

## Paradise Postponed: A Re-examination of the Green Book Proposals of 1945

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### Résumé de l'article

Au cours de la Seconde guerre mondiale, il n'est pas un parti politique fédéral qui n'ait tenté de répondre à la demande croissante pour un « État providence ». Mackenzie King parvint à freiner la poussée de popularité du CCF en promettant un système compréhensif de sécurité sociale qui suivrait les citoyens « du berceau à la tombe ». Après sa réélection de 1945, le gouvernement Libéral prépara le programme. Il le proposa aux provinces à l'occasion d'une conférence du Dominion et des provinces, dont la fonction aurait dû être de voir aux arrangements fiscaux et administratifs requis pour la mise en vigueur d'une telle mesure. La « conférence » se transforma de fait en une série de mini-conférences, étalées sur neuf mois, sans que les participants ne puisse parvenir à aucune entente. Dès lors, le gouvernement fédéral accusa les premiers ministres ontarien et québécois d'être responsables de l'échec et il abandonna le plus gros du projet de réforme. Cet article veut montrer qu'en fait le gouvernement de King voulait que la conférence se solde par un échec car il n'était pas prêt à encourir les dépenses requises. Après avoir repoussé les critiques des provinces sans broncher, le gouvernement parvint même à faire croire que la responsabilité de l'échec de la rencontre incombait aux provinces. Ce sont la prospérité de l'après-guerre de même que le déclin des pressions des élites médicales et entrepreneuriales qui contribuèrent avant tout à ralentir l'ardeur réformiste du gouvernement.

# Paradise Postponed: A Re-examination of the Green Book Proposals of 1945

ALVIN FINKEL

## Résumé

*During World War Two, all federal political parties sought to accommodate the growing demand for “welfare state” programs. Mackenzie King’s Liberals successfully checked the growth of the CCF by promising a comprehensive program of cradle-to-grave security. After the 1945 election the Liberal government prepared such a program and brought it to a dominion-provincial conference whose purpose was to determine the taxation and administrative arrangements necessary for its implementation. The “conference,” which became a series of mini-conferences stretched over nine months, ended without agreement. The federal government blamed recalcitrant premiers in Ontario and Quebec for the conference’s failure and abandoned much of the reform program. This article argues that the federal government, in fact, wanted the conference to fail because it did not want to undertake the expenses implied in the reform proposals. After proving inflexible in dealing with provincial criticisms, it cynically and successfully manipulated events to make it appear that the provinces had killed hopes for reform. Post-war prosperity and a declining interest in reform, particularly on the part of the corporate and medical elites, contributed to the federal government’s unwillingness to pursue reform vigorously.*

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*Au cours de la Seconde guerre mondiale, il n’est pas un parti politique fédéral qui n’ait pas tenté de répondre à la demande croissante pour un «État providence.» Mackenzie King parvint à freiner la poussée de popularité du CCF en promettant un système compréhensif de sécurité sociale qui suivrait les citoyens «du berceau à la tombe.» Après sa réélection de 1945, le gouvernement Libéral prépara le programme. Il le proposa aux provinces à l’occasion d’une conférence du Dominion et des provinces, dont la fonction aurait dû être de voir aux arrangements fiscaux et administratifs requis pour la mise en vigueur d’une telle mesure. La «conférence» se transforma de fait en une série de mini-conférences, étalées sur neuf mois, sans que les participants ne puisse parvenir à aucune entente. Dès lors, le gouvernement fédéral accusa les premiers ministres ontarien et québécois d’être responsables de l’échec et il abandonna le plus gros du projet de réforme. Cet article veut montrer qu’en fait le gouvernement de King voulait que la conférence se solde par un échec car il n’était pas prêt à encourir les dépenses requises.*

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*Après avoir repoussé les critiques des provinces sans broncher, le gouvernement parvint même à faire croire que la responsabilité de l'échec de la rencontre incombait aux provinces. Ce sont la prospérité de l'après-guerre de même que le déclin des pressions des élites médicales et entrepreneuriales qui contribuèrent avant tout à ralentir l'ardeur réformiste du gouvernement.*

Shortly after the 1945 federal election, during which the three main parties had promised major social reforms, Mackenzie King called a federal-provincial conference to discuss postwar reconstruction. The conference opened in August 1945 with the federal government tabling a Green Book of proposals that collectively would create an advanced welfare state in Canada.<sup>1</sup> Implementation of these proposals, it underlined, depended upon federal-provincial agreement being reached on the division of taxation powers to replace the wartime tax rental agreements under which the federal government had taken sole control over personal and corporate income taxes and compensated the provinces according to a negotiated formula.<sup>2</sup> When it became clear in May 1946 that a taxation agreement acceptable to all parties was unattainable, the Green Book was a dead letter. While the federal government claimed that it remained committed to programs of social improvement, it was abandoning notions of a comprehensive welfare-state program.

Both contemporary and historical commentators have argued that the Green Book was the victim of federal-provincial rivalries and of personality disputes, particularly between Prime Minister Mackenzie King and Ontario Premier George Drew.<sup>3</sup> R.M. Burns sums up the consensus view: "As the other provinces, while far from being content, were clearly interested in reaching an understanding, one is forced to lay most of the responsibility at Ontario's door."<sup>4</sup> This paper maintains, however, that such explanations are superficial and that to focus purely on federal-provincial relations is myopic.<sup>5</sup> Rather, the collapse of the Green Book can best be understood in the context of changes in the political and economic circumstances of the early post-war months that

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1. Canada. Dominion-Provincial Conference on Reconstruction, *Proposals of the Government of Canada* (Ottawa, 1945).
  2. R.M. Burns, *The Acceptable Mean; The Tax Rental Agreements, 1941-1962* (Toronto, 1980), Chapter 2.
  3. Among standard accounts of the Dominion-Provincial Conference on Reconstruction of 1945-1946, see Robert Bothwell, Ian Drummond, and John English, *Canada Since 1945: Power, Politics and Provincialism* (Toronto, 1981), 91-8; Marc J. Gotlieb, "George Drew and the Dominion-Provincial Conference on Reconstruction of 1945-6," *Canadian Historical Review* 66:1 (March 1985): 27-47; and John English, "Dominion-Provincial Relations and Reconstruction Planning, 1945-46," *Proceedings of the Canadian Committee for the History of the Second World War* (Ottawa, 1977).
  4. R. M. Burns, *The Acceptable Mean*, 71.
  5. Such a focus is particularly marked in Doug Owram, *The Government Generation: Canadian Intellectuals and the State 1900-1945* (Toronto, 1986), 322-5, which is based narrowly on the report of the conference proceedings with no reference to the private papers of the participants.

made major reform in Canada, seemingly inevitable a year or two earlier, quite unlikely. Though support for social insurance programs and a more just distribution of wealth in Canada continued among workers, farmers, and significant sections of the middle class, the wartime fervency for change had passed, creating a breathing space for the economic and political elites.

An examination of discourse about reform during the war years and the early post-war period demonstrates the shift that had occurred. It is evident in the discourse of the business community and the medical profession, groups that had succumbed briefly to the public cry for change during the war but pulled back to more conservative positions once victory had been won; and it is equally evident in the private papers of Mackenzie King who, it is argued here, did not wish to proceed with the Green Book proposals.<sup>6</sup> For although the prime minister may have loathed Drew and wished to paint the Tory premier of the wealthiest province as the villain of the piece, he agreed with Drew's objections to federal rigidity on the taxation issue. More importantly, King also came to view the proposals for social insurance schemes as too extravagant and did not wish to impose the taxes necessary to implement them. Provincial demands for changes served him well, however, and became the public justification for withdrawing the Green Book package and proceeding with a more conservative agenda for managing the post-war economy.<sup>7</sup>

The federal government's commitment to reform during World War Two occurred in the context of growing public demand for significant state intervention in the market-place. With wartime planning having largely eliminated unemployment and restrained inflation, survivors of the Great Depression called increasingly for continued state intervention in the postwar era. Public opinion polls demonstrated increased support for the socialist CCF and majority support for welfare proposals such as public medical insurance and universal old-age pensions as well as significant support for state ownership of large enterprises.<sup>8</sup>

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6. King's major comments on the dominion-provincial conference are included in J.W. Pickersgill and D.F. Forster, *The Mackenzie King Record*. vol III: 1945-1946 (Toronto, 1970), yet historians have largely ignored the evidence of King's own words that, during the last months of negotiations with the provinces, he and his government dropped their commitment to the social promises embodied in the Green Book.

