

THE PROBLEM OF UNEMPLOYMENT IN CANADA,

1929-1939

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by

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CHAPTER I.

INTRODUCTION

The first question a person is likely to ask when he sees the word "unemployment" in the title of a book or article is, "What kind of unemployment?" Does the author mean unemployment of economic resources of all kinds, including human, or just the latter kind? In this study the latter kind only is dealt with and with special emphasis on certain types of human unemployment. Perhaps it would be well to define the various types of human unemployment, briefly, to avoid any confusion. Six types can be distinguished, but this classification is by no means mutually exclusive or complete.

The six types of unemployment may be defined by the adjectives cyclical, technological, seasonal, natural, frictional and non-functional. The first, cyclical, is a result and a characteristic of the so-called business cycle when business activity is at a low point on a national or an international scale, and a large percentage of the labour force of the country or countries affected is unemployed; the cycle occurs periodically but the ups and downs in business activity, vary in duration and intensity. The prime example of this type of unemployment was that of the Great Depression of the 'thirties. The second type is technological unemployment, which is brought on by advances in the economic system which cause a new type of good or service to replace an existing one and so possibly throws those employed in

making the old type out of work. An example of this type is the gradual rise of the diesel railroad engine as a replacement for the old steam locomotive with the result that the employees of the boiler shops gradually have to find other work. This type of unemployment usually affects only a small segment of the economy at a time and a relatively small percentage of the working force. Technological advances are always being made and so there is always likely to be some unemployment caused if labour is not perfectly mobile, and it never is. The third type, natural unemployment is the result of such things as droughts, floods, hurricanes and so on - irregular occurrences, or at least of very irregular severity - which may cause unemployment on a fairly large scale but for a period of a few years at most. A good example is the drought in the wheat areas of the Prairies in the 'thirties'. The adjective "agricultural" could be used in place of "natural", in this study, if seasonal implications are not considered. The fourth type, seasonal, is unemployment which occurs during certain seasons of the year; the farmer is relatively free in the winter, especially if he has no livestock. These types of workers together with fishermen, and certain other workers, mainly in the extractive industries, are unemployed regularly for part of each year unless they can find other jobs for the remainder of the year.

This study principally deals with cyclical unemployment in Canada during the Great Depression following 1929. Some of the problems of "natural" unemployment are discussed since there was a

serious drought in the Prairies during the Depression and measures taken for the relief of unemployment naturally included drought relief. The problem of seasonal employment is discussed, but not in detail. The fifth and sixth types of unemployment, frictional and non-functional, are not considered at all. Frictional unemployment is a result of the fact that when a person leaves a job he usually does not have another job immediately. He may have to change his place of residence to find a job and so he is unemployed for a time, perhaps a short, between jobs owing to the imperfections of the labour market. Non-functional employment is caused by human failings such as old age, physical disability, mental disability, and ill health, which prevent some people from working (they may want to work), but the fact that these people are not employed is through no fault, except perhaps in the case of industrial accidents, of the malfunctioning of the economic system. Two other "causes" of unemployment, immigration and the slowing up or stagnation of the economy are not considered. The approach to the problem is mainly historical, in this study. By looking at the problem of unemployment in Canada in the years from 1929 to 1939 in the light of the facts available, certain causes become apparent and certain solutions are perhaps indicated.

The scope of this study appears very broad but in fact it has been confined through the limitations of time and space to a reasonably comprehensive review of the important governmental studies of the period, which are most enlightening.

In order, the subjects dealt with include: (1) a brief résumé of the general effects of the Great Depression on Canada; (2) a study of the work and recommendations of the National Employment Commission of 1937; (3) a fairly detailed discussion of the work and recommendations of the Royal Commission on Dominion-Provincial Relations of the same year, particularly in relation to unemployment relief and the problem of divided jurisdiction between Dominion and provinces (and municipalities); (4) a discussion of the Unemployment Insurance Act of 1940 and the national system of contributory unemployment insurance and the National Employment Service set up under it; and (5) finally a brief summary of the problems involved, a look at the position reached just before the outbreak of World War II and a glance at some suggestions for the future.

The study is chronological up to a point but more often it is more convenient to discuss certain facts of the problem of unemployment in relation to each other without too much regard for date. The fact that one whole chapter, Chapter VI, is devoted to the Unemployment Insurance Commission which was set up in 1940 and is, therefore, theoretically outside the scope of this work may be disconcerting to some people. It is included for very good reasons, however. Under the Commission, unemployment insurance and an employment service on a national scale were set up under exclusive Dominion jurisdiction, a thing recommended strongly by both the National Employment Commission and the Royal Commission on Dominion-

Provincial Relations. Even though it may not be chronologically correct to include the chapter it is well worth while to note the effects of the carrying out of two main, if not the main, recommendations of the two most important fact-finding and advisory bodies set up by the Dominion to study the problem of unemployment and inter-governmental relations, both jurisdictional and financial.

There is at least one shortcoming in this study which is that it was necessary for reasons of time and space to deal with the problem in a very general way; it was impossible to do more than to mention the regional effects of unemployment on the five economic areas of Canada, for example, or to continue the study to date. As long as the underlying currents are not neglected for the ripples on the surface, it will at least fulfill its original purpose, which was and is to study the problem of unemployment during the Depression.

CHAPTER II.

THE GREAT DEPRESSION

Cyclical unemployment is the most fearful of all types of unemployment. Even in periods of prosperity the thought of another depression is never dismissed. The Canadian economy is particularly vulnerable to a depression because of its close economic ties with the United States and Great Britain and because of certain geographical, climatic, topographical, population and resource patterns within the country. There are five distinct economic regions in Canada, and each is artificially bounded on the south by the United States. Canada is about three thousand miles long and most of her population and industry lie in a belt whose width is a few hundred miles at most and paralleling the southern border. There has been a great deal written about the problems of the Canadian economy and so specific problems are not discussed here except as they relate to the unemployment problem in the depression of the 'thirties.¹ This depression is discussed because it has been to date the biggest, most widespread, least prepared for economic crisis that most of the industrialized world has suffered since the time of the Industrial Revolution. From every catastrophe, economic or otherwise, there are lessons to be learned.

¹J. Douglas Gibson, Canada's Economy in a Changing World (Toronto: MacMillan Co. of Canada, Ltd., 1948).

The World Background

Although the Great Depression far overshadowed it in magnitude, it must not be forgotten that there was a crisis in 1920 with a subsequent depression. Canada suffered, but the suffering was short and sharp and not long and dreary as in the 'thirties; the peak of the Canadian credit and price structure was in 1920 and the low in 1922. In this period, according to Professor Mackintosh, unemployment increased rapidly but lasted a relatively short time, and among trade unionists the percentage of unemployed reached a high of 16.5 in the spring of 1921, which could be compared with a high of 25.5 per cent in the spring of 1933. "In the former year the worst unemployment was encountered less than one year after the crisis while in the latter case it came almost four years after the crisis."² It must be remembered that in the period 1919 to 1935 trade union membership was a small proportion of the labour force and trade union membership in Canada never rose over 330,000 and was only 277,000 in 1932 and 281,000 in 1935. Thus we cannot put too much faith in these figures of Professor Mackintosh's as a measure of Canadian unemployment although few better statistics are available.

By 1925 world trade and investment had revived. In Canada, Professor Mackintosh notes that in the next five years there was

²W.A.Mackintosh, The Economic Background of Dominion-Provincial Relations, a Study Prepared for the Royal Commission on Dominion-Provincial Relations, as Appendix 3 (Ottawa: King's Printer, 1939), p. 36.

rapid and widespread expansion and, "It was favoured by liberal credit, technological changes, and agricultural yields, particularly in the prairie region, much greater than average."³ National income in Canada rose from 1921 but it was not until 1925 that the rise of export income bolstered by a goodly rise in investment and national income was outdistanced by the rise of national income. The world situation was ripe for trade and the Canadian economy had been able to readjust itself to changed post-war price and cost relations; there was greatly increased productivity in the country in post-war years, even in comparison with the substantial rise during 1914-1919.

The World Situation In 1929

The causes of the Depression would take too long to enumerate and classify and so characteristics rather than causes are discussed. It is well to note that the Depression was not purely industrial; there was a serious agricultural crisis also and its impact on Canada was particularly immediate and painful. World trade was in the doldrums. The quantity of foodstuffs traded did not drop as sharply as that of manufactures but the fall in prices was the greatest in the case of foodstuffs. In relation to world production, international trade by volume fell much more rapidly, with the exception of trade in raw materials. Professor Mackintosh states that, "The inordinate emphasis on monetary expansion and on capital export as a means of international adjustment had postponed the fundamental realignments of production and trade and

³
Ibid., p. 42.

magnified the ultimate collapse."⁴

The decline in world prices was sharp and prolonged, but by 1933 world production, both by volume and by value, began to rise. By 1935 recovery seemed to be about over but world spending on armaments helped continue it until the recession in the United States in 1937-38. Then in 1939 came World War II, to provide a still different economic environment. With this sketchy background, let us turn to the Canadian situation. Owing to lack of space, the discussion will be limited largely to general effects and not to purely local effects in the five economic regions of Canada. In terms of political boundaries, and from east to west, these five economic regions may be roughly defined as the Maritimes, Ontario, Quebec, the Prairies and the Northwest territories, and British Columbia and the Yukon. It seems more valuable to look at the Canadian scene as a whole and not to look at each region separately in order not to get involved in too many details and so miss seeing the salient facts.

Canadian Exports

It is a well-known and oft-quoted fact that in the last two decades or so, approximately one-third of the national income of Canada comes from her exports, but other factors may modify this statement considerably, as they did in the years following 1929. The basis of rapid expansion was formed by this high level of exports; construction, employment and national income did not rise until this

⁴. Ibid., p. 56.

basis was solidly established. A glance at national income and export figures for Canada shows that during the Depression exports fell more rapidly than national income but they recovered earlier and rose more rapidly after recovery; from 1929 to 1931 exports declined more rapidly than national income and from 1931 to 1933, with the speedy decline of investment, the national income fell more than exports. There was a certain disequilibrium in Canadian costs and prices, caused largely by the fall in export and raw material prices. Wages in general varied considerably but those in the skilled trades were relatively stable. This meant that certain groups suffered more than others. After a careful examination of this problem, largely caused by the variability of export income, Professor Mackintosh came to the conclusion that such disparities,

...indicate the nature of the problem which confronted the export and raw-material producing groups and regions during the depression and its consequences for the other groups and regions in the country. Rigid costs in so far as they could not be met resulted in defaults, accumulation of debts, and increased government expenditures. The decreased purchasing power of the exporters as contrasted with the more slowly falling wages and prices of manufactured goods contributed to unemployment and relief costs in industrial areas. The real incomes of the fixed-income receivers and employed wage earners, particularly in the service and manufacturing industries, rose and a larger share of the national income was diverted to those groups and regions in which they are concentrated. The national money income declined from an index number of 116 (1926=100) in 1929 to 64 in 1933 but the national real income declined only from 116 in 1929 to 83 in 1933. Because of the differing rates at which prices and incomes declined and the unequal incidence of unemployment, much more than a proportionate share of the loss of real income fell on particular groups. The brunt of the decline fell on the export and capital-goods industries, on unemployed wage earners, and on receivers of non-contractual property incomes.⁵

⁵. Ibid., p. 60.

Over the period of the Depression, quantity, value, direction, and type of exports all changed considerably. Certain exporting regions declined and others came to the fore, with resultant employment problems. Professor Mackintosh sums up the situation very clearly in the following paragraph:

The exports of agricultural produce from the prairie region, which had been the chief stimulus to Canadian expansion, fell sharply in the face of falling prices, contracting markets, and drought. Although prices of farm products improved after 1932 the other conditions did not change substantially and the recovery in the value of exports has been slight. On the other hand better techniques, improved competitive positions in foreign markets, new discoveries, the increased price of gold, Empire preferences, and the more fortuitous circumstances of a British building and a world armament boom brought the newer exporting areas of Northern Quebec and Ontario, and British Columbia to the fore. The total of the exports of gold, other non-ferrous metals, pulp and paper, and lumber was considerably greater in 1937 than in 1929 and in large part filled the gap left by the shrunken exports of agricultural produce. The total of all exports in 1937 was nearly as large as it had been in 1929 and the disparity between export prices, import prices, wholesale prices, and the cost of living had virtually disappeared. Because of its unevenness this recovery was less of a solvent of the country's economic problems than might have been expected. The increase in the exports of non-ferrous metals and forest products contributed less to the carrying of the national overhead of transportation, distribution, and manufacturing facilities than a similar improvement in the exports of agricultural products would have done. Despite the rise in exports and the reduction in interest rates, investment (except that immediately associated with the mining industry) lagged. Nevertheless the importance of the expanding exports in furnishing foreign exchange, in providing new employment, and in making possible at least in part the transfers of income necessary to maintain certain groups and areas must not be minimized.⁶

Capital Movements

In the four years preceding the Depression, Canada was a net capital exporter and in 1929 she was only a small importer of capital. In 1930 and 1931 there were net movements of capital to Canada, which in part helped to ease the difficulties caused by the

⁶ Ibid., p. 60.

rapid fall in exports and also helped to maintain the exchange rate. In 1933 equilibrium in the balance of payments was achieved with almost no net capital movements. This was brought about by the fact that from 1930 on merchandise imports fell more rapidly than merchandise exports and so were the major contributing factor to a balance of payments equilibrium with relatively little capital movement. It must be noted, however, that the Canadian economy was subject to a heavy fixed charge payable abroad for interest and services. The important point is that balance in international payments was achieved fairly quickly under difficult conditions but the way it was done had an important effect on foreign trade policy, foreign exchange policy and on those Dominion revenues which came from customs duties. These, of course, all had an indirect bearing on employment, but unfortunately there is not time to discuss them all in any detail.

The Flight Of Agriculture

Although the effect of the Depression on Canada, whose exports were largely agricultural, was serious without any complications, the Prairies were put in a worse predicament due to the worst drought in years. In all Canada agriculture was none too prosperous with falling prices and rigid costs but in the Prairies the drought was the final and crushing blow to a previously prosperous industry. From 1931 to 1933 western farmers just did not earn enough to meet living expenses and what cash income was received was, in general, not enough even to provide for the depreciation of buildings

and machinery. Those who had capital and savings consumed them and expenditures on relief were high.

Fortunately, the rest of Canada had, favourable crop conditions but undesirable price and cost relationships caused a sharp fall in agricultural income. All across Canada the income from agriculture fell further than salaries and wages. In the period 1928-1932 it has been estimated that net agricultural income declined approximately 82 per cent between the two dates. In 1928 agricultural income was 18 per cent of total national income but by 1932 it was but 5 per cent of a greatly reduced national income. Agriculture was a depressed industry.

Construction

One of the important indices of the level of economic activity in a country is construction. In Canada, the low point was in 1931 and 1932. This decline was probably due to the effect of the fall of incomes of the export industry being felt fully, not to mention the fact that many international panics in these years made the future look very dark.

National Income

Another indication of the severity of a depression is the decline of national income. The behaviour of national income in Canada in the depression period in Canada is summed up very concisely by Professor Mackintosh in the following words:

. Provincial incomes varied according to the extent of dependence on exports and agriculture. Ontario and Quebec, which received more than 60 per cent of the national income, and where the recently expanding export industries are situated, and where investment income and payroll in service

and manufacturing industries are largely concentrated, obtained a larger share of the total after 1930. There were no striking changes in the shares of the Maritimes and British Columbia.⁷

The national income is naturally divided up in varying proportions among the economic regions which make up the country. In Canada there are five regions and in all of them the per capita incomes declined between 1929 and 1933 but fluctuations in real incomes per capita were not as great as fluctuations in money incomes. The reasons for the regional behaviour of national income in Canada up to and including the period of the Depression are also clearly stated by Professor Mackintosh:

The results of the differing economic forces which affected various regions during the post-war period are indicated by the relative magnitude of the per capita incomes prior to 1930. Lower transportation costs resulting from the opening of the Panama Canal, depressed ocean freight rates, and the extension of the Crow's Nest Pass rates to the Pacific Coast brought British Columbia's rich virgin resources closer to world markets and extended the metropolitan influence of Vancouver. Higher profits resulting from cheaper transportation and improved technique, together with the high rate of investment which ensued raised British Columbia's per capita income to the highest level in Canada.

The relatively high level of the per capita income in the Prairie Provinces during 1926-28 was the result of a most favourable conjuncture of bumper crops and high prices. The prosperous and expanding export regions of the West gave a considerable impetus to the sheltered service industries and the protected manufactures of Ontario and Quebec. This, and the stimulus given by the newly developing export industries in the northern areas, were the main bases of the expansion of income in the central provinces. The persistently unfavourable circumstances in which the Maritimes found themselves and their failure to participate extensively in the Canadian expansion are indicated by the relatively low per capita income of that region. The more immediate factors affecting that condition are the predominance of small scale enterprise in agriculture, fishing, and manufacturing and the relatively unfavourable age-distribution of the population.

During the down-swing of the depression the incomes of the predominantly exporting regions, the Prairie Provinces and British Columbia, declined most sharply. In the recovery of British Columbia's income since 1933, the Ottawa Agreements played a large

⁷Ibid., p. 63.

part. The income of the Maritime Provinces during the cycle was considerably more stable than that of the other regions. This was due to the effects of the Maritime Freight Rates Act, the subventions on coal and coke, higher tariffs on iron and steel, and Empire preferences on apples and lumber. Since 1934 the heavy capital expenditures of the provincial governments on highways must have given a considerable stimulus to their economies.

Dominion Policies During The Depression

During the Depression the Dominion was forced to alter certain of its economic policies for obvious reasons. Judgement on the wisdom of such changes will not be passed but rather the effects of policy changes will be noted.

The most important changes took place in the tariff policy, which had been one of protection from 1879 to 1930. In the period 1929-1932 tariffs were increased sharply. The result was that purchases were diverted to a large extent from imports to home production. After 1933 there were some reductions. Whether tariff decreases on a fair scale in the early years of the Depression would have improved the incomes of the exporting regions and lessened the financial strains placed upon their (provincial) governments is hard to say, but Professor Mackintosh believes reductions would have had such an effect. He summarizes the tariff policy of the period in these words:

The primary object of tariff increases in this period was to maintain employment in the protected industries at a higher level than would otherwise have ruled. A secondary object was to create a bargaining advantage whereby preferred entry into other markets could be obtained for Canadian exports.

The great diversion of purchases from imports to home production is prima facie evidence that employment was maintained at a higher level. In so far, however, as home products could be purchased only at higher prices than imports, purchasers, unless their incomes had been increased, were forced to curtail their purchases of these and other goods and services, thus contributing to unemployment or to the reduction of incomes of workers "on their own". Where the increase in duties required to bring about the

desired diversion of purchases was great, as for example in the textile schedules, the presumption is that the net advantage in employment was small.⁹

Professor Mackintosh considered that the effect of the increase in tariffs was to improve employment in the protected industries, which were largely in Quebec and Ontario, and so the inference is that these two regions gained at the expense of others. The Nova Scotia steel and coal industry gained a substantial advantage, however; it was the exception. The conclusion was that, "In so far as prices of protected products were maintained above the level which would otherwise have obtained, that enhancement contributed to a reduction in the real incomes of export groups and of regions in which protected industries were of minor importance."¹⁰ While one cannot but heartily agree with Professor Mackintosh's conclusions, neither can he help wondering if the result of substantially lowering tariffs would not have been a mistake even if it was, in theory, the fair and just thing to do for the sake of world trade and for the sake of non-discrimination against certain regions. If Canada had taken this opposite tariff course, the country would probably have been flooded with goods which other countries would sell here at low prices or else would dump them - goods which could, for the most part, be made in Canada, even if not so economically. It seems to be unfortunate yet true that in a depression it is every country for itself with no scruples as to how to gain economic advantages. Although the opposite policy to the one followed would have been a

⁹ Ibid., p. 95.

¹⁰ Loc. cit.

stimulus to world trade had it been followed by other countries too, it would probably be mistaken as a sign of weakness on Canada's part and so would come to nought.

Dominion transportation policy, although purely an internal economic policy, was none the less important during the Depression, as at all other times. In the great era of Canadian railway building there was too much emphasis on all-Canadian routes for economic integration. The result was that, with Dominion financial help, these lines became over-extended and were not profitable, especially in depression years and especially since Dominion help had left them saddled with heavy fixed debt charges. Dominion rate setting has been aimed at securing fairly low rates for basic commodities and at reducing regional differentials. Such a policy is probably not economically desirable but politically it is important for the continuance of Confederation in a happy state.

Another important function of the Dominion Government in the field of economic policy is monetary policy. After 1935 with the establishment of a central bank, the Bank of Canada, Dominion policy became more decisive and could be carried out more effectively. Up until the Great Depression the gold standard was quite generally accepted but, in September 1931, the United Kingdom was forced to abandon the gold standard and Canada followed suit soon after. From then until April 1933 when the United States abandoned the gold standard also and large balances were withdrawn from Canada, the Canadian dollar was selling at a discount in New York, but it

appreciated in terms of sterling. After the American departure from the gold standard the pound, the Canadian and the American dollar returned substantially to their relative positions. The Canadian policy was one of sound finance; no attempts were made to depreciate the Canadian dollar deliberately before September 1931. With partial recovery in the United States, in the late 1930's, and with increased international purchases of raw materials, the wholesale prices of Canadian export products rose. From then on Canadian monetary policy was mostly concerned with the internal value of the dollar; that is, with price levels and interest rates mainly, and not with its external value.

Dominion-Provincial Relations

One of the thorniest problems, both political and economic, in this country, is the division of powers between provinces and Dominion under the British North America Act of 1867. The major economic problem is to divide revenue sources so that the needs of the federal government can be met while at the same time satisfying the diverse requirements of the different provincial governments. An unsatisfactory way out has been the granting of unconditional subsidies by the Dominion to the provinces; in later years conditional subsidies have been used also. These arrangements are essentially compromises. Theoretically it is not a good thing to let one body levy taxes to collect revenue which another is to spend. There have been numerous Dominion-Provincial conferences since Confederation to discuss the problem and not one of them has arrived at a satisfactory solution to the problem.

Under the British North America Act, legislative powers are divided between the Dominion and provinces very strictly, with the exception that the Dominion has the right to legislate on anything which is not specifically mentioned as a provincial right. The allocation of important functions which have bearing on employment are as follows: The Dominion can legislate regarding public debt and property; regulate trade and commerce; raise money by taxation; borrow money on public credit; control currency and coinage, banking, and the issue of paper money; and regulate interest while the provinces can use direct taxation only to raise revenue for provincial purposes; borrow on provincial credit and legislate on all local or private matters. The division of powers, made over eighty years ago, has led to continual squabbles between the Dominion and the provinces. During the Depression, the provinces and municipalities, were faced with huge relief expenditures at a time when their tax resources and borrowing powers were nearly exhausted. The results during 1930 were briefly outlined by the Honourable E.C. Manning, later Premier of Alberta, in the following words, at the

1945 Dominion Provincial Conference:

Already overburdened with debt, the Provinces were confronted with the additional problem of providing relief for the destitute victims of a rapidly growing army of unemployed. In the dominantly agricultural provinces, such as Alberta, the situation was aggravated by the plight of debt-burdened farmers who were forced to market their products at ruinously low prices. Under such circumstances the Provinces' major source of current revenue from direct taxation was totally inadequate to meet their requirements, leaving them no alternative but to pile up further debt, thereby, pawning their future revenue. Ultimately they were forced to come cap in hand to the Dominion Government to beg financial assistance in dealing with the emergency. Obviously satisfactory Dominion-

Provincial Relations were impossible under such circumstances.¹¹

The Vulnerability of the Canadian Economy

This short chapter is intended to be a very short résumé of the problems of the Canadian economy, particularly those problems which become acute in a depression. The chapter is intended to deal with the background situation and hence has said little regarding actual employment in the Depression. That comes later. Most of the problems mentioned are dealt with in some detail in later pages and so brief treatment is given them here. At this point it is well to sum in one or two paragraphs, if that is possible, the basic facts underlying the Canadian economy, facts which should always be borne in mind when discussing Canadian economic problems.

