TAX REFORM AND CLASS INTERESTS IN CANADA, 1960-1971

THE POLITICS OF REFORM:
CLASS INTERESTS AND
TAX REFORM IN CANADA,
1960-1971

BY

ROBERT JOHN LOGIE GARDNER, B.A. M.A.

A Thesis

Submitted to the School of Graduate Studies

in Partial Fulfilment of the Requirements

for the Degree

Doctor of Philosophy

McMaster University

December 1982

DOCTOR OF PHILOSOPHY (1983)
(SOCIOLOGY)

McMASTER UNIVERSITY
Hamilton, Ontario

TITLE: The Politics of Reform:
Class Interests and Tax Reform in Canada,
1960-1971

AUTHOR: Robert John Logie Gardner, B.A. (University of Western Ontario)
M.A. (University of Western Ontario)

SUPERVISOR: Professor D.L. Smith

NUMBER OF
PAGES: vii- 1020

Abstract

This case study of tax reform during the 1960's and 1970's examines the way in which the political representation and conflict of class interests shaped the development of a crucial area of state policy. The 1967 Report of the Royal Commission on Taxation (Carter Commission) called for a comprehensive and progressive restructuring of the Canadian tax system. However, after over four years of heated debate, the changes eventually implemented on January 1, 1972 were a very pale reflection of the original Carter proposals. The focus of this analysis is upon what happened between the promise of fair and equitable taxation held out by the Royal Commission and the far more limited reforms finally enacted. Tax reform proceeded by means of a number of distinct and separate junctures through which shifts in policy can be easily charted. At each of these junctures the key proposals were steadily moderated and the Commission's fundamental principles were weakened or rejected. The decisive factor in the government's consistent stage-by-stage retreat from the central objectives and recommendations of the Carter Report was the tremendous opposition of the capitalist class to major progressive reform.

The sweeping recommendations of the Royal Commission, which would have limited the existing highly advantaged treatment of the capitalist class and affluent strata more generally, met with intense hostility from Canadian business. The corporate sector quickly mobilized an extensive campaign against the proposals; business representatives became the predominant presence in formal deliberations and public debates on the direction of reform, and major firms and corporate organizations exerted

pervasive and unrelenting pressure upon the state. The scope of reform was also greatly limited by crucial structural constraints of a capitalist economy: given its dependence upon private capital to allocate sufficient investment to sustain adequate levels of economic growth, state policy must be extremely sensitive to the maintenance of business confidence and a favourable climate for investment. The concrete significance of this general imperative was reinforced by incessant dire corporate predictions that investment would be reduced and capital withdrawn should the Carter proposals be adopted. Although the demands of organized labour and the New Democratic Party and the exigencies of political legitimation and electoral competition ensured that the government could not totally abandon reform, no other group was able to mount a comparable defense of progressive changes in the face of enormous corporate pressure, reinforced by the broadly similar opposition of small business and the major provincial governments. This massive and cumulative opposition forced consistent modifications of the proposals in the direction of corporate demands and immediate interests at each stage of the reform process and prevented any substantial implementation of policy to which business strongly objected. The result was that the potential of progressive reform, which would have directly benefited the majority of the population, was not significantly realized. That this was so and that the final tax reforms never threatened the fundamental interests of the capitalist class in continued accumulation and the reproduction of the overall capitalist system is a telling manifestation of its dominant political power.

Acknowledgements

I would like to thank my supervisor, Dusky Lee Smith, and other committee members, Carl Cuneo, Peta Sheriff and Bill Coleman, for their considerable aid and support throughout this project.

TABLE OF CONTENTS

INTRODUCTION		p. 1
ANALYTICAL FRAMEWORK		p. 22
CHAPTER 1	CLASS INTERESTS, THE STATE AND THE POLITICS OF REFORM	p. 23
CHAPTER 2	CLASS AND CLASS INTERESTS IN CANADIAN SOCIETY	p. 74
CHAPTER 3	CLASS INTERESTS, POLITICAL REPRESENTATION AND THE STATE	p.140
CHAPTER 4	TAXATION AND THE POLITICAL ECONOMY OF THE STATE	p.197
STAGE ONE:	THE ROYAL COMMISSION AND THE PURSUIT OF EQUITY	p.223
CHAPTER 5	TAX REFORM ON THE AGENDA	p.226
CHAPTER 6	DELIBERATIONS OF THE ROYAL COMMISSION ON TAXATION	p.275
CHAPTER 7	THE ROYAL COMMISSION: BLUEPRINT FOR PROGRESSIVE REFORM	p.353
STAGE TWO:	RETREAT FROM THE ROYAL COMMISSION	p.443
CHAPTER 8	FIRST RETREAT: MINING TAXATION	p.446
CHAPTER 9	SECOND RETREAT: The SCOPE OF REFORM	p.512
CHAPTER 10	THIRD RETREAT: THE TAXATION OF WEALTH AND PROPERTY INCOME	p.605
CHAPTER 11	FOURTH RETREAT: THE WHITE PAPER	p.652
STAGE THREE:	CONFLICT OVER THE WHITE PAPER	p.732
CHAPTER 12	DEBATE ON THE WHITE PAPER	p.734
CHAPTER 13	PARTICIPATORY DEMOCRACY: THE 1970 HEARINGS OF THE PARLIAMENTARY COMMITTEES	p.769

CHAPTER 14	FURTHER MODERATION: RECOMMENDATIONS OF THE PARLIAMENTARY COMMITTEES.	p.852
STAGE FOUR:	EQUITY COMPROMISED: THE TRIUMPH OF CAPITALIST REALISM	p.902
CHAPTER 15	FINALE: THE REFORM LEGISLATION OF 1971	p.902
CHAPTER 16	CONCLUSIONS	p.952
BIBLIOGRAPHY		p.1004

The Politics of Reform:
Tax Reform and Class Interests 1960-1971

Introduction

The Promise of Reform

After four and one-half years of intensive study of the federal tax system, the Royal Commission on Taxation (Carter Commission) released its enormous six volume Report in February 1967. The Commission made its fundamental emphasis strikingly clear:

> The first and most essential purpose of taxation is to share the burden of the state fairly among all individuals and families. Unless the allocation of the burden is generally accepted as fair, the social and political fabric of a country is weakened and can be destroyed.[1]

The Commission had diagnosed a number of critical weaknesses in the Canadian tax structure: it did not afford fair treatment for all, taxation had contributed to the inefficient allocation and use of economic resources, the fiscal system had not been properly used to achieve overall economic objectives, there had been much federal provincial duplication, and the federal system had serious administrative deficiencies. The Commission's prescription for reform was radical and far-reaching: "We therefore recommend many fundamental changes which, if adopted, would produce a complete transformation and, we believe, result in greater equity and efficiency."[2]

In formulating its proposals, the Royal Commission had defined equity as the first priority of taxation. Discovering that the existing structure was in fact highly inequitable, the Commission called for a series of changes designed to produce a far more progressive tax system. The most important of these recommendations were the treatment of the family as the basic unit of taxation, a more progressive rate structure of personal income taxation, the inclusion of all income from any source in a comprehensive tax base for full taxation, the elimination of separate taxes on gifts and estates and their inclusion in this wider tax base, the elimination of a wide range of special corporate tax concessions in the name of neutrality, and the integration of personal and corporate income taxation.

Limited Realization

After over four years of heated debate and political conflict, legislation enacting the restructuring of the Canadian tax system was unveiled in June 1971. In introducing the reform bill to parliament, Minister of Finance E.J. Benson appeared to echo the sentiments that had guided the Carter Commission: "A tax system must distribute the tax burden in an equitable manner, based upon ability to pay. Furthermore, it must not only be fair; it must be seen to be fair."[3] But in fact, the final reform legislation was a very pale reflection of the original Royal Commission proposals.

The pursuit of equity had clearly been supplanted by economic growth as the highest priority of fiscal policy. It was more than merely symbolic that the Minister of Finance listed "steady and con-

tinuous growth and economic prosperity" ahead of fairness in his outline of "what a good tax system ought to be."[4] All of the fundamental Carter recommendations had either disappeared entirely or been much modified. The treatment of the family as the basic unit of taxation was nowhere to be found in the 1971 legislation. The concept of the comprehensive tax base had been abandoned. All that remained of its basic principle that all income, including that from the ownership of property, should be taxed was a partial and limited tax on capital gains. The principle of neutrality had met a very similar fate; the tax concessions of the resource industries and small business, for example, had survived largely intact. The full integration of personal and corporate taxation had been dropped.

The direction of change between these two policy junctures was unmistakeable: the progressive impact of the original proposals had been massively diluted. The final reforms contained no hint of the sweeping and systematic overhaul envisioned by the Royal Commission. The result of one of the most extensive political debates in modern Canadian history was a tax system that was essentially a relatively limited modification of the existing structure. The guiding priorities of the old system, the foremost of which was the maintenance of the most favourable conditions for the accumulation of capital, had been largely unaltered.

Purpose of Analysis

The focus of this study is quite straight-forward: what happened in the four years between the promise of fair and progressive taxation held out by the Royal Commission and the far more restricted changes eventually implemented? How was it that reforms that would have been of

significant benefit to a great majority of the Canadian population were never fully instituted?

What happened quite simply was that the Report set off a tremendous controversy. Its key recommendations would totally restructure a tax system that had been of great benefit to wealthy and powerful social groups and to the major corporations that dominated the Canadian economy. Proposals such as the comprehensive tax base, which would entail full taxation for large amounts of income that had previously been lightly or not taxed at all, would significantly increase the tax burden of the capitalist class and other property-owning strata. Changes such as the removal of special incentives would increase the burden of key sectors of the corporate economy. Given such implications, it was hardly surprising that the Carter Report was greeted with pronounced hostility by those interests whose privileged treatment was threatened and who would be adversely affected by a more progressive tax regime. The corporate sector mounted an intense and highly organized campaign of opposition to radical tax reform. It was this unrelenting pressure that was the decisive factor in a steady government retreat; at each successive stage of the policy process the reform proposals were consistently rejected or weakened and their progressive effect reduced. However, the power of the capitalist class was by no means absolute. Reform of the tax system, albeit in a much modified form, did in fact take place even against strenuous business objections.

What follows is a detailed analysis of the complicated and protracted policy deliberations and political conflicts over the nature and directions of tax reform during the latter 1960's and early 1970's.

Its primary goal is to identify and explain the balance of social forces and combination of political, ideological and economic factors that shaped the development of a particularly crucial area of state policy. Taxation and fiscal policy are key components of overall state economic policy and intervention. They are equally important instruments of social policy through, for example, their effect on the distribution of income and inequality of condition. The incidence of taxation also directly affects the concrete material interests of all groups within the Canadian social structure. A major focus of analysis is upon how, and how effectively, the various classes and social groupings were organized to protect and promote their interests during the reformulation of tax policy. Tax reform quickly became a highly contentious issue in which the interests and policy perspectives of the capitalist class and other affluent propertied strata were in clear conflict with the great majority of taxpayers who would benefit from progressive changes. The fate of tax reform tells us much about the relative power of the major contending interests and the nature of the political competition between them.

This case study is also designed to address questions central to understanding the contemporary capitalist state and the dynamics of political power. How are class and other social interests represented within the state in general and within the process of policy formation in particular? What constellation of political, economic and social factors shape the development of policy? How is the formulation of state economic policy organized; what institutional mechanisms and forums are important and what patterns of consultation and outside input

are influential? In what ways does the structure of a liberal democratic political system affect the process of representation and policy formation within the state? How are these processes shaped and limited by wider structural and institutional features of a capitalist political economy?

Themes of the Study

In addressing this series of questions and in analyzing the process of tax reform a number of consistent patterns emerge throughout the study. The basic arguments and findings can be grouped around two fundamental themes. First of all, the power of the capitalist class was the decisive factor in the government's retreat from progressive reform; the intensive mobilization of business opposition and the overall political domination of capital forced critical and cumulative concessions at each stage of the policy process. More generally, the structural imperatives and requirements of a capitalist economy imposed constraints on the scope of reform and fostered an overall policy framework that took the needs of capital accumulation firmly into account. Secondly, at the same time a range of countervailing factors served to ensure that the state had to proceed with some degree of reform. Among the key pressures for progressive reform were the support of organized labour, welfare groups and the New Democratic Party for such changes and their criticism of the government for its failure to implement them quickly; the commitment to social equality entailed in the overall ideology of the modern welfare state and in the more general state function of legitimation; and the practical need to appeal to the voting public, large numbers of whom would benefit from progressive taxation, in a

liberal democratic political system. The dynamics of the conflict and debate over restructuring the tax system and the outcome of these policy deliberations were shaped by a balance of these complex and conflicting forces. On the one hand, the immense political power of the capitalist class ensured that the eventual tax changes were far more limited than originally proposed and that they did not fundamentally threaten the health of the corporate economy and the accumulation of capital. On the other hand, tax reform was carried through and a number of changes were finally instituted to which business had been opposed. These basic themes will quickly be amplified and the structure of the study will then be outlined.

Theme I: Political Domination of Capital

The tremendous influence of the capitalist class in the development of state policy is starkly evident at each successive stage of the process of tax reform. It was the capacity of organized business to prevent policy to which it was opposed that was the decisive factor in the steady government retreat on the scope and impact of reform.

The Commission's sweeping recommendations and the range of subsequent proposals that would improve the progressiveness of the tax system met with considerable apprehension and opposition from business. Increased taxation of wealth and income from property was seen to be a severe impediment to investment and accumulation. Similarly, the proposed restructuring of business taxation was seen to be a serious problem for corporate profit and expansion. In the furor that developed within the business community the impact of the reform proposals was often much exaggerated. Nonetheless, the recommended changes would have reduced the

advantaged treatment that the capitalist class enjoyed under the existing system and were perceived to be a serious threat to its material interests and the operations of the corporations which it controlled. The result was the large-scale political mobilization of business, one of the most extensive in recent Canadian history.

The corporate sector mounted a massive campaign of opposition to the original Carter recommendations and any later proposals to which it objected. The means by which capital was organized as a dominant political force throughout the debates on tax reform is a major focus of analysis: the articulation of corporate interests vis-a-vis taxation, the development of coherent criticisms of the reform proposals and of alternative policy demands, and the formulation of strategy to press these demands on the government. This direct pressure on the state took a variety of forms; from a constant round of speeches, pronouncements and articles by leading corporate spokesmen, through the submission of large numbers of impressive and highly publicized briefs to the government, to the intense lobbying of state officials by major firms and corporate associations. The thrust of this corporate pressure was that the reforms designed to increase the fairness of the system would have a damaging effect on economic growth and expansion.

The structure of the Canadian capitalist class was in no sense monolithic and this was reflected in its political organization. The impact of taxation deeply affected the specific interests of particular sectors of production as well as the general interests of capital as a whole. This resulted in the pursuit of a variety of more narrowly de-

fined policy objectives, such as the retention of generous incentives for the resource industries, within the generalized corporate opposition to major reform. In addition, there were important differences of political and analytical understanding and strategy within business. Finally, the various elements within the business community played a very different role in the reform debates; one of the most important developments during this period was the emergence of small business as a significant political force. Nonetheless, while the immediate perspective and sophistication of corporate demands varied, and the emphasis and tempo of business opposition shifted somewhat over this period as a whole, unrelenting and intense corporate pressure was a pervasive and cumulative factor throughout the reform process.

The capacity of the capitalist class to influence the development of tax policy was never just a question of the political mobilization of business as an interest group, of direct pressure exerted on the state. The political power of capital is also deeply rooted in the wider structural imperatives and demands of a capitalist economy. One of the central functions of the modern capitalist state is to maintain and guarantee favourable overall conditions for the accumulation of capital. This general function was itself an important constraint on the development of fiscal policy; tax changes could not be adopted that would fundamentally endanger continued accumulation. Such structural imperatives, however, are not automatically translated into state policy, nor is state policy automatically derived from the abstract requirements of capital. It is a major goal of this study to explore the ways in which

such structural factors are related to policy formation. Briefly: the state must ensure general economic prosperity, but it cannot do so itself. The management of the economy and the allocation of resources are controlled privately. The state is therefore dependent upon private capital to provide sufficient investment to maintain adequate levels of economic activity. Since it is only the capitalist class that defines the conditions that constitute a satisfactory climate for investment under which it will allocate resources, state policy and intervention must be extremely sensitive to business perceptions and confidence. Given that business representatives routinely decried the proposed tax changes as being disastrous for investment and economic growth, this consideration was always a very important factor in the reform deliberations.

Opposition to the reform proposals came not only from the corporate sector, but from within the state system as well. It must be emphasized that the state is not a monolithic entity, but rather is a complex set of institutions and apparatuses which may develop specific and divergent momentum and requirements of their own. Nowhere was this clearer than in the continuing disputes between the federal and provincial governments over fiscal policy and coordination during this overall period. More specifically, major provincial governments came to play a key role in opposing federal reform plans. This stance was not unconnected with the political mobilization of the capitalist class. The provincial governments also faced considerable direct pressure from business. More generally, the provincial governments have to compete for investment

and are consequently also highly dependent upon capital for the economic health of their region. This dependence was especially important in the western provinces where the great regional concentration and extensive production of the resource industries made their economies especially vulnerable to any reduction of investment or shift of capital from these sectors. The result was that provincial policy tended to echo that of business, which in turn added powerful reinforcement to corporate demands.

This massive corporate pressure, in the context of the dominant position of capital within the structure of the political economy, was highly successful. At each stage of the policy process the federal government made major concessions to business opposition. The result was a steady moderation of the proposed tax changes; a moderation that was consistently in the direction of corporate demands. This conflict over the restructuring of the tax system constitutes an excellent case study of the political mobilization and organization of the capitalist class and of its great ability to protect its interests within the development of state policy.

Theme II: The Balance of Political Forces and the Dynamics of Reform

The power of capital was by no means absolute or totally determinant. Had this been the case, then such objectionable proposals as those of the Royal Commission would never have been made in the first place, or once made, they would have been quickly dropped or benignly ignored by the government, as was a common fate for many such reports. But this did not take place and reform did proceed even against strong business antagonism. Even though the proposed tax changes were steadily moderated, reforms were nonetheless eventually implemented to which

business had been opposed. This study's second major focus of analysis is upon a complex of countervailing forces to the political domination of capital that also shape state policy formation and intervention. The state must consider a range of interests other than business and the development of policy is constrained by further political, ideological and structural factors than the actions and perspectives of the capitalist class.

Since the structure and incidence of taxation vitally affects the interests of all groups within the social structure, representatives of business were not the only participants in the debates on tax reform. In addition, the federal government had repeatedly called for the widest possible public participation in the reform deliberations. A variety of union organizations, consumer, welfare and philanthropic groups; and agricultural and co-operative associations responded, some of whose policy alternatives were sharply divergent from prevailing business opinion. The strongest pressure for tax changes along the lines suggested by the Carter Commission came from organized labour. The New Democratic Party, which represented politically - to some degree at least - the less affluent strata, also consistently demanded the speedy implementation of progressive reform. There were two crucial features of the activity and policies of these contending groups.

First of all, the participation and influence of these competing groups in the reform process was far more limited than that of business. Both in terms of formal input to state policy deliberations and ongoing public debate and pressure it was the capitalist class that was the predominant force. No other group commanded the political and economic

resources as did business and no other group was able to mobilize such an intensive campaign in favour of its policy and interests. No other group had such clear influence on policy shifts throughout the reform process. Because the interests of the rival forces in the revamping of the tax system can be easily delineated and were so clearly conflicting, and because the government had encouraged public participation, this highly contentious issue provides a good case study of the nature of political competition within state policy formation. In fact, the competition between contending interests and policy perspectives over tax reform was strikingly and inherently unequal.

Secondly, while the activity of these other organizations was not nearly as pervasive or influential in policy development as that of corporate representatives, they were nonetheless a significant presence in the dynamics of tax reform. The government could not ignore the demands of competing groups for progressive changes without appearing to be unresponsive to public opinion and interests. This was particularly the case with the strong commitment of the Liberal government of the late 1960's to participatory democracy. This avowed openness to the input of a wide range of groups certainly could enhance the legitimacy of state policy formation, but it also imposed its own constraints on the government's freedom of action. Having once encouraged the public to take part in the policy process and having emphasized that its views would be taken seriously, the government could not then appear to totally disregard the advice it had received.

These latter considerations are closely related to a further crucial function of the capitalist state, a function which, like that

of state support of capital accumulation discussed earlier, very much shaped the parameters within which the deliberations on tax reform took place. Just as the political power of capital was based upon anonymous institutional structures as well as direct political action, so too were competing forces such as organized labour and the New Democratic Party important factors beyond the immediate pressure that they could exert. A great deal of the activity and policy of the modern state is directed towards the maintenance of political consensus. To this end the state has often initiated and implemented reforms designed to alleviate pressing social problems, such as poverty and unemployment, at least partially in order to forestall potential conflict that could arise from intolerable conditions in such areas. Such considerations, plus political pressure from labour and other groups within the population for reform, have been crucial to the development of the contemporary welfare state, with its range of programmes designed to underwrite a minimum standard of living. More generally, the overall ideology of the welfare state includes a strong and basic commitment to social equality and the correction of existing inequalities of condition and opportunity. Taxation is a particularly important component of the political and ideological framework of the welfare state. Progressive taxation is held to be a key mechanism in the reduction of inequality. Fair taxation is seen to be an essential component of the justice and legitimacy of the overall political system; this was attested to by both the Royal Commission and Minister of Finance as quoted at the start of this chapter. In this way, the role and ideology of the welfare state and the state's function of legitimation

entailed a general commitment to fair taxation. Conversely, a tax structure that was demonstrated to be manifestly unfair could be a severe problem for political legitimacy. It was in this regard that the demands of organized labour and the New Democratic Party became particularly important. While they may not have been directly influential in policy formation, they did keep the issue of progressive reform squarely on the political agenda. This meant that the government could not quietly drop reform without appearing to abandon its dedication to fairness.

These pressures must be understood in the context of a liberal democratic political system. Political parties must compete for electoral support. The large number of working class voters was consequently an important constraint, albeit again indirect, upon policy development; the government had to at least partially address their concerns. In this specific juncture the large number of voters who would benefit from progressive reforms of the type proposed by the Royal Commission meant that a pledge to improve the tax system was a potentially popular electoral promise. The converse was even clearer; the government could not afford to be seen as the party that refused to alleviate inequitable taxation and defended the privileges of an affluent minority. Pressure from the left was important here as well; the New Democratic Party ceaselessly attacked the government in exactly these terms for its failure to implement progressive changes. The government (and this applies also to the opposition Conservative party) could not afford to abandon such a politically sensitive issue as tax reform to the New Democratic Party for fear of losing votes to its left. In the partisan political conflict

that developed over this issue, there was pressure on all parties, including the government, to endorse the principle of fair taxation.

The central focus of this study is upon the way in which the tempo, deliberations and outcome of the reformulation of tax policy were shaped by the interplay and balance of this range of forces. The great capacity of the capitalist class to prevent policy to which it was firmly opposed was clearly demonstrated. However, capital was not the sole or determinant force in the dynamics of policy formation. The presence of competing social forces and the nature of the state and the liberal democratic political system meant that the issue of progressive taxation remained the focus of much conflict and some degree of reform had to be carried out. The balance of these contending forces varied from point to point within the overall process. The final result reflected this combination of conflicting factors. The political domination of capital had ensured that the new tax structure entailed very little immediate damage to concrete corporate interests and that the accumulation of capital was not fundamentally threatened. Nonetheless, the various countervailing factors had resulted in the implementation of a number of changes to which business had been opposed and the general rationalization and reduced level of taxation that business had originally pressed for were not effectively realized. The resulting compromises pleased neither the business community, important elements of which objected to any limitation of their tax advantages and resented the aggravation of the reform process as a whole, nor those who had been hoping for a significantly more progressive tax structure. It had clearly been the capitalist class that

had best been able to protect its interests, but it had not been able to do so with a completely free hand.

Structure of the Study

From its inception in the early 1960's to the passage of the final legislation in late 1971, tax reform proceeded by means of a number of distinct and separate policy junctures, such as the Report of the Carter Commission and subsequent government policy pronouncements and documents. To each of these junctures, there was a specific period of response from the key forces involved, which in turn shaped the direction and content of the next policy juncture and the context for subsequent debate. Because of these patterns this study is organized into four sequential stages. (see Figure 1) This division is not simply chronological, but arises from the unfolding of the reform process itself; in terms of the interconnected and interdependent development of the various policy junctures, the conflict and organized pressure that raged around the particular proposals, the influence of these pressures on subsequent policy revisions and development, and the succeeding round of debate that each new set of proposals initiated.

By the early 1960's, considerable pressure from within the public and private sectors had built up to rationalize and restructure the Canadian tax system. In response, the federal government established the Royal Commission on Taxation in 1962. The Commission organized public hearings in 1963 and 1964 and received submissions from a large number of organizations. At the same time, there was extensive public commentary on the tax structure and the prospects for reform. This initial period

Figure 1: Major Policy Junctures in the Process of Tax Reform

Stage I	Establishment of Royal Commission on Taxation Summer 1962	Public Hearings of Royal Commission 1963-1964	Report of Royal Commission February 1967	
Stage II	Concessions to mining industry May 1967	Submission of briefs to the government on the Royal Commission, Fall 1967	Reform of gift and estage taxation October 1968 budget	White Paper on Tax Reform November 1969
Stage III	Public hearings of House of Commons and Senate Committees on White Paper March-August 1970	Government concessions on revenue increase, mining, and small business Summer 1970	Reports of parliamentary committees September-October 1970	
Stage IV	Introduction of final reform bill with June 18, 1971 budget	Passage of Bill C-259 on December 17, 1971		

came to a close with the release of the Commission's Report in February 1967. This first stage is analyzed in Chapters 5 to 7.

The sweeping nature of these recommendations and the adverse impact that the proposed changes could have on the capitalist class and the corporate economy set off an enormous controversy. The second stage encompasses the mobilization of immense corporate pressure against the Royal Commission and the series of specific government concessions to this pressure. Competing forces that defended the Carter Report and urged progressive changes were a far more limited presence than was this concerted business opposition. This stage culminated with the government's White Paper on tax reform in November 1969. It was a considerable retreat from the original Carter reform schema, but still proposed changes that majority business opinion could not accept. Chapters 8 through 11 explore the second stage.

The third stage involves the even more heated conflict over the White Paper. Formal deliberations on the proposals were centred on the 1970 hearings of the key House of Commons and Senate committees on economic affairs. The analysis of the representation of competing interest policy alternatives in these hearings provides a particularly useful means of studying political competition and participation within state policy formation. Concurrently, intense opposition from business, and increasingly also from major provincial governments, continued to be the predominant force in wider debates on reform. In the face of this pressure, the government made further key concessions in the summer of 1970. This stage ends with the reports of the two parliamentary committees in the early fall recommending significant moderation of the White

Paper proposals. The third stage is discussed in Chapters 12 to 14.

These reports were applauded by provincial and corporate opponents of the White Paper and incorporated into their continuing pressure on the government. The final reform legislation was unveiled in the federal budget of June 18, 1971: it constituted a further major retreat from the White Paper. After public controversy through the summer and fall and parliamentary debate in the fall, the reform process culminated with the passage of the final legislation in December 1971. The fourth and last stage is analyzed in Chapter 15 and the overall conclusions are detailed in Chapter 16.

This division of the overall reform process into stages facilitates the analysis and identification of the key forces that shaped the dynamics of policy formation. At each stage a number of recurring questions are posed concerning the representation of class interests within the deliberations on tax reform: how were the implications of the particular reform proposals for the interests of the various class groupings recognized and articulated, how did this in turn shape the formulation of policy on reform and strategy on how to present it, and how were the various groups mobilized and organized to pursue their interests in the political sphere? Analysis of these developments by stages allows the direction and nature of shifts in policy and priorities through the specific junctures to be determined. By then comparing these changes to the demands and perspectives and the political activity and pressure of the major contending political forces, their relative influence can be evaluated.

In the same fashion, the capacity of the various groups to secure changes in the proposed reforms favourable to their concrete interests can be assessed. The patterns of conflict, pressure and government response, and the fate of the overall priorities and central recommendations through their various stages of formulation reveal the complex interplay and balance of forces that shaped the reform process as a whole.

Footnotes

1. Royal Commission on Taxation, Report, Ottawa, Queen's Printer, 1967, Vol 1, p4.
2. Ibid, p 1.
3. House of Commons, Debates, June 18, 1971, p 6893.
4. Ibid, p 6893.

Analytical Framework

The analytical framework for this study is set out in four preliminary chapters. The first locates this case study of the politics of tax reform within the more general analysis of the structure and functions of the modern capitalist state and the interrelation of class, power and the state. Chapter 2 identifies the major contending forces in the reform process and the social and economic interests they represented in terms of their position within the overall class system. Debate and conflict over specific issues such as tax reform cannot be understood in isolation. The third chapter consequently analyzes the routine forms of political representation of contending class interests within the state and the process of policy formation, and the established parameters and accepted assumptions within which economic and fiscal policy is developed. The fourth chapter sets tax reform within the context of the overall political economy of state finances; it examines the development of the fiscal system, tax revenue and the financing of state activity, and the structure and incidence of the existing tax system.

Chapter 1: Class Interests, the State and the Politics of Reform

I. Introduction

This chapter sets the politics of tax reform within the wider structural and historical context in which it took place and outlines the analytical principles and theoretical framework within which this study is conducted. At a general level, this is an analysis of the balance of forces that shape the role of the state and state policy formation. More specifically, this is a case study of the political conflict, debates and deliberation through the 1960's and early 1970's over the reform of a crucial and contentious component of state policy and intervention. Such an analysis must start from an understanding of the defining features of the society under study; from the fundamental fact that Canada during this period was a capitalist society with a liberal democratic political system.

The Capitalist System

Capitalism is a system of generalized commodity production, of the production of goods and services for exchange on the market, which is characterized by private ownership and control of the means of production. Through their concentrated ownership of major corporate enterprises, production is controlled by a class of capitalists and is organized for the purpose of profit maximization. Capitalists purchase and organize the various factors of production and sell the resulting goods and services.

The lack of ownership of any means of productive or other assets which can yield significant income leaves the great majority of the labour force dependent upon employment as their means of livelihood. These employees sell their capacity to work, their labour-power, in a formally free labour market as a commodity.[1]

The focus here however is not upon the capitalist mode of production in an abstract or pure sense, but upon capitalist society in Canada at a particular stage of development and with a particular range of structural characteristics. Mobilization during the Second World War and the post-war reconstruction of the economy had accelerated the long-term development of the economy and consolidated a highly advanced industrial economic structure. This advanced or monopoly stage of capitalist development is characterized by the concentration of production and dominant role within the economy of a relatively small number of large corporations, the elaboration of increasingly complex managerial hierarchies within these corporations, well developed and technologically advanced industrial production, the continuing rationalization of the labour process, the central role of state intervention throughout society, an extensive service sector, and a high aggregate standard of living.[2]

The paradox of Canadian capitalism is that while highly advanced in terms of the forces and relations of production, these developments have taken place within the overall dependence of the economy upon foreign capital and trade. Foreign ownership of the key sectors of the economy increased dramatically in the post-war period: foreign control of Canadian manufacturing industry rose from 35% in 1946 to 56% in 1957 and that of mining and smelting from 38% to 70%.[3] By the mid-1970's, 60% of the 200

largest corporations were foreign controlled and 57% of Canadian manufacturing was foreign owned, with much higher levels in the key high-technology capital-intensive industries.[4] At the same time, Canada was solidly integrated into a continental economy: 80% of foreign investment was American and 70% of trade was with the United States. The truncated branch-plant structure of Canadian manufacturing was increasingly dependent upon imported technology and vulnerable to international competition; during the 1950's and 1960's, the cumulative deficit in manufacturing trade with the United States amounted to $30 billion.[5] Canadian economic activity was also highly concentrated in the extraction and export of primary resource products and therefore highly exposed to world market fluctuations in these commodities.