7. That agenda is nicely summed up by Bothwell et al. "The real Liberal plan, whether by accident or by design, was Howe's. It was based on optimism about the economy, and scepticism about the potentialities of planning. It would not be the economic abstractions of doctrinaire planners in Ottawa that would shape post-war Canada. That would be left to business self-interest, guided, prodded, and shaped by incentives that businessmen would understand. Post-war Canada would be a free enterprise society." Robert Bothwell, Ian Drummond, and John English, *Canada Since 1945*, 69.

8. Malcolm G. Taylor, *Health Insurance and Canadian Public Policy: The Seven Decisions That Created the Canadian Health Insurance System* (Montreal, 1978), 166. See also the study done for the Canadian Chamber of Commerce in 1944. Canada. National Archives (NA), MG 28,3, Canadian Chamber of Commerce Papers, Box 62, Vol.1, "Annual Meeting (19th) Addresses, 1948". (Hereafter MG 28,3)

The 1943 Throne speech responded to these developments by committing King's government to a comprehensive program of social security once the war ended.<sup>9</sup> And despite pressures from Cabinet conservatives like C.D. Howe, T.A. Crerar, and Angus L. Macdonald to limit such commitments, during the 1945 election King promised a medical insurance program, universal pensions, and a national program of public works meant to absorb demobilized soldiers and civilian workers made redundant by reductions in military contracts.<sup>10</sup> Provincial compliance was required for the social insurance programs, however, and provincial co-operation needed if public works were to be timed to periods of rising unemployment. As he prepared to table the Green Book proposals prepared by government officials King reiterated his commitment to reforms of benefit to the majority, but his diary entries also hinted at later objections to a comprehensive program of social reforms in his observation that this "splendid document" prepared by leading civil servants was weakened by "setting forth far too much."<sup>11</sup>

For the moment, King lambasted those who preferred to aid investors rather than the unfortunate, charging (a few days after the conference opened) that George Drew "found it impossible not to bring in his Tory point of view by saying that while we wanted to help those who were not so fortunate, etc., we must take care not to take away from those that were capable of bigger things themselves."<sup>12</sup> Nine months later he would be making much the same "Tory" argument himself — privately, not publicly — but his change of heart in this matter had been gradual.

The first plenary sessions of the Dominion-Provincial Conference on Reconstruction were held from 6 August to 10 August 1945 and were limited to the tabling of the federal government's proposals and to the initial general reactions of the provincial delegations. Moreover, the wide-ranging program was presented as a package for negotiation rather than as a set of individual items upon which agreement was to be reached one by one, and it required that the provinces surrender to the federal government their right to assess personal and corporate income taxes as well as succession duties.

The original rationale for this fiscal arrangement in wartime had been the scope it gave the federal government to plan the national economy so as to prosecute the war effort as effectively as possible. Now Ottawa was arguing that it needed equal flexibility to promote full-employment policies and the programs of social insurance for which

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9. Canada. House of Commons, *Debates*, 1943, 2.

10. See, for example, NA, MG 26 J1, W.L. Mackenzie King Papers, Vol. 348, T.C. Crerar to W.L.M. King, 8 January 1944, 309918-21; King Papers, Vol. 364, Macdonald to King, 22 January 1944, 315889-90, and Howe's observation to the Cabinet Committee on Dominion-Provincial Relations that "the government did not need social security measures" if "the full employment policies were successful." NA, RG 19, E2C, Department of Finance Papers, Vol. 535, "Cabinet Committee on Dominion-Provincial Relations," 20 June 1945. (Hereafter RG 19)

11. NA, MG 26 J 13, King *Diaries*, 30 July 1945.

12. NA, MG 26, J 13, King *Diaries*, 8 August 1945.

Canadians had been clamouring. Should the provinces prove accommodating on the taxation question, the Green Book declared, the federal government was prepared to introduce universal pensions at age 65 and comprehensive medical insurance, among other programs, and to shoulder primary responsibility for providing assistance to employable individuals whose unemployment insurance benefits had been exhausted or who lacked entitlement to such benefits. Ottawa was also prepared, though in vague terms, to finance part of the costs for federally-approved provincial public works projects timed to coincide with periods of rising unemployment.<sup>13</sup>

There was difficulty from the start, as Ontario and Quebec objected that the plan would centralize spending and taxing powers in federal hands, and when the sessions ended the parties agreed only to establish a co-ordinating committee consisting of the prime minister and premiers to study the many issues raised by the Green Book.<sup>14</sup> With federal-provincial discussions at the ministerial level and among senior civil servants proceeding apace, however, the full Cabinet did not address these ongoing negotiations until the co-ordinating committee met formally on 26 November 1945 to report on their progress. The Cabinet agreed at that time that formal joint federal-provincial committees should be established to study specific proposals before another plenary was held in January.<sup>15</sup>

Both before and during the November dominion-provincial meeting it became clear that opposition to the taxation proposals included in the Green Book was shared by several provinces besides Quebec and Ontario.<sup>16</sup> Alberta opposed both provincial vacating of major tax fields and conditional federal grants to provinces with federally-determined "national standards" on programs within provincial jurisdiction, and Premier Ernest Manning was even more dismissive than Drew and Duplessis of the notions of redistribution of wealth which he assumed constituted the Green Book philosophy.<sup>17</sup> For its part, British Columbia protested that the monies it would receive from the federal government once it vacated the major taxation areas would leave it too little to accommodate public demands for more highways, schools, and resource

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13. The proposals appear in Canada. Dominion-Provincial Conference on Reconstruction, *Proposals of the Government of Canada* (Ottawa, 1945) while the premiers' reactions are in Canada. *Dominion-Provincial Conference (1945): Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa, 1946); and Canada. Dominion-Provincial Conference on Reconstruction, *Proceedings*, 6 August 1945.

14. *Canada. Dominion-Provincial Conference on Reconstruction, Proceedings*, August 1945, 10, 20, 191.

15. NA, RG 2, 16, Privy Council Office, *Cabinet Conclusions*, Vol. 3, 27 November 1945.

16. The extent of opposition outside central Canada to the government's tax proposals is noticeably under-stated in Gottlieb, "George Drew and the Dominion-Provincial Conference on Reconstruction of 1945-6."