Canada is a large country whose political boundaries run east and west, but whose economic ties are largely with her great neighbour to the south. Canada has five distinct economic regions all varying greatly in population density, natural resources, amount and type of industrialization, and agriculture and markets. They all border on the United States. Climate varies from temperate to arctic; tropical products must be imported. Although industrialization is progressing as rapidly as can be expected with our resources and our proximity to highly efficient American industry there are still many extractive industries such as fishing, logging, and agriculture, which are seasonal in character and so, besides cyclical unemployment

¹¹Canada, Dominion-Provincial Conference (1945), Dominion and Provincial Submissions and Plenary Conference Discussions. (Ottawa: King's Printer, 1946), p. 41.

at fairly widely spaced intervals, seasonal unemployment for a part of the population is always present. Industrialization is not proceeding so fast that technological unemployment is a problem.

Exports are variable and so regions depending on them have a degree of uncertainty in employment; many agricultural products are exported from the Prairies and other regions and so they too have none-too-steady employment, not to mention the ordinary danger of poor crops. Foreign capital movements to Canada which are variable are necessary to help finance resource development and industry; at times they provide foreign exchange difficulties. They have been mostly from Britain and the United States. Politically, Dominion-Provincial financial relationships are not too satisfactory. In short, because of her size, variety of topography, diversity of resources and markets, and political arrangements etc., Canada has many problems which have a bearing the attainment of "full" employment. Some of these are discussed in the following pages, starting with the findings and recommendations of the National Employment Commission which was set up to study the effects of the Great Depression on employment in this country.

CHAPTER III

THE NATIONAL EMPLOYMENT COMMISSION, 1936

One of the most important Canadian studies of the Great Depression following 1929, is that of the National Employment Commission. This chapter deals solely with the organization of the Commission, its findings and its recommendations.

The Composition and Scope of The Commission

This Commission was appointed by the Dominion Government under authority granted to it by the National Employment Commission Act of 1936. The Commission itself was appointed by an Order in Council dated 13th May, 1936. The personnel making up the Commission were, besides the chairman, Arthur B. Purvis, Esq., and the Vice-chairman, Tom Moore, Esq., Messrs. W.A. Maskintosh, A. Marois, A.N. McLean, E.J. Young, and Mrs. Mary M. Sutherland.

The Commission's Interim Report of 1937¹ and its Final Report of 1938² contain a considerable amount of information relating to the effect of the Depression on Canada, the steps actually taken to combat the Depression by governmental bodies, and the need for further governmental action. Most of the information is included in the Final Report, since the Interim Report was concerned mainly with the more urgent recommendations of the Commission. The Commission's

¹Canada, National Employment Commission, Interim Report 1st June 1936 to 30th June 1937, (Ottawa: King's Printer, 1937).

²Canada, National Employment Commission, Final Report 26th January 1938, (Ottawa: King's Printer, 1938).

Periodical Information Service also published a few pamphlets on certain aspects of its policy; they are of no value in this study. Many of the statistics collected by the Commission are of value; they will be referred to in the relevant sections of this chapter. The work of the Commission was almost entirely advisory, as the following quotation from the Final Report shows:

It is important that it be borne in mind that while provision was made in the National Employment Commission Act of 1936 for the Commission to assume administrative and supervisory functions if the Minister so decided, its functions have in practice been advisory, with the exception only of the promotion campaign in connection with the Home Improvement Plan.³

The Interim Report also points out this. The five main functions of the Commission, which are quoted below, are found in both Reports except V, which deals with long-range plans to combat unemployment arising from depressions. These functions are:

- I. Securing data in order to determine the nature and extent of the problem;
- II. Formulation of recommendations regarding practical measures for increasing employment;
- III. Formulation of recommendations regarding practical measures for ensuring efficiency and economy in the administration of Aid;
- IV. Formulation of recommendations for setting up of machinery to carry out Commission policies approved by the government;
- V. Formulation of long-range plans of national development for the purpose of ameliorating the affects of future depressions.⁴

The remainder of this chapter deals with the findings and recommendations of the Commission.

³ Ibid., p. 5.

⁴ Loc. cit.

The Nature and Extent of the Problem

Before the Commission could grasp the many details of the problem, it had to set to work and collect statistics on questions relevant to its field of inquiry. From the nature of the statistics which it had to collect, it can easily be seen that, up to the time of the establishment of the Commission, statistics relating to the effects of the Depression on the people of Canada and to the breakdown of government (mainly Dominion) expenditures on relief, farm assistance, public works and so on, were inadequate even if they were available. One would think that steps would have been taken at the onset of the Depression to collect adequate information on its effects in order to have a sound, factual basis for measures to combat it; however, such was not the case.

The first thing the Commission had to do was to carry out a national registration and classification of persons receiving aid (relief) to which the Dominion Government contributed; it was required to do this under the terms of the National Employment Commission Act. Registration was actually carried out in September 1936 and a re-registration was made a year later. This information was used in conjunction with the Dominion Bureau of Statistics' Monthly Employment Index. This was really the only collection of statistics carried out under the complete control of the Commission. Other relevant statistics published by the Dominion Bureau of Statistics and the Census of 1931 are referred to in the Interim Report and the Final Report. Since

most of the Statistics gathered by the Commission are for 1936 or 1937, they are of little use for comparison with figures for other depression years.

When the Commission was able to marshal enough statistical information from various sources, it was in a position to consider the effects of the Depression on Canada. Most of its general findings are worth noting. These findings, as given in the Final Report, are summarized below; certain particularly interesting sections are quoted verbatim. Some hints at recommendations are, unfortunately, bound up with statements of actual conditions in the Final Report.

Before proceeding any further, it appears to be an opportune time to define the word "depression". This word is used (with a capital "D") to refer to the low level of economic activity, particularly with reference to Canada, in the years following 1929. The following definition of a depression given in the Final Report is quite sufficient for our present study of the depression following 1929 and its effects on the Canadian economy. The definition runs as follows:

An economic depression is a state in which the national income falls below attainable levels not because of any shortcomings in the technique of production or in the bountifulness of nature, but because maladjustments of costs and prices (themselves arising from a variety of causes) prevent the use of labour, capital, and resources to the extent that they hitherto have been used. Though crop failures and other disasters may intensify the distress from the depression, unemployment of labour, capital, and resources is of its essence.⁵

With the above definition in mind, we are in a position to continue with some details of the actual Canadian situation. The first thing that the Commission noted was that the rate at which

⁵Ibid., p. 21.

savings were invested in private enterprise of a productive type should be increased in order to cut government aid, which would fall due to the push given employment by increased investment. The Commission's general recommendations for stimulating the production of private enterprise along these lines were:

Sound governmental policies relating to private enterprise, along with their maintenance over reasonably long periods, in order to avoid the restrictive effect of an atmosphere of uncertainty.

Efficiency and economy in public expenditures. An atmosphere of public confidence in, and encouragement of, profitable enterprise.

Continued encouragement and support for research work, both in the technical and marketing fields. This is particularly important in industries where the resources of the individual operator are not large enough to enable him to meet the need himself, and in industries the major products of which have to meet the competitive test of world markets.⁶

From a theoretical viewpoint at least, these seem to be very sound measures; the actual practical recommendations are given in the next sections. The Commission also noted that more practical education was necessary to fit the young citizen for the practical problem of employment. It then went on, in its Final Report, to note the international aspect of the business cycle and why Canada was so badly affected by the economic instability in other countries. The paragraphs quoted below make this clear:

However, despite the possibilities referred to for further development of the material and human resources of Canada, the Commission holds that this country, the fortunes of which are so inextricably bound up with those of the great industrial nations of the world, must be prepared to meet business fluctuations, whether large or small, which may arise from circumstances over which it has no control.

For countries such as Canada, i.e. debtor countries, deriving a relatively high proportion of income from the sale of exports, economic fluctuations, including their depression phase, are largely external in origin and to a degree, uncontrollable. The main responsibility for controlling world depressions must fall

⁶ Loc. cit.

on the great creditor and industrial nations of the world. Though Canada may make contributions toward such control, governmental and business policy can be most effective, in the main, in restraining excessive and misdirected investments and in facilitating Canadian readjustments to changed world conditions of prices and costs.

Depressions are communicated to Canada through the medium of her exports and imports of merchandise and services and her exports and imports of capital. The onset of the depression is ordinarily signalized by sharp falls in the prices, and to a less degree, in the volume of export commodities (of which finished consumers' goods are a negligible proportion) or by a stoppage of capital imports or by both. These changes necessitate a fall in the volume of imports and later the emergence of a net capital export as payments of interest and loans abroad are maintained.

In the past, some crises resulting in depressions have been communicated to Canada through sharp reductions in the imports of capital. These have necessitated a relative reduction in the imports of merchandise and services accompanied by a relative expansion in exports - readjustments different in origin but the same in scope as those required by a fall in export prices. In fact, however, at the time of the crisis of 1929-30, the capital imports of Canada were not large and, as they expanded rather than contracted in 1930, they eased rather than intensified the shock.

It must be emphasized that while the revival of investment is, therefore, a proper object of a policy of recovery, it can be obtained on a country wide basis only when cost-price relationships have been readjusted and profitable margins exist throughout both domestic and export traders.

While the main impulses toward fluctuations in employment are external in origin, the course of the fluctuations is profoundly affected by the existence of strong or weak positions within the country. It is a matter of common knowledge that by 1929 Canada had major weak spots in wheat and newsprint, her two chief exports, and the depression was further intensified by the fortuitous factor of prolonged and unprecedentedly severe drought in the wheat producing areas.

The Final Report then goes on to indicate some of the internal complications. In 1928 and 1929 there was too much credit expansion and this made the dollar vulnerable on the foreign exchange of the world.

There was a definite need for credit control and also for debt reduction or control in good times. The price of gold and other non-ferrous metals went up (in terms of dollars) during the Depression and so helped recovery. 1933 was the worst year of the depression. Real incomes declined during the period, as was to be expected, but the decline was not quite as serious as it might have been due to a fall in prices. Still, distress was greater than it might have been if the decline in prices were spread evenly over the population and not just on certain groups. The Final Report mentions the groups that were particularly badly hit:

A study which has been made for the Commission has made clear that because of varying degrees of inflexibility in prices and incomes the great decline in the national money income after 1929 was thrown most heavily on the export industries (except such as gold mining which was in a fortuitously strong position), on unskilled labour and on those receiving incomes from the capital goods industries.

There do not appear to be any debatable points in the above statements of the facts regarding the depression following 1929, but some of the vaguely inferred recommendations are, perhaps, open to controversy. The recommendations will not be discussed here but in the following sections. As an ending to this section and an introduction to the next, the following statement is well worth remembering:

Depression policy, whether relief or recovery, must be such as to accelerate rather than retard the readjustments necessary to the renewed circulation of goods, in which for Canada exports and investment are critical phases.

The Situation in 1936-37; The Immediate Attack

Co-ordinated measures were not taken by Dominion, provinces, municipalities and private relief and charitable agencies to combat

⁸Ibid., p. 24.

⁹Ibid., p. 25.

the Depression at or near its onset. This was due partly to the fact that it is not possible to tell whether a depression is going to develop when signs of a recession become evident; if a depression does develop there is no way of telling how severe it will become. Long before the formation of the National Employment Commission in 1938 it was evident that there was a depression of almost world-wide proportions and that Canada was badly hit, yet little was done to co-ordinate anti-depression policy until then. Part of the difficulty in Canada was the division of authority between the Dominion and the provinces under the British North America Act of 1867. Measures taken by the Dominion, provinces, municipalities and private bodies should have been co-ordinated, particularly relief measures, in order to be effective.

With this background the Commission made some recommendations to try and alleviate a very undesirable situation. These recommendations for an immediate attack on the problem, are only given in outline with little added comment. It is not to be expected that such chaos will develop again with the increased control of the economy by the central government and the establishment of certain desirable institutions, such as unemployment insurance, to combat unemployment. Still, the situation as the Commission found it and its recommendations for immediate attack are interesting and lessons can be learned from them.

The situation the Commission had to consider on its formation was:

Increasing Canadian employment soundly based on expanding exports at improved prices and on investment of private capital.

Certain spots in which recovery was lagging badly or was absent altogether, namely in agriculture by reason of the persistent drought, and in the construction industry where capital was particularly timid.

Agencies of re-employment, such as the Employment Services, insufficiently developed or co-ordinated, dealing to a large extent with relief labour, and ill-equipped to service the general body of employers and employees.

A system of Aid, to which the Dominion was contributing, which had developed without adequate regard for the causes of distress relieved and with insufficient safeguards - a system which in consequence tended to discourage rather than to encourage re-employment.

A fluctuating and expensive body of public works for providing employment.

A progressive deterioration in the employability of those in receipt of Aid, and a growing concentration of unskilled workers and older age groups in the larger urban centres.

An emergency winter problem of homeless adults for whom seasonal employment had not improved sufficiently and who tended to concentrate, as a result, in the urban areas.¹⁰

The Commission's recommendations for an immediate attack on

the problem were:

A comprehensive housing policy embracing the Home Improvement Plan and assistance for low rental housing for those unable to afford to pay an economic rent, this as a means of stimulating employment in the construction industry in which there was the greatest lag.

A thorough modernization and extension of the Employment Services under unified Dominion administration as a means of increasing placements in industry, of developing co-operative local plans for rehabilitation purposes, and of handling certain problems in connection with Unemployment Aid.

A revision of the system of Dominion Grants-in Aid with the object of insuring that Aid is not given haphazardly but is directed to remedying the effects arising from various causes of distress, and as a part of a co-operative Dominion-Provincial-Municipal program for moving people back to a self-supporting basis.

A nation-wide Dominion-Provincial program, including a multiplicity of local attacks by public bodies working in co-operation with industry, having as its purpose the training of the younger age groups, the restoration of skill, physique and morale of the middle age group, and the maintenance of the older age group in work of a nature useful to the community. Such plans to be shaped so as to increase the general employability of workers of all ages.

¹⁰Ibid., pp. 8-6.

A curtailment, at this stage of the recovery, of public works, where developed primarily for the purpose of providing employment, this so as to relieve the public exchequer and relief funds for more effective and fundamental attacks on the problem of unemployment.

And, finally, as a temporary expedient, a farm placement plan and supplementary plans operating in connection with the primary industries, as a means of relieving the emergency winter problems of the single homeless adult concentrations in urban areas.¹¹

In 1937 employment increased quite rapidly in most parts of Canada, with the notable exception of Saskatchewan, where drought conditions were still bad. At this point, the Commission reiterated the necessity of adequate statistics relating to persons receiving government aid or assistance. Provincial and municipal authorities had been co-operating with the Commission to the extent that monthly figures were on a fairly sound basis. With the help of the Department of Pensions and National Health, the Commission registered Veterans in receipt of small pensions who were receiving unemployment aid from the provinces or municipalities. A questionnaire was sent to employers to find out changes in employment and expected labour needs.

In regard to the Commission's recommendations for an immediate attack on the problem (as mentioned overleaf), it noticed certain shortcomings of plans then in effect and made certain concrete plans for the attack on the problem as it then stood. On the subject of new housing construction it noted that the construction industry was still slack, although new housing was needed; people did not invest in housing because of the uncertainty of income over

¹¹ Ibid., p. 6.

any length of time and in the same locality, and high cost of housing, the difficulty in getting the investment out and the high rate of taxation on real estate. Under the Home Improvement Plan of 1936, the Dominion Government partially guaranteed small loans of lending institutions when such loans were made for home repair and improvement work under the terms laid down by the government. Another allied plan was the Farm Employment and Improvement Plan which placed more than 50,000 men and women on farms during the winter months of 1936-37. Under this plan farmers got a small monthly bonus for boarding employees, and suitable employees desiring to work on such farms received a small monthly wage, the idea being that such persons would live in home-like surroundings and enjoy at least a passable standard of living. The Commission did nothing actively to promote the Dominion Housing Act of 1935 but with the help of a promotion campaign sponsored by a fund contributed to by banks and industry in the autumn of 1936, it succeeded in having the Home Improvement Loan Guarantee Act of 1937 passed; also the Commission did recommend the stimulation of medium-priced house construction by liberalizing the regulations of the Dominion Housing Act to provide more housing and employment. It also suggested agricultural aid under the Department of Agriculture to promote rehabilitation through land settlement.

A very wise view seems to have been taken of the place of public works, for in its Final Report the Commission recommended "A contraction at this stage of recovery, where (the public works were)

formulated for the purpose of relieving unemployment."¹² The Final Report goes on to mention that such programmes of public works duplicate the demand for skilled labour, often overlook the unskilled worker, create dependence on the government, and are a most expensive method of putting men to work since they tend to restrict employment in private industry because they must be paid for by taxes (or borrowing or inflation) and such burdens are discouraging. There was a great necessity for co-ordination in Dominion-Provincial arrangements to prevent overlapping and waste when public works were used.

The Commission, in its Final Report, then goes on to recommend the establishment of a National Employment Service to carry out the recommendations of its Interim Report. Since a chapter, Chapter VI, is devoted entirely to the Unemployment Insurance Act under which the National Employment Service came under Dominion control, the recommendations of the Commission in this regard are worth noting in full:

The requirement here, . . . is the prompt modernization and extension of the Employment Service of Canada, this with a view to a better linking together of employer and employee; to providing focal points for attacks on local employment problems, and as a means of gauging the relative degree of employability of those in receipt of Aid. In discussions which the Commission has had in recent months, general agreement has been expressed by all Provincial governments, as to the unsuitability of the existing set-up, and of the restricted services, of the Provincial Employment Services in fulfilling these vital functions.

The Commission wishes to emphasize the urgency for action. It recommends that the Service be placed immediately under the direction of the Dominion government, both as to controlling principles and broad policies, but with provision for the appointment of strong regional directors, and regional advisory councils,

¹² Ibid., p. 14.

to whom certain decentralized powers would be given, so as to ensure adequate weight being accorded, and attention being paid, to the problems peculiar to particular regions. The success of any nation-wide programme of local plans developed in order to disperse the remaining problem is undoubtedly dependent upon such re-organization.¹³

Before stating the conclusions with regard to the immediate attack on the problem as it was then, it is to be noted that certain of the more interesting and important points also relevant from the long-range point of view have been mentioned or discussed previously in this section and that they are not discussed further; the others, such as the training of workers to increase their "employability" are very definitely recognized as valuable but are considered to be outside the scope of this study which, after all, is intended to cover the broad field and not miss seeing the ocean for the waves, as it were. There is also a reason for the large number of quotations in this chapter. Most of the quotations are chosen because of their aptness and brevity in summing up a certain point or points; there is nothing to be gained in rewriting such quotations in a longer, more cumbersome form when they are meant to express as exactly as possible the views of their creators. And so, the conclusions of the Commission regarding its immediate programme, are given in their entirety:

In view of the importance at this stage of an understanding of the measures that will be necessary if advantage is to be taken of improved economic conditions to disperse the problems which have arisen in connection with the provision of Unemployment Aid in recent years, the Commission reiterates the four main points involved in that section of its program: -

¹³Ibid., pp. 15-16.

1. Utilization and further development of the Statistical breakdown achieved by the Commission since September 1936, to overcome the present confusion of purpose by segregating the many different types of distress in the different local centres. This is to be done with a view to remedial action, and where remedial action is impossible, to a better considered and more permanent basis for taking care of such types of distress.
2. Abandonment at once of the present method of making un-discriminating grants for the purposes of the "dole", and substitution therefore of specific grants tying in with the remedial or "cure" measures foreshadowed in 1. Such new grants to be made only on a basis of established need, and with adequate administrative controls and follow-up.
3. Development locally, but on a nation-wide scale, of practical plans, suitable to employment opportunities likely to be available in each region, which will tend to increase the "employability" of those still receiving Aid. This is to be done by means of: -
 - (a) Plans to train those in the younger age group who in recent years have lacked experience in gainful working;
 - (b) Plans to restore the skill, physique and morale of those in the middle age group;
 - (c) Works projects which will provide a measure of useful work for those, particularly in the older age groups, for whom plans under (a) and (b) would be unsuitable. This is to be on the understanding, however, that such projects will meet the following criteria: -
 - (i) Importance in stimulating increased non-governmental expenditures; e.g., roads into mining or tourist areas.
 - (ii) Economic importance in improving the competitive position of industry, particularly of export industries, e.g., improvement in dock facilities; reforestation or other conservation measures.
 - (iii) Value in absorbing a high proportion of the type of labour available in the district in question, while at the same time making but slight demands on those types of labour of which a scarcity is becoming increasingly apparent; e.g., projects calling for a high proportion of unskilled labour such as elimination of grade crossings.
 - (iv) Low operating costs and low permanent overhead charges (interest, etc.) in order to permit of economies for governmental units as conditions improve; e.g., reclamation works; land clearance, etc.
 - (v) Special value to the community; e.g., sewerage and park or other beautification projects.

4. Prompt establishment of a modernized Employment Service, under national direction so far as all broad principles and policies are concerned, but with such measures of decentralization as will provide effective handling of problems peculiar to each Province. This Service to provide the administrative local units required to bring about the separation of employables from unemployables, and to formulate such local plans (see 3) as will increase "employability". To this Employment Service would be attached regional and, where necessary, local advisory committees, of community-minded citizens, including representatives of employers and labour, in order to ensure that such plans are really practical instead of theoretical.¹⁴

In the light of what has gone before in the Final and Interim Reports, there appears to be no question that the conclusions arrived at are based on sound theory. The formulation of practical plans is, of course, more difficult. Very few of the recommendations for the immediate attack on the Depression were put into effect for the very simple reason that, by 1937, economic conditions were improving; the worst year was 1933 and by late 1939 another war had started the Canadian economy on its way to prosperity again. Here the word "prosperity" is used in a strictly economic sense; it is not to be inferred that prosperity brought on artificially by a world war is a desirable way of obtaining prosperity. No comments have been made on the conclusions because they are not as important as those made in the two Reports, particularly the Final Report, which are of a long-run nature. At the moment (1949) we are in a period of prosperity and, although we hope it is to continue, it is more important to consider long-range measures to combat a depression which we hope will never come again, than to wait until it does come and

¹⁴ Ibid., pp. 18-19.

then start planning to temper it. The next section deals with such important matters, from the point of view of the National Employment Commission,

Long-Range Plans

After discussing the situation as it was in 1936-37 and making plans to hasten recovery in the next few years, the National Employment Commission then turned to the question of long-range planning. Conditions dictate one of two viewpoints in looking at this problem. The first of these is from the viewpoint of trying to induce permanent recovery from the state of depression then existing and the second is looking at the question of preventing or at least ameliorating a depression, if it should come, with steps taken in good times. Rather surprisingly the Commission did not allow the first view to colour all its discussion and conclusions and so made its statements of greater worth for those of us who are in the position of being able to consider measures in a period of prosperity which would only be taken if, as and when a depression should come.

The Commission started off in this section of its inquiry by mentioning steps which should be taken to strengthen the country as a whole and it noted that these steps were to be taken in prosperity. These steps, since they are not controversial on grounds of theory, will just be mentioned briefly. One important thing mentioned was that overhead charges should be kept low, both those of government (the national debt) and those of private enterprises. The Commission hoped that the establishment of the Bank of Canada (which was then in its infancy) would control credit and lead business and government in time of need. In time of crisis the government should not have to borrow from the capital market and already anxious banking system; this would prevent increased distortion of costs and prices.

