants, called Special Financial Assistance Grants.

One last change was made in Australian tax arrangements in 1959. Up to that year, the compensatory unconditional payments, whether paid under the 1946 formula or as part of the Special Assistance Grants, contained little element of equalisation: they were paid very nearly on a strictly per capita basis. Such equalisation as there was, was paid by means of separate Special Grants, calculated since 1933 by an independent Grants Commission.<sup>21</sup> In 1959, however, it was decided

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<sup>20</sup> In Australia, the escalator formula was based on population and average national wage rates.

<sup>21</sup> For more details, Cf. <sup>above</sup> ~~below~~ p. 28.

that a new formula be arranged whereby a large part of the equalisation would now be paid through the general tax reimbursement grants. It was also hoped that the new formula would enable the Commonwealth government to dispense with the arbitrary and politically contentious Special Assistance Grants.<sup>22</sup> Thus, almost all unconditional transfer payments from centre to localities were to be paid according to one uniform and automatic formula. In this respect, the 1959 scheme in Australia is extremely similar to the 1957 arrangements in Canada. According to both, the central government has the exclusive control of certain important taxes. According to both, the localities are compensated for their loss of revenue on the basis of a formula applicable automatically to them all. According to both, these formula grants themselves serve as a basis for equalisation payments.

Despite this striking similarity in the existing taxation arrangements in Australia and Canada, two differences of development must be emphasized. In the first place, whereas in Canada two provinces have remained wholly or partly outside the tax agreements, in Australia all are participants. In the second place, whereas in Canada a common formula for agreement was lost after the war and not regained until 1957, in Australia a common formula, of one sort or another, has been in existence constantly since 1942.

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<sup>22</sup> This sentiment was expressed in the Commonwealth Budget Speech, 1959/60, in which the 1959 scheme was introduced. Cf. Budget Speech, Aug. 11th, 1959, pps. 21 to 23.

But these differences are but part of the basic difference between Canada and Australia in tax arrangements, which is that in Australia the tendency for the central government to take a greater share and have a greater control of tax revenues and the tendency, consequently, for the localities to be more dependent on compensatory transfer payments, have been even more marked than in Canada.

This is clearly seen by studying Commonwealth and State tax revenues on a comparative basis. (See TABLE V overleaf).

From this, a pattern similar to that which emerged from the comparable Canadian figures can be discerned.<sup>23</sup> Clearly, the central government has greatly increased its share in the national tax revenue, reaching (as in Canada) its peak in 1951 and slightly declining since. The difference between Canada and Australia, however, is this. Whereas in the post-1945 period in Canada the central government had from two and a half times to four times as much tax revenue as the localities, in Australia it had from about nine times (1954 and 1958) to about fourteen times (1951) as much.

It might be argued, however, that these figures, by excluding transfer payments from the amounts accredited to local revenue, tend to over-emphasize the centralisation of tax revenue. After all, it is the localities and not the central government which spend the transfer payments. But this is to miss the point. "For," as B. U. Ratchford puts it, "if the purpose is to show the power and influence of govern-

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<sup>23</sup> Cf. above p. 57.

TABLE V

COMMONWEALTH AND STATE REVENUES COMPARED  
(expressed in £'000)

	1939	1949	1951	1954	1956	1958
Commonwealth Revenues	72,225	504,387	919,028	930,442	1,095,415	1,126,119
State Revenues	51,797	45,246	67,004	94,688	119,962	144,072

Source: Commonwealth Budget Papers.

ments in shaping expenditures and their responsibilities for raising and controlling revenues (and that is the purpose of this chapter) then intergovernmental payments should be counted as expenditures of the paying (i.e. central) governments. This method emphasizes the revenue-raising aspect and shows the expenditures which any level of government makes from its own revenues."<sup>25</sup> (italics not in original).

There are other factors which indicate that centralisation of taxing powers has been more thorough-going in Australia than in Canada. In Canada, for example, there is absolutely no doubt at all about the fact that the provinces have only "rented" the taxes concerned to the Dominion government. When any particular rental agreement ends, they automatically regain their rights to these taxes unless the agreement is renewed or a new one made. In Australia, however, the position is not so clear and the Minister of Finance, speaking in the budget of 1959, seemed to imply that the States in fact have no rights at all to income tax, that the transfer payments made to them by the Commonwealth government are not compensation for a loss of their rights but merely assistance given by "the grace and favour" of the latter.<sup>26</sup> As more than one commentator has remarked, the replacement in 1959 of the term Tax Reimbursement Grant by National Assistance Grant gives support for this impression.

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<sup>25</sup> B.W. Ratchford, *Public Expenditures in Australia*, (London, 1959), p. 9.

<sup>26</sup> Budget Speech, August, 1959, pps. 22 and 23.

Again, unlike in Canada, there has been no question in recent years of the central government in Australia handing back income tax to the States. After a brief and rather half-hearted flirtation with the idea in the early 50's, the Commonwealth politicians do not seem to have given it any thought since.

## II. EQUALISATION

One of the most important uses to which the central governments in Canada and Australia have put their broader tax base is an attempt to achieve a more marked degree of equalisation between the various parts of their countries than has been seen previously. Increasingly more money has passed from the rich to the poor regions through a devious route. It has been collected in the form of federal taxation from the rich region and it has been paid to the poor region in the form of the weighted unconditional payments from the central government. Equalisation, whether recognized as such or not, had been effected to a small extent in this way almost since Confederation, in both countries. But today with the opportunity given by the greatly increased federal tax revenues and federal transfer payments, equalisation by this method has become enormously more important. There are, of course, other ways by which the central governments now achieve equalisation. They do so, for example, by some of their economic policies and welfare payments.<sup>27</sup> But equalisation effected in these ways is often disguised

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<sup>27</sup> These are discussed below, CF. p. 126-30 and 158-62.

and scarcely recognized as such. Consequently, unconditional transfer payments from the central governments remain the chief method of equalisation and it is around them that the debate about equalisation has turned.

It was noted in the Introduction that a certain amount of redistribution between rich and poor provinces had been effected in Canada by the Dominion government before 1945 through its statutory subsidies, but that the redistribution was small and haphazard. In the words of the Rowell-Sirois Commission: "the statutory subsidies have been based on no clear principles and it has been impossible to say whether or not the different provinces have received equal treatment."<sup>28</sup> It was also noted that a comprehensive principle of equalisation based on fiscal need had been enunciated by that same Commission in 1940, but that the principle had been rejected in the following year.

Indeed, it is important to mention at this point that the full principle of fiscal need equalisation has continued to arouse too much opposition ever since to be accepted in Canada. The reason is clear. Not only would it involve the payment of grants greater than the rich provinces are willing to see, but it would also entail interference in the internal affairs of the provinces. According to the Rowell-Sirois Proposals, it would be necessary for an independent Grants Commission to calculate what exactly was "an average standard of services" and

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<sup>28</sup> Royal Commission on Dominion-Provincial Relations, Report, Bk. 2, Section G.

how much special circumstances of this or that province would make higher expenditure necessary to obtain that "standard of service". The example of the Grants Commission in Australia gives the Canadian provinces enough evidence that this would involve an undesirable amount of political interference in their affairs.

But if fiscal need was thus rejected as a principle of equalisation for Canada, the experiences of the war and the ideas of the new philosophy to which these experiences gave rise, demanded an attempt by the Federal government to evolve some principle of equalisation. In its Proposals of 1945, therefore, it included a modified scheme of equalisation. There was to be a continuation of the payment of per capita subsidies, but the subsidies were now to be openly recognized as containing elements of equalisation and the redistribution effected was to be immensely greater than before. But even this was too much for certain entrenched provincial interests, notably in Ontario and Quebec. The scheme was totally rejected at the Dominion-Provincial Conference in 1946, and it seemed that despite the clear formulation of principles in the Rowell-Sirois Report and the modified Federal Proposals of 1945, Canada had, in the question of equalisation, returned to the wholly unsatisfactory pre-war position.

But this was not completely so. As noted before, the Federal government after the rejection of its Proposals of 1945 decided to make individual tax rental agreements with any province which so desired. But by making these agreements, the Federal government was in fact

transferring a considerable amount of money from the rich to the poor provinces. For one thing, the rich province of Ontario did not enter an agreement until 1952. This meant that Ontario, though taxed as heavily by the Federal government as any other province, received in return absolutely no unconditional grants, except of course the old "statutory" subsidies. In fact, much of the taxation which the Federal government thus got from Ontario must have returned to poorer provinces in the form of tax rental payments. Besides, even after Ontario entered on an agreement, such was the form of the individual tax rental agreements, a tremendous amount of equalisation was involved. A comparison of figures of federal tax collections in and payments under the 1952 tax rental agreements to the provinces clearly demonstrates this.

(See TABLE VI overleaf). In a sense, this equalisation was as haphazard and equally without guiding principle as the pre-war system, but clearly the amount of money involved had increased enormously. The total amount of subsidies out of which equalisation could be effected in 1937 was \$21 million. In 1952, it was over \$300 million.

Moreover, pressure for a more comprehensive and logical scheme of equalisation was growing. In speeches made by federal and provincial politicians, the need for some basic principle was stressed. It was not, however, until 1957 that an arrangement which explicitly recognized a principle of equalisation was drawn up and agreed upon. Quite simply, it was agreed that the principle of complete equality of the provinces, at least in the "effective revenue potential from the three standard taxes" be recognized. In other words, through the adjustments made by

TABLE VI

## TAX RENTAL PAYMENTS TO THE PROVINCES IN 1952 - 53

1952 - 53	Nfld.	P.E.I.	N.S.	N.B.	Quebec	Ont.	Man.	Sask.	Alta.	B.C.
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
(1) Federal Tax Collections	25,976	3,305	46,593	34,425	698,658	1,242,324	111,255	48,015	121,442	259,708
(2) Tax Rental Payments	10,735	3,262	18,127	14,986	Nil	123,327	23,087	23,583	27,312	40,354
Tax Rental Payments Expressed as a % of Fed. Tax Collections	41.3%	98.7%	38.9%	43.5%		9.9%	20.8%	49.1%	22.5%	15.5%

- (1) Including collections of individual general income tax, corporation general tax, tax on undistributed income, non-resident tax and succession duties.
- (2) Tax rental payments proper only: excludes statutory subsidies, refunds re income tax on electricity, gas and steam companies.

Sources: Federal Tax Collections: Taxation Statistics, 1954.  
 Tax Rental Payments: Public Accounts of Canada, 1953.

the federal government, all provinces would now receive almost exactly the same amount of money per capita from income tax, corporation tax and succession duties.<sup>30</sup>

In Canada, therefore, for the first time a principle of equalisation was fully recognized and put into practice. In the words of Prime Minister Diefenbaker: "The government believes that the principle of fiscal aid and equalisation to assist the less wealthy provinces stands on its own feet (italics not in original) and is accepted on that basis, and is quite separate from the question of tax rental or tax sharing."<sup>31</sup> Though there may be alterations made in the 1957 scheme of equalisation when it comes for renewal in 1962, it seems that there are too many vested interests in its continuation for it to be permanently terminated in that year.<sup>32</sup> After all, at the July Conference last year, Mr. Diefenbaker said: "I want to make this abundantly clear on behalf of the Dominion government, that whatever the ultimate decision may be the principle of equalisation must be preserved."<sup>33</sup>

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<sup>30</sup> To be precise, the new payments, openly recognized as equalisation payments, would bring the per capita yield of these taxes (at the tax rental rates, i.e. 13: 9: 50) of each province to the level of the weighted average per capita yield of the two provinces (Ontario and British Columbia) having the highest per capita yield in the three tax fields.

<sup>31</sup> Proceedings of The Dominion-Provincial Conference, July, 1960, p. 10.

<sup>32</sup> Cf. Appendix II.

<sup>33</sup> Proceedings of the Dominion-Provincial Conference, July, 1960 p. 10.

Indeed the pressure for greater and more open recognition of the need for equalisation has forced the Federal government to take further measures in recent years. At the Dominion-Provincial Conference held in 1957, Mr. Diefenbaker said: "I believe that we all recognize that the Atlantic Provinces as a group are confronted with greater difficulties in public finance than the rest of the nation, if they are to maintain the sort of Provincial and Municipal services that Canadians generally expect."<sup>34</sup> Consequently, the Federal government agreed to pay the Atlantic Provinces a special additional Adjustment Grant, amounting to \$100 million over a period of four years. This was clearly a further move to equalize the "tax potential" of the Canadian provinces, though the actual amount of the Grant seems to have been arrived at more on the basis of political bargaining than on any clear principle.<sup>35</sup> But the result of this Grant, in conjunction with the 1957 agreement, is, in Mr. Diefenbaker's own words: "that the effective revenue potential of every province in Canada over the whole range of its revenue, has been raised to not less than 85% to 90% of the Canadian average and in most cases considerably higher."<sup>36</sup>

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<sup>34</sup> Proceedings of Dominion-Provincial Conference, 1957, p. 12.

<sup>35</sup> This is the opinion of J. F. Graham, "The Special Atlantic Provinces Adjustment Grant: A Critique" in Canadian Tax Journal, Vol. VIII, No. 1, Jan. 1960, p. 39

<sup>36</sup> Proceedings of Dominion-Provincial Conference, July, 1960, p. 11.

Possibly the clearest illustration, however, of the new recognition given to equalisation in post-war Canada has been the treatment of Newfoundland. On the entry of that province into the Union in 1949, it was openly declared that "in order to facilitate the adjustment of Newfoundland to the status of a province of Canada and the development by the Province of revenue-producing services, Canada will pay to the Province each during the first twelve years after the date of Union a transitional grant . . . . (amounting to \$42 million)."<sup>37</sup> This is a clear statement of the desire of the Federal government to bring up the standard of life in Newfoundland nearer to the Canadian average. The transitional grant, unlike the subsidies given to the other provinces on entering the Dominion, was not justified under a facade of compensation for a particular loss.

An even clearer statement of equalisation was given in clause 29 of the Union terms. There, it was promised that:

The Government of Canada will appoint a Royal Commission within eight years from the date of Union to review the financial position of the Province of Newfoundland and to recommend the form and scale of additional financial assistance, if any, that may be required by the Government of the Province of Newfoundland to enable it to continue public services at the levels and standards reached subsequent to the Union, without resorting to taxation more burdensome, having regard to capacity to pay, than that obtaining generally in the region comprising the Maritime Provinces . . . ."<sup>38</sup> (italics not in original)

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<sup>37</sup> Report and Documents on the Union of Newfoundland with Canada: Terms of Union, clause 28 (1), p. 21.

<sup>38</sup> Ibid., p. 22.

This apparently uncompromising desire for equalisation was reflected in the speech made by the Prime Minister of the day, St.-Laurent, in the debate on the Union.<sup>39</sup>

In any event, the Commission (named after its chairman, the "McNair" Commission) demanded by clause 29 was set up in 1957 and reported the following year recommending an additional annual payment to Newfoundland of \$8 million. In 1959, the Federal government partially adopted this recommendation and, to quote Minister of Finance Fleming, "in the larger spirit of the larger Canada", it agreed to pay the province a subsidy totalling \$36½ million between 1959 and 1962.<sup>40</sup> But the pressure for equalisation continues, and in January, 1961, the Federal government made it clear that it will continue paying this subsidy after 1962.

Nevertheless the amount of equalisation which has been effected in Canada since 1945 must not be exaggerated. With the possible exception of these grants to Newfoundland under clause 29, the principle of equalisation adopted so far has been merely equalisation of revenue potential. Canada has not attempted any equalisation on the basis of the varying needs of the respective provinces: it has not attempted, in other words, to implement the much wider and more thorough-going principle of fiscal need as recommended by the Rowell-Sirois Commissioners

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<sup>39</sup> House of Commons Debates, 1949, p. 289.

<sup>40</sup> House of Commons Debates, 1959, p. 5893.

in 1940. Though the present equalisation arrangements in Canada, therefore, have been described as "fulfilling the principles of fiscal need", this is not entirely accurate.<sup>41</sup>

The limited nature of equalisation in Canada has, in fact, been criticized by certain provincial politicians. Thus, British Columbia has for long claimed that any principle of equalisation should take into consideration the fact that that province, owing to its rapidly rising population and its rough terrain, has had relatively higher costs to pay for standard services such as education and transportation, than any other province.<sup>42</sup> A similar sentiment has been expressed by many of the other provinces. Speaking of the equalisation arrangements being negotiated in 1956, Premier Campbell of Manitoba said: "Manitoba was still disappointed that so little attention had been paid to the question of the actual financial requirements faced by the provincial governments in the next four years."<sup>43</sup>

But even in its equalisation of revenue potential, Canada has some way to travel. As noted above, the most that can be claimed is that under the present arrangements no province drops below 85% of the Canadian average. This still leaves wide disparities. The unfortunate

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<sup>41</sup> Cf. e.g. Duff Roblin, Manitoba Budget Statement and Economic Review, 1960, p. 27.

<sup>42</sup> Cf. esp. Brief of British Columbia, 1950, where the provincial expenses in B.C. on basic standard services are compared to those in other provinces, pps.10, 11 and 29.

<sup>43</sup> Quoted in House of Commons Debates, 1956, p. 6290.

fact for the poor provinces is that, except for the special Atlantic and Newfoundland Grants, it is only the three standard taxes revenues which have been equalised. Consequently, in the words of Premier Stanfield of Nova Scotia:

"Though the present Tax Rental Agreement has been very beneficial, it has not enabled our province (and he could have said all the Maritime Provinces) to match the other provinces in providing essential services. The Agreement furnishes to Nova Scotia a portion of the revenue which is required to supply essential services and we must look to our own fields of taxation for the balance of our needs. The ability to raise essential revenue from local sources varies from province to province, and unfortunately, the Provinces of the Atlantic Region by every test are less able than the other provinces of Canada to supplement the Tax Rental revenue from purely local sources."<sup>44</sup>

That these are not empty words is seen by anyone who has studied provincial taxation. A. W. Johnson, Deputy Provincial Treasurer of Saskatchewan, for example, states:

"The structure of the Canadian economy affects tax yield. Owing to a significant extent to the location of industry in Canada, a 1% tax rise in the sales tax in New Brunswick is of much greater consequence to the people there than it would be in Ontario, and it would be likely to yield only a half to two-thirds per capita."<sup>45</sup>

It is too early yet to see how effective the new principles of equalisation will prove in raising Canadian provinces to a roughly

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<sup>44</sup> Proceedings of the Dominion-Provincial Conference, July, 1960, p. 35.

<sup>45</sup> A. W. Johnson, "Problems of Provincial Finance", Canadian Tax Journal, March - April, 1960.

common level. After all, Canada has only experienced three years of payments, specifically designed to equalise. What can be said is that at the present time as much as any time previous, such equalisation is extremely necessary.

The easiest way to see that this need still exists is to study the relative per capita income figures for the various provinces. (See TABLE VII overleaf).

These figures substantiate the conclusion made by R. D. Howland: "There has been little variation over the years in disparity of income among the regions. The persistence of the gaps between the regions remains outstanding."<sup>46</sup> Moreover, it is unlikely that without positive equalisation these inequalities can possibly disappear. The factors which nurtured them in the past still exist. The concentration of industry, for example, in the Provinces of Ontario, Quebec, and British Columbia is still a marked trend.<sup>46a</sup> The need for equalisation in Canada, therefore, remains acute and the pressures for equalisation will continue to increase.

Developments in equalisation in Australia since 1945 have been much less remarkable. This is due to two reasons. On the one hand, there was in Australia far greater recognition before 1939 of principles

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<sup>46</sup> R.D. Howland, Some Regional Aspects of Canada's Economic Development. A study presented to the Royal Commission on Canadian Economic Prospects. P. 66.

Howland also points out that per capita total income comparisons mislead. If only per capita earned incomes are compared, the inequalities are seen to be even more glaring. Ibid., p. 5.

<sup>46a</sup> Ibid., Pps. 17 and 18.



of equalisation and a determined effort to carry them out. On the other hand, there has been quite simply less need for equalisation there.

Through the Grants Commission, there has in Australia been a consistent and active effort to put into practice the comprehensive principle of equalisation based on fiscal need. The efforts of the Commission have been uniformly commended.<sup>47</sup> A. H. Birch, for example, states that equalisation in Australia was more satisfactorily effected than in Canada because "the needs of the poorer States were openly recognized there and the problem of meeting them . . . removed from the arena of day-to-day political controversy."<sup>48</sup>

It is obvious that such a comprehensive scheme of equalisation as existed in Australia since 1933 is a main reason why no important advances in that sphere since 1945 are to be expected. The other reason is the fact that the need for equalisation in Australia has declined in recent years. A comparison of per capita personal incomes affords the best illustration of the comparative equality amongst Australian states today. (See TABLE VIII overleaf).

When the corresponding Canadian figures are recalled, it is seen just how little need for equalisation there is in Australia. Moreover, such inequality as still remains in Australia will almost certainly

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<sup>47</sup> e.g. J. A. Maxwell, "Commonwealth Grants to the States in Australia", American Economic Review, June, 1938; B. U. Ratchford, op. cit., Chapter 11; and E. J. Hanson, Australian Commonwealth Grants Commission, *passim*.

<sup>48</sup> A. H. Birch, op. cit., p. 145.

TABLE VIII  
 PER CAPITA INCOME OF AUSTRALIAN STATES COMPARED

State	Personal Income Per Capita	Average Weekly Earnings per Employed Male Unit
	1958 - 59	1958 - 59
New South Wales	497	21.04
Victoria	499	20.69
Queensland	441	18.64
South Australia	465	19.10
Western Australia	434	18.19
Tasmania	431	19.33

Source: Australian Grants Commission, Twenty-Seventh Report, 1960, Table 4, p. 21.

decrease yet further. It was mentioned in the Introduction<sup>49</sup> that one of the main reasons for financial inequality of the regions both in Canada and Australia is due to the heavy concentration of secondary industry in certain areas. In Australia, industry tended to concentrate in the states of New South Wales and Victoria. But since 1939 and even since 1945, industrial concentration in Australia has been declining slightly. In other words, the industrial development of the other states has been making relatively (though, of course, not absolutely) greater progress in these years than that of New South Wales or Victoria. This fact is again best illustrated by a comparative Table. (See TABLE IX overleaf).

It is of course conceivable that a slump in the world prices for primary produce would again give rise to severe disparities between the states. But given reasonable economic stability, it is safe to say that equalisation will not be a main issue in Australian politics.

Indeed, the only notable development in equalisation in Australia since 1945 has not been to increase equalisation payments nor to alter basically the principles which have been in vogue there since the 1930's. The main development has been a change in the method of paying equalisation grants. Equalisation has been effected less and less through the Special Grants calculated by the Grants Commission and more and more through the tax reimbursement payments mentioned earlier.

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<sup>49</sup> Cf. above p. 10-11.

TABLE IX

## INDUSTRIAL DEVELOPMENT OF THE STATES COMPARED

	N.S.W.	Victoria	Queensland	South Australia	Western Australia	Tasmania
Percentage Increase in Number of Factory Employees						
1938 - 1959	96.48%	79.8%	93.6%	<u>117.1%</u>	<u>108.6%</u>	<u>105.9%</u>
1948 - 1959	18.8%	24.3%	26.3%	24.2%	26.2%	25.8%

Source: Australian Grants Commission, Twenty-Seventh Report, 1960.

It appears that especially since 1945, the advantages of paying Special Grants through an independent Commission have been increasingly outweighed by some disadvantages. Though it is claimed that the Commission has always calculated "fiscal need" by objective and scientific standards, it is doubtful if this has ever been true and it is certain that it has not been true since the Second World War. More and more since 1945 the Commission have ignored their own laborious scientific calculations<sup>50</sup> and decided in an arbitrary fashion how great payments should be.

The following table indicates the treatment accorded South Australia during the decade 1946 - 56. (See TABLE X overleaf).

Clearly, by 1947, the arbitrary adjustments had become considerably more important than the scientific and objective formulas. And having moved away from its scientific formulas, the Commission has become more than ever subject to political bargaining. Once the facade of objective calculation crumbled, the pretence that special grants were withdrawn from the field of political hard bargaining was over.<sup>51</sup>

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<sup>50</sup> These calculations have been based on a comparison of the "claimant" states with the "non-claimant" states by four standards:

- 1) Their budgetary position.
- 2) The weight of taxation.
- 3) The cost of social services.
- 4) The cost of general administration.

<sup>51</sup> Cf. Commonwealth Grants Commission, First Report, pps. 85-93.

<sup>51</sup> This is confirmed by the fact that there is no description in the Commission Reports of how the special adjustments are made.

TABLE X  
SPECIAL GRANTS TO SOUTH AUSTRALIA

	Grant Requested by South Australia	Scientific Formula Calculation	Adjustment for Special Conditions	Total Recommended by Commission
(in thousands of pounds)				
1946 - 47	2,000	1,293	307	1,600
1947 - 48	2,750	1,510	1,240	2,750
1948 - 49	4,200	1,656	594	2,250
1949 - 50	3,813	324	3,850	4,174
1950 - 51	5,602	762	4,570	5,332
1951 - 52	7,800	308	4,250	4,558
1952 - 53	6,000	- 257	6,600	6,343
1953 - 54	7,438	- 200	6,300	6,100
1954 - 55	4,488	- 1,100	3,350	2,250
1955 - 56	6,099	- 540	5,940	5,400
1956 - 57	6,582	40	5,760	5,800

Source: Commonwealth Grants Commission, Reports Twelve to Twenty-Two.