The State and the Economy

A further defining feature of capitalism is the institutional separation of the political and economic spheres of society. The state is a complex system of institutions and apparatuses of political representation and intervention.[6] The interrelationship of the state and the capitalist economy is highly complicated; the functions and structure of the state are very much moulded by the imperatives and dynamics of the economy, but at the same time state intervention in the economy and other spheres plays a key role in the maintenance and reproduction of the capitalist institutional order.[7] The role of the state cannot be reduced to a simple reflection of an underlying economic order or of the functional requirements of capital accumulation. Just as for the analysis of the capitalist economy, the state and political power must be studied not at the level of an abstract mode of production, but within the historical and structural

context of concrete capitalist social formations. Canada has been no exception to the general trend of vastly expanded state intervention; long an integral factor in economic development, the role of the state has come to have a pervasive impact throughout all key spheres of social and economic life.[8]

The focus of this study is upon the balance of political forces that shape the process of state policy formation. However, the outcome of the debate, compromises and conflict between such forces is contingent upon the circumstances and context in which this struggle takes place as well as the correlation of forces. The institutional structures within which state power is exercised and political conflict centred must therefore be specified. The institutional form within which state intervention and representation in Canada operate is liberal democracy. The main features of a liberal democratic political system are the legal entitlement of citizens to participate in the determination of state policy, largely through the election of competing parties to form the government; the formal control of parliamentary or legislative bodies over the executive and administration of the state; and the institutionalization of a range of political rights and freedom of expression, speech and association. The inclusiveness of these rights and the scope of these freedoms can vary greatly historically and between different democratic countries.[9]

The structure and functions of the contemporary state are discussed more fully in the third section of this chapter. But first of all, the next section explores the ways in which the fundamental institutional order of a capitalist society shapes the structure of class and class relations. The framework within which power is analyzed is then set out in

terms of the objective class interests that arise out of this structure. The fourth section sets this particular case study of the politics of tax reform within the context of wider theoretical debates and analytical issues in the study of state power.

II. Social class, class interests and power

The institutional order of capitalist society is the basis of fundamental class divisions, antagonistic class relations and pervasive structured inequality. The crucial institutions in this regard are property, profits and markets, and together they are major factors in shaping the social arrangements of modern Canadian society.[10] As discussed earlier, one of the defining features of capitalism is the concentrated ownership and control of the major means of production by a small capitalist class. Not only is the ownership of productive economic resources highly concentrated, but all forms of wealth are unequally distributed. The lack of property of a character and amount sufficient to earn a livelihood forces the great majority of the labour force to seek employment. In this way, property is the basis of the fundamental social division between an economically powerful property-owning class and the majority of dependent employees. This institution also underlies the key social relations of production: relations of employment and control. The owners of the means of production are also major employers of labour and their decisions over the scope and nature of employment directly affect the income and material security of large numbers of dependent workers. The control exercized by capital and its managerial representatives over the organization and operation of the actual process of production is the basis of extensive alienation

and the subordinate character of much work. In these ways, inherent conflicts of interest are built into the relations of production.

The driving force of capitalist production and the guiding rationale of economic activity is profit. At a general level, it is competition between capitalists in the pursuit of profit that underlies the allocation of resources and investment within the economy. Even more fundamentally, profit is derived from surplus value created during the process of production. The accumulation of capital from this surplus value is the basic dynamic of the extended reproduction of the economy as a whole. It must be emphasized that the accumulation of capital involves permanent conflict between capital and labour to secure or transform the subordination and exploitation of the latter within the relations of production.[11]

In the capitalist economy virtually all goods and services are produced for the market and exchanged as commodities and market relations permeate practically all spheres of social life. While surplus value is created during the process of production, it can only be realized through the sale of commodities on the market. A further essential feature of capitalist society is that labour power has also become a commodity. As noted above, it is the lack of ownership of means of production or any other significant wealth that leaves large numbers of people dependent upon employment. They sell their capacity to work to an employer for a wage or salary on the labour market. While this wage-labour relation is formally free, the lack of wealth of the great majority leave them no other alternative means of livelihood. The segmented and fragmented structure of the labour market can best be seen as a hierarchy of jobs in terms of their pay, security, conditions of work and autonomy.

These fundamental institutions of capitalist society are also the basis of pervasive structured social inequality. The fact that the distribution of wealth in Canada is highly unequal has been noted earlier. A further feature of the institution of property is that its ownership entails rights to a share of resource output and societal income.[12] The great concentration of property ownership consequently yields a considerable amount of income for a relatively small group within the population. In addition, there is great disparity in pay levels and security of employment between the various job categories and occupational sectors within the labour market. The result of these two basic distributional principles of a capitalist economy, those governing income from property ownership and from employment in the labour market, is a highly unequal distribution of income overall. In addition to this inequality of condition, there is also widespread inequality of power and opportunity. The concentrated control of the major means of production and the dominant position of capital within the economic order underlie the great power of the capitalist class. Power also tends to be highly concentrated within the division of labour and hierarchy of authority of major corporate and other bureaucratic organizations. Those from more advantaged class backgrounds are much overrepresented in positions of command and authority within the key institutional orders and social mobility is generally relatively limited.

To briefly recapitulate; the basic institutional arrangements of capitalism are the prime determinants of the structure of class relations. Classes are groups of people who share a common position within the overall system of production and social division of labour. Property and property relations are particularly crucial in shaping basic class divisions. The

capitalist class own and control the major corporations that dominate the economy. The working class do not own significant property, are consequently dependent upon employment for their livelihood, and perform a range of subordinate level jobs throughout the economy. Capital and labour are linked by inherently antagonistic relations of production and employment. The class structure is far more complex than just these two basic classes. An additional middle class category is composed of those with independent means of production or livelihood, such as proprietors of farms or small businesses and autonomous professionals. While the above groups can be fairly clearly delineated in terms of economic function or relationship to the means of production, a range of further intermediate groupings are much more ambiguous. Corporate managers, for example, do not own significant capital or control the allocation of resources and they are formally employees, but they do exercise considerable control over the actual operation of the means of production and the labour of others. The next chapter will identify a number of intermediate and contradictory class locations that must be further specified in terms of relations of control within the labour process and position in the authority hierarchy and division of labour of employing organizations.[13]

Class Interests

Within this system of class relations and structured inequality, the objective interests of the various class groupings can be identified. For example, it is in the interests of the capitalist class to maximize the surplus appropriated during the process of production. This can entail a restructuring of relations of control within the labour process and an intensified exploitation of labour. Similarly, the imperative

facing capital to reduce the cost of labour as a factor of production can conflict with the interests of workers in securing satisfactory wage levels and material security. Such interests are not based solely on class relations within the system of production, but also arise from the distribution of resources and national income. Thus, it is in the interests of the wealthy and affluent strata generally defined to protect and extend their large share of total wealth and income and to sustain the institutional mechanisms that create this distribution.

The objective interests of social classes and groups are highly complex and must be analyzed as they operate within different levels and spheres. The particular interests outlined above, for example, are not confined to the economic level alone, to the organization of production and distribution narrowly defined, but arise from the overall system of class relations. The way in which class interests are represented at the political level and within the state, and the way in which the conflict of interests shapes the dynamics of politics is a major focus of subsequent chapters. A distinction must also be made between immediate and fundamental class interests.[14] The former constitute interests within a given structure of social and economic relations; for example, the conflict between employers and employees in bargaining over the level of wage payments. The latter have to do with the basic institutional foundation of the system of class relations itself; for example, it is essential for capital to maintain the institutional relationship of property and wage-labour. An additional related but not identical differentiation is that between short and long-term interests. Finally, the interests of specific groups or fractions within classes can be distinguished from those of the class

as a whole; it will be seen, for example, that the particular interests of the industrial and resource sectors as well as the general interests of Canadian capital, were important elements in the debates on tax reform. There is no assumption here of a necessary or automatic connection between the objective structure of class relations and interests, and the formation and nature of class consciousness. More specifically, the way in which the impact of policy issues such as taxation on class interests is recognized and articulated, and the manner in which this affects the political mobilization and organization of the various class groupings are not predetermined and must remain questions for empirical analysis.

Power

It is in this context of conflicting class interests and relations that the analysis of power must be set. The central questions to be addressed in this study of tax reform have been formulated in terms of the interests of the major classes and groups in the social structure and the role of organizations which represent their interests in the political sphere. The concept of power to be used in this study is based upon these analytical concerns.

The view of power to be developed here contrasts sharply with the pluralist or behaviouralist approach which has been predominant in the social sciences; this approach tends to involve some variation of "A has power over B to the extent that he can get B to do something that B would not otherwise do".[15] Such definitions have generally been based upon the conception of Max Weber that "power is the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance."[16] The possession of this attri-

bute or property is often seen by contemporary sociology as simply one independent dimension of stratification among many or as a resource which some actors have more of than others.

Defining power abstractly and individualistically in terms of A versus B or undefined social actors has a number of key weaknesses. The fact that power relations can encompass anything from interpersonal interaction to the clash of giant corporations and highly organized trade unions is unnecessarily vague. Moreover, power does not just result from the actions or behaviour of individual actors. The significance of collective action by a variety of social groups and organizations and the institutional framework which constrains the scope of individual behaviour must also be considered.[17] The pluralist perspective does not speak to a number of crucial questions: what interests drive group A to act in a certain way, what is the basis of the conflict of interests that stimulates B's opposition, what is the basis of the relative ability of the various actors to realize their will and what resources are used to overcome resistance? In short, this view abstracts the dynamics of power from the social structure in which it takes place. Power essentially involves social relationships between groups and classes and must be analyzed in terms of the concrete interests of these groups.

Power is defined here as the capacity of a social class or group to realize its objective interests. This capacity operates in the context of a system of class inequality and opposition and of political competition between various groups in the social structure. The nature and complexity of class interests has been discussed above. This concept is adapted from that of Poulantzas[18], but departs from him in two key respects.

In the first place, this definition does not accept Poulantzas' extreme structural determinism. For Poulantzas, the exercise and dynamics of power and the role of the state are determined by objective relations and structures inherent to a capitalist political economy: power "is only a concept indicating the effect of the ensemble of the structures on the relations of the practices of the various classes in conflict."[19] If such structural determination of power is rejected, then the exercise of power involves action or behaviour of groups which is not predetermined. As Lukes emphasizes, "one assumes that, although the agents operate within structurally determined limits, they none the less have a certain relative autonomy and could have acted differently."[20] The precise way in which groups do act in pursuit of their interests must therefore remain an open question and the subject of empirical study. Secondly, Poulantzas perceives power solely in terms of social classes and the realization of their interests. This conception will be broadened to include fractions and strata within the major classes and groups delineated in other than purely class terms.

The major focus for conflict and the struggle for power at the political level is the state. The key question then involves the nature of state power. Jessop provides a clear definition: "State power is a complex social relation that reflects the changing balance of social forces in a determinate conjuncture insofar as they are concerned to control, reorganize and restrict state apparatuses and state intervention."[21] In this conception the organization and activity of competing class forces is geared towards controlling the operation of the state. The focus of analysis of state power then is upon the ability of class forces to shape

state policy and intervention in order to protect and promote their concrete interests.

Power certainly does involve the ability of organized groups to determine state policy or the nature and impact of state activity. This ability can range from the extreme of control, in which a particular group can guarantee the outcome of an issue (power is virtually never so absolute or unqualified), through various levels of influence in shaping the result of the political process. Bur relations of power involve much more than the capacity to influence particular state policy or decisions, or, as in conventional definitions, the ability to do so in competition with other forces: "individuals or groups may have the effective benefits of power without needing to exercise it in positive action."[22] These complex facets of power were first explored by Bachrach and Baratz in their critique of the pluralist emphasis on observable decision making.[23] They argued that some groups are in a position from which they are able to influence the limits within which political decisions are made and determine which issues become the subject of decision at all. They introduced the concept of the "mobilization of bias"; the manner in which the predominant values, attitudes and organizational procedures in the political system tend to consistently operate in the interests of particu;ar groups or individuals. Lukes goes on to argue that the critique developed by Bachrach and Baratz or behaviouralism is too qualified on two counts; their continued focus on power as the result of concrete individual decisions (or non-decisions) and their emphasis on issues in which there is observable political conflict.[24] To the first point, Lukes notes that "the bias of the system is not sustained simply by a series of individually chosen

acts, but also, most importantly, by the socially structured and culturally patterned behaviour of groups, and practices of institutions."[25] On the second point, it should be emphasized that the operation of power is not confined solely to political issues on which there is overt competition or conflict. It has been argued that the most effective exercise of power is one which can prevent conflict from arising in the first place by securing the voluntary acquiescence of the subordinate groups.[26]

The complex and multidimensional nature of power is stressed by Westergaard and Resler: "there is power inherent in anonymous social mechanisms and assumptions - in 'social institutions' - not just in individuals and groups."[27] They further argue that the dynamics of power are shaped less by actual decisions or by the dominance of certain contending groups or policies over others than by the normal functioning of key social mechanisms. The most important of the anonymous, but pervasive institutions which play a central role in moulding the social and economic organization of capitalist society have been discussed above: property, markets and profit. For example, it will be seen that an important constraint on state intervention is the fact that the capitalist economy is organized upon the principle of profit and that adequate levels of profit are the essential incentive for those who control capital to allocate the resources and make the investments upon which economic prosperity and expansion are dependent. A crucial facet of such institutional mechanisms is that their routine operation is largely taken for granted and accepted without question or challenge. To extend the above example, the need to maintain favourable general conditions for profitable business activity is a central assumption of state economic policy rather than the subject

of explicit debate.[28] This means that the response and interests of those who dominate economic activity - the capitalist class who control the major corporations - are regularly taken into account in state policy formation. The analysis of power, therefore, must also consider the nature of the framework, parameters and assumptions within which the political system in general and specific areas of state policy and decision making operate. If the context within which these processes take place tends to consistently favour the interests of a particular group, then this is an important element of that group's power.

Finally, the significance of power in the dynamics of society involves both its cause and effect. It is very difficult to separate these two intertwined elements in concrete terms; the central product of the continued concentration of power is the persistence of class inequality. In this sense, "power is visible only through its consequences: they are the first and the final proof of the existence of power".[29] In terms of this study, the maintenance of a fiscal system in which the incidence and composition of taxation is of consistent benefit to the most wealthy and powerful groups within the social structure is a significant indication of their power.

III. The Capitalist State: Structure, Functions and Policy Formation

The analysis of the politics of reform must begin from a clear understanding of the nature and role of the contemporary capitalist state. The state will first be defined and its institutional components outlined. They key functions that state intervention plays in the overall reproduction of the capitalist system are then outlined. Finally, the political representation of class interests within the state and the processes of state policy formation is examined.

As noted in the first section, the state "is a set of institutions and apparatuses of political representation and intervention."[30] A number of qualifications to this basic definition are necessary. The state is not a monolithic or totally unified entity: the institutional definition adopted here enables the internal organization of the state to be identified and changes within the state apparatuses to be specified. This view also allows for the possibility of divisions and conflict within the state system. Nor can the state be seen as an originating and autonomous subject which has a will of its own and which exercises power in its own right: this would remove the operation of the state from any constraints imposed by the fundamental institutional structure of capitalist society. This conception would also isolate the state from political conflict within society; as Jessop notes, "to treat the state as a real (as opposed to legal) subject is to exclude from consideration political struggles within and between state apparatuses as well as the effect of its institutional structure on political struggles in general."[31] At the opposite extreme, the state must not be seen as having an essential and inevitable capitalist character: the way in which the state reflects the wider institutional order of capitalism and the role it plays within this system are not totally predetermined. The state must certainly be analyzed as part of capitalist society, but this does not mean that nature of the state can be automatically derived from the nature of the capitalist mode of production or that the role of the state can be reduced solely to a reflection of the functional demands of capital accumulation. It will be argued below that the state plays a central role in the reproduction of the institutional order and social and economic relations of capitalist society. The form in which

this is organized and indeed how successfully it is accomplished are historical questions and do not follow inexorably from the structure of the capitalist political economy.

The Structure of the State

The most influential categorization of the institutions and apparatuses that comprise the modern state has been developed by Ralph Miliband.[32] He delineates six key sets of institutions within the state system: legislative assemblies or parliament; the government of the day (in the Canadian system, it is the cabinet drawn from the party that commands the support of parliament that is formally invested with state power); the state bureaucracy or administration; judiciary; the policy and military forces that comprise the coercive or repressive apparatuses of the state; and sub-central levels of government and other state institutions (the provincial states have long been particularly important in the Canadian political economy). Within these institutions, state power in a liberal democratic system is firmly centred in the elected government:

> Party government refers to a situation where the tasks of government, as the focus of activities of the state, are undertaken by political parties which have succeeded in an electoral conflict. It is not that the government is the most important part of the state system, or that in all circumstances it dominates the rest of the state system, but that the actions of the state are expressed, either in action or inaction, through the policies proposed and implemented by governments.[33]

The state system must be distinguished from a range of institutions, such as political parties, corporate, professional and labour organizations; the mass media, and pressure groups, which operate within the political sphere, but that are not organizationally part of the state apparatus and while certainly influenced by the state, they enjoy considerable autonomy from its

direct control in a liberal democratic political system.[34] A useful general guide for the delineation of the state is the legal distinction between the public and private sectors.[36]

The institutional definition adapted here allows flexibility in determining the components and boundaries of the state system. By contrast, any assumption that the state is endowed with some form of essential unity and consequently with fixed and unambiguous boundaries cannot take account of the complexity of state power. For example, there are a considerable range of semi-independent bodies, such as crown corporations, regulatory agencies, task forces and royal commissions, which are formally part of the state, but which have significant degrees of autonomy and discretion in their actual operations. Trends towards corporatist representation in the exercise of state power highlight the ambiguous institutional boundaries of the state. Powerful organizations from the private sector, such as the Canadian Manufacturers' Association and Canadian Chamber of Commerce, increasingly take part directly in the deliberations and management of various departments and agencies within the state. This means that while the key institutions within the state must be specified for analytical purposes, these distinctions are inevitably somewhat arbitrary. The complicated institutional structure of the state must always be taken into account: "whatever one's choice of definition, it is essential to consider the complex forms of articulation among state institutions and between state and non-state institutions in the overall reproduction of capital accumulation and political domination."[36]

The rejection of any conception of the state as being inherently monolithic or perfectly unified allows the importance of internal divisions, tensions and conflict within the state to be analyzed. Power is not distri-

buted evenly or permanently throughout the various institutions of the state.[37] One of the most important trends in this regard has been the centralization of power within the executive apparatus (essentially the Prime Minister, the policy planners and advisers in the Prime Minister's Office and the Privy Council Office, the cabinet, and senior officials at the federal level) at the expense of parliament.[38] As a highly complex set of institutions, the state can develop pressing organizational requirements and bureaucratic momentum. It will be seen, for example, than an important and continual constraint in the debates on tax reform was the pressing need of the state for sufficient revenue to finance its increasing expenditures. The various state institutions and apparatuses also can develop specific organizational priorities, interests and impetus. While they are certainly interdependent and a great deal of explicit coordination does take place, there can be important differences of perspective and strategy in the development of policy within the state system. There can also be important internal conflicts of interest as particular departments and agencies compete to guard or enhance their specific objectives, perogatives and areas of operation, and to protect their position in the allocation of available fiscal resources. An example of the latter is the perennial conflict between the major spending departments, such as those concerned with health and welfare, and those agencies that control the state's budgetary processes, such as the Department of Finance and Treasury Board.

Among the most important areas of tension and conflict within the Canadian state system in the modern period has been that of federal-provincial relations. While there has been an increasing amount of institutionalized intergovernmental coordination, there has also been considerable

and continuing conflict over a wide range of social and economic policy, the distribution of fiscal resources and the constitutional division of power.[39] It will be seen that federal-provincial conflict over taxation and fiscal policy, greatly exacerbated by the regional structure of the Canadian economy, was a crucial factor in the debates over tax reform. The significance of these elaborations is that the structure and interrelationship of the complex of institutions that comprise the state are themselves important factors in the dynamics of political conflict and policy formation. A range of conflicts and tensions within and between state apparatuses, different and at times competing paradigms and priorities of the various centres of policy-making, and organizational imperatives and requirements within the state system must be analyzed. Craven summarizes this conception of the state as "a complex of institutions across which state power is distributed in a relatively flexible way and which may develop internally compelling vested interests and imperatives of their own."[40] This means that state power is shaped not only by the balance of political forces acting upon the state, but also by the articulation of the major institutions within the state and political system.

The State and the Reproduction of Capitalism

Like any other mode of production, capitalist society is based upon production and for this to continue indefinitely the general conditions of production must be constantly renewed and extended. Capitalism must therefore have institutional mechanisms for reproducing the forces and relations of production. The contemporary state plays a vital part in these processes.[41] The means of production are replenished and expanded primarily through the economic system; through the accumulation of

capital.[42] One of the primary thrusts of state activity is to facilitate and ensure a favourable overall environment for capital accumulation. More generally, the legal and juridicial systems of the state serve to guarantee and rationalize such fundamental elements of the capitalist institutional order as property, relations of wage-labour, the appropriation of surplus value, profit, the labour market and market relations in general. A further major element of the forces of production is labour power; a wide range of state policy on education, health and family support is concerned with the provision of a trained and productive labour force. The social relations of production, relations which are inherently antagonistic and unequal, must also be reproduced; this is the focus of extensive state intervention designed to foster political and ideological consensus, maintain order and stability, and accommodate conflict. Through means such as these, the state serves to reproduce not just antagonistic relations of production, but relations of class domination in their widest sense.[43]

The basic functions of the capitalist state will be delineated and categorized in terms of these processes of reproduction. The concept of reproduction is a useful means of analyzing the role of the state, but it must not be used in a rigid or deterministic fashion. The general functional requirements of the capitalist system are not the only force shaping state activity nor is the link between these wider structural imperatives and state policy automatic or inevitable. Within these qualifications, the functions of the state will be examined. The first, the accumulation function, has to do with maintaining necessary and favourable conditions for the accumulation of capital. The second, the accommodation function, is concerned with the limitation and control of social conflict and the main-

tenance of political stability and order. The role of the state in this area is often separated into two specific components: legitimation is geared to fostering political and ideological consensus and coercion involves the use of the repressive apparatuses of the state, the police and military, to ensure law and order.[44]

The Functions of the State

The accumulation function involves a wide range of state policies and programmes designed to sustain a favourable overall economic environment for the profitable accumulation of capital. The state has played a crucial role in the economy from the very beginning of capitalist development in Canada.[45] This has included providing or heavily subsidizing necessary economic infrastructure, especially in transportation and communications, for staple exports and the expansion of markets and trade relations. A crucial element of Confederation was the establishment of a unified political entity for national economic growth. The National Policy of the late nineteenth century subsidized this objective by stimulating central Canadian manufacturing industries and integrating the western hinterland into the national economy. There has been a qualitative expansion in the nature and scope of state economic intervention in the contemporary stage of capitalist development; the role of the state in relation to capital accumulation has shifted from being basically facilitative to being increasingly supportive and directive.[46] The significance of state support of accumulation during the period under study here is illustrated by the fact that from 1965 to 1972 federal government direct grants and incentives to industry totalled $3.5 billion plus a further amount of approximately twice as much in tax concessions.[47] In addition, state fiscal and monetary policy

and regulatory activity increasingly attempt to guide the direction and tempo of economic development.

The second basic thrust of state activity is geared towards creating and maintaining conditions conducive to social stability and political order. State efforts of legitimation seek to foster political and ideological consensus and secure popular allegiance towards the existing institutional order. This activity has historically taken the form of judicious reform; such as the range of social and economic reforms initiated by the state during the 1930's and 1940's.[48] Unemployment insurance and other forms of social security sought to ameliorate the harsher aspects of the capitalist economy and labour market. Their underlying goal was to forestall potential conflict that could arise from the deteriorating material conditions faced by large numbers of people. Equally importantly, these policies were a response to pressure from labour and farmer organizations and leftist and social democratic political groups. These concessions were designed to inhibit more militant opposition emerging within the subordinate classes. At an ideological level, such state reforms contribute to the overall legitimacy of the capitalist system by portraying its inequalities as being capable of correction within the existing order rather than as being inherent and inevitable. Such social intervention has evolved into relatively elaborate state support of minimum standards of living among the population. The role of the state in areas such as education, cultural support and public relations and information (which in the contemporary period takes the form of massive government advertising) and of institutions such as the mass media, centrist and conservative political parties, and religion all serve to shape a political culture that is broadly supportive of existing institutional arrangements.[49]

The two functions of accumulation and legitimation should not be seen as exhaustive or precise; rather they are a means of categorizing a wide range of state activity and of relating it to the overall reproduction of the institutional order of capitalist society. A further major category of state activity is "the use by the state of its monopoly over the legitimate use of force to maintain or impose social order."[50] Police and military forces, for example, have played a major part in the control of labour conflict throughout the history of Canadian capitalism.[51] Coercion and legitimation, however, should not be seen as separate functions. Rather they are interdependent mechanisms and components of state intervention directed towards the same goal: the accommodation of conflict. This state activity can only be understood in relation to the pervasive class inequality and antagonistic class relationships of capitalist society: "the intervention of the state is always and necessarily partisan: as a class state, it intervenes for the purpose of maintaining the existing system of domination, even where it intervenes to mitigate the harshness of that system of domination."[52]

An additional function of the state is often identified: defined by Miliband as "the advancement, so far as possible, of what is held to be the 'national interest' in relation to external affairs - the international function"[53] and by Altaver as "safeguarding the existence and expansion of total national capital on the capitalist world market."[54] The role of the state in this regard can involve the promotion of exports, negotiations on trade and the movement of capital, and diplomatic relations between national states. While there was some discussion of international tax treaties, such factors were of relatively little direct relevance

in the deliberations on tax reform. The repressive apparatuses of the state also had little direct impact on the process of tax reform. It was state intervention in relation to capital accumulation and the maintenance of political consensus and stability that was of greatest significance in setting the context within which the conflict and debate over the reformulation of the tax structure took place.

The Welfare State

The modern form in which the functions of accumulation and accommodation operate is the Keynesian welfare state. The qualitative expansion of state economic intervention in the modern period has been noted above. After the Second World War, state economic intervention became orientated not simply towards the accumulation of capital and economic growth, but also to ensuring full employment. The underlying premises of Keynesian economic policy were fundamentally political: the creation of full employment was explicitly designed to prevent class conflict that could arise from the return of high unemployment and poor economic conditions (as had been the case after World War I) and the achievement of general prosperity was seen to be crucial to the political incorporation of labour and the maintenance of stability.[55] In addition, state activity in areas such as health, welfare and education provide a range of universal social services and a variety of income security programmes guarantee a minimum standard of living for all citizens. Expanded intervention in these areas was reflected in growing state expenditure on social services in the post-war period. All advanced capitalist countries had similar trends of rising state expenditure as a share of total Gross National Product and rising social expenditure as a proportion of total state spending. In the early

1970's, state expenditure on income maintenance, health and education in the Organization for Economic Cooperation and Development countries averaged 18.1% of Gross Domestic Product. Although the level and composition of social expenditure varied from country to country, Canada was no exception to this general pattern; spending in these areas constituted 20.4% of G.D.P.[56]

Ian Gough has argued that these activities of the modern welfare state serve to modify and ensure the reproduction of labour power and the maintenance of the non-working population. While the functional requirement of the capitalist economy for the requisite labour force is an important factor, such imperatives are mediated through the structure of the state and the actual development of the welfare state is shaped by a wide range of other political forces.[57] The maintenance of adequate levels of prosperity and employment is a crucial underpinning of political consensus. In addition, the particular shape and evolution of social policy has developed in response to political conflict and organized pressure from labour and other groups. In such ways, the various programmes of the welfare state support the legitimacy of the overall institutional order: through its willingness to initiate social reforms the state appears responsive to public demands and the overall capitalist system appears to be one in which inequalities can be corrected and the interests of all groups can be harmoniously and fairly reconciled. The development of the welfare state has involved not just a range of specific policies and programmes, but also the elaboration of a guiding ideological perspective. This entails a commitment by the state to redress pressing social problems, ameliorate the inadequate material conditions of the poorer strata of the

population and reduce overall social inequality.[58] This is reinforced by the general ideology of liberal democracy with its emphasis upon fairness and equity as central values of the political system. While such progressive ideology reinforces the legitimacy of the state, it can also become an important constraint upon policy formation, as will be clearly seen in the case of taxation.

Beyond the formal equality, political rights and universal services enjoyed by all citizens, the welfare state is inextricably entangled in the class contradictions that so fundamentally divide capitalist society. In providing social services the welfare state also enmeshes its clients in a tight web of bureaucratic and administrative control.[59] The assumptions and operation of state programmes do not recognize social problems as structurally based, but deal with their impact only on an individual level. Thus the unemployed, ill or elderly take their particular problems to particular agencies of the state. People must deal with the state as fragmented individuals rather than as members of groups sharing common problems and/or interests.[60] More specifically, it has been emphasized here that the development of the welfare state has been clearly related to class conflict. On the one hand, its development has been greatly shaped by political conflict, by the pressure and demands of contending class forces. On the other hand, reformist social and economic policy contributes to the overall legitimacy of the state and capitalist system and can consequently help to contain and accommodate potential opposition. It is in these ways that the welfare state contributes to the reproduction of the social relations of capitalist society.