Government aid or unemployment insurance should be given to the unemployed but the main consideration is to keep public expenditures down. The rigid elements in the cost and price structure like taxes, interest, prices or wages should be made more flexible, the Commission thought.

The Commission then found it was impossible to say in advance exactly when measures should be taken; the object is clear but the methods depend on the situation. Action must be taken speedily and decisively in any case. In certain industries there is bound to be over-expanded investment, because workers are drawn to them in good times and find it difficult to regain their former jobs on the contraction of the over-expanded industries, since there are probably unemployed in other industries, if the slump is of any consequence. The Commission continued by noting some of the employment problems of the Depression, and then it went on to state its conclusions:

Within the period of this depression the continuous geographical and occupational transfers of workers, which had been previously induced by opportunities for employment, lapsed. Further, the decline or cessation of training and apprenticeship during the period of slack employment, and the deterioration in general employability as a result of unemployment, brought it about that unemployed workers were not fitted by skill or general employability to take jobs in the expanding employments. It is a paradoxical and retarding feature of business revival after a depression that surpluses and shortages of labour exist side by side.

The overcoming of these dislocations in employment is a proper field for government policy and for the co-operation of industry and private citizens.

The broad analysis which has been sketched is sufficient to indicate the proper direction of policy - its strategy rather than its tactics. The latter must be devised in the light of particular situations. The analysis points to (a) the importance of prudence and courage on the part of governments in curbing expenditures and reducing debts in the periods of rising revenues, (b) the great advantages of intelligent and informed control of credit by the Bank of Canada,

(c) the necessity of a reorganized and modernized Employment Service, (d) the need for financial and administrative preparation for the relief of unemployment distress during a period of re-adjustment, (e) the desirability of provision for expansion of public expenditures when essential re-adjustments have been completed, and (f) the importance of projects to maintain and increase the employability and resourcefulness of workers. The last four requirements are elaborated in the succeeding sections of this report.¹⁵

Then the thorny problems of the division of responsibility between Dominion, province and municipality were discussed, with the following conclusions drawn about the system then in effect:

In other words, Dominion Assistance granted on grounds for financial necessity should be entirely separate from Dominion participation in expenditures for Unemployment, Occupational, and Agricultural Aid, and should, therefore, be subject to separate conditions appropriate to it.

Summed up, the system of Conditional Dominion Grants-in-Aid has implied that what the Dominion gave was merely money. If that were true and desirable the conditions and controls should have been financial and not limited to "relief expenditures". The National Employment Commission has reached the conclusion that effective handling of the problem of unemployment and the granting of Aid by the community should give more than money; that money will be wasted unless accompanied by administrative control.¹⁶

As a partial remedy at least, the Commission went on to consider, and strongly recommend, the establishment of an Employment Service and of unemployment insurance on a national scale and under Dominion control, for:

The National Employment Commission does not consider to be within its competence to express an opinion . . . other than to record its considered judgement that if financial and constitutional conditions should permit, the co-ordination of a nationally administered system of Unemployment Insurance and Employment Offices, buttressed by a similarly administered system of Unemployment Aid, would have decisive advantages over the present system of coping with problems of employment and unemployment.¹⁷

¹⁵Ibid., p. 26.

¹⁶Ibid., p. 27.

¹⁷Ibid., p. 28.

This, it also recommended in its immediate attack on the problem but here it sets forth the advantages of functional division of responsibility rather than joint division. The reasons given were four: (1) The Dominion has more flexible revenues, broader administrative experience, and the fluctuations in economic activity are less for the country as a whole than for specific regions or localities; (2) unemployment insurance would be a statutory payment and unemployment aid involves ex gratia payments,- the Dominion can make the system uniform over the whole country; (3) with Dominion control, bargaining between various governmental units and the shifting of responsibility from one unit to another would be reduced to a minimum; and (4) in periods of severe unemployment the provinces have to have grants-in-aid under the present system and so the result is a joint system. The commission concluded:

The administrative functions would appear to be such as could be successfully dealt with if the Dominion controls the Employment Service and is willing to work out adequate co-ordination with Provincial and Municipal welfare services. Dominion administration is quite compatible with regional decentralization.

It should be made clear that under the system outlined the responsibility for the relief of distress other than that arising from unemployment as defined by the Dominion Government Employment Service should lie with the Province and its creature, the Municipality.¹⁶

With regard to unemployment insurance, the Commission noted that it was not the mechanism to end all unemployment relief, but rather to look after mainly seasonal, technological and frictional unemployment; it would help combat the distress caused by cyclical unemployment but a nationally administered system of Underemployment

¹⁶ Ibid., pp. 28-29.

aid would have to supplement it. This problem is discussed in greater detail in Chapter VII, the chapter on the Unemployment Insurance Commission. In a stage of severe depression the Commission recommended certain schemes of public works in which the provinces and municipalities would pay for the materials and plan the projects and the Dominion would pay the labour bill, all with the hope of maintaining the employability of those with previous working experience or providing training for them. The provinces and municipalities should look after those who are out of work due to low prices, drought or other special circumstances. This latter statement presumably means only if they were not covered by unemployment insurance.

The Commission rightly noted that the use of public works is only necessary provided that unemployment insurance and unemployment aid are not able to take the initial burden of a depression, which they could not do if the depression was of any degree of severity unless the reserves of the unemployment insurance fund were huge and the government had correspondingly large amounts to spend on unemployment aid for those not covered. Public works projects have the advantages of being postponable, of needing less of unskilled workers, such as construction workers, and they may be selected, timed and located so as to do the most good in theory. On the other hand, careful plans must be made in advance and the works must not compete with private enterprise for labour and other resources, for, "It should not be lost sight of, however,

that the essential of any stabilizing policy of this sort is the expansion and contraction of public expenditures to the end that total expenditures (public and private) may be made more stable."¹⁹ With this reasoning in mind, the Commission went on to list some possible public works and add still another word of caution:

Works undertaken in such programs should be those which have a definite value in promoting the competitive strength of Canadian industry and improving the conditions of life in the Dominion. They may properly include:-

Building of highways to permit the development of mining, tourist and other resources;

Development and preservation of tourist regions;

Projects for the improvement and protection of public health and safety, (such as provision of Municipal pure water supply and sewage disposal projects, elimination of railway and highway grade crossings, etc.);

Slum clearance and low rental housing schemes in urban areas;

Forestry plans for extending and preserving forests;

Reclamation and conservation projects;

Land clearance and settlement projects where the conditions are clearly favourable to successful settlement.

It is important that the projects should be such that as can be planned thoroughly in advance, as are capable of postponement, and as do not increase public expenditures permanently through heavy maintenance charges.²⁰

The Commission recommended simultaneous programmes by the Dominion, province and municipality, but not joint projects which it thought were largely ineffective in combatting unemployment. Such measures as the Dominion Housing Act and Home Improvement Plan were considered to be such as to stimulate private expenditure. Taxing policy was noted as being most important, for tax-free depreciation allowances were low and taxes upon land high in time of depression as a general rule; just the reverse should take place. The idea of

¹⁹ Ibid., p. 36.

²⁰ Ibid., p. 43.

timing as expressed by the Commission was not to launch the attack in a haphazard fashion right at the onset of the crisis but as soon after as plans could be made and before fear gripped the economy; a co-ordinated plan with a definite monetary policy by the Bank of Canada and the government to expand credit, should be inaugurated. No comment is made on the question of public works at this time, since their role is mentioned in later chapters. It is sufficient to say that if public works of some type are applicable, the broad outline of criteria for choosing them, as given by the Commission, is valid as far as it goes.

Before passing on to a summary of the steps necessary to carry out the Commission's long-range recommendations, it should be noted that the Commission reviewed rehabilitation and training measures of two types, the first arising out of the necessities of intermittent periods of economic stress, and the second, permanent training measures such as apprenticeship and learnership which are applicable whether there is a depression or not. The discussion of such measures is considered beyond the scope of this study.

As a means of carrying out its long-range plans, the Commission recommended five steps which should be taken. These were steps with reference to: (1) registration work; (2) national employment service; (3) unemployment insurance and Dominion occupational aid; (4) co-ordination of Dominion-Provincial-Municipal activities; and (5) examination of the level of national expenditure, to see what public works were necessary. The first and last of these recommended steps

are also possible component parts of plans for the immediate attack on depression, especially the first; the first is discussed in the preceding section. All these steps have been discussed above in some detail. The problems of an employment service and unemployment insurance are fully covered in the chapter on the Unemployment Insurance Commission, and the question of Dominion-Provincial relations and desirable types of public works are discussed in the next two chapters.

The Commission concluded its Final Report by stating again that its functions had been mostly advisory. It felt that its long-range plans would have to be handled by something more than the existing departmental machinery and so it suggested that it be succeeded by a small administrative committee which would be directly responsible to the Minister of Labour, in order that its plans might be carried out. To assist this committee, the Commission further recommended that an inter-departmental committee assist in the matter of public expenditures, such committee to have the following duties:

- (a) of examining from time to time and carrying on studies of economic changes likely to affect the volume of employment, and
- (b) of providing the government with factual analyses on which the government might base its decisions to expand or contract expenditures.²¹

The Commission then ended the body of its Final Report by stating that it did not feel competent to prescribe precisely the composition of such a body. One of the eight Commissioners, Mrs. M.M. Sutherland, dissented from certain sections of the Reports on the

²¹ Ibid., p. 43.

ground that they were outside of the Commission's reference. She was of the opinion that, with unemployment insurance, a national employment service and with unemployment aid as a corollary to the first, all under the financial and administrative control of the Dominion, certain provincial and municipal rights respecting property and civil rights would be transferred to the Dominion.

She stated her reasons for dissent, thus:

- (a) That it is fundamental that the primary responsibility for the relief of distresses (in our reference distress resulting from unemployment or loss of occupation) should rest on the unit of government nearest the applicant, the Municipality and/ or the Province, the Dominion contributing thereto when, in its view, a practical necessity exists because of the unusual nature of extent of the distress;
- (b) That Dominion Aid or relief is not a "corollary" to Dominion Unemployment Insurance;
- (c) That the present allocation of functions and responsibilities implicit in the British North America Act between the Dominion and the Provinces is a sufficient safeguard against possible bankruptcy of the Insurance Fund under a Dominion contributory Unemployment Insurance scheme.

With regard to (a) above, it seems that Mrs. Sutherland has a good point in suggesting that the (smaller) unit of government nearest the applicant should look after him under such conditions, but she neglects entirely the proposition that, in time of depression especially, it is the Dominion alone which is in a position, by virtue of its control of money and credit through the Bank of Canada, to undertake the necessary expenditures without getting into financial difficulties. Mrs. Sutherland's suggestion is admirable but impractical in the case of a depression. Her statement in (b) above has no foundation unless unemployment insurance

could cover adequately the whole working population and there is some reason to doubt that it could do this in Canada. Her third reason (c), is to be rejected on one argument alone: in a country such as Canada with such vastly different economic regions, unemployment in one section of the economy is likely to be and has been in the past, much worse than in another section; this could easily cause the distress of bankruptcy of an insurance fund if contributions were made on a provincial basis and the other provinces did not come to the aid of the one in which unemployment was causing the acute drain on the fund. Presumably this is the way Mrs. Sutherland would assume bankruptcy would come about but her argument is not too clear.

This chapter has attempted to bring to light some of the difficulties encountered in providing a living for the masses who are out of work because of a "depression", and it has brought forward some of the solutions that have been suggested in Canada. The next two chapters discuss the Royal Commission on Dominion-Provincial Relations which, in many ways, took up where the National Employment Commission left off.

CHAPTER IV

THE ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

In this previous chapter it has been attempted to outline the employment conditions in Canada in the period during the Great Depression, and to discuss the work of the National Employment Commission. All the subjects under consideration in this chapter were discussed by the Royal Commission on Dominion-Provincial Relations in 1937. This Commission is probably better known as the Rowell-Sirois Commission, after its two successive chairmen. The following is by no means a full discussion of the work of the Commission; only topics relating directly to unemployment and some of its related problems are discussed. Some of the political aspects of the problems are discussed as well where they have a direct bearing on the effectiveness of financial measures taken by the various governments, Dominion and provincial, regarding unemployment relief legislation, unemployment insurance legislation, the control of a nation-wide state employment service, and so on.

The Composition And Scope Of The Commission

The Commission was set up under an Order in Council (P.C. 1908), dated 14th August 1937, which defined the terms of reference of the Commission and appointed the Commissioners. One of them,

the Honourable Mr. Justice Rinfret was forced to resign owing to ill health in November of 1937. His place was filled immediately by Joseph Sirois, Esquire, LL.D., Professor of Constitutional and Administrative Law, at Laval University. Several months after the resignation, again because of ill health, of the chairman, the Honourable Mr. Justice Rowell, Mr. Sirois was appointed Chairman in November 1938. The Report of the Commission, which contains approximately 425,000 words, was finally transmitted to the Prime Minister, the Right Honourable W.L. Mackenzie King, on 3rd May 1940.

The Commission was both a fact-finding body and a body which made many recommendations. Its raison d'être was primarily due to the fact that, since Confederation in 1867, the Dominion grew rapidly and the allocation of powers between Dominion and provinces which were appropriate in 1867, were largely inadequate to meet the social and economic changes which had taken place through seventy odd years. Governmental services had to be extended to a degree unforeseen in 1867. In some cases the authority of the Dominion and the provinces was not clearly delineated and in other cases there was much overlapping of responsibility. One of the problems was that the provincial governments did not seem to have adequate revenue sources to undertake their constitutional responsibilities, which included the cost of unemployment relief and other social services and the payment of interest on their debt. The provinces were in need of new revenue sources or else re-

allocation of certain of their constitutional responsibilities.

The Commission, then, had a gigantic task before it, as the following excerpt from its parent Order in Council, dealing with the functions of the Commission, shows clearly:

1. That it is expedient to provide for a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years;
2. That for this purpose the following be appointed Commissioners:-
 - The Honourable Newton W. Rowell, LL.D., Chief Justice of Ontario;
 - The Honourable Thibaudeau Rinfret, Justice of the Supreme Court of Canada;
 - John W. Dufoe, Esquire, LL.D., of the City of Winnipeg, Manitoba;
 - Robert Alexander MacKay, Esquire, Ph.D., Professor of Government, Dalhousie University, Halifax, N.S., and
 - Henry Forbes Angus, Esquire, M.A., B.C.L., Professor of Economics, University of British Columbia, Vancouver, B.C.
3. That, without limiting the general scope of their inquiry, the Commissioners be instructed in particular: -
 - (a) to examine the constitutional allocation of revenue sources and governmental burdens to the Dominion and provincial governments, the past results of such allocation and its suitability to present conditions, and the conditions that are likely to prevail in the future;
 - (b) to investigate the character and amount of taxes collected from the people of Canada, to consider these in the light of legal and constitutional limitations, and of financial and economic conditions, and to determine whether taxation as at present allocated and imposed is as equitable and efficient as can be devised;
 - (c) to examine expenditures and public debts in general, in order to determine whether the present division of the burden of government is equitable, and conducive to efficient administration, and to determine the ability of the Dominion and provincial governments to discharge their governmental responsibilities within the framework of the present allocation of public functions and powers, or on the basis of some form of reallocation thereof;
 - (d) to investigate Dominion subsidies and grants to provincial governments.
4. That the Commissioners be instructed to consider and report upon the facts disclosed by their investigations; and to express what in their opinion, subject to the retention of the distribution of powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national unity, will best effect a balanced relationship between the financial powers and the obligations

and functions of each governing body, and conduce to a more efficient, independent and economical discharge of governmental responsibilities in Canada.¹

In short, the Commission had a gigantic task, even though it was not set up to revise the British North America Act but to find facts and make recommendations as to certain changes which it felt would be desirable. Its task was greater than that of any of the seven Dominion-Provincial conferences called by the Dominion since 1902. The 1934 Conference dealt with two main subjects, one of which was unemployment relief and kindred topics. The 1935 Conference was the most elaborately organized meeting to that date. It dealt with seven main subjects, two of which were those relating to unemployment and relief, and with the responsibility for and co-ordination of, social services. These last two conferences are mentioned only since the work of the 1937 Royal Commission on Dominion-Provincial relations completely overshadows them and embraces their contributions to the subject matter discussed. Of course, a Royal Commission, since it is a Commission, has the time and resources to deal with its field of inquiry in a much more thorough manner than a conference.

The Results Of Confederation

Just what were the thoughts in the minds of the Fathers of Confederation when, in 1867, they divided various legislative powers between Dominion and Provinces? It is more important to neglect this question, to a large extent, and see what the results of the division

¹Quoted in: Canada, Royal Commission on Dominion-Provincial Relations, Report (Ottawa: King's Printer, 1940), vol. I. pp. 9-10.

have been, and to look at these results, not in terms of whether they happen to be the wishes of the framers of the British North America Act, but whether they have been satisfactory. Evidently they have not, or they would not have been discussed at such great length by so many Dominion-Provincial conferences and especially by the 1937 Royal Commission, as one of its main functions as noted in the Order in Council creating it. Also, divided legislative powers meant divided financial arrangements. Should one unit of government be allowed to spend revenues raised by another unit?

Most of the problems raised by these questions have been discussed, if not answered, in the exhibits, evidence, studies and Report of the 1937 Royal Commission. The British Columbia government in its brief stated that, in its opinion, the financial arrangements of Confederation were a compromise, designed to meet local and immediate circumstances with a view to facilitating the consummation of Confederation; it was intended that they be completely revised later. There is no doubt as to the fact that these arrangements were a compromise designed to facilitate a speedy confederation but how could the draftsmen of the Constitution foresee the vast changes to come in their newly created state? Did they not plan as concretely as possible for the future, considering the facts they had at their disposal in 1867? No doubt they did. Their British North America Act was intended to be a permanent and relatively unchanging framework in which the financial and other powers were divided between the Dominion and the provinces. In spite of any supposed intentions for a complete revision, as yet

there have been few amendments to the Act.

When the revenue and spending functions of the Dominion and the provinces were divided no one foresaw that expenditures for such things as unemployment relief and social services would bulk large in governmental budgets and that public expenditures would increase as rapidly as it has. The Ontario brief to the Royal Commission summed up the position fairly well: It stated that the spending functions of the Dominion were mainly defence, navigation, postal services, public debt, railways and canals, and Dominion public works; and those of the provinces were the management of public domain, prisons, charitable institutions, municipalities, provincial public works, justice, agriculture and education. Ontario also noted that it was the intention in 1867 that the subsidies and revenues from the public domain would provide a sufficient revenue for the provinces; however, the change in the conceptions of the functions of government upset the balance between the sources of revenue and the spending functions. To support this, figures were quoted which showed that since 1900 Dominion expenditures have quadrupled while those of the provinces have increased thirteen times with the result that, in 1935, 28.15 per cent of national income was absorbed by public expenditure.²

The problem of sound financial relationships between various governmental units is discussed in some detail under the section headed "Public Finance" in the next chapter; grants-in-aid

²Canada, Royal Commission on Dominion-Provincial Relations, Ontario Brief, part II, p. 15.

are also discussed in both this and the next chapter. Since there are more specific problems to be dealt with, the whole subject of divided jurisdiction is not discussed further at this point, except to quote two paragraphs from one of the studies prepared for the Royal Commission on Dominion-Provincial relations by way of summary:

The scope of government is constantly changing. Seventy years ago no one who had to do with Confederation anticipated social legislation and marketing schemes, any more than they anticipated aviation or radio. The enlargement of the field of government action was naturally accompanied by an increase in the cost of government, leading in turn to increased demands for revenue. On the one hand, the Dominion could not find in the specified powers (to which in effect it became limited by judicial decision) the legislative authority to deal with many matters considered national in scope; while the provinces could not find in the limited resources open to them the power to raise the revenue they needed to meet increased demands for social and debt services. It became more and more difficult to work the ship of state while still retaining "the water-tight compartments which are an essential part of her original structure", or to deal with the problems of an increasingly collectivist state in the age of the automobile and the aeroplane with a constitution which could only expressly envisage the rugged individualism of the horse-and-buggy days. Consequently both Dominion and provinces were led to resort to various expedients and devices for the purposes of enabling them to do indirectly what they were precluded from doing directly.³

The authors of the study then continued:

In order to clarify the jurisdiction of the Dominion and provinces and to avoid continual recourse to expedients and devices to escape from the limits of the constitution, it is essential that the provisions of the British North America Act should either be freshly interpreted so as to get back at the undoubted intention of the Fathers of Confederation, or amended, so as to show clearly the limits of legislative and taxing authority and to make it clear that the provinces may collect, without device or expedient, the taxes which it is determined that they should have.⁴

³L.M. Gouin and Brooke Claxton, Legislative Expedients and Devices Adopted by the Dominion and the Provinces. A study Prepared for the Royal Commission on Dominion-Provincial Relations, as Appendix 8, (Ottawa; King's Printer, 1939) p. 5.

⁴Ibid., p. 9.

There is only one point in the above two paragraphs that appears to require comment and that is the idea of returning to the "undoubted intention of the Fathers of Confederation", which no doubt, means an inflexible, permanent division of authority between provinces and Dominion - the "watertight compartments" which were observed by Lord Atkin in a case between the Attorney General of Ontario and the Attorney General of Canada in 1937. His Lordship has been much criticized for his observation and rightly so. It is hard to see how such a highly inflexible division of powers as envisaged here can ever work smoothly in a growing country in an ever-changing world. Certainly past history does not show such an ideal to be a satisfactory goal.

Examples Of Divided Jurisdiction

In the previous section, it was noted in a very general way that the problem of divided jurisdiction has been constantly growing more important with the changes in the scope of governmental activities to include more and more functions. The Editorial Forward to Professor Corry's study for the Royal Commission of 1937 of the Difficulties of Divided Jurisdiction sums up the fields in which divided jurisdiction is particularly troublesome and states his two alternative "solutions" to the problem in certain cases:

The most important fields of divided jurisdiction, based on interpretation of the British North America Act by courts, are marketing, regulation of insurance companies, fisheries, and the settlement of labour disputes. Professor Corry concludes that "when the Dominion and province share the admin-

...istration of some single function of government, it... leads, in most cases, to friction, waste and inefficiency." He adds, however, that Canadians may prefer, for the sake of local autonomy, to pay these costs rather than to set up unitary control where that is the only practicable alternatives. (But as functions in which the Dominion and the provinces have concurrent powers, such as assistance to agriculture, are not examples of divided jurisdiction in the sense considered in this study, Professor Corry's conclusion must not be taken to be a condemnation of concurrent powers.)

A second group of functions in which both Dominion and provincial governments participate is made up of activities which are unquestionably within provincial jurisdiction but which the Dominion Government assists financially on certain conditions. Since 1912 the Dominion has experimented with conditional grants to the provinces for agricultural instruction, employment services, highways, technical education, eradication of venereal disease, old age pensions, and unemployment and farm relief. Most of these grants were launched as temporary measures, and only the grants for old age pensions, employment service, and unemployment relief are now in force.