17. *Dominion and Provincial Submissions and Plenary Conference Discussions*, 209-212.

development.<sup>18</sup> Nova Scotia, meanwhile, insisted that the federal government must vacate some tax fields if it wished provinces to vacate others.<sup>19</sup> New Brunswick eventually took the same position, though along with Prince Edward Island, Manitoba and Saskatchewan its main objective appeared to be to convince the federal government to establish generous equalization grants so that poorer provinces could provide roughly the same services to their citizens as wealthier provinces.<sup>20</sup>

Despite having taken the initiative in the first place, King was little interested in the conference by late 1945. Rather, the picture that emerges from his diaries is of a worn-out prime minister preoccupied with foreign affairs and espionage and attempting to cope with a Cabinet of fatigued and cranky senior ministers. Indeed, as he contemplated the possible resignations from Cabinet of Finance Minister J.L. Ilesley and “Minister of Everything” C.D. Howe in January 1946, King’s commitment to reform was increasingly ambiguous. For although he observed that Howe’s departure would remove “a reactionary Tory influence” from the government and “the same would be true in another way should Ilesley drop out,” the prime minister himself had already begun to be influenced by “Tory” cabinet ministers and others regarding the extravagance of the reconstruction proposals.<sup>21</sup> While “the committee of experts” from the Finance Department and the Bank of Canada advised that more federal money would have to be put on the table to secure a deal with the provinces, for example, the prime minister’s political instincts were offended by the notion of a fiscal policy which “made one government the taxing power and the other governments the spending power.” “From the federal government’s point of view,” he observed, perhaps with one eye on the main financial contributors to the Liberal Party, “this is a double concern as taxing business is the unpopular end.”<sup>22</sup>

Moreover, never a genuine convert to Keynes’s ideas or even the anaemic version of Keynesianism that flourished in the Department of Finance, King was growing suspicious of the economic theories underpinning the Green Paper. “The argument that our taxes may still be lowered, notwithstanding these increases in contributions to the provinces, is that by this method production can be kept at a high level,” he observed in his diary, and that would “permit of increased volume of taxation . . .” His own “feeling,” however, was that “sooner than later, and perhaps sooner than expected, there could be a complete collapse and depression, as a result of the war financing and the

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18. NA, RG 29, Department of National Health and Welfare Papers, Vol. 23, File 21-2-1, “Statement of British Columbia Government on Dominion-Provincial Conference,” November 1945. (hereafter RG 29)

19. NA, RG 29, Vol. 23, “Preliminary Statement of Province of Nova Scotia,” 28 November 1945.

20. NA, RG 19, File 135-O-167-E, “Submission of Government of New Brunswick on certain Proposals of the Dominion,” 24 January 1946; File 135-O-167D, “Financial Arrangements Between the Dominion and the Government of Prince Edward Island”, submission of Government of Prince Edward Island to the Dominion-Provincial Conference, undated.

21. NA, MG 26, J 13, King *Diaries*, 20 January 1946.

22. NA, MG 26, J13, King *Diaries*, 23 January 1946.

liabilities it has left.”<sup>23</sup> From that point on, in fact, King was more concerned about keeping taxes low than keeping his promises to introduce social reforms.

The prime minister was also inclined to view the provinces' requests for guaranteed tax sources (though not more subsidies) more sympathetically despite his personal animus towards Drew and Nova Scotia Premier Angus L. Macdonald. Indeed, his diary suggested a growing impatience with the rigidity of the Finance Department in dealing with provincial demands that Ottawa give the provinces exclusive rights to collect specified taxes, particularly succession duties, in return for a surrender of rights to collect personal and corporate income tax. “I find myself very strongly of the position that Ontario and Nova Scotia are taking,” he observed on 31 January 1946, “namely, that provinces should be left with certain definite fields of taxation, the dominion ditto, and subsidies reduced to as small a margin as possible.”

The finance department behind which is the Bank of Canada, have completely changed the generally accepted procedure which has been to keep as largely as possible the spending authority responsible for the tax-raising. I think their effort is in the direction of centralization of financial control. That may be more desirable from the point of view of more effective administration, etc., from Ottawa's end, but politically it will not be possible I believe for a long time to come. Much better to get services under dominion control but not to seek to keep under provincial control with subsidies.<sup>24</sup>

But what services was the dominion government prepared to offer at this stage in dominion-provincial negotiations? Responding to provincial calls for more federal money for medical facilities before a national program of medical insurance was implemented, at November's plenary session the federal government had agreed that provinces could receive national health grants without having a medical insurance plan in place. That commitment was re-affirmed at the January plenary;<sup>25</sup> and the King government stuck to its claim that the social programs in the Green Book would be implemented once the taxation issues had been resolved.

Saying nothing publicly or even to Cabinet, however, the prime minister had reverted to his cautious — perhaps “tory” — pre-war stance on fiscal matters. Completely rejecting Keynesian ideas, he fretted that government expenditures were already out of control and would become even more so as an inevitable economic collapse occurred,

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23. *Ibid.*

24. NA, *King Diaries*, MG 26, J 13, 31 January 1946.

25. *Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa, 1946), “Dominion-Provincial Conference Coordinating Committee—Opening Statement by the Prime Minister of Canada,” 26 November 1945, 198-99. NA, RG 19, Vol. 535, File 135-O-167, “Recommendations of the Special Committee Appointed by Cabinet at its meeting of January 18th on the modifications or adjustments which should be made in the federal proposals to the provinces in light of recent developments and discussions in the Economic Committee,” and “Summary of Dominion's Modified Proposals to Dominion-Provincial Conference, January 31, 1946.”



“not . . . in the next couple of years unless something unforeseen takes place but . . . in the 50’s, if not a year or two before . . .” New programs would therefore have to be introduced slowly so as to allow the government to produce balanced budgets. “While I am wholly sympathetic with doing everything to promote health and welfare matters. I do feel that this will have to come very gradually and the people in Canada are in a more fortunate position in dealing with these questions than are the peoples of any other country.”<sup>26</sup>

Observing that Britain and the United States were planning balanced budgets, King was now committed to achieving both a balanced budget and tax reduction even as the dominion-provincial conference, in which the federal position argued for social reforms that could upset both these goals, dragged on.<sup>27</sup> Although his personal hostility to George Drew remained as strong as ever during the last plenary of the conference held in late April and early May 1946, the prime minister allowed that he was “more sympathetic with his point of view than I was with our own, except as a temporary measure to meet the situation in this transitional period.”<sup>28</sup> And on 3 May 1946, as the last session drew to a close, King observed that the dominion-provincial conference was at an impasse because the Bank of Canada wanted “to get funds centralized in Dominion hands so that the provinces can be controlled in the matter of their financial expenditures on social legislation by a certain Dominion control.”<sup>29</sup>

In his observations on the last plenary King also noted “[Minister of National Health and Welfare Brooke] Claxton made a speech of some length presenting the social legislation side of which earlier mention had been made by those who had spoken and which is now in a way being cast to the winds.” King was not unhappy with this result, because “Claxton . . . has pushed the social legislation to make too many commitments for legislation involving more in the way of taxation by a levy on all classes. I am going to advise Ilsley against doing anything in the budget which means the imposition of further taxes.”<sup>30</sup>

As the plenary ended with no plans for future sessions, King announced to Cabinet that a reduction in taxation rather than new social programs was what Canadians most wanted and, indeed, claimed that Cabinet had never even discussed universal old-age pensions, much less pledged their immediate adoption. When Claxton, presumably thinking of the election the year before, reminded everyone that both he and Ilsley had publicly supported pensions and other social programs in the past, the prime minister, ever the slippery politician, replied that he had made no specific promises regarding a timetable for reforms and suggested that costs to the federal treasury as much as the need to secure agreement with the provinces argued for delay. After family allowances were

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26. NA, MG 26, J 13, King *Diaries*, 1 February 1946

27. NA, MG 26, J 13, King *Diaries*, 31 January 1946.

28. NA, MG 26, J 13, King *Diaries*, 29 April 1946.

29. NA, MG 26, J 13, King *Diaries*, 3 May 1946.

30. NA, MG 26, J 13, King *Diaries*, 3 May 1946.

introduced in 1944, “that was as far as we should have thought of going into that class of expenditure until the end of another four or five years.”<sup>31</sup>

Though Cabinet agreed that there would be no new social expenditures for the moment, Ilesley could not resist pointing out that King had supported the Green Book when negotiations with the provinces began in August 1945; but revising the past once again, King declared that he had done so because of how “completely conditional it was” and because The Green Book was purely a negotiating document:

I had never dreamt of a health programme and the like to be a matter of a year or so but that it would take years to work out an agreement with the provinces which would help to establish a national minimum. All of this is very true but the way in which the thing has been misrepresented in the public mind is deplorable. We have gotten in far too deeply in the matter of possible outlays.<sup>32</sup>