Similar figures could be quoted for Tasmania and Western Australia.

In any case, even calculations based on the so-called objective standards have involved an increasing amount of political interference in the internal affairs of the states. For example, the Commission in the most recent Report, undertook an examination of rail charges in the various claimant states and proposed to reduce the grant to South Australia on the grounds that rail charges were lower in that state than elsewhere. To avoid this measure, the South Australian government had to expound and defend its whole transportation policy, claiming that it was not extravagant.<sup>52</sup> Of course, the Commissioners could say, as they often have done, that South Australia was quite at liberty to maintain its low rail charges if it wanted. But if it becomes known amongst the South Australian electorate that the grant to their state was reduced because of low rail charges, then it is more than likely that pressure will be exerted upon the South Australian government to raise these charges -- though, in fact, that may be against their policy. This, of course, is exactly the type of interference which, as seen above, the Canadian provinces have feared from an attempt to effect a policy of "fiscal need payments" in their country.

It would seem, moreover, that special grants paid by the Commission have become relatively less important for the States in the post-war period. In absolute amount they have of course increased. But in relation to the other transfer payments, they have declined.

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<sup>52</sup> Commonwealth Grants Commission, Twenty-Seventh Report, 1960, p. 39.

A short table illustrates this:

TABLE XI  
AMOUNT OF SPECIAL GRANTS COMPARED TO  
TOTAL TRANSFER PAYMENTS

(Expressed in £000's)

	Special Grants	Total Transfer Payments	Percentage
1938-39	2,020	20,266	10%
1947-48	6,042	84,638	8%
1953-54	15,400	219,300	8%
1958-59	20,750	320,530	7%

Source: Commonwealth Grants Commission, Twenty-Seventh Report, 1960, Appendix No. Four, Tables Two and Three pps. 110 and 111.

Equally it could be shown that the Special Grants have declined in relation to total State revenue over this period.

By the 1950's, therefore, there were many commentators in Australia who began to question the validity of the whole Special Grants system. The complaint was made, for example, that due to its peculiar method of calculation, the Grants Commission continued to recommend grants to South Australia, a state which in every way was financially stronger than Queensland which received nothing. The volume of criticism reached such a pitch that the Commission in its Twenty-Second Report, 1955, had to undertake a full-scale defence of its methods.<sup>53</sup>

53. Commonwealth Grants Commission, Twenty-Second Report, 1955, p. 22.

But the future lay with the critics. The most notable of these, Professors K. J. Burns and L. V. Bellis proposed in 1956 that equalisation be effected less by means of Special Grants and more by a weighted re-allocation of the existing tax reimbursement grants.<sup>54</sup> Their proposition was accepted in 1959, when the new formula for tax reimbursements was agreed upon. The amount of equalisation effected through the new payments -- the National Assistance Grants -- is seen by comparing the per capita receipts of the various States from these Grants with the corresponding receipts from the old payments. (See TABLE XII overleaf).

The need for Special Grants, therefore, now declined even further. It was agreed that South Australia should no longer receive these, unless exceptional circumstances arose, and the total of Special Grants paid out in the year 1959-60 was considerably less than half of the amount paid in the previous year.

In many respects, therefore, the method of equalisation in Australia has come closer to that adopted in Canada in 1957. For no longer does equalisation there mainly depend upon the annual calculation of a group of experts. It depends, as in Canada, mainly upon the working of a uniform and automatic formula.

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<sup>54</sup> K. J. Burns and L. V. Bellis, "Uniform Taxation with States Taxing Incomes", Economic Record XXXII (1956), p. 50-63.

TABLE XII

## TAX REIMBURSEMENT PAYMENTS COMPARED TO NATIONAL ASSISTANCE GRANTS

	N.S.W.	Victoria	Queensland	South Australia	Western Australia	Tasmania
<i>Per Capita Payments</i>	£ (rounded to first decimal point)					
By old Tax Reimbursement Payments (1958-59)	£ 20.4	£ 19.7	£ 22.4	£ 20.9	£ 22.7	£ 21.3
By New National Assistance Grants (1959-60)	22.4	21.8	25.6	33.7	39.3	31.4

Source: Commonwealth Budget Papers.

## III. INTERLOCKING OF ACTIVITY

The obvious result of these trends towards centralisation in tax revenues, and the use of these increased central revenues for purposes of equalisation, has been that central and local governments in Australia and Canada have been forced into closer and more continuous financial consultation and co-operation. It is true that in the field of financial matters, as R. M. Burns points out, progress in establishing institutions of co-operation has been less noticeable than in, say, the field of social welfare.<sup>55</sup> But, in Canada, there has been at least one post-war manifestation of the increased financial interdependence of central and local governments. This has been the Federal-Provincial Continuing Committee on fiscal and economic matters. This was formed in 1955 to provide a forum for detailed and technical discussions about complex inter-governmental financial problems, and to "co-ordinate statistical material" on the subject.<sup>56</sup> It has since met twice a year and its members have given advice and information at the Dominion-Provincial Conferences.

Besides, conferences themselves have been used more extensively in the post-war period for financial co-operation. At the Dominion-

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<sup>55</sup> R. M. Burns, "Co-operation in Government" in Canadian Tax Journal, Vol. VII, No. 1, January-February, 1959.

<sup>56</sup> There is an informative discussion of its functions in a debate on Dominion-Provincial Relations recorded in House of Commons Debates, 1959, p. 846 et seq.

Provincial Conference of July, 1960, Prime Minister Diefenbaker claimed that: "within the last two years, two meetings of a Dominion-Provincial Committee of Ministers of Finance and Provincial Treasurers were held at Ottawa. These meetings in 1959 were a new course in fiscal relations . . . they were called to enable the Federal and Provincial governments to embark on a co-operative study of inter-governmental fiscal relations."<sup>57</sup> Some attempt, though it must not be exaggerated, has been made in other words to fulfil the promise made by Finance Minister Fleming in 1959 when he said that: "my government proposes that the entire subject of financial relations between Dominion and provinces shall receive continued active co-operative study."<sup>58</sup> It could hardly be otherwise, for a lack of financial consultation between the centre and the localities would be folly.

Post-war developments in the machinery of financial co-operation in Australia are more difficult to see. This is because the institutions for consultation existed long before 1945 in the form of the Premiers Conferences and the Loan Council.<sup>59</sup> There has been, therefore, no need to create new agencies to cope with the increasing complexity of inter-governmental financial relations. But it is beyond doubt that with Commonwealth transfer payments to the States forming over 60%

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<sup>57</sup> Proceedings of the Dominion-Provincial Conference, 1960, p. 8.

<sup>58</sup> House of Commons Debates, 1959, p. 832.

<sup>59</sup> Set up by the Financial Agreement of 1927, Cf. below p. 92 .

of all State revenues and nearly 20% of its own revenues, the Commonwealth and the States are financially bound together like Siamese twins. The Commonwealth, of course, is the stronger of the twins. But it is certain that if it wants to formulate effective fiscal policies, it is necessary for it to have the co-operation of the States. The degree of fiscal interdependence today makes it imperative for the Commonwealth and the States to consult each other and to co-operate more than ever before.

## CHAPTER IV

### KEYNSIAN ECONOMICS AND FEDERALISM

#### I. WHO CONTROLS CREDIT?

It is time now to return to a discussion of the Keynesian short-term and long-term economic policies. The last chapter has at least shown that in both Canada and Australia the central governments have had tax revenues large enough since the war to exercise controlled fiscal policies. But it will be recalled that <sup>Keynsian</sup> ~~these economic~~ policies demanded not only effective fiscal control, but also a considerable amount of central monetary control. Monetary control, for example, is especially necessary in time of inflation.

"The most pervasive, impersonal and effective way of combatting inflation," the Gordon Commissioners said, "is through monetary policy designed to raise interest rates or to reduce the amount of money and credit available."<sup>1</sup>

It is not surprising to find, therefore, that in the post-war period the central governments and central institutions have increased their credit powers. Quite simply, the local governments have found it more and more difficult to borrow money when and how they have wanted. It should be noted again, however, that the changes which have taken place in this field have not been due to amendments to the constitution or to new legislation, but rather, as so often, to emphases in day-to-day practice.

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<sup>1</sup> Royal Commission on Canada's Economic Prospects, Final Report, p. 429.

There are three ways by which the Canadian provinces have had their undoubtedly constitutional power to borrow freely reduced. The Act of Parliament which established the central Bank of Canada in 1934 charged it with the responsibility for regulating "credit in the best interests of the economic life of the nation".<sup>2</sup> Until the Second World War and thereafter, however, the Bank did not make use of this power to "regulate credit". Since 1945 this position has been reversed and the provinces have found themselves faced by a hugely fluctuating national interest-rate, set by the Bank. At the end of 1958, for example, the Bank rate was 1.12%: by August, 1959 it was 6.41%. Clearly, the provincial ability to borrow was greatly determined by these rates. But this would not be of relevance to the federal-provincial power relationship, if at the same time, the Federal government also was passively subject to these credit policies of the Bank. There is, however, good evidence to show that it is the Federal government itself which has determined these policies. This was certainly true, as will be shown later, when Finance Ministers Ilesley and Abbott were in control. Whether it is true today under Finance Minister Fleming is, of course, still an extremely contentious point, and Fleming has himself in the Commons denied this power of the federal government.<sup>3</sup> But at the very least, it can be said that

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<sup>2</sup> R.S.C. 1952, Vol. 1, Chap. 12, pps. 81 - 186.

<sup>3</sup> e.g. Scott Gordon, The Economists Versus the Bank of Canada, (Toronto, 1961) for the view that Mr. Fleming has abdicated control over the Bank.

the precedent has been set. Whether it does so now or not, the Federal government has in the past controlled the national interest-rate through the Bank of Canada.

But borrowing has been difficult for Canadian provinces since 1945, in the second place, simply because of the size of federal borrowing. To quote Duff Roblin: "the greatest complicating factor in the money market [*ie.* for the provinces] has been the intense demand of the Federal government for funds."<sup>4</sup> That the Federal government recognizes this power which it has is clearly seen by Mr. Diefenbaker's statement at a recent Dominion-Provincial Conference:

"This year [1960-61] we will be making greatly reduced claims upon the capital market. . . . The result will be that in reducing the volume of federal government borrowing so sharply the problems of provincial and municipal governments . . . are greatly eased in meeting their essential financial requirements in the domestic market."<sup>5</sup>

The position with borrowing is similar to that with tax revenues. There is a limited amount of loans available to all levels of Canadian government, just as there is limited amount of taxation. Consequently, the more the Federal government borrows or taxes, the less the provincial governments can do so. This is especially true of borrowing because there are reasons why lending to the Federal government is more popular than lending to the provinces. Federal government securities, for example, are exempt from income tax while

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<sup>4</sup> Duff Roblin, Manitoba Budget Statement and Economic Review, 1960, p. 33.

<sup>5</sup> Proceedings of the Dominion-Provincial Conference, July, 1960, p. 13.

provincial securities are not.<sup>6</sup> Again, lenders are attracted by the especially enticing "insured mortgages" issued under the terms of the National Housing Act by the Central Mortgage and Housing Authority, which is an agency of the Federal government. Besides, the Federal government gains an important advantage in that the Bank of Canada limits its operations to the sale and purchase of bonds and bills of the Federal treasury. "This," complains Premier Lesage, "gives the federal government a marked advantage in drawing on the savings of the country and gives it access to a source of financing that is not open to the provinces. . . ." <sup>7</sup>

Even provincial spokesmen have recognized the fact that central control over borrowing is established. Their plea now is that the Federal government should use that control to help the provinces. In the words of A. W. Johnson, Deputy Treasurer of Saskatchewan, "The provinces would like to see, I think, a comprehensive central development policy which would provide loans to provinces for approved projects."<sup>8</sup>

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<sup>6</sup> Amongst many others, Mr. R. M. MacIntosh, Supervisor of Investments for the Bank of Nova Scotia, has maintained that provincial securities should gain tax exemption.

<sup>7</sup> Proceedings of Dominion-Provincial Conference, July, 1960, p. 129.

<sup>8</sup> A. W. Johnson, "Problems of Provincial Finance", Canadian Tax Journal, March-April, 1960, p. 86.

In Australia, similar trends can be discerned. The Commonwealth Bank Act which was passed in 1945 also allows a central bank to "control the volume of credit in circulation and bank interest rates". But in Australia the part to be played by the central government is made more explicit than in Canada. The Bank Act boldly states that "in the event of a conflict between the Governor of the Bank and the Commonwealth Government, the view of the Government shall prevail." The use made by the central government in Australia of the Bank as an agent for its monetary policies has consequently been greater than in Canada. Even the Liberals, whose opposition thwarted the Labour effort to nationalize all banks outright, have not hesitated to exercise this power.

But in terms of centre-local relations, this power is probably less important in Australia than in Canada. The reason for this is that in the former country the central government has developed since 1945 a much more direct and effective method of controlling all public borrowing. It has developed its power in the Loan Council.

As part of the Financial Agreement of 1927, an Australian Loan Council was created. This Council was to have the task of "limiting and supervising all borrowing by the states and the Commonwealth."<sup>9</sup> It was to contain a representative from each of the six states and

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<sup>9</sup> For the other terms of the Financial Agreement, Cf. above. p 86.

one (who has two votes) from the Commonwealth. From this, it might appear that the states would exercise considerable control, and of the Council, Greenwood said in 1946: "There is much justification for the view that the Loan Council has come to represent 'a new unit of government' since it is not politically responsible to any one parliament."<sup>10</sup> Whether this was ever true is open to doubt. It has certainly not been true since 1945. The Council has been dominated during the post-war period by the Commonwealth government. In the first place, the Commonwealth government by its control of foreign trade, foreign exchange, tariffs, fiscal policy and, as seen above, the banking system, has been increasingly able to affect the total amount of funds available for borrowing. In the second place, since 1945, "The Commonwealth itself," to quote B. U. Ratchford, "has not been borrowing but rather has been supplying from its current surpluses a large part of the funds borrowed by the states."<sup>11</sup> Consequently, it has the choice of making these funds available to the states or of using them for other purposes. In other words, no matter how the vote goes in the Council it is the Commonwealth, because of its control over the funds available for borrowing, which has the whip-hand.

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<sup>10</sup> G. Greenwood, The Future of Australian Federalism, (Melbourne, 1946), p.86.

<sup>11</sup> B.U. Ratchford, op. cit., p. 228.

The contrast between the present position and that which existed before 1939 is most lucidly put by Professor Prest, at present a member of the Australian Grants Commission.

"So long as Australian governments relied principally on overseas loans, the supply of funds was something over which the Commonwealth had no control. The local supply of funds, however, is another matter. Some sources, such as its own trust funds, are under direct Commonwealth control. Others, such as the banking system, can obviously be influenced directly by Commonwealth policy. Others again are subject to indirect control, particularly through alterations in income tax rates. Thus with the change from overseas to local borrowing, the Commonwealth, instead of being an agent seeking overseas loans for itself and the states, has found itself in the position of influencing, if not actually determining, what can be lent.<sup>12</sup>

Thus, despite continual adverse votes in the Loan Council, the Commonwealth government was able to freeze the total amount of state borrowing at £ 200 m. p.a. from 1952 to 1958.<sup>13</sup>

Moreover, it is likely that the trend towards central governmental control over monetary policy will continue in Australia. The report of the recent Committee on the Australian Constitution recommends, for example, that the Commonwealth should take a further step and control the credit arrangements of hire-purchase and finance companies. Leading commentators on the Australian scene have also given support to these proposals and suggest that all the instruments

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<sup>12</sup> W. Prest, The Economics of Federal-State Finance, (Adelaide, 1955), p. 9. The Joseph Fisher Lecture in Commerce, 1954.

<sup>13</sup> For a discussion of this, Cf. Round Table, September, 1959.

of monetary control must be "at the finger-tips" of the central government.<sup>14</sup> Whether the constitution is amended accordingly or not, it is clear that in Australia, as in Canada, the post-war period has seen enormously greater central control over monetary policies.

## II. SHORT-TERM POLICIES

Armed with control over both fiscal and monetary policies, the central governments in Australia and Canada were in a position to attempt to carry out the "Keynsian" economic policies. It will be recalled that these economic policies were twofold -- short-term and long-term.<sup>15</sup> Though in some respects the distinction between these two policies is arbitrary, it is best to discuss the attempt of the central governments to effect national short-term economic policies only in this chapter and, as far as possible, only the long-term policies in the next.

A short-term economic policy was earlier defined as the attempt by a government to ensure from year to year economic stability by acting in an "anti-cyclical" fashion.<sup>16</sup> The government was to steer the ship of state safely between the Scylla of unemployment and the Charybdis of inflation.

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<sup>14</sup> The phrase is that of Sir Douglas Copland. His recent book "Adventure of Growth" is a strong plea for increased Commonwealth monetary control.

<sup>15</sup> Cf. above p. 36 and 37.

<sup>16</sup> Cf. above p. 36.

Immediately after the war the main fear of both the Dominion government in Canada and the Commonwealth government in Australia was unemployment. It was felt that with the cessation of war production, there would be a slump. Both governments accordingly used fiscal and monetary measures to "prime" the economy and ensure a state of full employment.

In Canada, the Federal government was prepared to implement the ideas on the matter which it had set out in the Proposals of the Government of Canada. There, it had said:

The government will be prepared, in periods when unemployment threatens, to incur the deficits and increases in national debt resulting from its employment and income policy, whether that policy in the circumstances is best applied through increased expenditures or reduced taxation.<sup>17</sup>

And in 1945 and 1946 the government, fearing unemployment, kept taxes level at a time of rising costs and, despite the end of the war, kept up expenditure. The result was a conscious continuation into peacetime of revenue deficits in these years.<sup>18</sup> By 1947, however, it had become clear that inflation and not unemployment was the main danger. Consequently, the government following its policy of "leaning against the wind" went into reverse. In his budget speech of 1947, Mr. Abbott,

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<sup>17</sup> Proposals of the Government of Canada, 1945.

<sup>18</sup> The fact that this was "conscious policy" is seen by Ilesley's budget speech, June 27th, 1946, Cf. House of Commons Debates, pps. 2998-2999. Cf. also letter of Prime Minister McKenzie King to Premier of Saskatchewan, July 15th, 1946, Dominion-Provincial Correspondence Since the Budget of 1946, p. 54.

the Finance Minister, said: "It is necessary . . . that we should aim at a surplus in times of prosperity and very high levels of income and employment, such as we have at the present time."<sup>19</sup> Again, in his budget speech the following year, he said: "We should deliberately budget, as a matter of policy, for substantial surpluses in times like these. Only that way can we hold inflationary forces in check."<sup>20</sup> It is significant that it was in 1947 and 1948 that there occurred the first federal revenue surpluses for five years.<sup>21</sup> It is equally significant that in these years there was a substantial cut-back in the amount of money invested in the economy by the Federal government through the Central Mortgage and Housing Corporation and the Industrial Development Bank.

Up to this point, the Dominion Government had been more concerned to use fiscal rather than monetary policies to stabilize the economy. With the severe inflation of the years 1951 to 1954 (largely a by-product of the Korean War), the government however began to make full use of all powers in its control to counteract the prevailing economic tendencies. "Among the anti-inflationary measures" for example, "adopted following the outbreak of the Korean War (1951-52) were important restrictions on consumer credit and more stringent terms of

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<sup>19</sup> House of Commons Debates, 1947, p. 2553.

<sup>20</sup> House of Commons Debates, 1948, p. 4063.

<sup>21</sup> National Accounts, 1926 - 1956, p. 76.

mortgage and credit."<sup>22</sup> At the end of this period, Mr. Harris, in his budget speech of 1955, said: "Let me add at once that I do not think that fiscal policy is the only means of promoting economic stability and expansion . . . Monetary policy . . . and policies relating to resource development and basic income maintenance are equally important!"<sup>23</sup>

More recently, however, it has been unemployment which has again become the main fear of the Federal government. A recession set in during the latter half of 1957 and, except for a slight improvement in 1958, it has since deepened. The central government has found it necessary, therefore, to return to a policy of budget deficits. In 1958, for example, the government made reductions in the personal income tax and increased expenditure by greater welfare payments and transfers to the provinces.

"The most important forces stemming the decline in business activity during 1958," Mr. Fleming said in his budget speech of 1959, "were to be found in the fiscal policy and position of the federal government -- lower tax rates, higher expenditures and increased cash disbursements particularly in housing loans."<sup>24</sup>

There is in this, of course, much of the political boast. But at the least it clearly shows that to formulate anti-cyclical measures was still the firm intention of the central government. That intention is also demonstrated by an examination of the figures for federal construction totals in the years 1952 and 1961 (estimated). For

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<sup>22</sup> National Accounts, 1926 - 56, p. 22.

<sup>23</sup> House of Commons Debates, 1955, p. 2733.

<sup>24</sup> House of Commons Debates, 1959, p. 2404.

without fail the federal payments for construction purposes have decreased at time of inflation (1952-54 and 1956-57) and increased in time of depression (1955 and 1958-61).<sup>25</sup>

The necessity for national and unified economic policies against unemployment and inflation has been recognized by no people more than many of the Provincial Premiers themselves. They are aware of the need for federal initiative and control of such policies and of the fact that these policies can only be put into effect by the Federal government with its wide taxing and borrowing powers. At the Dominion-Provincial Conference of July, 1960, Premier after Premier exhorted the federal authorities to undertake more active steps against unemployment -- steps ranging from tax cuts to an increased programme of winter-works. In the words of Lesage, "it would be very unrealistic on our part to believe that we, in the province, can solve the problem of unemployment by ourselves, even with the collaboration of the municipalities. We need the initiative and direction of the Federal government."<sup>26</sup>

The desire of the Commonwealth government in Australia to use its taxing and credit powers to maintain economic stability is equally clear. In that country, however, after the initial post-war fear of unemployment, the main fear of the government has been consistently of

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<sup>25</sup> National Accounts, 1926 - 1956  
1954 - 1958

<sup>26</sup> Dominion-Provincial Conference, July, 1960, p. 125.

inflation. The tremendous economic development in Australia -- about a quarter of the national income has been ploughed back each year into new industrial investment -- has encouraged a degree of overfull employment and inflationary pressure. This has aggravated and has itself been aggravated by the extremely vulnerable Australian Balance of Payments position.

Even more than their Canadian counterparts, therefore, the Australian politicians were caught off-balance at the end of the war. "The rapidity with which transition from a war economy to a peace economy of boom proportions developed was totally unexpected, and it is probably true to say that Australia was less prepared than other leading western countries to meet the new situation."<sup>27</sup> It was only when inflation reached alarming proportions around 1950 that the Commonwealth government really began to exercise anti-cyclical policies.

In 1951, the Treasurer, Robert Holt brought in the "horror" budget which, to counter inflation, provided for sharp increases in taxation and "drastic economies". Ratchford quotes part of Holt's budget speech:

"On the expenditure side there is the strongest possible case for eliminating every item that can be dispensed with . . . Plainly the occasion calls for the most drastic and thoroughgoing review of public expenditures to determine what is irreducible and what is not."<sup>28</sup>

An even more notable attempt to check inflation which reached a peak

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<sup>27</sup> Sir Douglas Copland, Conflict of Expansion and Stability, (Melbourne, 1957), p. 1.

<sup>28</sup> Budget Speech 1951-52, p. 4, quoted in B.W. Ratchford, op. cit., p. 254.

again in 1955 and 1956 was the supplementary budget brought in by the Prime Minister in March of the latter year. Under pressure from eight leading Australian economists,<sup>29</sup> the government again made severe tax increases. It combined this with proposals for higher interest rates.

The only time when a certain slackness threatened the Australian economy was in 1958 and the budget for that year accordingly proposed a deficit of £110 million.<sup>30</sup> But with the renewed signs of over-employment and inflation in 1959 and 1960, the Commonwealth returned to a policy of budget surpluses. In his budget speech in 1960, Treasurer Holt said that again to counter inflation it was his aim to keep expenditures to a minimum, to increase taxation to yield an additional £40.9 million a year and to restrict severely bank advances.<sup>31</sup>

Meanwhile, as already noted, the Commonwealth was using its power over the Loan Council to keep public borrowing at a fixed level in the years of inflation between 1951 and 1958. It is significant that it was only after the relatively "slack" year of 1958 that the central government agreed to allow the limit of the Loan Council Fund to be raised from £200 million per annum to £220 million.

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29 P. H. Karmel, "The Economists Plan" in Business and Society, (Summer School of Business Administration, 1956, University of Adelaide, Adelaide, 1958), p. 12.