Interrelation of State Functions

The two basic state functions of accumulation and accommodation are clearly interdependent. Political stability is a prerequisite of the long-term investment and planning necessary for the continued accumulation of capital. Similarly, sustained economic growth is a very important factor in the promotion of political consensus and the avoidance of conflict. But there are also endemic tensions between these two functions. State policy designed to maximize capital accumulation could facilitate the increased exploitation and subordination of labour which could in turn lead to heightened conflict. For example, state efforts to regulate the labour market and industrial relations to enhance accumulation could meet with strong opposition from organized labour.[61] The wage and price controls of the 1970's, primarily designed to shift the distribution of the national income to the benefit of capital and to redress the strong bargaining position enjoyed by labour through a period of relatively full employment, certainly did threaten the incorporation of labour into the existing structure of pwer.[62] Conversely, reforms which sought to significantly redistribute income and wealth and which touched upon the rights of property ownership could threaten the incentives and principles upon which investment and accumulation are based, or at least be perceived as such a threat by property owners. The tension between these functions is reflected in conflict over priorities in the formulation of state policy; for example, competing goals of economic policy are the maximization of aggregate economic growth and the redistribution of the national income in a more equitable fashion. In addition, responsibility for these functional areas is

not distributed evenly across the various institutions of the state; witness the very different spheres of operation of those departments concerned with labour, health and welfare versus those involved with industry, trade and economic development. This is an important factor in the development of distinct and occasionally conflicting organizational imperatives and policy perspectives of individual department and agencies and of the relative independence of these specific bodies within the overall state system.[63]

Such conflict between competing priorities reflects the great complexity of state policy formation. One final qualification on the role of the state in this regard is necessary. While state policy may be directed towards such goals as accumulation and accommodation, its actual impact is by no means inevitable or totally predictable. A fundamental rationale of state activity, for example, is the maintenance of satisfactory levels of economic growth, both to foster the accumulation of capital and to underpin political consensus, but the success of state efforts in these areas and the actual course of economic development are governed by a range of national and international factors beyond its control. This illustrates again that state policy and action cannot be simply derived from the functional requirements of a capitalist economy; requirements, which in addition to everything else, are imperfectly understood by corporate and state administrators. How well these structural imperatives are articulated; how well this is translated into achievable policy, which has to do also with both the competence and organization of the state apparatus and the political viability of the policy options; and how effective the

resulting programmes are in practice; are all open questions.[64] In addition, there can be considerable divergence between the stated goals of government policy, which must be geared towards securing popular support and electoral advantage and to prevailing ideological perspectives, and the realizable and concrete effect of the policy.[65]

In conclusion, the key functions of the state play a vital role in the operation and reproduction of the capitalist system. But the actual development and impact of state intervention depends upon a range of other factors, including especially the balance of class forces.[66] To understand this balance of forces and the way in which it shapes state activity, the representation of class and other interests within the state and political system must be analyzed.

The State and the Representation of Class Interests[67]

It has been emphasized that the complex of state institutions provide not only means of intervention but also of political representation. Given the great impact of state intervention on virtually all sectors of society, there must be mechanisms whereby affected groups can take part in state policy formation. If the legitimacy and equity of the state and state intervention are to be accepted there must be means whereby its effect on group and class interests can be negotiated. More specifically, class interests are not confined solely to relations of production and the economic order, but also shape struggle between contending groups and interests at the political level. It is largely within the state that this political struggle of competing social and economic interests is centred.

Such political conflict can take place within the capitalist class. Economic competition between sectors of capital and their general subordination to market forces ensure that the most pressing imperatives upon individual capitalists are those of profitability and accumulation defined at a particularistic and immediate level. This makes it very difficult to articulate and organize the general interests of capital as a whole. The state has come to play a crucial role as a forum within which the general and long-term interests of capital and capital accumulation can be formulated and the interests of specific capitals can be reconciled.[68] This mediation and compromise can be recognized even against the hesitation and occasionally explicit opposition of specific groups and fractions within capital. An important precondition of this role of the state is its relative autonomy from the control of any particular class grouping. This role of the state in securing the general interests of capital is not predetermined or automatic; competition between political organizations representing different sectors of capital can have great influence in the actual development of state policy.[69]

Conflict between classes, especially that between labour and capital in advanced capitalist societies, is also reflected at the political level and within the state. It has been emphasized that much state intervention is geared to the maintenance of political consensus and order and the accommodation and containment of such conflict. Part of this effort also includes the representation of competing class interests within the state in order that contending policy demands can be negotiated and mediated and that immediate conflicts can be reconciled without serious threat to the

stability and survival of the existing institutional order. Some degree of representation of competing class interests and of state responsiveness to their demands is vital if the state is to forge popular allegiance to its policies and activity and belief in its role as guarantor of the public interest. It is in this sense that the state must address the concerns and interests of all classes, including subordinate classes. Here again, the relative autonomy of the state is crucial; for example, it may be essential for the state to speak to the demands of organized labour in order to facilitate the latter's political incorporation, but this can engender considerable business opposition.[70] In these ways, class conflict, both within and between classes, underlies the structure of representation within the state.

If the discussion to this point has indicated why class forces are represented within the contemporary state system, it must still be seen how this is accomplished. Hindess argues that there are three distinct aspects of representation: "the content of what is represented - class interests and the conflicts between them; the means of representation - political apparatuses and institutions, etc., and the representation itself - the practices of definite political forces."[71] As to the content of representation, there is no assumption here that the various class and social groupings have a perfect understanding of their objective interests or of how to pursue them in the political sphere. Nor is it assumed that the representatives of particular groups perfectly reflect the perspectives and interests of the groups in question: "'representation' is not an expressive relationship in which representer and represented are related in a manner

that guarantees the accurate representation of the views or interests of the represented."[72]

The means of representation-political organizations and the institutions of the state-must be understood in the context of the liberal democratic political system. The formal representation of interests within the democratic state takes place through party competition and the participation of all citizens in electing the government. The mediation of contending interests takes place through electoral competition and through negotiations and compromises in the legislature between representatives of the different interests. Thus, the New Democratic Party, closely linked with labour organizationally and seeing itself as the representative of the less privileged groups more generally, can press the government to adopt socially progressive policy. By contrast, the Liberal and Progressive Conservative parties are closely related to business and tend to reflect its general perspective. But such parties must also be sensitive to their electoral constituency, to the groups who vote for them. In the context of competitive party democracy, all parties must appear responsive to the concerns and interests of the public at large.[73] Such democratic representation is also of great importance ideologically: the formal equality and rights of participation of all citizens obscure more fundamental structured social and economic inequality and the apparent role of the state as the guardian of the public interest obscures its significance as an institution of political domination.[74] In fact, the actual representation of competing class interests is far more limited than formal democratic institutions would suggest.

In the first place, political representation is greatly influenced by the basic nature of the state. As Jessop argues: "even though the state has been defined in institutional terms rather than as a subject capable of exercising power, this should not be interpreted as an argument that the state is a neutral instrument that can be used with equal facility and equal effectiveness by all classes and social forces regardless of their location in the social formation or their political goals. For the institutional structure of the state has unequal and asymmetrical effects on the ability of different social forces to realize their interests through political struggle."[75] It is in these terms that the state must be seen as a system of political domination, as institutions that serve to reinforce and reproduce existing structures of power and class domination, rather than as the neutral agency emphasized by pluralist and liberal political science. In addition, the forms of political representation have been much affected by developments within the structure of the state; especially the centralization of power within the executive apparatuses at the expense of parliament and the emerging trend of corporatist modes of representation.

The actual processes and dynamics of representation within the state and political conflict are highly complex. It has been emphasized here that there is no automatic or deterministic connection between class and other social and economic interests and political representation. How the various classes and other groups are constituted and organized as political forces, and how influential and effective their representation within the state is, are very much open questions. However, it is very

clear that it is the capitalist class that constitutes the dominant organized political force within the structure of power in Canada.[76] During the period of this study, the corporate sector provided the bulk of the financing of the major political parties and was closely linked to their leadership. There was extensive routine contact between state officials and representatives of individual firms or business associations. This highly organized corporate lobby could exert massive pressure on the government over particular issues. There was also increasing direct participation of corporate representatives in state policy deliberations and administration in a variety of bodies such as the Economic Council of Canada and departmental advisory committees. As well as this direct organization of capital as an interest group there are important structural constraints, such as the need to maintain business confidence in order to induce the investment essential to sustained economic growth, from both within the state and the wider economic order of capitalism, that ensure that capitalist interests are taken into account within the state.

By contrast, the representation of other class interests within the state is highly unequal. Access to seats of power within the state and participation in policy development for competing forces such as organized labour is far more limited. No other organized interest group commands the economic resources of capital, is as well connected organizationally to the major political parties and state apparatuses, and is able to exert such massive pressure upon the state. While the impact of political representation and conflict upon state policy and intervention is always the result of the balance of forces at particular conjunctures, capital is by far the most powerful political force.

State Policy Formation

The crucial question, both for the theory of the state and the concrete analysis of any issue of state policy, is the manner in which the capitalist nature of the state and the overall political domination of capital are translated into actual state policy. State policy cannot be reduced simply to a direct reflection of the institutional structure and functional demands of a capitalist economy. Similarly, the political power of capital and the representation of its interests within the state is clearly not absolute and does not determine policy output. The organized activity of a range of other classes and social categories must also be taken into account. The focus of analysis here will always be upon the balance of political forces and institutional factors that shape the development of policy.

The basic institutional structure of capitalist society and the key functions of the state discussed above are critical elements of the context for state policy formation. The analysis of tax reform will illustrate the way in which these factors influence and constrain the parameters of state policy. For example, tax reform was never contemplated that would significantly alter or challenge the underlying institutional order of the capitalist economy. The taxation of property and wealth could not be allowed to become so burdensome as to threaten traditional incentives for investment and accumulation.[77] The possibilities of tax reform were also limited by the underlying functions of the state. Whatever the nature and scope of the tax changes to be adopted, they could not be allowed to retard or distort investment or hinder the accumulation of

capital. This was the basis of perennial pressure for tax concessions and incentives to stimulate investment. On the other hand, progressive taxation had long been seen as an essential element of the modern welfare state and its political and ideological commitment to improving social equality. Tax changes could not appear to favour unduly the more privileged strata or to simply reproduce a system that was unfair. This resulted in considerable pressure for progressive reform, expecially in the context of the expanding social welfare programmes of the 1960's and the government's oftstated goal of redistributing the national income.[78] These functional imperatives were reflected in very different priorities for reform and assumptions about the nature of the tax system. Tension between these competing priorities was a crucial factor throughout the debates and deliberations on tax reform.

Within these constraints, the central focus of this study is upon the way in which class and group interests were represented within the policy process on tax reform. This analysis revolves around a number of recurring questions. First of all, how clearly and how effectively were underlying social interests represented at the political level by a variety of corporate, labour, professional and other organizations? How were these organizations and interests mobilized in the political debates and conflict over tax reform? More specifically, how were the implications of the existing tax structure and the various reform alternatives for class and group interests recognized and understood? On this basis, how then did the major organizations involved develop their policy on the direction of reform and articulate their strategy on how to pursue their interests within state

deliberations? It will be abundantly clear that there is no automatic link between objective class and group interests and the policies formulated and strategy adopted by the various representative political organizations. By what mechanisms were these policy alternatives presented to the state and what was the nature of political competition over the issue of tax reform? Finally, what was the relative influence of the key contending groups and policy perspectives; how was the elaboration of state taxation policy related to the demands and activity of the major organized interests.

In summary then, the development of state policy is shaped by the structural requirements and imperatives of a capitalist political economy as mediated by the structure of the state and its overall policy framework, and by the balance of political forces at work in particular conjunctures.[79] The precise ways in which these various factors are combined and interrelated can vary a great deal from period to period and issue to issue. This means that the dynamics of political conflict and debate over central issues of state policy is highly complicated and that its outcome is in no sense predetermined or inevitable. This speaks to the need for concrete case studies of state policy formation to capture the complexities of these processes and illustrate the wider forces at work within them.[80] The usefulness of this particular case study of the politics of tax reform is discussed in the next section.

IV. The Politics of Tax Reform as a Case Study

The preceding section has emphasized the complex of political forces and institutional factors that shape the development of state policy and intervention. A prime advantage of case studies such as this is their ability to analyze this complexity at a detailed and concrete level. But case studies have important limitations; conclusions on the politics of tax reform cannot be automatically generalized to the processes of state policy formation in general or to conflict and debate over all issues of state social and economic policy. Nor does this particular project seek to elaborate a general theory of the capitalist state. At the same time, however, case studies should not be done in isolation; their concrete focus must be used to illustrate wider facets of the state and to amplify analytical principles in these areas. This section further specifies the structure of this case study and indicates how its data and analysis are related to more general issues in the analysis of the state and political power.

Taxation and the overall fiscal system are very important elements of state economic policy and intervention and their restructuring consequently became a central political issue. This analysis focuses upon the reform of the overall federal tax system. Thus the concern here is for the development of macro policy on the basic structure and framework of taxation, not short-term or micro-level adjustments of fiscal, monetary or budgetary policy. This analysis is also confined to the federal level; federal-provincial fiscal relations were always important and the major provincial governments were prominent forces in the conflict and debate over reform, but the specific structure of provincial taxation and the contemporaneous reform efforts underway in several provinces are not examined

here. The great significance of tax reform as a policy issue lies in its close relation to the basic functions of state intervention. Fiscal and taxation policy are always central components of state economic policy; of the wide range of policies and programmes designed to establish a favourable overall economic environment and to facilitate the accumulation of capital. As a result, one of the key goals of taxation is the stimulation of economic growth. At the same time, the structure of taxation is closely related to the state's function of legitimation. Fair taxation is an important part of the whole ideology of the modern welfare state with its commitment to equity and social justice and progressive taxation is seen to be a crucial mechanism in reducing social inequality.[81]

The reformulation of such a crucial area of state policy can reveal much of the process of policy formation in general. It is important to distinguish two different levels of state policy development.[82] The first involves incremental technical or small-scale alterations to existing legislation or policy programmes. Such adjustments are very much an ongoing process within the state.[83] The second level, which consists of the development of totally new policy or, as is the case here, the large-scale reformulation or revision of existing policy is a very different matter. It can involve explicit efforts to rationalize the existing policy structure and adapt it to changing conditions or elaborate totally new policies for new situations. Such developments can set the basic framework for key areas of state policy and activity for many years to come. Given this significance, there can be considerable conflict over how best to proceed with such policy formulation and over the impact of the various

alternatives upon concrete social and economic interests.

The massive overhaul of the federal tax system attempted in the 1960's and early 1970's clearly falls within this latter category of large-scale policy reform. But there is also a second sense of state reform: the elaboration of policy and programmes designed to reduce structured inequality or ameliorate social problems. This can involve the differential allocation of state benefits, the many social security programmes of the modern welfare state, and efforts to redistribute wealth and income. Since the existing distribution of resources is so central to the material conditions of all members of society such reform necessarily becomes highly contentious. This was very clear in the case of tax reform; the various class and social groupings have very different interests in terms of the distribution of the overall tax burden and its effect on the distribution of income, and this led to the development of conflicting perspectives and strategies on the scope of tax reform.

The structure and incidence of taxation affect the economic interests of all members of society. The impact of the existing structure and of the various proposals for change on specific social classes and groups can be fairly precisely determined and their implications for class interests can be clearly identified. For example, any improvement of the overall progressiveness of the tax system would benefit low-income categories whose rate of taxation would decrease and result in a corresponding increase in the burden of more affluent taxpayers. With this identification of the implications of reform proposals for class and group interests, the relationship between these interests and the acti-

tivity and conflict of key political organizations in subsequent deliberations can then be explored. To clarify this analysis the structure and composition of taxation must be further specified. Thus, while the structure of personal income taxation affects virtually all income earners, the levels of estate and capital gains taxation are directly relevant only for those advantaged strata who own sufficient wealth for its inheritance and aggregation to be problematic. More generally, it will be seen that the taxation of income from employment and from the ownership of property is very different. In the latter case, the effect of taxation on the generation and transmission of wealth is not only crucial to the interests of the capitalist class and other wealthy strata, but is a key element of the overall process of capital accumulation, a process which is itself at the core of the growth and reproduction of a capitalist economy.

Upon the publication of the Report of the Royal Commission on Taxation in 1969, the government called for the widest possible public debate on tax reform and stressed that its conclusions would be greatly influenced by this public response. With this official encouragement and because the structure of taxation affects all social and economic interests so directly, a wide range of business, labour, professional and other organizations took part in the formal deliberations on tax reform. This makes tax reform an excellent case study of the nature and limits of public participation in state policy development and political competition over central policy issues. Within these debates, the policies, demands and perspectives on reform of major organizations

tended to be well articulated and formulated. Because these views were presented in formal briefs to the government at a number of junctures, the positions of the various competing interests can be well documented throughout this period.

Because tax reform involved such a crucial component of state social and economic policy and intervention, and the structure of taxation and the changes eventually adopted would have such a clear and signigicant impact on all class interests, tax reform provides a good case study of political representation and conflict within state policy formation. It will be seen that public participation and competition in the debates over tax reform was highly unequal. Major corporarions and industry and trade associations were the predominant force in these debates. The tax structure in general is of great significance to the corporate economy and the capitalist class. More specifically, the recommended progressive reforms were seen by business to be a severe threat to economic growth and stability and to their class interests. This led to the massive mobilization and organization of business pressure against reform proposals to which they were opposed. Tax reform therefore also illustrates corporate power in action; the capitalist class as an organized political force.

A further advantage of this study is that the outcome of the policy process can be clearly documented. As outlined in the introduction, the reform of the tax system proceeded by means of a number of separate junctures, at each of which shifts in policy can be clearly charted. These policy developments can then be analyzed in two directions. First of all, their impact on class and social interests can be evaluated; for example,

an alteration of policy that would lessen the impact of estate taxation would be of benefit to major property owners. Secondly, the evolution of government policy can be compared to the demands and perspectives of the various competing organized interests; if business had been strongly demanding the reduction of estate taxation a policy change in this direction can be taken as some indication of their influence. This division of the overall process into segmented stages through which the elaboration of reform policy can be followed, and the available documentation of the impact of taxation on class interests and of competing policy perspectives and political activity, facilitate the evaluation of the relative ability of contending groups to protect amd promote their interests during the reform process. This is a good test case then of the relative power of the major class forces within the state.

The empirical analysis of this case study can also speak to major theoretical debates within political sociology on the relationship between class, class interests and state power. Among the preeminent perspectives has been the liberal or pluralist model of politics.[84] It argues that power in contemporary society is diffused, that public policy is the result of the interplay and competition of a range of interests, and that the state is a neutral arbiter and mediator among rival groups. This study of the relation between state power and class interests and of the nature of political competition and conflict can evaluate these themes. By contrast, the elitist perspective stresses the concentration of power within the major institutional spheres and the dominant power of small groups holding positions of authority within these institutional hierarchies.[85]

The dynamics of power is greatly influenced by the interrelation and coordination of these elite categories. The development of state economic policy in this area can illustrate the institutional relationship between the state and the economy, the range of interests and imperatives that shape the policy process and the role of powerful institutional elite groups. There are also important debates within Marxian analysis of the state: the instrumentalist approach tends to emphasize direct links between the corporate sector and the state and state personnel whereas the structuralist perspective stresses the wider structural constraints and requirements imposed by a capitalist economy. This analysis will demonstrate that both types of factors are key and in fact interdependent within the balance of forces that shape the role of the contemporary state. The conclusions of this study will suggest a number of ways in which the instrumentalist and structuralist perspectives can be integrated.

V. Conclusions

The goal of this chapter has been to set out the overall analytical framework within which this study of the politics of tax reform will be conducted. A number of issues introduced here will be amplified in the next three chapters. The system of class divisions and class relations and the dimensions of structured social and economic inequality are examined next. This is a prelude to exploring the interrelationship between class and group interests, political conflict and organization, and the development of taxation policy. The political representation of key social and economic interests within the state in general and policy formation in particular is discussed in Chapter 3. The political economy of state finances and fiscal policy and the historical development of

structure of taxation prior to reform are outlined in Chapter 4.

Footnotes

1. There is an immense literature on the economic structure of contemporary capitalism: cf. Ernest Mandel, Late Capitalism, London, New Left Books, 1975; Ben Fine and Laurence Harris, Rereading Capital, New York, Columbia University Press, 1979. For useful discussions of the implications of this structure for the state and political power, see Ian Gough, The Political Economy of the Welfare State, London, Macmillan, 1979, Ch 2; Bob Jessop, "Capitalism and Democracy: The Best Possible Shell?", in Gary Littlejohn et al, (eds), Power and the State, London, Croom Helm, 1978, pp 10-51.
2. See Wallace Clement, Continental Corporate Power. Economic Elite Linkages between Canada and the United States, Toronto, McClelland and Stewart, 1977, Ch 4, esp. pp 95-6. See also Carl Cuneo, "Class Contradictions in Canada's International Setting", Canadian Review of Sociology and Anthropology, 16(1), 1979. There is considerable debate on the nature and periodization of the latest stage of capitalist development: cf. Mandel, op.cit.; Fine and Harris, op.cit., Ch 7-8.
3. Clement, op.cit., p 80.
4. Richard Starks, Industry in Decline, Toronto, James Lorimer and Co., 1978, p 70.
5. James Laxer, Canada's Economic Strategy, Toronto, McClelland and Stewart, 1981, p 120.
6. Jessop, 1978, op.cit.
7. See Laurence Harris, "The State and the Economy: Some Theoretical Problems", in Ralph Miliband and John Saville, (eds), The Socialist Register 1980, London, Merlin Press, 1980, pp 243-62; Colin Crouch, (ed), State and Economy in Contemporary Capitalism, London, Croom Helm, 1979.
8. See Leo Panitch, (ed), The Canadian State: Political Economy and Political Power, Toronto, University of Toronto Press, 1977.
9. Jessop, 1978, op.cit., pp 13-14.
10. This analysis has been most clearly outlined in John Westergaard and Henrietta Resler, Class in a Capitalist Society. A Study of Contemporary Britain, London, Heinemann, 1975. See also Westergaard's "Class, Inequality and'Corporatism'", in Alan Hunt, (ed), Class and Class Structure, London, Lawrence and Wishart, 1977, pp 165-86 and "Social Policy and Class Inequality: Some Notes on Welfare State Limits", in Ralph Miliband and John Saville, (eds), The Socialist Register 1978, London, Merlin Press, 1978, pp 71-99. Concrete data and analysis of all of these aspects of the Canadian class system will be provided in the next chapter.
11. See Jessop, 1978, op.cit., pp 10-11; Fine and Harris, op.cit.
12. Westergaard, 1978, op.cit., pp 72-4.
13. On these general issues see Erik Olin Wright, Class, Crisis and the State, London, New Left Books, 1978, Ch 2.
14. Ibid., pp 88-102.
15. This is the definition of the influential political scientist Robert Dahl, quoted in Stephen Lukes, Power: A Radical View,

London, Macmillan, 1974, p 11-12. For a useful statement of the pluralist or integrationist view of political power and its contrast to models that stress political domination and conflict see Claus Offe, "Political Authority and Class Structures", in Paul Connerton, (ed), Critical Sociology: Selected Readings, Harmondsworth, Penguin, pp 388-96.

16. The Theory of Social and Economic Organization, New York, Free Press, 1947, p 152.
17. Lukes, op.cit., p 22.
18. Nicos Poulantzas, Political Power and Social Classes, London, New Left Books, 1973, p 104ff. See also his later State, Power, Socialism, London, Verso, 1980, Introduction, Section 3, Part Two.
19. 1973, op.cit., p 101.
20. Op.cit., p 54.
21. 1978, op.cit., p 13.
22. Westergaard and Resler, op.cit., p 142.
23. "Two Faces of Power" in Charles A. McCoy and John Playford, (eds), Apolitical Politics. A Critique of Behaviouralism, New York, Thomas Crowell, 1967 and "Decisions and Nondecisions: An Analytical Framework" in Roderick Bell et al (eds), Political Power: A Reader in Theory and Research, New York, Free Press, 1969.
24. Op.cit., Ch 4.
25. Ibid., p 22.
26. D. Lockwood, "The Distribution of Power in Industrial Society - A Comment" in J. Urry and J. Wakeford, (eds), Power in Britain, London, Heinemann, 1973, pp 266-72.
27. Op.cit., p 142ff.
28. See Suzanne de Brunhoff, The State, Capital and Economic Policy, London, Pluto Press, 1978. There can be, of course, considerable debate over the best policy combination within these general parameters.
29. Westergaard and Resler, op.cit., p 141.
30. Jessop, 1978, op.cit., p 11. See also Jessop's "Corporatism, Parliamentarism and Social Democracy", in P. Schmitter and G. Lehmbruch, (eds), Trends Towards Corporatist Intermediation, London and Beverley Hills, 1979, pp 190-93 on the following issues.
31. 1978, op.cit., p 12.
32. The State in Capitalist Society, London, Weindenfeld and Nicolson, 1969, Ch 3.
33. D. McEachern, "Party Government and the Class Interests of Capital: Conflict over the Steel Industry, 1945-1970, Capital and Class, Summer 1979, p 126.
34. There was a major debate between Miliband and Nicos Poulantzas on this issue in the latter 1960's and early 1970's in New Left Review; see issues 58, 59, 82 and 95. See also Leo Panitch, "The Role and Nature of the Canadian State", in Panitch, (ed), op.cit., pp 6-7.
35. Jessop, 1978, op.cit., pp 11-12. Within this general formulation the status of particular institutions would still need to be concretely determined.
36. Jessop, 1979, op.cit., p 191.

37. For a clear discussion of these complexities of the state, see Paul Craven, 'An Impartial Umpire' Industrial Relations and the Canadian State 1900-1911, Toronto, University of Toronto Press, 1980, esp. pp 158-62.
38. Cf. Denis Olsen, The State Elite, Toronto, McClelland and Stewart, 1980, esp Ch1; Richard French, How Ottawa Decides. Planning and Industrial Policy-Making 1968-1980, Toronto, Lorimer, 1980. Jessop sees this concentration as entailing further separation of the great majority of the population from the means of political administration, which reinforces their overall political subordination; 1978, op.cit., p 35.
39. Garth Stevenson, Unfulfilled Union. Canadian Federalism and National Unity, Toronto, Gage, 1970.
40. Op.cit., p 159. These considerations must not be taken too far; as emphasized earlier, the state cannot be seen as a totally independent subject with a will of its own and exercising power in its own right. On this basis, Jessop, 1978, op.cit., pp 12-12 rejects any theoretical distinction between state and class power:

> ...although the state is not a real subject that exercises power, state power certainly exists and, indeed, constitutes the principal focus of political class struggle. State power is a complex social relation that reflects the changing balance of social forces in a determinate conjuncture insofar as they are concerned to control, reorganize and restrict state apparatuses and state intervention...This view involves a firm rejection of any attempt to differentiate between 'state power' and 'class power' either as descriptive concepts or principles of explanation. This distinction can be sustained only by treating the state itself as a subject and/or ignoring the continuing class struggle within the state as well as that outside it. One should treat state power as a complex social relation whose changing nature depends on various interrelated factors.

41. For a clear discussion of this problem see Cynthia Cockburn, The Local State: Management of Cities and People, London, Pluto Press, 1978, esp pp 52-8.
42. See Fine and Harris, op.cit., pp 120-24.
43. The role of the state in this regard serves to reproduce not just the class relations of capitalist society, but also its sexual division of labour. Given the basic focus of this study on class and class interests, this issue cannot be addressed here. But for analyses of the state and the reproduction of partriarchy and the sexual division of labour within capitalism see Michele Barrett, Women's Oppression Today, Problems in Marxist Feminist Analysis, London, Verso, 1980, Ch 7; Mary McIntosh, "The State and the Oppression of Women", in Annette Kuhn and Ann Marie Wolpe, (eds), Feminism and Materialism, London, Routledge and Kegan Paul, 1978, pp 254-89.
44. These functions were first identified by James O'Connor, The Fiscal Crisis of the State, New York, St. Martin's Press, 1973, esp Ch 3. For a clear statement see Ralph Miliband, Marxism and Politics, Oxford, Oxford University Press, 1977, p 90 and for a Canadian overview see Leo Panitch, op.cit.

45. See Panitch, (ed), op.cit., Pt. I.
46. See Dominic Strinati, "The State and Industrial Relations" in Crouch, (ed), op.cit., pp 196-201.
47. David Lewis, Louder Voices: The Corporate Welfare Bums, Toronto, James Lewis and Samuel, 1972, p 111; Ch 6 more generally.
48. See Carl Cuneo, "State Mediations of Class Contradictions in Canadian Unemployment Insurance 1930-1935", Studies in Political Economy, 3, Spring 1980, pp 37-65; Alvin Finkel, Business and Social Reform in the Thirties, Toronto, James Lorimer and Co., 1979. On the origin of state social reform more generally see Gough, op.cit., Ch 4.
49. See Miliband, 1969, op.cit., Ch 7-8 on the major institutions that create this ideological hegemony. This is an area in which the boundary between the state and political systems is ambiguous. The structuralist school includes all institutions of legitimation, both private and public, as part of the ideological state apparatuses; cf. Poulantzas, 1980, op.cit., Introduction, 2. However, the significant autonomy of private institutions such as the media from direct state control in liberal democracies makes this distinction still important.
50. Panitch, op.cit., p 8.
51. Stuart M. Jamieson, Times of Trouble: Labour Unrest and Industrial Conflict in Canada 1900-66, Task Force on Labour Relations, Study #22, Ottawa, Privy Council Office, 1968.
52. Miliband, 1977, op.cit., p 91.
53. Ibid., p 90.
54. In John Holloway and Sol Picciotto, (eds), State and Capital: A Marxist Debate, London, Edward Arnold, 1978, p 42.
55. Cf. Crouch, (ed), op.cit., Ch 1-3.
56. Gough, op.cit., 78-9. See also Keith G. Banting, The Welfare State and Canadian Federalism, Kingston and Montreal, McGill-Queen's University Press, 1982, Ch 3 on the structure of state social expenditure in Canada.
57. Gough, op.cit., pp 44-5; Ch 4.
58. Norman Ginsburg, Class, Capital and Social Policy, London, Macmillan 1979, Ch 1. On the Canadian welfare state see Allan Moscovitch and Glenn Drover, (eds), Inequality: Essays on the Political Economy of Social Welfare, Toronto, University of Toronto Press, 1981.
59. Gough, op.cit., Ch 4; London Edinburgh Weekend Return Group, A Working Group of the Conference of Socialist Economists, In and Against the State, London, Pluto Press, 1980, carry this point forward to argue for a broader conception of the state: "It is common to think of the state as being a capitalist state simply because of what it does...at least as important is how the state does things, that is the social relations embodied in the organization of the state and its activity. What makes the state a capitalist state is the way in which it is built into the whole structure of capitalist social relations...The state, then, is not just an institution. It is a form of social relations, a class practice. More precisely, it is a process which projects certain forms of organization upon our everyday activity, forms of organization which do not pose any threat to the reproduction of capitalist social relations" pp 56-7 their emphasis. This is an important elaboration on the nature of the capitalist state. However, the social relations and processes em-

bodied in the state still operate within a concrete institutional framework, and the latter must remain the starting point for analysis. The way in which the how of state activity reflects the wider structure of capitalist society and the complex of class forces within it can then be explored.