As even his Cabinet colleagues hinted, King was responsible for misrepresentations “in the public mind” of the government’s social policy intentions; but he was not about to attempt to clarify his government’s approach to social welfare and explain that there would be no new social expenditures for four or five years. Instead, the provinces would be made the scapegoats for the failure of the Green Book and the demise of its social promises. “What we did in those [social welfare] fields,” King summed up, “would be based on agreement with the Provinces.”<sup>33</sup>

Although the official line remained that taxation agreements between the two levels of government had to be worked out before discussions regarding new social programs could proceed, the federal government refused to reconvene the dominion-provincial conference — despite the pleadings of most of the premiers and particularly George Drew, who did not want to be held responsible for busting up the conference and preventing popular social programs from being implemented. Instead, Ottawa offered a tax rental scheme which most provinces had already found unacceptable at the April 1946 conference plenary. After winning some concessions the smaller provinces eventually came to terms with the federal government, but Ontario and Quebec, not surprisingly, declined to participate, choosing to levy their own income taxes rather than accept the rent which Ottawa offered for personal and corporate income tax and succession duties.<sup>34</sup>

As King had hoped, this expression of provincial autonomy provided the necessary excuse for the federal government’s failure to proceed with social programs. Conveniently forgetting the Cabinet’s determination to give priority to tax cuts and a balanced budget, policies with which he had agreed, Acting Prime Minister Louis

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31. NA, MG 26, J 13, King *Diaries*, 6 May 1946.

32. *Ibid.*

33. *Ibid.*

34. R.M. Burns, *The Acceptable Mean*, 72-82

St Laurent maintained the government's misleading 'official line' when he told the mayor of Niagara Falls that it was prepared to proceed with its social agenda as soon as the provinces demonstrated greater reasonableness. "As soon as there has been a sufficiently general acceptance of new tax agreements," he explained, "the Dominion government will be prepared to explore in a general conference, or otherwise, the possibility of working out mutually satisfactory arrangements in regard to the whole or any part of the earlier public investment and social security proposals which remain an essential part of the Dominion government's programme."<sup>35</sup>

Similarly, Paul Martin, who succeeded Claxton as Minister of National Health and Welfare, disingenuously protested when an article in *New Liberty* magazine blamed King as much as Duplessis and Drew for preventing the implementation of a comprehensive national medical insurance program. Though the federal Cabinet had no intention of even beginning negotiations on a national plan in the foreseeable future, Martin nevertheless informed the magazine's editors that King "has continuously sought to bring all of the provinces into a general agreement which would enable these proposals being implemented."<sup>36</sup>

In Quebec, meanwhile, Duplessis substituted for Drew as the principal provincial villain, Ilsley's successor as Finance Minister, D.G. Abbott, telling the Reform Club of Quebec in March 1948 that

if Quebec had made a tax agreement it is very likely Ontario would have made an agreement too. If that had happened, the country would have already been on the way toward having better health services, a better system of old age pensions and better insurance against the dangers of another depression than we have at present. In other words, Mr. Duplessis' brand of provincial autonomy has meant higher taxes for Quebec, poorer health services, and less social security, particularly for the aged.<sup>37</sup>

Having closed the door on big spending programs, King dismissed all provincial requests to reconvene the dominion-provincial conference and, ignoring his own continuing objections to the Finance Department's inflexibility in its dealings with the provinces,<sup>38</sup> mechanically repeated the government line that "once satisfactory financial relationships have been agreed upon, the Dominion Government will be prepared to resume, in a general conference, the working out of mutually satisfactory arrangements relating to public investment and social welfare" — even to Ontario Premier George Drew.<sup>39</sup>

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35. NA, King Papers, Vol. 413, 373582, Louis St Laurent to George R. Inglis, 22 August 1946.

36. *New Liberty*, 16 October 1947.

37. NA, RG 19, E2C, Vol. 92, "D.G. Abbott address to Reform Club of Quebec, 20 March 1948."

38. NA, MG 26, J 13, King *Diaries*, 22 October 1946.

39. Ontario. Archives (AO), RG 3, George Drew Papers, Box 434, File 76-G, "Dominion-Provincial Conference", Mackenzie King to George Drew, 27 September 1946.

In fact, Drew and King exchanged four letters each in September and October of 1946 in which each blamed the other for the breakdown of the conference. The Ontario premier's tone was nonetheless conciliatory, as he suggested that his province was of the "conviction that health services and social security should be on a national basis."<sup>40</sup> According to Angus L. Macdonald, who had maintained contact with most of the premiers after the federal government decided unilaterally not to reconvene the conference meetings, Drew was also "prepared to yield income tax, corporation tax and succession duties to the Dominion, in return for agreement by Dominion to withdraw from the minor tax fields, to hold an annual conference with the provinces and to have the whole Dominion-Provincial situation restudied within the five year period."<sup>41</sup> Duplessis, too, had been ready to deal. Although adamant that social programs, however funded, had to remain under provincial control, in the dying days of the dominion-provincial Conference he had offered to rent the field of income tax, though not succession duties, to the federal government, at least temporarily.<sup>42</sup>

Ultimately, however, King saw no purpose in continuing with the conference. Unwilling to challenge his Finance officials, whose job he had made more difficult by insisting on tax cuts at the same time as the Green Book was calling for new taxes, he had little to give the provinces regarding either revenue-sharing or social programs, and no desire to work with Drew, Duplessis, or Macdonald, the other principal players in the debate. "The morning was taken up seeking to prepare replies to Drew and Angus Macdonald regarding resumption of the Dominion-Provincial conference," he confided to his diary on 31 October 1946, the final entry dealing with the subject:

That whole business is a tangled skein of which I am thoroughly tired of dealing with. Both Drew and Duplessis made it a game of the most demagogic type of politics. On the other hand, our Finance Department has been far too rigid in matters of negotiation. I feel too that far too much has been left to Skelton to advise upon and he has not large enough vision or experience to cope with the situation properly . . . . Could I see any possibility of having matters settled without a wrangle and making the last state worse than the first, I would, despite the wishes of the Finance Department, bring the provinces together anew. One needs a clear mind and good judgment to prolong a controversy of the kind. I felt the hopelessness of the situation in trying to discuss it with what members of Cabinet were present at this afternoon's meeting. Finally, I sent off a mere line to Drew, to end the discussion with him, and a somewhat longer letter to Macdonald, which he will not welcome and which will not help matters. He is quite as antagonistic as Drew and Duplessis and more dangerous perhaps because of being more subtle and less in the

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40. The correspondence was reprinted by the federal government in Canada. Dominion-Provincial Conference, *Correspondence Since the Budget of 1946 on Matters of Substance Regarding Tax Agreements with the Provinces* (Ottawa, 1947), 8-21. It is also found in NA, MG 26, J1, King Papers, Vol. 402.
41. NA, MG 26, J1, King Papers, Vol. 407, 368221, Macdonald to King, 18 December 1946.
42. Canada. Dominion-Provincial Conference, *Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa 1946), 364.

open. The mistake at the start was ever allowing an issue to arise on centralization versus decentralization. I pointed this out very strongly, at the beginning of the whole business.<sup>43</sup>

Scrapping the Green Book proposals saved the federal treasury hundreds of millions of dollars of annual expenditure, Brooke Claxton pointed out when, shortly after the collapse of the Dominion-Provincial Conference, he pressed the government to be generous in its allocation of funds for health grants to the provinces. Using the government's own figures, he estimated that the federal budget had been relieved of potential liabilities of \$150,000,000 for health insurance, \$200 million for the conversion of the means-tested old-age pension scheme to a universal scheme, "and potentially large sums for unemployment assistance and public investment, as well as for health grants and health planning grants" because the Green Book had collapsed.<sup>44</sup>

Since it did not have to spend these sums, of course, Ottawa did not have to raise them, either through increased debt or taxes, and the federal government's determination to exercise fiscal restraint, as suggested above, was the ultimate reason for the collapse of the Green Book and the dominion-provincial conference. At the same time, however, the King government's erstwhile commitment to social reform had also been weakened by changes in the political and ideological climate between the latter stages of the war and the early years of peace.