30 Journal of the Parliaments of the Commonwealth, Vol. XI, No. 3.

31 Op. cit., Vol. XII, No. 3.

The question of how effective, how well-designed, and how well-timed these anti-cyclical policies of the Canadian and Australian central governments have been is still, of course, a matter of political and academic controversy. J. Harvey Perry concludes, for example, that: "Obviously our experience suggests very strongly that not only do we have much to learn yet about the role of each of the two main kinds of policy (i.e. fiscal and monetary) but we have even more to discover of the proper relationship of one to the other."<sup>32</sup> Yet wholly effective or not, the relevant point here of these policies is this. At a time when Canadians and Australians seek, first and foremost, economic stability, it is the central government which has set itself up as the agency through which that stability can be achieved.

### III. LONG-TERM POLICIES

The new philosophy demanded, it will be recalled, not only these anti-cyclical policies but also economic policies, conveniently called long-term.<sup>33</sup> The central governments were to ensure not only economic stability from year to year but were also to encourage actively the conservation and development of natural resources. They were to ensure that the whole economy was expanding.

It was previously noted that long-term governmental activity of

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<sup>32</sup> J. Harvey Perry, "Recent Fiscal Policy", Canadian Tax Journal, Vol. V, No. 4, July-Aug. 1957, p. 298.

<sup>33</sup> Cf. above p. 37.

this sort had possibly been more common in Australia and Canada before 1939 than in most other countries.<sup>34</sup> But it must be emphasized that that activity had been undertaken almost solely by the local governments. Only in Canada and only for a short period after Confederation had a central government in either of these countries previously taken a significant part in long-term economic policies. The position since 1945, however, has radically altered. Again using their wide taxing and monetary powers, it is the central governments which have taken the initiative and have directed the massive post-war effort to develop and expand the economies of Australia and Canada.

Central governmental activity of this sort can be seen in the post-war aid given to both industry and agriculture. Both the Dominion and Commonwealth governments began for the first time to give easy credits and direct subventions to various industries. In Canada, this was achieved largely through the Industrial Development Bank; in Australia largely through the Industrial branch of the Bank of Australia.

The Commonwealth especially has been active in this sphere. In 1946, a Department of National Development was established. It was to provide finance, at low rates of interest, for the establishment and development of industrial undertakings and "to advise on their operations with the object of promoting efficiency in their organization and conduct". In this work, there has been close co-operation between the Commonwealth and the States.

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34 Cf. above p. 34.

"There is close collaboration in regard to matters of common interest affecting manufacturing development and the Commonwealth department of national development works in close accord with state authorities in pursuing common aims."<sup>35</sup>

Besides, since 1945 the central governments have undertaken to give straight subsidies to key industries which are in ill-health. The most notable example, of course, has been the large subventions given by the Dominion government to the depressed Nova Scotian coal industry. Yet it has not been for their direct aid to industry that the recent long-term economic policies of the central governments have been noted. Much more significant has been the part which they have played in the development of agriculture.

Constitutionally, control of agriculture in Canada is held concurrently by the Dominion and provincial governments.<sup>36</sup> In practice, after the initial period of Dominion land settlement policies, up to 1939 it was almost completely under provincial direction. But again, as so often, the experiences of the 30's and the ideas to which these experiences gave rise changed the situation dramatically. Even by the end of that disastrous decade, the federal government found it necessary to come to the aid of farmers. In the early pioneering days of over-enthusiasm, far too much land had been settled -- land in many cases which was subject to drought and only of marginal use for crops. The

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<sup>35</sup> Division of Industrial Development, Structure and Capacity of Australian Manufacturing Industries, Appendix I, p. 471 (Melbourne, 1952).

<sup>36</sup> B.N.A. Act, cl. 95, op. cit. p. 31

policy which the central government had to undertake, therefore, was to encourage schemes of irrigation and conservation of the soil, whereby marginal land could be brought into effective use. Besides, it had to aid farmers in the process of making a more intensive use of their land: of increasing the produce per acre. H. H. Hannan, President of the Canadian Federation of Agriculture, has claimed that the developments in agriculture since 1945 have formed "an agricultural revolution".

"The most revealing aspects of this revolution," he says, "include . . . the increase in the average size of farms, the changes in the kinds of power used by farmers to produce crops and animal products, the increase in capital invested in farm machinery and equipment and the larger purchases of fertilizers."<sup>37</sup>

Only by effecting such a "revolution", indeed, have the Canadian farmers been able to recover from the 30's and continue raising their standard of living in the post-war era. But, together with schemes for irrigation and conservation, all these developments needed money, a large part of which could only come from the Dominion government, either in the form of loans or direct aid.

The first real stage in the agricultural activity of the Federal government was the passing of the Prairie Farm Rehabilitation Act in 1935 "to promote better utilization of land and to develop surface water, resources for stock-watering, domestic use and irrigation of crops."<sup>38</sup>

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<sup>37</sup> H.H. Hannan, "The Revolution in Canadian Agriculture", Special article in Canada Year Book, 1960, p. 435.

<sup>38</sup> R.S.C. 1952, Vol. IV, c. 213, pps. 4339-4346.

The significance of this Act was not, however, seen until after the war. For, since 1945, its scope has been greatly enlarged. Under its terms, the Federal government has given aid for no fewer than 50,000 individual farm schemes of irrigation, and has, besides, aided other major schemes of irrigation and reclamation. One of the most outstanding of these is the South Saskatchewan River Project, started in 1958. Before this Project is complete, it is estimated that the Federal government will have spent on it close on a \$100 million.

Equally as important has been the easy credit which the Dominion government has made available to farmers. The increase in the amounts lent by the government in recent years has been astounding. This is illustrated by a short Table.

TABLE XIII  
FEDERAL LOANS TO FARMERS

Year Ended March 31st	Total Amount of Loans Paid Out Under Canadian Farm Loan Act \$
1952	4,464,092
1953	5,108,559
1954	7,000,539
1955	8,207,002
1956	8,254,322
1957	13,183,992
1958	19,343,560
1959	28,368,265

Source: Canada Year Book, 1960, p. 443.

Moreover, federal loans such as these will increase yet further in the near future. For, in 1959 the Canadian Farm Loan Act was repealed and a new act -- the Farm Credit Act -- was passed whereby provision is made for much broader federal lending powers. Finally, since the war, the Federal government has given increasing direct money payments to farmers in distress. These payments are made under the Prairie Farm Assistance Act which was first passed in 1939, and they have been continually increasing in numbers and size since then.<sup>39</sup> In addition, after the severe drought of 1957, the Federal government paid each grain producer in the West a sum of \$1 for each acre seeded in 1958, up to the amount of \$200. This special payment amounted to \$40.<sup>40</sup>

In Australia, the Commonwealth government has given aid to agriculture in exactly the same three ways and for exactly the same reasons. These reasons were clearly spelled out in the numerous reports prepared by the Rural Reconstruction Commission in 1945. As in Canada, the reports made it clear, Australian farming could only keep abreast with the times if there was a great increase in capital expended on improving farms and buying machinery and fertilizers: if there were large projects for irrigation and reclamation. The central government, which by the Australian constitution has no powers over agriculture, determined to give the farmers the necessary aid by collaborating closely with the

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<sup>39</sup> Payments in 1959 under this Act totalled over \$23 million.

<sup>40</sup> This payment was made under the Western Grain Producers Acreage Payment Regulations (Order in Council PL. 1958/1442), Canada Year Book, 1960, p. 442.

states. There would, in other words, be a combination of federal money and the states' constitutional powers. In 1946, for example, a conference between the Commonwealth and the states agreed to revive the Irrigation Advisory Committee (first established in 1938) and through this Committee many important projects have been undertaken. The most outstanding result in this field of commonwealth-state co-operation has been the Snowy Waters Hydro-Electric scheme. This, of course, was undertaken very largely for the amount of power which it would produce. But it was also intended that the scheme should allow the irrigation of a huge area of farmland. The estimated Commonwealth contribution to the Mammoth project will be no less than £420 million. Again there are signs, as in Canada, that central government intervention in the agricultural field will increase yet further. In the Crown Speech of March 8th, 1960, the Commonwealth government proposed to make "massive assistance" to the government of West Australia in its attempt to develop farmland north of the twentieth parallel.<sup>41</sup>

But if the participation of the central governments in the development of agriculture has been a notable feature of the post-war era, it has been overshadowed by the part which they have played since the war in transportation schemes.

With their huge areas and small populations, transport of course is a key factor in both Canada and Australia, and in the words of the Gordan Commission, "it is not surprising in view of its central economic

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<sup>41</sup> Journal of the Commonwealth Parliaments, Vol. XLI, No. 1, p. 16

importance to Canada (and equally to Australia) that the subject of transportation has been closely interwoven with the political life of the country throughout its history."<sup>42</sup> Certainly this has been an area where governmental activity has been crucial in both countries.

In Canada, the constitution gave the Federal government control over "Lines of Steam or other Ships, Railways, Canals, Telegraphs and other Works and Undertakings connecting the Province with any other or others of the Provinces or extending beyond the Limits of the Province."<sup>43</sup> This entailed a considerable amount of federal control long before 1945, especially over the railways. Federal legislation to determine freight rates, for example, date from the early part of the century. Yet for all that, federal activity in transportation schemes since the war is immensely greater than anything before. R. D. Howland remarks on the "high incidence of projects related to the improvement of transportation facilities in the resurgence of activity designed to give further encouragement to Canada's economic growth in recent years -- the St. Lawrence Seaway, the Trans-Canada Highway and expanded sea and airport facilities."<sup>44</sup> In every one of these important projects, the Federal government has had a major share. In the building of the St. Lawrence Seaway, for example, the Federal government gave credits amounting to \$329 million.<sup>45</sup> Towards the construction of the Trans-Canada Highway,

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<sup>42</sup> Op. cit., p. 268.

<sup>43</sup> B.N.A. Act, cl. 92, 10(a), op cit., p. 28

<sup>44</sup> R. D. Howland, op. cit., p. 63.

<sup>45</sup> Round Table, June, 1959.

still uncompleted, it contributed \$59 million between 1954 and 1957, and \$154 million between 1957 and 1960. Federal participation in transportation projects of such a size as this had not been seen in Canada since the early federal support for the building of the railways last century.

But apart from these huge schemes, the Federal authorities have been showing initiative in giving aid to countless smaller projects. Only the most recent of these has been the "roads to resources" programme introduced by Prime Minister Diefenbaker at the Dominion-Provincial Conference in 1957.<sup>46</sup> Already the Federal government has spent a considerable amount of money under this programme to assist the construction of roads leading to newly-found mineral deposits.

The developments in transportation since 1945 have been even more remarkable in Australia. Constitutionally, the Commonwealth was given no right of control over any transportation matter (except in emergency). Unlike in Canada, for example, it has been the state governments in Australia which have directed the railways. The increased Commonwealth participation in this field since the war, therefore, demonstrates again the fact that in studying the real forces behind centre-local relations too much attention should not be paid to the formal constitution. And again collaboration with the States has often been the method by which the Constitution has been rendered less effective.

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<sup>46</sup> Proceedings of the Dominion-Provincial Conference, 1957, p. 11.

There are, however, two areas of transportation where the Commonwealth now exercises power due to favourable interpretations of the constitution. In the first place, during the war and shortly thereafter, the Commonwealth entered the field of coastal shipping. Today it owns over a quarter of the coastal vessels and consequently has an extremely strong interest there. Likewise since 1945, the Commonwealth has entered the field of aviation. In 1946 it acquired the shares of Qantas Empire Airways and later formed the Trans-Australian Airlines for domestic traffic. Together, these national airlines carry the bulk of Australian air traffic.<sup>47</sup>

In both coastal shipping and aviation, therefore, the Commonwealth has taken direct control. In the construction and maintenance of highways, however, it has increased its participation by collaboration with the States.

As far back as 1923, the Commonwealth began paying grants to the States to aid them in building roads. But again it is the increase in the scale of such grants which is the remarkable post-war development:

TABLE XIV  
COMMONWEALTH ROAD GRANTS TO STATES  
(expressed in £ 000's)

1938 - 39	4,266
1948 - 49	6,105
1953 - 54	16,457
1955 - 56	26,517
1957 - 58	33,427

Source: Commonwealth Statistician's Finance Bulletins

<sup>47</sup> It should be noted that the judicial decision which allowed the Commonwealth to establish an inter-state air-line, at the same time prevented it from giving its instrumentality (i.e. Trans-Australian Airlines) a monopoly. Cf. Airways Case, 71 CLR 29.

More significant perhaps is the fact that whereas Commonwealth grants represented about 20% of all expenditures on road construction in 1938-39, in 1957-58 they represented about 35%. Moreover, in 1959 the Commonwealth introduced a new "five-year plan" for aid to road construction. It proposed to spend £250 million for this purpose between 1959 and 1964 and promised in addition supplementary "matching" grants.<sup>48</sup> It has been estimated that this will mean the central government will now be undertaking almost half all road construction payments.<sup>49</sup>

Clearly, the Commonwealth has become a major force in Australian transportation. The trend is likely to continue. Two recent official surveys have lamented the unsatisfactory state of present Australian transportation and have suggested that improvement may only come if the Commonwealth further increases its powers, especially over the almost bankrupt State railways.<sup>50</sup>

There are three other areas of economic activity in which the pattern of increased central governmental participation since the war can be discerned. These will be mentioned only briefly in order to give further proof of the recent desire of the Dominion government in Canada and the Commonwealth government in Australia to take the initiative in encouraging the long-term expansion of the economy.

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<sup>48</sup> Budget Speech, 1959, p. 23

<sup>49</sup> cf. for a discussion of this, cf. Round Table, September, 1959

<sup>50</sup> cf. Report of Government Members, Rail Standardization Committee, 1956, and Commonwealth of Australia, "Australia", 1956: An Economic Survey.

Private construction employs a very high proportion of Canadian and Australian workers. A boom in house-building, therefore, apart from its social benefits, is a tonic to the whole economy. Consequently, the interest which the central governments have shown, since the war, in encouraging the construction of houses must be viewed as a part of their long-term economic policies. The method favoured by both central governments has been to make loans readily available, on easy terms, to the private or local government contractors. The agency through which the Canadian Dominion Government has worked is the Central Mortgage and Housing Corporation, set up in 1945. In his budget speech of 1959, for example, Mr. Fleming said:

"In addition to the expenditures for government services that are charged to the budgetary accounts we have made many very substantial loans and advances. During the fiscal year these outlays amounted to \$1,760 million and included important loans and advances of \$336 m. to the C.M.H.C."<sup>51</sup>

The fact that the government clearly recognizes the economic effects of its housing policy was demonstrated by the supplementary budget (baby budget) introduced by Mr. Fleming in January, 1961. For here as a main part of its conscious effort to revive the economy, the government proposed to ease the terms upon which the C.M.H.C. offers its loans.

In Australia, A Commonwealth Housing Commission,<sup>52</sup> appointed in 1943, recommended that the Commonwealth should assist housing programmes.

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<sup>51</sup> House of Commons Debates 1959, p. 2409.

<sup>52</sup>For a discussion of the work of this Commission, cf. A. Davies and G. Serle (eds), Policies for Progress, (Melbourne, 1954).

In 1945, the Commonwealth for the first time made arrangements to do so. In November of that year, it entered into an agreement with the States whereby the former would use its borrowing powers<sup>53</sup> to provide loans for, and the latter would undertake the building of, housing projects. Besides, the Commonwealth agreed to underwrite 66% of any losses incurred by the States in completing such projects. The whole agreement was renewed in 1956 and over \$35 million is now being advanced by the Commonwealth per annum under its terms.

Control of fuel and power is another area where central governmental activity has increased. Here, the developments in Canada have been more remarkable than those in Australia. In recent years, the Dominion government has taken a great share in all the major power projects in the country. In the two most recent of these, the Columbia River Scheme and the ~~Blackwood~~ <sup>Beechwood</sup> power project in New Brunswick, it has been estimated that the Federal government will pay about \$78 million out of a total cost of \$182 million. Federal aid to the Beechwood project is extremely remarkable since, unlike the Columbia River project, it is purely a provincial scheme. Again, the important Atlantic Provinces Power Development Programme has had strong backing from the central government, without whose aid indeed the project might well have been still-born. Since 1959, the Dominion has already contributed over \$13 million. Federal activity is also seen in the development of power

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53 Cf. above p. 92-94.

from coal as well as from water. In 1947, the Dominion Coal Board was established "to recommend to the government policies concerning the production, import, distribution and use of coal."<sup>54</sup> Its advice has been important and has resulted in large direct federal subventions being paid to the depressed Maritime coal industry.<sup>55</sup>

Perhaps the most outstanding move by the Federal government, however, has been its recent attempt to co-ordinate all its post-war activity in this crucial field of fuel and power. In 1957, Prime Minister Diefenbaker proposed the erection of a permanent National Energy Board from a commission which had "been investigating Canada's natural resources in the form of oil, natural gas, coal, water, and uranium." Two years later the proposal was finally acted upon and such a Board was set up "for the broad purpose of assuring the best use of energy resources in Canada".<sup>56</sup> It is, of course, too early to say yet how important or how effective the Board will be.

In Australia also, the central government has directly entered the field of fuel and power. In 1947, for example, the Joint Coal Board between the Commonwealth and the government of New South Wales was created, to ensure that the coal of that state (the most important state for

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<sup>54</sup> Dominion Coal Board Act, R.S.C. 1952, c. 86.

<sup>55</sup> The subventions are paid under the terms of The Atlantic Provinces Power Development Act, S.C., 1957-58, c. 25; and The Maritime Coal Production Assistance Act, R.S.C. 1952, c. 173.

<sup>56</sup> National Energy Board Act, S.C. 1959, 7-8 Eliz II, Vol. I, c. 46.

coal-mining) is "conserved, developed, worked, distributed and used to the best advantage in the public interest". The Commonwealth has also taken direct administration of certain electric power installations and oil refineries.<sup>57</sup> Besides, as in Canada, the Commonwealth has participated in the building of large post-war power projects. The most important of these, the Snowy Waters Hydro-Electric Scheme, and the massive central contribution to its construction, has of course already been mentioned in another context.<sup>58</sup>

Continued long-term economic expansion demands above all a growing population. It needs this both to supply a larger market and also to provide an increasing work force. Central government encouragement of and assistance to immigrants into Australia and Canada may also be seen therefore as part of their long-term economic policies. It may well be argued, however, that immigration assisted by central government is no new development in either of these countries. This is true. Indeed, one of the main reasons for Confederation in both countries was the desire that a single government should direct, regulate, and assist immigration. Yet again, at least in Australia, the scale upon which this has been effected since 1945 forces us to believe that in the post-war period the central government has had a completely new realization of its powers and obligations. A Table will best illustrate this:

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<sup>57</sup> For a full discussion of Commonwealth economic administration, cf. T. H. Kentley, "Australian Commonwealth Government Corporations", Public Administration (Sydney) March, 1950.

<sup>58</sup> Cf. above p. 108.

TABLE XV  
ASSISTED MIGRATION TO AUSTRALIA

Period	Net Migration	Assisted Immigration
1926 - 30	129,707	99,403
1931 - 35	-10,886	790
1936 - 40	43,128	3,829
1941 - 45	7,809	---
1946 - 50	353,084	292,416
1951 - 55	413,824	364,242
1956 - 61 (est.)	372,445	329,851

Source: Commonwealth Year Book, No. 26, p. 784  
No. 38, p. 576  
No. 45, p. 319

Cf. also Round Table, March, 1956.

In fact, the total amount of assisted immigration by states and Commonwealth from the earliest days to 1947 barely equals the amount of assisted immigration by the Commonwealth alone in the thirteen years since then.

That this burst in assisted immigration has been a conscious part of Commonwealth economic policy is seen time and again by statements from leading Commonwealth politicians. This view was expressed, for example, by Mr. Calwell in a speech on the government's immigration policy in 1946.<sup>59</sup> As recently as 1959, Treasurer Holt, in his budget

<sup>59</sup> Parliamentary Debates, 22nd Nov. 1946, p. 511.

speech, said: "Population is an important element in economic growth and the government has decided to adopt a target for a gross intake of 125,000 people, 10,000 more than last year".<sup>60</sup>

Clearly, then, the central governments have taken seriously their obligation since 1945 to foster the long-term economic expansion of their countries. They have done this by means of direct financial assistance, by offering easy credit and in some cases, by themselves taking over the administration of economic concerns. Their public investment in industry, agriculture, housing, transport, power projects and assisted immigration forms a total amount which can go a long way to determine the future development of the Canadian and Australian economies.

Whether the long-term policies of the central governments have been or will be successful is a matter of controversy. But again, the important point is that the central governments in Canada and Australia, using their wide taxing and borrowing powers, have consciously attempted to take the initiative, not only in providing short-term economic stability but also in long-term planning for continued economic expansion.

#### IV. PHYSICAL CONTROLS

To achieve short-term economic stability and long-term expansion, however, it has been widely recognized that fiscal and monetary controls

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<sup>60</sup> Budget Speech, 11th Aug., 1959.

alone might not be sufficient. The British Radcliffe Report suggests that in certain circumstances what it calls "physical controls" might be necessary. By these it means controls such as enforcing quota systems, rationing of goods, price controls and marketing arrangements. The intervention in the economic life of the country is here more direct than monetary and fiscal measures, and usually governments which emphasize the blessings of free enterprise are extremely wary of exercising them. It is all the more remarkable, therefore, that such governments in Canada (both Conservative and Liberal) and in Australia (Liberals) have accepted controls of this sort.

They have done so mainly in the field of primary production and the reason for their action is obvious. It has been noted before that agriculture (in the widest sense) was disastrously hit in the 30's in both Australia and Canada. It was seen that this was partly due to the over-settlement of marginal land, susceptible to drought. But it was also due to the collapse in the international market for primary produce. Clearly, to ensure stability for farmers and pastoralists, direct governmental intervention was necessary. As the Gordon Commission Report said in retrospect:

"because of the exceptionally wide fluctuations in the markets for farm produce and farm prices, and the dominant influence which these prices exert on farm income, we think there has been ~~(is)~~ ample justification for farm prices being supported by governments." 61

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61 Op. cit., p. 176.

Again it was the experience of the war which provided the example to be followed in the years after 1945. For it was during the war that the central governments first began to control the markets and fix the prices for primary produce.

In Canada, it is true, a national Wheat Board had been established in 1936 in order to guarantee a fixed minimum price for wheat, backed by the Federal government.<sup>62</sup> But, as Fowke points out, the Board was at first purely voluntary in its methods.<sup>63</sup> In other words, farmers could choose to accept or reject the guaranteed price offered them. The consequence was that the Board always offered an unrealistically low price which most producers rejected, preferring to continue to bargain in the precarious free market.

The important change came during the war in 1943. In that year, it was decided that the prices guaranteed by the Wheat Board should be compulsorily accepted by all producers.<sup>64</sup> Thus now the Board exercised complete control over the price of all wheat.

Despite all this, there were many who thought that with the end of war, price and marketing control would end. U. C. Fowke, for example,

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<sup>62</sup> Canadian Wheat Board Act, S.C., 25-26, Geo V.

There had also been a Wheat Board in existence during the First World War.

<sup>63</sup> V.C. Fowke, Canadian Agricultural Policy, (Toronto, 1946) p. 264.

<sup>64</sup> Report of the Canadian Wheat Board, Crop Year, 1943-44, p. 3; and Britnell and Fowke, "Development of Wheat Marketing Policy in Canada", in Journal of Farm Economics, XXXI, No. 4, Nov. 1949.

writing in 1946, declared that:

"The persistence of doubt concerning the degree of permanence in Dominion agricultural policy arises mainly from its lack of theoretical or conceptual content. There should be a recognition of the competitive disabilities of agriculture within the price system and a decision to remove them."<sup>65</sup>

He prophesied a quick return to the "chaos of the free market", but he was soon proved wrong. In 1947, another Canadian Wheat Board Act was passed continuing the Board as the sole agency for the marketing of wheat. Indeed, two years later the central Wheat Board actually extended its price and marketing operations from wheat to oats and barley.

But besides this, the Federal government has evolved since the war another more indirect method of controlling agricultural prices. Under the Agricultural Prices Support Act (1944) and the Agricultural Stabilization Act which succeeded it in 1958, the Federal government undertook to support the prices of all crops at certain calculated levels. If the markets are good, of course, this support becomes unnecessary, as farmers can obtain higher prices in the free market. But in bad times, the calculations of the Administrative Committee (appointed by the government under the terms of these Acts) will determine the price-levels of almost all crops.

It is strange that the amount of price and marketing control should even be greater in Australia than in Canada. For, as has already been noted, the Commonwealth government has no constitutional right

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<sup>65</sup> V. C. Fowke, op. cit., p. 296.

to legislate on agriculture.<sup>66</sup> But here again, the terms of the constitution are avoided by various methods. One method employed by the Commonwealth has been to make a large number of international trade agreements, similar to those made by the Dominion government in Canada. These agreements it can enforce because of its power, in the constitution, "to make laws with respect to Trade and Commerce with other countries". Thus, the Commonwealth concluded International Wheat Agreements in 1949, 1953, 1956 and 1959, International Sugar Agreements in 1953 and 1958, and a fifteen-year meat agreement with Great Britain in 1952. All these agreements, demanding a set amount of Australian produce yearly at a fixed guaranteed price, allow the Commonwealth to exercise considerable direct control over producers.<sup>67</sup>

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<sup>66</sup> For all this section, J. G. Crawford et al., Wartime Agriculture in Australia and New Zealand, (Stanford, 1954).