60. Ibid., p 57: "At every step our relation to the state breaks us up, pushes us into certain moulds, removes from sight all mention of class, or exploitation, or anything which might raise the question of the interrelation between our fragmented ills." They also argue that this is reflected in the structure of the state: "the processes by which the state fragments (or confirms the fragmentation of) society at large find their counterpart within the internal organization of the state apparatus itself."
61. Craven, op.cit., esp pp 160-61, analyzes this tension in the historical origin and development of the federal government's legislative and organizational framework for intervention in labour relations.
62. David Wolfe, "The state and economic policy in Canada, 1968-75" in Panitch, (ed) op.cit., pp 251-88; Harold Chorney and Phillip Hansen, "The Falling Rate of Legitimation: The Problem of the Contemporary Capitalist State in Canada," Studies in Political Economy, 4, Autumn 1980, pp 65-98.
63. Cf. Craven, op.cit., pp 160-61.
64. de Brunhoff, op.cit., Ch 4, and for Canada, French, op.cit., Ch 6.
65. See W. Irwin Gillespie, In Search of Robin Hood. The Effect of Federal Budgetary Policies During the 1970's on the Distribution of Income in Canada, Montreal, Sponsored by the Canadian Economic Policy Committee, C. D. Howe Research Institute, 1978.
66. Given all of this, how well the state actually does contribute to the reproduction of capitalism can vary considerably: "state power is capitalist to the extent that it creates, maintains, or restores the conditions required for capital accumulation in given circumstances and is noncapitalist to the extent that these conditions are not realized", Jessop, 1979, op.cit., p 191. These complexities highlight the importance of concrete case studies of the balance of forces that influence the development of state policy on specific issues.
67. This section introduces the analysis of the political representation of class and other interests within the state and relates this to other aspects of the state under discussion here. A more concrete analysis of the representation of class interests within the state and policy formation in Canada is presented in Chapter 3.
68. At a more general level, "capital logic" theories of the state argue that state intervention is necessary "because an institution that is not immediately subordinate to market forces is required to provide those general preconditions of capital accumulation as a whole that are inappropriate or impossible for any particular competing capital to secure", Bob Jessop, "Recent theories of the capitalist state", Cambridge Journal of Economics, 1, 4, 1977, p 362. Poulantzas' emphasis on the state as a factor of cohesion in capitalist society is very similar; 1973, op.cit. See Holloway and Picciotto, (eds), op.cit., for critical discussions of the capital logic school.
69. Strinati, op.cit., p 220 ff.

70. Colin Crouch, "The State, Capital and Liberal Democracy", in Crouch, (ed), op.cit., pp 13-54. Crouch argues that one of the great concerns of the capitalist class is that the representation of labour within the state will become too powerful; p 53.
71. Barry Hindess, "Classes and Politics in Marxist Theory", in G. Littlejohn et al, (eds), Power and the State, London, Croom Helm, 1978, p 96.
72. Jessop, 1978, op.cit., p 26.
73. Crouch, op.cit.
74. Jessop, 1978, op.cit., p 27ff.
75. Ibid., p 12, his emphasis.
76. Again, the following discussion is purely illustrative; these patterns will be documented in Chapter 3.
77. Westergaard, 1978, op.cit., shows the way in which such considerations limit state social and economic policy. More specifically, he demonstrates that inequality of condition is necessary to the whole structure of incentives that underlie economic behaviour and activity and that there is great pressure on state policy in areas such as taxation not to fundamentally weaken these incentives.
78. Richard W. Phidd and G. Bruce Doern, The Politics and Management of Canadian Economic Policy, Toronto, Macmillan, 1978, esp. p 53ff.
79. Gough, op.cit., Ch 6.
80. In a similar vein, Richard Scase, (ed), The State in Western Europe, London, Croom Helm, 1980, pp 15-16 has argued for "the need to move from general, formal theories of the state to more specific, empirically-related theories". He stresses the great variation in the ways in which the specific development of the forces and relations of production, the relation between capital and the state and between class struggle and the state, and the wider social, political and cultural forces of civil society have shaped the historical development of the state in the different Western European countries. It is therefore crucial to analyze the nature and development of the state in particular concrete social formations.
81. Gough, op.cit., Ch 3-4; O'Connor, op.cit., Ch 8.
82. Colin Campbell, The Canadian Senate: A Lobby From Within, Toronto, Macmillan, 1978, p 32.
83. Cf. Phidd and Doern, (eds), op.cit.; French, op.cit.
84. See Offe, op.cit., pp 389-93.
85. For useful comparisons of the pluralist, elitist and Marxian class analysis perspectives see Crouch, op.cit., and Robert R. Alford, "Paradigms of Relations Between State and Society", in Leon Lindberg et al, (eds), Stress and Contradiction in Modern Capitalism, Lexington Books, 1975, pp 145-60.

Chapter 2 Class and Class Interests in Canadian Society

I. Introduction

This chapter outlines the structure of class and class interests in Canada during the period in which the debates on tax reform took place from the early 1960's through the 1970's. The purpose here will not be to establish a static picture of the class structure at a particular point in time, but rather to examine the central patterns and developing trends within the class system throughout this period. The following discussion, however, does not attempt to provide a comprehensive analysis of the Canadian class system, but has three more limited goals. First of all, the basic class divisions and relationships within Canadian society will be outlined. This will facilitate the identification of the key "actors" in this case study; of the social and economic basis of the various groups and organizations involved in the deliberations and conflict over tax reform. Secondly, the permanent and inherent conflicts of interest within the fundamental class relationships will be detailed. Power has been defined in terms of the realization of the objective interests of social classes and groups and these interests must be identified. More generally, class interests are one of the key forces shaping political conflict and activity. Third and finally, the pervasive inequality of condition, the highly unequal distribution of wealth and income, will be documented. This allows a further specification of class and group interests vis-a-vis state fiscal policy, the tax structure and the various proposals for their

restructuring. The incidence of taxation, for example, can be related to the position of social groups within the hierarchical distribution of income.

The preceeding chapter outlined the basic framework for class analysis. Classes were defined as large groups of people who occupy common positions within the overall system of production and economic order in terms of relation to the means of production, location within the social division of labour and position within hierarchies of control within the organization of the process of production. It must also be emphasized again that class involves not just structural dimensions and positions, but also a system of social, political and economic relations between classes, of which relations of production and employment are the most crucial to the dynamics of society. The structure of economic power and the nature of the capitalist class in which dominant economic power is concentrated will be examined first. This discussion will be relatively extensive for two reasons. First of all, a clear grasp of economic power is essential to the analysis of a central question of political sociology and of this study in particular: the relationship between the state and the economy, between economic and state power. Secondly, the capitalist class was the most important organized political force in the tax reform process and it is consequently vital to understand its structure and basis. The position of small and medium business and managerial personnel within the economy is discussed in the third section. The next focuses upon the social position of professional and other middle class categories. The fifth section is concerned with the structure of the wor-

king class. The final part of this chapter synthesizes material on the fundamental class relationships and structured inequality of condition of the Canadian class system.

II. The Capitalist Class and Economic Power

Dominant Corporations and the Structure of the Economy

One of the most significant features of the structure of the Canadian economy has been the continuing concentration of production in a small number of major corporations. In 1971, 291 firms (0.125% of all firms) controlled 58% of all corporate assets and earned 39% of total profits. A small number of corporations played the predominant role in the most important sectors of the economy. In the mining industry, 34 companies (less than 1% of the total) controlled 55% of assets amd amassed 73% of profits before taxes. Eighty-three manufacturing firms (0.375% of the total) held 45.6% of assets and received 43.2% of profits before taxes.[1] Concentration was particularly marked within the most productive, technologically advanced and capital intensive industries; in 1972, the proportion of the total value of shipments accounted for by the top four enterprises in each industry was 97% in tobacco products, 96% in distilleries, 78% in iron and steel mills, 79% in smelting and refining, and 74% in petroleum refining.[2] Similar patterns were evident in the key branches of the financial sector: the five largest banks account for 93% of total banking assets and the five largest insurance companies have 63% of the assets in their field.[3] The concentration of production in these major corporations has tended to increase in the period from the end of World War II to 1965.[4] Later data indicate a continuation of these trends: the largest 100 enterprises accounted for 45.2%

of the total value of manufacturing shipments in 1965 and 47.0% in 1972.[5] Collectively, it is this small group of large corporations that dominate the Canadian economy.

On the basis of patterns of concentration of assets and sales, Clement identified 113 major corporations which dominate the vital sectors of the Canadian economy. For example, corporations designated as dominant controlled 90% of assets in the banking sector, 86% in life insurance, 90% in transportation, 56% in metal mining and well over 50% in most manufacturing industries. Continuing mergers and acquisitions had resulted in the increasing consolidation of the group of dominant corporations in comparison to Porter's similar study for the early 1950's.[6] The small number of dominant corporations that controlled the bulk of economic activity in key sectors, were able to decisively influence their markets, output and prices, and shaped the overall tempo of economic development. These corporations were not only large, but also vertically integrated, diversified and multinational in operations and investment. Extensive patterns of intercorporate ownership further heightened the concentrated character of the Canadian economy. Clement's listing of the dominant corporations in Canada contains numerous major enterprises that were partially owned or controlled by other dominant corporations.[7] Key examples of this are the powerful conglomerates that control important corporations operating in diverse sections of the economy: among the most important such firms controlled by Power Corporation in the early 1970's were Consolidated-Bathurst, Canada Steamship Lines, Imperial and Great-West Life insurance companies, Laurentide Financial Corporation, Montreal Trust, the Investors Group and various media companies;[8] as well as its

transportation interests, Canadian Pacific controlled Cominco and other mining operations, Algoma Steel, pulp and paper production, property development and a valuable investment portfolio in other major companies;[9] and Argus Corporation controlled "industrial and commercial assets worth $2 billion, including Dominion Stores, Massey-Ferguson, Hollinger Mines, Domtar and Standard Broadcasting."[10] In addition, several major Canadian corporations may be the subsidiaries of a single multinational corporation.[11] As a result of these patterns, the small number of dominant corporations actually constituted even fewer centres of decisive power. As will be discussed below, these corporations were also extensively interconnected by patterns of interlocking directorates and other institutional relationships. It is this small number of large corporations that are the decisive units of production in the Canadian economy. It is upon control of these major institutions that economic power is based.[12]

Capital and the Structure of Control

The ownership and control of the crucial economic institutions were highly concentrated. In 1968, the top 1% of all income earners owned 42% of all shares and the top 10% held 72%. (See Table 2-1) Within this group, a wealthy core of prominent individuals and families have immense holdings: "1311 wealthy individuals owned among them $1,156,540,000 in shares, or about 9% of all shares held in Canada."[13] Other forms of corporate wealth, such as bonds, preferred shares and debentures, show similar patterns of distribution: in 1970 the wealthiest 10% of families owned 69.1% of all financial assets such as deposits, cash, bonds, stocks and mortages.(See Table 2-2)[14] Newman details the fortunes of these strata

in the 1970's: he identified 19 family groups or men with assets of $100 million or more, 29 worth at least $50 million and over 100 individuals or families who owned at least $20 million. The consolidation of this ownership in large blocs of shares, holding and investment companies, family trusts and foundations not only camouflage its extent, but allows the easy organization of this capital for purposes of control.[15] The highly concentrated ownership of the small class of wealthy capitalists is sufficient to ensure control of the major corporations.[16]

Representing the groups that own decisive holdings in the dominant corporations and controlling the overall operations of these corporations are their boards of directors. The directors play a number of important roles in corporate affairs: they may be significant shareholders[17] or senior executives of the firm, they can represent the interests of major owners and they connect the corporation to other key enterprises. It is in the boards of directors that major corporate policy is developed, financing arranged, key decisions made, managerial administration supervised and the parameters within which the corporation operates are determined.[18] Collectively the directors of the major corporations yield enormous power in the Canadian economy.[19] Clement designated all those individuals who were directors of the corporations which he listed as dominant as members of the corporate elite: in 1972, this elite was comprised of 946 individuals resident in Canada who held 1454 directorates in the dominant corporations.[20] Clement goes on to define this corporate elite as "the most powerful fraction of the capitalist class; it is the groups who own, control and manage the <u>largest</u> corporations in Canada."[21] A positi-

onal elite such as that delineated by Clement must not, however, be seen as a specific class fraction, but rather as an empirical category.[22] This category can be seen as the operating arm of the capitalist class who hold controlling ownership of the major corporations.[23] But this elite category also includes directors who are senior executives or advisers, especially lawyers, and who do not have significant ownership in their own right. Available evidence supports the assumption that this category is representative of the key social and institutional characteristics of the highest levels of the capitalist class in Canada.

The actual structure of corporate power is even more highly concentrated. The central position and immense power of a small group of top directors centred on the major financial institutions has been consistently noted.[24] Newman argued that the directors of the largest banks are the predominant power in the economy.[25] Clement's analysis of the corporate elite confirms these patterns. Following a long tradition of Canadian social analysis, he delineated the one hundred most powerful individuals (about 10% of the total), defined in terms of key executive positions in the most significant corporations and the number of dominant directorates held, who accounted for 342 directorated in dominant corporations (24% of the total held by Canadian residents) and 28% and 25% respectively of the bank and insurance company directorships. Within the corporate elite, 267 men (34.5% of those resident in Canada) each held directorships in more than one dominant corporation and "in 1972, account for 53.8% of all dominant directorships held by Canadian residents, 58.6% of all insurance directorships included and 68.3% of the directorships in the five key banks." The number and scope of positions held by these

multiple directorship holders had increased in comparison with a similar group examined by Porter in 1951. There is considerable overlap between these two categories and the resulting group of 282 individuals represents a tremendous concentration of power. The large number of directorships held by this select group provides them with extensive contacts throughout the corporate world and reflects their recognition as men of power and substance by other corporate leaders.[26] This data clearly outlines the small but extremely powerful core group within the capitalist class centred upon the major financial institutions. The power of this group rests upon their control of the largest sources of allocative capital and their central position in the intricate web of interconnections that bind together the corporate economy. In exercising its power, the core group plays a critical role in shaping the direction of the Canadian economy.

Institutional Integration of the Corporate Economy

The structure of economic power is highly interconnected. A complex and extensive web of interlocking directorships links major corporations from the various sectors of the economy. Clement emphasizes the importance of these bonds as "concrete expressions of social and economic networks, indicating common commitments and shared relationships."[27] These connections are extremely pervasive among the most important corporations from all branches of the economy: in 1972, Clement found 1848 interlocking directorates between the 113 dominant corporations and widespread ties between these enterprises and other prominent corporations from less concentrated sectors. However, the densest interlocking occurs among the major sources of capital, the dominant banks and insurance companies. These institutions are closely interlocked and are the nucleus of intricate pat-

terns of interconnection between the financial and other sectors. This reflects a stable and reciprocal relationship with their corporate clients; access to capital is facilitated for the large corporations and substantial business is ensured for the financial institutions.[28] Closely interlocked with the leading financial companies are the most prominent Canadian - controlled corporations from other fields. These closely related industrial and financial corporations are the central institutions of Canadian capital and the tightly interconnected group that control them are the powerful core of the Canadian capitalist class discussed above. The historical continuity and stability of Canadian capital has been based upon the control of these core institutions.[29] The major Canadian controlled corporations, industrial and especially financial, are also extensively interlocked with foreign controlled corporations. The structure of interconnection between the major corporations has become more pronounced since 1951; interlocking directorates between the banks and insurance companies, and between the financial institutions and other dominant corporations have become more extensive.[30] Other institutional relationships, such as joint ventures, formal understandings between firms on the division of markets and production levels and intercorporate ownership, reinforce the dense pattern of interlocking directorates.

A variety of crucial industry and trade associations bring together leading representatives of the most powerful corporations. General organizations such as the Canadian Chamber of Commerce and local or regional chambers or boards of trade claim to speak for the business community as a whole. The Canadian Manufacturers' Association draws its membership from all branches of secondary industry. There are also a large number of

bodies such as the Canadian Bankers' Association and the Canadian Petroleum Association which represent specific sectors of production and circulation. Such organizations are very important in developing common policy among the major enterprises in the leading industrial sectors and in representing the industry in the political sphere. Influential members of the business community also participate in a number of policy-making institutions; preeminent during this period was the Private Planning Association of Canada and its specialized sub-committees. The P.P.A.C., Conference Board and similar organizations carry out research and analysis of central political and economic problems. They provide forums where corporate leaders can discuss important policy issues. The deliberations and conclusions of these corporate policy-making bodies have great influence in government circles.

The significance of the industry and trade associations and policy making institutions discussed here is that the major corporations and the class who own and control them are highly organized. The next chapter will explore the links between the capitalist class and the various corporate organizations and the state. More specifically, it will be seen that organizations such as those noted above were influential in representing corporate interests in the debate on tax reform. The predominant role that corporate forces come to play in the process of tax reform was facilitated by the highly organized character of the structure of economic power.

The more extensive interlocking within the major Canadian corporations and the increased importance of those who hold directorates in more than one dominant corporation indicates that the structure of control had

become even more highly interconnected. The increasing concentration of production and ongoing mergers and acquisitions among the major corporations discussed earlier also represented a further consolidation of the concentrated power of the top capitalists who control the dominant corporations. This institutional integration is both reflected and reinforced by important social characteristics of the capitalist class.

The Social Integration of the Capitalist Class

In all respects, the wealthiest and most powerful strata of the capitalist class constituted an extremely homogeneous social group. The first dimension in which the social character of the capitalist class can be examined is the class origin of those holding key corporate positions. Clement's analysis of the economic elite demonstrates conclusively that the higher circles of corporate power are drawn overwhelmingly from the more advantaged strata of the class structure. He defines upper class origin as having fathers or uncles in the economic elite, fathers in the political or bureaucratic elites, fathers in substantial businesses or fathers-in-law who held elite positions. In 1972, 46.8% of the corporate elite fell into this category. Clement assumes that education at the small number of exclusive private schools is a further indicator of upper class origin. Adding to the previous category those who attended such schools yields a proportion of 59.4% of the elite of upper class origin. More complete information and coverage in the most recent study of the corporate elite increases the proportion of the elite of upper class origin to 60.9%.[32] Clement perceives the upper class in fairly broad terms; it includes not just the directors of the dominant corporations, but the entire capita-

list class and its families plus members of the state elite and their families.[33] Conceived in this fashion, the upper class comprises no more than 1-2% of the population and is consequently highly overrepresented in the current corporate elite. Defining middle class origin in terms of university attendance or father's managerial or professional occupation, and adding this group to the previous categories, yields a total of 94.2% of the current elite who originated in the upper or middle classes. The remainder of the Canadian class structure (approximately 85% of the population) was severely under-represented, contributing only 5.8% of elite positions.[34]

Inequality of access to top corporate positions had in fact been considerably heightened. In comparing his data to that of Porter for 1951, Clement found that the proportion of the corporate elite of upper class origin had increased significantly and that those of working class background had substantially declined. He concluded that "every indicator shows that the current elite is of higher class origin than twenty years ago. The class structure of Canadian society has tightened in terms of gaining access into the economic elite." This trend was particularly marked for the most powerful core group of multiple directorate holders.[35] The increasingly restricted nature of mobility to positions of economic power represents a further consolidation of the cohesive character of the capitalist class and highlights its continuity and stability. A solid core of capitalist families are able to transmit their wealth and power to their children and perpetuate their privileged position in the Canadian class system.

Important aspects of the social background of top corporate directors reinforce this homogeneity. The great majority were Anglo-Saxon and Protestant, those born in central Canada were over-represented, over 85% of the corporate elite had university degrees, almost all were male and they shared very similar career patterns. Education at a small number of elite private schools is also a vital aspect of upper class background; 41% of the current corporate elite had been at such schools, a higher proportion than in 1951.[36] These schools play a central role in shaping the character of the upper class young; they transmit common traditions and impart appropriate values and attitudes. By providing common experiences and developing friendships the private schools create important avenues of interconnection within the capitalist class. Private school attendance is simply one component of broadly similar patterns of socialization and early experience for the children of the upper class which encompass family background, leisure activities and growing up in comparable expensive residential communities.

The similar social background of those who hold key corporate positions is reflected and reinforced by patterns of interaction and integration in the social milieux of the capitalist class.[37] The friendships and contacts originating in exclusive schooling and early experience are maintained and consolidated by a further crucial institution of the upper class - the private men's clubs to which over one-half of the 1972 corporate elite belong.[38] The high proportion of their membership drawn from the wealthy and powerful strata of society make the private clubs important mechanisms in fostering the continuity of the upper class. The clubs also

function to absorb acceptable and properly socialized individuals from outside the upper class; membership in the exclusive clubs is symbolic of acceptance within the highest social and economic circles. The men's clubs provide a discrete and private forum for interaction between prominent individuals, of either a social or business nature, and solidify and extend the networks of acquaintance and contact that bind together the corporate world. Marriage, family and kinship ties and patterns of social interaction and friendship add further links to the interconnected nature of the capitalist class. In addition, top businessmen participate in the leadership and sponsorship of cultural, philanthropic, educational, health, political and a wide variety of diverse social organizations. As well as extending the influence and ideology of capital through the key institutional spheres of Canadian society, such activities provide further layers to the networks of contact within the corporate elite. As summarized by Clement, the cumulative effect of these interrelationships is to "bind the economic elite into a socially interacting set of people. More than merely elites of position..." the leading capitalists are "a closely knit group, familiar with each other and each other's business" and "take one another into account..." in the routine exercise of their power.[39]

These patterns of social integration, in combination with common class origin and background, are the basis of the striking cohesion of capital as a social class. Common experience within the exclusive institutions of the upper class and the cohesive and homogeneous nature of this group encourage the formation of similar values, attitudes and perspectives; in short, a well-developed class consciousness.[40] The pervasive

contact and interaction within the social milieux of the capitalist class outlined here and the institutional integration of the corporate economy discussed earlier provide networks of communication and interchange within the corporate elite. This ensures that corporate leaders have access to one another and facilitates efficient coordination and the development of common policy. More specifically, the integrated structure of the capitalist class facilitates the development of unified strategy and action on key political and economic issues such as tax reform.

Divisions within Capital: Conflict and Cohesion

It must be emphasized that the capitalist class was by no means monolithic. There were significant points of differentiation within capital and these internal divisions could be very important in the actual dynamics of power. Class fractions are divisions within rather than between classes and are differentiated in terms of position in the system of production and social division of labour. Fractions within the capitalist class share certain basic common interests (the perpetuation of private property, accumulation of capital, a stable economy, adequate profit levels, etc.), but may have divergent and possibly conflicting specific economic interests. The capitalist class can first of all be differentiated in terms of the size of the corporate enterprises which they control. The concentration of production and dominant role in the economy of a small number of very large corporations has been outlined above. The capitalists who control these dominant corporations must be distinguished from those who control middle-range corporations or firms of a more regional or local significance. Posed in slightly different terms, the highly concentrated

dominant corporations constitute the monopoly sector of the economy and the class grouping that control them is monopoly capital, whereas those involved in middle-range corporations are non-monopoly capital.[41] In delineating those sectors of the corporate economy, Clement defined middle-range enterprises as those with assets of over $50 million and sales of over $10 million annually.[42] According to the latter criteria, there were slightly over 2100 corporations in this middle range category in 1972.[43] The second basic division within capital is between those capitalists whose power and position is derived from Canadian-controlled corporations versus those who are based upon foreign controlled corporations. The high levels of foreign, especially United States, ownership and control in the key sectors of manufacturing industry and resource production has been noted in the preceding chapter. Canadian capital, however, remains dominant in vital areas of the economy, especially finance, transportation and utilities, and there are important Canadian-controlled corporations in foreign dominated industries. On the basis of locus of control, then, indigenous capital, with a Canadian owned and controlled base of power, can be distinguished from comprador capital, based upon foreign-controlled corporations. The directors and senior executives of foreign-controlled corporations certainly possess important areas of decision making, but their power operates within policy parameters determined by the parent corporations. The final basic distinction concerns the sector of economic activity in which capital is involved, among the most fundamental divisions here is between the spheres of production and circulation.

On the basis of the interrelation of these three factors of size of corporation, locus of control and sector of the economy, Clement identified three fractions of the capitalist class.[44] The dominant indigenous fraction of monopoly capital control the major Canadian corporations whose activity is centred primarily in the financial and other spheres of circulation. The dominant comprador fraction occupy key positions in the major foreign-controlled corporations, which are particularly significant in the manufacturing and resource sectors of production. The non-monopoly indigenous fraction is based upon middle-range Canadian-controlled corporations. This fraction is active throughout smaller scale manufacturing and service industries. A striking historical feature of the structure of power in Canada has been the close integration of the monopoly indigenous and comprador fractions of the capitalist class. There has been fundamental agreement between Canadian and foreign-controlled capital on the direction of Canadian economic development. The interests of the two dominant fractions and those of non-monopoly indigenous capital, however, are by no means totally coincident. The middle-range corporations are often directly dependent as buyers or sellers or in some form of service capacity on the major corporations and are vulnerable to the superior power of monopoly capital to shape the tempo of the economy. There are other lines of economic differentiation within the capitalist class which are more specific than fractions. The economy is structurally divided in terms of the various sectors of production and distribution, such as the financial, resources and manufacturing, and within the particular sectors by specific industry, such as mineral and oil development within the re-

sources sector. Such lines of economic differentiation are the basis of the sectional interests of the various groups within the capitalist class.

The importance of such structural divisions within the basic classes is that the various fractions can play a significant independent role in the dynamics of politics.[45] Fractional divisions within the capitalist class came to be important in shaping business participation in the process of tax reform. All fractions of capital shared certain general interests vis-a-vis the tax system: they benefited to varying degrees from the overall patterns of state economic intervention, but at the same time wished to minimize their portion of the tax revenue necessary to pay for government expenditure. Beyond this, specific sectors within the corporate economy were affected very differently by the possibility of major tax reforms. Within general corporate opposition to the sweeping nature of the contemplated reforms, the various economic sectors focused on the particular proposals that affected their specific interests most directly. The mining industry, for example, had previously enjoyed a highly advantageous tax situation through a variety of incentive and depletion deductions, but the Royal Commission on Taxation had in 1967 recommended the removal of many of the industry's special provisions. Reacting promptly to this threat to its profit levels, the mining industry, in defense of its specific interests, mounted a well-organized and extensive campaign against the tax reform proposals.[46] In addition, monopoly and non-monopoly fractions of capital were affected very differently by the existing tax structure and the proposed reforms and consequently pursued very different goals and strategies within the political realm.

The significance of sectional divisions within the capitalist class must not be over-emphasized. The capitalist class as a whole shares crucial common interests that arise out of the basic class relationships between capital and labour. As owners and controllers of the major means of production, capitalists are also significant employers of labour power. The driving force of capitalist production is profit maximization. This means that it is in the interest of capital to minimize the cost of the various factors of production, one of the most important of which is labour. The basis of the substantial wealth and income of the capitalist class and of the extended accumulation of capital is profit generated during the process of production and this is derived from surplus value appropriated from the labour of employees, from the class relation of exploitation. The antagonistic nature of these basic class relations will be returned to below, but their significance here is that they are the basis of fundamental common interests within the capitalist class. In addition, the patterns of social and institutional integration discussed earlier serve to mediate and accommodate potential competition and conflict within capital. A distinction can be made between class interests, which arise out of fundamental class relations, and class capacities. The latter arise from social relations within classes in terms of the degree of unity of their membership and "constitute the potential basis for the realization of class interests within the class struggle."[47] The relatively small size, cohesive structure and social and institutional integration of the capitalist class greatly enhances its capacity to realize its interests. All of this greatly facilitated the development of capital as an organized class force.

The interests of capital in relation to the tax structure and its political activity during the process of reform were very much shaped by these elements of both cohesion and internal division. The example indicated above of pressure that particular sectors or industries exerted against the reform proposals which most directly affected their specific interests took place within the general context of pervasive corporate opposition to the overall thrust of tax reform. The wealth, income and power of all members of the capitalist class is based upon the ownership and control of the dominant corporations and this greatly shaped the general business response to key facets of the proposed tax reforms. The transmission of wealth from one generation to the next is essential to the continuity and reproduction of the capitalist class; therefore it was vital to capital that levels of estate taxation be as low as possible. The interests of the wealthy in maximizing their income and accumulation of corporate assets underlay their opposition to capital gains taxation. Because of the singular importance of corporate profits to their economic interests the capitalist class attempted to defend and retain the advantageous nature of the existing corporate tax structure. Finally, in order to protect their extremely high incomes and affluent standard of living, it was in the interests of the capitalist class to minimize the incidence of personal taxation at top income levels.

III. The Structure of the Economy and Further Strata of the Business Community

The Competitive Sector of the Economy

The concentrated sectors of the economy have been examined earlier and the fractions that control the dominant and middle-range corpo-

rations have been identified. The less concentrated sectors contribute a significant proportion of total economic activity; for example, the bulk of business in smaller-scale manufacturing, service, construction and trade is carried on by smaller firms. These branches of the economy are characterized by a large number of small firms, competitive and unstable markets, labour-intensive production and vulnerable economic conditions and together constitute the competitive sector. This competitive sector is the basis of a number of class groupings who own their own means of production, are engaged in various levels of business activity and whose income and material security are dependent upon profit.

Small Business and the Traditional Independent Middle Classes

The smaller strata of the business community played a key role in the competitive sector of the economy. Small business can be subdivided into two categories: independent proprietors and small employers. Independent proprietors are either self-employed or operate family businesses. This group of small business owners were a sizeable category in the Canadian social structure; Peterson estimates that there were approximately 400,000 independent business proprietors in the mid-1970's.[49] The second category of small business likewise own and manage their own enterprises, but also employ a relatively small number of workers. In 1975, approximately 62% of all firms had less than 50 employees.[50] Although large in numbers, the small employers as a group accounted for a limited share of total output; constituting 75.2% of all Canadian-owned manufacturing establishments, firms of this size accounted for only 15.4% of total employment.[51] The share of total production and employment

accounted for by the two small business categories has steadily declined and the small business sector is in a continuously precarious economic situation.[52]

Farmers and self-employed craftsmen or artisans are further groups within the general category of independent owners and small producers. With small businessmen, these autonomous proprietors constitute the broadly defined traditional independent middle classes or petty bourgeoisie. The ongoing consolidation of the class structure and economy have led to the steady decline of these independent categories.[53]

Medium-Sized Employers

Between the two basic class groupings of small business and the various fractions of the capitalist class proper, there is an intermediate group of medium-sized employers. The output, assets and employment accounted for by medium-sized companies is far less than that of the dominant or middle-range corporations. Nonetheless, this middle group do own and control business enterprises and do employ labour power. In terms of the central institutions and social relations of capitalist society, medium-sized employers are certainly capitalist. On the one hand, the medium-sized category are owners and employers like the major capitalists, but, on the other hand, their scale of production is limited and unstable like small business.

The concept of contradictory class locations applies to categories such as the medium-sized employers which occupy objectively intermediate or ambiguous positions between the basic classes and which share characteristics associated with two class positions. Such contradictory

class locations must not be ignored or forced into the fundamental class groupings. More specifically, the intermediate group of medium employers must not be collapsed into either the small business or major capitalist categories, but must be analyzed as a contradictory but specific class location in its own right. The contradictory class location of medium employers is not a rigidly defined or monolithic entity. At the boundary of the capitalist class, the owners of the largest medium-sized firms merge into the group who control the middle-range corporations. Similarly, the smallest of the medium employers shade into the small business category.[54]

Although not individually large (except in a local or regional context), medium-sized firms collectively play an important role in the Canadian economy. Peterson has attempted to delineate small and medium-sized owner-managed business enterprises. His criteria of firms with 100-500 employees can be accepted as a useful approximation of the category of medium-sized business. In the manufacturing industries, this size of firms produce about 30% of the total value added and employ at least one third of the labour force.[55]

Small and Medium Business as a Political Force

This section has specified the class position of small business and medium employers in addition to the capitalist class previously discussed. The significance of these differentiations is that the distinct economic interests of the various business categories shape their role in the dynamics of politics. Precarious economic conditions and the importance of taxes as a major component of costs made the structure of taxation

and the direction of its reform a particularly crucial issue for the smaller business strata. Moreover, certain facets of the reform proposals had decidedly adverse implications for the tax situation of small and medium business enterprises. This stimulated the speedy organization and extensive participation of smaller business in the debate on tax reform. In fact, the continued political organization of small and medium business has been an important legacy of the politics of tax reform; the current Canadian Federation of Independent Business is the successor to a group called the Canadian Council for Fair Taxation which was developed to oppose the reform proposals.[56] As later chapters will show, the role of small business illustrates an important analytical point: groups of relatively limited economic power, especially in relation to the dominant capitalist class, can still become a significant force in the political process.