Professor Corry finds that for certain limited purposes which can be clearly defined and measured by professional standards, such as highway construction, the conditional grant may prove useful. His general conclusion however, is that it has not been and is not likely to be a successful or desirable device, although he notes that it may be preferred to an increase in federal power for reasons unconnected with the efficiency or economy of the particular service.⁵

A prime example of the difficulties of the Dominion in trying to legislate on a subject relating to all Canada is given in the field of social welfare, particularly unemployment insurance. In 1935 the Dominion government introduced an Act, "The Employment and Social Insurance Act, 1935" under which a system of compulsory unemployment insurance was to be set up on a nation-wide scale. The Act was duly passed and became law, but the Judicial Committee of the Privy Council held in a decision given in 1937 that it was un-

⁵J.A. Corry, Difficulties of Divided Jurisdiction, A Study Prepared for the Royal Commission on Dominion-Provincial Relations, as Appendix 7, (Ottawa: King's Printer, 1939) p. 5.

constitutional; it was held to be ultra vires because it was mainly an act which affected the civil rights of employers and employees in each province. Also, it related to insurance, which previous court decisions had held to be a provincial matter. Under the British North America Act civil rights are a provincial legislative function. The Dominion held to no avail that the Act was valid since it had the right under section 91 of The British North America Act to raise money by any system or mode of taxation, and to spend the money it raised in this way under its power to deal with public debt and property under section 92 of the Act.⁶

It was not until 1940, after all the provinces finally agreed to it, that an amendment was made to the British North America Act to allow the Dominion jurisdiction in the field of unemployment insurance. Shortly after the amendment was made, the Dominion government introduced the "Unemployment Insurance Act" which was speedily passed by the House of Commons and became law on 7th August 1940.

In the evidence before the Royal Commission it was noted that, under section 94 of the British North America Act which deals with uniformity of legislation in the provinces, it would have been possible for the Dominion enactment of laws relating to a particular subject like unemployment insurance; these laws would, of course, have to be adopted by all the provinces. This

⁶See also section on "Dominion-Provincial Relations" in Chapter II, pp. 18-20, and Chapter IV, p. 51.

might have saved the time spent on amending the British North America Act, but whether the provinces could all agree to a uniform system seems very doubtful from past experience.

The Fathers of Confederation can hardly be blamed for not realizing that the problem of providing a basic minimum of social security for every citizen (unemployment insurance is one aspect of such a social security programme) would arise. Neither could they foresee the increase in the control and direction of economic activity by states. Both the problems of social security and the state control of economic activity are national in character and so should be Dominion powers but whether they should be exclusive or concurrent powers is another matter. The former might possibly be concurrent but the latter would seem to be entirely a Dominion problem, especially with the Dominion's exclusive control over currency and banking.

Although the jurisdiction over unemployment insurance has been settled, the related problem of unemployment relief is as yet unsolved. Sometimes relief payments are required across the country, as they were after 1929; sometimes they are required only in a few areas owing to some seasonal or technological unemployment for a relatively short length of time or affecting relatively few people. The financial drain may be serious or it may be quite light. If the problem is local, should the municipality be left to pay the relief bill? Clearly, with a large volume of unemployed for a long period of time, the municipality has not got the tax resources or the ability to borrow excessive sums on credit for relief payments

without getting into serious financial difficulties, even if it is the authority which administers the relief. In periods of cyclical unemployment the provinces are not able to bear the expenditures necessary either; some of the more prosperous provinces may weather the storm with nothing more than a heavy debt burden and memories of relatively high taxes to pay for some of the relief expenditures, while other provinces may have to default on their debt obligations. The criteria for relief payments in the various provinces would differ sharply depending on their ability to provide the money necessary. To provide minimum standards throughout the country should the Dominion subsidize some provinces with the excess revenues obtained in other provinces or should the Dominion take over the whole problem of the financing and administration of relief expenditures itself? The Great Depression did not answer any of these questions conclusively but it did show that the burdens on some parts of the country were intolerable and that the municipalities and even the provinces could not finance relief expenditures without Dominion assistance on a large scale.

Thus, the difficulties of divided jurisdiction are both political and financial, the financial problems arising mainly from the political division of authority between the Dominion and provinces. The Provinces were in a position of having the authority to carry out certain functions within their jurisdiction, but many of them felt that their revenues were not sufficient, as the following

quotations from the British Columbia, and Nova Scotia briefs

to the Rowell-Sirois Commission show:

It should be the desire of the provinces and the Dominion that the provinces shall be placed in a position that they shall be able to function within the measure of their jurisdictions without recourse to the Dominion Government for financial assistance, other than in such measures as may be agreed upon.⁷

The search for an equitable financial scheme for Canada as a whole, would have to take cognizance of the economic conditions in different areas, the comparative standards of living, the comparative expectations as to future development, the comparative need for certain services, or if one measure alone be taken, the comparative income possibilities and necessary expenditures of the various provincial governments.⁸

The Nova Scotia Brief also went on to suggest that the deficiency of provincial revenue could be met in one of three ways: (1) either there could be increased subsidies, (2) greater provincial taxing power (for example, income taxes) or (3) assumption by the Dominion of the responsibility for certain services. No attempt will be made to evaluate the relative merits of these suggestions at this point. Rather, an attempt to summarize as briefly as possible the whole problem of divided jurisdiction as it manifested itself in the Great Depression will be made. So far the problem has not been attacked from any particular angle; the viewpoint of Dominion, province or municipality has not been stressed and the discussion has been somewhat general. For that reason, let us turn to the Province of Quebec in the Depression period, and note its particular problems as they were related to the national

⁷ Canada, Royal Commission on Dominion-Provincial Relations, British Columbia Brief, p. iii.

⁸ Canada, Royal Commission on Dominion-Provincial Relations, Nova Scotia Brief, p. 83.

scene.

Quebec is in a somewhat different position than the other provinces of Canada with its different heritage, the French language, a strong religious influence, and a civil law different from that of the other provinces. Its unique cultural heritage and strong provincialism perhaps provide a clue to its seeming desire, relative to most of the other provinces, to have much of the responsibility for matters which could conceivably be Dominion functions, placed upon its shoulders. The position of Quebec is comprehensively summed up by M. Esdras Minville in his study prepared for the Rowell-Sirois Commission. His views, of course, do not represent the recommendations of the Commission in all respects. In regard to the conditions of the Depression years M. Minville states:

Judging by remarks heard in different quarters, two major problems arise from this question of the relations between the province and the Dominion: (1) the distribution among the provinces of the federal contribution to unemployment relief; (2) the jurisdiction of the two authorities in the matter of relief to the unemployed.

The federal government's contribution to the provinces which, at first, was set at one-third the amount expended, has, since 1934, been paid over in the form of monthly allowances from which the province must take care of existing needs. This allotment represents, in fact, nearly always one-third of the amount spent for unemployment relief purposes; this is proven by the statistics already quoted.

The rule of setting the Dominion's share at one-third the amount expended tended unavoidably to bring results of an arbitrary nature; it did not take into account the circumstances of time and place, the standards of living, etc., or any of the factors which make the situation differ from the one part of the country to the other. As a matter of fact a glance at the statistics of the amounts disbursed by the Dominion government up to March 31, 1937, shows as between provinces, such discrepancies as are difficult to explain at first sight. Prince Edward Island received \$1,073,647; Nova Scotia \$6,724,723; New Brunswick, \$4,472,772; Quebec, \$45,124,623; Ontario, \$77,843,355; Manitoba, \$19,033,996; Saskatchewan, \$42,047,295; Alberta, \$12,892,355; British Columbia, \$19,805,563.

The difference between Ontario and Quebec is particularly noticeable since both provinces are more or less on a par in the matter of population, industries, etc., and the number of unemployed (as defined by the Act) and of those in receipt of relief has always borne about the same ratio to their respective populations.⁹

M. Minville then goes on to quote comprehensive statistics to prove his point that, no matter what the method of comparison, the Dominion disbursed very unequal amounts to the various provinces. Figures for years other than 1933 are also given but they merely confirm that the discrepancies in provincial relief receipts from the Dominion were continued;

On the monthly basis of the number of persons in receipt of relief, Prince Edward Island received from the Dominion government, under the Relief Act of 1933, an average of \$2.38; Nova Scotia, \$1.97; New Brunswick, \$1.34; Quebec, \$0.82; Ontario, \$1.94; Manitoba, \$2.31; Saskatchewan, \$1.19 (\$1.01 in the drought areas \$1.70 in the rest of the province); Alberta, \$1.74; British Columbia, \$2.36.¹⁰

M. Minville continues by noting that the costs of unemployment relief were borne in part by the Dominion, in part by the province and in part by the municipality but that the above figures show that the results have not been too satisfactory; it is the provinces and the municipalities who actually formulate the policy but the Dominion has stepped in and defined unemployment, fixed the conditions of its grants and imposed from the beginning the regulation of the three-way split of costs. He then continues further:

At all events, if the scheme of the three-part apportionment of the costs of unemployment must be maintained, it would be advisable to revise entirely the basis of contributions.

⁹Edras Minville, Labour Legislation and Social Services in the Province of Quebec, A study of prepared for the Royal Commission on Dominion-Provincial Relations, as Appendix 5 (Ottawa: King's Printer 1939) p. 84.

¹⁰Loc. cit.

As to federal and provincial jurisdiction in unemployment relief two propositions occur: (1) that which, on the ground that unemployment is a national problem, seeks to lay the entire burden upon the central government (2) that which, comparing unemployment relief to public charities, denies jurisdiction to the Dominion, but demands its financial assistance.¹¹

M. Minville then examines the particular problem of the jurisdiction over unemployment relief more closely:

(a) Constitutionally unemployment, a relief problem, falls within the competence of the provinces which may deal with it as they please. That is, they may either share the burden of it with the municipalities or assume it entirely. Whatever may be their choice, the responsibility in the matter lies with them. As unemployment relief costs rise beyond the financial means of the municipalities, it is normal that they turn towards the province.

(b) In fact, since unemployment in Canada as elsewhere is a result, among other causes, of the intense industrializing policy of the last 25 or 30 years, and since the provinces have jurisdiction over natural resources and so preside, to a large extent, over the trend of economic development, the responsibility for the present state of affairs does fall on them.¹²

M. Minville's argument in "(b)" is not necessarily valid nor does the fact that unemployment was caused by the "intense industrializing policy of the last 25 or 30 years" seem to be a particularly important cause of unemployment; however, this is not the place to discuss the causes of unemployment. In spite of his remarks here, M. Minville does not think that the Dominion is freed of all responsibilities. Even if it is not constitutionally responsible for unemployment relief, he thinks that the Dominion can be held largely responsible for the state of affairs during the Depression, owing to its aid to rapid industrialization by such things as tariff and

¹¹ Ibid., p. 85.

¹² Ibid., p. 86.

financial policy. He also thinks the Dominion was at fault for bringing in so many immigrants who were supposed to settle on the land but who came to the cities at their earliest opportunity and depended on relief funds. After these few critical remarks about the Dominion, M. Minville then discusses the crux of the problem; that is, whether a province (particularly Quebec) would be willing to turn over the entire jurisdiction of relief to the federal government. He discusses the problem under the legal and the political aspects:

The reasoning concerning the first aspect is based: (a) on the geographical and economical differentiation of the country which means that, from one area to another, the needs, interests, and aspirations of the people sometimes differ diametrically; (b) on the ethnic differentiation which is inconsistent with the geographical unity of some parts of the territory, and adds moral border lines to the physical border lines; (c) on the necessity, not of suppressing, but of respecting these regional particularisms - which are an enrichment of the country. There lies the duty of the federal government. It is the duty of co-ordination.

And the question now raised is: If the federal government, after seventy years of systematic efforts, has failed to conciliate the general economic interests of the Confederation - in transport, commerce, finance - and failed at a time when social differentiation was not so accentuated as today, what will occur from now on if the Dominion, through unemployment relief, has to meddle with the intimate social life of the various groups forming the population. Will not the task be beyond its powers?

Either the Dominion would take into account differences in conditions and in standard of living, or it would not take them into account. In the first instance, justice would demand that it take the differences in standards into consideration when levying taxes as well as in the distribution of relief grants - which would certainly produce administrative complications. In the second place, the people enjoying the higher standard would certainly complain about insufficiency, while the people on the lower standard of living would be inclined to settle down¹³ relief.

In regard to the second aspect, the legal problems, M. Minville does not attack the issue directly. He notes that if the

¹³Loc. cit.

Dominion were to take over the full responsibility for unemployment its job would be to eradicate it and if it had such an obligation it would have to have the means of carrying it out. There would be legislation, "not only on unemployment, but on all related subjects; labour agreements, wages, labour regulation, even trade regulation within the provinces."¹⁴ He concludes, still fearful that the French Canadians would see some of their civil code fall into disuse, with a plea for provincial responsibility:

The unemployment problem being what it is, with political and jurisdictional aspects, the best way of solving it, and the one that would meet with the widest approval in Quebec, seems to be that the province should assume full responsibility (adjustments to be reached with the municipalities, depending on conditions in each case) and that the Dominion government, by relinquishing taxation, should allow the province to collect the funds necessary to its requirements.¹⁵

Perhaps the jurisdictional question has been stressed too much, but it is one of the most important problems, in the long-run, on the Canadian scene and its satisfactory solution is a "must" for the smooth working of the federal system. Any solution would of necessity be a compromise; it could be nothing else with such divergent views on all the legal and financial aspects of the problem, as the many views on the jurisdiction over employment relief show. There does not seem to be much hope for the over-all employment solution of the problem but perhaps bits here and there can be settled; the final settlement in 1940 of unemployment insurance and a government employment service as solely Dominion functions are good omens.

There are two other financial arrangements, taxes and grants, which have just been mentioned in passing. The problem of

¹⁴Ibid., p. 87.

¹⁵Loc.cit.

tax jurisdiction, although very important, is really outside of the scope of this short study. It is sufficient to say that the provinces are limited to direct taxation by the British North America Act whereas the Dominion is not restricted in the type of taxes it can levy, with the result that the provinces often find that they are imposing double taxation on individuals and corporations if they levy personal or corporate income taxes as well as the Dominion. The result has been that the provinces claim that their source of revenue is not sufficient to meet their responsibilities as laid down in the British North America Act, and so a redistribution of functions or financial arrangements has been found necessary, although as yet only temporary compromise arrangements have been worked out between the Dominion and provinces from time to time. The problem is further discussed in the section below on "Public Finance."

Grants-In-Aid

The problem of the necessity of grants by the Dominion to the provinces grew out of the fact that the latter were in relatively different financial circumstances and so at times some needed help from the Dominion in varying degrees, and at a time of huge expenditures during the Depression such as those for relief, the inadequacy of provincial finances in general made grants necessary for all the provinces. Most of the grants were conditional grants, or grants-in-aid as they are often called. Their constitutional position is clear in that they are made for functions which are under provincial control but over which the Dominion insists on supervision of the activity as a condition of its grant of money.

Unemployment relief grants are discussed in the first section in the next chapter. It will suffice for the present, before considering some of the effects of the Depression, to sum up conditional grants in the words of Messrs. Gouin and Claxton:

By grants-in-aid conditional on the provinces doing certain things, the Dominion has given money for unemployment relief and other social purposes which are unquestionably within the provinces' jurisdiction as matters of property and civil rights. Some of the legislation providing for these grants may conceivably be ultra vires of the Dominion but it has not been in anyone's interest to challenge its constitutionality. Quite apart from any question of the desirability of this type of procedure, the Dominion may, it is believed, make grants-in-aid to the provinces conditional upon the provinces satisfying certain requirements laid down in the Dominion legislation under which the grant is made, provided that the Dominion act does not of itself deal with a matter falling within the provincial powers.¹⁶

The Effects of The Depression on Employment

The general effects of the Great Depression were noted in Chapter II. At this point it is well to note, still in a general way, some of the salient effects of the Depression on employment, together with a few representative statistics from the very inadequate ones available. The Report of the Rowell-Sirois Commission had this to say about the Depression unemployment:

On the average, employed wage-earners and persons receiving salaries suffered no reduction in real income. Most of the workers in the skilled trades, the professions and the white-collar occupations who retained their jobs actually enjoyed a considerable improvement in their real position. The losses were completely borne by the 500,000 to 600,000 unemployed who depended on past savings and private or government charity, by the farmers and other primary producers, and by the investors in common stocks, and others who received the profits of industry and trade.¹⁷

¹⁶Gouin and Claxton, op.cit., p. 8.

¹⁷Canada, Royal Commission on Dominion-Provincial Relations; Report, vol. I, p. 148.

In April 1933 there were 1,427,746 or 13.4 per cent of the total population receiving direct relief in non-drought areas and more than 10 per cent of the population were on such relief in the "high" months of every year up to 1937. Although the figure dropped below 10 per cent in 1937, the percentage of the total population receiving unemployment relief exceeded 10 per cent in March of that year also. Between 1932 and 1937 the percentage of the population on direct relief in drought areas by months varied from 0.2 per cent to 1.6 per cent of the total population; other relief projects gave employment to from 0.4 per cent to 1.3 per cent of the total population in the same period. It is unfortunate that figures for the total labour force in the period are not available for comparison but at least the above figures show the magnitude of the problem of cyclical unemployment during the period, as well as noting the adverse effects on employment of drought in the Prairies.¹⁸

The following Table, adapted from the Report of the Royal Commission on Dominion-Provincial Relations, shows the severity of the Depression in terms of national income, wages, and unemployment.¹⁹

¹⁸ See Table 4, p.92.

¹⁹ See for original table: Canada, Royal Commission on Dominion-Provincial Relations, Report, vol. I, p. 148.

TABLE I

SELECTED INDICES OF THE DEPRESSION, 1929-1933

Year	The National Real Income per capita	Real Wages, mainly in skilled trades.	Average annual Real salaries and wages re- ceived by all Employed Wage Earners	Number of Unemployed Wage-earn- ers.
	1929: 100			000 omitted
1929	100	100	100	107
1930	87	101	97	341
1931	81	108	102	442
1932	71	111	105	639
1933	68	111	102	646

The above table shows the relative severity of the Depression on the country as a whole but does not indicate that the incidence of the depression was particularly uneven and particularly severe on certain economic groups such as the construction industry.²⁰

The evidence brought before the Commission indicated that, in periods of depression, the Prairies suffer from a reduction in the consumption standard of life and industrial provinces suffer from heavy unemployment and reduction in factory pay-rolls. The evidence also noted that a district of primary production (in reference to British Columbia, actually) would have a worsening of the barter terms of trade in its favour, but on the upswing the terms of trade will move heavily in its favour. When wages and incomes fell below the levels necessary to keep the body and soul together, or approached the subsistence level in other words, the result was that social services had to

²⁰ See for further details: Ibid., book I. pp. 147-150.

bridge the gap, which they did at a terrific cost. This led to more problems as the Ontario brief pointed out, for in a capitalistic system the revenue to provide for these services had to be provided by taxation in large part, with a resulting increase in prices, decrease in consumption and consequent unemployment requiring further social aid - a truly vicious circle.

Besides the huge cost in money terms there was also a cost in human terms caused by the Depression. Older men, particularly those over forty, had considerable trouble finding jobs and many had to be rehabilitated with varying degrees of success; this is stressed in evidence brought before the Commission in several places. In short, it can be said in general that all workers who had any handicap - lack of skill, extreme youth, old age, partial physical disability and so on - were at a disadvantage in comparison with the worker whose "employability" was enhanced by having none of these things. The statement has to be modified, however, for there were rigidities in certain wages and some of the sheltered industries, for example, were in a much better position than, say, the farmer or construction worker. Unfortunately, there is not sufficient space here to consider the human aspects of unemployment and labour problems during a depression, and so the subject will be pursued no further in spite of the obvious importance of the differential effects of the Depression on the personal lives of the various workers in the many segments of the labour force.

The severity of the Depression in money terms is perhaps brought into focus when the total relief bill is considered. From

1931 to 1937 the cost of relief was \$813 million, which represented a large slice out of national income for those years and also a large addition to the public debt. The period saw one bill after another pass in Parliament, to provide some measure of alleviation to the distress caused by the Depression; provinces, municipalities, private welfare agencies and the ordinary citizen were not left untouched either, as the following statement by

Dr. Grauer indicates:

Sudden and widespread distress caught Canadian governments totally unprepared. They had had no direct reason to think in such terms. At first, it was assumed that local poor relief, supplemented by private welfare agencies, would take care of the situation. The sight of long queues receiving hand-outs of food and clothing from poor relief agencies became common in the cities. The resources of private welfare agencies were strained to the breaking point. The inadequacy of this system was patent and soon provincial and Dominion governments shared the burden. The local poor relief facilities were superseded by emergency unemployment relief organizations. "Unemployment relief" thus became a residual category embracing indigent unemployables as well as the able-bodied unemployed. Even drought victims received "unemployment relief."²¹

Briefly, then, Canadian governments were not organized to meet the catastrophe of severe depression and their anti-depression measures were not well co-ordinated. Some of the specific actions of the various governments are considered further in the next chapter, but before passing on, it is perhaps well to note the falls in national income, employment, production and wholesale prices as indices of the increasing severity of the Depression. The following table ², perhaps illustrates more clearly the Depression trends than TABLE I, which was only for

²¹A. E. Grauer, Public Assistance and Social Insurance, A Study Prepared for the Royal Commission on Dominion-Provincial Relations, as Appendix 6, (Ottawa: King's Printer, 1939) V, p. 10.

the period 1929-1932 and whose figures are of less general application than those of TABLE II.²²

TABLE II.

CANADA: INCOME, EMPLOYMENT, PRODUCTION, PRICES, 1929-1936.

Year	National Income	Employment	Physical Volume of Production of Goods	General Wholesale Price Index
1926 == 100				
1929	119.2	119.5	108.4	95.6
1930	104.9	113.9	109.0	86.6
1931	84.9	102.9	92.5	72.1
1932	68.7	87.9	86.4	66.7
1933	65.4	83.7	82.9	67.1
1934	72.6	96.4	92.9	71.6
1935	76.9	98.8	101.1	72.1
1936	82.4	104.1	- -	74.6

²² Adapted from: Canada, National Employment Commission, Final Report, p. 21.

CHAPTER V

THE ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS -CONTINUED

In the preceding chapter on the Royal Commission, the reasons that led to its establishment in 1937 were discussed and some of its findings noted. In this chapter more of its findings and also its main recommendations are discussed, with those regarding employment being stressed. These two chapters are by no means a well-rounded discussion of the work of the Commission; they are not intended to be. Their purpose is primarily to note the incidence of unemployment in the Great Depression, to discuss the measures taken by various governmental bodies to remedy the situation or at least to alleviate it, and to see why these political and financial programmes got into difficulties because of the division of powers between Dominion and provinces (and municipalities) under the Constitution.

Dominion Legislation in The Depression

The Dominion's anti-depression legislation was concerned almost entirely with financial help to the provinces to carry out relief payments. Dominion unemployment relief legislation came under the Unemployment Relief Branch of the Department of Labour, the Department of Agriculture looked after agriculture relief and the Department of Finance drafted housing legislation. Before

1930, provincial and municipal governments and private welfare agencies provided haphazard relief measures; it was not until that year that the Dominion acknowledged responsibility de facto to provide financial assistance for unemployment and drought victims. Before 1930 no distinction at all was by governments between relief for unemployables and that for unemployed employables.

The history of Dominion anti-depression legislation is summarized concisely by M. Minville; the quotation below is from his study prepared for the Rowel-Sirofs Commission:

The first federal statute establishing unemployment relief was given Royal assent on September 22, 1930. It placed \$20,000,000 at the disposal of the federal government as a means of fighting unemployment. On the 26th of September, an order in council placed the administration of the Act in the hands of the Minister of Labour, and fixed the rules which should govern the use of the funds. In consequence of these rules, the provinces were invited to conclude agreements with the federal government, with the object of undertaking relief works, the cost of which should be shared by the Dominion, the provinces and the municipalities.¹

Of the \$40 million it had at its disposal, the federal government kept one-fifth for direct relief in districts where it was not feasible to undertake public works. The agreements with the provinces provided for the cost of unemployment relief to be borne equally by Dominion and province and municipality, except in unorganized districts where the Dominion and provincial contributions each made up 50 per cent of the total expenditures. There was also an understanding reached between the federal government and the railroads that the latter would spend \$25 million on various projects.