<sup>67</sup> The importance of such agreements will be recognized if certain figures are kept in mind. In the year 1957-58, the sales of Australian wheat guaranteed by the Wheat Agreement amounted to almost a third of the total Australian Wheat production for that year. In the same year, the sales of Australian sugar guaranteed by the Sugar Agreement was in fact slightly more than half total Australian sugar production for that year. With such a huge percentage of these crops being exported at a fixed price, it was natural that there should be pressure for the rest of the crop to be sold at that price.

Source: Commonwealth Year Book, 45, pps. 905 and 880.

A second method employed by the Commonwealth to avoid the terms of the constitution has been the extension into peace-time of powers given to it during the war. The Australian Wheat Board was constituted at the end of 1939, under Defence regulations, "to purchase, sell or dispose of wheat". But it continued to operate unquestioned when the war was over. Indeed, the Commonwealth went further and, in 1948, passed a comprehensive Wheat Stabilization Act. According to this, the Wheat Board was specifically stated to be the "sole constituted authority for the marketing of wheat within Australia and for export from Australia". Besides, by this Act, the Commonwealth guaranteed a return of 14/6 a bushel to growers on up to 100 million bushels of wheat exported each year.

The third and possibly most important method of avoiding the constitution is that employed most often by the Commonwealth -- collaboration with the States. It is, in fact, in this way that the Commonwealth has been able in practice to ignore the decision of the High Court in 1948 that the Commonwealth should abandon price controls. The most notable example of collaboration has been in the sugar industry. By an agreement passed in 1948<sup>68</sup> between Queensland, the state in which all Australian sugar is produced, and the Commonwealth, the production and price of that commodity is strictly controlled. The state uses its power to buy all sugar produced and pay the refineries a fixed price. The Commonwealth agrees to underwrite any loss which the state

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<sup>68</sup> It was renewed in 1956 for five years.

may incur by paying these prices. A more perfect example of the marriage between the Constitutional power of the State and the financial power of the Commonwealth could not be imagined. A roughly similar situation can be seen in the price-control of tobacco and in the dairy industry.

Despite constitutional objections, therefore, here is another area of activity in which the experiences of the 30's and the practice of the war have forced the central governments in Canada and Australia to participate. They have been forced to add "physical" controls to their increased fiscal and monetary powers.

#### V. GENERAL OBSERVATIONS

"Governments," writes J. Harvey Perry in his report to the Canadian Tax Foundation, "have assumed a role in our times that would have shocked our forefathers. Most economists of my own vintage associate this new role with the writings of J. M. Keynes, but anyone who can recall the depression of the 30's will realize that a new attitude on the part of government towards the economic life of the nation was inevitable. This realization rooted in a growing concern with the harsh realities of needless economic distress and channelled into specific programmes of action by a new school of economists, has brought a revolution in our times. The result of this revolution is now clear to see for all who will read; and it is this -- governments the world over have now assumed responsibility for the economic well-being of each individual citizen, no matter what his circumstances."<sup>69</sup>

The developments in post-war economics could not be described more precisely and concisely than that. But the crucial point in all this for the federal states of Australia and Canada is the fact that

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<sup>69</sup> Canadian Tax Foundation, Report 1958, p. 18.

it has been of necessity the central governments which have assumed the "new role". It is they who have undertaken "the responsibility for the well-being of each individual citizen". It is they who have used all powers at their command to exercise Keynesian economic policies. The consequence for centre-local power relations has been immense. Between the wars, what governmental control there was in economic affairs lay in the hands of the local governments -- today it is the central governments which hold the initiative. In the 20's and 30's the economic life of individuals was hardly affected by what the Federal government did or did not do -- today the economic policies of the central governments affect them at every turn. The farmer, who before the war, managed his affairs, aided and controlled, if at all, only by local governments, has been in a totally different position since 1945. Now he buys expensive machinery and fertilizers using the easy credit offered him by the central governments; now how much he sells and how much he gets for what he sells is determined by central agencies; now if he runs into hard times, it is central government aid which saves him. And what applies to the farmer applies to almost every other type of Canadian and Australian worker. No one can ignore or escape from the consequences of the economic policies of the central governments. Clearly there has been a strong tendency to centralisation in the economic life of Australia and Canada since 1945. (See APPENDIX III).

What is perhaps not so obvious is the fact that in the post-war economic developments, a trend of equalisation may also be discerned. In fact, just as the central governments used their increased tax powers to effect measures of equalisation between the various regions, so also have they used their short-term and long-term economic policies.

Many of the central economic grants to the local governments, for example, have had an equalising effect. Up to 1959, this was especially true of the important Commonwealth aid to state road construction. These highway grants were paid in a way that Tasmania got 5% of the total amount, and the rest was distributed according to a formula whereby the difficulties of terrain were taken into as much consideration as population. The state of Victoria claimed that while its motorists were contributing about £19 million p.a. in petrol taxes, it received less than £7 million by way of the road grant. The three "claimant" states, on the contrary, received far more from the road grant than they paid out in petrol taxes. Equalisation of a sort — taking the need of the states into consideration — was therefore achieved. But it has also been true of much of the central governmental aid to industry, both secondary and primary. Special encouragement has been given to those areas which have been economically backward. The special subventions to the Maritime coal industry, administered by the Dominion Coal Board are, of course, an obvious illustration. So, too, has been the helpful assistance given by the Federal Department of Fisheries to the fishing industry in Newfoundland.<sup>70</sup>

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70 R. D. Howland, op. cit., p. 14.

There is in fact strong pressure that equalisation exercised through central economic policies should increase especially to help the economically backward Atlantic provinces in Canada. The Gordon Commission, for instance, found that the lag in economic activity in the Atlantic Region was due to the slow rate of new capital investment in the region. It recommended, therefore, that "the federal government agree to contribute a substantial sum for capital projects in the Atlantic area to be spread over a relatively short period of years. The purpose would be to cover the costs of necessary capital investments, some or all of which would normally be the responsibility of the provincial governments."<sup>71</sup> Again, in the words of R. D. Howland: "the improvement of the Atlantic provinces depends upon an expensive co-ordinated scheme to improve resource industries and to encourage investment into these by specific transportation concessions."<sup>72</sup> Such a scheme can only be initiated by the Federal government. Already the pressure has had effect and in 1958, the Federal government agreed to give full financial backing to the ambitious Atlantic Provinces Power Development scheme. Besides, the Federal government has greatly increased its transportation concessions to the Atlantic area.

But over and above all this, it would seem that both the Canadian Dominion government and the Australian Commonwealth government have been continually using their monetary power to effect equalisation. They have

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71 Op. cit., p. 314.

72 R. D. Howland, op. cit., p. 7.

made credit more easily available for industries going to depressed areas and they have more readily lent money for projects in economically backward regions. This development was foreseen by W. A. Mackintosh in 1939.

"It is not improbable," he said, "that monetary policy in the future may be much more a matter of choice than in the past - a choice to be exercised in the last analysis by the Dominion Government . . . That policy may have marked differential effects on regional income." <sup>73</sup>

His prophecy was accurate.

Finally, it is almost unnecessary to emphasize that the economic developments in Australia and Canada since the war have encouraged the third trend in centre-local relations - a tremendous interlocking of activity. In the postwar era, it has been the central governments which have taken the economic initiative. But it must never be forgotten that their initiative would have been totally ineffective in many cases without the co-operation of the local governments. If only to avoid the terms of the constitution, it was necessary that the central and local governments work hand in hand. The result has been the growth of a bewildering complexity of co-operative economic agencies and functions. One need only recall the great public works - the Snowy Waters Hydro Scheme, the Trans-Canada Highway or the St. Lawrence Seaway

73. W.A. Mackintosh, Economic Background to Dominion-Provincial Relations (Ottawa 1939) p. 100. An example of this equalising effect of central governmental monetary policy is to be seen in the allocation among the Australian states of the 1959-60 Loan Council loan works programme. This programme, of course, is greatly shaped by the Commonwealth government. (See TABLE XVI overleaf).

TABLE XVI  
 LOAN COUNCIL PROGRAMME OF 1958 - 59

State	Total Loans Approved £ 000	Total Loans Per Capita Rounded to Nearest £
N. S. W.	70,490	c. 19
Victoria	56,705	20
Queensland	26,230	19
South Australia	30,385	<u>33</u>
Western Australia	20,700	<u>29</u>
Tasmania	15,490	45

Source: Calculated from Australian Grants Commission, Twenty-Seventh Report, 1960, p. 100.

to see how closely the two levels of government have worked together. The price-support and marketing control programmes in Australia, the housing agreements and land irrigation projects in both countries, all have depended upon integration of central and local governmental activity.

It is perhaps trite to say that the modern industrial economy demands an increasing amount of interdependence amongst all parts of the economic life of a country. It is nonetheless true. For a federal state, this necessitates a complete co-ordination of governmental work. No longer can the different levels of government in Australia and Canada maintain distinct and independent economic policies. Directed from the centre, they must form a unified and coherent economic policy. For as Brady puts it: "with a further advance in industrialisation the need for efficient economic controls on a national basis and for a transfer of purchasing power from the wealthy to less wealthy will most certainly not decrease."<sup>74</sup>

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74 A. Brady, op. cit., p. 66.

## CHAPTER V

### LOOKING TO THE FUTURE

In its Final Report, the Royal Commission on Canada's Economic Prospects (1957) stated that "in our own interest we must make a significant original contribution to technological advance. This means expansion of support for research and of the numbers of qualified research scientists, and an adequate supply of the skilled workers necessary to apply the new knowledge."<sup>1</sup> The Commissioners realized that all the governmental attempts to encourage the long-term expansion of the economy would be of little avail if there was not graduate manpower to undertake research and money made available for them to do so and if there was not trained and skilled labour to work in the factories. Education is essential if a country wishes, economically, to look to the future. Consequently, greater participation in this field has been undertaken by the central governments in Canada and Australia. They appear to have realized that the new philosophy has placed upon them an obligation to intervene here as great as the obligation to formulate national economic policies.

Central government intervention in the field of education is not, of course, purely attributable to economic motives. In the words of the Canadian Royal Commission in the Arts, Letters and Sciences: "From a social point of view, the reforms initiated by the government in the last twenty years, in the field of family allowances and public health, may prove ineffectual and may even be jeopardized unless these reforms

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*Gordon Commission*  
1/Op. cit. p. 445.

are systematically broadened to include assistance in intellectual training."<sup>2</sup> And it continues: "democratic principles demand that as far as possible equal opportunity be given to all our young people, rural as well as urban. The most effective way to create this equality of opportunity is through a well-devised system of national scholarships."<sup>3</sup> The Commissioners' recommendations that the Dominion government should start to bear a part of the financial burden of education was based, therefore, on what might be called general social and democratic grounds as well as economic.

In fact, when the Massey Commission said that "democratic principles demand" national aid to education they were really emphasizing the pressure for equalisation. As in tax severity, economic conditions, social welfare, so in education there is a growing desire in both Australia and Canada for a nation-wide common standard. The length that some local governments are prepared to go to achieve such a common standard is seen by the fact that they are willing even to relinquish to the central government some of their educational powers -- powers which are today the bulwark of local government autonomy. "Above all," says Premier Stanfield of Nova Scotia, "we must not and we will not, neglect the educational needs of our children. They must have available to them the best educational opportunities that Canada can afford and

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2 Royal Commission in the Arts, Letters and Sciences, Report, p. 357. (The Commission was named the "Massey Commission" after its chairman, the Rt. Hon. Vincent Massey.)

3 Loc. cit.

offer. I say Canada, rather than Nova Scotia because this, of course, is a matter of national concern. I know that under the B.N.A. Act education is a provincial responsibility but if the province is financially unable to maintain a national standard of education because of its financial disabilities, then that must be a matter for the national government."<sup>4</sup>

Yet despite these pressures for national action, it still seems that the Dominion government in Canada and the Commonwealth government in Australia have launched into the field of education largely because they feel it necessary to do so to ensure economic development.

This is substantiated by the fact that the only two areas of education -- universities and vocational training -- where the central governments have intervened are precisely the two most directly affecting the economy. For, rapid Australian and Canadian industrial development needs most of all trained graduates and skilled workmen.<sup>5</sup>

In Canada, the first Federal government aid to universities came in 1952, largely as a result of the recommendations of the Massey Commission which reported a year before. The university grants were first paid on the basis of fifty cents per head of population in each province. But in 1956 the grant was raised to one dollar per head and

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<sup>4</sup> Proceedings of the Dominion-Provincial Conference, July, 1960, p. 38.

<sup>5</sup> This point is made time and again by the Gordon Commission, op cit., p. 445 et seq.

in 1958 to one and one-half dollars.<sup>6</sup> The increase in the university grants, therefore, has been remarkable, mounting from \$6,991,950 in 1952 to \$26,112,000 in 1960.<sup>7</sup> Besides, in 1957 the Federal government announced plans for the distribution of \$50,000,000 to universities and colleges for new construction and capital equipment projects. This University Capital Grants Fund is administered by the Canada Council and already nearly half the sum has been paid out.<sup>8</sup> Together, the annual grants and the special payments from the Capital Grants Fund form nearly half the income which Canadian universities receive from all government sources. Clearly, an important breach in the educational bridgehead of the provinces has been made.

The Dominion, however, had made an earlier intervention in education. Under the authorization of the Vocational Training Co-ordination Act, the Federal Department of Labour since 1942 has co-operated with the provinces in promoting vocational training, by sharing with the provincial governments the costs of establishing and operating various types of schools and training programmes designed to fit trainees for employment. There are four such cost-sharing programmes for vocational training and at first the Dominion agreed to pay 50% of the costs involved.

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6 This particular method of payment has been rather unjust to those provinces -- notably Nova Scotia and British Columbia -- which have a large number of students in relation to their total population. Quebec refused to accept University Grants from 1954 to 1959.

7 Public Accounts, 1952-1960.

8 For the setting up of the Canada Council and its other activities, cf. below p. 177.

In the recent "baby" budget of January, 1961, the Federal government announced that it would raise its share to 75%. But though this second post-war incursion of the Federal government into the field of education is of great potential significance for the future, its present importance must not be exaggerated. In 1960, total federal expenditure in this field did not exceed four million dollars.<sup>9</sup>

The financial plight of the Australian universities since the war has if anything been more acute than that of their Canadian counterparts. It is not surprising to find therefore, that in some respects the Commonwealth government has been more active in this field than the Dominion.

Before 1939, the Commonwealth gave only small sums to the universities for special research projects. But immediately after the war, it expended over a million and a half pounds on a special scheme for aid for university construction and equipment. As in Canada, however, it was only after a Committee of Enquiry had recommended the payment of regular annual grants to the universities that the Commonwealth in 1951 undertook such a scheme. To ensure that states and private donors would not reduce their share of university costs, the Commonwealth pays its grant on the basis of a £1 for each £3 which the university receives from other sources. The amount of these grants rose rapidly from £1.1 million in 1953 to over £2 million in 1957.

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<sup>9</sup> This section has depended on information given in Canadian Vocational Training Branch, Annual Report, 1959 (a supplement to the annual report of the Department of Labour.)

By the latter year, however, it had become clear that the Australian universities were in an increasingly perilous financial position. An important Committee (called the "Murray" after its chairman) was appointed to look into the matter and it recommended the establishment of a University Grants Committee which would "develop a national policy for the universities, co-ordinate state and commonwealth action and plan university development generally."<sup>10</sup> In accordance with these functions, it would recommend the kinds and amounts of Commonwealth financial assistance. Such a Committee -- now called the Australian Universities Committee -- has been established but it has not yet had time to prove its effectiveness. The Murray Committee, fully realizing that this time-lag would occur, proposed that in the three-year period between 1957 and 1960 a program of greatly increased Commonwealth aid should be undertaken. Firstly, there was to be a 10% increase in the regular annual grants which had been in existence since 1951. Secondly, it proposed a special non-recurring emergency grant totalling over £4 million, and thirdly, it suggested that the Commonwealth forward to the States immediately large sums for construction of new buildings. All these recommendations were accepted by the government<sup>11</sup> and as a consequence Commonwealth payments for universities have

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<sup>10</sup> For all this section, The Report of the Committee on Australian Universities, (Canberra, 1957).

<sup>11</sup> Parliamentary Debates, 1957, p. 2690 et seq.  
The government passed the States Grants (Universities) Act No. 27 of 1958 giving effect to the recommendations.)

leapt up. The estimated figures for the new payments as compared with the old can be seen in Table XVII. (See TABLE XVII overleaf). These, however, are not quite accurate since it is clear from the payments made in 1958-59 and 1959-60 that some states have not been able or willing to take up the total of their "matching" grants. But the important point to note is that whereas in 1959-60 Commonwealth expenditures on the universities amounted to £ 9 million, those of the states amounted to only £ 7.5 million. In the words of Ratchford, a "giant stride" had been taken toward making the Commonwealth the principal source of funds for the state universities.<sup>12</sup>

But the Commonwealth has gone a step further in order to ensure a rising supply of graduates for Australia. Included in the amendment to the constitution of 1946 there was a clause which said that the Commonwealth had the right to provide "benefits to students".<sup>13</sup> In 1951, the government took advantage of this right and adopted a Commonwealth Scholarship Scheme. Under the Scheme, the government, through the Universities Commission, has provided over nine thousand scholarships a year to students at an annual cost of around a million pounds.

Finally, the Commonwealth government has directly entered the field of university education. In 1946, it initiated a unique experiment by founding the Australian National University, which it has since controlled and financed.

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12 B.U. Ratchford, op. cit., p. 164.

13 Constitution of the Commonwealth, Part V, cl. XXIIIA.

TABLE XVIICOMMONWEALTH EXPENDITURES FOR UNIVERSITIES FOR 1955-57  
AND PROPOSED FOR 1958-60

( £ 000)

	1955 - 57	1958 - 60
1. Regular grants to state universities	6,041	8,502
2. Unmatched emergency grants to state universities	---	4,500
3. Capital Expenditure grants for building in state universities	---	6,270
4. Grants for equipment at state universities	---	1,003
Total	6,041	20,275

Source: Parliamentary Debates, 1957, pps. 2699-2700.

But if the Commonwealth has been more active than the Dominion in the field of university education, it has been much less so in the other field of education in which central governments have been participating -- vocational training. Indeed, here the Commonwealth has given aid to the states only occasionally and in a spasmodic fashion.

The total amount of money paid out for educational purposes by the central governments in Canada and Australia, then, though not large compared to their expenditure in social welfare, for example, is still quite substantial. Moreover, it is almost certain to become much greater in the near future.

In 1957, the Gordon Commissioners calculated that over the following two decades an increase of at least 175,000 skilled workers in the labour force per annum would be necessary to maintain expansion of the Canadian economy. Already, they said, there had been severe shortages of skilled labour in 1951 and 1956 and only immigration had prevented disaster.<sup>14</sup> In the present condition of Australia with its constant over-full employment, the need for skilled men is probably even more acute. Clearly, the amount of technical and vocational training will have to increase enormously to fulfil these demands. It is almost certain that the cost of this increase will necessarily be financed very largely from central government revenues.

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<sup>14</sup> Royal Commission on Canada's Economic Prospects, Final Report, p. 445 et seq.

Also the Special Study for the Commission: Dept. of Labour, Economic and Research Branch, Skilled and Professional Manpower in Canada, 1945-1965 (Ottawa, 1957).

But the future position of the universities is likely to be more serious. On the one hand, industry requires a huge increase in the number of graduates. On the other hand, there is also such a rapidly growing number of persons of university age that this requirement can well be fulfilled. (See TABLE XVIII overleaf). The bottleneck comes at the universities. Without a vast scheme of university extension and of student scholarships to tap the human potential, the universities will be totally inadequate for their task. This is the "crisis of higher education" about which the Murray Committee spoke. It is again certain that without increasing federal aid, the crisis will turn into disaster.

There is no turning back. Whether willingly or not, it seems that the central governments must inevitably bear a greater and greater share of the burden of education. Their position stems from the premise of the new philosophy. Given that the central governments feel an obligation to encourage the long-term expansion of the economy, then they must also ensure that the human resources necessary to achieve this are available.

TABLE XVIII  
 FORECAST OF UNIVERSITY ENROLMENT

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Enrolment in Canadian Universities, 1954	67,000
Increase in enrolment, 1954 - 60	27,000
"    "    "    , 1961 - 65 (estimated)	39,000
"    "    "    , 1966 - 70	50,000
"    "    "    , 1971 - 75	46,000
"    "    "    , 1976 - 80	38,000
Total increase from 1954 - 80	200,000

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Source: Yves Dube, J. E. Howes and D. L. McQueen, Housing & Social Capital, 1957, Chap. 5, Tables 22, 23 and 24.

## CHAPTER VI

### THE WELFARE STATE AND FEDERALISM

Keynsian theories and indeed the whole climate of postwar public opinion demanded not only economic and educational measures from the central governments, but also, as noted above, an attempt to ensure, by means of direct payments, and grants to the localities, that no-one fell below a certain minimum standard of existence. In other words, the new philosophy, the combined result of democratic pressures and academic thinking, demanded a concerted effort to achieve social security as well as economic security.

It is perhaps in the area of social welfare that the most dramatic postwar developments of all have taken place. Almost every advanced country in the world has seen a tremendous leap forward in governmental welfare payments,<sup>1</sup> but probably nowhere more so than in Canada and Australia. For whereas immediately before the Second World War such payments had been relatively smaller there than in most other countries, today Canada and Australia pay almost as handsomely as any. There is little question that in the fifteen years since the war these two countries have developed into welfare states.

1. The best discussion of the reasons for this world-wide trend are to be found in International Labour Office, Approaches to Social Security.

What has been the effect on centre-local relations of this dramatic rise of the welfare state? Its effect seems to have been to encourage those three tendencies which we have been tracing throughout - centralisation, equalisation and interlocking of activity. It is in fact in the area of social welfare that these tendencies are to be seen most clearly of all.

### 1. Centralisation

Largely due to the federal structure of Australia and Canada, welfare payments there before the war had not only been wholly insufficient, but they had also been administered more inefficiently and unequally than elsewhere. The local governments, with their widely varying financial capacities, undertook almost all the payments in existence. In Australia the Commonwealth paid only some old age pensions, invalid pensions and maternity benefits. In Canada the Dominion Government made contributions only to old age pensions and unemployment relief. In the words of the Rowell-Sirois Commission,

"The federal government did not wrestle with the social problems of the new age . . . Given these beliefs (viz. individualism, etc.) there seemed no need for federal controls. There was no broad support for a vigorous policy of the Dominion in the field of social welfare. In domestic matters it contented itself with detailed modifications and amplifications of old-established national

policies."<sup>2</sup> But this situation, the Commission continued, was hopeless for the needs of the 30's. Some provinces collapsed under the strain of attempting to provide the necessary welfare payments, and the amount of pensions and relief varied widely from region to region. The Commissioners concluded, therefore, that

"the quality of . . . welfare services is no longer a matter of purely provincial and local concern. In Canada today freedom of movement and equality of opportunity are more important than ever before, and these depend in part at least on the maintenance of national standards for public health and care of the indigent. The most economically distressed areas are the ones least capable of supporting these services and yet are also the ones in which needs are likely to be greatest."<sup>3</sup>

A common standard of services was necessary, in other words, and only the Federal Government could achieve it. An exactly similar conclusion was being reached in Australia a few years later. In July, 1941, a Joint Parliamentary Committee on Social Security was appointed "to inquire into and, from time to time, report upon ways and means of improving social and living conditions in Australia and of rectifying anomalies in existing legislation." Its eight reports form the comprehensive base upon which the Australian welfare state has been built. The Committee in an Interim Report had this to say of the pre-war Australian social welfare system. "It has been pointed out that Australian social

2. The Royal Commission on Dominion-Provincial Relations, Report Bk. I, p. 133.

3. Ibid p. 221.

services have tended to develop in a piecemeal fashion, that we have suffered from lack of a general plan, that certain services have expanded in some states more than others, and that some states have spent much more per head than others."<sup>4</sup>

It too proposed, therefore, that the central government should step into this field in order to bring equality and order.

It was clear to all that the local governments had been unable to face the task of providing social welfare. This was bluntly stated by a Canadian Advisory Committee in 1943.

"We can no longer look upon the individual as a responsibility of the province or municipality alone but as a Dominion responsibility as well . . . To do full justice to the people of Canada it is essential that the Dominion aid the provinces and the local authorities in providing health services for the people . . . The demand is for greater assistance from the Dominion."<sup>5</sup>

It was realized that only the central governments had the size and flexibility of revenue to fulfil the demand for greatly increased welfare payments, no matter how much the local governments might lament their loss of power. As G. W. Paton puts it:

"The centralising financial factor conflicts with a very real pride in the rights of the states and a dislike of bureaucratic control from Canberra. But pride can be maintained only if there is willingness to accept a poor standard of social services."<sup>6</sup>

4. Parliamentary Joint Committee on Social Security, First Report, p. 3.

5. Canada: House of Commons Special Committee on Social Security. Report of Advisory Committee on Health Insurance p. XIX.