The Managerial Hierarchy

Managerial and administrative employees occupy an intermediate and contradictory location between the top corporate executives and directors of the capitalist class and the routine employees of the working class.[57] Dependent upon salaries, managers are nevertheless employees of a very special kind. The various levels of the managerial hierarchy carry out the functions of capital within the corporation; including planning, administration and supervision of the labour process. Managers possess important areas of decision-making in the operational control of the enterprise and enjoy a great deal of independence and autonomy in their own role in the process of production. However, this independence

operates within constraints imposed by the corporate organizational structure. Specifically, managers are strictly accountable for the performance of their precisely-defined areas of responsibility and this accountability can be the source of significant pressure.[58]

Managerial employees are differentiated by their position in the authority hierarchy and technical division of labour of the organizations in which they work. The higher levels of management, who can play an important part in the formulation of corporate policy, merge into the ranks of the capitalist class and are often directors of major corporations. Middle management have more limited areas of responsibility, but still have significant autonomy in the exercise of their authority. Also included in the middle management group are high-level professional, scientific and technical personnel. This technocratic category can be relatively independent in their own work and have some limited control over subordinates.[59]

The high and middle managerial socioeconomic categories constituted 2.0 and 3.2% respectively of the male labour force in 1971.[60] In addition to their position of autonomy and control, the managerial strata also receive relatively high incomes; in 1972, the average annual earnings of male managers was $13,384 whereas those of male clerical and sales workers were $7,769 and $7,507 respectively.[61] The high income of upper management, in addition to their access to stock option and bonus plans, provides the possibility of accumulating personal investments and wealth.

The higher and middle levels of the managerial hierarchy must be clearly distinguished from those who supervise and oversee the actual labour force. Blue collar foremen and white collar supervisors were 5.7%

and 6.3% respectively of the 1971 male labour force.[62] Lower supervisory personnel are located on the boundaries of the routine working class. The areas of authority and responsibility of line managers are strictly limited. The accountability of direct supervisors for the productivity of their section makes them vulnerable to pressure from their superiors. The pay levels and material conditions of lower supervisory employees are very close to those of skilled workers in their particular areas of the labour force.

The managerial strata outlined here occupy distinct positions in the social and economic structure. Located between the fundamental classes of labour and capital, managers constitute an objectively contradictory class position. The relationship between the managerial categories and other business groupings will now be explored.

The Business Community

The social and economic basis of the capitalist, managerial, medium employers and small business groups are similar in key respects. To varying degrees, these categories possess shares of the property and power associated with command over economic resources. Their material and organizational positions are dependent upon the institutions of private property, profit and market relationships. The various business categories consequently share common interests in the health and perpetuation of the central institutions of capitalist society. A further point of similarity within the business categories is that they all (with the exception of the self-employed) to some degree control the labour of others. More generally, the different business groups have tended to develop a common general political and ideological commitment to the capitalist system. It is in

this sense that these groups can be seen as all belonging to the broadly defined business community. Within this general category however, it is the dominant fractions of capital that are the leading force.

The degree of unity within the different levels of business must not be over-emphasized. Small business, managerial employees and the various fractions and sectors of the capitalist class operate within distinct spheres of economic activity and consequently have quite different economic interests. But the institutional integration of the corporate economy discussed above links together these categories as well. For example, there are many interlocking directorates between dominant and middle-range corporations.[63] In addition, the directors of dominant, middle-range and smaller corporations and the various ranks of managers are all concerned with the conditions of the particular industry in which they are involved and are all active in the various industry and trade associations. These points of similarity do indicate the possibility of alliances between the various sectors of the business community on issues of common interest. The precise form of such alliances and their significance in the process of tax reform are questions for later investigation.

IV. The Middle Classes in the Social and Economic Structure

Earlier discussions referred to Clement's concept of the upper class as a relatively general category encompassing the capitalist class and the state elite. A similar broadly-defined conception of the middle class can be used to situate various independent or intermediate positions in the social structure. Within this general category can be included groups who hold positions of significant autonomy and/or authority in the

organizational structure of the major enterprises or are independent owners and/or employers in their own right. To this point, small businessmen and other traditional independent producers, and the contradictory class locations of medium employers and managerial personnel exhibit these general middle class criteria. These groups are not, however, a homogeneous or cohesive class; they are not unified by common class interests or consciousness. Middle class is employed here simply as an analytical category to delineate a relatively disparate set of groups with broadly similar positions of independence and autonomy in the social division of labour.

The Independent Professions

In terms of positions of autonomy in the social division of labour, the independent professions (doctors, lawyers, architects, etc.) also must be included in the general middle class category. Self-employed professionals, who in 1971 were 1.0% of the male labour force[64], enjoy a great deal of independence and control over their role in the labour process. Professional control extends not just over conditions of work, but to the market for their professional services and the prices which they command. The result is that the independent professions have traditionally been among the highest paid occupational categories; the annual incomes of the various free professions range between three and four times the national average.[65] This advantaged position is based upon the very strong organization of the major professions. The influence and role of the various professional associations shows these groups to be highly conscious of their economic interests.

Subgroups within the professions can be distinguished by the type of occupational control they are able to exert.[66] Professions wielding collegiate control define the needs of their clients and the way in which these needs are serviced; prominent examples are the independent medical professions. By contrast, the occupational control of the patronage professions is somewhat more limited; such professions are dependent on a single large client group and the consumers are consequently able to determine the manner in which their needs will be catered for. Within the patronage category, for example the major demand for the services of accountants, corporate lawyers, brokers, industrial engineers and economic consultants comes from corporate organizations. Finally, an increasing number of professionals are employed (7.1% of the 1971 male labour force[67]). Although an indeterminate proportion of this classification are less autonomous lower professions, the majority of employed professionals can be categorized with the technocratic and middle management positions outlined earlier.

The economic situation of the professional categories shaped their particular interests vis-a-vis the tax system and their relationship to the interests of other groups. The self-employed professionals share similar problems with other independent strata in maximizing productivity and profit while reducing costs (central among which is taxation).[68] The interests of the corporate patronage professions are clearly linked to the profit and growth levels of the business enterprises upon which they are dependent. Reflecting this dependence was the extensive participation of legal, accounting and other professional expertise on

behalf of their corporate clients in the deliberations on tax reform. More generally, the high incomes of professionals place them in a similar tax position as managerial and other affluent strata. The considerations noted here indicate general points of common interest between the professions and various sectors of the business community in relations to tax reform.

The Middle Classes as a Social Category

This and the preceeding section have explored the independent and autonomous positions of a number of occupational sectors. It must be emphasized that the overall middle class grouping in which the various professional, business and independent strata can be included is very heterogeneous. As well as along occupational lines, the general middle class category is internally differentiated in terms of degree of independence and/or autonomy, organizational position and function, distribution of wealth and income[69], and subjective features of stratification such as prestige or status ranking. In terms of such hierarchical factors, lower and upper middle class strata can be distinguished.[70]

In the lower middle classes are the majority of farmers, small business and lower management. These groups may be independent and autonomous to varying degrees, but their economic position is vulnerable and precarious and they do not generally receive high incomes. On the other hand, the upper middle classes enjoy not only a great deal of independence, but also affluent and secure material conditions. The independent professions, technocrats, middle and high-level management, and medium employers tend to hold such an advantaged position. The differing posi-

tions and concrete interests of the upper and lower middle class groups greatly affected their subsequent activity in the politics of tax reform.

A key characteristic shared by the occupations which make up the upper middle class category is their high income. Designated by occupational status, the upper white collar professional and managerial groups constituted 17.3% of the 1971 male labour force.[71] This can be accepted as a rough approximation of the dimensions of the upper middle classes and upper classes (if it errs, this estimate is likely too high) and can be used to illustrate the material position of the affluent strata of the population. In 1971, the top 20% of families and unattached individuals received 43.3% of all before-tax income whereas the bottom quintile had 3.6% of the total.[72] (See also Table 2-3) In 1970, the wealthiest 20% of families owned 66.0% of all assets.[73] (See also Table 2-2) The affluent corporate executives professionals and other high earners within the upper middle class have a common general interest in minimizing the effective rates of taxation at their levels. These strata are also able to accumulate personal wealth and investments and are consequently affected by capital gains, estate, gift, dividend and corporate taxation as are major owners of capital. Such similar aspects of the tax situation of the various advantaged groups creates the possibility of alliances on issues of common concern in the deliberations of tax reform.

V. The Working Class

In an earlier section the concentrated ownership of property, and more particularly corporate wealth, has been seen as the basis of the economic power of the capitalist class. The corollary of this concentration

is the lack of significant wealth of the vast majority of the population. Corporate ownership was restricted to a very small proportion of the Canadian population: in 1968, only 10.3% of all income earners owned any corporate shares[74] and "in 1970, 87.7% of Canadian family units reported owning no publicly traded stock at all, while only 3.2% reported owning $5,000 or more."[75] More generally, the distribution of wealth of any form was highly unequal: in 1970, the richest 10% of families owned 48.5% of all assets and the top 20% held 66.0% of the total. By contrast, the poorest 20% and the lowest 60% of all families owned 0.2% and 11.7% respectively of all assets. (See Table 2-2) The limited ownership of large proportions of the population is even more striking when net worth (total assets - debts) is calculated: in 1970 the net worth of the poorest 20% of families was in fact negative (-1.0% of the total) and the lowest 60% accounted for only 9% of all net worth.[76]

The character of the wealth owned by the majority of people is as important as its limited amount in defining their social position. Property owned by most individuals and families is in the form of tangible assets such as houses, automobiles and consumer durables. This ownership can have tremendous significance for their material standard of living, but it has limited further impact in two key respects: it does not entail economic power, not does it provide an independent means of livelihood. The concentration of economic power has been discussed above; it is the latter issue that is of particular concern here. In this respect, the distribution of wealth that can yield income such as dividends from corporate equity, profits from business enterprises and interest from bonds

and deposits is especially important. The distribution of such property was even more starkly unequal: in 1970, the richest 10% of families owned 69.1% of all financial assets and the poorest 20% and 60% held 0.4% and 4.5% respectively of the total. (See Table 2-2) Lacking sufficient income-producing wealth, the majority of the population are therefore dependent upon employment as a means of earning their living. The proportion of the labour force in paid employment has steadily risen: in 1946, this proportion was 67.2%, 78.6% in 1956, 85.2% in 1966 and 88.5% in 1974.[77] There is, however, a great deal of differentiation within the employed sectors of the labour force; those who work for wages or salaries hold a wide variety of positions throughout the social division of labour, and are not all members of the working class. For example, several highly advantaged categories of employees - the contradictory class location of higher level managerial professional and scientific personnel - have already been outlined. This lack of significant property and consequent dependence upon employment is fundamental to the position of the working class. But its class position is also defined by a complex of class relationships between capital and labour, between the capitalist and working classes.

In capitalist society labour is formally free, but the lack of alternative means of livelihood compels propertyless workers to seek employment. This in turns brings them into the institutional relationships of wage labour, in which workers sell their mental and physical capacity to work - their labour power - to an employer. These exchanges take place within a specialized labour market in which labour power has become a

commodity. The interests of labour and capital in these employment relations are dramatically opposed. It is in the interests of capital to minimize its labour costs by employing as few workers as is profitable and controlling their pay levels. This conflicts with the interests of workers in secure and adequately paid employment. The unequal nature of these relationships and the dependence of labour upon capital is nowhere more starkly illustrated than with corporate decisions to close plants or cut back employment; in such cases the exercise of private power can have a massive impact upon the material conditions of thousands of workers and the prosperity of entire communities.

In taking employment, workers enter into a contractual agreement with their employers. Workers receive an agreed upon wage or salary and in exchange they sell their labour power for an agreed upon period of time. This labour power is then put to work by capitalists in the actual process of production. After a certain period of time, hypothetically say four hours, the worker has produced commodities of a value equal to the wages that she or he will receive. However, the worker cannot stop then, but has agreed to work for a full eight hours. The labour performed over and above that necessary to cover labour costs is called surplus labour. The value of all commodities produced during this surplus labour time is surplus value and is appropriated by the capitalist by right of ownership. This is the relation of exploitation and the surplus value created during the process of production is the basis of profit and the accumulation of capital.[78]

A vital feature of labour power is its elastic character. It does not represent a finite amount of labour, but rather is a capacity which must be realized by the capitalist. The driving force of capitalist production is profit maximization and it is therefore in the interests of those who control the means of production to realize as much surplus value as possible from the labour power hired. To this end, capital attempts to control all facets of the labour process in order to maximize output and productivity. Historically, this imperative has been the basis of the development and implementation of scientific management increasingly complex technical division of labour, and other schemes to rationalize the labour process, and constant technological innovation designed to increase the productivity and intensity of labour. In these ways, capital's drive for profit maximization results in the highly subordinate nature of modern work and the fundamental lack of control of most workers over their role and activity in the labour process.[79] In summary then, working class position is defined by class relations of dependence upon wage labour, exploitation and subordination, relations based upon permanent and inherent conflicts of interest between labour and capital.[80]

Structure of the Working Class

Working class people hold a wide variety of routine manual and non-manual jobs throughout the economy. Rinehart argued that in 1971, blue collar workers constituted approximately 45% of the labour force.[81] A comparable analysis found that skilled, semi-skilled and unskilled manual workers totalled 48.1% of the 1971 male labour force. In addition, the lower levels of white collar work, the skilled, semi-skilled and unskilled

clerical, sales and service categories, were a further 14.8% of the male labour force.[82] The composition of the female labour force is of course very different: the great majority of women workers have been concentrated in lower level white collar jobs. The proportion of the female labour force in clerical, commercial and financial, and service occupations was 61.4% in 1961 and 55.3% in 1971, and in manual jobs was 13.3% and 10.1% respectively.[83] It would appear then that the routine white and blue collar categories together yielded an approximate proportion of 60-65% of the Canadian population in the working class.

The segmented structure of the labour market, occupational hierarchy and organization of production divide the working class internally. Like the capitalist class, the working class is composed of a number of fractions and groups delineated in terms of their position in the system of production. Key bases of differentiation include the character of work (for example, skill level, manual or non-manual), areas of production and distribution (for example, manufacturing, resources or tertiary industries such as financial or service), and the sector of employment (monopoly, competitive or state sectors). Three broad groupings within the working class can be specified: manual industrial workers in the highly-concentrated monopoly sectors of the economy, manual service and industrial workers in the competitive sectors and non-manual workers in the various sectors of the economy.[84]

Workers in these categories face very different situations in terms of the organization of the labour process and their position in the labour market. Production in the monopoly industries is far more capital intensive and highly rationalized than in the competitive sectors. Although

lack of control and subordination is pervasive, the immediate job environments of industrial, service and white collar workers can vary a great deal. Workers employed in the monopoly industrial sector are in a far better market position than their blue collar counterparts in the competitive sector; for example, in 1976, the hourly wage rates of routine categories of male workers in petroleum refineries was $8.15 and on automobile assembly lines $6.52, whereas in the competitive clothing industries female sewing machine operators were paid $3.39 and female kitchen helpers in hotels and restaurants around $3.20.[85] The high concentration of women in the routine levels of white collar work and in important competitive sectors of manufacturing such as the textile industry is associate with the lower rates of pay of these areas.[86]

The sectional divisions within the working class are overlaid by other lines of social and economic differentiation such as regional, cultural, ethnic and the fundamentally different positions of male and female workers. In addition, the working class is stratified hierarchically by skill and income levels. This pervasive internal differentiation is a major structural limitation on the capacity of the working class as a social force.[87] Unlike the capitalist class, there is no range of social and institutional mechanisms to integrate the working class. Far from being a cohesive group, the Canadian working class is fundamentally divided and this can retard the development of a consciousness of common interests and unified collective action.[88]

Organization of the Working Class

The divided character of the working class is clearly reflected at the organizational level. First of all, only a minority of workers

belong to unions: the proportion of non-agricultural paid workers in unions was 29.7% in 1965, 33.6% in 1971 and 36.3% in 1973. Secondly, union organization is most concentrated in the monopoly manufacturing and resource industries. On the other hand, certain types of workers have very limited union representation: those in the competitive sector and service industries, the lower levels of white collar work and women especially. In 1972 for example, the percentage of workers unionized was 43.5 in manufacturing, 37.6 in mines, quarries and oil wells, and 61.2 in public administration; compared to 21.3 in the service industry, 7.3 in trade and 1.3 in finances. In 1971, 22.6% of female and 39.8% of male paid workers were unionized.[89] It is these poorly represented groups within the working class who are in the most vulnerable position in the labour market.

The institutional structure of organized labour is itself highly fragmented: between various union centres and organizations, between national and international unions, and between the myriad of craft and industrial unions from the various sectors of the economy. There has traditionally been extensive inter-union conflict and competition.[90] In addition, the internal structure of unions is highly oligarchical, with control of union affairs concentrated in small leaderships and with generally limited participation and influence of most rank-and-file workers. These patterns have crucial implications for the role of unions in representing working class interests. The limited scope of union membership during this period meant that large sectors of the working class were not represented at the organization level at all. While unions could occasionally claim to speak for all workers, the extent to which this was true

in practice is very much an open question. The fragmented structure of the union movement constituted a further organizational limitation on the capacity of the working class as a significant social and political force. In both structural and organizational terms, the capacity of the working class to realize its interests is far more limited than that of the capitalist class. It will be seen that these considerations were of considerable importance in the political representation of class interests within the state generally and within the debates and conflict over tax reform more specifically.

The nature of unions imposes additional constraints on the manner in which working class interests are organized. Unions play a dual or contradictory role in the economy.[91] On the one hand, they provide a collective means of influencing the determination of wages and general economic conditions. On the other hand, Canadian unions have concentrated on a relatively narrow range of issues of pay and benefits and have accepted as given, or at least inevitable, managerial control of the labour process and the wider structure of a capitalist economy. Through their rigid adherence to formal and regularized collective bargaining and their rejection of other forms of economic struggle, unions contain and channel industrial conflict within an orderly and predictable framework. This accomodative economic role and the political incorporation of unions to be discussed in the next chapter restrict the parameters within which working class interests are represented; although labour and capital may clash over a limited range of economic issues, the unions do not constitute a challenge to the basic social and institutional order of capitalism.

Semi-autonomous employees

A final intermediate group is located between routine level employees on the one side and the independent and autonomous middle classes on the other.[92] The contradictory class location of semi-autonomous employees differs from the basic working class position in several key respects. Occupations within this category, such as the lower professions of teachers and nurses, and trained technical or scientific employees, enjoy much more autonomy in the actual labour process. Their work involves a great deal more skill, variety and control over the immediate work environment. Members of this intermediate category remain dependent upon employment, but their specialized skills, training and education put them in a far better position in the labour market.

It has been the semi-autonomous employees who have contributed most to the continued expansion of the overall professional and technical occupations; semi-professionals and technicians constituted 2.8% and 1.8% respectively of the male labour force in 1971.[93] Of the female labour force, 6.4% were teachers and 3.9% were graduate nurses in 1971; women were 66.0% and 95.4% respectively of all workers in these occupations.[94] Developing trends shaping semi-autonomous employees indicate an increasingly working class situation for these categories. The job control of the semi-autonomous groups is being increasingly constrained by the division of labour and organizational structure of the bureaucratic institutions in which they work. There has also been heightened collective organization and militance among semi-autonomous employees through the mid-1970's over issues of pay and job security.[95]

VI. Class Inequality

The antagonistic nature of the basic class relations between capital and labour has been emphasized above. This and the fundamental institutional order of capitalist society is the basis of pervasive structured social and economic inequality. One of the most important manifestations of class divisions in Canada during the period under study was striking inequality of condition, power and opportunity.[96] The corollary of the concentrated economic power examined above was powerlessness and dependence to varying degrees for the great majority of the population. The private decisions and interests of the capitalist class through, for example, the allocation of investment capital have a tremendous impact on the prosperity and development of the economy as a whole. Unequal access to top corporate positions has also been seen. More generally, class and social background continued to be key factors in limiting social mobility.[97]

Inequality of Condition

The unequal distribution of wealth has been detailed earlier. The distribution was also highly unequal. From the early 1950's through the 1970's the top 20% of all families and unattached individuals received well over 40% of all before-tax income. By contrast, the bottom 20% had about 4% and the bottom 60% had approximately one-third of the total. (See Table 2-3) This inequality is even more striking when the effect of inflation is controlled. Expressed in constant 1971 dollars the top quintile of income earners increased their share of the total from 41.8% in 1951 to 47.1% in 1975. Over the same period, the proportion received by the lower quintile declined from 5.6% to 3.1%.[98] While the top quintile of earners received

about 7.5 times as much as the lowest quintile in 1951, it got 15.2 times as much income in 1975.[99]

This data also indicates that the distribution of income among individuals had become increasingly unequal. This trend is very clear when the distribution of income among wage earners specifically is examined: the share of total income received by the lowest quintile decreased from 4.2% in 1951 to 2.3% in 1971 and the proportion of the top quintile rose from 40.3% to 44.0%.[100] The situation for families is very different: the distribution of income among families, although still highly unequal, has remained relatively unchanged. This is largely explained by the increasing number of families with more than one earner: in 1951, 57.0% of all families had one earner, but this declined to 34.7% in 1971. In the latter year, 47.6% of families had two earners. This shift is due almost entirely to the increasing labour force participation of married women.[101] It is clear then that the distribution of income among individual earners had become increasingly unequal. A number of government studies also concluded that the overall trend has been one of increasing inequality.[102] The impact of this trend upon many families has been moderated by more than one member taking paid employment: "In other words, the increasing participation of married women in the labour force obscures the growing disparity in income distribution. The share of total income received by the low-or middle-income family is roughly maintained, hiding growing disparity in the wages of the men as well as the low wages of the women."[103] That such extensive inequality has persisted, and in fact increased, in the face of economic growth, expanded government social security programmes and union efforts to improve wages, illustrates how deeply rooted it is.

This inequality of condition has very concrete implications for the material conditions of all groups within the social structure. In a commodity society, the amount of disposable income largely determines the quantity and quality of goods and services that can be purchased and consumed. For the wealthy capitalist class and the upper strata of the managerial and professional middle classes this entails affluent and secure standards of living. The far more limited command over the economic resources of Canadian society enjoyed by the working class implies much more modest conditions for all workers and significant material insecurity for many. The very low proportion of total wealth and income held by the lowest 20% of the population results in their very poor material position. A range of studies during this general period documented the existence and persistence of significant levels of poverty; a special committee of the Senate concluded that 25% of the Canadian population were unable to afford an adequate standard of living in the late 1960's.[104]

The implications of the distribution of income can also be seen more clearly when examined in terms of factor shares. This allows the distribution to be related to actual groups within the social division of labour rather than simply to statistical categories such as quintiles. Table 2-4 shows a substantial and apparently increasing share of total national income in the form of profits and investment income - that is, income accruing to the property-owning strata. This would be even higher had the large amounts of dividends earned in Canada but paid to foreign investors been included. At the same time, the share of farmers and unincorporated businesses steadily dropped; this reflects the wider consoli-

dation of the class structure and the decline of the traditional independent middle classes. The largest share of the national income takes the form of wages and salaries. This category of labour's share must not be equated with the working class; while virtually all income of workers is included here, so too is a substantial amount earned by professional and managerial employees. The apparent increase of the wages and salaries component of total income is illusionary: "Between 1946 and 1973, the proportion of the labour force in paid employment increased from 67.2% to 88.6% or by 32% while the proportion of national income transferred to labour income increased from 57.4% to 70.6% or by only 23%. Therefore, although the share of national income going to labour increased almost steadily between 1946 and 1973, the labour force to which that share went increased proportionally more." When the size of the paid labour force is held constant at the 1946 level, the adjusted labour share of national income declined from 57.2% to 53.4% in 1973.[105] This data also indicates an increasingly unequal distribution of income within the Canadian social structure. The key question then is how is this pervasive inequality produced and reproduced? The answer lies in the basic institutional order of capitalist society.

Distributional Principles of a Capitalist Economy[106]

There are two essential principles of distribution: acquisition by right of ownership and by employment in the labour market. The first principle entails a recognized claim to a share of the output of productive enterprises and overall social resources for property owners. The fundamental basis of this claim lies in the structure of incentives and motiva-

tions of a capitalist economy: "The rationale for the right of owners to consume merely by virtue of their ownership is that the return to capital constitutes the primus motor of economic enterprise: so, if private profit is to drive the wheels of production, it and the property from which it derives must constitute a means of private consumption."[107] The crucial point here is that the benefits of this principle go overwhelmingly to a very small proportion of the population.

The concentration of wealth and of income productivity assets and the generation of large amounts of property income within the economy have been noted above. This means that the substantial income from property ownership is also highly concentrated. This has been very clear for corporate ownership: data for 1950, 1960, 1970 and 1976 revealed that the top 20% of individual earners received about 80% of all dividend income. More graphically: "the top 1698 income recipients in Canada in 1976 shares among them $116,031,000 in dividend income - about as much as the bottom three quintiles of income recipients taken together." It would appear that the distribution of dividend income among individuals has become more unequal: the share of the bottom 60% declined from 1950 to 1976 and the proportion of people receiving any dividend income dropped. In 1970, one in ten income recipients received some income from the ownership of stocks; by 1976, this was one in fiften.[108] The significance of property income becomes especially clear if the higher income strata are examined separately. In 1975, the affluent category of those earning more than $25,000 constituted 3.3% of all individuals filing tax returns.[109] This group received 14.6% of all income, which was as much as did the bottom 42.4% of all earners. A

central factor in their very high income was the even higher proportion of income from property that this top category received: 22.9% of all bond interests, 21.6% of bank interest and 60.0% of taxable dividends. The even smaller group who earned more than $100,000 in 1975 (0.9% of all earners) received about eighteen times the average annual income. While the three-quarters of all earners with an annual income of less than $13,000 received considerably less than the average in dividends and bank and bond interest, the very top group received about fifty-three times the average. While the former category owned on average substantially less than $10,000 worth of investments in stocks, bonds and interest-bearing bank deposits, the tiny group of top earners owned just under $700,000 of such wealth. In these ways, the highly concentrated acquisition of income from property contributes greatly to the overall unequal distribution of income.

There are a number of crucial further considerations that flow from the institutional arrangements surrounding property ownership. At the most basic level, it is the income from property that is the basis of the affluent standard of living of the major property owning strata generally and of the extended accumulation wealth of the capitalist class more specifically. The right of owners to income from their property is unconditional. The fact that owners do not have to demonstrate their contribution to the process of production or any pressing material need in order to receive income "is an inherent contradiction to the criteria which otherwise govern distribution, for these require of income recipients either a contribution, through work; or some demonstration of need, whether directly or through membership

of a population category recognized as in need."[110] In addition, the right to transmit ownership by inheritance or gift is guaranteed within the capitalist juridical system. Quantitative analysis of the distribution of income and wealth have concluded that the inheritance of property, through its effect on the continuity and expansion of the wealth owned by the upper strata, has been a major factor in overall economic inequality.[111] Just as the unconditional right of owners to derive income from their property is at variance with wider perceptions of income as legitimate reward for economic contribution or as morally justified support for the needy, rights of inheritance "legally entrench a contradiction also to the notion - familiar as a diffusely formulated ideal to which tribute is paid in contemporary capitalist societies - that the individual's place in the socio-economic order should reflect his/her own 'merits' without avoidable influence of his/her circumstances of origin."[112] These examples point to important inconsistencies and sources of tension within the dominant ideology of capitalist societies: the defense of private property is at the core of its commitment to the free enterprise system, but this conflicts, in terms of the concrete impact of property relations even more than at an ideological level, with the pervasive liberal ideology of fairness and equality.

The second fundamental principle underlying the distribution of income is that the majority of people who do not own substantial property must rely for their livelihood on the labour market.[113] They must hire out their own labour power or depend upon others, usually related members of the household, who do. The structure and operation of the labour market

have a tremendous influence upon the distribution of earnings. First of all, the pay levels and availability of specific kinds of jobs is governed largely by capital's long-term considerations of profit maximization. Some indications of how this works at a micro level have already been noted: employers seek to hire only as many workers as is profitable and to minimize their labour costs generally. At a more general or macro level, the allocation of capital investment and resources greatly affects the development of the various sectors of the economy and consequently shapes the levels and composition of employment within them.[114]

The labour market must be seen as a hierarchy of job slots of openings in terms of pay levels, security, autonomy and conditions of work. Within this hierarchical structure, there is great disparity in the renumeration and security of employment. At the higher levels of the market, some earners are able to sell their services very dearly. Westergaard argues that top corporate managerial personnel acquire their very high earnings "from their command over capital, in a manner akin to profit extraction."[115] In addition to high salaries, top executives receive considerable income from bonuses and stock option plans. This in turn sets high standards for middle-level management and state officials. Also in an advantaged position are those professions that have been able to achieve control over their segment of the labour market; architects, for example, had incomes over 80% more than the average male income in 1961 and 1971.[116]

By contrast, the great majority of employees, especially routine blue and white-collar workers, compete with large numbers of others for available job openings. In addition to market forces of supply and demand,

wage levels are shaped by factors such as educational qualifications, strength of union organization, region, gender and sector of the economy in which employed. The interplay of these factors produces wide variation in pay levels between the minimum wage of workers in competitive, labour-intensive and female-dominated industries, the two or three times higher wages of workers in unionized monopoly industrial jobs, and the even higher salaries of semi-autonomous professional or technical employees. In addition, rates of unemployment vary greatly within the labour market, being higher in the lower-paid and less skilled jobs and in the competitive sector. Unemployment, especially of long duration, has been very closely related to lower income levels.[117] The resulting occupational income differentials within the male working class have remained fairly consistent from 1941 to 1971: skilled workers such as tool and die machinists earned about one-quarter more than the national average, industrial workers tended to receive slightly less than the average and unskilled competitive sector workers earned two-thirds and less of the average.[118]

The structure and operation of the labour market produce a wide range in the incomes earned by various categories of employees and this is the second major factor in the overall unequal distribution of income. The segmented and hierarchical structure of the labour market has further implications: "Superimposed on the dichotomous inequality between property income and employment income, therefore, there is a very visible pattern of multiple inequalities which both generates conflicts of immediate interest among different categories of labour and veils the conceptual simplicity of the two contrasting principles of capitalist income distribution:

acquisition by right of ownership and allocation according to labour market 'contribution.'"[119] Such competition and immediate conflicts of interest within the segmented labour market further weaken the class capacity of the working class. The way in which the crucial but less obvious distinction between property and employment income is obscured by labour market differentials has an important further effect: "just because the majority live by the second principle, while the minority live by the first are not readily visible, the common dependence on the labour market as a fact of life is easily translated into popular acceptance of an 'ethic of work', notwithstanding the immunity from that ethic conferred by property on it owners."[120]

Structured inequality, class interests and taxation

Some indications of the interests of the various class groupings in relation taxation have been noted throughout this chapter. The preceding discussion of inequality of condition and its institutional basis allows these to be further specified. First of all, property and the income it generates and employment income are taxed very differently and their treatment has very different implications for the various class interests. Given the unequal distribution of wealth; the taxation of property is of direct relevance to only the most affluent strata. More specifically, the impact of capital gains, estate and similar forms of taxation on the accumulation and reproduction of wealth is of greatest concern to the capitalist class and the wealthiest strata of the middle classes. In life fashion, the structure of corporate taxation is of greatest significance to the capitalist class who own and control the major corporations, but also affects non-

monopoly capital, managerial personnel and others who own smaller amounts of corporate shares and receive a share of profit. These groups would benefit from a tax system that facilitates and supports the accumulation of capital and from any reduction in the level of corporate and business taxation.