In 1931 the Dominion passed an Act to take up where the 1930 Act, an annual one, left off. The new Act did not limit the

¹Minville, op.cit., p. 74.

spending of money to unemployment relief but sanctioned disbursements to relieve distress and provide employment. This Act left it to the provinces and municipalities to fix wages as long as they were fair and not less than those paid by the Dominion in the same district for the same kind of labour.

There was also a stipulation in the Act that 40 per cent of the amounts granted should be paid as wages to the needy. On the expiration of the 1931 Act on 1st March 1932, the Dominion passed "The Unemployment and Farm Relief Continuance Act, 1932." This Act also was to have an effective life of one year. Each year all through the Depression a new act was passed which usually carried on from where the previous act ended; the provincial governments followed much the same policy.

Some other less important Dominion-Provincial arrangements were also made to combat the Depression. In 1931 an agreement was reached with the Canadian Passenger Association to reduce the rail fare for men going to relief camps and for unemployed farm help going to work on farms. If the men were going to federal camps, the Dominion paid the entire cost of the scheme; otherwise, the Dominion and the province concerned each paid half. When relief camps were closed, naturally the arrangements were terminated. The worker, under certain conditions, was able to obtain return fare at a reduced rate but he had to pay this himself. There were also some attempts of minor importance to settle families on farms and in 1937 a youth training scheme was started. These were perhaps the

only constructive items in unemployment policy, outside of the 1935 Dominion Housing Act and the very similar Housing Improvement Act which followed. Their purpose was to stimulate housing construction, thus increasing employment and allowing those with limited means to become homeowners.

Although the Dominion particularly, and the provincial governments to a lesser extent, took over much of the cost of unemployment relief from the municipalities, they took over these commitments on a strictly temporary basis. For some reason, perhaps because of the unfortunate division of responsibility under the British North America Act, the Dominion and the provinces stubbornly refused to consider the problem as one for which they should assume permanent responsibility in spite of the fact that the municipalities were not in a position to finance the huge relief burden of the worst depression in Canadian history.

Regarding loans, under relief legislation the Dominion granted considerable aid in the form of loans and guarantees to British Columbia, Saskatchewan, Alberta and Manitoba. These loans were secured by provincial treasury bills and were intended mostly to help the provinces pay their share of direct relief costs or costs for relief works and also so that the provinces could make loans to municipalities for the same purposes. Another reason for these loans was to help farmers financially with seeding operations and to purchase seed grain for that end. A third reason

for the loans was for the refunding of provincial bond issues, some of which were payable in Canada, and others in New York. The question of public finance and the cost of relief expenditures are further discussed below under the heading "Public Finance".

Public Finance

This section is concerned with public expenditures aimed directly or indirectly at giving financial assistance to the unemployed or in the long-run of stimulating the economy to enable it to climb out of the trough of the Depression; it is concerned primarily with relief payments of various kinds. The stress is on Dominion-Provincial financial arrangements; the municipality, which usually administered relief payments largely financed by Dominion and province, has perhaps been neglected too much. The statistics given in this section, unless another source is quoted, are from the Report of the Royal Commission on Dominion-Provincial Relations, its Appendices and the various Studies prepared for the Commission. The problem of tax jurisdiction is only considered to the extent of the Commission's main recommendations in that field.

Total governmental expenditures for relief in the seven years ending 31st March 1937 were approximately \$613 million. This includes federal projects. All but \$100 million was disbursed through provincial and municipal agencies and of the \$713 million not disbursed by the Dominion, the Dominion assumed responsibility for \$254 million, the provinces for \$333 million and the municipal-

ities for \$146 million. The provision of funds, however, does not follow exactly the same pattern, for the Dominion supplied \$336 million (that is, of the \$713 million) the provinces \$241 million and the municipalities \$136 million. Although the municipalities were considered responsible for relief, they were able to assume liability for less than one-fifth of it; the Dominion had to help both provinces and municipalities, thus shattering the theory that relief should be local responsibility. Municipalities just did not have adequate taxing powers or tax base or borrowing powers to provide for such heavy relief expenditures as were necessary in time of depression.

Whether there had been a depression or not the public finance system of the country would have been strained owing to the regional economic differences in Canada, but the Depression greatly increased the strain. National income fell, especially in the export areas with the slump in export prices, and also because of the burden of debts payable in foreign currencies (mostly in American Dollars and pounds sterling) and the huge drop in investment. Federal control over monetary and tariff policies did little to equalize the distribution of losses in the varying economic regions of the country although whether other policies would have alleviated the situation in many respects is hard to say. The main fact was that Canada had a decentralized system of public finance and so in certain provinces where the decline in income was the greatest naturally the need was greater for government expenditures for relief and aid to floundering

industries, while at the same time these provinces saw their revenues decline and their debts rise. The Prairie provinces are a prime example with their drought conditions on top of the Depression. The Dominion government thus had to aid those provinces and regions where the Depression struck hardest. The

Report of the Rowell-Sirois Commission sums this up very concisely:

The nature and course of the depression in Canada inevitably involved large inter-regional and inter-governmental transfers of income by the Federal Government. These transfers took several forms - assistance to a few severely depressed industries, assistance to all provincial governments to help in financing costs of relief, and special assistance to the most-hard-pressed provincial governments to prevent defaults of debt and enable continuation of essential services.²

From 1928 to 1937 all governmental expenses for relief and other public welfare rose steadily from \$53.9 million in the former year to \$281.2 million in the latter; in 1936 these expenditures were 1.2 per cent of the national income, jumping from \$90.5 million or 1.3 per cent in 1930 to \$172.3 million or 4.9 per cent in 1931 when depression expenditures began to climb rapidly. In both 1934 and 1935 such expenditures were the highest per cent of the national income, 8.4 per cent. Although relief and other public welfare expenditures were still rising in aggregate terms in 1936 and 1937, national income was rising more rapidly and so such expenditures were becoming relatively less of a burden in comparison with a steady and pronounced rise from 1930 to the high points in 1934 and 1935. The economy was slowly beginning to recover.³

²Canada, Royal Commission on Dominion-Provincial Relations. Report, vol. I, p. 160.

³In this paragraph "relief expenditures" refer to all expenditures on relief; i.e., agricultural, public works, direct and miscellaneous types; "public welfare" includes old age pensions, and expenditures on hospitals, asylums, public health and sanitation measures.

This heavy burden of relief bore very unequally on the various provinces. In the period 1930-1937, 3.6 per cent of the average income of the nine provinces was spent on relief. Saskatchewan's burden was the heaviest; in the same period relief expenditures took 13.3 per cent of her total provincial income. The percentages varied from 4.2 for Manitoba, the next highest, down to 2.4 for New Brunswick. The percentages for the four western provinces were all above the national average since incomes fell most rapidly there, and the Maritimes and Ontario were least affected. In the period under consideration, total relief expenditures in Saskatchewan amounted to not quite two-thirds of the total of provincial and municipal revenues compared to about one-fifth for Ontario and the Maritimes. The Dominion was forced to help all the provinces but some needed help more than others. Income from one region had to be transferred to another by using Dominion powers of taxation and by borrowing. Even in "good" times there is a wide variation in the per capita income of the provinces. The wide fluctuations in national income as evidenced in the Depression greatly increased the disparities in most cases, thus making transfer payments of greater amounts necessary.

Relief and other public welfare expenditures in 1937 were approximately one-eighth of the total of all government's expenditures in that year in Canada. Besides all the other reasons given why governmental relief expenditures became so expensive there are

one or two more: some of the increase is due to the fact that families could no longer support their needy relatives or if they could, they did not care to when the state would do it for them; much of the work of private charity was taken over and other payments took the nature of bringing up the wages of some low paid workers to a minimum standard, sometimes by subsidizing employers, or as payments alternative to an extremely low wage. In spite of these increased payments the Royal Commission noted that relief payments to unemployed workers rarely were high enough to keep them in good physical condition and to see that their children were brought up properly; transitory and migratory labourers and those who lived in areas where finances were in an extremely bad condition suffered most, or rather got least. The Report of the Commission indicated that the cost of relief would probably be higher if relief payments were such as to keep the unemployed employable but that, on the other hand, the total cost in the long-run, not including the human values, might be lower owing to the prevention of wastes and abuses which have occurred under the old system.⁴ The Royal Commission realized that unemployment was possibly a permanent factor and that the primary responsibility for looking after the unemployed had devolved upon the state. This would involve larger transfers between regions when there was as yet no clear juris-

⁴See: Canada, Royal Commission on Dominion-Provincial Relations Report, Vol. I, p. 210.

diction to allow smooth administration. The Report of the Commission also noted that little had been done in, "the exploration of constructive policies and preventive measures, through co-ordination of relief policy with banking and exchange policies, public works, deficit financing, taxation policies and commercial and industrial policies."⁵

Before turning to the question of grants, some of the evidence placed before the Royal Commission regarding provincial finance is of interest, especially in corroborating some of the the statements made. Regarding regional variations in incomes and transfers of regional income, Ontario claimed in its brief and it was also stated in the evidence placed before the Commission, that since 1928 the percentage of revenue taken by the Dominion from Ontario had increased steadily, had fallen steadily in the Prairies and had remained fairly constant in some regions, with the effect that Dominion taxation took a substantial burden from the Prairies and placed it on Ontario with the final result that, on a per capita basis, Ontario paid in taxes double that of the Maritimes and from 25 per cent to 50 per cent more than the Prairies, while Ontario received only about 30 per cent of Dominion expenditures. The figures cannot be proved but the claim of the evidence that the system of Dominion taxation causes an automatic transfer of tax burdens from Prairies to Ontario is very true if the word "some"⁶ is inserted before "tax burdens." In spite of this transfer,

⁵Loc.cit.

⁶Canada, Royal Commission on Dominion-Provincial Relations, Evidence, pp. 7642-7668.

Manitoba submitted in its brief that in spite of Dominion loans, guarantees and relief payments totalling \$51.75 million, she could not provide minimum standards of social services. Manitoba went on to point out that of a total provincial revenue of \$7.87 million in 1937, about half went for interest on debt and the retirement of debentures and about one-quarter went for education, old age pensions and public health.⁷ Saskatchewan was in a worse position and asked the Dominion to assume its relief burden,⁸ and Nova Scotia was unable to discharge its constitutional responsibilities under the taxing powers it then had.⁹ The requests of these and other provinces to solve the problem were in the main various combinations of three requests; (1) for the Dominion to take over certain provincial responsibilities, (2) to increase subsidy payments, and (3) give the provinces "reasonable" powers of direct taxation. Relief and social services were the provincial functions most often mentioned as the ones that the federal government should take over. Ontario was willing to assume the entire cost of unemployment relief if the Dominion would allow it priority in the personal income tax field.¹⁰ The Recommendations at the Rowell-Sirois Commission are considered briefly in this chapter. All the various

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Canada, Royal Commission on Dominion-Provincial Relations, Manitoba Brief, part VII, pp. 37-38, 91

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Canada, Royal Commission on Dominion-Provincial Relations, Saskatchewan Brief, p. 46.

⁹ Canada, Royal Commission on Dominion/Provincial Relations, Evidence, p. 4169.

10

Canada, Royal Commission on Dominion-Provincial Relations, Ontario Brief, part II, p. 60

provincial submissions are too multitudinous to discuss in any more detail.

The municipalities were in a worse position than either province or Dominion, especially before they began to receive provincial and Dominion aid which did not arrive until after the little ripples of unemployment became great waves. The main problems of municipal finance were that revenue sources were inadequate to meet increased social service expenditures and their administrative set-up was not such as to allow close supervision of large expenditures. The burden mainly fell on real estate in the municipalities, since its assessed value was, and still is, the largest part of the tax base for a municipality. Assessment of real estate provided another problem since fair valuation of real estate for assessment purposes is extremely difficult, owing to the fact that no two properties are the same. Real estate taxes thus provide the greater part of a municipality's revenue for its day to day functions, such as supporting schools, parks, water and sewage services in larger communities, and the costs of municipal administration and other services provided. The increased taxes to pay for relief came at a time when national income was falling, prices were falling and personal incomes were falling. The owners of property were thus providing the means of paying relief costs and when their ability to pay was lessened, as it was, the municipalities were forced to borrow and when the limit of their borrowing powers was reached

they could not maintain relief payments and the provinces and the Dominion had to help, as the figures quoted at the beginning of this section show. When default occurred the bondholders of the municipality in question thus had the burden forced on them as well as on the property owners. The result was an inequitable burden forced on these two classes. From 1931 to 1937 municipalities as a whole paid 18 per cent of the \$815 million dollar relief bill for the same period.

Federal Grants

During the Depression under the various Relief Acts, and other legislation, the Dominion made grants of money to the provinces for unemployment relief, for unemployment services and for old age pensions. The unemployment relief grants are by far the most important and are the only ones discussed here. Their character and magnitude changed considerably as the Depression progressed and unemployment increased, and also owing to the fact that they were supposedly temporary. The various Relief Acts were annual measures and the conditions of the grants were set forth in the annual agreements, as noted in the first section in this chapter. The grants were either made as contributions to direct relief or to jointly financed relief projects.

The \$20 million dollars provided by the Dominion Relief Act of 1930 was earmarked mainly for work projects to aid the unemployed, and secondly for direct relief (that is, material aid; food, fuel, clothing, shelter) where suitable work could not be found. In the

first case the Dominion paid 25 per cent of the cost; the province, 25 and the municipality 50, the Dominion paying its money to the province for distribution to the municipality. Provinces had to submit their projects together with an estimate of the cost of each in order to get the advance approval of the Dominion Department of Labour. Only in 1936 when the projects were first executed under contract did the Dominion insist on its approval. The province administered the projects but the Dominion inspected them during and after completion and audited provincial accounts. In regard to the second case, direct relief, expenditures were shared equally by Dominion, province and municipality, except that in unorganized districts the Dominion paid 50 per cent and the province the other 50 per cent. In 1930 the Dominion also agreed to pay half up to \$500,000 of the amount that Saskatchewan was forced to spend on relief and necessary services in the drought areas. These grants were thus used for three main purposes: works projects, direct relief and drought relief.

In 1931 approximately the same conditions were set up under the Unemployment and Farm Relief Act of that year and the Continuance Act of 1932, except that the percentages of contributions paid by the Dominion were altered slightly in an upward direction, especially the share to municipal and to provincial public works and undertakings, the latter including the trans-Canada highway. The Dominion and the provinces now shared the cost of transients; direct relief provisions remained much the same. The serious drought

conditions in Saskatchewan and Alberta forced the Dominion to provide from 50 to 100 per cent of direct aid costs there, and expenditures were also made by the Dominion to provide such things as feed grain, fodder, movement of stock and personal effects and to place unemployed men on farms.

In 1932 public works were greatly curtailed and expenditures on direct relief remained in approximately the same proportion as previously. Dominion drought relief payments mounted, and a scheme for settling families on the land was inaugurated in all provinces except Prince Edward Island with the Dominion paying one-third of the cost, up to \$600 per family and the province and the municipality sharing the rest by agreement. This scheme was in effect for two years and ended on 31st March 1934; it included only families who would otherwise be on direct relief. The Dominion also made agreements with the four western provinces to contribute to the relief of single homeless men by placing them on farms or in relief camps. In the latter case the Dominion paid \$5 per month per person and the province paid the administrative costs; the Dominion paid the entire cost of keeping the men in relief camps up to a maximum of 40 cents per day.

In 1933 the main change from the preceding year was that the Dominion increased its payments for public works and undertakings but by far the greater proportion of money was still spent

on direct relief. Except for the expansion of Dominion aid to Manitoba, where drought had spread into certain districts and the assumption by the Dominion of some of the responsibility for physically fit homeless men in camps set up under the Department of the Interior and National Defence, the conditions attaching to Dominion grants remained much as in the previous year.

In 1934 grants for public works were again cut but the Dominion started on its own works program under the Public Works Construction Act, 1934. Under this Act up to \$40 million was appropriated for the construction and improvement of certain Dominion public works with the idea, according to the Act, of accelerating recovery to more normal levels, increasing employment and reducing relief expenditures. The main change in policy in 1934 was, however, the change in the conditions of giving grants for direct relief. On 1st August 1934 the Dominion ceased to provide grants-in-aid for direct relief on a percentage basis but provided them on a monthly basis, the size of the grant to each province being based on both the need of the province and its ability to deal with its specific problems of direct relief. At that time Dominion audit and supervisory control of relief expenditures by the various provinces under the grants it was receiving were also altered. Other provisions were much the same as in the previous year.

The Relief Act of 1935 was similar to the one previous in that relief works under grants-in-aid were relatively insignificant;

however, the Supplementary Public Works Construction Act of 1935 gave authority to the Dominion to complete the works started under its 1934 counterpart and to execute new projects up to a limit of \$18 million. There were few major changes in the provisions of the Relief Act but it should be noted that under the Relief Act of 1934 a total of \$9 million had been loaned to Saskatchewan for relief in the drought areas in 1934-1935. These loans were written off by the Dominion by an Order in Council passed under the authority of the 1935 Act.

There were several minor and many major changes under the Unemployment Relief and Assistance Act of 1936. For one thing, the Dominion entered into an agreement with each province to provide half the cost of certain relief works which were proposed by the provinces, including work on the trans-Canada highway. Relief camps for single unemployed men, operated by the Dominion, were closed and arrangements were made to transport those affected who desired it to farm employment. From 1st September 1936 to 31st March 1937 the Dominion assumed the entire cost of relief in the Prairie Provinces, except for the costs of provincial and municipal administration and a limit was set on the amount granted to each province. The Department of Agriculture also entered into an agreement with each of the three Prairie provinces whereby the Dominion would pay the entire cost of purchasing and distributing fodder, moving equipment and so on, again, with a limit to the Dominion's contribution.

Under the Unemployment and Agricultural Assistance Act of 1937 the Dominion made increased contributions to certain public works, including the trans-Canada and provincial highways and other provincial and municipal works. In January, February and March of 1937 certain important stipulations were attached to relief grants, following recommendations by the National Employment Commission. Now the payments for relief were for a definite percentage of the expenditure of the province, varying between 30 and 35 per cent and with a maximum amount stated in each case. New Brunswick was the only province which did not benefit under the scheme since it undertook an enlarged works programme instead of granting material aid; the Dominion contributed an amount equal to what would have been paid by the monthly grants-in-aid. In the other eight provinces, with the approval of the Dominion Minister of Labour, grants for material aid could be used for works or training plans giving the equivalent of material aid. Procedures were also laid down for the province or municipality to follow when registering unemployed but the Dominion made no regulations regarding use of the grants for unemployables. Provision was made, however, that the relief received by an individual was always to be less than the earnings of an unskilled worker in the district where he resided. In the main, the Dominion carried-and expanded its payments of grants-in-aid to the provinces for much the same purposes as it laid down in the year before. In particular, payments for drought relief were increased and an attempt was made to separate types of relief,

as suggested by the National Employment Commission.

In 1937 the first step was taken, after the National Employment Commission had made the recommendations, to broaden unemployment policy to include some rehabilitation and training in contrast with previous payments for relief only. The Dominion Parliament granted \$1 million for youth training schemes, under which an agreement was made between the Dominion and each province whereby the Dominion would pay 50 per cent of the province's expenditures on youth training up to a specific limit contained in each separate agreement. The fact that such a constructive measure did not come until seven years after the Dominion had been spending large amounts on relief perhaps shows more clearly than any other the reluctance of the Dominion, and the province for that matter, to realize that the Depression was not a minor recession and that more than temporary annual measures were needed to combat the growing unemployment and distress; the problem was one that was national in scope and grants-in-aid were but temporary and unsatisfactory measures to combat the situation.

In the above few paragraphs, an attempt has been made to outline the uses for which the grants made by the Dominion government to the provinces, so-called grants-in-aid, were used during the period 1930-1937 and to indicate briefly their uses toward financing direct relief, public works and drought relief. The summary is by no means complete¹¹. Unfortunately, figures are

¹¹See, for further information: Grauer, opcit., pp. 17-23.

not available to show exactly how the (approximately) \$234 million of grants-in-aid given by the Dominion in the period were spent, not to mention the \$100 million spent by the Dominion's own agencies. The following two tables show the respective shares of Dominion, province and municipality in providing relief of all kinds in these periods and the numbers assisted by relief projects. "Relief" in the first table consists of all types: direct, works, agricultural and relief of unemployables, or "poor relief"; unfortunately, the types are not broken down. Also, there is no convenient way of finding out the amount of the expenditures on each type of relief and relating it to the number of persons assisted by various types of works and schemes.¹²

¹²See, for original tables: *Ibid.*, pp. 12, 14.

TABLE 3

TOTAL RELIEF DISBURSEMENTS THROUGH PROVINCIAL AND MUNICIPAL AGENCIES

1931-1937

Year ending 31st March	1931	1932	1933	1934	1935	1936	1937	Total
	Millions of Dollars							
Dominion share.....	3	33	24	25	43	41	52	234
Dominion loans to provinces...	-	11	15	9	21	32	14	102
Provincial share.....	9	39	39	49	75	70	52	333
Provincial loans to Municipalities.....	-	1	2	2	3	2	-	10
Municipal share.....	9	21	21	24	24	24	23	146
Total.....	21	93	94	101	142	135	127	713

TABLE 4.

NUMBERS OF UNEMPLOYMENT AND DROUGHT RELIEF AS REPORTED BY PROVINCES AND DOMINION, 1932-1937

Year	Highest and Lowest Month	Direct Relief				All Other Relief Projects #		Total Numbers	% of Population
		Non-Drought		Drought		Numbers -	% of Population		
		Numbers -	% of Population	Numbers -	% of Population				
1932	Dec.	1,170,290	11.1	72,226	0.7	51,434	0.5	1,298,950	12.4
	May	456,713	4.5	140,333	1.3	66,517	0.6	662,463	6.3
1933	Apr.	1,427,746	13.4	89,785	0.8	72,151	0.7	1,589,682	14.9
	Sept.	920,310	8.6	48,813	0.5	83,408	0.8	1,052,531	9.9
1934	Mar.	1,205,863	11.1	152,456	1.4	146,061	1.3	1,504,360	13.9
	Sept.	824,553	7.6	105,617	1.0	92,413	0.9	1,022,583	9.4
1935	Mar.	1,172,246	10.7	173,583	1.6	118,275	1.1	1,469,104	13.4
	Sept.	886,463	8.1	15,554	0.2	60,269	0.6	965,286	8.8
1936	Mar.	1,240,974	11.2	153,058	1.4	74,582	0.7	1,472,714	13.4
	Sept.	873,735	7.9	99,931	0.9	57,136	0.5	1,130,804	9.3
1937	Mar.	1,045,766	9.4	167,951	1.5	79,247	0.7	1,292,974	11.6
	Aug.	573,199	5.2	144,311	1.3	41,846	0.4	759,356	6.8

Includes single homeless men; farm placement; Dominion, provincial and municipal works; etc.