6. G. W. Paton, The Commonwealth of Australia, (London 1952) p. 314.

And with the exception of Quebec in Canada, no local government was willing to maintain its pride on such terms.

By the end of the war even the most wealthy local governments were fully aware that the central governments alone could command the resources essential for welfare purposes. This was clearly admitted, for example, by Premier Drew of Ontario to McKenzie King in a letter written in 1946.<sup>7</sup> The plain fact was, to quote Brady, "in the era of the welfare state the government endowed with the most abundant financial resources could promise more and give more."<sup>8</sup>

But, more than this, it was also realized that social welfare cannot be considered in the abstract. It has, of course, "to be interpreted in its wider sense as including the full employment policy and all the state efforts to improve and stabilize the lot of the worker."<sup>9</sup> Without governmental economic controls, the idea of a welfare state was meaningless.<sup>10</sup> But it has already been noted that in the postwar era it is the central government which directs the economy. It was logical, therefore, that the central government should have a large share also in welfare pay-

7. Dominion-Provincial Correspondence Since The Budget of 1946, p. 16, Letter of October 16th.

8. A. Brady, op. cit., p. 55.

9. R. Mendelsohn, Social Security in the British Commonwealth (London 1954) p. 322.

10. This point has been forcibly made by A.G.B. Fisher (London 1946) Economic Progress and Social Security.

ments. Only in this way could a coherent and unified policy of economic and social security be formulated.

Clearly, then, there were strong reasons and pressures for centralisation in social welfare. Such indeed has been the strength of these pressures that amendments to the constitution giving the central governments more welfare powers have been almost the only important amendments passed in either Australia or Canada since 1939. In Canada an amendment was passed in 1940, allowing the Dominion to have exclusive legislative authority over unemployment insurance.<sup>11</sup> In 1951 another amendment gave it the right to concurrent legislation over old age pensions.<sup>12</sup> In Australia an amendment, passed in 1946, allowed the Commonwealth to make laws with respect to the provision of maternity allowances, widows' pensions, child endowment, unemployment, pharmaceutical, sickness and hospital benefits, medical and dental services, benefits to students and family allowances.<sup>13</sup> But, as was earlier seen, too much emphasis should not be placed upon these formal amendments. The Commonwealth government especially was exercising long before, some of the powers

11. B. N. A. Act, Clause 91, 2A op. cit. p. 25, The amending act was B. N. A. Act, 1940, 3-4 Geo. VI, c. 36, (U.K.)

12. B. N. A. Act, Clause 94A, op. cit. p. 31. The amending act was B. N. A. Act, 1951, 14-15 Geo. VI, c. 32 (U.K.)

13. Commonwealth of Australia Constitution Act, Part V Clause XXIII A in Commonwealth Year Book, 45 p. 13. The amending act was Constitution (Alteration) Social Services Act, 1946.

given to it in 1946. The amendments in many ways were in fact not much more than signs showing which way the real forces were driving. And today the Dominion Government exercises considerable welfare powers without any formal constitutional justification for them.

There have been two main methods by which the central governments have increased their participation in the area of social welfare. On the one hand, they have themselves begun to administer schemes of welfare completely new to the country or previously administered by local governments. On the other hand, they have also used their favourite method of collaboration with the local governments. They have given increasing financial aid to, and consequently got increasing control over, schemes run by the local governments. The Commonwealth government has preferred to use the first, more direct of these methods; the Dominion Government the second. But examples of both methods can be seen in both countries.

In Canada there are in fact only three schemes of welfare which the central government administers directly. The first in time was the federal unemployment insurance scheme, begun in 1940 (for the amendment to the constitution cf. p. 147). Previous to this, the Federal Government had given aid to provincial attempts to provide unemployment relief. But now legislation provided for compulsory coverage of some four-fifths of non-agricultural

employees under an insurance programme administered by the Federal Government and required employers to join with their insurable employees and the government in building up a fund. The benefits to the unemployed are paid out of this fund by an Unemployment Insurance Commission appointed by the government.

The second welfare scheme, directly administered by the Federal Government, began in 1944. An act of that year provided that the Federal Government should pay to the mother \$6.00 a month for every child under ten years old and \$10.00 a month for every child between ten and sixteen years old. With the rise in population, of course, these flat-rate payments have increased. In 1959 the Federal Government paid out for family allowances the huge sum of \$474,787,068.~~00~~. It should perhaps be remarked in passing that this scheme, more than any other, has been associated in the minds of Federal Government officials with Keynesian economic policies. Certainly one of the main reasons for its introduction at the end of the <sup>war</sup>~~was~~ was the argument that these large payments would help, in time of depression, to keep up necessary consumption.<sup>14</sup>

Thirdly, in 1952, an act was passed whereby the Federal Government was to pay a universal pension of \$46.00 a month (raised in 1957 to \$55.00 a month) to all persons

14. e.g., This argument is employed in the Proposals of the Government of Canada 1945, p. 28.

aged seventy or over, subject only to a residence qualification. These payments were to be directly administered by the federal Department of Health and Welfare. The total paid out in 1959 for old age security was \$559,279,858.00.

But it is clear that these three federally administered programmes do not by any means cover the whole field of welfare and public health. Even the federal unemployment insurance and old age security schemes do not by any means include all payments made today to the unemployed and the aged. The Federal Government has found it necessary, therefore, to supplement its own schemes with increased aid to and participation in provincial schemes.

In the first place, benefits paid under the federal unemployment insurance plan are strictly related to the length of contribution to the unemployment fund made by a person before he becomes unemployed. Consequently, if he is unemployed for a long period or if he has not previously had work, his benefits under the federal plan are very quickly terminated. The necessity for additional basic provincial unemployment relief to continue, therefore, was obvious.

Consequently, the Federal Government, besides administering and financing its own plan, decided to aid *the provinces* in making these relief payments. In 1956 an Unemployment Assistance Act was passed providing that the Federal Government provide 50 per cent of the unemployment relief payments being made by the provinces.<sup>15</sup>

15. Quebec agreed to enter this agreement only in 1959. *S. C.* 1957 6 Eliz. II, c. 20.

Likewise, it will be recalled that the federal old age security scheme covered persons aged seventy or over. But in the Act setting up the scheme it was stated that provinces could provide pensions for persons aged between sixty-five and seventy. If they did so, it was agreed that the Federal Government would reimburse half their expenses. In actual fact, all the provinces have undertaken such payments (in every case the maximum, now \$55.00 a month) and in 1959 the federal contribution amounted to over \$30,000,000.00.

Two further postwar Dominion-Provincial schemes for providing income security must be mentioned. The Blind Persons Act of 1952 allows the Federal Government to pay 75 per cent of the provincial allowances to blind people, and the Disabled Persons Act of 1954 allows it to pay 50 per cent of provincial payments to those defined as disabled.

But it is in the important field of public health that the increase in federal activity through agreements with the provinces is most dramatically seen. For here centralisation has been more marked than elsewhere. In the words of Mendelsohn:

"The health function was placed by the constitution-makers with the provinces and their localities. It is interesting to see how the combined factors of wider territorial spread of infection and deeper understanding of its causes, the greater powers of a central government to undertake research and the need for funds in such quantity as is possessed only by the central governments, have conspired to bring the Dominion government increasingly upon the scene. The functions of the localities have not so much been

diminished as dwarfed by later developments." 16

In its Proposals of 1945, the Dominion Government had, along with all its other measures, put forward a comprehensive health plan for Canada.<sup>17</sup> Of course this collapsed with the rest of the Proposals when they were rejected in 1946. But slowly and in a piecemeal fashion a health plan has in fact come into being in the years following.

In 1948 a National Health Grant Program made ten federal grants available to the provinces to help them supply a variety of public health and hospital services. The most important of these was the Hospital Construction Grant by which the provinces were paid a matching grant to allow them to plan and control construction of hospitals so desperately needed.<sup>18</sup>

Possibly even more far reaching has been the postwar development of a national scheme for hospital insurance. This had been part of the wider Health Plan contained in the Dominion Proposals of 1945. At the Dominion-Provincial

16. R. Mendelsohn, op. cit. p. 99.

17. Proposals of the Government of Canada  
op. cit. pps. 28-36.

18. The other grants, almost all on a matching basis were for: 1. General Public Health. 2. Tuberculosis Control. 3. Mental Health. 4. Venereal Disease Control. 5. for crippled children. 6. Professional Training. 7. Cancer Control. 8. Public Health Research. 9. Laboratory and Radiological Services. 10. Medical Rehabilitation. 11. Child and Maternal Health. The last three of these grants were added in 1953.

Conference in 1955 some of the provinces asked that such a scheme be introduced<sup>19</sup> and in 1957 the Hospital Insurance and Diagnostic Services Act was finally passed. Under this Act, hospital services were to be provided to all residents of a province, including the provision of specified laboratory and radiological diagnostic services to in-patients and out-patients. The costs incurred by the province were to be shared by the Federal Government according to a complicated formula.<sup>20</sup> It should, however, be mentioned that the provinces entered the agreement slowly, Quebec only doing so in 1960. Consequently, the full federal contribution to the Health Insurance Scheme has yet to be seen. In 1958-59 it was \$54,000,000.00, in 1959-60 it was \$150,000,000.00, and it is expected that in 1960-61 it will top \$200,000,000.00.<sup>21</sup>

It is obvious then that the federal share in health and welfare schemes has enormously increased since 1939 and even since 1945.

The Australian constitution allowed the Commonwealth to pay old age and invalid pensions. As we have seen, it had exercised this right long before 1939 and had also, before then, paid out maternity allowances. These schemes were

19. Proceedings of the Dominion-Provincial Conference, 1955.

20. Canada Year Book, 1960, p. 272.

21. Public Accounts, 1960, p. V - 38.

directly administered by the Commonwealth and it may be this early experience of direct administration which has encouraged it to develop this method (much more than the Dominion Government in Canada) in building up the welfare state in recent years. Another reason has been adduced for the Commonwealth preference for the method of direct administration. Australian governments of all levels, it has been said, favour welfare payments on a non-contributing basis. They have preferred to make the payments out of general revenue. But this has entailed considerably less state administration. For a contributory system demands a large amount of bureaucratic work such as strict record keeping in the localities, with which a non-contributing system can dispense. Consequently, the Australian welfare schemes can be equally, if not more, efficiently administered from the centre.

Whatever the reasons for the preference, the increase in welfare and health schemes directly administered by the Commonwealth is certainly impressive. In 1941 a scheme of family allowances was initiated similar to that begun four years later in Canada. In 1942 the Commonwealth introduced a programme of widows' pensions and the following year one of funeral benefits. By this time the Labour government which had been in power since 1941 was well on its way to building a comprehensive system of social security. In

March, 1944, two acts were passed establishing unemployment, sickness and pharmaceutical benefits. The Unemployment Act, Australia's first, was a non-contributing plan financed out of general revenue, and provided payments for unlimited periods to unemployed and sick persons. The Pharmaceutical Benefits Act was designed to cover the cost of all drugs bought on doctor's prescriptions. Again payment was made out of general revenue.

Immediately after the war, the Labour government continued to extend directly administered health and welfare schemes. Its boldest move was the passing of a wide National Health Service Act. This Act provided for certain health grants to aid state schemes and these will be discussed below. But it also authorized the Commonwealth itself to provide or arrange directly for the provision of medical and dental services and establish and maintain hospitals, laboratories, health centres and clinics. It also authorized the Commonwealth to establish a scheme of medical benefits. In fact, however, the opposition of the medical profession together with the fall of the Labour government shortly afterwards ensured that the National Health Services Act remained almost totally ineffective.

It was indeed thought by many that the accession to power of a Liberal government, many of whose members had been violently attacking the welfare measures of Labour, would

cause the Commonwealth to check its participation in health and welfare schemes. Nothing could have been further from the truth. The apparently inevitable trend towards higher health and welfare payments, and towards a greater Commonwealth share in these, continued unabated.

The Liberal government, it is true, had rendered the National Health Services Act virtually useless. But four years after coming into power, it had passed an Act itself, which, with certain modifications, provided for Commonwealth schemes similar to those in the rejected Health Services Act. The Liberal National Health Act of 1953 authorized a Commonwealth medical benefits programme. The basic principle of the programme is Commonwealth support of voluntary insurance towards meeting the costs of medical attention. In order to qualify for the Commonwealth benefit a person, of course, must be insured with a registered medical benefits organization.

There have been other signs that the Liberal government is continuing the trend begun by its Labour predecessors. In 1950 family allowance payments were made for the first time to the first child in the family. In 1951 a new programme was initiated to provide free medical and pharmaceutical services to pensioners and their dependents. Besides, the Liberal government has consistently increased all the various payments. The Hon. H. S. Robertson introducing a new Social Services Bill in 1960 mentioned that the increase in old age

pension rates would be the seventh increase since the Liberals came into power in 1949.<sup>22</sup> Such increases have, of course, been made necessary very largely due to the tremendous rise in the Australian cost of living. But at least they give proof of the fact that, despite what some of their spokesmen may say, the Liberals are fully committed to the great advance in Commonwealth directly run welfare schemes.

But the Commonwealth government has also found it occasionally preferable to increase its welfare activities by the more indirect method of giving aid to the States. Two important Commonwealth-State agreements at least must be mentioned in this context. In 1945 the Commonwealth government made an agreement with the States, whereby it offered to pay grants to the latter on condition that they would abolish all charges for treatment in public wards and admit all persons to such wards without a means test. This scheme was modified in 1951 by the Liberal government but the main principles were retained. The second Commonwealth-State agreement on health and welfare was made in 1948. Under this agreement it was provided that:- " (a) The Commonwealth would pay the States a benefit equal to the amount being collected by the States from the relatives of the patients in mental hospitals by way of charge for

22. Journal of the Commonwealth Parliaments, Vol. XL Nos. 3 and 4, p. 273.

maintenance, and, (b) the States would cease making charges for the maintenance of mental patients.<sup>23</sup> The agreement terminated in 1954 and was replaced by a Commonwealth grant of £10,000,000 to the States.

Again, Table XIX, Commonwealth and State Expenditure From Revenue Sources on Certain Social Services, gives by far the clearest illustration of both the absolute increase in Commonwealth health and welfare payments since 1939 and also its relatively greater increased importance in this field compared to the States.

This centralisation in social welfare has had, of course, important effects on the whole federal structure of Australia and Canada. For, the need for money to finance health and welfare is one of the principal factors which make it difficult for the central governments to release any major source of revenue to the local governments and therefore encourages a continued centralisation of tax revenues.

"Since," to quote Ratchford, "there is very little chance of any decline in health and welfare expenditures, either absolutely or relatively, this amounts to a permanent shift in the centre of gravity of public expenditures from the States to the Commonwealth."<sup>24</sup>

This applies equally from provinces to Dominion.

## 2. Equalisation.

The postwar boom in central governmental health and welfare activity has also greatly helped the process of

23. Commonwealth Year Book, 45, p. 644.

24. B. O. Ratchford op. cit., p. 151.

TABLE XIX

COMMONWEALTH AND STATE EXPENDITURE FROM  
REVENUE SOURCES ON CERTAIN SOCIAL SERVICES II

State Net Expendi- ture	State Expenditure Per Capita			Percentage of State Expenditure to G. N. P.	Commonwealth Net Expenditure	Commonwealth Expenditure Per Capita			Percentage of Commonwealth Expenditure to G. N. P.	
	£000	£.	s.	d.		%	£000	£.	s.	d.
39	26,209	3	15	7	2.8	16,429	2	7	5	1.8
45	31,019	4	4	5	2.1	39,410	5	7	3	2.7
50	67,646	8	8	2	2.5	92,804	11	10	9	3.4
54	133,221	14	19	4	2.9	179,522	20	3	5	3.9
57	182,199	18	2	3	3.1	228,340	23	18	11	4.0
58	198,357	19	7	1	3.2	253,068	25	19	4	4.3
59	215,196	21	3	7	3.4	288,179	28	19	1	4.7

Source: Calculated from figures given in Australian Grants Commission,  
Twenty-Seventh Report, 1960.

Appendix No. 4 Tables XI and XII pps. 120 and 121.

equalisation. This, of course, has been one of the main reasons why the central governments are encouraged to increase their share of social welfare. It is only a central government which can organize uniform standards of services throughout the country. No matter how poor the State of Tasmania may be or the Province of Newfoundland,

the people who live there now receive old age pensions, family allowances, hospital benefits and so on at a rate similar to everyone else. To a large extent, therefore, the anomaly of the 30's, when standards of social services varied greatly from region to region according to whether a particular province or state was financially sound or not, has been overcome. Simply by undertaking more social welfare work, the central governments in Australia and Canada have been equalising.

But they have gone much further. It seems that the Dominion and Commonwealth governments have actually formulated their welfare payments to the local governments in such a way that much more is given per capita to those provinces and states generally considered as poor.

Due, for example, to the method of paying hospital benefits to the States, the Commonwealth gave Western Australia in 1958 the equivalent of £.9 per capita for this purpose and only £.7 to New South Wales. Likewise, the Commonwealth paid benefits for mental institutions in that year to the amount of £152,129 to Tasmania and £324,151 to New South Wales. Yet Tasmania has less than a tenth the population of the latter.

But equalisation of this disguised type can be seen even more clearly in Canada. The reason is clear. In Canada much more than in Australia the social needs of the various regions vary one from another. For historical and

economic reasons the Maritimes have a much greater number of old people in relation to total population than have Ontario or the Western Provinces (with perhaps the exception of British Columbia). For economic reasons they have had, again relatively, also a much greater number of unemployed. Finally, along with Quebec the number of their children relative to total population is greater than elsewhere.<sup>25</sup>

Thus an examination of the welfare payments made by the Federal Government displays equalisation at work. In 1960 Nova Scotia received \$20,900,000.00 in family allowances, and Ontario \$156,700,000.00. Yet Ontario has eight times the population of Nova Scotia and on a strictly equal per capita basis should have received nearly another \$20,000,000.00. More remarkable is the fact that Quebec with nearly a million less inhabitants than Ontario received only \$6,000,000.00 less than its larger neighbour in family allowances.

Likewise, Quebec received \$10,700,000.00 in 1960 in federal aid for old age assistance, while Ontario received only \$6,600,000.00. Alberta, though more than twice the size in population, received the same amount of

25. One main explanation of the relatively greater number of old people and children in the Maritimes compared to Ontario is the fact that so little immigration, usually consisting of young adults, goes into that region.

federal old age assistance as New Brunswick.

Again, Newfoundland having barely half the population of Manitoba received in 1960 twice as much federal unemployment assistance, and whereas Ontario was given \$3,900,000.00 for disabled persons allowances in that year, Quebec received \$8,400,000.00. Examples of this sort could be multiplied a hundred times over.<sup>26</sup>

Clearly, then, if the Federal Government in Canada is not prepared to pay fiscal need payments to the provinces directly, it is doing so to a considerable degree in an indirect way through its social welfare payments.

### 3. Interlocking of Activity.

The third trend in postwar federal development has been a closer co-operation between the different levels of government. Nowhere is this co-operation seen more clearly than in the field of social welfare. The result has been the evolution since 1945 of a complicated network of centre-local agreements and consultations. These have already been mentioned in the section on centralisation in this chapter,<sup>27</sup> and there is no need to enumerate them again.

It might be well, however, to examine briefly the working of one of these welfare agreements in order to see in closer detail the extent of centre-local co-operation.

26. Source: Public Accounts, 1960, p. 52 to 57.

27. Above p. *150-53 and 157-58.*

The Dominion-Provincial Hospital Insurance Plan does not consist merely of the Dominion government giving the provinces a set sum calculated by formula. There are important conditions for the use of the grant.<sup>28</sup> Before the provinces may receive it they must undertake to maintain adequate standards of hospital care, to make payments to hospitals on a clearly defined basis, and to maintain adequate records and accounts. Moreover,

"to provide assurance that provincial arrangements are adequate for control of quality of care and utilization, and for financial control, each participating province must submit a detailed scheme of administration for federal approval as part of the federal-provincial agreement."<sup>29</sup>

Quite obviously, these conditions demand a huge amount of administrative co-operation. Before a provincial scheme is approved and before, consequently, it receives its grant there must, of necessity, be continual consultation between federal and provincial civil servants. Besides, even after the grant is paid, the terms of the agreement demand constant federal supervision. The Department of Health and Welfare at Ottawa must continue, therefore, to work hand in hand with the Health Departments in the various provincial capitals.

This one example clearly demonstrates that behind the formal welfare agreements made since the war between central

28. For all this section cf. Hospital Insurance and Diagnostic Services Act, S.C. 1957 5 Eliz II, c. 28.

29. Canada Year Book, 1960, p. 285.

and local governments in Australia and Canada, there lies involved and continuous consultation. The rise of the Welfare State in these countries, therefore, has not only brought centralisation and equalisation, it has also caused a complicated interlocking of activity between the centre and the localities.

## CHAPTER VII

### PRESSURES UPON THE CENTRAL GOVERNMENTS

Up to this point, discussion has dealt almost solely with the policies and actions of the central governments, how by tax, economic and welfare policies they have increased their powers in relation to the local governments. But it must be remembered that the central governments have taken the initiative not because of their own power hunger but because there have been pressures upon them to do so; because Australians and Canadians desired economic and social security. It is time, therefore, to outline briefly these pressures influencing the central governments in Australia and Canada to centralise and equalise. This will best be done by discussing in turn the postwar attitudes in these matters of the main corporate organizations through which public opinion expresses itself in a democratic society - firstly, the local governments themselves, then labour organizations, businessmen's groups, and finally, political parties.

#### 1. Provincial and State Governments.

It is natural, of course, that state and provincial officials should jealously strive to retain the power of local governments and should condemn unnecessary centralisation in the federal system. But since the war, and of course partly as a consequence of the war, it would

appear that local governments have more readily accepted central initiative than they would previously have done. There has also been a much greater recognition amongst all local governments, including even those of the wealthiest regions, of the need for equalisation.

It would, however, be more accurate to say that these developments since the war in local government have occurred much more dramatically in Canada than in Australia. The reason is simple. In Australia all the states had, reluctantly or not, acquiesced in a considerable degree of centralisation long before 1945. More important, they had all supported principles of equalisation embodied in the work of the Grants Commission from 1933 onwards. By the late 30's the states were no longer pulling in different directions nor actively condemning the federation. During the war they all accepted the bitter pill of uniform taxation with a much lesser show of resistance than was being displayed at the same time by some of the Canadian provinces. Increasing state acceptance of a certain amount of centralisation and equalisation in Australia has, therefore, been spread over the last twenty-five years or so. This is not true of Canada, where some provinces at least, maintained bitter hostility to any permanent increase in federal power or any sign of equalisation between the regions until well after the war.

Why Australian states accepted centralisation and equalisation earlier and more readily than Canadian provinces and why all provinces appear now at last to have acquiesced at least to some extent in these developments are questions which will be discussed later. It is necessary here only to give proof of the fact that an important boost to the trends of centralisation and equalisation in Canada has been the dramatic change in the attitude of some of the Canadian provinces.

This change has been most clearly and most recently seen in the problem child of Canadian federation - the Province of Quebec. As conscious defender of the cultural and political interests of the French Canadians, Quebec, of course, has always emphasized the autonomy of the provinces and their equality with the central government. But under the premiership of Maurice Duplessis from 1936 to 1954 (with intervals), this emphasis took an extreme form. Quebec absolutely refused to co-operate with or participate in any scheme of the Federal Government. Under the slogan of provincial rights, Quebec attempted in the immediate postwar years to stem the inevitable developments outlined in the earlier chapters above. It refused to enter a tax rental agreement with the Federal Government; it refused to participate in the shared cost programmes of assistance for unemployable persons, of hospital benefits, and even of some of the public health grants; it rejected any federal

grants for its universities; it refused to co-operate with the Federal Government in undertaking major public works such as the Trans-Canada Highway or schemes to develop natural resources. More than this, the Quebec government positively attempted to hinder the effectiveness of all the federal postwar tax, economic and welfare policies. If Duplessis and his followers had heard at all of the "new philosophy", then they wanted to put its precepts into action by themselves and in their own particular way.

But new ideas and new forces were coming to the surface in the provinces. Especially amongst young intellectuals and amongst the growing urban proletariat there was a feeling that by her negative attitude Quebec was sacrificing herself unnecessarily. To maintain French-Canadian interests, was it really necessary to be so "purist" in approach? Were all federal schemes to be so rigidly rejected? The death of Duplessis himself in 1959 gave the opportunity for these new forces to have effect and even the Union Nationale under Sauvé began to relax Quebec's strictly separatist stance.

This relaxation wrought by Sauvé was largely a result of the realization that the satisfaction of maintaining a completely autonomous position did not adequately compensate Quebec for the cost incurred as a result of such a position. Quebec in per capita terms is not one of the richest provinces in the Dominion. It stood to gain, therefore, from any move towards equalisation and its refusal to enter

any of the tax rental agreements after the war, by which a substantial amount of equalisation had been achieved, was a costly policy.