The primary source of income for the great majority of people is employment and the level and composition of taxation of this income is of greatest importance to the largest number of taxpayers. However, the interests of all employees in this regard are by no means similar. Highly paid managerial and professional employees, who can also derive considerable income from property, benefit from moderate rates of taxation at the highest personal income levels. On the other hand, it is in the interests of the working class and of the less affluent strata within the income hierarchy to have a more progressive structure of personal income taxation in which there would be higher rates for those high-income categories with a greater ability to pay. The balance of taxation between property and employment income is also of crucial importance. The taxation of property and corporate income has limited direct implications for all but the most affluent employees, except insofar as corporate taxes are passed on to consumers through higher prices. But it is in the interests of the majority who are taxed only on employment income to reduce the proportion of total taxation derived from that source and to shift the overall burden to property and business income. In addition, it would benefit less affluent earners to reduce the importance of regressive forms of taxation such as sales taxes. In general then, a more progressive overall tax system could enhance the

material interests of large numbers of taxpayers in the working class and in the lower and middle levels of the income hierarchy.

By contrast, a more progressive tax regime would increase the incidence of taxation of the more advantaged strata. The higher income capitalist and middle classes would face heavier burdens if personal income taxation were based more upon ability to pay. Similarly, the interests of these groups would be harmed by any increase of property taxation. It would be the wealthiest group of all, the capitalist class, that would be most affected by such changes. In addition, any increase in corporate taxation could have an adverse impact on capitalist interests. These conflicts of interest operate at an immediate level, in terms of the allocation of the tax burden within the parameters of the existing fiscal system. More generally, a tax system that contributed to the redistribution of income would be in the interests of the working class and less affluent groups. At the same time, the material conditions of the wealthiest strata would be harmed by any redistribution of economic resources. More fundamentally, it is in the interests of the capitalist class and other affluent groups to sustain the institutional order and distributional principles that produce their advantaged position. Conversely, it is against the fundamental interests of the working class and other subordinate groups that the institutional arrangements and class relations that create such pervasive inequality be preserved. The way in which the tax system contributes to the reproduction of the basic institutions of capitalist society is therefore of vital importance to all class interests.

VII. Summary and Conclusions

This chapter has outlined the basic class divisions and fundamental class relationships of Canadian society. The antagonistic nature of these class relations and the pervasive structured inequality of condition, power and opportunity constitute a crucial political problem for the reproduction of the overall capitalist system. As discussed earlier, the accommodation of conflict that could arise out of these class contradictions and the maintenance of stability and consensus have been a central focus of state activity. The role of the state in general is greatly shaped by class antagonisms and the clash of interests within them. The analysis of how this is so and of the impact of state policy and intervention upon concrete social interests must begin from a clear understanding of the underlying class structure. More specifically, this overview of the class system and inequality of condition allows the interests of different class and social groupings vis-a-vis the tax system to be identified. Some indications of this have been developed here and the implications for class interests of the existing tax structure and of the various proposals for its reform will be examined throughout this study.

Class interests and their conflict are always an important force at the political level. But classes are not cohesive social entities or monolithic groups that themselves act politically. Nor are class interests automatically translated into political organization. The dynamics of politics are shaped by state apparatuses, political parties (which may or may not claim to speak for particular groups or classes), a wide range of pressure groups and tactics (whose relation to concrete social and economic

interests can vary greatly) and organizations such as business associations and trade unions which do represent class interests at the political level (but to varying degrees of effectiveness and specificity).[121] Such aspects of political representation within the state and state policy formation are the focus of the next chapter.

Table 2-1

Distribution of corporate shares by income level

	Percentage of all shares	
	1958	1968
Top 1% of all income earners	51	42
Top 5%	72	62
Top decile	79	72
Total 6th-9th deciles	10.3	18.2
Bottom 50% of all income earners	10.7	9.8

Source: Leo Johnson, "The development of class in Canada in the twentieth century" in Gary Teeple, (ed), Capitalism and the National Question in Canada, Toronto, University of Toronto Press, 1972, Table 7; Data from Statistics Canada.

Table 2-2

Distribution of wealth by decile,
family units ranked by wealth

	Financial Assets		Total Assets	
	1970	1977	1970	1977
poorest	0.0%	0.0%	0.0%	0.0%
2	0.1	0.1	0.2	0.3
3	0.3	0.4	0.6	0.9
4	0.7	0.9	1.4	2.3
5	1.2	1.5	3.2	5.0
6	2.2	2.6	6.3	7.4
7	4.0	4.5	9.6	9.6
8	7.3	8.0	12.7	12.2
9	15.1	15.0	17.5	16.8
richest	69.1	67.0	48.5	45.6

Financial assets: deposits, cash, bonds, stocks, mortgages, etc.

Total assets: financial assets, business equity, real estate, automobiles.

Source: Lars Osberg, Economic Inequality in Canada, Toronto, Butterworths, 1981, Table 3-2; Data from Statistics Canada, Survey of Consumer Finance.

Table 2-3

Distribution of total before-tax income by quintile, families and unattached individuals

Income Quintile	1951	1961	1971	1978
Lowest	4.4%	4.2%	3.6%	3.9%
Second	11.2	11.9	10.6	10.4
Middle	18.3	18.3	17.6	17.7
Fourth	23.3	24.5	24.9	25.5
Highest	42.8	41.4	43.3	42.5

Source: Alfred A. Hunter, Class Tells. On Social Inequality in Canada, Toronto, Butterworths, 1981, Table 5-2; Statistics Canada data.

Table 2-4

Distribution of national income by factor shares

	I Wages & Salaries	II Profits & Net Investment Income	III Net Income Farm & Unincorporated Business
1950-54	63.9%	16.9%	20.2%
1955-59	67.6	16.7	16.2
1960-64	69.6	16.5	14.2
1965-69	71.6	17.3	11.9
1971	74.1	16.3	10.6
1973	71.7	20.7	10.2
1975	72.9	20.5	8.9
1977	74.4	20.4	7.4
1979	71.1	24.7	7.3

I Wages and salaries and supplementary labour income and military pay and allowances

II Corporate profits before taxes and interest and miscellaneous investment income - dividends paid to non-residents

III Accrued net income of farm operators from farm production and net income of non-farm unincorporated businesses including rents

Note: Inventory valuation adjustment has been omitted, thefore the the columns add to more than 100%

Source: Lars Osberg, Economic Inequality in Canada, Toronto, Butterworths, 1981, Table 5-1; Data from Department of Finance

Footnotes

1. E. Kierans, "The Structure of the Canadian Corporate Economy" in K. J. Rea and J. T. McLeod, (eds), Business and Government in Canada, Toronto, Methuen, 1976, pp 200-1.
2. Phyliss Morgan and Michael Fox, (eds), The Financial Post 300, Toronto, 1976, p 9.
3. Gary Lax, "The Development of Canadian Entrepreneurship" in Abraham Rotstein and Gary Lax, (eds), Getting It Back, Toronto, Clarke, Irwin and Co., 1974, p 56.
4. Department of Consumer and Corporate Affairs, Concentration in the Manufacturing Industries in Canada, Ottawa, Information Canada, 1971, Ch 5.
5. Morgan and Fox, op.cit., p 8.
6. Wallace Clement, The Canadian Corporate Elite: An Analysis of Economic Power, Toronto, McClelland and Stewart, 1975, Ch 4, I. Lists such as these derived by Porter and Clement are based on quantifiable criteria, such as assets and revenue, and usefully highlight the concentration of production. However, it must be remembered that various smaller institutions which are not classified as dominant using these methods - investment houses, brokerage companies, prestigeous law firms, etc. - play a crucial role in mediating and integrating the structure of corporate power, cf. Libbie Park and Frank Park, The Anatomy of Big Business, Toronto, James Lewis and Samuel, 1973, Ch 4-5.
7. Op.Cit., Appendix VII.
8. See Peter Newman, The Canadian Establishment, Toronto, McClelland and Stewart, 1975, Ch 2.
9. Robert Chodos, The CPR: A Century of Corporate Welfare, Toronto, James Lewis and Samuel, 1973, p 154.
10. Newman, op.cit., pp 20-1.
11. Clement, op.cit., p 131.
12. Maurice Zeitlin, "Corporate Ownership and Control: The Large Corporation and the Capitalist Class", American Journal of Sociology, 79, No. 5, March, 1974, provides an excellent framework for the analysis of major corporations and economic power.
13. Leo Johnson, "The Development of Class in Canada in the Twentieth Century", in Gary Teeple, (ed), Capitalism and the National Question in Canada, Toronto, University of Toronto Press, 1972, p 156.
14. Lars Osberg, Economic Inequality in Canada, Toronto, Butterworths, 1981, Table 3-2, p 36.
15. Newman, op.cit., p 267ff details the intricate organization of this wealth. See also Jorge Niosi, The Economy of Canada: A Study of Ownership and Control, Montreal, Black Rose Books, 1979; Canadian Capitalism, A Study of Power in the Canadian Business Establishment, Toronto, Lorimer, 1980.

16. Influential schools of conventional sociology hold that there has been a separation of ownership from control of the large coporations, a decomposition of the traditional capital-owning upper class and the rise to economic power of a new group of technocratic managers. Clement, op.cit., Ch 1, Pts. III and IV; Zeitlin, op.cit., and Anthony Giddens, The Class Structure of the Advanced Societies, London, Hutchison and Co., 1973 provide useful critiques of the central propositions of these models.
17. Niosi, 1979, op.cit.
18. It must be emphasized that there has been no managerial revolution in the structure of control of the major corporations and that the directors collectively remain the decisive power. For discussions of this issue, see the material cited in note 16. Following R. E. Pahl and J. T. Winkler, "The Economic Elite: Theory and Practise" in Philip Stanworth and Anthony Giddens, (eds), Elites and Power in British Society, Cambridge, Cambridge University Press, 1974, p 114, the power of the board can be designated as allocative, as control over the distribution and use of crucial economic resources and more specifically capital. This power must be distinguished from the operational control "over the day-to-day use of resources already allocated" which is routinely exercised by the managerial hierarchy. It is in this operational sense that managers play a vital role in the actual mediation of control within the large corporate enterprises. However, the role of managers is derived from their position in the organizational structure of the major corporations; the basis of their authority is not secure and independent, but can be terminated with loss of position; and the direction and parameters within which managers operate are determined by the boards of directors. There is a qualitative difference between the limitations of managerial power and that of the position of ownership and control of the dominant strata of the capitalist class. These distinctions do not imply any contradiction between managers and corporate directors or major shareholders. There are numerous mechanisms - stock option and other ownership plans, salary and other forms of remuneration, career patterns, dependence upon evaluation by directors and top executives in terms of corporate objectives, and corporate loyalty and ideology - whereby managers are integrated into the goals and perspectives of the corporation as defined by its controlling group. The precise role of managerial strata in the social division of labour and the institutional structure of the major corporations is an important problem which requires concrete research. Some general points of the class position of managers will be outlined in the next section.
19. Cf. Clement, op.cit., Park and Park, op.cit., and John Porter, The Vertical Mosaic: An Analysis of Social Class and Power in Canada, Toronto, University of Toronto Press, 1965.

20. Op.cit. For a stimulating discussion of the theoretical and methodological problems of the study of positional elites as organized by Porter and Clement, see Pahl and Winkler, op.cit. Among the issues which they examine are the following: the problem of categorization (where the line for inclusion in the elite is drawn), the relation between formal authority and effective power (all individuals who hold certain positions, such as corporate director, do not necessarily wield equal power either in the affairs of that corporation or in the dynamics of the wider economy) and the inadequacy of an undifferentiated view of economic power (as noted, they distinguish between allocative and operational control).
21. "The Corporate Elite, the Capitalist Class and the State" in Leo Panitch, (ed), The Canadian State. Political Economy and Political Power, Toronto, University of Toronto Press, p 225, his emphasis; see also Clement's Continental Corporate Power. Economic Elite Linkages between Canada and the United States, Toronto, McClelland and Stewart, 1977, p 24.
22. Clement's use of the concept of fractions is confusing and contradictory. This concept is not normally employed to denote groups delineated in simply hierarchical terms, i.e. as the most powerful or wealthy. Fractions are more usefully defined as divisions within classes in terms of position in the system of production and the social division of labour. These fractions can have divergent and possibly conflicting interests. Cf. Poulantzas, Political Power and Social Classes, London, New Left Books, 1973, p 84. Clement, in fact, later uses fractions in basically the above terms when he distinguishes the major fractions of the capitalist class in Canada, 1977, op.cit., p 24ff. This latter usage conflicts with his previous definition of the corporate elite as a fraction - the result is fractions within the corporate elite which is itself a fraction. To avoid this confusion, I will see the corporate elite as simply an empirical category and will use Clement's data as being broadly representative of the highest levels of the capitalist class. Fractions and other lines of differentiation within the capitalist class will be discussed later in this section.
23. At the same time, there are many members of the capitalist class who are not officers of corporations. For an elaboration of these issues see Niosi, 1979, op.cit., Ch III.
24. Park and Park, op.cit., Ch 4-5 and C. A. Ashley, "Concentration of Economic Power", Canadian Journal of Economics and Political Science, 23: 1, 1957.
25. Op.cit., Ch 3.
26. 1975, op.cit., pp 212-3
27. Ibid, p 155.
28. Ibid, Ch 4, Pt. IV, Appendix XIII and Park and Park, op.cit., Ch 4.
29. Clement, 1975, op.cit., p 163; see also Clement, 1977, op.cit.
30. Clement, 1975, op.cit., pp 156-8.
31. Porter, op.cit., Ch IX and Clement, 1975, op.cit., Ch 5-6. Newman op.cit., provides a great deal of impressionistic, but nonetheless highly interesting, information on the social milieux of the capitalist class.

32. 1975, op.cit., p 189ff replicating the analysis of Porter for 1951. Clement's more recent 1977, op.cit., Ch 7 provides more complete data on the social characteristics of the corporate elite.
33. 1977, op.cit., p 29. The state elite is composed of those who hold key positions in the cabinet and bureaucratic structure of the state.
34. 1975, op.cit., pp 189-94.
35. 1975, op.cit., p 191.
36. Ibid, p 240 and Ch 6 more generally; see also Porter, op.cit., Ch IX.
37. See Newman, op.cit., Porter, op.cit., Clement 1975, 1977, op.cit.; G. W. Domhoff, The Higher Circles: The Governing Class in America, New York, Vintage, 1970 also provides useful comparative and analytical material.
38. Clement, 1975, op.cit., p 247ff.
39. 1977, op.cit., p 245. Domhoff, op.cit. also emphasizes the significance of the capitalist class as interacting networks of people.
40. Cf. Porter, op.cit., p. 305.
41. These distinctions synthesize James O'Connor, The Fiscal Crisis of the State, New York, St. Martins Press, 1973, on the key sectors of the system of production and Nicos Poulantzas, Classes in Contemporary Capitalism, London, New Left Books, 1975. Pt. 2, #2, on the nature of monopoly and non-monopoly capital. Non-monopoly capitalists still own and control important economic enterprises and are significant employers of labour. It must be noted that in these terms small business categories occupy a very different position in the system of production.
42. 1975, op.cit., p 128.
43. Calculated from Rein Peterson, Small Business. Building a Balanced Economy, Erin, Press Porcepic, 1977, Ch 4, Table A5.
44. 1977, op.cit., Ch 2, III.
45. See Poulantzas, 1973, op.cit., Section I, Ch 2.
46. See M. W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate", in A. Paul Pross, (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975, pp 87-114.
47. Erik Olin Wright, Class, Crisis and the State, London, New Left Books, 1978, p 98.
48. Peterson, attempts to delineate the universe of small business in the Canadian economy.
49. Ibid, Ch 4, Table 1. To this figure must be added an indeterminate number of small businesses in this category that are formally organized as corporations.
50. Ibid, Ch 4, Table 5.
51. Ibid, Ch 4, Table 6.
52. Ibid, Ch 4.
53. Cf. Johnson, op.cit. See also Don Mitchell, The Politics of Food, Toronto, Lorimer, 1975, Ch 2 on the internal polarization of the agricutural classes and the increasing pressures faced by small farmers.
54. See Wright, op.cit., Ch 2, on contradictory class locations and the positions of medium employers in particular.
55. Peterson, op.cit., p 75.
56. Ibid, 133ff.

57. This discussion has been following Wright, op.cit., Ch 2 on the significance and identification of contradictory class locations. He also emphasizes relations of control of the labour process in the delineation of class locations. A number of points noted by Giddens, op.cit., p 107ff can contribute further along these lines to a more well-rounded class analysis. Giddens distinguishes two forms of class stratification: mediate and proximate. The former refers to the general way in which property and market capacity shape the patterns of class division. Proximate forms of class stratification are more localized and emphasize position in the authority hierarchy and technical division of labour of the major-productive enterprises. Such facets of organizational position and function in the labour process are important in situating diverse groups such as the managerial in the overall occupational structure and system of production.
58. See Theo Nicols and Huw Beynon, Living with Capitalism. Class Relations and the Modern Factory, London, Routledge & Kegan Paul, 1977, especially Ch 3-4 on the role and position of the managerial hierarchy.
59. Wright, op.cit., Ch 2, explores the contradictory location of middle managers and technocrats.
60. Peter C. Pineo, John Porter and Hugh A. McRoberts, "The 1971 Census and the Socioeconomic Classification of Occupations" Canadian Review of Sociology and Anthropology 14, 1 (Feb 1977), Table IV. The category of middle management includes some government officials and small businessmen.
61. Labour Canada, Women's Bureau, Women in the Labour Force. Facts and Figures, Ottawa, Information Canada, 1975, p 70.
62. Pineo et al, op.cit., Table IV.
63. Clement, 1975, op.cit., pp 164-6.
64. Pineo et al, op.cit., Table IV.
65. Stephen Peitchinis, The Canadian Labour Market, Toronto, Oxford, 1975, Ch 17, Table 1.
66. Terrence J. Johnson, Professions and Power. London, Macmillan, 1972, Ch 3.
67. Pineo et al, op.cit., Table IV.
68. See C. Wright Mills, White Collar: The American Middle Classes, New York, Oxford, 1951, Ch 6 on the commercial pressures facing the independent professions.
69. Although the system of production is the primary basis of class divisions, the distribution of wealth and income and corresponding material conditions and consumption patterns are important dimensions of social differentiation. Giddens, op.cit., p 109, identifies distributive groupings as a further proximate form of class stratification.
70. This distinction is a common sociological usage. Generally, however, these categories are simply delineated abstractly or arbitrarily on the smooth hierarchy of one or several dimensions of social stratification; for example, groups of a certain income level, educational standing or prestige ranking. I attempt to specify the concrete position of the upper and lower middle classes in the system of production and the class structure.

71. Pineo et al, op.cit., Table II.
72. Alfred A. Hunter, Class Tells. On Social Inequality in Canada, Toronto, Butterworths, 1981, Table 5-2.
73. Osberg, op.cit., p 36.
74. Johnson, op.cit., p 157.
75. Osberg, op.cit., p 36. The data in Table 2-1 would indicate some broadening of share ownership among the higher-income strata. The distribution of financial assets in general shows a similar trend when ranked by income; Osberg, op.cit., Table 3-2. However, this broadening is very limited: this shift is not evident when the distribution of assets is ranked by wealth (See Table 2-2 here) and the proportion owned by the poorest 50% declined.
76. Ibid, Table 3-2.
77. Peitchinis, op.cit., pp 137-8. This increase also reflects the historical decline of the traditional independent strata; cf. Johnson, op.cit.
78. For a general discussion of exploitation, surplus value and the labour theory of value, see Paul M. Sweezy, The Theory of Capitalist Development, New York, Monthly Review, 1968, Ch IV. For a detailed analysis of class exploitation in Canada, see Cal Cuneo, "Class Contradictions in Canada's International Setting," Canadian Review of Sociology and Anthropology, 16(1), 1979; "Class Exploitation in Canada", Canadian Review of Sociology and Anthropology, 15(3), 1978.
79. See James Rinehart, The Tyranny of Work, Toronto, Longmans, 1975 on alienation, subordination and relations of control in the labour process in Canada. The schema outlined here applies best to the relationship between capitalists and workers in the industrial sectors where surplus value is actually produced. However the imperatives shaping relations of production and employment in the circulation and other spheres of the economy have a very similar impact upon workers; for example, employers there are equally concerned with minimizing the cost of labour power they purchase.
80. John Westergaard and Henrietta Resler, Class in a Capitalist Society, London, Heinemann, 1975, provides the best general analysis of the way in which the central institutions of capitalist society shape working class position. From among a wide literature on the position of workers in the organization of production, see Nicols and Beynon, op.cit., Richard Hyman, Industrial Relations. A Marxist Introduction, London, Macmillan, 1975, Huw Beynon, Working for Ford, Harmondsworth, Penguin, 1973, Harry Braverman, Labor and Monopoly Capital, New York, Monthly Review, 1974, and C. Wright Mills, op.cit.
81. Op.cit., p 59.
82. Pineo et al, op.cit., Table IV.
83. Patricia Connelly, Last Hired, First Fired. Women and the Canadian Labour Force, Toronto, Women's Press, 1978, Table 7.2A. The apparent decline of the proportion in the lower white collar jobs is largely illusionary. There were major changes in classification in the 1971 census and a much larger percentage of not stated occupations resulted. One of the most consistent features of the social

division of labour has been pervasive and unequal occupational segregation by gender. See also Pat Armstrong and Hugh Armstrong, The Double Ghetto. Canadian Women and their segregated Work, Toronto, McClelland and Stewart, 1978, Ch 2.

84. This sketch of the basic divisions within the working class developed here is quite rudimentary. This is clearly a problem upon which a great deal of further research should be concentrated.
85. Labour Canada, Wage Rates, Salaries and Hours of Labour, Ottawa, Information Canada, 1976. Peitchinis, op.cit., p 282ff, demonstrates the historical stability of these wage differentials.
86. Connelly, op.cit.; Armstrong and Armstrong, op.cit., pp 38-42.
87. See Wright, op.cit., pp 99-102 on structural and organizational class capacities.
88. Westergaard and Resler, op.cit., Part 5, and Frank Parkin, Class inequality and Political Order, London, Paladin, 1972, analyse the nature of working class consciousness and the forces that retard and distort its development.
89. Robert Laxer, Canada's Unions, Toronto, Lorimer, 1976, pp 37-9.
90. Ibid.
91. See Hyman, op.cit.
92. Wright, op.cit., Ch 2.
93. Pineo, et al, op.cit., Table IV.
94. Armstrong and Armstrong, op.cit., Table 7.
95. Lazer, op.cit.
96. See Westergaard and Resler, op.cit., for a clear analysis of class-based inequality.
97. See Hunter, op.cit.
98. Leo Johnson, "The Capitalist Labour Market and Income Inequality in Canada", in John A. Fry, (ed), Economy, Class and Social Reality, Toronto, Butterworths, 1979, Table 5.
99. Ibid, p 163.
100. Armstrong and Armstrong, op.cit., Table 22.
101. Ibid, pp 154-7.
102. Discussed in Johnson, 1979, op.cit.
103. Armstrong and Armstrong, op.cit., p 157.
104. Special Senate Committee on poverty, Poverty in Canada, Ottawa, Information Canada, 1971.
105. Peitchinis, op.cit., pp 333-4.
106. The following analytical framework is derived from John Westergaard, "Social Policy and Class Inequality: Some Notes on Welfare State Limited," in Ralph Miliband and John Saville, (eds), The Socialist Register 1978, London, Merlin Press, 1978, pp 71-99.
107. Ibid, p 72.
108. Hunter, op.cit., pp 69-70.
109. Johnson, 1979, op.cit., pp 163-6. This data is for a period later than the one under study here, but it has been seen that the overall patterns, with some changes in the degree of inequality, have been relatively stable.

110. Westergaard, op.cit., p 72.
111. Osberg, op.cit., 153-167.
112. Westergaard, op.cit., p 72.
113. Ibid, pp 73-4; see also Johnson, 1979, op.cit.
114. A particularly clear example of this is the role of women as a reserve army or pool of labour. Women have historically moved in and out of the paid labour force in response to capital's requirements at times of crisis, such as the world wars, or of rapid expansion of particular sectors, such as the great growth of clerical and administrative work within the last fifty years. See Connelly, op.cit. and Armstrong and Armstrong, op.cit.
115. Westergaard, op.cit., p 73.
116. Hunter, op.cit., Table 6-8.
117. See Johnson, 1979, op.cit., Table 3.
118. Hunter, op.cit., Table 6-8; see also Peitchinis, op.cit., Ch 17, Table 1.
119. Westergaard, op.cit., pp 73-4.
120. Ibid, p 74. In addition to the basic principles of property and labour market, Westergaard argues that the operation of consumer markets and differential access to credit further reinforces income inequality. A further contributing factor is the relatively low level of government financial support of those outside of the labour force. This is not only a reflection of state fiscal priorities; social security can never be so attractive as to be an alternative to seeking employment or the imperatives that keep people in the labour market will be threatened.
121. See Paul Hirst, "Economic Classes and Politics:, in Alan Hunt, (ed), Class and Class Structure, London, Lawrence and Wishart, 1977, pp 125-154.

Chapter 3 Class Interests, Political Representation and the State

This is a case study of the balance of political forces and institutional factors at work during the reform of the federal tax system from the 1960's through the early 1970's. More specifically, the focus is upon the implications of the tax system and its reform for concrete class and group interests and the way in which these implications in turn shaped political organization and activity during the formulation of tax policy. However, the dynamics of particular issues such as tax reform cannot be understood in isolation. This chapter consequently outlines the general framework of routine and established mechanisms and relations of political representation within the state and crucial structural imperatives and requirements of the capitalist system that limit and influence the parameters within which state social and economic policy is developed.[1] It is within such a wider context that political conflict and debate over specific issues such as tax reform takes place. The goal, as in the preceding chapter, is to delineate the central patterns and developing trends in these areas throughout the general period of the 1960's and early 1970's in which the debates on tax reform took place.

I. Political Parties and Political Power

Parties are crucial institutions within a liberal democratic political system: It is electoral competition between parties and the

right of citizens to choose between their alternative policies and leadership that is the essence of popular participation in determining the government and influencing its actions. Pluralist political scientists see parties to be key vehicles whereby diverse competing interests within society are articulated and mediated; they are held to be the key link between the electorate and the government and to play a vital role in the "brokerage" system of Canadian politics. It will be seen here that the most important political parties have historically tended to represent a much narrower range of interests than this would imply. Nonetheless, voting for party candidates is virtually the only input to the political process for the great majority of the populace and pressure on competing parties to court electoral support is one of the few factors ensuring that the response and concerns of the majority have to be taken into account within the political sphere.[2]

The major parties also constitute a central point of interconnection between the overall political system and the state and are crucial institutions within the structure of state power. While the party organizations are not formally part of the state apparatus and operate largely free from direct state interference, the goal of political parties is the election of representatives to the legislative assemblies to form the government. In the Canadian parliamentary system, it is a cabinet formed of elected representatives of the party able to command the support of the House of Commons that governs and has final responsibility for state policy. The governing party is, of course, of first importance in the structure of state power, but pressure from opposition parties in

parliament and wider public debate can also influence the development of state policy. For these reasons, the links between the political parties and key class and social groupings and party ideological perspectives and policy orientations are crucial issues in the analysis of state power. The following sections will first of all discuss the most important federal parties, the Liberals and Progressive Conservatives, which, within a certain amount of ideological and rhetorical diversity, accept and promote the existing social and institutional order. The close relationship between business and these parties has long been an important source of corporate influence within state politics. But it will also be seen that these parties must respond to political forces other than capital. Finally, the role of the New Democratic Party, as it operates within a sharply divergent political and ideological framework and represents very different social interests than the established parties, will be examined.

Corporate Influence in the Conservative and Liberal Parties

Power within these parties has tended to be concentrated in a relatively small group. Business representatives have traditionally been actively involved in this party leadership. Porter comments on the practice of "the directors of large corporations becoming chairmen or presidents of the national or provincial bodies."[3] Newman also emphasizes the extensive participation and influence of business people in party affairs at both national and provincial levels.[4] Whitaker documents the central role of leading businessmen historically within the Liberal party.[5]

A central facet of the close links between business and the parties has been the financial depedence of the latter upon the corporate sector. Detailed analyses of the historical development of the Progressive Conservatives and Liberals reveal that they have both consistently received the vast majority of their funds from the business community. More specifically, the lists of major corporations and wealthy individuals who contributed to the parties showed that the donors were from the highest circles of economic power. Reflecting this relationship, fund-raisers for the parties were men who had wide contacts among the top levels of business and the upper classes. These powerful lawyers, brokers and corporate directors came to have great influence in party policy.[6] The tremendous influence which such patterns of financing and leadership gave business in party politics persisted throughout the history of the major parties.

The continued financial dependence of the parties on the corporate sector has been well documented in the post-World War II period. Both major national parties - Liberals and Progressive Conservatives - received the bulk of their funds from "the centralized corporate industrial and financial structures concentrated in Montreal and in Toronto...the two parties were financed largely from the same source."[7] At least 50% of the funds of the parties came from corporations and a further 40% at least from individuals closely identified with particular corporations.[8] This entailed not simply dependence upon the business community, but more specifically on its most concentrated sectors - on a small number of dominant corporations and wealthy individuals associated with them. A leading fund-

raiser for the Liberals, R. G. Rankin, told a party convention in the early 1970's that the Liberal party operated on the support of 95 major Canadian corporations.[9] This same pattern held for the Conservatives whose support, in fact, tended to come from the same corporations. The general practice of these major corporate donors was to give to both parties - 60% to the party in power and 40% to the other party.[10] The major oil corporations, for example, routinely made large contributions to both parties. "The eight oil companies admitting to contributions offered figures amounting to $546,000 a year to Canadian political parties in non-election years." The contributions during elections are much larger; it was estimated that the oil companies contributed 20% of the total spent by both major parties in 1974.[11]

Reflecting these financial sources, top people in the party apparatus have traditionally been closely connected to the capitalist class. As noted above, the key people in the party financial structure, who have great influence in party affairs, have generally been lawyers, brokers or other top corporate figures well placed in the metropolitan business communities. Recent patterns confirm this trend. Until 1968, former Senator John B. Aird was treasurer of the Liberal Party, and a leading Toronto corporate lawyer and director of the Bank of Nova Scotia, Consolidated-Bathurst, National Life Assurance, Reed Shaw Osler and other companies.[12] Aird subsequently became chairman of the government and corporate-supported Institute for Research in Public Policy and Lieutenant Governor of Ontario. He was replaced by Senator John M. Godfrey, another Toronto corporate lawyer and director of Montreal Trust.