#### **THE WELFARE STATE DEBATE IN THE 1940S**

The movement for "welfare state" reforms was spearheaded by the trade union movement, which more than doubled its membership during the war. Though the Trades and Labour Congress, still dominated by crafts unions despite increasing recruitment of semi-skilled and unskilled workers, called only for a gradual introduction of modest social reforms, the Canadian Congress of Labour demanded a planned economy in which public ownership of major enterprises and cradle-to-grave social security joined collective bargaining in insuring justice for working people.<sup>45</sup> Paralleling the growth of the unions was the increased support for the CCF, reflected in the polls, a convincing win against Conservative leader Arthur Meighen in a Toronto by-election in 1942, a strong second finish in the Ontario provincial election of 1943, and an election win in the provincial election in Saskatchewan in 1944.<sup>46</sup>

These political developments created a sense of urgency on the part of the federal government to prepare plans that could alleviate public concerns about the post-war

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43. NA, MG 26, J 13, King *Diaries*, 22 October 1946. King's letter to Macdonald appears in RG 19, E2C, Vol. 92, King to Angus L. Macdonald, 22 October 1946.
44. NA, MG 26, J 1, King Papers, Vol. 400, Brooke Claxton to J.L. Ilsley, 18 June 1946, 362148.
45. The political program of the CCL is contained in the twenty-nine point pamphlet, "Political Action by Canadian Labour" (Ottawa 1945) in NA, MG 28, I 103, Canadian Labour Congress Papers, Vol. 345. (hereafter MG 28, I 103)
46. Norman Penner, *From Protest to Power* (Toronto, 1992), 78,80; Desmond Morton, *The New Democrats 1961-1986: The Politics of Change* (Toronto, 1986), 14.

economy. The Cabinet had already begun a process of post-war planning in September 1941 when it elevated an emerging unofficial advisory body to the status of an official Advisory Committee on Reconstruction which was eventually chaired by McGill University Principal Dr. Cyril James. James established a variety of subcommittees on economic and social policy, housing, and the status of women, whose output included the celebrated social policy report of Leonard Marsh and the housing report of C.A. Curtis. The House of Commons and the Senate also established their own committees on reconstruction.

The debate on the post-war world within government marginalized both socialists and the supporters of pre-war financial orthodoxy when Keynesianism, as Doug Owram has observed, became the new official ideology of the civil servants and advisors involved.<sup>47</sup> However, the work of political scientists and economists suggests that Owram has used the term "Keynesianism" too unproblematically particularly when, as both Harold Chorney and Robert Campbell have argued, Keynes's rich body of thought gave rise to several schools of interpretation, not all of which echoed his view that the capitalist market-place had to be considerably constrained by an interventionist state.<sup>48</sup>

For interventionist Keynesians, the goals of full employment and an end to poverty took precedence over the right to earn profits, and required that the state had sufficient economic power to regulate the overall operations of the private-enterprise economy and the ability to provide a comprehensive program of social welfare. That such views held sway within the Advisory Committee on Reconstruction is clear from Marsh's call for a comprehensive program of social insurance largely funded and regulated by the federal government and by Curtis's suggestion that about thirty percent of home-building in Canada ought to occur under public auspices.<sup>49</sup>

However, the committee's pessimism about free enterprise and its embrace of detailed state planning alienated most of the Liberal Cabinet, including Mackenzie King.<sup>50</sup> It was also unwelcome within the Department of Finance and the Bank of Canada, where a rather different point of view (but one which also laid claim to Keynes's thought) had taken root in the late 1930s. This perspective, according to Chorney, was "a rather mechanical counter-cyclical conservative version of Keynes' ideas."<sup>51</sup> For unlike

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47. Doug Owram, *The Government Generation*, 294-5.

48. Harold Chorney, "The Economic and Political Consequences of Canadian Monetarism," Paper Presented to the British Association of Canadian Studies Annual Meeting, University of Nottingham, 12 April 1991; Robert Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975* (Peterborough, 1987).

49. Leonard Marsh, *Report on Social Security for Canada* (Toronto, 1975, orig. pub. 1943); Canada. Advisory Committee on Reconstruction, *Final Report 4: Housing and Community Planning*, Final Report of the Subcommittee, C.A. Curtis, chairman (Ottawa, 1944).

50. Robert A. Young, "Reining in James: the Limits of the Task Force," *Canadian Public Administration*, 24:4 (Winter 1981): 596-611.

51. Harold Chorney, "The Economic and Political Consequences of Canadian Monetarism," 13.

Keynes, the reformers at Finance and the central bank were optimistic about the ability of the marketplace to regulate itself without a continuing, off-setting presence of government within the economy. They saw no virtue in programs such as public housing — Ilsley, for one, worried that any large-scale government scheme would “choke” the “marked pick-up in private construction” that had taken place in 1944<sup>52</sup> — and they were opposed to detailed economic planning, thinking it preferable to keep public expenditures low during prosperous times so that government projects could be timed to coincide with troughs in the business cycle. Though they agreed that the government spending needed to kick-start the private sector during an economic turndown might require the printing of money and a rise in the public debt, they believed that such debts must be kept firmly in check.<sup>53</sup>

Faced with the prime minister’s wartime demands to incorporate new social spending into post-war budget planning, the Finance Department struggled to devise ways of doing this while remaining true to its conservative version of Keynesianism. The department and Ilsley, its minister, initially attempted to dampen enthusiasm for quick action, emphasizing the need to move cautiously in order to preserve fiscal integrity. A proposed national health insurance scheme prepared by the Department of Pensions and National Health early in 1943 was criticized by the Finance-dominated Economic Advisory Committee, for example, because it gave federal grants-in-aid to provinces for insurance schemes to be administered by the provinces rather than the federal government.<sup>54</sup>

Finance Minister Ilsley had supported the advisory committee’s view at the time,<sup>55</sup> but by January 1944 he had relented and indicated to King his willingness, however unenthusiastic, to consider introducing a health insurance bill in the 1944 session.<sup>56</sup> A year later, as the dominion-provincial Conference approached (and despite C.D. Howe’s counter-argument that full employment would make social programs unnecessary) he even went so far as to support family allowances, universal old-age pensions, and unemployment assistance to workers with exhausted unemployment insurance benefits because, as he said, they would have “sufficient public appeal to justify imposition of the taxation necessary.”<sup>57</sup> At the same time, however, Ilsley never wavered in his view that the tax rate on businesses should be reduced on the grounds that “a great deal of

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52. NA, RG 19, Vol. 535, “Cabinet Committee on Dominion-Provincial Conference Minutes,” 1 May 1944. The department’s fixation with private housing is explored in John C. Bacher, *Keeping to the Marketplace: The Evolution of Canadian Housing Policy* (Montreal, 1993).

53. Harold Chorney, “The Economic and Political Consequences of Canadian Monetarism,” 13-14. See also Robert Bryce, *Maturing in Hard Times: Canada’s Department of Finance Through the Great Depression* (Montreal 1986).

54. NA, MG 26, J1, King Papers, Vol. 345, “Report of the Economic Advisory Committee on the Proposal to Establish a National System of Health Insurance,” 20 January 1943, 296775.

55. NA, MG 26, J1, King Papers, Vol. 342, Ilsley to Mackenzie, 17 March 1943, 294156.

56. NA, MG 26, J1, King Papers, Vol. 362, Ilsley to King, 4 January 1944, 313204-9.

57. NA, RG 19, Vol. 535, “Cabinet Committee on Dominion-Provincial Relations,” 20 June 1945.

spending by private industry will shortly be held up if it is not already delayed for lack of any decision as to the tax treatment to be accorded desirable new investment in the period of demobilization.”<sup>58</sup> It was this contradictory challenge of reducing corporate taxation while vastly increasing social spending that produced the rigid line on taxation within the Department of Finance which alienated several premiers and eventually King.