All this helps to explain Quebec's acceptance of the new comprehensive equalisation scheme proposed by the Federal Government in 1956 and put into action in 1957. As noted earlier, this scheme was ingenious in its separation of equalisation payments from the tax rental agreements, for this certainly eased Quebec's entry into participation. In any event, the 1957 scheme brought Quebec for the first time since the war into contact and co-operation with the Federal Government. The thaw in the isolationism of Quebec really began in earnest and reached its climax with the election of the Liberals under Jean Lesage in 1960.

Lesage, though still maintaining the necessity for a large amount of provincial power, is prepared to concede that Quebec cannot conduct its policies completely independently of the rest of the Dominion. He admits that Quebec must take a full part in the extensive network of federal economic and welfare schemes. As a consequence, today Quebec participates in the building of the Trans-Canada Highway, in the federal hospital insurance scheme, and in various power projects and receives by a special arrangement federal grants for its universities, for public health services and for unemployment assistance. Quite clearly then, Quebec has acquiesced in a considerable amount of centralisation.

That today it also acquiesces in, rather indeed actively supports, equalisation goes without saying. Since 1957 it has received from the Federal Government equalisation payments averaging over \$43,000,000.00 a year, a far greater amount than received by any other province. In short and precise terms, Lesage himself said at a Dominion-Provincial conference a few months after his gaining office, "As for the principle of equalisation, we shall oppose as firmly as possible any attempt to weaken its application."<sup>1</sup>

But what about the other major province of Canada - Ontario? One political commentator commented in 1960 that "Quebec has decided after generations to re-enter Confederation. At this precise moment Ontario wants to become autonomous. The two provinces have exchanged roles."<sup>2</sup> Though overdramatised, it has been seen that there is some truth in the first sentence of the comment. But to suggest that the Ontario of Mr. Frost is about to act like the Quebec of Duplessis is completely to misinterpret recent developments. At the Dominion-Provincial Conference in 1960, in fact, Ontario showed no more signs of wanting 'to withdraw from Confederation' than it has ever done. Mr. Frost, it is true, repeated the traditional formula, maintaining vigorously that "the powers of the provinces stem directly from the British North America Act, the constitution of our country.

1. Proceedings of Dominion-Provincial Conference, July, 1960, p. 131.

2. Quoted in The Financial Post, July 30th, 1960.

These powers," he continued, "are not assigned or delegated by the Federal Government. Sound government requires, whenever possible, that the spending power of government run with the responsibility and power to tax." <sup>3</sup> For this reason he demanded, as usual, a much greater share of tax revenues for the provinces.

But there are at least two reasons for believing that even Ontario has increasingly acquiesced in a certain amount of centralisation since the war. In the first place, the whole tone of Ontario official statements on federal-provincial relations has changed. Neither Mr. Drew nor even less Mr. Frost has attacked the Federal Government with such ferocity as used by Mr. Mitchell Hepburn when he was Premier in the 1930's and during the Second World War. Hepburn indeed gave the impression of conducting a personal and vehement vendetta against the then Prime Minister, MacKenzie King. This introduced a bitterness into all federal-provincial negotiations, which can be clearly seen in the proceedings of the crucial Dominion-Provincial Conference of 1941. <sup>4</sup> Under Drew and Frost, relations with the Federal Government have, of course, not

3. Proceedings of Dominion-Provincial Conference, July, 1960, p. 16.

4. Proceedings of Dominion-Provincial Conference, 1941, where Hepburn implied that MacKenzie King and indeed the Rowell-Sirois Commissioners had been corrupted by a few bondholders.

been wholly sweet, but at least negotiations have been conducted within the bounds of civility. There appears to have been a certain recognition on the part of the leaders of Ontario that the Federal Government is the senior government in Canada.

But possibly more important is the fact that after an initial reluctance, Ontario has entered into all the federal tax, economic and welfare schemes, including a tax rental agreement since 1952. By doing so, Ontario, no matter what her politicians say, has in practice acquiesced in a considerable degree of centralisation. It may lament this development but it is much less prepared actively to hinder it than it was in the 30's.

At the same time as this, Ontario, it would also appear, has come to accept as inevitable a certain amount of equalisation in Canada. In a sense this is the most outstanding postwar change of all. For Ontario, the wealthiest province both in absolute and per capita terms, had before the war, during the war and immediately after the war been the most thoroughgoing opponent of any attempt to equalise. It was, for example, the opposition of Ontario which had been very largely the cause of the rejection in 1941 of the Rowell-Sirois recommendations with their comprehensive equalisation programme and of the Dominion Proposals, with their modified scheme, in 1946. Yet in 1957, with however much reluctance, Ontario agreed to participate - a participation

essential for the success of the scheme—in the equalisation arrangements put into effect that year by the Federal Government. And in 1960, Premier Frost could bring himself to state:

"In saying what I do concerning provincial responsibility for levying taxes, I should add that we approve fiscal need or adjustment payments . . . There is much justice in the principle of these payments. They have conferred marked financial benefits on all the provinces except Ontario . . ." 5

Ontario, of course, has not suddenly become so altruistic that it does not wish to keep equalisation payments to a minimum, but at least it has fully accepted the principle.

There has been a significant change in the attitude of the other provinces also since the war. In the 30's almost all of them at first wanted the Federal Government to undertake greater powers in order to save them from their financial plight. In many ways they pressed centralisation upon an unwilling central government. It was, for example, the prairie provinces and not the Federal Government who wanted a strong National Wheat Board. But as it became apparent that the central government was unable or unwilling to step in on their behalf they became disgruntled with federation and almost as a reflex action of despair, determined to "go it alone." For a time, therefore, it appeared that the other provinces supported Ontario and Quebec in their militant hostility to the Federal Government.

5. Proceedings of the Dominion-Provincial Conference, July, 1960, p. 17.

The war, however, wrought an important change. The poorer provinces could now see that the Federal Government had the power and the inclination to effect equalising economic and welfare policies. Consequently, despite certain passing regrets for provincial autonomy,<sup>6</sup> these provinces now found it in their interest to give their full backing to the developments of centralisation and equalisation.<sup>7</sup> They were especially eager that the schemes for federal welfare assistance outlined in the Dominion Proposals of 1945 be introduced in toto and were bitterly disappointed at the rejection of the Proposals due to the opposition of Ontario and Quebec.<sup>8</sup>

6. These regrets were most forcibly expressed in a letter of Premier MacDonald to Finance Minister Ilesley, Dec. 5th, 1946. Dominion-Provincial Correspondence Since the Budget of 1946, p. 31 - 32.

7. This is not entirely true of British Columbia or Alberta. Since the war B. C. has been the second wealthiest province per capita; Alberta in recent years has become the third wealthiest. In certain respects, therefore, these two provinces are not too eager for thoroughgoing equalisation. On the other hand, largely because of their tremendous natural potential, they are the provinces most eager to cooperate with the federal schemes of resource development, etc., cf. esp. Brief of the British Columbia government to the to the Dominion-Provincial Conference, 1950, passim.

8. Especially letter from MacNair, Premier of New Brunswick to Ilesley, 5th July, 1946, Dominion-Provincial Correspondence Since the Budget of 1946, p. 41.

Since then indeed many of these provinces, especially those in the Atlantic region, have been a step ahead of the central government itself. They have wanted the federal authorities to take more powers and effect a greater degree of equalisation than these authorities themselves have wanted. New Brunswick, for example, at the July, 1960, Dominion-Provincial Conference asked that the Federal Government should make much greater use of its economic powers. Robichaud, the New Brunswick Premier, said that it could do so in four ways: By making greater tax concessions to certain industries; by undertaking more public works such as the building of the Chignecto Canal; by establishing a Capital Projects Development Fund (originally suggested by the Gordon Commission); and by exercising its monetary controls more often and more flexibly.<sup>9</sup> At the same conference Premier Roblin of Manitoba said:

"The Province of Manitoba will give its strong support to any proposals that will lead to the establishment of a stronger national policy for development that is truly comprehensive. We conceive of a national development policy as being one which extends, in conjunction with the fiscal policies of the nation, to the full purpose of total and equitably ~~distinguished~~ <sup>distribute</sup> growth."<sup>10</sup>

Statements of this sort made by provincial premiers are in abundance. Stanfield, the Premier of Nova Scotia, proposed in 1957 the erection of a joint federal-provincial board to make more extensive loans to farmers and H. J. Fleming

9. Proceedings of D.-P. Conference, July, 1960, p. 43.

10. Ibid p. 55.

(then Premier of New Brunswick) suggested in the same year that a federal committee be established to encourage the location of industry in the Maritimes and so on.

Clearly for most of these provinces since the war, "provincial rights has not really meant provincial taxation autonomy or anything like that at all. Rather it has meant obligations from the Federal Government."<sup>11</sup> Their main desire is for the process of equalisation and, consequently, of centralisation to continue unabated.<sup>12</sup>

In an article written recently in the Financial Post, J. B. MacGeachy, who accompanied the Rowell-Sirois Commissioners on their travels, gives an excellent impressionistic picture of the state of Canadian federation in the 30's.<sup>13</sup> "It was," he says, "splitting at the seams." The provinces were almost all violently rejecting any national policy proposed by the Federal Government. Differences between the regions were emphasized to the utmost.

11. F. MacKinnon, The Government of Prince Edward Island, p. 313.

12. It is interesting to note that at the recent Dominion-Provincial Conference in July, 1960, every single Provincial Premier made at least one reference to the necessity for equalisation of some sort. cf. Frost of Ontario, p. 17; Lesage of Quebec, p. 132; Stanfield of N. S., p. 35; Robichaud of N. B., p. 43; Roblin of Manitoba, p. 50; Bennett of B. C., p. 62; Manning of Alberta, p. 90; Smallwood of Newfoundland, p. 95; Shaw of P. E. I., p. 69; and Douglas of Saskatchewan, p. 81.

13. It is significant that the governments of two provinces - Quebec and Alberta - would not even meet the Commissioners.

Now, he says, it is taken for granted that "Ottawa should be the biggest tax gatherer, share its takings with the provinces, assist the poorer ones and carry the whole cost of social insurance." The change has been dramatic. There are still strong forces for provincial autonomy in Canada. But in recent years there has been an acceptance by the provincial governments of the shift in power from provinces to centre similar to the acceptance which has been noticeable over a longer period amongst the Australian States.

It should also be noted that this acceptance has driven the Canadian provinces since the war, as it long ago drove the Australian States, into a realization that they must have a closer interlocking of activity with the federal government. Even in 1946 there was a desire on the part of some provinces to have regular Dominion-Provincial conferences with a permanent secretariat.<sup>14</sup> Though this has not been achieved, the provinces have continued to urge the establishment of more institutions of dominion-provincial co-operation and the work of those institutions which have been established has been constantly praised. At the Dominion-Provincial Conference of 1957, Premier Frost of Ontario said:

14. Dominion-Provincial Correspondence Since the Budget of 1946, p. 32.  
This proposal had first been aired by the Rowell-Sirois Commission.

"May I pay tribute to the worth of the federal-provincial continuing committee on fiscal and economic matters which provides means for constantly exchanging material and information and which undoubtedly will make the work of this and other conferences much easier." 15

But in this matter perhaps the final word should lie with the premier of the province, traditionally reputed to be aloof from the federation.

"Up to now," says Premier Lesage of Quebec, "the official relations between the two spheres of government in Canada have been intermittent. This absence of continuous relations becomes more and more unsatisfactory as the problems requiring the attention of governments multiply and become more complicated and as the necessity of co-ordination increases . . . We propose that a permanent secretariat for Federal-Provincial conferences be established and that it be financed and administered jointly by the Federal and the Provincial Governments." 16

In short, local governments have found that like everyone else they must move with the times. They have found that at least they must accept the postwar trends of centralisation, equalisation and interlocking of activity and in some cases they must themselves even act as a pressure encouraging them.

## 2. Labour Organizations.

It is time now to turn aside from a discussion of the attitude of the local governments in order to consider the

15. Proceedings of D.-P. Conference, 1957, p. 14.  
The federal-provincial continuing committee on fiscal and economic matters consists of the <sup>Deputy</sup> Federal Minister of Finance and all the <sup>Deputy</sup> Provincial Treasurers.

16. Proceedings of D.-P. Conference, July, 1960, p. 126.

postwar position of non-governmental pressure groups.

One of the most important of such pressure groups are the labour unions. Their influence in both Australia and Canada has traditionally been for stronger central control. One of their main aims is to persuade governments to exercise active economic and welfare policies and they recognize more clearly than most that such policies will be most effective if directed by a central government. They have also actively supported moves toward equalisation. Labour unions are especially worried about the conditions of their members who work in economically depressed regions. They, therefore, support any governmental measure to improve the condition of such regions. Besides, ideology encourages them to support equalisation. The basis of the Labour movement is the attempt to bring the classes nearer to equality. It would be illogical for them not to attempt also to bring different regions nearer equality.

This centralising<sup>and</sup> equalising role of Labour has been much more noticeable in Australia than in Canada, if only because of the simple fact that unions have been more powerful in the former country. In the words of Brady, "Australian Labour, powerful and strong, has long been fired by a spirit of political and economic nationalism."<sup>17</sup> But since the war there has been no doubt that Labour pressures for centralisation and equalisation have increased even further in Australia.

17. A. Brady, op. cit. p. 140.

More and more workers have been organized in inter-state unions. These now contain more than 87 per cent of the total union membership.<sup>18</sup> The result of this, of course, is that union pressure is increasingly exercised at the centre. For inter-state unions fight most of their cases before the central Commonwealth Court of Arbitration and not before the State courts.<sup>19</sup> In other words, fewer and fewer workers are intimately affected by the wage and labour policies exercised by the State governments through their arbitration courts. The crucial struggles fought by the unions (collectively represented in the Australian Congress of Trade Unions) in the postwar period have been the annual battles over the basic wage decisions of the Commonwealth Court of Arbitration.<sup>20</sup> The issues and the conflicts which are the concern of the unions in Australia have since 1945, therefore, become more and more nation-wide. The Forty Hour Week Case tried before a Federal Tribunal in 1948, for example, intimately affected almost every Australian worker no matter in what State he worked.<sup>21</sup>

18. Commonwealth Year Book, 45, p. 456.

19. In May, 1959, 49.4 per cent of all male employees were covered by Commonwealth awards and 38.4 per cent by State awards. Commonwealth Department of Labour and National Service, Industrial Information Bulletin, 1959.

20. It is realized that the Commonwealth Court decision affects all the State court decisions. In 1953, for example, all basic wage rates were the same except in Perth. Commonwealth Arbitration Reports, Vol.33. p. 149

21. G. W. Paton, The Commonwealth of Australia, p. 310.

But it can be argued that all this has not actually increased the power of the Commonwealth government itself since it has no control over the decisions of the Commonwealth Arbitration Court. In theory certainly this is true. But in practice, the question whether the government really exercises control or not is more debatable and is in fact a matter of bitter controversy.<sup>22</sup> But in any event, a tendency towards increased central governmental control seems to be reflected in the rising demand that the government should take the final step and openly and formally influence the decisions of the Commonwealth court.<sup>23</sup> It has also been reflected in the recommendations of the recent Committee on the Constitution in which it was suggested that an amendment be passed giving the Commonwealth government the constitutional power to pass legislation on wages and hours.

Whatever the outcome of these demands, it is clear that since 1945 Australian workers have been more closely affected by Commonwealth economic and welfare policies than at any time before and consequently the pressure which they exert through their unions is likely to be more and more directed at the central government. For where power lies there must the pressure be exerted.

22. This controversy is best reported in the articles of the Australian correspondent in the Round Table.

23. Round Table, Dec. 1956, for the best summary of the arguments of those who make this demand.

In Canada also the pressures of Labour for centralisation and equalisation have increased since the war. One obvious reason for this is the plain fact that the number of union members, though still less than in Australia, has increased enormously since before the war. In 1939 there were but 359,000, whereas in 1959 there were 1,459,000.<sup>24</sup> The most remarkable increase has occurred in Quebec where there were 75,000 union members in 1940 and over 350,000 in 1958. The result has been that many of the unions which before the war were small, ineffective and restricted to certain regions have become powerful nation-wide organizations.

Moreover, the Canadian unions appear themselves to have become more unified and controlled from a central organization. The Central Canadian Labour Congress seems to have more power than either the old Canadian Congress of Labour or the Trades and Labour Congress from the combination of which the new C. L. C. was founded.

Besides, the most important unions outside the jurisdiction of the C. L. C., the Canadian and Catholic Confederation of Labour in Quebec, have become less provincially minded. Under Gerard Picard, its Past President, and Jean Marchand, its present Secretary, the Confederation is more inclined to work with the C. L. C.,

24. Canada Year Book, 1960, Table XXXIII, p. 797.

to be more concerned with the nation-wide class struggle than with the issue of French-speaking versus English-speaking workers and, consequently, much ~~too~~<sup>less</sup> inclined to put its weight behind the cause of provincial rights, as it did in the days of Duplessis.

That the C. L. C. has used its thus greatly increased power to press for centralisation and equalisation is demonstrated time and again in its Assembly resolutions and in its briefs to the government and to Royal Commissions. Two examples taken from its brief to the important Royal Commission on Canada's Economic Prospects must suffice to give an example of the tone of its statements. The key sentence in its brief read:

"Full employment is a prerequisite and must be provided by the national government" (i.e., the Federal Government) "through monetary policy, tax policy, tariff policy, public investment policy, deficit and surplus financing, federal-provincial financial relations and social security policy."<sup>25</sup>

But if this request necessarily envisaged a large amount of centralisation, the demand contained in almost its next sentence implied equalisation.

"The Federal Government," the brief continued, "must enforce social responsibilities, designate special areas where industry emigration is undesirable, and offer tax concessions and subsidies to industries establishing in these areas."<sup>26</sup>

25. Cockfield, Brown & Co. Ltd., Canada's Economic Future: A digest of 125 submissions to the Royal Commission on Canada's Economic Prospects (Toronto 1957) p. 81.

26. loc. cit.

### 3. Businessmens' Organizations.

It is much more difficult to ascertain the attitude of the manufacturers' and commerce pressure groups towards the balance of power between central and local governments and perhaps undue reliance has had to be placed upon the briefs presented by Chambers of Commerce and Boards of Trade to various Royal Commissions and to the governments.

But from these briefs it appears that, especially in Canada, there has been strong pressure from these groups for increased centralisation. There has been an especial desire for uniform taxation, imposed by the central government. In December, 1957, for example, the Toronto Board of Trade made a typical submission to the Federal Government pleading for a uniform income tax throughout Canada. They claimed that a consequence of the existing right of Quebec and Ontario to impose their own corporation income taxes was heavy discrimination against Ontario business in Quebec.<sup>27</sup> There is a strong feeling amongst the large manufacturers that varying provincial rates of taxation cause unnecessary difficulty.

But there also appears to be a recognition in business circles that a certain amount of anti-cyclical activity on the part of governments is necessary and that this can only

<sup>27</sup>. Submission of Toronto Board of Trade (signed by President J. F. Ellis and General Manager, J. W. Wakelin) (Toronto 1958), passim.

be undertaken by the central government. This fact was clearly demonstrated by the nature of the briefs presented by the various Canadian Boards of Trade to the Royal Commission on Canada's Economic Prospects.<sup>28</sup> In almost every one, the Federal Government is exhorted to use what instruments it has in order to prevent inflation and unemployment. It is true that there is a different emphasis in these briefs from those presented by the Labour Organizations. For Labour the main danger is unemployment; for the Boards of Trade it is inflation. But both Labour and employers have this in common, they both want the Federal Government to exercise greater economic powers.

The point of view of the manufacturers in this matter was put most aptly by K. Le M. Carter when delivering a paper to the Management Conference of the Canadian Manufacturers' Association in Toronto in 1957. Explaining why in his view the Dominion government should have complete control of all standard taxes, he said:

"Income and corporation taxes now assume in most countries a significant role as a major instrument of economic control. This is well demonstrated by the action of the Canadian government faced with strong inflationary tendencies, in conceding no worthwhile tax cuts in an election year in spite of a substantial surplus. Provincial treasurers are not likely to demonstrate similar regard for economics in setting tax rates. Just as Canada must be defended from her enemies, she must be buttressed so far as possible from economic catastrophe."<sup>28a</sup>

28. These briefs are conveniently collected in a volume edited by Cockfield, Brown and Company, Ltd. op. cit.

28a. The address is quoted in Canadian Tax Journal July-August 1957, p. 312.

Perhaps even more strongly, businessmen have encouraged central activity for the long-term expansion of the economy. In this respect, the Canadian Chamber of Commerce Brief to the Gordon Commission is especially interesting. The brief consisted very largely of a plea that the Federal Government should undertake huge schemes of development in the north. For, it was maintained, such development would determine the rate of growth of secondary and tertiary industry. It was almost as an afterthought that the brief also added that the continuation of a system of free enterprise was desirable.<sup>29</sup>

It is of course natural that demand for strong central governmental action should have come most strongly of all from businessmen in economically backward regions. Thus it is no surprise to find that businessmen of the Atlantic region in Canada, working through the recently founded Atlantic Provinces Economic Council, have been extremely vociferous in their demands for greater federal activity. In its most recent report, the A.P.E.C. submitted that the Federal Government should "ensure consistent agreement on a combination of regional tax concessions and a more positive transportation policy for the region." The Council also asked that the Federal Government implement the suggestion of the Gordon Commission that a new capital works programme for the Atlantic region be formulated.<sup>30</sup>

29. Cockfield, Brown & Company, Ltd., op. cit., p. 62.

30. Annual Report of the Atlantic Provinces Economic Council, 1960.

It is clear, therefore, that businessmen equally as much as Labour have been prepared to encourage the tilt of the balance of power towards the centre.

#### 4. Political Parties.

Finally, it should be noted that that most important political instrument of all - the political party - has also reflected the tendency towards centralisation in the federal systems of Australia and Canada. In response to the fact that more and more issues are of nation-wide relevance and are being decided at Canberra and Ottawa, all the Canadian and Australian political parties have become more unified in their organization. As attention is increasingly focused upon the actions of the central government, tolerance towards diversity within the party structures has declined.

This development can be seen most dramatically in the Australian Liberal Party, previously the most decentralised party in either Canada or Australia. For the first time in its history the Liberal Party (previously the United Australia Party) has set up a central federal secretariat in order to exercise some measure of control over the formerly independent state sections of the party. With untiring energy, Mr. Menzies, leader of the party since the war, has imposed an unprecedented degree of uniformity upon these state sections and has successfully emphasized the party's national character. In the words of Overacker:

"The issues of the day - Communism, nationalization of banking, defence - tend to unify the (Liberal) party and focus attention upon the need for action at Canberra."<sup>31</sup>

In insisting upon the importance of an Australian-wide organization, Menzies openly admitted that he had the Australian Labour Party as a model. This is not surprising since the direct intervention of Labour in party policies has produced a political party which has been an exceedingly powerful influence for centralisation in Australia almost from the first days of Confederation. It is perhaps of some significance, therefore, that in Canada today a similar intervention by Labour in politics is being attempted for the first time. It is, of course, too early to say how successful such an experiment will prove in the political climate of North America. Nevertheless, it can be safely said that if the new party gains any degree of success, it will, like its Australian predecessor, encourage greater centralisation.

In general, the political parties of Australia and Canada have tended to emphasize their national image since the war. Even the Country Party in Australia and the Social Credit Party in Canada have attempted, the former with success, the latter without, to become national parties. At the last election in Australia, the Country Party gained a considerable number of votes in all States.

31. L. Overacker, The Australian Party System, (London, 1952) p. 269.

The trend is obvious. Despite the strongly entrenched position of the almost purely provincial Social Credit and C. C. F. parties in Western Canada, party politics like everything else in Canada and Australia is being more and more conducted on a national scale.

## CHAPTER VIII

### NATIONHOOD AND FEDERALISM

The pressures for centralisation and equalisation in the federal systems of Canada and Australia have not merely been a result of the new philosophy, of the definite and concrete desire for economic and social security. They have also arisen from what may be called a growing sense of nationhood in these countries, from the feeling amongst Canadians and Australians that the nation means more to them than the province or state. Evidence for such a feeling cannot, of course, be so precise and concrete as evidence of, say, increased welfare payments. We are here dealing not so much with particular facts or events as with attitudes of mind and climate of opinion. Nevertheless, it seems true to say that perhaps for the first time since the early days immediately after Confederation, the majority of Canadians and Australians now owe their allegiance first and foremost to the country, and not to the locality in which they happen to live.

There have been certain obvious causes for this new sense of nationhood. The main cause, of course, was the Second World War, forcing Australia and Canada to act together as nations.

"It could be argued," as one commentator has put it, "that the Second World War brought about a decisive advance towards national maturity. The greater prominence enjoyed by the central government in the political consciousness of Australia, combined with the fact that the Commonwealth government was constantly preoccupied with large matters of economic and social development and of international relations undoubtedly led to a broadening of attitude of mind among a considerable proportion of Australians. Nor can there be any doubt that the dramatic demonstrations of national capacity, political, economic, military and diplomatic that was given between 1941 and 1945 quickened the pulse of the national life."<sup>1</sup>

And equally the same could be said of Canada.