The main objection to grants, in theory at least, seems to be that they violate the principle that one unit of government should be responsible for the collection and distribution of its own revenues rather than to spend money which has been collected by another unit, for in the latter case there often appear to be few checks to see that the expenditures of the donee are wise. Professor Corry points out, however, that in the case under discussion, the Dominion can define the grant as one for a definite purpose, establish certain standards of inspection and supervision, and inspect the results of the provincial use of the grant and impose penalties if the money is not spent as the Dominion wishes. He also notes that the whole grant may be withheld until the Dominion is satisfied as to the province's intentions and the fact that the province pays a substantial part of the cost of any conditional grant should be a good incentive to economical administration, on the part of the province.¹³

Just how effective these checks can be made is doubtful; for example, in the grant for unemployment relief it is extremely hard to define, say, the difference between an "unemployed person" and an "unemployable" in terms objective enough so that there will be no disagreement over borderline cases. Also, how can standards of efficiency for an employment service (up until 1940 the Dominion made conditional grants for the upkeep of provincial employment services) be set up? This problem does not arise when grants are made for public works; that is, things like bridges and buildings

¹³Corry, op.cit., pp. 30-32.

for which detailed specifications can be drawn up which are, therefore, easy to inspect and supervise, to see if the project is progressing satisfactorily before it is completed. Would it not be better, if feasible, to divide legislative authority between Dominion and province and give each adequate financial resources so that this problem would not arise at all? There seems little doubt it would, but the problem is discussed further later in this chapter in the section entitled "Financial Consequences of Divided Jurisdiction-Recommendations."

Unemployment Insurance and a National Employment Service

These two subjects are being discussed together, not because they have to be complementary, but because they have often been discussed in the same breath and now, in practice, they are complementary in Canada. Both subjects create jurisdictional problems; since they are both discussed at some length in the next chapter, and have also been mentioned in regard to the feelings and recommendations of the National Employment Commission, the jurisdictional aspects only will be considered here.

Dr. Grauer examined the problem of unemployment insurance in his study for the Royal Commission on Dominion-Provincial Relations and noted four general considerations applying to it: (1) that there was a definite trend toward comprehensive systems of unemployment insurance; (2) that compulsory insurance has stood the test of experience better than voluntary insurance; (3) that central administration is the invariable rule in unitary states and the trend

among federal states; and (4) that in Canada it is most important that nothing be done to keep labour immobile, especially when much of Canada's industry is of a highly seasonal nature. In (4) the implication is that "residence" requirements would not be a problem if the system were under federal jurisdiction. Dr. Grauer appealed strongly for a system under federal control, in the following words:

The foregoing analysis applies clearly to unemployment insurance which is the type of social insurance that presents perhaps the strongest case for federal control. Unemployment is a nation-wide problem demanding nation-wide coverage; there would be no point in duplicating machinery for the nine provincial systems and nine provincial funds; and such an organization would interfere with the mobility of labour. Although there are differences of opinion from other points of view, it is generally agreed that from the viewpoints of economy and efficiency it is the Dominion government which could most effectively administer unemployment insurance.¹⁴

The arguments against federal control of unemployment insurance seem to be based (1) on the theory that unemployment will not be permanent; (2) that it is constitutionally a provincial duty to look after it, even if grants-in-aid may be necessary to maintain similar standards throughout Canada; and (3) in that case, there is the old argument that the revenues raised by one governmental unit should be spent by that unit and not by another, if responsibility to the taxpayers is to be maintained. As to the first argument, there is no reason to suppose that cyclical unemployment will be permanent in the long-run; its very name suggests otherwise, but seasonal unemployment is a regular phenomenon which is always present in some degree in Canada. Whether

¹⁴Grauer, op.cit., p. 67; for further information see also pp. 59-69.

unemployment insurance could be used to cover seasonal occupations and still keep the basis of its fund actuarially sound is another matter. Unemployment insurance would probably take care of technological unemployment and frictional unemployment, but unless the scheme were launched in good years and the contributions were substantially in excess of the expenditures so that it could build up a large fund, whether it would be able to weather the storm of a severe depression is pure conjecture. In any case, however, it is insurance and would greatly reduce Dominion relief payments since employers and employees as well as the Dominion would contribute and the provinces and municipalities would be relieved of direct relief payments to a great extent, if not entirely.

The second argument falls down when it is considered that if the provinces launched a scheme, Dominion grants-in-aid to some provinces for the purpose of maintaining standards throughout the country would be necessary. Whether it is a matter of provincial jurisdiction or not does not matter; the question is, that if the Dominion can do the job more efficiently, then steps should be taken to alter the jurisdiction. The third argument does seem to have some validity. What checks would there be on the Dominion to see that it was administering the system properly when it was administering contributions by employers and employees as well as its own? The answer seems to be that if the system were provincially administered sectional pressures for such things as increased benefits would have much more effect on the government of a province than they would on the government of the Dominion. Perhaps that is an

excellent reason why the system should be under Dominion control. Political pressure might force certain provinces to adopt provisions which would threaten the actuarial basis of the scheme. In any case, unemployment insurance gives benefits for a limited period of time and then, if unemployment is still chronic, relief of some kind must supplement unemployment insurance. The majority of the provinces seemed to favour Dominion jurisdiction over unemployment insurance with certain limitations or safeguards to allow the provinces to have their say about some of the details. Saskatchewan also wanted the Dominion to institute crop insurance or drought insurance in the Prairies. This latter scheme was really unsound since the risk of poor crops is not measurable with any degree of accuracy and so an uncertain risk for each person can not be made a certain one for all by paying insurance premiums to cover the "certain" loss; the principle of insurance would be violated, as it would be in unemployment insurance if benefits were not limited on the basis of contributions. The workings of the unemployment insurance scheme set up in Canada in 1940 are described in the next chapter.

The function of an employment office is not designed to make jobs when there are none available, like public works, nor to provide income for those who are out of work. Rather, its function is to increase knowledge of the labour market; that is, to bring the workers who are looking for jobs to the employers who are looking for help and vice versa. In other words, its function is to

increase the mobility of labour in a country like Canada with so many seasonal occupations, (for example, lumbering, fishing, trapping, farming); workers may have to move over long distances from one job to the next. A worker or employer does not need to know just the situation in his own district but the situation throughout the country. This was particularly necessary in periods of extensive immigration and post-war periods when men and women from the armed services were forced to re-orient themselves to new occupations.

During and just after the First World War Ontario and the Western provinces opened provincial employment offices. In 1918 the Dominion passed the Employment Offices Co-ordination Act, which authorized the Minister of Labour to assist in the organization and co-ordination of employment offices in order to promote some uniformity of administration, to compile labour statistics and to provide for an interchange of information. The Dominion made an annual grant (total) of \$150,000 for these provincially operated employment offices. This was another conditional grant and so jurisdiction was again divided; however, a national system of employment offices under provincial control was set up with a large degree of co-ordination between the various provinces. The problem again was whether the Dominion could operate them more efficiently if it took them over and if it was justified in taking them over. This matter also is discussed in the next chapter.

Financial Consequences of Divided Jurisdiction - Recommendations

So far, under various headings certain selected aspects of the whole problem of unemployment, both the immediate problem of the Great Depression and the political and economic background, have been discussed in the light of the evidence presented to and the studies prepared for, the Royal Commission on Dominion-Provincial Relations. Now a résumé of the actual recommendations of the Commission is in order before examining the whole problem of unemployment as it existed immediately prior to the Second World War. The résumé is by no means complete. Recommendations on specific topics are noted first and then a summary of the Commission's integrated Plans, I and II, follows.

On the subject of the financial consequences of divided jurisdiction, the following paragraphs from the Report of the Royal Commission on Dominion-Provincial Relations will show the desire of the Commission for the Dominion to meet the expenditures resulting from unemployment rather than the provinces:

The Dominion is the only government which can meet, in an equitable and efficient manner, the large fluctuating expenditures due to unemployment. Its unlimited powers of taxation give it access to all the incomes which are produced on a national basis regardless of where they may happen to appear, and it can obtain the needed revenues therefrom in a manner which is the least harmful to welfare and productive enterprises. With its control over the monetary system the Dominion is able to finance the temporary deficits that may arise from sudden increases in expenditures without suffering such a drastic weakening of credit as occurs when budgets of local governments get seriously out of balance. The monetary and taxation powers of the Dominion would enable it to follow a planned budgetary policy of deficits during depressions, and surpluses and debt repayments during prosperity - a policy which is generally impracticable for provinces and municipalities.

Perhaps even more important than the heavy burden which arises from expenditures on employment relief and the difficulties connected with the division of the cost between

the various levels of government, is the tremendous wastage which results from the enforced idleness of resources and men. The wastages which arise out of inefficient administration, the destruction of credit of local governments and forms of taxation needlessly harmful to business enterprise, are serious, but they are relatively small compared to the decline in national income and the permanent impairment of the efficiency and morale of labour which results from widespread and protracted unemployment. It is not suggested that it is within the powers of government to do away with depressions, particularly in a country like Canada which is so largely dependent upon foreign markets, but governments can do a great deal to minimize the huge losses in national income. The planning of public works and developmental expenditures, an intelligent and co-ordinated use of credit, foreign exchange, trade, transportation and taxation policies are powerful instruments with which to combat unemployment and to reduce fluctuations in income. The Dominion is the only government which can use these instruments effectively. So long as the responsibility for unemployment rests with the nine provinces (and their creatures, the municipalities) which may follow different and conflicting budgetary, taxation, development, and public works policies, Canada will be unable to eliminate the avoidable economic wastes and social consequences of mass unemployment.¹⁵

Responsibility For Social Services and Relief

In this field the Royal Commission hoped to find a clear division of responsibility between Dominion and provinces and one which would give each authority functions which seemed most appropriate, together with adequate revenue to carry this out, where possible. In attempting recommendations in this respect, three principles were followed by the Commission: (1) that existing constitutional arrangements should not be disturbed except for compelling reasons; (2) that there were differences in social philosophy in different regions in Canada; and (3) that the suitability of the divisions being financially responsible, be considered.

¹⁵ Canada, Royal Commission on Dominion-Provincial Relations, Report, vol. II., pp. 23-24.

To stress its final recommendation, the Commission had the

following paragraph printed entirely in italics in its Report:

The experience of the past decade is conclusive evidence that unemployment relief should be a Dominion function. By unemployment relief we mean relief or aid for unemployed employables as distinct from unemployables. Provincial responsibility for other welfare services should continue and the provinces should be enabled financially to perform these services adequately. Provincial responsibility for social welfare should be deemed basic and general; Dominion responsibility, on the other hand, should be deemed an exception to the general rule, and as such should be strictly defined. But the Dominion should be given adequate jurisdiction to perform efficiently whatever responsibilities are entrusted to it.¹⁶

The Commission then went on to express its views on the prevention and relief of employment in the following terms:

The assumption of responsibility by the Dominion for relief or aid of unemployed employables would entail: (1) complete financial responsibility; (2) full control of administration. For efficient administration it would also be essential:

- (a) That the Dominion define employability for purposes of administering unemployment aid;
- (b) That the Dominion have full control of administration of employment aid;
- (c) That a national employment service be established and administered by the Dominion without prejudice to the right of the province to continue or develop an employment service of its own;
- (d) That the Dominion be empowered to establish a system of compulsory unemployment insurance.¹⁷

The Commission then went on to point out that the first three of the essentials given above might or might not require constitutional amendments but that unemployment insurance and a national employment service would, in view of the 1937 decision by the Judicial Committee of the Privy Council regarding the 1935 Act of the Dominion to set up unemployment insurance on a national scale ultra vires, and so the Dominion should be given jurisdiction

¹⁶Ibid., p. 24.

¹⁷Ibid., pp. 24-25.

over these functions. No matter whether jurisdiction was to be concurrent, as in the case of agriculture and immigration, or exclusive, the extent of the jurisdiction transferred to the Dominion should be extremely accurately defined. The Commission thought that the Dominion should assume responsibility for unemployed employables only and not for unemployables, who would be the responsibility of the province and its municipalities. The definitions and conditions for eligibility in regard to unemployed and unemployables would have to be very carefully drawn up to prevent friction between province and Dominion, it was noted.

In regard to a national employment service, the Royal Commission on Dominion-Provincial Relations agreed entirely with the recommendations of the National Employment Commission that the service was more appropriately a Dominion service. (The Royal Commission also thought that the service could be used for the administration of unemployment aid and of unemployment insurance if it were established. In small communities where there was no office of the service the Royal Commission suggested that municipal institutions could be used for such purposes since, in all probability, a good Dominion inspection and audit service could be devised. Close co-operation between province and Dominion in regard to welfare policies would be necessary.

In regard to the prevention of unemployment, the Royal Commission thought that if the Dominion had full responsibility for the relief of employables, it would have a much greater incentive to adopt strong remedial policies with all the resources

at its disposal. In regard to fiscal policy, it thought public works should be timed so as to take up the slack when private enterprise had ceased to provide relatively full employment in the construction industry and in the interests of this it advocated cyclical budgeting by building up surpluses or retiring debt in prosperous years. The Royal Commission agreed with the National Employment Commission on the type of works that should be undertaken; that is, briefly: (1) highways leading to tourist regions and natural resources; (2) development and preservation of tourist regions; (3) projects for the improvement and protection of public health and safety; (4) urban slum clearance and low rental housing schemes; (5) reforestation; (6) reclamation and conservation projects; and (7) certain land clearance and settlement projects. The Commission noted that many of these types of works were under provincial jurisdiction and so co-operation with the provinces would be necessary in timing and financing the works;

While we have condemned grants-in-aid as a means of financing unemployment relief we do not think the same considerations apply with respect to grants-in-aid for "timed" public works. In the case of public works it would appear that the Dominion's interest can be adequately protected by restricting aid to works approved in advance, and by objective engineering standards as well as proper accounting practices, which can be applied both during construction and after completion of the work.¹⁸

The above type of works just provide employment to selected groups of workers in their normal occupations but other works, called relief works, could be provided to look after those

¹⁸ Ibid., p. 28.

who would otherwise receive unemployment aid. The Royal Commission thought the Dominion should encourage local and provincial authorities to undertake such works at the appropriate time and the Dominion might even help with grants-in-aid. But the Commission noted that such works often were very expensive in terms of savings they would make in direct relief, since such projects in the past showed that it was not possible to employ a large proportion of the unemployed even in the midst of depression. The Commission also noted that such works would be of use when finished, economical, non-competing with private industry, non-political in selection, and that only certain classes of unemployed would be given work.

The Royal Commission thought that the victims of crop failures and other natural disasters should be provided for by local authorities, since the problems were widely varied but that when economic factors were the cause - and it is difficult to separate economic from natural factors - and they were serious, then the traditional responsibilities break down and the province and the Dominion must help; for example, the western wheat area.

When the Dominion does have to help it should do so in such a way that there is as little waste of money as possible; that is, only when absolutely necessary and then careful control of expenditures should be practised.

As to provincial welfare functions, the Commission noted that they should be the residual functions which include among others, indigency or poor relief, non-contributory old age pensions,

(with the help of Dominion grants-in-aid), and public health to a large extent. In summing up its recommendations in regard to jurisdiction in social insurance, the Royal Commission had this to say:

We have concluded that two types of social insurance - unemployment insurance and contributory old age pensions - are inherently of a national character, but health insurance and workmen's compensation are not, and that in view of Canadian conditions, these can be financed and efficiently administered by the provinces. It is not improbable that in the course of time it may be desirable to finance other social services by social insurance methods, or that conditions would warrant national health insurance, or a national system of workmen's compensation. It would, therefore, seem desirable that rigidity in the matter of jurisdiction should be avoided. The simplest method would appear to be to provide for concurrent jurisdiction in social insurance. This should enable the Dominion and the provinces to adjust their respective responsibilities over social insurance from time to time in accordance with changing conditions. In view of the cost of social insurance programmes, duplication of provincial and Dominion services would not likely result even if there were concurrent jurisdiction.

But it may well be that the simplest solution theoretically is not politically possible, though this is not for us to judge. In the event of concurrent jurisdiction over social insurance proving impossible of attainment, we recommend that the Dominion be given exclusive jurisdiction over the two services, unemployment and contributory old age pensions. The general provision for a power of delegation by the Dominion to the provinces, or vice versa, which we recommend later, should provide some measure of elasticity in jurisdiction over social insurance, should conditions warrant changes later.¹⁹

Of the social services such as mothers' allowances, child welfare and poor relief, the Royal Commission expected expansion and hence rising expenditures. This would mean wide differences in provincial expenditures but it was desirable that every province could provide these services in accordance with minimum standards at least and that the municipalities should not have too heavy a proportion of the burden. The Royal Commission thought these

¹⁹ Ibid., p. 45.

conditions could be achieved, (1) by giving the provinces grants-in-aid for particular services based on fiscal need or, (2) putting every province in a position to determine its own policies and finance its own needs, and that the second method was the most preferable one.

Plan I.

The conclusion of the Royal Commission's recommendations is to be found in the plans which they prepared as a basis for the settlement of many of the problems of divided jurisdiction, of which the most important was jurisdiction over social services. The plans involve discussion of practically every aspect of legislative and financial responsibility. So far problems of the responsibility for unemployment, social services and relief only have been discussed. This perhaps gives a one-sided view of the magnitude of the work of the Royal Commission and its important recommendations. For that reason a summary of Plan I is given

below to show the scope of the Royal Commission's Recommendations:

1. Relief to the Provinces

The Dominion would relieve the provinces (and the municipalities) of the whole burden of relief for the employable unemployed and their dependents.

The Dominion would assume the whole of the provincial (but not the municipal) debts, and would in effect bear the dead-weight cost of this debt, as it would collect from the provinces no more than the return which they receive today from their revenue producing assets. The provinces would thus have no further provisions to make for sinking funds.

In the case of Quebec, where the provincial debt is an unusually low proportion of combined provincial and municipal debt, the Dominion would assume 40 per cent of the net or dead-weight cost of combined provincial and municipal debt service.

2. Withdrawal by the Provinces from certain Tax Fields

The provinces would cease to use the following forms of taxation: the personal income tax; taxes on corporations or corporate income which would be imposed on individuals or partnerships; and succession duties.

3. Surrender of Subsidies

The provinces would surrender all existing subsidies.

4. Remaining Provincial Revenue Sources

The Dominion, while retaining its unlimited taxing powers, would recognize an obligation to respect the remaining revenue sources of the provinces.

In addition the Dominion would pay annually to each province a sum equal to the tax which that province would have received had it collected from mining and oil producing companies 10 per cent of the net income which was derived from mining, smelting, and refining of ores and oils produced in the province.

5. New Provincial Revenue Sources

The Dominion would pay annually a National Adjustment Grant to certain provinces. The amount of the grant would be such as to enable each province (including its municipalities), without resort to heavier taxation than the Canadian average, to provide adequate social, educational and developmental services. The weight of taxation is estimated by comparing the provincial and municipal taxation with the total income of the province. The test of adequacy of social and educational services is found in the Canadian average for these services. The adequacy of developmental services is tested by what the province itself has done in years which may be considered normal.

The original adjustment grants would be irreducible. Increases would be granted (on the advice of the proposed Finance Commission) at appropriate intervals if they were needed, in order to enable a province to perform its functions adequately without exceptionally heavy taxation.

In addition to the National Adjustment Grants payable to some provinces the Dominion would pay an Emergency Grant to a province in which abnormally bad conditions prevailed. Such a grant would be made for a year at a time, reduced as soon as possible, and eliminated as soon as possible.

6. Future Borrowing

Future provincial and municipal borrowing would have to be in lawful money of Canada.

Future provincial borrowing might be either (a) as today on the sole credit of the province, in which case the debt charges could not be counted as part of the financial need of the province if it applied for a National Adjustment Grant (if it were not receiving one) or for an increase in its grant; or (b) on the credit of Canada if the proposed Finance Commission is asked to approve it, and after reviewing all the circumstances does so.

7. Freedom of Provinces

No control of provincial expenditures is contemplated. Every province would be quite free to improve its services, by specially heavy taxation, or to have specially light taxation by reducing its services, or to develop some services in excess of the Canadian average at the expense of others which would remain below it.²⁰

²⁰Ibid., p. 86.

The general implications of the plan are discussed more fully in Book I^I of the Report of the Royal Commission on Dominion-Provincial Relations and so the details are not discussed any further except for the following quotation from Book II regarding unemployment.²¹ Under Plan I it was stated that Dominion responsibility:

....will permit, and in fact will force, an attack on the problem on a national scale, and co-ordination of taxation, borrowing, and monetary policies, industrial and agricultural subsidies and protection, public works programs, vocational training, and labour transfer facilities. In such co-ordination, and by using businesslike and effective methods, lie some of the major potential economies. A national attack on the unemployment problem will involve larger direct government expenditures under certain conditions, but will also make it possible to avoid much of the waste that now results from governments working at cross purposes, and from lack of clear determination of responsibility. Even more important, national responsibility and a constructive program should remove the pressures on the national income inherent in the present system and stimulate its increase, thus reducing the relative burden and proportionate cost of relief. To these advantages should be added the improved prospects for the unemployed.²²

Plan II.

The Royal Commission also suggested an alternative plan, Plan II, which was nothing more than the continuation of the pre-Depression Dominion-Provincial financial arrangements except that the Dominion would assume responsibility for unemployed employables. The problem here was whether the transfer of such jurisdiction to the Dominion would be practical without the putting into effect the other financial adjustments and reforms suggested by the Royal Commission. The Royal Commission thought that Plan II would only be a palliative but that the immediate gain for some

²¹Ibid., pp. 82-85; 108-110.

²²Ibid., p. 108.

provinces and municipalities would be greater than in Plan I, since most provincial budgets would balance and some would have large surpluses, although the equity in taxation and efficiency in government of Plan I would not be met. The result would be that, although provincial expenditures (for unemployment relief) would fall, these expenditures would be taken by the Dominion, and the Dominion would have to increase taxation, and such taxes would compete with provincial taxes and fall (unevenly) on the citizens of the more prosperous provinces. In short, the increased taxation would come from the higher income regions, especially Ontario and British Columbia, and while the governments of these areas would gain more under Plan II than under Plan I, their citizens would not. The Royal Commission noted that the gains and losses by provinces between the two plans, could not be estimated precisely and neither could the effect on the economy as a whole, on the national income, and on the future financial stability and autonomy of Canadian governments. Plan II was composed of expensive and unfair expedients, whereas in Plan I the public finance systems, it was hoped, would help eliminate the problems in an economic and equitable manner.

The Commission also noted that Plan II could be augmented by National Adjustment Grants and emergency grants in addition to the then existing subsidies for those provinces whose standard of services was below the Canadian average, but that this would only serve to increase the cost to the Dominion of Plan II, which was

at the outset more expensive than Plan I, Another alternative was that existing statutory subsidies could be capitalized at the market rate for perpetual bonds to relieve the provincial governments of an equivalent amount of debt but this amounts to an all round proportionate increase in subsidies which, then had no longer any relation to the fiscal needs of the provinces, and so difficulties would not be decreased. The Royal Commission concluded that the palliatives of Plan II,

....however attractive superficially, are damaging and dangerous. The solution of Canadian public finance problems requires constructive action, based on the economic realities of the country, rather than further temporizing; it requires the development of a public finance system, which can follow appropriate and coherent policies integrated with other powerful national economic policies, rather than intensification of the present conflict at the expense of the prostrate taxpayer. And the primary and essential requisites are sweeping tax reforms combined with an orderly and business-like system of revenue transfers to the provinces as recommended in Plan I.²³

The Royal Commission was not for maintaining the status quo!

In the last chapter, Chapter VII, an attempt to assess the work of the Royal Commission on Dominion-Provincial Relations along with that of the National Employment Commission[and of the Unemployment Insurance Commission] in order to summarize the effects of the existing governmental machinery for combatting unemployment as it was at the beginning of the Second World War, and to see what developments could be expected in the field. Before that is attempted, however, it is well to deal with the actual establishment and mechanism of a national system of unemployment insurance and of a truly national employment service, as envisaged by the Royal Commission on Dominion-Provincial Relations and by the National Employment Commission, hence this is done in Chapter VI.