The “sanitized and vulgarized variant of Keynesian policy [that] held sway in Ottawa and at the Bank of Canada”<sup>59</sup> as the war wound down was revealed in the White Paper on post-war reconstruction presented to Parliament by Reconstruction Minister C.D. Howe in April 1945.<sup>60</sup> The White Paper demurred from a commitment to full employment with the proviso that seasonal unemployment and unemployment due to trade fluctuations could not be completely offset. The willingness to run deficits in periods of increasing unemployment was made clear. “The Government will be prepared in periods when unemployment threatens to incur the deficits and increases in the national debt resulting from its employment and income policy whether that policy in the circumstances is best applied through increased expenditures or reduced taxation.” Otherwise, however, the government must seek not to disrupt private control over ownership, pricing and the like.<sup>61</sup>

The conservative reformism of the Finance Department was echoed by the business community in the later war years as union militancy and CCF support added converts to the view that reforms were necessary to preserve the economic system.<sup>62</sup> The Canadian Chamber of Commerce, in a submission to the House of Commons Special Committee on Reconstruction and Re-Establishment, gave its blessing to the laundered version of Keynes’s ideas preferred by Finance. Favouring the storing up of government-sponsored projects during boom times so that they could be used to fuel recovery once a slump began, the Chamber remained reticent about deficit financing. Yet it added: “retrenchment of the normal expenditures of government when a trade depression is threatened, is a move all too likely to make certain the depression’s arrival—there should be no such retrenchment but instead, the budget should then be permitted a temporary deficit on current account, to be liquidated when business recovery brings about a subsequent expansion of revenues.”<sup>63</sup> Indeed, when depression threatened, tax incentives

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58. NA, MG 26, J1, King Papers, Vol. 362, Ilsley to King, 4 January 1944, 313209.

59. Harold Chorney, “The Economic and Political Consequences of Canadian Monetarism,” 16.

60. The paper was prepared by a committee of civil servants headed by W.A. Mackintosh, who had first introduced a conservative version of Keynesianism to the Finance Department in the late 1930s. Chorney, “The Economic and Political Consequences of Canadian Monetarism,” 13, 41-2; Bothwell et al. *Canada Since 1945*, 69.

61. Canada. Department of Reconstruction, Sessional Paper Number 90, *Employment and Income with Special Reference to the Initial Period of Reconstruction*, 12 April 1945.

62. On 1930s converts to this view see Alvin Finkel, *Business and Social Reform in the Thirties* (Toronto, 1979).

63. Canada. House of Commons, Special Committee on Reconstruction and Re-Establishment, *Minutes of Proceedings and Evidence*, 28 May 1943, 459-60.



for capital investors such as accelerated depreciation allowances and offsets of new capital expenditure against taxable income ought to be implemented. Tax revenues lost would be compensated by the strengthening of the economy which would, in turn, save the treasury the relief expenditures that were inevitable because of high unemployment associated with an economic downturn.

There were other signs of a moderately reformist spirit among industrial leaders. A survey by the Canadian Welfare Council in 1942 suggested that a wide variety of business leaders supported a national program of health insurance, though there was disagreement on whether all Canadians should be forced to join the scheme.<sup>64</sup> The Canadian Life Insurance Officers Association in 1943 supported a national health insurance plan and declared the life insurance industry's "hearty support" for "the inauguration and integration of well-prepared and practical social security plans for the maintenance of a minimum subsistence level of all classes."<sup>65</sup> J.M. Macdonnell, president of National Trust, led the movement in the Conservative Party that committed that party to a variety of social insurance measures as well as guarantees of workers' rights to unionize,<sup>66</sup> while P.S. Fisher, vice-president of Southam Company Ltd and chairman of the Canadian Chamber of Commerce's Post-War Planning Committee, indicated that organization's general support for a contributory pension scheme in an appearance before the House of Commons Special Committee on Reconstruction and Re-Establishment in 1943.<sup>67</sup>

The Chamber, indeed, maintained that "removal of want and the fear of want is not enough. We need, instead, something like a new Bill of Rights for the Canadians of tomorrow" that would include provision for unemployment, old age and illness by joint

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64. NA, MG 28, I 10, Canadian Welfare Council/Canadian Council on Social Development (CWC/CCSD) Papers, Vol. 52, File 465C, "Health Insurance Questionnaire, 1942." A survey of members of the Edmonton Chamber of Commerce, for example, found 89 percent of all respondents in favour of compulsory health insurance with 72 percent believing a health insurance program should offer comprehensive coverage. Among supporters of state health insurance answering the CWC's survey were the president of the British Columbia Electrical Railway, the vice-president of Bell Telephone, the president of Asbestos Corporation, and senior executives of the Vancouver Sun, Pacific Coast Forest Products, and the Canadian Bank of Commerce. A.E. Grauer, president, British Columbia Electrical Railway to Dr George F. Davidson, executive director, CWC, 5 June 1942; J.H. Brace, vice-president, Bell Telephone, Montreal to Charles Young, executive director, Montreal Council of Social Agencies, 22 May 1942: (name illegible), president, Asbestos Corporation, Montreal, to Charles Young, 28 May 1942; A.H. Middleton, Vancouver Sun, to George F. Davidson, 3 June 1942; Ralph S. Plant, Pacific Coast Forest Products to Marjorie Bradford, executive director, Vancouver Council of Social Agencies, 5 June 1942; E. Rhodes, superintendent of Pacific Coast Branches, Canadian Bank of Commerce to Marjorie Bradford, n.d.

65. *Ottawa Citizen*, 8 June 1943.

66. J.L. Granatstein, *The Politics of Survival: The Conservative Party of Canada, 1939-1945* (Toronto, 1967), 209-10.

67. Canada. House of Commons, Special Committee on Reconstruction and Re-Establishment, *Minutes of Proceedings and Evidence*, 28 May 1943, 482.

efforts of government, employers and employees. The Chamber was nevertheless reluctant to endorse the taxation of business that would be required to fund such programs, and cautioned that increased taxes on individuals would make workers less likely to accept pay cuts when management deemed them necessary.<sup>68</sup> Still, many business-community leaders, anxious to dispel the notion that private businesses were responsible for depressions in a capitalist economy, had been persuaded that a limited involvement of government in the economy via fiscal policies and social programs could stave off socialist advances. As P.S. Fisher put the case before the Canadian Chamber of Commerce's annual convention in October 1943:

Business is like a mighty river flowing to the sea, which in its passage waters and fertilizes the territory through which it flows.

Unfortunately, in dry weather the river tends to dry up; in wet, it tends to overflow its banks....Controls are needed. This is our problem. Can the river control itself? Should it accept blame for the vagaries of climate which affect it so greatly? . . . .

I suggest that business should expect to perform the general functions of production, but that there are swings in community circumstances beyond the power of business to control, and that the broad regulation of community activity is a function of government.

Does this sound to a dyed-in-the-wool free enterprise man like surrender or retreat? Perhaps it is a retreat from a position I do not believe we should try to maintain . . . .

I have suggested that the job of business is in the main to produce, and the job of Government is in the main to regulate. The depression of the 1930's was primarily the result of a breakdown in international and in national regulations. It was essentially a failure of Government. The fact that individual businesses by individual mistakes made the total situation worse did not shift the fundamental responsibility.<sup>69</sup>

No addresses of this kind were heard at Chamber conferences after the war when, as the expected depression failed to materialize, CCF support declined, and concerns about social pacification abated, the main issue became the removal of the government fetters that had bound industry during the war.<sup>70</sup> Businessmen were confident, now, that government planners were not needed to regulate a chaotic private marketplace. As H. Greville Smith, chairman of the executive committee of the Chamber, told the 1947 convention, planning was not "the exclusive property of socialism. Industry is indeed planned, planned to meet effectively the demands of the consumer exercising a free choice."<sup>71</sup> Furthermore, social programs appeared less attractive. In 1949 the life insurance industry, for example, repudiated its earlier support for state medical

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68. *Ibid.*, 476.