But why has the "quickened pulse of national life" remained long after the war was over? One obvious reason is that, as noted in the previous chapters, the central governments in the postwar period have become even more "constantly preoccupied with large matters of economic and social development." But in this connection, possibly more important is the fact which has not yet been discussed, that since 1945 the Commonwealth government in Australia and the Dominion government in Canada have also been "preoccupied with matters of international affairs." For, in the last fifteen years Canada and Australia have become independent world powers.

This international status, of course, apart from encouraging any sense of nationhood, has directly led to centralisation in the Australian and Canadian federal systems

1. P. H. Partridge, "Depression and War", in G. Greenwood (ed.) Australia, A Social and Political History, p. 405.

because of the burdens which it has imposed. For both Canada and Australia, but especially for the former, the price of international status has been a huge increase in peace-time defence expenditures. <sup>In</sup> ~~For~~ the 1930's Canada was spending on defence approximately from \$14,000,000.00 (1932) to \$36,000,000.00 a year.<sup>2</sup> Since 1945 it has been spending annually anywhere between \$1,500,000,000.00 to \$2,000,000,000.00. This has represented about a third of all federal expenditure and about a fifth of the total expenditure of all levels of government.<sup>3</sup> The important point about this huge defence expenditure is that it is wholly paid by the Federal Government and that, unless there is a radical change of policy on the part of the Canadian government or a remarkable development in international relations, it is unlikely in the near future to decrease. Consequently, defence expenditure more than anything else has forced the Dominion government to increase its share of total tax revenues in the country. It has also given the Dominion opportunities to exercise more effectively its national economic and social policies. The Dominion

2. National Accounts, 1926-56, Table 34, Footnote 2, p. 76.

3. Public Accounts. In 1958-59 defence expenditure dropped to \$1,442,000,000.00, a decrease of \$245,000,000.00 from the previous year. The 1958-59 figure represented 27 per cent of total federal expenditures.

in fact has used defence works to stimulate the economy of depressed areas. It has employed defence expenditure in the same way as welfare expenditure in order to effect more equalisation.<sup>4</sup> Some, indeed, have desired that this practice should be extended. "Careful consideration," writes Howland, "of a closer integration of military expenditure and regional development would seem to be reasonably desirable."<sup>5</sup> Besides, the Federal Government for the sake of defence, has continued in peace-time to undertake vast schemes of industrial and scientific research which it initiated during the Second World War. The Federal Government now spends \$50,000,000.00 annually on research of this kind, conducted mainly through the National Research Council, and the Defence Research Board.<sup>6</sup>

The same pattern of development can be seen in Australia. There the Commonwealth, after greatly reducing its expenses on defence immediately at the end of the war, has found it necessary now to raise them to an average of nearly £200,000,000.00 a year. Though this sum is smaller than that spent by the Dominion, both in absolute terms and relatively to total central governmental expenditure,

4. This point is best made in R.D. Howland, op.cit. p. 5 et seq.

5. Ibid p. 292.

6. The brief submitted by E.W.R. Steacie, President, National Research Council to the Royal Commission in the Arts, Letters and Sciences, where this increase in research expenditure is outlined.

it is still a significant amount. Moreover, as in Canada, the postwar importance of defence is not only in the increased spending on it, but on the realization that defence is closely tied up with industrial potential and techniques. In Australia, research to improve industry for purposes of defence is conducted mainly through two Commonwealth agencies - the Commonwealth Scientific and Industrial Research Organization and the National Security Resources Board.<sup>7</sup>

The direct connection between the international status of Canada and Australia and the shift in the balance of power towards the central government in these countries is, therefore, very clear.

But to return to the earlier part of this chapter, the fact that Canada and Australia have launched out since the war as fully independent members of the international community has also given people in these countries a greater sense of nationhood, a point of unity. For the first time "it can be said that the Australian (and the Canadian) government and a greater number of her people than ever before have come to recognize the need for a foreign policy."<sup>8</sup>

7. The work of this Board incidentally provides as good an example as any of the increasing interlocking of activity between Commonwealth and States. For its work is conducted through nine Commonwealth-State consultative committees.

8. P. H. Partridge, "Depression and War" in G. Greenwood (ed) op. cit., p. 395.

But the formulation of foreign policy, the decisions about what posture to adopt in international relations, is exactly the thing which most of all forces a country to work out what it stands for, one might almost say, to attempt to rationalize its existence. In any event, Canadians and Australians who are compelled to pay almost a quarter of their taxes in order to defend an entity called Canada or Australia are more likely to be concerned about and interested in that entity. It is unlikely that, again with the possible exception of Quebec, any region in Canada or Australia will have an outlook on foreign policy peculiar to itself. Issues and conflicts over foreign policy are nation-wide and ignore state and provincial barriers. The more foreign policy becomes important to Australia and Canada, therefore, the more the balance of power will shift to the centre. For in this field it is the central government which makes the decisions. In the assemblies of the world Canada and Australia must speak with a single voice.

But there are other reasons why a stronger sense of nationhood has been developing in recent years in these countries. There appears to have been a process, hard to define and hard to measure, leading towards greater cultural unity. This has been very largely a consequence of the work of nationally sponsored mass media, notably the C. B. C. in Canada and the A. B. C. in Australia.

Both systems were established in the thirties and have had since a strong unifying influence. This fact is repeated by almost every brief presented on the subject in Canada to the Massey Commission in 1951 and to the Royal Commission on Broadcasting in 1957.<sup>9</sup> This is not surprising when it is remembered that to foster national unity was one of the original aims of both broadcasting systems (and now presumably of their television networks). The Massey Commission Report, for example, said:

"Recalling the two chief objects of our national system of broadcasting, national unity and understanding, and education in the broad sense, we do not think that American programmes, with certain notable exceptions, will serve our needs."<sup>10</sup>

In another brief, the observation was made that:

"It is certain that the energetic efforts of the C. B. C. have done much to bring us together. From Vancouver Island to Newfoundland from McKenzie River to the border, Canadians have been given a new consciousness of their unity."<sup>11</sup>

There have been other media by which an attempt to foster national unity has been made. In 1945, on the recommendations of a Commonwealth government inter-departmental committee, an Australian National Film Board was established to produce films for use, amongst other things, within Australia on important matters of national interest and

9. Especially the strongly worded briefs of the C.C. of L and the Canadian Federation of Agriculture to the Royal Commission into the Arts, Letters and Sciences.

10. Royal Commission in the Arts, Letters and Sciences Report p. 47.

11. Brief of the Canadian Chamber of Commerce, (Montreal) p. 2.

welfare. A similar Film Board had been established six years earlier in Canada. It was to be controlled by a Government Film Commissioner who was to

"advise upon the making and distribution of national films designed to help Canadians in all parts of Canada to understand the ways of living and the problems of Canadians in other parts."<sup>12</sup>

There seems to be a growing recognition on the part of the Dominion government especially, that it has a duty to encourage this process towards cultural unity. Perhaps the most dramatic and most recent expression of this encouragement came in 1957 when the Canada Council was established. In the Act of establishment it was written that "the objects of the Council are to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences."<sup>13</sup>

It can, of course, be argued that the influence of institutions like the Canada Council is felt by only a few Canadians, scholars, writers, artists and the like. Nevertheless, it is always this elite group of men who shape the climate of opinion in any country. For this reason, the part played today by the universities in both Canada and Australia is increasingly significant. For, in the words of the Massey Commission:

12. National Film Act, 1939, Section 9 (a), R.S.C. Vol. III, c. 187, pps. 3903-3920.

13. Canada Council Act, Cl. 8 Subsection 1, Statutes of Canada, 5 Eliz. II, 1957, c. 3.

"They (the universities) can now rightly claim that they play also a national role. To the graduate and specialized schools in Canadian universities come students from every part of the country.<sup>14</sup> This has led to the creation of a network of cultural communication between province and indeed with other countries."<sup>15</sup>

Confirmation of the fact that a completely nationally-conscious elite has arisen at least in English-speaking Canada is given by the writings of a group who are hostile to this development. In 1954 the Societe Saint Jean-Baptiste de Montreal, a leading exponent of extreme French-Canadianism, produced a submission to the Quebec Tremblay Commission<sup>16</sup> in which they condemned the tendency of centralisation in the federal system. But they had this interesting comment to make:

"Le Canada Anglais de 1954 forme une veritable nation-etat. Son gouvernement puissant fournit a la societe Anglo-Canadienne, les cadres politiques, economiques, et sociaux dont toute nation a besoin pour se developper et s' epanouir. Un groupe d'elite formis de penseurs politiques, d' universitaires renommes, d' ecrivains, d' historiens, d' economistes, de legistes eminents a renoue . . . la tradition nationaliste et centralisatrice qui avait inspire les principaux auteurs de la constitution de 1867. Les universites du Canada Anglais ont ete a l'avant-garde de cette prise de conscience nationaliste Anglo-Canadienne. Leurs professeurs et leur diplomes ont noyaute les ministeres federaux et fourni aux partis politiques de leurs dirigeants . . .<sup>17</sup>

14. In Australia there is a most outstanding example of such a graduate and specialized school, i.e., The Australian National University.

15. Op. cit., p. 134.

16. This was a Quebec Royal Commission of Inquiry into Constitutional Problems (called "Tremblay" after its chairman)

17. Societe Saint-Jean-Baptiste de Montreal, Canada Francais et Union Canadienne, p. 30. (brief presented 13th May, 1954, to the Tremblay Commission).

However, the very fact that the Société Saint Jean-Baptiste was careful to emphasize that this national consciousness, stemming largely from the universities, was a purely English-Canadian phenomenon seems to imply that, unlike in Australia, the growing sense of nationhood in Canada is only partial. It seems to imply that Canadian nationhood can still adequately be compared to a walnut, to use the picturesque analogy of K. Sandwell. "It has a single shell, but within the shell are two quite distinct formations of meat flimsily joined in the centre."<sup>18</sup>

It is doubtful, however, if this is still completely true. A discussion of the conflicting opinions and attitudes in French-Canada today is beyond the task of this thesis. It is sufficient to note that a strong body of opinion, especially amongst young intellectuals, is now demanding that French-Canadians, while retaining their own culture, should attempt to join with English-Canadians in building a genuinely national Canadian culture. This desire for a combined English and French-Canadian culture is, of course, associated with the recent trend, noted earlier, for Quebec to become politically less separatist and one of its major exponents is the Education Minister in the new Liberal Quebec government, Gerin-Lajoie. Even in 1951 the Massey Commission could truthfully say:

18. K. Sandwell, Present-Day Influences on Canadian Society in Special Studies, presented to the Royal Commission in the Arts, Letters and Sciences, p. 2.

"We thought it deeply significant to hear repeatedly from representatives of the two Canadian cultures expressions of hope and of confidence that in our common cultivation of the things of the mind, Canadians, French and English-speaking can find true Canadianism."<sup>19</sup>

Even outside intellectual circles this broader attitude of mind is becoming apparent in more and more French-Canadians. This is very largely the result of large-scale migration of the rural population to the cities and "the influence of such mass media as the movies, television and radio. And in this," a commentator in the Round Table says, "lies the best hope for the future better understanding and co-operation between the two major racial groups in Canada."<sup>20</sup>

The main opposition in French-Canada today is in fact not to English-Canada per se but to American influence in English-Canada.

"It is our wish that our culture in its development," said Premier Lesage in 1960, "may have its full place throughout Canada. We believe that the French Canadians have an essential contribution to make to Canadian life, even if it were only to help avoid the threat of American cultural dominance."<sup>21</sup>

Indeed this fear of American influence not only in the cultural field, but also economically, is one of the main forces making for a greater Canadian national consciousness

19. op. cit p. 271. Possibly the clearest and most forceful exposition of this hope was given by none other than ex-Prime-Minister, Louis St. Laurent in an important speech delivered at the Reform Club, Quebec City, Sept. 18th, 1954.

20. An article, Duplessis and His Heirs, in Round Table, Dec. 1959.

21. Proceedings of the Dominion-Provincial Conference, July, 1960, p. 125.

since the war amongst both French and English-speaking Canadians. It is significant that the only comparable peace-time period when a sense of Canadian nationhood perhaps was as strong as today was the time around Confederation when fear of American influence was again an important factor.<sup>22</sup> At that time Canadians feared the strong nation to the south of them so much, that they were prepared to forsake a large amount of provincial autonomy, join in Confederation, and encourage a strong central government to formulate national policies to ensure the separate identity of Canada. Equally there are signs that uneasiness today about American dominance will encourage centralisation in the federal system. Strong action from the Federal Government, it is agreed, will be necessary if the separate character of Canada is to be retained.<sup>23</sup> The Gordon Commission in its Report, for example, continually emphasized in this connection the necessity of central economic policies. "Efforts have and should be made," said the Report, "by the Federal Government to encourage imports from areas other than the U. S. A."<sup>24</sup> Perhaps, however, the point was put most concisely by ex-Prime-Minister, Louis St. Laurent:

22. R. M. Dawson, op. cit., p. 27 et seq.

24. op. cit., p. 374.

"French-Canadians," he said, "are not the only ones to worry about their chances of survival. English-speaking Canada was built in opposition to the States; it no longer has any doubt as to its material strength and is even proud of it. But it seeks to consolidate its spiritual and cultural foundations. Ever since it was established in 1763, British Canada has been concerned with the same question: how to become a nation-state strong enough to withstand the attraction of an over-powerful neighbour."

And this problem, St. Laurent went on, was more acute today (in 1954) than it had ever been.<sup>25</sup>

Australia, socially homogeneous, has had far fewer obstacles than Canada in the path towards a full national consciousness. But, like Canadians, Australians too have had a particular external pressure driving them more quickly in the postwar period to a sense of nationhood.

This has been the danger of "the yellow peril", the fear, that is, that at some time in the future the overcrowded peoples of southern Asia will overrun the underpopulated Australia. This, of course, has been a fear in Australia for a considerable length of time. But the intimacy of the danger was only felt during the Second World War when Japanese invasion seemed imminent. Since then, the growth in power of a decidedly hostile Communist China, as well as the instability of newly independent Asian countries, notably Indonesia, has kept

25. St. Laurent, Speech to the Reform Club, Quebec City, Sept. 18th, 1954. (unpublished).

the danger more clearly in the minds of Australians than ever before.

Already the vastly increased assisted immigrant programmes of the Commonwealth since 1945 have been noted. This has been an attempt to counter the threat from Asia. For, as some Australian statesmen have said, "we must populate or die." The increased defence expenditures in Australia may also be seen as part of the attempt to ensure Australian security from the Asian threat. Clearly, the differences between Australians of different regions pale before the differences between Australians as a whole and their increasingly menacing Asian neighbours.

It may be true, as some commentators allege, that neither Australia nor Canada have really evolved yet a peculiar political or social philosophy. But the recent attempts of Canadians and Australians to do so, the fact that they are holding a review of nationhood, is significant. The effects of these attempts upon the balance of power between centre and localities may be intangible. But they must not just for that reason be ignored.

## CHAPTER IX

### WHY DO THE PROVINCES AND STATES RETAIN POWER?

Despite all the increased social welfare and defence expenditures of the central governments, despite the fact that the central governments have become the chief tax collectors and the dominant force in maintaining a healthy economy, the local governments in Australia and Canada are still of the first importance. Indeed one author writing in 1960 could say of the Canadian scene:

"In contrast to the massive immobility of the federal budget those of the provinces and particularly of the municipalities are rolling forward in a gathering momentum simply to provide the facilities now required to maintain a standard of living that is good but hardly gilded."<sup>1</sup>

This, then, is the enigma of postwar federalism in Canada and Australia, that contrary to all the developments making for centralisation there are still clearly forces encouraging local autonomy.

These forces are still the same today as they have been in the past, the only difference being that many of them are now much less powerful than before.

The basic reason, of course, for a federal system of government is diversity between regions. In its Second Report, the Commonwealth Grants Commission had this to say:

1. Editorial, Canadian Tax Journal, Vol. VIII, No. 5. September-October, 1960, p. 297.

"Sectional groups and regional interests tend to present and to press their specific points of view. This produces a demand for division of the large political unit into small ones."<sup>2</sup>

The very size of both Canada and Australia naturally has encouraged such diversity. In the words of Premier Smallwood:

"Canada, it so happens, is the third largest land mass in the world. Only Russia and China are bigger. Canada is, therefore, so big that no one government could hope successfully to govern it. It takes eleven."<sup>3</sup>

But these are general and not very meaningful statements. It is doubtful, for example, if today geography alone would prevent the development of unitary systems of government in Canada and Australia. In fact it is necessary to look behind the useful, but vague phrase, "diversity of regions," to see what are the real forces which have kept the regions apart and to see if they are still powerful enough today to continue doing so. Economic, political and social forces in turn, therefore, will now be discussed briefly.

### 1. Economic Forces.

In his book on Agrarian Socialism, S. M. Lipset maintains that the main reason why the Province of Saskatchewan has desired to keep its autonomy is the fact that that

2. Commonwealth Grants Commission, Second Report, 1935, p. 42.

3. Proceedings of Dominion-Provincial Conference, 1957, P. 7.

province consists almost entirely of one economic class - the primary producer dependent on the market. This means that the provincial government of Saskatchewan can act as the spokesman of one common interest group. The farmers in Saskatchewan have found it useful, in other words, to employ the provincial government as an instrument to defend their interests.

This is one example, if perhaps the most outstanding, of an economic interest group lending support to local governmental autonomy. Such a phenomenon arises where, as in Saskatchewan, a province or state consists largely of only one economic interest. Alberta and Manitoba, for example, were for long similar to Saskatchewan in the predominant position of the wheat producer within them. It was for this reason, therefore, that they joined Saskatchewan in strongly condemning the East in the 30's. Alberta, Saskatchewan and Manitoba in their different ways were each in these days speaking with the same voice - the voice of the farmer who felt victimized by the financiers of Toronto and Montreal.

To some extent Western Australia was in a comparable position in that decade. The vehemence of its claims against the central government and the other states largely reflected and was based upon the vehemence of the outback pastoralist against financial control from the big cities of New South Wales and Victoria.

Two out of many other examples of the effect of the predominance of one economic interest group in a state or province may be cited. The importance of fruit growing to Tasmania is reflected by the fact that the Tasmanian government continually had its main casus belli with the Commonwealth over questions of fruit marketing, prices and transportation. In an almost similar way the predominance of the fishing industry in Newfoundland has made the government of that province put the defence of fishing interests as one of its main concerns.

The important point about all this is that in each of these cases, the local government is given strength to maintain its independent position because it speaks for the interests of one economic class, be they wheat farmers, fruit growers, or fishermen.

But the phenomenon of an economic group lending support to provincial autonomy also arises where a particular type of economic interest, though not necessarily predominant, is to be found only in one province or state. The best example of this is the sugar interest in Queensland. That State is the only one in Australia where any amount of sugar is grown and, therefore, the sugar owners bring influence upon the Queensland government to intercede on their behalf with the Commonwealth. It was through the pressure of the Queensland government, for example, that the sugar interests were able to obtain the minimum

guaranteed price system which has been in existence since the war.<sup>4</sup>

Another example of this has been the influence of the gold-mining concerns upon Western Australia. Again, almost all gold-mining in Australia has been undertaken in that State, and consequently the Gold Producers' Association, with its headquarters in Kalgoorlie, has encouraged Western Australia's independent status. For the Association rightly feels that it can exercise more influence by working through the government at Perth than if it were but one pressure group amongst many struggling to influence the decision makers at Canberra. Like the sugar producers in Queensland, the gold producers in Western Australia have found it to their advantage to use the special bargaining position of the State government. And the success of this method was again proved when, under pressure from West Australia, the Commonwealth in 1939 agreed to pay annual subventions thereafter to the gold-mining industry.

Clearly, then, in the past there have been economic forces which have encouraged the independence of local governments. It is, however, doubtful if they are so strong today. The reason for this is simple. In the last twenty years or so a tremendous diversification of economy has taken place in almost every state in Australia and every province in Canada. No longer are regions so dependent upon one single economic process.

4. cf. above p. 123.

This has been seen most dramatically in the prairies. Manitoba, whose provincial output before the war consisted very largely of agricultural production, now has important manufacturing interests. In the words of Premier Roblin, "We have continually maintained our efforts to diversify and strengthen the industrial complex of this province."<sup>5</sup> Besides, even within the agricultural field the trend in Manitoba since 1939 has been to reduce the numbers employed on primary wheat-growing. There has been greater concentration on livestock and mixed farming.<sup>6</sup> A similar development has occurred in Alberta and Western Australia. In Alberta, of course, the exploitation of new oil resources and the rise of a complex of industries based on oil has ensured in recent years that the wheat-farmer interest, if still important, is no longer completely dominant. Likewise the rise of secondary industry in Western Australia has made that State much less dependent on the pastoralist.<sup>7</sup> The point to notice here about this diversification is that these provinces and states can no longer each speak with one voice. The provinces of Manitoba and Alberta, for

5. Duff Roblin, Manitoba Budget Statement and Economic Review, 1960, p. 9.

6. Ibid p. 16.

7. Proof of this is the fact that in 1931 only thirty-one out of 1,000 of the population in Western Australia were factory employees, in 1958, seventy-six in 1,000 were. cf. Australian Grants Commission Reports.

example, can no longer take such a definite stand on the question of the tariff. In the days when the wheat farmers were completely predominant, the governments of these provinces would have had no hesitation in condemning the tariff, but now with important industrial interests to keep in mind their position must be more flexible. In other words, more and more a cross-section of national economic conflicts are being fought out in these provinces. They have lost a lot of their peculiarity, a lot of their distinctiveness.

"The distinctions between the interests and the points of view of people living in different parts of Canada," wrote the Gordon Commissioners, "are not quite so sharp as they once were. As the economy of certain areas which at one time were dependent solely on certain types of export trade became more diversified this trend may be expected to continue."<sup>8</sup>

With all provinces and states becoming more and more an economic microcosm of the nation at large, particular economic interest groups will be less inclined to work through state and provincial governments. Local governments, therefore, will be less able to justify and maintain their separate existence because they represent and defend the interests of a particular economic group.

However, this is a slow process and the continued predominance of wheat farming in Saskatchewan, of fishing in Newfoundland, the continued importance of sugar producing

8. Royal Commission on Canada's Economic Prospects, Final Report, p. 438.

in Queensland and gold-mining in Western Australia is for a long time in the future likely to give these states and provinces just such a particular economic interest to defend. Such a defence will long provide for them a *raison d' être*. It is time now to turn from economic to political forces.

## 2. Political Forces.

Speaking of the federal system in the United States, V. O. Key says:

"A characteristic of the federal system seems to be that conservative entrenched interests in the long run can better protect themselves in dealing with state legislatures than with Congress or with federal administrators."<sup>9</sup>

The same point is made by Neumann who maintains that reactionary interests shelter behind states rights.<sup>10</sup>

This thesis that conservative forces, entrenched in a privileged position, give strong political support to local autonomy has become a generally accepted part of the critique of federalism. Some commentators have applied it to Canada and Australia.

"The retention of upper houses," writes Louise Overacker, "and the disproportionate representation of rural areas in some of the lower houses may explain why . . . efforts to expand its (i. e., the

9. V. O. Key, Politics, Parties and Pressure-Groups (New York, 1952).

10. F. L. Neumann, Federalism and Freedom: A Critique, in A. W. MacMahon (ed), Federalism, Mature and Emergent, p. 53-55. Presumably the best example is still the white segregationists in Louisiana and adjoining states.

Commonwealth's) sphere are so stubbornly resisted. These brakes are exploited to the full by those who are suspicious of the radicalism of industrial workers." 11

This argument was spelled out even more clearly by G. Sawyer in his introduction to a collection of essays on Australian Federalism.

i "In Australia," he wrote, "as in U. S. A., there is a connection between conservatism and states-rightism: in Australia there has been a swing to the right (1949-50)<sup>12</sup> and the swing has been a reaction not only against the parties of the left but also against the policies which had been associated for several years with the central rather than the state governments" <sup>13</sup>

It will be noticed, however, that both Overacker and Sawyer were writing about Australia just after the fall of the Labour Party. Had they written today they would have seen that, contrary to their beliefs, the conservatives in Australia have actively pushed on the process of centralisation. The Menzies governments have certainly not encouraged states-rights. In fact the argument that conservative interests inevitably support local autonomy is not axiomatically true. They do so only when they are not in power at the centre. Their opposition between 1944 and 1949 to Commonwealth actions was not due to suspicion of Commonwealth domination, but rather fear of Labour domination.

11. L. Overacker, op. cit., p. 27.

12. He refers to the defeat of the Labour Party in the general election of 1949.

13. G. Sawyer, Federalism, (Melbourne 1952) Introduction p. VII.

It is for this reason, therefore, that local governments are supported by political groups who are out of power at the centre. They rationalize their support, of course, with arguments about the advantages accruing from strong local government. But essentially the support is given due to the particular political situation of the moment.

The main political force making for local autonomy has not indeed been any conservative interest group of this sort. The main force rather has been quite simply the force of tradition, of habit. In the words of P. H. Partridge:

"Apart from everything else, states have been operating as distinct governments for over a century, and they are sufficiently protected by the ~~natural~~ <sup>natural</sup> tenacity of long-established institutions and habits." 14

The force of habit must never be underrated. Even if there was no other justification today for the continued independent existence of local governments, the fact that they have existed independently for so long would provide one.