The top fund-raiser for the Conservatives for approximately twenty years was Beverly Matthews, a senior partner in the Toronto law firm of McCarthy and McCarthy, one of the most important such establishments in the Canadian power structure. Matthews was in 1973 vice-president of the Toronto-Dominion bank and a director of Brascan, Trans Canada Pipeline, Canada Life Assurance and both the Canadian subsidiary and U.S. parent Gulf Oil. In 1969, his party position was inherited by another member of the same legal firm - John Vernon.[13] The background and position of these fund-raisers and their key role in the parties provide a crucial link between business and these very important political institutions.

The Political Parties and the Power of Capital

The implications of the financial dependence of the parties on capital and the leading role of prominent businessmen in party affairs operate at several levels. At the most specific level, large corporate donations have been closely related to subsequent government decisions or programmes particularly favourable to the interests of the contributing firm. Throughout Canadian political history, scandals involving huge business donations and individuals at the highest levels of political and economic power have been thoroughly documented, investigated and then quietly forgotten.[14] There has also historically been a close relationship between corporate political contributions and the distribution of government patronage.[15] More generally however, it is access to political decision-makers that is ensured by these donations.[16] Corporate representatives themselves state that such access is a prime

reason for their political contributions.[17] Somewhat more generally again, the financial dependence and close interconnection of the parties and business tended to be a factor in the development of overall party economic policy geared to providing a favourable and stable environment for corporate capitalism. At the most general level, the integration of the parties and business shaped the development of the ideological parameters within which the parties operate; their generally pro-capitalist perspectives on key issues and their spirited support and defense of the free enterprise system.[18] Once again, there is a close parallel between these patterns and the corporate rationale for supporting the parties; the three most common reasons for corporate donations - the preservation of private enterprise, the two party system and a climate of opinion that is favourable to business[19] - are basically concerned with ensuring the stability of the general political and economic framework within which business operates. This business influence also extended to the selection of leadership. From the late 1950's through the 1970's leadership campaigns of both major parties were marked by the important role of corporate finances and personnel. This participation in no way determined the final results, but it was significant enough that all major candidates had to cultivate favourable relations with the business community.[20]

These various levels of corporate influence could be the basis of considerable pressure on the formulation of party policy. The virtual veto power that business can wield and the implications of financial dependence upon corporate sources were seen most clearly when business

withheld its support in opposition to party policy. This was the case during the 1965 election campaign as a result of the pervasive corporate hostility that had developed towards the Liberal government's economic policy. This opposition had in fact been building for several years. On June 13, 1963, Walter Gordon, then Minister of Finance, introduced a federal budget which contained a number of employment creation schemes. In order to provide revenue for these programmes, it also introduced tax changes to close loopholes in business taxation, require earlier payment of corporate taxes and extend the 11% manufacturing sales tax to building materials and production machinery. In addition, one of the budget's central goals was the encouragement of Canadian ownership of the economy. To this end, it proposed changes in the withholding tax on dividends paid to non-residents so that they were considerably lower for companies with significant Canadian ownership than for those without, improved depreciation for Canadian owned companies and the most controversial measure of all, a 30% takeover tax on the sale of established Canadian corporations to foreign interests.[21] The budget was greeted with intense opposition from all sectors of Canadian monopoly capital who considered the proposed measures to be unwarranted and unacceptable interference in corporate affairs. This hostility was described by Peter Newman, one of the leading political journalists of the time, in the following terms: "The economic benefits of American investment in Canada were so overwhelming that any appeal to stop - or in any way control - the influx of such funds ran squarely against the self-interest of many influential citizens, particularly members of the business community.

They brought down on Gordon's head one of the most vicious personal campaigns ever mounted against a Canadian cabinet minister. The businessmen were all the more enraged because they regarded Gordon as a traitor to his class."[22] The government faced growing pressure from a number of quarters: "The construction industry complained against the imposition of the sales tax on building materials in a flood of telegrams, letters and urgent requests for interviews with the Minister."[23] Representatives of the major stock exchanges, the Investment Dealers' Association and the financial community were apprehensive about the treatment of foreign ownership. Opposition to these provisions was lead by Eric Kierans, president of the Montreal Stock Exchange, who led a delegation of prominent members of Montreal brokerage firms including Senator Louis Gelinas, a leading investment broker and Liberal fundraiser, appearing before the Minister of Finance. Mr. Gordon described the June 18 meeting: "Kierans handed me a letter criticizing the budget and particularly the proposed takeover tax couched in highly intemperate language. He then proceded to harangue me in my own office and practically invited the stock brokers present to sell the market short when it opened the following morning. He admitted that this letter to me had been given to the press before he came to Ottawa, so the fat was in the fire."[24] Through the threat of serious disruption of the stock market, Mr. Kierans sought to force the government to abandon the takeover tax. The implications of such disruptions were well understood by Mr. Gordon: "I thought this over during the evening and the following morning informed the Prime Minister that I felt

there was no alternative but to withdraw the proposed tax because of 'administrative difficulties'."[25] In explaining this withdrawal to the House of Commons, the Minister referred to his consultations with the representatives of the securities industry over the administrative problems of the tax and noted that the government did not wish to inhibit "new financing now under way for the expansion of existing business."[26] In succeeding weeks, Mr. Gordon confirmed that the takeover tax would not be reintroduced and conceded further important changes in the budget by phasing the sales tax on building materials in gradually and easing the definition of Canadian ownership required for reduced withholding tax and higher depreciation allowances.[27] While this completed the government's retreat from the 1963 budget, it did not mollify corporate hostility.

It was within a context of continuing business opposition to state economic policy that the 1965 election campaign began. And it was in this context that the financial dependence of the Liberal party upon capital and its need for about $4 million for the campaign became particularly important: "When Senator John Aird, the party's chief fund raiser, made his initial contacts to try and raise that sum he was met with unprecedented resentment and resistance. During the week of September 6, some senior representatives of Canada's chartered banks urged Pearson through their intermediaries to recruit Robert Winters and drop Walter Gordon from the Finance portfolio...At the same time, a number of western Liberals organized by some Winnipeg businessmen connected with the Hudson's Bay Company and the Great-West Life Assurance Company, discreetely let out the word that they would bankroll any promising Conservative

with a chance of defeating Walter Gordon in his home riding of Davenport."[28] It appeared during the campaign that the Prime Minister had acceded to these demands; the major bankers certainly had this impression and many party fund raisers "were openly promising their potential subscribers that Pearson had pledged to remove Gordon from the Finance portfolio." But in a late October election meeting, the Prime Minister reaffirmed that Gordon would be Minister of Finance. The result was predictable: "The nation's financial community, which had been assured that Gordon's days were numbered, was severely shaken by the pronouncement...Businessmen who had made pledges toward the Liberal campaign fund now renounced them...The cutback in the Liberals' campaign contributions was based on something more than an informal consensus. Several leading Montreal, Toronto and Winnipeg businessmen were involved in organizing an active anti-Gordon lobby that urged business firms to severely limit their contributions to the Liberal Party. The chief moving spirit of this group was William Pearson Scott, chairman of Wood, Gundy and Company, the Toronto investment dealers."[29] On November 8, 1965, the Liberals were returned as a minority government and shortly thereafter Mr. Gordon offered to resign from the cabinet. The Prime Minister accepted his resignation, "apparently as a means of freeing the Cabinet from Gordon's reputation in the business community for dangerous radicalism."[30] In this instance then, the financial dependence of the Liberal party upon business left it extremely vulnerable to corporate pressure and this pressure was a central factor in subsequent changes in the composition of the government at the highest level. It must be emphasized, of course,

that business opposition to Mr. Gordon was not merely personal, but was directed against state economic policy, especially that of limiting foreign ownership.[31]

In summary, corporate financial support of the Liberal and Conservative parties and the extensive links between the party organizations and the higher circles of Canadian business were significant sources of influence for the latter within these very important political institutions. A more general effect of the close relationship with the business community was that these parties tended to operate within an ideological framework and political assumptions that accepted the basic institutional structure of capitalist society and were largely favourable to the interests of capital. The fact that the Liberals and Conservatives have been the governing and main opposition parties throughout the modern period underscores the significance of their close relationship with business.[32] It is in these ways, then, that the major parties constituted a significant means of the representation of capitalist interests within the political sphere. This relationship was by no means direct or deterministic. There could be tension between the business and the political parties over the formulation of policy and the tremendous pressure that business could exert in such instances has been discussed above. There were also important divisions and debates within the parties over the political viability of alternative policy strategies, over ideological issues, such as the degree of state economic intervention seen to be acceptable, and differences reflecting sectional divisions within capital, such as those between the resource and manufacturing

sectors over the direction of national economic development.[33] The parties could act as important forums where top political and corporate leaders can meet to mediate and reconcile such political conflicts and policy differences. In addition, while the dominant capitalist class was most influential, managerial personnel, medium-sized employers and small businessmen were also active in party affairs. Participation in the parties could be an important source of political unity within the business community as a whole.

Party Competition and Liberal Democracy

No other group had comparable influence within or such close connections to the major political parties as did the capitalist class. But this does not mean that the parties were unresponsive to other competing social and economic interests. In a competitive democracy all parties must seek to maintain and extend their base of electoral support within the public at large. The sheer size of the working class and the less powerful and wealthy majority of the population more generally means that the political parties must at least address their needs in order to gain their votes. At a more general level, the parties played an important role within the range of state and political institutions concerned with legitimation. Thus, the competing parties face significant electoral and ideological pressure to speak to the concerns and needs of the population to some degree.[34]

These elements of competitive democracy were especially important in the context of the federal political system; the major parties of the political centre were under constant pressure from their left. The

Liberal and Conservative parties could not appear to speak only for a privileged minority or to cede concern for the interests of the majority or for popular social issues to the New Democratic Party.[35] The position of the social democratic N.D.P in the Canadian political spectrum must be specified. From its earliest origin in the Co-operative Commonwealth Federation it had been reformist rather than radical and solidly committed to achieving its goals within the parliamentary system. In seeking to broaden its popular appeal, socialist elements within the C.C.F./N.D.P. programme had been consistently modified and eliminated.[36] In the hope of wider electoral success the modern N.D.P. has sought to portray a pragmatic moderate image. It had downplayed any identification of its policy in class terms and has instead cultivated a relatively vague and politically safe populist orientation; claiming to speak for the less affluent and powerful majority as opposed to the special interests represented by the mainstream parties. Nonetheless, its social democratic ideological perspective meant that the N.D.P. focused upon issues affecting the working class and other subordinate groups and pressed for progressive social and economic policy far more strongly than did other parties.

The progressive orientation of the N.D.P. was reinforced by its close links with the union movement, both financially and organizationally. This did not reduce the party to being merely the political arm of labour any more than the closer relation between the major parties and capital reduced them to being the spokesmen solely for corporate interests. But the N.D.P. did defend the legitimacy of union policy and labour

interests within the political sphere and did tend to share similar perspectives on key social and economic issues with organized labour.[37] The rough alliance of the unions and the N.D.P. provided one of the few direct mechanisms for the political representation of the working class. In contrast to the established parties, the N.D.P. and its labour support constituted the most important competing force representing interests other than capital and operating within a more progressive political and ideological framework.

To briefly recapitulate: the political parties were central institutions in the structure of state power in Canada. The financial dependence of the major Liberal and Conservative parties upon the corporate sector and the extensive involvement of businessmen in the party organizations ensured that capitalist interests were well represented within their policy and priorities. This representation was not, however, exclusive. While capital was the predominant force within the major political parties, they were also subject to a number of countervailing pressures that arose out of the basic structure of a liberal democratic political system. Constrained by electoral competition and the imperatives of political legitimation, the parties had to be sensitive to the concerns of the mass of voters. Moreover, the established parties could not allow the N.D.P. to preempt potentially popular progressive policies and issues.

II. The State Elite and the Capitalist Class

The extreme concentration of power within the Canadian state system was discussed in Chapter 1. The great power of the small elite group who occupy key positions of authority within the major institutions of the state has been well documented.[38] This section discusses the social background of the state elite and a range of social and institutional links between it and the capitalist class. The implications of these patterns for the guiding perspectives of the state elite and its exercise of power are then explored.

The Social Origin of the State Elite

John Porter developed the first comprehensive analysis of the social background of the political elite, which he defined as federal cabinet ministers, provincial premiers and the senior judiciary who held their positions from 1940 to 1960. Although complicated by the political necessity of balancing regional, ethnic and language representation, the social origin of the elite was quite consistent. A total of 24% of the political elite came from upper class families, a very large over-representation, but considerably less than the comparable figure for the economic elite. The great majority of the elite came from middle-class backgrounds and there was very limited representation from the working class. The high educational attainment of this group and the over-representation of the English and French charter groups and the central region of the country reinforced the patterns of class origin. The incumbents of powerful political positions clearly tended to come from the more advantaged strata of the class structure. Previous

careers of political leaders also supported this conclusion. For cabinet members the most common prior occupations were business and the law - professions firmly integrated into the institutional structure of capitalism.[39] Porter also examined the federal bureaucratic elite in the mid-1950's, those who held key positions within the administrative apparatus of the state. Those of upper class origin constituted 18.1% of this group, with a higher proportion among the higher ranking officials. A further 68.7% came from middle class backgrounds for a total of 86.8% of the bureaucratic elite from the middle classes or higher.[40] A later study by Presthus used a different formulation of the most powerful state positions, but also found that those in the key positions were from more privileged social backgrounds.[41]

Olsen provides a more recent analysis of the origin of the political elite, replicating Porter's earlier study. For those in top elected and judicial positions from 1961 to 1973, 22.4% were from the upper class, 69.0% from the middle class and 8.6% from less than middle class origin. Compared to Porter's 1960 data, there had been an increased proportion from the middle class and the very low proportion from the working class had actually declined.[42] The previous occupations of the political-judicial elite were largely within the independent middle class categories. However, representation from the upper class is by no means limited; there were numerous examples of individuals connected with prominent capitalist families holding powerful state positions. Olsen estimated that 20% of federal cabinet ministers and provincial premiers came from backgrounds of considerable wealth.[43]

The predominantly middle class origin characterized the top officials in the state bureaucracy. For the bureaucratic elite over the same period, 10% came from the upper class and 75% from the middle class. This proportion of 85% from at least middle class background was drawn from approximately 15% of the population. By contrast, the 85% below the middle class position accounted for only 15% of the elite.[44] In summary then, it is from the higher levels of the class structure that the holders of powerful positions within the state overwhelmingly originate.

The Social Milieux of Power

The state elite and capitalist class were bound together by a variety of social relationships. Extensive family and kinship ties linked the highest levels of political and economic power; for example, 91 members of the 1975 corporate elite had kinship links with the political or bureaucratic elites.[45] Prominent examples were the following: Renault St. Laurent, son of the former Liberal Prime Minister, was a leading Quebec City corporate lawyer, former director of the Canadian National Railways and in 1972 was a director of Banque Canadienne National, IAC Ltd., Imperial Life Assurance and powerful industrial corporations; Paul E. Martin, a top executive in the Power Corporation conglomerate, was the son of the Hon. Paul Martin, former top Liberal minister; the Hon. James M. Macdonnell was a corporate executive who played a key role in the Conservative party, his son, Peter, was an Edmonton corporate lawyer and director of the Royal Bank, CAE Industries Ltd., Canadian Utilities Ltd. and other major corporations and his daughter, Kathleen,

was married to R. W. Lawson, senior deputy governor of the Bank of Canada. Patterns of interaction in a myriad of social and entertainment functions - both official and private - and in the variety of cultural and philanthropic activities favoured by the upper classes provided further points of extensive contact between political and economic leaders.[46] Among the most important locations of such interaction were the exclusive private clubs of the elite; such clubs provided a select and informal forum for discreet contact between state and corporate leaders.[47] Reflecting these patterns of social interconnection were extensive and close ties of friendship between individuals in key positions in the corporate and state spheres.[48]

On the basis of their broadly similar social background and positions, Porter concluded that the political elite will tend to develop perspectives and consciousness very similar to that of the corporate elite.[49] No automatic or direct connection between class origin and political consciousness can be assumed, but in the context of the extensive social interconnection between the political elite and the capitalist class discussed here and the institutional links between the two sectors to be outlined below, Porter's conclusions seem broadly warranted. The highest levels of state and corporate power tended to operate within a similar political and ideological framework. The general policy parameters held by the state elite and shared with corporate leaders certainly included basic commitments to the institutional order of capitalism - and to the key role of private capital in the operation of the economic system.[50]

Institutional Integration of the State and Corporate Sectors

The interconnection of the state and corporate spheres also took a variety of institutional forms. One of the most important institutional links was the extensive career movement of key personnel between highest levels of the state and the corporate economy. The recruitment of corporate executives to prominent government positions has long been a central feature of Canadian politics; Porter noted the prevalence of the cooptation of businessmen into the federal cabinet.[51] More recent data reveal that "one-third of 1975 Canadian-born members of the economic elite held in the past, or continued to hold, positions directly within the state system."[52] Movement between the political and business worlds had been increasing: 27% of the 1961-1973 political elite had previously been involved in business and 27% of elected politicians in the elite who left office over this period took up major corporate directorships.[53]

An important developing trend during this general period was the strenuous efforts of the government to attract business people to top state positions. Several examples dealing with the political economy of energy illustrate these patterns. Jack Austin was an important figure in the mining industry before being appointed deputy minister of Energy, Mines and Resources in 1970. He was chosen by the Prime Minister specifically because of his business experience and connections.[54] He subsequently became principal secretary to the Prime Minister and was in 1975 appointed to the Senate. When the government required a chief executive for Petro-Canada - the state energy corporation established in 1975 - Energy, Mines and Resources Minister Donald Macdonald emphasized that they

were looking for a prominent person from the oil industry. It was felt that only such a person could give the corporation credibility with private industry.[55] Chosen for this position was Maurice Strong, a person whose career illustrates the close connection between the state and corporate sector.[56] Strong began his career in the oil and gas industry and was involved in the formation of Dome Petroleum and Canadian Industrial Gas and Oil. He subsequently became president of Power Corporation. In the mid-1960's, the Department of External Affairs was increasing the scope of its foreign aid and the minister brought in Strong to head the External Aid Office.[57] Strong was instrumental in creating the Canadian International Development Agency out of this and became its first president. He left C.I.D.A. to become an Under-Secretary and head of the environment program of the United Nations. Strong later announced that the president of Petro-Canada would be Wilbert Hopper. Hopper had been with Imperial Oil and Senior Petroleum Consultant with Arthur D. Little Inc., an influential international corporate consultant. In 1972, he joined the federal Department of Energy, Mines and Resources as a senior advisor and rose to be Assistant Deputy-Minister for Energy Policy[58] These top corporate executives brought to their new positions the perspectives and ethos of business and the extensive contacts they had in the corporate economy. That the state sought out experienced and well-connected businessmen for important posts indicated the closeness of the working relationship between the two sectors.

The opposite movement of top politicians and state officials to a variety of positions in the corporate economy was also both extensive and

significant. The movement from the federal cabinet to the board room had been particularly pronounced in the post-war period and has involved key figures from both major parties. After the 1957 defeat of the Liberal government, for example, there was wholesale movement of leading former ministers, including Prime Minister St. Laurent, C. D. Howe and Robert Winters to top corporate positions.[59] By 1965, Mr. Winters held positions in 24 corporations, was chairman of Brinco, vice-president of the Canadian Imperial Bank of Commerce, director of Power Corporation, Algoma Steel and many other prominent companies and chairman of the board of governors of York University. In 1965, Winters was instrumental in persuading the federal government to abolish taxes on privately-owned utilities.[60] As discussed above, Winters was asked by Lester Pearson to re-enter politics in 1965 in order to have a member of the cabinet with the trust of the business community. He ran for the leadership of the Liberal Party in 1968, was defeated and retired from politics. He then became president of Brascan, a major Canadian multinational corporation, and assumed many of the corporate positions that he had held in 1965. Mr. Winters died in 1969. A further important example from the 1960's involved some of the same major corporations. Donald Gordon moved from an early career with the Royal Bank to the Bank of Canada and eventually became deputy governor. During World War II, he was chairman of the Wartime Prices and Trade Board. He subsequently became president of the Canadian National Railways and retired in 1966. He was then appointed president of Brinco, the Major British controlled resource corporation, and director of the Bank of Montreal, Hudson's Bay

Company, Rio Algom, Royal Trust and other major corporations. In 1968, Gordon was able to convince the federal government to exempt the withholding tax on Brinco bonds so that capital could be raised in the New York market. This concession was part of a series of large-scale financial subsidies of the Brinco development of the Churchill Falls hydro-electric project in Labrador.[61] In negotiating for such generous state concessions, Brinco would no doubt have been aided by its close connection with such influential figures as Gordon and Winters. Examples such as this can illustrate the concrete significance of the movement of key individuals between the political and corporate spheres and the importance to individual corporations of having such people to represent their interests. These patterns continued through the 1970's. Jean-Luc Pepin developed very close relationships with the business community as minister of Industry, Trade and Commerce. He was defeated in the 1972 general election and was reported to have had discussions on possible positions with over 150 Canadian corporations.[62] However, he decided to establish his own trade promotion and consulting company - Interimco Ltd. - in which his government contacts and experience would be most useful. He also became a director of a number of major corporations: Power Corporation, Westinghouse Canada, Bombardier Ltd. and Celanese Canada. He was subsequently called back into government service as head of the Anti-Inflation Programme. When John Turner retired as Minister of Finance in 1975, he immediately became a partner in the Toronto law firm of McMillan, Binch and director of Canadian Pacific, its subsidiary Marathon Realty, Canadian Investment Fund and Crown Life Insurance Company.

The appointment of former politicians to corporate positions can have a number of implications. At one level, these appointments can be honourific, as a recognition of public service or performance while in office. More importantly, as the Brinco example indicated, these appointments can have significant functional importance for the corporation. The political prestige, experience, knowledge of government procedure and channels and extensive contacts of such people can be of great benefit to major corporations in their dealings with the state.

The advantages of employing former members of the political elite are particularly clear in the movement of top government bureaucrats to corporate positions. The widespread movement of former officials from the Department of Finance and of C. D. Howe's proteges in the Department of Trade and Commerce and other agencies to the corporate sector during the post-war period was particularly striking.[63]

Former state officials frequently were hired by corporate industry or trade associations or established themselves as private consultants or lobbyists. One of the most striking instances of the latter practice was the joint lobbying company set up in 1975 by Simon Reisman, former deputy minister of Finance, and James Grandy, former deputy minister of Industry, Trade and Commerce. In these powerful positions, these two men had tremendous influence in the formulation of state economic policy and their expertise, prestige and contacts could be of great advantage to their corporate clients.[64] Reisman was also appointed to the board of George Weston Ltd. - the major food industry conglomerate -

and had been delegated "as the member of the management team designated to look after government-company relations at all levels."[65] Detailed analyses of lobbying catalogued the extensive movement of former officials to key positions in the numerous corporate associations which were in constant contact with the state. These officials tend to have formerly been with those government agencies or departments with which the industry or group they represent were most closely connected. The enlistment of the contacts, experience and ability of such men in the service of major corporations or groups in the representation and promotion of their interests have significant influence in the complicated processes of state policy making and administration.[66]

The ease and extent of the movement of former state officials to business reflected the close relationships between the political and corporate sectors. That the major corporations should offer positions to former politicians indicated not only that they can be of great practical use in the representation of corporate interests, but also that their political careers met with the approval of corporate leaders. If the former politicians had operated in such a way that attracted the support of leading businessmen, it was likely that this was also a manner which was conducive to corporate interests. More generally, such movement was an important indication of the general political and ideological affinity of the leaders of these major institutions. This movement was also of great benefit to the former state officials; it could provide highly esteemed and potentially very lucrative further careers. For the majority of state officials of middle class background such appointments

constituted a means of access to positions of economic power and to the potential of amassing significant personal wealth. The possibility of receiving such corporate appointments was a significant incentive for politicians to carry out their functions in ways that were acceptable to the capitalist class. The material interests of the political elite were involved in other aspects of their relationship to business as well. In 1948, Lester Pearson, who had risen to become the top permanent official within the Department of External Affairs, was asked to become minister of that department but was extremely hesitant about the financial insecurity of elected political life. His close friend Walter Gordon, then still occupied in the substantial Toronto family business, raised an annuity to overcome this problem. This was not an unusual occurrence in Canadian politics: "St. Laurent had told Mackenzie King that he could not afford to remain in politics, and had finally agreed to accept the Prime Ministership only after a group of friends had offered him a private gift substantial enough to wipe out his debts and meet his needs for the future. The humiliating pattern was a familiar one for Canada's leading politicians."[67] In the early 1970's, a trust fund of $300,000 had been established for leading Quebec politician Claude Wagner so that he could stand for election for the federal Conservative party.[68]

Summary: The State Elite and Capital

This section has outlined the extensive social and institutional links between the small group who occupy key positions within the state apparatus and the capitalist class. This interconnection must be seen in the context of the close ties between the major political parties

and business discussed earlier and the widespread direct corporate participation in state affairs. The nature and extent of this interrelationship was evidence of the integration of the higher levels of corporate and political power. Such relationships could involve significant direct influence in the dynamics of politics, but more generally, they served to ensure a basic ideological affinity between political and corporate leaders. These close relationships entailed that state politics tended to operate in a way which took the interests of capital into account. The routine operation of state politics tended to take place within core assumptions and general parameters that favoured the health of the capitalist system and of the dominant classes within it.[69] No other group or interest in the Canadian social structure had the advantages of such close social and institutional relationships with the political elite. The less advantaged strata were not well represented in the higher reaches of political power, nor did labour and political leaders tend to move in similar social circles. There was no significant movement of key personnel between the union and state structures.

III. Corporate Participation in the State

Representatives of major corporations and business associations played a direct and extensive role in the affairs of the state. They were in constant contact with state officials at all stages of the policy process from initial formulation and revision to final implementation and administration, and in a wide range of departments, agencies and other settings throughout the state apparatus.

The Second World War

The evolution of corporate participation in the federal state was greatly shaped by developments during the war period.[70] The war years featured massive state intervention throughout the economy; the state played a key role in the mobilization of labour, the direction of production in all sectors, the tight control of the movement of wages and prices, the allocation of resources and in vast programmes of capital grants to vital industries. When confronted with the problem of administering and directing the huge scale of this economic intervention, the government turned to those who normally did so in the private sector. This period was consequently marked by a huge influx of corporage executives to key positions at all levels of the state apparatus. Businessmen played a predominant role in crucial institutions, such as the Wartime Prices and Trade Board, The Foreign Exchange Control Board and the Department of Munitions and Supply, which directed the overall economy.

The industry controllers and leading personnel in the agencies that directed the various sectors of production were generally executives from the industries which they were regulating. These officials had come from some of the most powerful enterprises in the country and included many people who were to become leaders of the corporate economy.[71] Fifty-three of the 1,975 corporate elite had held senior positions within the wartime state.[72] Peter Newman saw this large-scale recruitment of wartime industrial production as a crucial factor in the formation of what he termed "an Establishment whose members and ideas were to dominate the nation's business and public affairs":

> Howe's proteges deliberately set out to learn where all the important pieces were: who counted and who didn't; how to deal with each other, with cabinet ministers, and with the political system. (At the same time, there was forming a significant community of interest between the dollar-a-year men and the upper echelons of the public service, where the group of mandarins who would run Canada's permanent subgovernment well into the 1970's began to emerge).
>
> It was the network of connections and interconnections between business and government, fathered by Clarence Decatur Howe, that became the Canadian Establishment - its great dynasties spreading into every form of commercial enterprise across the country. It turned out to be an astonishingly resilient structure, with large remnants of the original group or their heirs still exercising the power that counts. When the dollar-a-year men fanned out at the close of World War II to run the nation they had helped to create, the attitudes, the working methods, and the business ethic they took with them determined the country's economic and political course for the next three decades.
>
> They had come to Ottawa as individuals; they left as an elite.[73]

Although these trends were in large part reactions to the specific crisis of the war, they were to have a lasting impact in shaping the relation between the state and corporate sectors. Though heightened by the effect of the war, the growth of state economic intervention was a central long-term structural trend in the political economy. The state played a direct role in the post-war reconstruction of the economy and the growing state intervention and planning was explicitly committed to the maintenance of full employment and sustained economic growth. The precedent set by corporate activity in the state during the war was of great importance in the development of these trends. With the increasing role of the state in the economy, corporate participation in the direction of this role was also increasingly regularized and systematized.

Corporate Input to the State

Extensive contact between business and government officials and corporate involvement in state policy formation and administration continued to be a crucial feature of modern Canadian politics. Much of this was carried out at a relatively informal level. The pervasive interaction of business and political notables within the social milieux of the upper class overlapped with widespread personal contact and correspondence between these groups. Joint attendance of business and political leaders at a variety of working luncheons, formal dinners and other official functions provided useful forums for the discussion of policy issues. The Trudeau government had hosted large numbers of such dinners during the early 1970's, including "the extraordinary descent recently of thirty-six of Canada's most important business leaders for an earnest working lunch with the Prime Minister," in its efforts to improve its uneasy relationship with the business community.[74] Fournier's comprehensive study of relations between business and the state in the province of Quebec over the 1960 to 1974 period documented numerous informal ties between top corporate figures and cabinet ministers; one senior executive commented as follows: "Ministers are easy to meet... on the golf course, for example."[75] The central feature of corporate-state interaction, however, was its highly organized character.