69. NA, MG 28,3, Vol. 1, "Sixteenth Annual Meeting" *Addresses*, October 1943.

70. NA, MG 28, 3, Vol.1, "Annual Meeting" *Addresses*, 1946, 1947, 1948, 1949, 1950.

71. NA, MG 28, 3, Vol. 1, "Annual Meeting," *Addresses*, October 1947.

insurance,<sup>72</sup> while a year before the Canadian Chamber of Commerce had expressed its concern that social programs meant new taxes and new taxes on business meant less money for capital investment.<sup>73</sup> Gone was any talk about a “Bill of Rights” for Canadians.

When social welfare programs under state auspices were proposed over the next several decades, the Canadian Chamber of Commerce remained a predictable opponent.<sup>74</sup> The volume of production rarely seemed to reach the point where, in the Chamber’s view, governments could afford to tax for a new social program.<sup>75</sup> With the economy performing well, and the political threat from the Left never serious, the concerns that led many industrialists of the 1930s and the wartime period to extol a potential state role in both aiding capital accumulation and providing greater legitimacy for a capitalist economy dissipated. While industry now endorsed counter-cyclical state spending, it had firmly rejected the view of the interventionist wing of the Keynesian theorists who suggested that broader state regulation and spending were necessary to maintain full employment.

A similar shift had taken place within the medical profession. While insisting that doctors continue to control the practice of medicine, in January 1943 the Canadian Medical Association Council had, for the first time, endorsed the creation of a compulsory, state-sponsored, comprehensive medical insurance program to be operated by the provinces but supported by federal subsidies conditional upon provincial programs meeting national standards. “More all-inclusive, efficient and sound than any plan which has ever been devised and operated anywhere,” it would include prepaid coverage for visits to doctors and for stays in hospital, full dental care for children (with more restricted dental coverage for adults), full-time and visiting nurse services, prescribed medications, eyeglasses, and prosthetic appliances, a maternal welfare plan, and rehabilitation services. Among preventive services that would be financed, the CMA included an attack on inadequate housing and the provision of supervised playgrounds for children so that their physical development could be assured. The doctors wanted any plan that was implemented to be on a contributory basis for all but indigents, arguing that “the individual who shares in the cost of providing the benefits is much more likely to co-operate in keeping down unnecessary calls upon the Fund.”<sup>76</sup>

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72. Malcolm G. Taylor, *Health Insurance*, 108, 196.

73. NA, MG 28,3, “Annual Meeting” *Addresses*, October 1948.

74. NA, MG 28, 3, “Annual Meeting” *Addresses*, 1948-1970. The Chamber supported universal pensions for all Canadians over age seventy when they were introduced in 1951, but opposed hospitalization insurance (1957), the Canada Pension Plan (1965), and medicare (1968), among other reforms.

75. There were, of course, exceptions to this ideological position within the business community. At the Canadian Chamber of Commerce annual convention in 1959, CPR President N.R. Crump applauded the new social programs introduced during the decade, claiming that “social legislation has removed the only valid criticism of free enterprise—namely the exposure of individuals to the occasional hardships of the ebb and flow of the market economy.” NA, MG 28, 3, The Canadian Chamber of Commerce 29th Annual Meeting, *Addresses*, October 1958.

76. NA, MG 28, I 103, Vol. 345, “A Submission Respecting Health Insurance Presented to the

Although they paid tribute to existing voluntary medical insurance schemes, the doctors noted their lack of comprehensive coverage and the limited number of subscribers they had enrolled.<sup>77</sup> That had caused problems during the Depression, when many medical practitioners faced difficulties in collecting fees from those who did not have health insurance, but beyond that physicians knew full well that many sick people simply chose not to see a doctor when they could not pay, sometimes with tragic consequences. As the CMA observed in 1943, the medical profession was aware that social conditions and health were intimately related. With the possibility of a post-war depression prominent in the minds of most Canadians, doctors were gloomy about the prospects for their profession and their patients if health insurance was not instituted. Dr. A.E. Archer, the president of the CMA when it declared its support for health insurance, told the *Montreal Gazette* that two thousand young doctors would be demobilized at the end of the war without ever having had a private practice. Yet many would be leery to go to poor areas lacking doctors. "For these two problems we should consider ourselves fortunate if a health insurance scheme is ready to operate at the time of demobilization."<sup>78</sup>

As demobilization approached, however, these concerns began to disappear. A post-war depression seemed less likely, while private health insurance programs were becoming more common, some of them operated by physicians themselves. Meanwhile, a draft proposal from the Department of Pensions and Health for medical insurance that followed CMA principles but never received CMA endorsement had foundered. The so-called Heagerty plan, named for its principal author, Dr. J.J. Heagerty, Assistant Deputy Minister of Health, ran into opposition from the federal Finance Department, which opposed grants-in-aid to provinces for programs over which the federal government would exercise little control,<sup>79</sup> as well as the Catholic Hospitals Council, which opposed compulsory insurance.<sup>80</sup>

Against this background, the CMA began to backtrack on its support for a state health insurance program. While its June 1945 convention reaffirmed support for the principle, it nevertheless argued that a program ought not to be introduced in the near

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Special Committee on Social Security of the House of Commons by the Canadian Medical Association," 13 April 1943; see also Canada. House of Commons Committee on Social Security, *Minutes of Proceedings and Evidence*, 1 May 1943, 8, 22. The Canadian Dental Association supported a compulsory dental health insurance plan for children sixteen and under as the first stage in a plan to provide dental insurance to all Canadians. Arthur L. Welsh, president of the Canadian Dental Association, Evidence before Canada. House of Commons Committee on Social Security, *Minutes of Proceedings and Evidence*, 1 May 1943, 241-47.

77. *Ibid.*, 8

78. *Montreal Gazette*, 20 August 1943. By this time Archer was immediate past president of the CMA.

79. NA, MG 26, J1, King Papers, Vol. 345, "Report of the Economic Advisory Committee on the Proposal to Establish a National System of Health Insurance," 20 January 1943, 296775.

80. Robert S. Bothwell, "The Health of the Common People," in *Mackenzie King: Widening the Debate* ed. John English and J.O. Stubbs (Toronto, 1978), 207, 216.

future, government funds being better spent in the short term on building new hospitals and improving existing ones. In the meantime, suggested the CMA, a local experimental project with insurance ought to be conducted to test its real costs and its contribution to the delivery of health services.<sup>81</sup> Four years later, however, the CMA had changed its mind altogether, declaring that state health insurance would inevitably turn doctors into state employees and that it was unnecessary with the growth of private insurance plans.<sup>82</sup> By that time Canadian doctors' opinions had been considerably affected by British doctors' disaffection for the National Health Service implemented by the Labour government in Britain and by the campaign of the American Medical Association against the comprehensive medical insurance bill sponsored by the Truman administration.<sup>83</sup>

The disaffection for reform that swept the business and medical communities from 1945 onwards might not have been enough to dissuade King from a reform agenda had popular pressures been overwhelming in their favour. Certainly there is little evidence that the labour, farm, women's and social welfare organizations that had campaigned for welfare state reforms during the war were less favourable to such reforms afterwards. But these groups were also often as vocal in calling for tax relief. The Canadian Congress of Labour was astute enough to recognize that, even with higher corporate taxes, personal taxes would likely have to rise to support full-employment policies and a comprehensive social-welfare package, and not all of that burden would be levied on the rich. The CCL was willing to pay the price,<sup>84</sup> but with its leadership committed to the CCF its views were of little interest to Mackenzie King, who walked out on a CCL delegation in April 1946 when it accused his government of having failed to implement a real program of reconstruction.<sup>85</sup>

The railway brotherhoods, by contrast, had been friendly to the Liberals. While applauding the government's social security plans, the brotherhoods saw tax reduction as the major short-term goal for the federal government because it was necessary, as they told the Cabinet in March 1946, to create the purchasing power necessary to buoy the post-war economy.<sup>86</sup> Arguments of this kind, coming to King from a section of the labour movement, could only reinforce the conservative views emanating from elite sources.