A strong tradition of defence of local governmental autonomy has developed as a result of the long experience of provincial and state independence. Naturally this tradition has been most strongly developed by those who have had a direct and intimate interest in the continuation

14. P. H. Partridge, *Depression and War*, in G. Greenwood (ed) Australia, a Social and Political History, p. 393.

of provincial and state powers - that is, the provincial and state politicians and civil servants. These men are devoted to the cause of local autonomy and their opposition to pressures from the centre is consistent no matter what political party is in control of the central government. The local politicians and civil servants have often established in their province or state a non-political administrative regime separate and distinct from the rest of the nation, and determined to defend local interests. Thus, for example, W. L. Morton speaks of the long Bracken administration in Manitoba as follows:

"Under the non-partisan, unpolitical leadership of Premier Bracken there had developed an able and devoted civil service commanding . . . a high order of talent and a driving sense of duty. The various ministries of Premier Bracken had been governed by the belief that their task was a straightforward administration of provincial business."<sup>15</sup>

And this was a task they were determined that no Federal Government, of whatever political colour, would prevent them from fully undertaking.

This force of habit, backed by the energy of local politicians and civil servants, is possibly the strongest force today encouraging the continued autonomy of local governments. Due to this force, the cold war between centre and localities will continue. The provinces and states will pursue "their policy of containment," whatever

15. W. L. Morton, Manitoba; a History, (Toronto 1957) p. 460.

political party is in power at Canberra and Ottawa.

It is for this reason, for example, that today Premiers Frost of Ontario and Roblin of Manitoba, both Conservatives, have shown strong disagreement with certain federal policies though these have been formulated by a Conservative government. At the recent Dominion-Provincial Conference in 1960, Premier Frost, "seeking only what is the right of the provinces under the constitution,"<sup>16</sup> opposed the Conservative Diefenbaker government as strongly as he had earlier opposed the Liberal government of St. Laurent.

This tradition of defence of provincial and state interests, then, has often forced local politicians to clash with the federal representatives of their political parties. This fact makes us cautious of assuming that the major political parties in Canada and Australia are completely monolithic. Certainly it was seen in an earlier chapter that there had been recent tendencies towards a more unified organization in them.<sup>17</sup> But still today there remain strong forces of diversity within their structure.

Thus Louise Overacker, writing in 1952, could say the following about Australian political parties:

16. Proceedings of the Dominion-Provincial Conference, July, 1960, p. 18.

17. above p. 167-69.

"Although the trend has been in the direction of more effective control by federal organs, it is a trend which has been stubbornly resisted by the States, and as long as state executives control endorsement of candidates, federal as well as state and the financing of campaigns they will continue to be masters of their respective bailiwicks."<sup>18</sup>

It still remains true to say that in Australia and even more in Canada it is only when the federal organs of a party have the overwhelming support of the provincial or the state movement that it is possible for them to take a firm stand against a provincial or state executive.<sup>19</sup>

One other political force making for local autonomy should be mentioned. In Canada over the years a custom has arisen whereby the federal cabinet contains at least one representative from each province. This tradition presumably grew up on the assumption that a federal minister in the cabinet would there defend and support the interests of the province in which his constituency was placed. Each province, in other words, would have a friend in court. It is, of course, impossible to say whether this assumption has been valid or not. Any such pressure by a cabinet member on behalf of a particular province would almost certainly be effected in an informal way and

18. L. Overacker, The Australian Party System, p. 319.

19. The most outstanding example of such "a firm stand" was the successful action which the central Australian Labour Party took against Lang in New South Wales in 1939.

would not be officially recorded. But there is a general belief that this tradition is not very significant. Mr. Beck, for example, after studying the evidence in relation to the Province of Nova Scotia firmly concludes that at Ottawa Nova Scotian members of parliament generally and members of the cabinet in particular, are far more concerned with maintaining party solidarity than with safeguarding provincial interests.<sup>20</sup> Besides, the custom has not been perfectly adhered to. From 1943 to 1958, for instance, there was no cabinet representative of the Province of Prince Edward Island.<sup>21</sup>

### 3. Social Forces.

It was noted in the Introduction that one major reason for greater provincial strength in Canada than state strength in Australia was the existence in Canada of a province - Quebec - one of whose main aims was the defence of the interests of a minority cultural group. The fact that the government of Quebec has spoken as the representative of French-Canada has given an added force to its claim to provincial autonomy. If the central government interferes in the affairs of Quebec, it is not

20. J. M. Beck, The Government of Nova Scotia, This view is supported by R. M. Dawson, op. cit. pp. 214-15.

21. F. Mackinnon, Government of Prince Edward Island, p. 294.

only denying provincial rights, it is also, many have argued, denying the rights of a people.

The association of Quebec with the interests of French-Canadianism has had in the past an important effect not only on Federal-Quebec relations but on the whole field of federal-provincial relations. For Quebec, by always emphasizing and acting in defence of provincial rights, attempted to tilt the balance of power throughout Canada towards the provinces. It is conceivable that without the continual exertions of that province, the other English-Canadian provinces would have been more prepared to acquiesce earlier in a greater amount of federal activity. The whole concept of provincial autonomy was to a large extent shaped and kept alive by the social force of French-Canadianism, working through the government of Quebec.

But is this still a force to be reckoned with today? It has already been mentioned that in recent years there has been a greater acquiescence in Quebec in federal economic and welfare schemes; that amongst younger intellectuals especially, there has been a desire to have an all-Canadian culture.

But again a caveat must be inserted. Because these trends are clearly visible does not mean that French-Canadianism as a force for diversity has completely disappeared. The present members of the Quebec government

may not speak in the tones of Duplessis, but they still emphasize the need for provincial rights. This need, for example, was clearly outlined by Premier Lesage himself at the Dominion-Provincial Conference in 1960.<sup>22</sup> and by Gerin-Lajoie, now the Quebec Minister of Education, in a long and interesting article written in the Canadian Tax Journal in 1957.<sup>23</sup>

But in any case, the present Quebec government, reflecting the views of the younger intelligentsia, represents the point of view of only a part of the province. Opinions do not change overnight and it is still only three years since the ultra-nationalist Duplessis was in power. It is still only five years since a Quebec Royal Commission produced a comprehensive report recommending the continued vigilance of provincial rights.<sup>24</sup> There are ~~still~~ many in

22. Proceedings of Dominion-Provincial Conference, July, 1960, p. 132.

23. Gerin-Lajoie, Looking to a New Era in Federal-Provincial Relations, Canadian Tax Journal, January-February 1957, pp. 62-68.

24. The Tremblay <sup>Commission</sup> made the recommendations that the Federal government leave personal income-tax solely in provincial hands, that all social services be handled by the provinces and that the provinces more closely co-ordinate their actions so as to offset the Federal government. It concluded, "the primary purpose of Canadian federation is to allow the two great cultural communities which make up our population to live and develop themselves according to their respective particularisms . . ."

Quebec, especially in the countryside, who would still agree with the now famous assertion of Henri Bourassa:

"We (the French-Canadians) are not only a civilized race, we are the pioneers of civilization, we are not only a religious people, we are the messengers of the religious idea. Our mission is to make shine afar the luminous fire of religion and thought."

Clearly, whatever the future may hold, French-Canadianism is still today a strong and peculiar force making for provincial autonomy.

It is important to notice that these economic political and social forces today making for the continued independent existence of states and provinces are but a modified extension into the post-1945 era of those forces which existed before the war. Their growing weakness in the last fifteen years has not been compensated by the rise of new ones. Yet for all that they remain strong enough to explain why in a period of increasing central activity, the provinces and the states still play an important part in the government of these countries.

## CHAPTER X

### CONCLUSION

Four questions were posed in the Introduction to this thesis. It was asked, what have been the new post-war political, economic and social forces in Canada and Australia? How have they affected the balance of power between centre and localities and has their effect produced precisely similar results in both countries? Are these developments in centre-local relations likely to continue in the years to come? Finally, in the light of these trends, does the term "federal" remain an adequate description of the systems of government in the two countries?

It has been seen that in both Canada and Australia the postwar period has been distinguished from previous periods by the overriding desire by people for economic and social security and by the desire that this security should be brought about by governmental action. The Keynesian State and the welfare state in these countries, though possibly foreshadowed before 1939, were born during the war and have come to fruition since. These fundamental social and economic developments have also been associated since 1945 with an increasing sense of Canadian and Australian nationhood. Originally fostered by the war-time spirit, this sense of nationhood has since been fed

from many sources. On the one hand, it has grown from the realization that Canada and Australia for the first time are fully independent international powers, bearing the burdens necessary to maintain that status. On the other hand, it has grown from the unifying force of the mass media and from the attempt of the Canadian and Australian intelligentsia to find a clearly distinct national identity.

These novel postwar forces, combined with the ever-increasing complexity and interdependence of the Canadian and Australian industrial economies, have brought about three important changes in the federal systems of the two countries.

Most dramatically, they have encouraged an increase in the power of the central governments. It was noted that the full extent of this centralisation can be seen only if all aspects of life are examined. For the Commonwealth and Dominion Governments have become clearly the most important agencies not only in tax collection, but in the formulation of economic policies and in the payment of health and welfare benefits. Even in the hallowed field of education they have begun to oust the provincial and state governments. The contrast with the prewar period is indeed remarkable.

In 1930, W. K. Hancock wrote this of Australia:

"The average citizen," he said, "looks more frequently to the government which sits in Melbourne or Adelaide than to the government which

sits in Canberra. It is this close, more intimate government which protects him from the wicked, educates him, watches over his health, develops roads and railways and water supplies that he may find permanent employment as a farmer or temporary employment as a navy, regulates his local trade conditions . . . performs, in short, all those functions which seem to affect most nearly his economic and social well-being. Canberra itself is less a national capital than the monument of a compromise between jealous provincialisms." 1

But since then the roles have been reversed. In both Canada and Australia it is the central governments which are the more intimate. For it is they which now affect Canadians and Australians in the most crucial aspect of their lives. Whether people are employed or not, whether they are kept above subsistence level or not, whether they are maintained in adequate health or not, even whether they are given an opportunity to enjoy higher education or not depends now as much, if not more, upon the actions taken at Canberra and Ottawa as upon those taken in the provincial and state capitals. National economic, social and cultural problems have necessitated national remedies. People may disagree with the policies formulated by the central governments. But one thing is sure and that is that they cannot remain unaffected by them.

The Dominion government in Canada and the Commonwealth government in Australia now clearly hold the initiative in the direction of the affairs of their respective countries and the point made by V. C. Fowke is peculiarly apt. He

1. W. K. Hancock, Australia, p. 125. (London 1931).

maintains that the Dominion government in Canada has since the war launched upon the second national policy which Canada has seen. The first national policy was, of course, the energetic use made by the Dominion of the tariff, railways construction, and active land settlement in order to shape a nation based on a closely integrated wheat economy, out of a group of sparsely populated colonies.

"It is no coincidence," he writes, "that the relative completion of the processes creating the wheat economy in the late 1920's marked distinctly the end of a phase of the national policy and called for the discovery of new federal purposes."<sup>2</sup>

Such new federal purposes, Fowke maintains, have now at last been found in the wide ranging postwar economic and social policies of the Dominion government.

But it is fair to note that the grasp of the initiative by the central government has been even more thoroughgoing in Australia than in Canada. With its dominant position in the tax field more securely held, with its more extensive directly administered health and welfare schemes and with its more considerable participation in the field of university education the Commonwealth has greater power than the Dominion. If since 1945 the tilt in the balance of power in Canada has been away from the localities to the centre, the tilt has been even more pronounced in Australia.

2. V. C. Fowke, The National Policy and the Wheat Economy (Toronto 1957), concluding chapter.

The second trend in federal relations caused by the new forces in postwar Canada and Australia has been equalisation. It has been seen that this process of reducing the inequalities between the regions has been effected both in a direct fashion by means of the central governments' transfer payments to the provinces and states and in an indirect way through their economic and welfare policies. It was also noted that in this process, the developments in Canada had been more remarkable than those in Australia, largely because in Canada the inequalities have been more pronounced.

In this field much remains to be done. But there is no doubt that the experiences of the thirties and of the war have made it increasingly repugnant to Australians and Canadians that the measure of their economic and social security should depend upon the accident of their residence in one state or province or another. The demand for common nation-wide standards for basic services will continue to grow.

But largely as a result of the two trends of equalisation and centralisation it was further seen that the nature of the Canadian and Australian federal systems was changed by a vast interlocking of activity between the two levels of government.

"Though sovereignty excludes dependence," said Premier Lesage in 1960, "it requires constant co-operation between governments and often joint action on their part: Otherwise

it will be impossible to find an adequate solution for many problems." <sup>3</sup>

Or again in the words of St. Laurent five years earlier:

". . . in our time, it is impossible in a federal state to distribute jurisdictions and responsibilities in such a way as to permit different governments to ignore one another." <sup>4</sup>

Even in 1940 the Rowell-Sirois Commission had said that "co-operation between the autonomous governments of the federal system has today become imperative." How much more this is true today. For the execution of the central economic short-term and long-term policies, for the administration of national welfare and health schemes, for the most effective use of available taxation, continuous consultation and co-ordination between the centre and the localities is a sine qua non.

Perhaps the most concise statement of this third trend is given by a man whose newly created office is itself a reflection of the trend. R. M. Burns, Director of Federal-Provincial Relations at Ottawa writes:

"Certainly in Canada, the area of overlapping interests widens with the years. It is now difficult to find very many areas of provincial activity which may not in some way, at some time, impinge upon the national interest. Conversely, it is with effort we find those of the federal government that do not in one way or another impose themselves upon the provincial domain."

3. Proceedings of the Dominion-Provincial Conference, July, 1960, p. 125.

4. Proceedings of the Dominion-Provincial Conference, October, 1955.

"Consequently," he continues, "it has only been in the past twenty years, that any real emphasis has been placed upon collective bargaining in the inter-governmental field of operation." 5

And what he says of Canada applied with equal force to Australia.

One of the more remarkable features of these three trends in Australian and Canadian federal relations since the war is the fact that they have developed within the framework of almost unchanged constitutions. Only two amendments to the constitution in all have been passed in the two countries since 1945 and there has been little change in judicial interpretation. Clearly, the adjustment of centre-local relations to the new economic and social forces of the day has not been according to a "grand plan for the alteration of the constitution" as proposed by the Rowell-Sirois Commission and the 1945 Proposals of the Dominion government in Canada. The adjustment rather has been made by a series of "continuing experiments in practical government, by compromises and piecemeal legislation." Consequently today the formal constitution does not reflect very accurately the shift in the balance of governmental power in Australia and Canada. Its only real effect indeed has been to force the central governments to exercise their increased powers in a roundabout fashion, usually by collaboration with the states and provinces.

5. R. M. Burns, op. cit. p. 8.

Moreover, it seems that despite what constitutions say or do not say these three trends in Australian and Canadian federal relations will continue to develop in the near future. They will do so because on the one hand, new postwar pressures which have given rise to them will, if anything, increase in force. The demands for economic and social security will not diminish until such security is achieved. The sense of nationhood in both countries is almost certain to grow. The complexity and intricate nature of their industrial economies will become more pronounced. On the other hand, the countervailing forces making for provincial and state power and independence are likely to grow weaker. With continued diversification of the economy in each province and state, with increasing focus upon national issues in the political parties, Labour and businessmen's organizations, and with the development of a broader outlook amongst the people of Quebec, the provinces and states will find less support for their independent position. Even as it is, they are relying on forces which are in many cases an overlap from a previous age. In a sense, they are living on borrowed time.

In the light of all these postwar developments, then, and in the light of the fact that they are likely to continue in the future, is the term "federal" still relevant to the systems of government in Canada and Australia?

According to the classical definition of federalism given by K. C. Wheare, the following points are enumerated as essential for a system of government to be called federal:

"There must be a division of powers between one general and several regional governments, each of which, in its own sphere, is to co-ordinate with the others; each government must act directly on the people; each must be limited to its own sphere of action; and each must, within that sphere, be independent of the others." 6

But it is clear that at least the last two points of his definition cannot now apply to the Canadian and Australian federal systems. A province or a state which depends, for a large amount of its revenue, for its exercise of health and welfare policies, even in practice for its power to borrow, upon the will of the central government can hardly be called independent of other governments within its own sphere of action.<sup>7</sup>

This fact was recognized by A. H. Birch who wrote that:

"Whereas the guiding principle of eighteenth and nineteenth century federalism was the independence of state and federal authorities, the guiding principle of mid-twentieth-century federalism is the need for co-operation between them. Consequently", he says, "the last two of these (i. e., Wheare's) points seem inappropriate at the present time, for the older federations have developed practices . . . which are clearly incompatible with these conditions." 8

6. K.C.Wheare, op.cit., Chaps. 1 and 2, p.11-12 and 32-33.

7. K.C.Wheare, himself was forced to call the Australian system quasi-federal cf. op.cit., p. 28.

8. A. H. Birch, op.cit., p. 305.

Birch, therefore, decided that only the first part of Wheare's definition would be essential:

"A federal system of government is one in which there is a division of powers between one general and several regional authorities each of which acts directly on the people through its own administrative agencies." <sup>9</sup>

But does even this new definition of "co-operative federalism" (as Birch calls it) really describe the existing system of government in Canada and Australia?

It seems that Birch, perhaps because he was examining only certain aspects of federal relations, perhaps because he extended his comparative study to include the U. S. A. as well as Canada and Australia, in elaborating his new definition was only taking into consideration one of the recent trends of the federal systems - the vast interlocking of activity.

But the other two trends of centralisation and equalisation have meant that this interlocking of activity has not developed between two equal levels of government but has been directed and initiated solely from the centre. The whole network of matching grants, for example, paid by the central governments to the regional authorities do not entail an equal power to make decisions on the part of the two levels of governments. By their nature, they mean that the final decision of approving any scheme lies in the

9. Ibid., p. 306.

hands of the central government alone. "Co-operative federalism" may not, therefore, be the way, as Birch suggests, by which a system involving a division of powers between governments can adapt itself to the new economic and social pressures. It may rather be the painless transition from a system of division of powers to a system of delegation of powers. Caught in the web of central financial, economic and welfare schemes, the provinces and states are being changed from independent legislative units into mere administrative agencies. "Co-operative federalism," as Corbett shrewdly points out, is a facade for centralism.<sup>10</sup>

In considering the governmental systems of Canada and Australia, therefore, the adjective federal, even as it is defined by Birch, must be used hesitantly. The balance of power between centre and localities is changing from day to day and the question must continually be asked - how much is there really a division of powers in these countries? Certainly in Canada and possibly in Australia there is still a sufficiently important division in practice for the systems of government there to be called federal. But it is doubtful if that will remain so for long. For unless there is a startling change in events, Canada and Australia have entered the twilight of federalism.

10. Corbett, reviewing R.H. Birch, Federalism, Finance & Social Legislation in Australian Journal of History and Political Science, Vol. III, No. 1, p. 128.

## APPENDIX I

The three main options finally agreed upon were that:

- 1) (a) Provinces should get a subsidy of \$12.75 per capita on their respective populations in 1942.
  - (b) They would also get 50% of income and corporation taxes for the year ending in 1940.
  - (c) Statutory subsidies would continue.

Manitoba and Alberta immediately agreed to this. British Columbia finally agreed in 1947 only after the Federal government was prepared to allow provincial subsidies to rise not only in accordance with population, but also with the Gross National Product, ~~Cf. below p.~~ .

- 2) (a) Provinces to get \$15 p.c. on 1942 population.
  - (b) Statutory subsidies would continue.

Nova Scotia and Saskatchewan accepted this.

- 3) Province to get a flat rate of \$2,100,000.

P. E. I. accepted this.

Cf. Correspondence Since the Budget of 1946, (Ottawa 1946) passim, especially Table on p. 23 showing the estimated 1947 payments under the three formulas; and J. H. Perry, Taxes, Tariffs and Subsidies, (Toronto, 1955), Vol. II, Part IX, pps. 511 to 567.

## APPENDIX II

As mentioned in the text, Prime Minister Diefenbaker of Canada made important proposals regarding Dominion-Provincial financial relations to the Dominion-Provincial Conference of Thursday, February 23rd, 1961.<sup>1</sup> These proposals may be divided into two sections, those concerning the tax rental agreements on the one hand and those concerning equalisation arrangements on the other.

### 1. Tax Rental Proposals.

On this topic Mr. Diefenbaker made the following proposals:

"The Federal Government," he said, "proposes to discontinue the tax rental system when it expires on March 31st, 1962. It will thus be open to and up to any of the provinces to impose whatever taxes, in the three jointly occupied fields, they consider to be necessary to meet their respective financial responsibilities . . . The termination of the tax rental system does not mean, however, that there cannot be a simplified or unified system of tax collection with the advantages it offers. The Federal Government is prepared to undertake the collection of the personal income tax or the corporation tax, or both, for any provinces which so desire . . . Returning to the provinces the responsibility to levy their own direct taxes raises the question as to the

1. For a verbatim report of his speech at the Conference cf. Statement by Right Hon. John G. Diefenbaker, P.C., Q.C., M.P., Prime Minister of Canada, To the Dominion-Provincial Conference, Thursday, February 23rd, 1961, printed in House of Commons Debates, Tuesday, February 28th, pps.2527-31.

extent of withdrawal by the Federal Government from the personal and corporation income tax fields . . . the Federal Government, after intensive study and consideration, has decided that it should not withdraw from the corporation tax field beyond the scale of the abatements now allowed in the law. It will, however, withdraw progressively and substantially from the personal income tax field in favour of the provinces." 2

In fact he proposed that by 1966 the Federal Government would have withdrawn from personal income tax by 7 per cent more than the scale of the abatement now allowed.

But again the question must be asked - how much extra power in practice would this proposed ending of the tax rentals give to the provinces. Mr. Diefenbaker himself said:

"It (i.e., the Federal Government) must continue to discharge its vast responsibilities, to provide equalisation payments and also to pay the Federal share of the many programmes now jointly borne by both levels of government, which this year amounted to some \$440,000,000.00." 3

Clearly, in the near future, the weight of federal taxation will not decrease: it is in fact likely to increase. The provinces, therefore, may have little opportunity to exercise any right to fix their own rates of standard taxes for fear of double taxation. Their only certain gain would be the extra 7 per cent of the personal income tax. This fact has been well recognized by the provincial premiers and by Mr. Diefenbaker himself when he said that

2. Ibid p. 2528 and 2529.

3. Ibid p. 2528.

the basic change caused by the proposals would be that the existing formula of 13 - 9 - 50 would become by 1966 a 20 - 9 - 50 formula.<sup>4</sup>

## 2. Equalisation.

On this question, Prime-Minister Diefenbaker made the following observations:

"At present," he said, "the equalisation formula is based upon raising the per capita yields of standard taxes to the average of the two provinces with the highest per capita yield. The Federal Government is convinced that this formula needs to be improved in two respects if it is to serve the purpose over the long run of meeting fiscal need of provinces in a relatively weak financial position . . . In the interests of equity and fairness, we now propose that for the purpose of determining equalisation payments, the formula should include not only the yields from three standard taxes . . . but as well one-half of the three-year moving average of gross natural resource revenues . . . The second principal change that we intend to introduce is to equalize over this broader base I have described, up to the national average of the revenues in question rather than up to the yield in the two highest yielding provinces."<sup>5</sup>

The first change is not likely to affect the poorer provinces. But the second proposed change would probably mean that the equalisation payments to poorer provinces would increase after 1962 at a slower rate than if the present formula were to be retained. To this extent, there might be justification for saying that the proposals are a step back from equalisation. But that the pressures

4. Ibid p. 2529.

5. Ibid p. 2529.

for equalisation have had effect upon Mr. Diefenbaker is seen by a further proposal:

"The Federal Government proposes to continue the Atlantic Provinces Adjustment Grants, and to increase them effective April 1st, 1962, from \$25,000,000.00 to \$35,000,000.00 per annum for the ensuing five years . . ." 6

Besides, at no point did the Prime-Minister deny the principle of equalisation, whatever proposals he made for its application.

One final point should be noted about all these proposals. They are still not fixed or agreed upon. Negotiations and calculations are still taking place. Accordingly, any observations upon them must be tentative at this stage and certainly no definite conclusion can be made about them yet.

6. Ibid p. 2530.

### APPENDIX III

As clear an indication as any of this economic centralisation is the tremendous post-war increase in central economic agencies in both countries. In Canada, for example, there has been the Canadian Maritime Commission (1947, cf. R.S.C. 1952, c. 38): the Central Mortgage and Housing Corporation (1945, cf. R.S.C. 1952, c. 46): Farm Credit Corporation (1959, S.C. 1959, c. 43): Fisheries Prices Support Board (1947 R.S.C. 52, c. 120): Industrial Development Bank (1944, R.S.C. 1952, Vol. III, c. 151): Dominion Coal Board (1947 R.S.C. 1952, c. 86): Eastern Rockies Forest Conservation Board (1947) and so on. In Australia there has been the Australian Wheat Board (1939): Australian Shipbuilding Board (1948): Joint Coal Board (1947): Commonwealth Fisheries Office (1945): Australian Egg Board (1947): Australian Shipping Board (1952), etc.

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