²³Ibid., p. 136; for further details of plans I and II and comparison see also pp. 131-136.

CHAPTER VI

THE UNEMPLOYMENT INSURANCE COMMISSION

There are two distinct systems of unemployment insurance in which governments participate. In the first type, the government subsidizes voluntary arrangements made by labour unions; in the second, the government sets up a programme covering the nation, to which employers and employees are forced to contribute, and to which the government may contribute. North America has lagged behind Europe in the establishment of both types of unemployment insurance schemes; the complex Social Security Act was not passed in the United States until 1935 and the Unemployment Insurance Act did not become law in Canada until 1940. In Canada, a Dominion controlled employment service is operated in connection with unemployment insurance. In Europe, national voluntary schemes were set up by France, Norway, Denmark, Belgium and other countries between 1905 and the beginning of the World War I. Great Britain pioneered compulsory unemployment insurance on a national scale in 1911 and was followed by Italy and Austria in the next decade. Russia had a compulsory system from 1922 to 1930, when it was suspended indefinitely because of a shortage of labour.

There are many variations in these schemes. In the voluntary of "Ghent system" employers do not contribute, while in the compulsory schemes employers, employees and the government usually divide the costs more or less evenly, although the government may often contribute less than one-third. Total contributions usually vary from 5 or 4 per cent to 6.5 per cent of the total wages of workers covered. In Europe, benefits usually vary with the number of dependents the worker has and may even be 70 or 80 per cent of his normal weekly wages. Receipt of benefits is usually not allowed for more than 15 to 20 weeks per year but Britain has allowed that for half a year. In periods of considerable unemployment especially, it has often been found that need will tend to obscure the line between insurance and relief. Although there is much in common with the Canadian system in these schemes, they all emphasize protection, more than prevention.

Canadian Proposals for Unemployment Insurance

Before discussing the Canadian system, it might be well to point out that proposals for unemployment insurance in Canada date back to the period just after World War I. In 1919 the Royal Commission on Industrial Relations urged enquiry into state insurance against unemployment, as did the National Industrial Conference in the same year. In 1928 the House of Commons adopted the report of its standing committee on "Industrial and International Relations" dealing with unemployment insurance, and in 1929 adopted a like report made by a similar committee; both committees endorsed

the principle of national unemployment insurance based on compulsory contributions from the government, employers and employees.

The Conservative government of the Right Honourable R.B. Bennett passed the Employment and Social Service Act in 1935, creating an unemployment insurance plan based on that of Great Britain, with the unanimous approval of Parliament. Unfortunately, this Act was never put into operation since the Supreme Court of Canada and the Judicial Committee of the British Privy Council both declared it ultra vires. Before the Dominion Parliament could pass such an Act it would have to ask the provincial parliaments to agree to allow the Federal government the legal power to enact such legislation, and then before the Dominion Parliament could pass such an Act ask the British Parliament to amend the British North America Act, the Act which delineates the rights and powers of the Dominion and of the provinces. Before any steps were taken in this direction, the National Employment Commission of 1936 and the Royal Commission on Dominion-Provincial Relations of 1937 both recommended national compulsory unemployment insurance.

Between 1937 and 1940 the nine provinces agreed to the appropriate change in the British North America Act and accordingly the Dominion asked the British Parliament to pass the necessary amendment, which it did in 1940. After endorsement by all parties and the careful consideration of details by a standing Committee, the Unemployment Insurance Bill was passed and became law on 7th August 1940.

Unemployment Insurance Act, 1940

The title of the Act is somewhat misleading, for it would assume that the Act was concerned exclusively with the complicated problem of unemployment insurance. Such is not the case, however. The provisions of the Act are administered by the Unemployment Insurance Commission set up under the Act. The Commission consists of three men, all appointed by the Government; there is one chief commissioner, one commissioner appointed after consultation with organizations representing employers, and another commissioner appointed after consultation with employee organizations. Their responsibility is to administer unemployment insurance and a national employment service.

A National Employment Committee and a National Insurance Committee have been set up under the Act to assist the Commissioners; their functions will be discussed later when the sections dealing with the "National Employment Service" and "Unemployment Insurance" are discussed respectively. Although the National Employment Service and unemployment insurance are considered complementary by the Unemployment Insurance Act, it is more convenient to discuss them separately.

Since the Act is administered by a Dominion Government Commission, it must work in close co-operation with other Dominion departments. It does. The selection and appointment of staff are made under the Civil Service Commission and the Dominion Bureau of Statistics looks after most of the preparation of necessary statistical records regarding unemployment insurance and the

Research and Statistics Branch of the Department of Labour compiled them for the National Employment Service. The Post Office co-operates in the matter of supplying unemployment insurance stamps and meters, which are methods of paying unemployment insurance contributions, the technicalities of which will not be considered.

In the fiscal year 1941-42 the administrative organization was set up on a national scale. The head office is in Ottawa and has three main divisions; administration, insurance and employment service. It is here that questions of policy, procedures, inspection and direction of all operations are settled. Canada is divided into five administrative areas, which are roughly identical with her economic regions: the Maritimes, Quebec, Ontario, Prairie and Pacific regions. Each has a Regional Office, some have district Offices also, and all have local Employment and Claims Offices. There were 295 offices across Canada with a staff of 6,926 regular and 807 casual employees on 31st March 1949. "It is at the Employment and Claims Offices that insured workers register for work and file their claims for benefits when they become unemployed."¹

References and appeals are made to Courts of Referees, and satisfaction failing there, to an Umpire, a Superior Court Judge, appointed to the position, who is the final court of appeal in determining claims for insurance benefit and questions arising under the Act. The Court of Referees consists of a Chairman plus

¹Canada, Unemployment Insurance Commission, First Annual Report 31st March 1942 (Ottawa: Unemployment Insurance Commission, 1942), p. 10.

one or more members from an employers' panel and an equal number chosen from an employees' panel. These panels have been established in over thirty centres across Canada and eighteen Chairmen have been chosen by the Governor-in-Council. Unemployment insurance, and the National Employment Service were extended to Newfoundland when it joined Confederation on 1st April 1949. For administrative purposes, Newfoundland was added to the Maritime Region. Much preliminary work was done there beforehand and three new offices were opened. Where such changing conditions have made certain amendments to the Act necessary, they have been passed by the Dominion Parliament.

The Commission recognizes the fact that the public attitude is important to the success of its work, and that the good co-operation received from employers, employees and the general public is essential. "Unemployment insurance is now generally accepted in Canada as an important and beneficial social security plan."² It also notes that its services are better received now than it does not administer National Selective Service regulations and the inevitable regimentation caused by them; "Unemployment insurance both in its insurance and employment phases, has become an essential part of the Canadian economy."³ It is accepted because there is a real need and it has been operated "in a reasonably satisfactory manner."⁴ The wartime functions of the Unemployment Insurance Commission are not considered.

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Canada, Unemployment Insurance Commission, 1949, Eighth Annual Report 31st March 1949 (Ottawa: Unemployment Insurance Commission, 1949) p. 7.

³Loc. cit.

⁴Ibid., p. 8.

The National Employment Service

The National Employment Service superseded the Employment Service of Canada in the fiscal year ending 31st March, 1942. The Employment Service of Canada was a Dominion-Provincial employment service created by the Employment Offices Co-ordination Act of 1918, although The Service was not called by that name until later. Although administered by the provinces the service was free, had uniform procedures in each province, and was very similar to its successor. Agreements were made with eight provinces by the end of 1941 to establish in them the National Employment Service, which, unlike the old service, is maintained entirely by the Dominion Government. At that time Prince Edward Island did not have an employment office but the Unemployment Insurance Commission established an Employment and Claims Office at Charlottetown and later other offices in the province.

A statement of National Employment Service policy is given in the First Annual Report of the Unemployment Insurance Commission.

A quotation of part of it is enlightening:

- The Employment and Claims Offices of the Commission will:
- (a) endeavour to refer to suitable employment any employable resident of Canada, either male or female, of whatever occupation or calling;
 - (b) endeavour to secure suitable applicants to fill any vacancy notified by an employer;
 - (c) in a general way assist wherever and however possible in alleviating an unemployment situation, or in suggesting means for the alleviation of such a condition.⁵

Neither employer nor employee pays any fee for the Service.

The Employment and Claims Offices co-operate with practically all non-commercial bodies, public or private, which are "genuinely interested

⁵ Canada, Unemployment Insurance Commission, First Annual Report 31st March 1942, p. 13.

in finding employment for workers, to assist residents of Canada, wherever may be possible, in securing available work."⁶ Placement of applicants is to take place without discrimination due to race, religion, politics, or whether engaged or not engaged previously in insured employments. Besides covering their own areas, offices will assist in placements outside their area if necessary, often by attempting to induce unemployed workers to move to places where their services are necessary, only if there are not unemployed already there looking for the same type of work. An employer will not have employees referred to him if he pays less than minimum wages, after being warned to correct such a situation. If an unemployment opening results through a genuine strike or lockout, the applicant will be so informed.

Another quotation from the First Annual Report makes this clear:

No applicant will be prejudiced in his right to be referred to future employment by reason of refusal to accept a position offered because: (a) the employment is affected by an industrial dispute; (b) the wage rate offered may reasonably be claimed to be less than the rate current for the occupation in the district; or (c) his right to membership or non-membership in a trade union or like association would be impaired thereby.

Without restricting the generality of the service to be provided to employees of whatever occupation, and without prejudice to the employment rights of other persons, special attention will be given to the placement of veterans of the Armed Forces, of young persons who have not become established in industrial life, of competent applicants who suffer from physical handicaps, of professionally and technically trained applicants, of young persons wishing to undertake apprenticeship or training courses, of middle-aged workers desirous of entering on training courses, and of other similar special categories of applicants.

Every effort will be made to bring to the notice of employers and employees the facilities provided by the Employment and Claiming Offices for making references to and placements in employment.

⁶ Loc. cit.

⁷ Ibid., pp. 14-15.

The above few paragraphs are only an attempt to cover the highlights of employment policy. It is unnecessary to comment on such lofty ideals aimed at securing a high level of employment!

Due to the wide scope of the National Employment Commission, a brief summary only is possible of its organization. The structure of the service is broken down into various divisions, which are carried through from the Head Office to the Regional and Local Offices. There are three main divisions: general placements, special placements, and veterans placements. Each division is again subdivided into sections.

The General Placement Division is divided thus:

- (a) Primary Industries, including agriculture, lumbering, mining etc.
- (b) Communication, construction, and transportation in all their phases.
- (c) General Industries, which covers all manufacturing.
- (d) Merchandising and Services, which covers the wholesale and retailing fields, finance and all types of services.

The Special Placements Division is divided also:

- (a) Section dealing with the problems of the handicapped.
- (b) Another section dealing with the problems of youth and matters relating to vocational guidance.
- (c) Section dealing with training, "which includes the development of a close liaison with Canadian Vocational Training, and assisting them in obtaining trainees, and afterwards referring these trainees to employment."⁸

Another quotation, it seems, sums up the work of the third

⁸Canada, Unemployment Insurance Commission, Fourth Annual Report, 31st March 1945, (Ottawa: Unemployment Insurance Commission, 1945), p. 15, which gives details, of the various placements divisions.

placement division: "The Veterans Placement Division deals with the rehabilitation of veterans in employment and co-ordinates the activities of the Employment Service in this regard with those of the Department of Veterans Affairs and the Armed Services."⁹ There is also a section to look after the problems women meet in employment, particularly in certain industries:

To sum up (in reference to this whole section so far)

another quotation is in order:

"A similar organization is the process of being established in all Regions, and, generally, local office functions follow a similar pattern. This organization makes for a co-ordinated effort at all levels in regard to employment, and the information and knowledge of specialists at any level are available to all other levels."¹⁰

At this point, the functions of the National Employment Committee set up under the Act should be noted. The First Annual Report make these clear: "The National Employment Committee has been appointed for the purpose of advising and assisting the Commission in carrying out the purposes of the employment service. This Committee comprises representatives of labour, industry, veterans, women's organizations and the retail trade."¹¹ The main function of this committee is guidance, but it has helped in setting up the five regional committees and does help in the setting up of the local Employment Advisory Committees, which perform functions similar to the "parent" committee at regional and local levels. In 1949 there were the five regional and eighty local committees. Local committees mainly advise the managers of local Offices, but they also furnish their minutes to Regional Committees

⁹Loc.cit.,

¹⁰Loc.cit.,

and the National Committee so that the latter two may get a nation-wide viewpoint on problems. Local committees have assisted in the solution of farm labour, juvenile employment, and many other problems. In 1946, the National Employment Committee became very concerned with the housing shortage and its effect on the employment situation and pointed out to Parliament in a memorandum that the latter might have to use its emergency powers even in peacetime to combat so serious a situation.

It is rather hard to assess the work of the National Employment Service in its eight and a half short years of operation, of which more than half were under conditions of abnormal wartime employment opportunities and the remainder in transition or peacetime conditions where a high level of employment prevailed. The fact that there has been no serious unemployment as yet indicates that the National Employment Service, in co-operation with other departments of government and private industry, functioned exceptionally well in the difficult period of transition from war to peace and so far has operated well during peacetime conditions.

The National Employment Service collects much data on relevant employment problems, and among them are surveys of certain seasonal industries. The Act recognizes in section 12 that the problem of seasonal unemployment is very important in Canada. This section allows the Commission to make special benefits, "for classes of persons whose normal employment is for

portions of the year, but only in occupations which are seasonal."¹² The whole picture of the seasonal employment problem is summed up thus:

During periods of greatest seasonal contraction the total number of unplaced applicants registered in local offices of the Unemployment Insurance Commission was only slightly in excess of 4 per cent of the labour force. While in some areas of the Maritime Provinces and in British Columbia the number of persons without work was higher than in other districts, it may be said that all industries shared in the general prosperity.¹³

Besides bringing out the fact that so far seasonal employment has not become a problem in the post-war period, the above quotation does remind us that Canada is divided into complex economic regions, and that there may not be equivalent levels of prosperity and employment in all of them at the same time. To combat this, there have been increased transfers of labour of late years. In the 1948-49 fiscal year about 12,000 industrial, farm, wood and other workers were transferred in the Dominion for distances up to 1,500 miles to places where employment could be found; there were also nine international group transfers also financially assisted by the service; during the year between Canada and the United States involving about 12,225 workers. The co-operation between the National Employment Service and provincial departments of agriculture in regard to group movements of farm workers under the Dominion-Provincial Farm Labour Agreements was excellent, and in the international movements the United States Employment Service rendered much assistance; these movements show that some seasonal unemployment at least can be avoided by appropriate movements of the workers

¹²Quoted in: Canada, Unemployment Insurance Commission, Eighth Annual Report, 31st March 1949, p. 19.

¹³Loc. cit.

and that the necessary machinery is in operation to carry out such movements efficiently. But, again, we have no proof of the effectiveness of such movements if there were to be very great seasonal unemployment; the task then, might assume gigantic proportions. With mass cyclical unemployment such movements might tend to benefit the few small areas that would need particular types of workers and also the workers so sent, but they would not tend to erase the causes of unemployment to any degree, if at all. In cases of purely seasonal employments labour movements do, however, assist at least a small percentage of the labour force to obtain employment it would not otherwise have by remaining in the areas where it was. Statistics are being gathered on the subject. Since 1947, semi-annual surveys have been made of hirings of employees and separations of them from employers; besides throwing some light on employer-employee relations, these surveys are important in indicating seasonal labour requirements.

Before passing on to unemployment insurance under the Unemployment Insurance Act, there is one more phase of the functions of the National Employment Service which should be covered. Since the end of the War besides being able to find employment for the majority of veterans, the National Employment Service has aided the entry of many displaced persons into Canada by having a representative on the selection parties in Europe and in the reception and placement of such persons when they arrived in Canada. Only special groups of workers in short

supply in Canada were brought in. One of the first groups to arrive after the War was a group of Polish veterans who were to work on Canadian farms; in this case particularly, there was close co-operation with Provincial agricultural offices in actual reception and placement. The next two years saw many such groups arrive with the help of the National Employment Service to do stipulated work. In the fiscal year ending 31st March 1949, 21,000 displaced persons were admitted to Canada and employed. Included were: domestic and household workers, experienced farm workers, general labourers and persons recruited for unskilled work in construction and primary industries. They receive "official attention" from the National Employment Service for one year after their arrival in Canada. In 1948 the Service opened an office in London, England, which helped greatly in filling the needs of Canadian employers for certain types of labour. In the 1949 fiscal year 40,000 British immigrants came to Canada. This immigration of various groups and the employment of them when Canada still is increasing in population of her own, (although increasing more slowly), indicates that we still have a relatively high level of employment in Canada. Since the workers who came to this country evidently filled specific needs where domestic labour was not available or was not of a character to fill them, this seems to indicate such movements as favourable to our economy. There is no doubt that this policy will have to cease if there is any degree of chronic unemployment and if

such does occur it will be interesting to note how well these immigrant groups have become assimilated in the native Canadian labour force.

With regard to the wide scope of the National Employment Service, some general conclusions may be drawn. The National Employment Service functioned well in wartime when unemployment was, for the most part, a question of shortages in certain industries for certain types of labour; total employment of the labour force was at a high level. It has functioned quite efficiently in the more difficult transition period and in the first few years of the prosperous peace. Seasonal unemployment has not as yet become a problem, and technological unemployment has been relatively unimportant. A nationwide service is functioning, probably as well as can be expected anywhere under a Democratic system of free capitalism where regimentation of labour is the exception rather than the rule. But how far will the National Employment Service be able to uphold a high level of employment if a depression comparable to that of the 'thirties should strike again, and how would our whole accustomed economic system hold up under the onslaught? Time alone will tell the story!

Unemployment Insurance

Unemployment insurance is the other phase of the Unemployment Insurance Act of 1940. As an introduction to this phase, the Eighth Annual Report of the Commission reminds us of

some important facts:

In assessing the value of the entire unemployment insurance plan, it must not be forgotten that the Unemployment Insurance Act of 1940 created two distinct undertakings which are interwoven in their operation and essential to each other. The National Employment Service and the unemployment insurance system work hand in hand. Neither functions successfully without the other.

A study of the Act will show that Parliament was fully aware of this fact. The first function of the Commission's organization is to try to obtain employment for unemployed workers. Only if it is impossible to obtain such suitable employment should benefit be paid to the unemployed worker.¹⁴

The same report also notes that, "Unemployment insurance is now generally accepted in Canada as an important and beneficial social security plan."¹⁵ Here we have a starting point from which to examine unemployment insurance in Canada.

The first contributions under the Act became payable on 1st July 1941 and the first benefits were theoretically payable on and after 1st January 1942. With the help of the Post Office, depots were set up to register insured workers, and their employers, and to distribute unemployment insurance books in which the contributions were to be recorded. This was a temporary expedient until the Employment and Claims Offices could be established on a permanent basis. Employers and employees contributed to the fund on a graded scale but, for the country as a whole, the contributions were approximately equal. There is a slight trend towards increased employee and decreased employer contributions. What will it mean in another twenty years if allowed to continue? Employers' records of contributions are audited every eighteen months and insured

¹⁴Ibid., p. 16.

¹⁵Ibid., p. 1.

person's books are renewed once a year.

All contributions received are put into the Unemployment Insurance Fund which is authorized under the Act; it is a special account under the Consolidated Revenue Fund of Canada. Only benefits and refunds are paid out of the fund; the administrative and all other expenses of the Commission are paid by the Dominion Government from public monies. The Governor of the Bank of Canada, the Deputy Minister of Labour and the Deputy Minister of Finance make up the Investment Committee of the Fund. They authorize all investments by the Fund. To date all reserves of the fund have been invested in Dominion of Canada bonds, as required by the Act. The assets of the Fund have increased steadily from \$44 million at the end of the 1941-42 fiscal year to \$530 million at the end of the 1948-49 fiscal year.

The Unemployment Insurance Advisory Committee is precisely what it says. It is required under Section 92 of the Act. Its annual report to the Governor in Council for the calendar year 1941 stated that the Fund had been set up and investments made, as per the regulations of the Act, of The Eighth Annual Report of the Commission makes an interesting and profound statement about a report of the Advisory Committee;

In its annual report, dated July 28th, 1948 the Committee, commenting on the size of the Fund, which then amounted to nearly \$480 million, remarked that its present size is the result of seven years of high employment as well as of some increase in contributions because of increase in earnings. Since the experience of the Fund has been entirely that of unusually high employment of long duration it is impossible at present to judge the adequacy of the Fund in the face of severe depression.¹⁶

¹⁶Ibid., p. 41.

This was by no means the first time the Committee had made a cautious statement about the adequacy of the Fund.

At its inception, unemployment insurance in Canada was expected to cover over two million workers. The total insured population as of 20th November 1948 was estimated at 2,447,000 or 49.9% of the gainfully employed; the total labour force was then estimated to be 4,964,000 but this figure includes employed and excludes those keeping house, attending school or who are too old or too infirm to work. Coverage is by no means complete, but part of the population now has unemployment security and coverage is being gradually extended.

All salaried employees in Canada are insurable if their salary does not exceed \$3,120 per annum; workers paid at hourly, daily or weekly rates, or piece rates (and milage rates) are insured without limit to their total earnings. On April 1st, 1948, stevedoring was covered; and this insured an estimated 10,000 more workers; here the problems of insuring spasmodic work which is also of a seasonal character, were overcome, as they have been in other similar cases. Some examples of increased coverage are; from 1st September 1943 charitable institutions may insure their employees; all those working in air transport are now covered as are all professional nurses. In short, about half the working population of the Dominion is covered but as yet coverage of seasonal and part-time employments is far from complete, due to the many technical problems involved. In this, as in the following paragraph, only the current position, (1949), not a history of the development of coverage is given.

Benefits are paid to anyone who is insured and who can fulfil the required conditions; there is no upper age limit and other income does not cause disqualification, unless it is income from employment. Claims are made in person, or else are despatched by mail to the claimant's local Office. From there they are sent to the Regional Office for adjudication in most cases. Appeal can be made to a Court of Referees and finally to the Umpire, as was described previously. The daily rate of payment of the benefit is determined by what is called the ratio rule: Benefit is paid for one day for every five days' contributions paid by the worker in the preceding five years, less one day for every three days' benefit paid to him in the preceding three years. The daily rate of benefit is 34 times the average daily contribution made by the employee in the previous two years, increased to 40 times if he has one or more dependents. A minimum of 120 days' contributions in the preceding two years before a claim is filed is necessary to qualify, however. In the highest class, those earning \$54 per week or more, the contribution is 42% per week by each of employer and employee. The maximum weekly benefit for a claimant is now \$14.40 if he has not dependents and \$18.50 if he has dependents.

The general characteristics of unemployment insurance have been stated in this section and some conclusions have been drawn regarding various phases of such a programme. It remains to state certain general conclusions.

The most important thing to remember is that the scheme was established in a period in which a high level of employment was the

rule and it has never had a serious test in the form of acute unemployment to prove that it will function as effectively in crisis. National unemployment schemes in Europe have taught us the lesson that the establishment of a scheme in a period when there was considerable unemployment or having this condition arise soon after establishment, often leads to failure. In this respect the Canadian plan has been extremely fortunate; it seems to have been launched at a most auspicious time. Only once for a short period at the end of the War did claims ever exceed current contributions. To date, the contributions required do not seem to be a strain on the financial resources of any of the three groups of contributors; they are almost a minute proportion of income in each case.