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81. *Montreal Gazette*, 13 June 1945.

82. Malcolm G. Taylor, *Health Insurance*, 108.

83. The Wagner-Murray-Dingell bill, introduced in Congress in 1946, and supported by Harry Truman, would have established a universal federal health care system. See Alonzo L. Hamby, *Beyond the New Deal: Harry S. Truman and American Liberalism* (New York, 1973).

84. NA, MG 28, I 103, Vol. 314, File 4-26, "Memorandum Submitted to the Dominion Government by the Canadian Congress of Labour," 5 April 1946.

85. NA, MG 26, J 13, King *Diaries*, 5 April 1946. Interestingly the meeting which King walked out on was the very meeting where the CCL indicated its view that workers were prepared to pay higher taxes if that was the price for social planning for full employment.

86. NA, MG 26, J 1, W.L.M. King Papers, Vol. 406, "Memorandum of Proposed Legislation Submitted by the Dominion Joint Legislative Committee of the Railway Transportation Brotherhoods," submission to Cabinet, 366859-61.

Mackenzie King was not alone among Cabinet ministers originally committed to the Green Book proposals for reasons of political expediency to later focus exclusively on tax reduction for the same reasons. Louis St Laurent, initially a supporter of the Green Book<sup>87</sup> despite his corporate background and his leadership of the party's Quebec wing that contended with nationalist forces in the province, informed the dying dominion-provincial Conference:

What the average Canadian wants, and wants now, is lower taxes. Specifically that means lower income taxes. He sees that the war has been over for a year, he feels that if government spending is not away down it ought to be, and he wants a substantial tax cut effective right now.<sup>88</sup>

The "average Canadian," however, had little influence on the Dominion-Provincial Conference, in part because of its structure. For this was an exercise in what would later be termed "executive federalism": only the prime minister and premiers and their entourages were welcome, and no briefs from the public were accepted.<sup>89</sup> But from the beginning the government was also hearing that the public was fairly cynical about the conference, the general manager of the Wartime Information Board reporting, for example, in August 1945 that:

Dominion-Provincial conference—Comment so far has been very light. Many Canadians have scarcely realized that such a conference is planned, or are very vague as to its nature. Others regard it as 'a matter between politicians, not for the average man.' Within the better-informed minority who do discuss the conference, there is keen awareness of its importance. This group appears to be fairly evenly divided between pessimism based on recollections of the last such meeting, and cautious hope for 'reasonable success, if no miracles.'<sup>90</sup>

Indeed, Bothwell et al are no doubt correct when they conclude that the breakdown of the Dominion-Provincial Conference on Reconstruction had little political impact; but they are off base when they assert that "The dominion's case might have had more force, and more point, had Canada been facing a genuine economic crisis in 1945 or 1946. If a real crisis of unemployment had developed, then popular support might have been mobilized behind national control of government taxing and spending."<sup>91</sup> Far from attempting to mobilize support for the Green Book, the federal government, as we have seen, in fact consciously deceived the public regarding the nature of its commitment to its original proposals. Moreover, popular opinion was demobilized precisely by the

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87. Bothwell et al, *Canada Since 1945*, 94.

88. *Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa, 1946), 2 May 1946, 545.

89. See NA, MG 26, J 1, King Papers, King to Judge G. W. Morley, Owen Sound, Ontario, 29 November 1945.

90. NA, MG 26, J 1, King Papers, Vol. 381, A.B. Dunton "confidential memorandum to members of the Cabinet," 6 August 1945.

91. Robert Bothwell et al, *Canada Since 1945*, 98.

constitutionalization of the debate on social reforms. Since no one was openly opposing social programs, citizens could not be blamed for not knowing who to condemn for a federal-provincial impasse.

At the same time, continuing public support for implementation of new social programs during the period of post-war prosperity acted as a spur on governments to introduce gradually over the next two decades at least some of the programs promised by the Green Book in 1945. Indeed because the federal government continued to maintain that Green Book promises were Liberal policy, progressives within the Liberal Party and the government continued to cite the document when advocating federal initiatives on social measures.<sup>92</sup>

## CONCLUSION

As politicians faced the question of post-war reconstruction, they had at least two non-revolutionary paths to choose from that challenged pre-war orthodoxies. One favoured private enterprise while acknowledging a legitimate and growing role for governments in smoothing out the business cycle through counter-cyclical spending and monetary policies that promoted job creation. The other tolerated private enterprise but, more committed to the redistribution of wealth and more pessimistic about the ability of the market-place to create either social justice or economic stability, it gave governments a major and interventionist role in the economy.

From this second perspective, social insurance programs, public housing, price controls and the like were not fetters to investment but useful instruments for both economic and social stability. Similarly, and not surprisingly, the interventionists were more sanguine about the effects of high tax rates on corporate profits and on the earnings of wealthy individuals. However, their emphasis on the government's role in the economy caused them to discount arguments about killing the goose that laid the golden egg, and these were used by conservative opponents to reject massive social spending.

While the first perspective rejected the orthodox view that government deficits were immoral, its proponents espoused conservative views about the upper limits for deficits, fearing their impact on the primacy of private-enterprise domination of the economy. For the interventionists, by contrast, the goal of full employment ought to determine the level of deficits, and capitalists, while resentful of paying high taxes in good times to reduce

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92. Though Louis St Laurent opposed implementation of health insurance when he became prime minister, the Department of National Health and Welfare with Paul Martin as Minister continued to press for such a program. The deputy minister, Dr. G.D.W. Cameron noted: "In a memorandum submitted to the Cabinet by this Department before the Health Grants Program was announced, it was pointed out that it has become increasingly difficult to justify the Dominion's failure to implement the proposals made in 1945 in spite of the fact that fiscal arrangements were reached with seven provinces." He added that the Green Book had provided for the possibility of implementation of health insurance schemes by region. NA, RG 19, Vol. 92, File 135-U-167(A), Dr. Cameron to J.A. MacDonall, 14 February 1950.

deficits incurred in rough times, should be thankful for the stable economic environment in which they operated.

During the war, the rhetoric of politicians and, to an important degree, of elites such as industrialists and physicians, seemed to endorse the interventionist perspective. Pessimism that the end of war would bring another Depression in which mass anger would produce social instability and socialist governments throughout the country caused elite groups to jettison the discourse of individual responsibility for poverty. Yet behind the new commitments to reform were nagging doubts: where would the money come from? just how much redistribution of wealth was compatible with maintaining the existing system?

As the post-war era began without a depression and with the CCF in political retreat, the elites sensed a breathing-space. The modest interventionism advocated by the Bank of Canada and the Department of Finance could now be implemented and the answer to the disturbing questions raised by an even more interventionist philosophy avoided. Yet, as Mackenzie King and his ministers moved towards a more conservative approach, they faced a dilemma. While leery of the CCF and of communism, the public expected progress on the major social reforms that all politicians were promising. The federal government's solution, which was not so very different from that favoured by conservative-minded premiers, was to drop the commitment to reform and blame it on the other level of government. Thus the wartime discourse on reform centring on the rights of citizens and distribution of wealth, with undertones dangerously critical of the class structure, shifted towards the well-established Canadian politicians' discourse on the constitutional rights and obligations of different levels of government. While the former empowered many groups to take part in public debate, the latter limited debate to a small group of men in gray business suits who slowed down, if they did not stop, the reform process.