There is no way of telling if the total assets of the Fund, now over half a billion dollars, will be adequate in times of stress; even the Unemployment Insurance Advisory Committee are very reluctant to make anything but the most vague statements in that regard. There is really but one profound statement that can be made regarding the speedy liquidation of large part or all of the Dominion of Canada bonds held by the Fund, and that is that the way those bonds are liquidated through the banking system will have an important effect on prices, and on the economy generally.

In Canada, it is rather difficult to cover the larger percentage of the working population at low rates since there is always the factor of sharp fluctuations in seasonal employment

in the Canadian economy. What increased coverage can be made would seem to depend directly on the maintenance of a high level of employment throughout all the economic regions of our country. The individual who is covered will be sure of a small income at least for the early stages of a depression or until such time as the Fund becomes insolvent. He is not receiving charity either, which should do a great deal to bolster his morale. Some economists have likened unemployment insurance to a tax, only there is the one great difference in that the state has obligated itself to guarantee certain people a stated income should they lose their employment. The Canadian system is not designed to make people lazy since insurance benefits can only be drawn after determined attempts have been made to find work through the National Employment Service.

The Canadian combination of a state employment service with unemployment insurance seems to be a very sound idea. Even if unemployment insurance is not able to stand up to the test of a severe depression, the employment service can still presumably help to alleviate employment. It has not as yet been proved that unemployment insurance is the semi-automatic compensating feature that politicians and economists hope it will be over the ups and downs of the business cycle. The combined system of insurance and labour exchange in Canada has been relatively cheap to operate. Both schemes have had an auspicious start in Canada, but what the future holds is hard to predict.

CHAPTER VII

THE PRE-WAR SITUATION AND OUTLOOK

So far in this study an attempt has been made to look briefly at the whole structure of the Canadian economy in order to discover why unemployment was such a problem in the period from 1929 to 1939. Perhaps the approach has been too general and too theoretical. In any case, the purpose of the study was not to make a detailed examination of the problem but rather to arrive at some general conclusions as to why employment was as it was and to look at the role of governmental policy in preventing and alleviating unemployment.

The basic features of the Canadian economy were discussed at some length in Chapter II. There was mentioned Canada's long east-west expanse and her narrow south-north strip of population; her five economic regions with great diversity of economic resources, both agricultural and mineral; her federal system and her economic institutions. It was noted also that the economy was still largely agricultural and so droughts were feared causes of unemployment and destitution; that approximately one-third of the national income depended on a few, mainly staple, exports; that foreign capital movements may have disturbed foreign exchange rates at times, although foreign capital imports were necessary to help

finance economic development within the country; and that Dominion-Provincial jurisdiction and financial arrangements are not entirely satisfactory. Thus Canada's economy has three different types of factors to consider: (1) those caused by the distribution and quantity of natural and human resources in a country of widely varying topography; (2) those caused by the political and financial institutions which have been set up - the man-made sector of the economic environment; and (3) those caused by our great dependence on foreign trade to provide a large part of the national income. These three types of factors are, of course, very much interrelated. The first and third have been fairly well discussed, mostly in Chapter II., but the second still needs further discussion.

The Prevention of Unemployment

Can unemployment be prevented? In the completely controlled economy it would be theoretically possible to have all those able to work working at something at all times, but how productive and how efficient the work would be and how the (state) employees would like this, being told just what they were to do and when they were to do it, is another matter; this condition which has not yet arrived in Canada. Here we have a Democracy which provides an ideal environment for free enterprise capitalism with its minimum of state enterprise and state control of industry, and with fairly light taxation and only the nucleus of a comprehensive state social security plan. In other words, the state does not seek to control

the economy to the extent that unemployment never gets a chance to break out but rather tries to provide a healthy environment in which it can take measures to alleviate unemployment and induce recovery, particularly in the case of cyclical unemployment.

Before continuing this discussion further the type of unemployment being dealt with must be considered. In Chapter I, it was noted that the three kinds being considered were cyclical, natural (mainly caused by drought) and seasonal, the first being by far the worst. Can any of these three be prevented? That is doubtful, but certainly they can be alleviated.

It has been pointed out that the seasonal unemployment is always going to be a problem in Canada for those people who work at occupations in which there is regularly only work for part of each year. Two problems have to be solved; (1) work must be found for these people during slack seasons unless, of course, they can make enough in the working season to keep themselves and their dependents for the rest of the year, or (2) they must be provided with income enough to keep them during the slack season. Which is the cheaper method? It is assumed, incidentally, in our society that if a person has enough income from one source or another so that he does not have to work for all or part of the year and is not a charge upon the state, he is quite at liberty to remain idle. It is assumed, however, that if a person cannot support himself without aid from the state, is willing and able to work and cannot find work, then the state authority should either provide him with work or provide him with the necessities of life until he

is able to find work.

To return to the problem of caring for the seasonally unemployed, is it feasible to shift them about in the "off" seasons to another job if one can be found? To do this a national employment service with an exceptionally detailed knowledge of job opportunities across the country is necessary. We have that in the form of the National Employment Service in Canada. That is not to say that the Service is extremely efficient but at least the machinery is there and it seems to have worked fairly well.¹ Even supposing people could be moved to various parts of the country to take on jobs in the slack season, the very fact that they are to be moved raises two more questions: Are they willing to be moved and would it be less expensive or more expensive to provide them with income where they are rather than moving them?

This naturally depends on the circumstances; no hard and fast rule can be given but it does seem unlikely that all such people would be willing to move and that suitable jobs could be found elsewhere. That means that some method must be found of supplying some of them with income for varying fractions of a year.

What is the best method of doing this? Is unemployment insurance practicable in this case if the actuarial basis of the insurance fund is to remain sound? The problem is to finance these payments as cheaply as possible. Should they be taken out of governmental revenues or should some attempt be made to collect

¹See Chapter VI, particularly the section entitled "The National Employment Service" pp. 117-125.

part of the contributions from employers and employees as well, a thing possible in contributory unemployment insurance? Rather gradual coverage of seasonal workers by unemployment insurance seems possible. As long as the insurance fund still has considerable excesses of revenue over expenditures in each year it may eventually be possible to bring all seasonal workers under its jurisdiction, which would mean in Canada, that the workers and their employers would both help contribute, during the period the workers are employed, to the cost of the benefits received by the workers. If prosperity continues after the War for any length of time this may be possible. If not, the seasonal workers that are not brought under the unemployment insurance scheme will probably have to be looked after by relief payments or, possibly works projects, financed by the government out of its revenues or borrowings, or creation of credit.

There is really nothing to guide one in arriving at a "solution" to the problem of providing for seasonal workers in their slack seasons; there is no country which has tried unemployment insurance which has been faced with the problem to the degree that Canada has, or which has an economy comparable to Canada's. The ideal situation is, clear; that is, to provide year round work if possible for seasonal workers and then if that is not possible, to provide for them by the cheapest method possible, which is probably unemployment insurance. If that fails, then some type of relief payments must be used. There are no established systems to follow. About all that can be done is to try varying proportions of the remedies

suggested and see how they work. It is to be noted that not a great deal can be done to change appreciably the factor of seasonal employment in our economy and that the contributions exacted by the government from employers and employees for unemployment must not be such that they are either a discouraging factor in the industry concerned or that they take too large a slice from the employee's pay cheque to the extent of lowering his income to something below a "living wage", however, that is defined. This last possibility is not likely since employee contributions are usually a very small percentage of the employee's pay cheque.

The question of preventing what has been called "natural" unemployment, of which unemployment caused by drought is the most serious phase, is entirely different from seasonal unemployment, eventhough both types may occur in agricultural occupations. The former type is very irregular in its arrival while there is likely to be some of the latter every year; no one knows when a drought is coming until it has arrived, or how many years it is going to last until it is over. It is not a risk which can be met satisfactorily by insurance of any kind since it is not the type of risk which, though uncertain for individuals, can be made into a reasonably certain risk, for the groups if premiums are paid by those likely to be affected. It might possibly be minimized by an unemployment insurance scheme of the contributory type, but unless the scheme had a very large fund, any serious drought would likely threaten its ability to continue paying benefits

unless the contributions of agricultural workers and employers were but a small proportion of necessary annual contributions. Of course, the same argument could probably be applied to unemployment insurance as a measure for alleviating cyclical unemployment; in fact, as was pointed out in Chapter VI, most of the unemployment insurance funds did get into trouble during the Depression, and many were exhausted. In the case of drought relief in a largely agricultural economy it seems fairly safe to say that insurance principles could not be applied; contributions might be paid for years and then no drought would come or a very severe one might come and exhaust the fund. Unemployment insurance does not apply in these circumstances.

The only way to alleviate the effects of drought, it seems, is by cash relief or by giving credits to buy seed, animals, machinery, and so on in bad times, perhaps even with the recipient undertaking to pay a portion of the cost in better times. Schemes may also have to be initiated to transfer the farmers in the stricken areas to new farms and set them up at government expense if the drought, perhaps with accompanying windstorms, has made the land unusable in future. If expenditures necessary were fairly small and the rest of the economy was prosperous they could perhaps be financed out of current revenues or if the economic conditions were not so prosperous by borrowing, but borrowing always adds to national debt and increases the amount of future service charges on it. The real problem is, however, when drought unemployment coincides with cyclical, as it did in the Prairies in

the Depression with the result that huge expenditures were necessary. Unemployment caused by drought or other "natural" causes is something which is extremely hard to prepare for. Ideally, perhaps the best way to prepare for it is by making sure that farmers do not settle on land that is likely to be struck by drought but to prevent such a thing in a free capitalistic economy when profits on the land look promising is nothing but idle fancy. If the land does appear to have chances of becoming much improved with irrigation, large expenditures for that and for conservation in general may be in order. Each individual case has its own problems; it is almost impossible to make generalizations about how to combat a theoretical situation.

The problem of cyclical unemployment is the most serious of them all. When it looks as though a depression is coming on there is no way of telling whether it is going to be a mere minor recession or a prolonged catastrophe like the Great Depression. In Canada we are particularly vulnerable to depression because of our extensive economic ties with Britain and the United States, the major capitalistic countries. There is nothing much we can do about preventing the start of a depression in other countries and not much can be done to prevent it spreading to Canada. When a depression does come its effects are spread very unevenly throughout the economy, as the Great Depression showed. The causes of the business cycle are not known definitely outside of many plausible theories expounded by various economists. Without getting into controversial aspects there is very little that can be said about pre-

paring for a depression and the ensuing unemployment. Of course, it can be said that the government should provide an environment which will allow business to prosper and to give aid to the weak spots in the economy but in what degree is another matter. Should the state just practice cyclical budgeting and use mild programmes of public works or should it attempt to control the economy by, say, nationalizing the key industries? These questions are outside the scope of this work, unfortunately.

Assuming that the government does not wish to take any more than minor roles in directing the economy what can it do? Tariff policy, agricultural and industrial subsidies, monetary policy, marketing schemes, and fiscal policy can all be used to influence the economic environment and each one is related to the other. Except for a brief mention of borrowing, and taxation, and a short discussion of public works as components of fiscal policy, these other important, though not so direct, components of a policy to provide a high level of employment are not discussed beyond the comments in previous chapters. This is not to say that they are not important; they are eliminated for reasons of time and space only.

To get down to more concrete ways of preparing for cyclical unemployment, unemployment insurance is the first thing that comes to mind. It has been mentioned before that it may be able to take care of seasonal unemployment at least partially but that it does not seem desirable as a method of providing for natural unemployment. Just what is it good for then? Undoubtedly

it is best suited to taking care of frictional unemployment problems. What is its position in regard to cyclical unemployment? One could begin by saying that it is the most important method of alleviating cyclical unemployment provided the scheme has been in operation long enough to build up a considerable fund out of which payments may be made and that it covers a substantial proportion of the working force. When any depression arrives and unemployment starts to mount there is no way of telling how long it is going to last, and how severe it will be. If the insurance scheme has been in operation for a number of years in which there have been relatively prosperous times and a high level of employment it should have built up a large fund. This fund will be invaluable in giving automatic relief to those who are put out of work at the onset of the depression and if the depression turns out to be minor it may be able to carry the whole load, but this is doubtful if payments continue to be made on a sound basis; that is, if benefits are not continued after they are exhausted under the terms of coverage based on contributions. In any case, it should give the government a breathing spell in which to survey the situation and plan supplementary relief and fiscal measures to combat the depression.

If relief measures are found necessary, they may be of two types; either direct relief or indirect relief such as public works may be used. In spite of their necessity they have, especially direct relief, an unfortunate psychological effect on the recipient. Any self-respecting person does not like to be

given charity when he wants a chance to work and earn his own living, which is denied him by a depression, (discounting those people who would like the state to provide everything for them and do nothing in return, not even work.). That is one of the beauties of unemployment insurance benefits, for they make the worker feel he has earned them since he contributed toward them; they are much more readily acceptable than charity. Besides the fact that it is likely to have a negative effect on the worker - at least it will not tend to aid his employability - direct relief is expensive to finance. Expenditures for it must either be provided by taxation, by borrowing, or by credit expansion; the first is likely to have a deflationary effect on an already depressed economy, the second of course adds to the national debt, and the third way may lead to inflation, but that may be a good thing during a depression. In comparison with unemployment insurance the financing problems of relief are great and do not have the same compensatory effects in the economy as the former where a reserve of purchasing power is built up in good times to spend in the bad.

In spite of its obvious defects, direct relief is necessary to aid the unemployed after their benefits run out under an unemployment insurance scheme or for those not covered by that scheme in the first place, unless employment can be provided by public works. There are also numerous technical problems in the definition of the class or classes of people who should receive relief; it is often difficult to separate those

who are unemployed owing to a depression from those who are seasonally unemployed, are out of work because of drought or who are unemployable. A distinction has to be made between unemployed employables and unemployables due to physical or mental disability. The problems of governmental jurisdiction and responsibility for the various classes is discussed in the next section.

Public works are another way of taking care of at least some of the unemployed but they pose several problems: (1) usually only certain classes of unemployed, often construction workers are given employment; (2) there is the problem whether the cost of works both in labour and raw materials is economic in comparison with direct relief in looking after the unemployed, or with direct subsidies to industry in an attempt to stimulate the economy; (3) they should be so timed as not to deter private investment and they should be useful projects when finished; (4) there is the problem of which governmental unit should be responsible and which should provide the money, but this last is considered in the next section. Usually public works are used only to combat cyclical unemployment; probably in the case of unemployment caused by drought, since mainly farmers are affected, they could be used on some governmental reforestation project or some such type of work which a farmer might be able to do but if unemployment insurance and settlement schemes can be used they would doubtless be more economic and of more lasting value; in the case of seasonal unemployment, unemployment insurance benefits and labour transfers seem more economical and realistic.

The types of public works recommended by the National Employment Commission² are all sound but so be of value they must be planned ahead in order that they can be started immediately it becomes apparent that a depression is going to cause serious unemployment. Projects should be well under way before there is a serious drain on the unemployment insurance fund. One would think a measure of their success (depending on the completeness of the coverage of the unemployment scheme) would be the changing amount of unemployment insurance benefit payments necessary and the numbers receiving them after the public works had been undertaken. To measure the effects of the stimulation of such public works in building up confidence and getting the economy into high gear is probably impossible unless the works are designed, say, to provide employment for construction workers only. In that case it might be possible to note the changing levels of production of building products, the profitability of the firms producing them, the changing levels of wages rates in the concerns and so on, but naturally no definite part of the increase, if there was one, could be attributed to public works projects in general. The problem is extremely complex and its effectiveness extremely hard to measure.

The type of fiscal policy and the extent of its use as an anti-depression measures are outside of the scope of this study but cyclical budgeting and taxation problems should be mentioned. The Royal Commission on Dominion-Provincial Relations

²See p.103.

recommended that the federal government try and budget over the cycle instead of year by year; that is roughly, it should levy relatively heavy taxes and try for budgetary surpluses to reduce the national debt in the good years and then in the bad years to reduce taxes and utilize deficit spending to try and bring the economy back to life. This, of course, is a greatly simplified picture; such policies attempt to alter the whole economic environment to provide a high level of production, employment, national income and consumption to keep the economy at high levels of activity. Such a policy is aimed at getting at the root of the trouble whereas relief payments are just a palliative. Public works and social insurance are really components of such a policy, since both are compensatory devices; however, social insurance, such as health insurance or unemployment insurance, is as much concerned with social welfare considerations. The important thing to note is that a policy to provide a high level of employment (of people) has a multitude of phases which ramify into nearly every field of government economic policy. All unemployment cannot be prevented but measures can be taken to make the economy as stable as possible, to weather a coming storm. When the storm breaks, other measures such as relief, which are palliatives, must be used also.

The Jurisdictional Problem

The last section dealt with the major components of a national policy to provide a high level of employment. Such a

policy is instituted by governmental action but in Canada the problem is which governmental unit - Dominion, province or municipality - is to institute, finance and administer such a policy. The municipality by its very size and financial resources naturally cannot institute, finance and administer policies of more than a local character, and even then it may need financial help from province or Dominion; the province can institute regional policies and administer them with the help of the municipality but often it needs Dominion help in financing them; the Dominion is able to institute, and finance national policies but often it needs provincial and municipal help in administering them. The result is that there has to be a very close co-operation among the three levels of government and it is clear that there should be some fairly well delineated spheres of authority for each level, although the arrangement should be elastic. The authority for any policy should reside in the level which can either finance it itself, which seems to be the preferable idea, or else is able to get financial aid from the higher level or levels, in such a manner that the transfer of funds provides as little friction as possible between the units and is so controlled as to make for responsible policies and expenditures.

Such would seem to be the ideals to strive for, but can they be achieved in practice in a federal state like Canada? It is all very well for the economist or political scientist to postulate wonderful ideals but if they cannot be fulfilled

they are not of much use. In Canada the Constitution limits quite clearly the functions of Dominion and province and the financial resources and responsibility of each. The functions and responsibilities about which the British North America Act is ambiguous have been fairly well settled by legal decisions so that the position of the Dominion and Provinces at any one time is fairly clear, but the position may not be a desirable one.

The evidence placed before the Royal Commission on Dominion-Provincial Relations and the Commission's findings both show that the jurisdictional set-up was unsatisfactory in many respects during the period from 1929 to 1939. Take the case of the jurisdiction over employment and related problems: The Dominion clearly had the resources to carry out national economic policies which would influence employment, such as employment relief, public works and so on, but it needed provincial and municipal administrative help if there was not to be a great deal of duplication of effort; on the other hand, the provinces and the municipalities were constitutionally responsible for employment, social welfare, and related policies yet neither, and especially the latter, had the financial resources to carry out the necessary policies when unemployment became serious without charity from the Dominion government. This Dominion "charity", usually in the form of grants-in-aid, brought some form of Dominion control with it and in general brought about a considerable amount of discord

between the Dominion and all the provinces. Since the provinces were in varying financial circumstances they got varying grants and naturally some felt that they were losing at the expense of the other provinces.

Dominion grants were made for unemployment relief, for the unemployment service, and for old age pensions in the period under discussion. The jurisdictional problem, or the bulk of it, really was based on the question of whether the division of legislative and financial responsibility for unemployment relief and most measures relating directly to unemployment and social welfare should rest entirely with the Dominion or whether it should be concurrent (with the provinces) and in the latter case what financial arrangements could be worked out. It could conceivably be a purely provincial function, of course, but the desirability of national standards, the problems of agreement as to such standards among nine (now ten) provinces and the lack of financial resources of some provinces make that the least promising solution; it will not be considered.

The Royal Commission on Dominion-Provincial Relations formulated two plans for the solution of the problem; Plan I gave the Dominion almost exclusive jurisdiction over the problem and Plan II carried on the existing arrangements almost as they were except that the Dominion took over the responsibility for unemployed employables. These plans, and their terms are discussed at the end of Chapter V.³ The Commission itself thought

³See pp. 106-110.

that Plan I was by far the most worthwhile of the two plans; Plan II was added as an attempt to improve the then existing division of responsibility with few major changes if the Dominion and the nine provinces did not agree to Plan I. Under Plans I and II the province and the municipality would still be responsible for unemployables but they require a negligible part of municipal or provincial expenditures and so need not even be considered. Under Plan I there would be a readjustment of tax fields which, at least on the surface, would seem to be an improvement over the then existing system by providing more direct taxation and less double taxation.

The troublesome subsidies were to be replaced by National Adjustment Grants and emergency grants under Plan I. These latter were really a form of subsidy but their computation would seem to be on a fair basis although the technicalities involved in figuring out the grants might cause some trouble. In short, Plan I in conjunction other specific recommendations by the Dominion regarding unemployment would provide for the Dominion legislative and financial responsibility for the problem of unemployment by giving it powers to control centrally unemployment relief, unemployment insurance and a national employment service, not to mention the fact that taxing powers were to be arranged in such a way as to give it more effective control still. The provinces stood to lose some of their financial independence and legislative powers over employment matters, but they would have gained an immeasurable

amount of financial security and loss of heavy provincial debts. It was unfortunate that the Second World War intervened and cut short any chance for speedy adoption of Plan I, which would have had to be done with the consent of the Dominion and the provinces, all of which are notorious for not being able to agree among themselves on matters of national importance. Provincial rights in certain matters are all very well but when they impede the central government in its ability to carry out policies which are vital to the whole country, no doubt it is time they were curtailed and the appropriate powers transferred to the Dominion.

On 14th January, 1941, a Dominion-Provincial Conference met to consider the adoption of the Report of the Royal Commission on Dominion-Provincial Relations. Quebec, Ontario, and Alberta did not like the basis of the Report (could it be because these three provinces were to get no national adjustment grants?) and so the Conference was forced to break up. The next day, after concluding that the Report was a peacetime measure and that the exigencies of war should not be a reason for hasty action.

Although the Second World War did prevent the adoption of Plan I - other matters were more pressing it seemed - two notable steps forward were made previously, in 1940, at the beginning of the War, when the Unemployment Insurance Commission was set up. Although this did not happen in the period under consideration in this study it well worth noting that two of the main recommendations regarding unemployment made by the Royal

Commission on Dominion-Provincial Relations were carried out; a comprehensive system of contributory unemployment insurance was set up on a national scale and so was the National Employment Service under the control of the Dominion. These are described in Chapter VI. In 1941 tax recommendations of Plan I were in effect carried out for the duration of the war; the Dominion took over personal and corporate income taxes and succession duties, and reimbursed the provinces. The agreements, called the Wartime Tax agreements, were to run for one year after the War.

The unemployment problem was largely solved by the outbreak of the Second World War owing to the huge expansion of all industry and agriculture without thought of cost, to provide for the war effort and not to mention the tens of thousands of people absorbed into the armed forces. The solution was only temporary; the War would not last forever. It is better to have the problem of unemployment unsolved rather than to have the destruction of war!

The outlook for a high level of employment after the War depends a great deal on how quickly the transition can be made from a war economy and how high a level of economic activity is maintained during the peace. If it becomes necessary to fight another serious depression, which we all hope will never arrive, the power of the Dominion to fight it effectively will depend greatly on whether the jurisdictional problem is solved to any great degree as by a measure such as Plan I and what policies the

Dominion puts into force and how effective they are. Some great strides have been made in giving the Dominion power to deal with some of the various phases of unemployment, but what the effects of another depression would be are hard to predict. Continued and improved co-operation among the various levels of government and stronger central control will undoubtedly make any economic policies aimed at a "solution" of the problem of unemployment more effective.

There are no rigid all-embracing conclusions to be reached on the subject. An attempt has been made, however, to discuss the pros and cons of the main problems which, when added together, make up that abstract phrase "the problem of unemployment". The last chapter of a study is usually a conclusion, but in this case it is really not; such conclusions as were possible were made after the discussion of each component topic and this chapter has simply grouped together a few of the more significant ones. If it has at least indicated the complexity of the problem, it will have fulfilled its purpose.

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