Major corporations themselves kept in close touch with key state officials. Many of the largest corporations maintained an office in Ottawa to deal with the government on a permanent basis.[76] The multinational corporations that dominated the petroleum industry, for example,

such as Shell, Gulf and Imperial Oil, were all highly active in Ottawa and able to exert considerable pressure on energy policy during the latter 1960's and early 1970's.[77] Major corporations and their senior executives had been devoting increasing time and resources to their relations with the state. A number of surveys and consultants' reports found that such activities were taking up a considerable amount of executive time and a 1971 Financial Post survey found that "many firms were spending $250,000 to $500,000 a year on governmental contacts." The same survey found that many corporations had established a "special department of governmental affairs headed by an executive level official" or had "delegated top-management personnel to deal with governmental affairs on a full-time basis."[78] Fournier's Quebec study also showed the extent of this intervention: "According to the businessmen interviewed, contacts with government were maintained at all levels of the company. In fact, there was a corresponding hierarchy between business and government. The senior executives usually dealt with the cabinet ministers or premier, the middle executives conferred with deputy ministers or their assistants, while lower level executives or managers dealt with lower echelon civil servants." The permanent nature of these links must be stressed: "Relations with government were not only based on an ad hoc problem solving basis. Business attempted to cultivate its access to government on a permanent long-term basis. According to one executive, 'Government relations are nurtured through a lot of our people getting to know people they should know in government. This allows us to find a solution quickly if and when a problem comes up'." The confi-

dential nature of policy negotiations is very important: "The vice-president of a major corporation made the point clearly: 'On many issues, compromise is reached well in advance of any public debate. The public has a lot of difficulty in understanding what is going on. We work directly and secretly with government, and we manage to avoid government regulations as a result'." Finally, the reciprocal nature of these close business-government relations was evident: "it was not just business that sought contacts with government. The evidence indicated that the initiative for contacts often came from the ministers themselves and that government courted business perhaps more than business courted government." Ministers sought business advice on general issues such as the overall climate of investment, on conditions in their particular industry and on the impact of government policy and regulation.[79] In addition to using their own personnel, major corporations frequently hired professional lobbyists, former government officials, lawyers and other specialists with good connections within the state apparatus to represent their interests.[80]

A great deal of corporate political representation was carried out by industry and trade associations. The most important general business organizations, such as the Canadian Chamber of Commerce and the Canadian Manufacturers' Association whose members collectively accounted for very large proportions of total economic activity in Canada, had large staffs and devoted considerable money to deal with the federal government. Officials from these organizations kept in close touch with their opposite numbers in those departments and agencies that affected their members' interests most directly. Thus the C.M.A. was particularly well connected

to the Departments of Finance and Industry, Trade and Commerce.[81] Broadly similar patterns also held for organizations representing specific industries. Thus the Canadian Petroleum Association, Independent Petroleum Association of Canada and the Canadian Association of Oilwell Drilling Contractors developed close links to the National Energy Board and the key branches of the Departments of Energy, Mines and Resources and Indian Affairs and Nothern Development that affected the oil and gas industry. The first two organizations had major Ottawa offices to liase with the federal cabinet and parliament and to present the industry's point of view to the media.[82] A major thrust of the business associations' activity was to press for favourable administrative rulings and regulatory decisions from the relevant state body. A major concern of the C.M.A., for example, was the application of government competition policy: "In seeking administrative interpretations of Acts which are favourable to its members, association officials visit the Directors of the Restrictive Trade Practices Commission to discuss the interpretation and administration of Acts relating to mergers, monopolies, and combines. Similar action is carried out in other areas of legislation."[83] The fact that corporate forces were influential not only in the development of state policy, but also in its implementation and administration was highly significant. It provided the opportunity to limit the concrete impact of legislation which had been adopted in spite of business opposition.

The highly organized corporate lobby, both of dominant corporations and major associations, was a permanent and pervasive presence in state policy deliberations. This involved the presentation of comprehensive

briefs and numerous letters and shorter submissions on key issues to the government. This policy input was regularized in annual submissions from leading corporate associations to the federal cabinet. An enormous amount of such policy discussions take place far from the public eye; in informal contact between interest group representatives and state officials. The extensive contacts and great resources of corporate organizations left them particularly well placed to influence policy as it was first being formulated deep within the bureaucracy. The significance of such input was stressed by a leading Ottawa lobbyist: "At that stage civil servants are delighted to talk quietly to people like us, people representing this or that corporation or industry directly involved. That is the time to slip in good ideas."[84] Access at this stage, before policy had gone to the cabinet and been finalized, was very important. Once official policy had been publicly stated or put forth as legislation, it was much more difficult to change without the government appearing to be directly giving in to business pressure.

Institutionalization of Corporate Representation

It is important to emphasize that this corporate participation was encouraged and solicited by the government. In a major speech to the annual meetings of the Canadian Manufacturers Association in 1970, Jean-Luc Pepin, the then minister of Industry, Trade and Commerce, blandly noted that "in Canada, industry is rather closely associated with government. Politicians and officials are generally quite keen to work with businessmen." Pepin (who, as noted, later became a corporate consultant and director) emphasized that state officials were in daily contact with

business and that the participation of corporate leaders in the development of government economic policy was continually sought.[85] Conferences of organizations such as the C.M.A. had long been important forums for consultation and discussion between leading businessmen and politicians. At Association meetings in 1956 and 1962, for example, the Deputy Minister of Trade and Commerce and the Minister of Finance respectively had echoed Mr. Pepin's comments on the close relationship between government and business, and with the C.M.A. more particularly.[86]

The involvement of corporate representatives in the policy process was increasingly institutionalized in a variety of advisory councils andbodies throughout the state apparatus. Mr. Pepin noted the extent and importance of these advisory committees in his speech to the 1970 session of the C.M.A. on industry-government relations.[87] One such organization was the Advisory Council in the Department of Industry, Trade and Commerce. Active in this council were key figures in the economy representing some of the most powerful corporations, such as Ian Sinclair of Canadian Pacific, Alfred Powis of Noranda Mines, Allen T. Lambert of the Toronto - Dominion Bank and W. O. Twaits of Imperial Oil.[88] The Financial Post later noted that Donald Jamieson, minister in 1976 seemed "delighted with the flow of information he is getting through the council - he says that some of it helped a lot in drafting parts of the federal budget last month."[89] Clement analyzed the composition of the council at that time: twenty of the thirty-seven members were from the economic elite, representing forty dominant corporations, including all five major banks and key resource and manufacturing firms. The other seventeen members were capi-

talists based upon medium-sized or smaller companies.[90] Mr. Pepin emphasized the utility of this body as a forum for discussion with industry leaders and added that "representation progressively leads to active participation in the formulation and implementation of policies."[91] The Department of Regional Economic Expansion had an advisory board on which four industry representatives sat and which made important decisions on the awarding of the department's incentive grants to business. Of the four corporations of which these men were executives, three had received substantial grants from the department - the fourth was a financial company and consequently ineligible.[92] The Department of Energy, Mines and Resources had advisory committees on petroleum and mining on which top corporate people from the respective industries sat.[93]

Key departments and agencies within the state developed extensive, systematic and regularized interconnections with those sectors of the corporate economy with which their responsibilities brought them into closest contact. Presthus' detailed study of Canadian interest groups concluded that extremely close "functionally-prescribed relationships" existed between the major government departments and their "clientele" groups. Organized capital was far more tightly integrated than any competing groups with those vital state apparatuses that determined economic policy and intervention in terms of constant consultation and discussion, movement of personnel between the state and corporate spheres, the development of shared understandings or certain "rules of the game" which guide this interaction, and the routine taking into account of business interests by state policy makers. For example, reflecting this "functional

cohesion," he found that the Canadian Manufacturers' Association was regarded as highly influential within the departments most concerned with industry and finance by their top officials.[94] Mahon argued that the Department of Finance has been the most powerful institution within the Canadian state due to its primary responsibility for fiscal and economic policy, its central role in negotiation and compromise with other decision-making centres and its significant influence over other departments through its control of the budgetary process. Through these mechanisms, the Department was an essential force in imparting coherence to overall state policy. She then emphasized the close relationship between the Department of Finance and capital; arguing that it represented the dominant fraction of Canadian capital within the state. French found a similarly close relationship between the Department of Industry, Trade and Commerce and the corporate sector in the formulation of industrial policy in the 1970's. There was extensive routine consultation with business within the department and in the many joint state-private sector task forces established to explore policy alternatives. The structure of the department reflected its integration with industry: its various divisions were specifically concerned with particular sectors of industry, they developed close working relationships with business in the formulation and administration of sectoral strategy and as a result "a community of interests between program managers in government and their industry clients" was created.[96]

The corporate sector was also well connected to the governing bodies and executive of the large number of independent and semi-independent agencies, boards and crown corporations that had become increasingly

important within the state and were in extensive contact with these institutions in the performance of these functions. The corporate sector was particularly closely connected to the over one hundred federal regulatory agencies. Petroleum regulatory organizations were dependent upon the industry for data, drew most of their personnel from the private sector and were in close routine contact with the major oil companies.[97] Corporations and business associations had far more resources at their disposal to present their arguments to regulatory commissions and hearings then did other competing groups. Even more importantly, state regulation tended to operate within assumptions, such as the necessity of a fair rate of return on capital investment, which favoured corporate interests.[98] Trebilcock has argued that despite extensive state regulation of business, "most of the extensively regulated industries, at least, prefer being regulated to competing and actively seek and sustain accomodating regulatory regimes." He cited the views of former Minister of Consumer and Corporate Affairs John Turner: "I've looked at a lot of regulatory agencies, and the longer I'm around here, the more I believe that every one of these tends, in a period of time, to reflect the interests of the industry it is supposed to be regulating."[99]

As well as their extensive involvement and influence in the development of policy within the state administrative structure, corporate spokesmen are also active in a number of state institutions devoted more explicitly to policy formation. The Economic Council of Canada and the Science Council of Canada played an increasingly important role in the study and discussion of key policy issues through the 1970's. The boards

of directors of these organizations included many leading businessmen. As will be seen shortly for the specific case of tax reform, royal commissions were important vehicles for the development of policy. The corporate sector was consistently well represented in the composition of these commissions and in their counsel and staff, and made comprehensive inputs to their deliberations. Leading corporate figures were also much involved in a variety of other government policy commissions and task forces during the mid-1970's. An influential advisory group on the rationalization of the public service was chaired by Allan Lambert, chairman of the Toronto-Dominion Bank and director of many major corporations, and included two executives and two prominent academics with corporate directorates.[100] Gordon Sharwood, former chairman of Guarantee Trust Company, and Roy MacLaren, former chairman of Ogilby and Mather (Canada) Limited, completed major studies on how to more efficiently organize business-government relations for the federal cabinet.[101] Leading industry consultants were often retained by the government to advise on policy matters. For example, Walter J. Levy was an international energy consultant who had worked for major corporations and governments throughout the world. He played a key role in the development of energy policy in Canada as a consultant for the Borden Royal Commission in the late 1950's. In the 1970's, his firm was hired by the Alberta government to advise on tar sands development and energy trends.[102] It will be seen below that a number of key parliamentary committees had become important forums for the discussion of state policy and their hearings came to provide a means of public input to the policy process.

The prevalent source of this input was business, with the submission of large numbers of impressive briefs by leading figures from some of the most powerful corporations in the country.

Conclusions: The Representation of Capitalist Interests Within the State

The extensive interconnection of the state and corporate sectors gave the latter a great deal of direct influence in the policy process. This was especially so given a key trend within the wider structure of state power: the declining significance of parliament and the increasing concentration of power in the administrative structure of the state. Following Max Weber's analysis of bureaucratic domination, Jessop argued that "to the extent that parliamentary control is weak, the bureaucracy tends to represent the interests of big capital - since it is big capital that is best organized to influence and to negotiate with the bureaucrats."[103] As well as having an important impact on particular issues, the great access of corporate representatives to state decision-makers and their significant influence on the latter's deliberations shaped the overall parameters or framework within which state policy was developed. This entailed shared definitions of the public interest; for example, a common commitment to the central importance of sustained economic growth and a belief that high levels of profit and a favourable climate of investment were essential to the achievement of this paramount national goal. The guiding assumptions and priorities within which state policy and intervention operated accepted without question the crucial role of private capital within the economy and routinely took corporate interests into account.

This favourable overall context and the routine and pervasive representation of capitalist interests within the state was fundamentally more important than those instances where corporate pressure was brought to bear against policies to which it was opposed. Nonetheless, on crucial and contentious issues such corporate pressure could be massive. A good example of the tremendous pressure that business could mobilize was the fate of government efforts to strengthen competition policy, first of all in the late 1950's and again in the 1970's.[104] In both cases the porposed changes were met with concerted and highly organized corporate opposition. This involved a great deal of direct lobbying of state officials by executives of major corporations or associations. Business objections to the government proposals were extensively reported in the media and the numerous speeches and public pronouncements of leading corporate spokesmen were much discussed. The corporate sector submitted large numbers of comprehensive briefs criticizing the recommended changes to the government and parliamentary hearings. There were frequent dire predictions of the devastating effect of stricter competition policy on business confidence and the health of the economy and many less subtle threats of the withdrawal of capital. By contrast, there was only a very limited defense of the proposals from groups such as labour organizations and consumer associations. The result was a steady government retreat in the face of this enormous corporate pressure: the proposals were consistently eliminated or modified in the direction of business demands.

IV. Political Representation of Labour and Other Competing Interests

No other group was as effectively or pervasively represented within the ongoing processes of state policy-making and administration as was capital. The most important competing political force was organized labour, both in terms of position within the overall institutional order of capitalist society and more immediate conflicts and debate within the political sphere. But the political representation of labour was limited in a number of fundamental respects. Labour unions were the most important organizations representing the working class at the political level. The first limitation of this, of course, was the fact that only a minority of workers were members of unions. A more significant limiting factor was the basic political thrust of the union movement itself. Although it was a far from cohesive federation of individual unions and faced competition from other union centres, the major general organization was the Canadian Labour Congress. One of the central findings of Kwavnick's study of relations between the C.L.C. and the government from 1956 to 1968 was "the obsessive concern of the Congress leadership to secure recognition and acceptance of their organization as the voice of organized labour in Canada."[105] To solidify its claim to speak for labour, the C.L.C. sought rights of consultation and participation in state policy deliberations and representation upon government advisory bodies. The federal government was prepared to support this claim: "Government recognizes, at least in part, the mandate claimed by the Congress leadership. In recognition of this mandate, government conferes privileges upon the Congress in the form of nominations to public bodies, consultation and access to political

leaders and civil servants."[106] The price of this official acceptance has been a commitment by labour leaders to direct the union movement in a moderate and responsible manner, Kwavnick argued that "acceptance of the Congress and its leadership by government and by other interests in the Canadian political system has resulted in the abandonment of whatever elements of radicalism the labour movement may once have possessed." More concretely, this has meant that the working class has not been represented in class terms at the political level. Kwavnick examined the annual C.L.C. briefs to the government from 1957 to 1968: "Throughout these pages the Congress leadership refers to its constituency by a variety of terms: the workers of Canada, the working people, the wage earners and so on; at no time does the Congress leadership refer to its constituency as the working class."[107] This political incorporation of the union movement operated within a basic acceptance of the established institutional order of Canadian society.[108] This was paralleled by the economistic orientation of union practice: collective bargaining was centred upon a relatively narrow range of economic issues and did not challenge managerial control of the purposes and organization of production or the wider structure of capitalist society. In this accommodation to the capitalist system, organized labour did not constitute a threat to its continuity.

The political representation of labour within the state was also highly limited in more routine terms. While labour leaders did sit on various advisory bodies and did have access to state officials, the nature and level of their participation and influence in state policy

formation was extremely restricted when compared to that of business. The type of pressure labour could exert on contentious issues was insignificant when compared to that of the corporate sector.[109] It must also be emphasized that the interests of the capitalist and working classes were represented within the state in a very different fashion. It has been seen in earlier chapters that one of the key functions of the state is to reconcile and mediate the specific or immediate interests of capital with the more long-term interests of capital as a whole. In other words, the state operates to reconcile conflict or tension between the immediate and fundamental interests of capital. On the other hand, those institutions within the state, such as the Department of Labour, which are functionally connected to the unions do not represent the interests of labour. Their primary function is to mediate between labour and capital in order to maintain stability in industrial relations and control labour conflict. Mahon contrasted the views of ministers of industry who explicitly saw their role as representing the manufacturing industry within the state with "former labour minister Bryce Mackasey's description of his role as a 'go-between' between labour and management. His duty - and that of his officials - was to bring to the realization of labour and management '<u>that they have a common interest, a common destiny in our system of private enterprise</u>.'"[110] While the immediate interests of some sectors of labour can benefit to some extent from the compromises and negotiations involved in this mediation, the whole process is designed to reproduce a system in which the interests of labour and capital are antagonistic. The goal of state policy is to integrate the union movememt

within the institutional structure of capitalism and this is clearly not in the fundamental interests of the working class.

In general then, the direct representation of contending social and economic interests within the state and the overall nature of political competition were profoundly unequal. In addition to labour, a number of other groups, such as farmers and independent professionals, were represented by well-established organizations.[111] While recognized by the state and influential to varying degrees in their particular spheres, these organizations operated over a very narrow range of issues. The more general interests of the great majority of the population were very poorly represented. A good example was the conflict over competition policy discussed above. This was an issue in which consumers in general would have clearly benefited from the recommended policy and in which these interests conflicted sharply with those of business. But the consumer interest proved to be too diffuse and organizations such as the Consumers' Association of Canada too weak politically to be able to protect these interests. The enormous corporate pressure exerted against the proposals was decisive.[112] This is not to say that the demands and interests of competing groups are not a factor in the dynamics of politics. Within a liberal democratic system such forces must always be taken into account to some degree. But it was organized capital that was the dominant force within the routine representation of class interests within the state and the overall parameters and exercise of state power.

V. Conclusion: Political Representation and the Parameters of Policy Formation

To this point this chapter has outlined the main lines of instrumental connection between the key class and social groupings and the state. The direct political organization of competing social forces is always a central factor in the dynamics of state power. However, the analysis of such instrumental links must not ignore the fundamental constraints imposed on the functions of the state by the wider institutional structure of the capitalist system. As discussed in earlier chapters, for example, the imperatives and requirements of capital accumulation, as the driving force of capitalist production and the essential basis of its reproduction, greatly shape the role and development of the state. Also as discussed earlier, the structure of economic power, in which the operation of the economy and the allocation of resources is controlled by private capital, imposes crucial constraints on the state. Since the state is responsible for maintaining economic prosperity but the means to do so are privately controlled, it remains fundamentally dependent upon capital to ensure satisfactory economic growth. The state must therefore guarantee a favourable overall political and economic environment in which the capitalist class is willing to invest; in short, it must maintain business confidence. This necessary maintenance of business confidence serves to define the limits within which state policy operates.[113] Ralph Miliband emphasized the constraints imposed upon state freedom of action and the possibilities of reformist policy that result: "Given the degree of economic power which rests in the 'business

community' and the decisive importance of its actions (or of its non-actions) for major aspects of economic policy, any government with serious pretensions to radical reform must either seek to appropriate that power or find its room for radical action rigidly circumscribed by the requirements of business 'confidence'...Politics, in this context, is indeed the art of the possible. But what is possible is above all determined by what the 'business community' finds acceptable."[114]

These structural imperatives and requirements are a crucial element of political representation within the state. They ensure that the interests of capital and its response to state policy and intervention must be taken into account. This operates automatically and anonymously, even when no direct corporate pressure is brought to bear. These considerations are also the basis of the state's need to consult the capitalist class and institutionalize corporate participation within the state. The particular context in which these structural imperatives function in the Canadian political economy must also be noted. With the increasing internationalization of the world capitalist economy during the modern period, "any single nation cannot entirely ignore the requirements of capital accumulation and reproduction. To do so would invite the flight of capital to other, more promising, centres of accumulation."[115] Given the high levels of foreign ownership of the commanding heights of the economy, this was an especially important constraint on the Canadian state. It will be seen that throughout the debates on tax reform a fear frequently expressed by politicians and an ominous prediction often made by capitalists was that international capital would withdraw its capital or reduce future

investment if Canada was seen to no longer provide a stable and favourable climate for investment. Given the great significance of these fundamental structural requisites and imperatives of a capitalist institutional order, a key question to be addressed in this study becomes: how are these structural factors transmitted into actual state policy? This does not take place in any automatic, inevitable or deterministic manner. Similarly, how are structural and instrumental factors interrelated in the dynamics of state power?

The central structural imperatives of a capitalist economy constitute an unavoidable constellation of pressures that greatly shape the development and role of the state and set the limits and parameters within which state policy and intervention operate. Thus, in all monopoly capitalist countries the state has come to play a crucial role in facilitating and supporting the accumulation of capital. At the same time, state policy which fundamentally restricted or damaged the accumulation process would not be compatible with the reproduction of the existing institutional order. On any specific issue of economic policy then, such as taxation and tax reform, the underlying structure of the capitalist economy imposes a strict logic on the development of policy and definite limits on the range of alternatives available. But these limits can be fairly broad and there can be considerable room to manoevre for state policy-makers within them.[116] Substantial discretion in the balance of priorities and considerable range in the policy options that can be chosen is normally possible. It is within these limits and range of possibilities that conflict and debate between organized political forces

and patterns of influence and representation within the policy process are so important. Within limits conditioned and constrained by structural factors, the outcome of the policy process is very much shaped by the balance of such competing political forces.[117]

It was within this overall structure of political representation and these routine mechanisms and parameters of state policy formation that conflict and debate over tax reform took place. One further feature of the political context of this period must be noted: the strained relationship between business and the state. A number of policy initiatives in areas such as foreign ownership, corporate regulation, labour law and competition policy and the increased scope of state social and economic intervention had generated deepening suspicion and growing hostility within the business community.[118] As important as it was, the conflict that developed over tax reform was one battle among many between business and the government. The final element of the context for tax reform to be specified is the position of taxation and fiscal policy within the overall political economy of the modern state. That is the focus of the next chapter.

Footnotes

1. The question of political representation within the state and the processes of state policy formation was introduced in Ch 1. For a useful overview see Bob Jessop, "Capitalism and Democracy: The Best Possible Shell?", in Gary Littlejohn et al, (eds), Power and the State, London, Croom Helm, 1978, pp 10-51. In regard to the focus of this chapter, Jessop strongly argues that state power is shaped not only by the balance of forces at particular conjunctures but also by the overall framework or circumstances in which political conflict takes place; p 13.
2. On these general issues, see Colin Crouch, "The State, Capital and Liberal Democracy", in Colin Crouch, (ed), State and Economy in Contemporary Capitalism, London, Croom Helm, 1979, pp 13-54.
3. John Porter, The Vertical Mosaic, Toronto, University of Toronto Press, 1965, p 531.
4. Peter Newman, The Canadian Establishment, Toronto, McClelland and Stewart, 1975, Ch 7; see also his Renegade in Power: The Diefenbaker Years, Toronto, McClelland and Steward, 1963 and The Distemper of Our Times, Winnipeg, Greywood Publishing, 1968.
5. Reginald Whitaker, The Government Party, Organizing and Financing the National Liberal Party of Canada 1930-1958, Toronto, University of Toronto Press, 1977.
6. J. L. Granatstein, "Conservative Party Finances, 1939-1945" and K. Z. Paltiel and J. B. Van Loon, "Financing the Liberal Party, 1867-1965" both in Committee on Election Expenses, Studies in Canadian Party Finance, Ottawa, Queen's Printer, 1966.
7. K. Z. Paltiel, Political Party Financing in Canada, Toronto, McGraw-Hill, 1970 p 5. Paltiel was the research director of the Committee on Election Expenses and this book is based on the extensive findings of that committee.
8. Ernest E. Harrill, The Structure of Organization and Power in Canadian Political Parties: A Study in Party Financing, unpublished Ph.D. dissertation, University of North Carolina, 1958.
9. David Lewis, Louder Voices, The Corporate Welfare Bums, Toronto, James Lewis and Samuel, 1972, pp 64-5.
10. Paltiel, op.cit., Ch 2.
11. James Laxer and Anne Martin, (eds), The Big Tough Expensive Job. Imperial Oil and the Canadian Economy, Erin, Press Porcepic, 1976, p 35. These patterns have changed somewhat since the period under study. Recent years have witnessed legislative efforts to reform party financing at the federal and several provincial levels. However there is little reason to believe that this will fundamentally alter the political perspectives of the parties. The history of the major parties and their financing has been fraught with scandals, investigations and attempts at reform; all of which have been uniformly ineffective (cf Paltiel, op.cit.). The removal of the financial dependence will not destroy the close historical relationship between business and the parties of the extensive interconnection or the highest level between the party apparatus and

the corporate economy; nor will it automatically alter the ideological and political parameters within which the parties function. A concrete analysis of the federal and Ontario reforms indicates that in practice they will not change the relations of power in the parties significantly, of Jo Surich, "Keeping them Honest: Election Reform in Ontario" in Donald C. Macdonald, (ed.), Government and Politics of Ontario, Toronto, Macmillan, 1975, pp 349-62.

12. Biographical data of this nature has been collected from the standard sources such as Who's Who in Canada, the Canadian Who's Who and the Financial Post Directory of Directors. When these sources are used, they will not be specifically noted.
13. Globe and Mail, (Toronto), June 27, 1964, p 6.
14. Paltiel, op.cit., and Kenneth M. Gibbons and Donald C. Rowat, (eds), Political Corruption in Canada. Cases, Causes and Cures, Toronto, McClelland and Stewart, 1976. Seeing such instances as corruption or conflict of interest is misleading. The fact that certain practices have come to be defined as unethical does not change their character as examples of the most concrete or specific level of much more general relations of power between the political and corporate sectors.
15. See Whitaker, op.cit.
16. Paltiel, op.cit., p 13.
17. Harrill, op.cit., p 270.
18. On the general ideological orientations of the major parties, see William Christian and Colin Campbell, Political Parties and Ideologies in Canada: liberals, conservatives, socialists, nationalists, Toronto, McGraw-Hill Ryerson, 1974. Porter emphasizes the "conservative tone" of the guiding values of both parties, op.cit., p 373ff.
19. Harrill, op.cit., p 269.
20. Patrick Brown, Robert Chodos and Rae Murphy, Winners, Losers. The 1976 Tory Leadership Convention, Toronto, Lorimer, 1976. Newman, 1963, op.cit., 1968, op.cit.
21. Denis Smith, Gentle Patriot, A Political Biography of Walter Gordon, Edmonton, Hurtig, 1973, pp 152-4. The extension of the manufacturing sales tax was to be a source of continuing controversy during the period under study here. The furor over the 1963 budget is discussed at some length here because it formed an important part of the political context in which tax reform took place, an issue which similarly involved great corporate opposition to the government. The 1963 conflict was often cited as an important precedent during the debates on tax reform.
22. 1968, op.cit., pp 203-4. The latter point refers to the solid position of the Gordon family within the Toronto financial establishment.
23. Smith, op.cit., p 162.
24. From Mr. Gordon's private memoirs, cited in Ibid, pp 162-3.
25. Memoirs cited in Ibid, p 163.
26. Cited in Ibid, p 164. The Minister also strongly rejected Mr. Kierans' condemnation of the takeover tax. Smith stressed the significance of Gordon's criticism: "This rebuke did not quite say the Kierans had been responsible for the government's chance of policy' but it came

as close as self-respect permitted. At the Montreal Stock Exchange, the evidence seemed clear; when the news of Gordon's statement reached the exchange, traders carried Kierans around the floor on their shoulders in triumph"; pp 164-5.

27. Ibid, pp 168-72.
28. Newman, 1968, op.cit., p 340. Winters had been a cabinet minister in the St. Laurent government and upon its defeat had become a very prominent figure in the corporate world.
29. Ibid, pp 341-2.
30. Smith, op.cit., p 275.
31. This concerted opposition was able to prevent any significant regulation of foreign ownership from this point through the early 1970's; see John Feyerweather, Foreign Investment in Canada. Prospects for National Policy, Toronto, Oxford, 1974. The Foreign Investment Review Agency and other reforms in this area developed later are outside the scope of this study.
32. While both major parties tended to cperate within policy parameters that were responsive to corporate demands and favourable to capitalist interests, they cannot be arbitrarily lumped together. There were important differences in their bases of support within the social structure, traditions and official ideology; the Liberals, for example, were more comfortable with expanded state social and economic intervention. See Christian and Campbell, op.cit., Ch 3-4. The Liberals' more explicit commitment to the use of the state to remove barriers to social equality was an important element of the political context for tax reform. For a more general argument on the need to concretely analyze the role of political parties in the dynamics of state power see D. McEachern, "Party Government and the Class Interests of Capital: Conflict over the Steel Industry, 1945-1970," Capital and Class, Summer 1974, p 125:

    > State theory typically ignores inter-party conflict in securing the class interests of capital in favour of general propositions concerning the state and the logic of accumulation. Such theory must be supplemented by investigation of the specific characteristics of political parties, and their different capacities for the recognition and advancement of the class interests of capital.

33. See Newman, 1963, 1968, op.cit.
34. See Crouch, op.cit., p 40ff.
35. It has been argued that an important factor in the historical success of the Liberal Party has been its ability to coopt and adapt progressive reforms and policy from the social democratic left; see Gad Horowitz, Canadian Labour in Politics, Toronto, University of Toronto Press, 1968, Ch 1.
36. See in general Norman Penner, The Canadian Left, Toronto, Prentice-Hall, 1977, Ch 6; Gary Teeple, "'Liberals in a hurry': socialism and the CCF-NDP", in Teeple, (ed), Capitalism and the National Question in Canada, Toronto, University of Toronto Press, 1972, pp 229-50.
37. Horowitz, op.cit.

38. Denis Olsen, The State Elite, Toronto, McClelland and Stewart, 1980; Porter, op.cit., Ch 12-14. Studies of the political elite, such as Porter's and Olsen's can suffer from similar problems as positional elite analyses of corporate power (discussed in Ch 2); the equation of formal authority and effective power can be misleading and the categorization of elite positions is inevitably somewhat arbitrary. All holders of these positions are not of equal importance in the structure of power: some members of cabinet are far more influential than others and some departments or agencies of the state bureaucracy are more crucial than others. Focus on such positions can omit people who play a key role in the dynamics of political power: executive assitants, leading figures in the political parties and administrative and policy advisors in such organizations as the Prime Minister's and Privy Council offices. Nonetheless, elite analyses provide a great deal of useful data on the nature and dimensions of the group in which state power is concentrated. In the following discussion, the term state elite will be used in a purely empirical or analytical fashion to denote the group who hold key positions in the structure of state power. The relationship of this group to other institutions and centres of power remains to be investigated.
39. Porter, op.cit., pp 393-5, Ch 13 generally.
40. Ibid, pp 444-6, Ch 14 generally.
41. Robert Presthus, Elite Accomodation in Canadian Politics, Toronto, Macmillan, 1973, Ch 10-11.
42. Op.cit., Appendix 2.
43. Ibid, p 29.
44. Ibid, p 79, Table 7.
45. Wallace Clement, "The Corporate Elite, the Capitalist Class and the Canadian State" in Leo Panitch, The Canadian State, Toronto, University of Toronto Press, 1977, Table 1; see also Porter, op.cit., p 524ff.
46. Cf. Newman, 1975, op.cit.
47. Ibid, Presthus, op.cit., pp 281-2. The Rideau Club in Ottawa was particularly important as a meeting place for political and corporate figures.
48. Porter emphasizes the importance of such links, op.cit., pp 527-8. Biographical information indicates that such friendship connections are very pervasive; for example, the circles in which Walter Gordon moved, Smith, op.cit., and the much-noted extensive friendships of Paul Desmarais in the highest circles of political power, Newman, 1975, op.cit., Ch 2.
49. Op.cit., Ch 13.
50. Leo Panitch, "The Role and Nature of the Canadian State", in Leo Panitch, (ed), The Canadian State, Toronto, University of Toronto Press, 1977, p 13. Interview data tends to confirm this general character of the ideological orientations of political leaders; Presthus, op.cit., Ch 10-11.
51. Op.cit., p 398ff.
52. Clement, op.cit., p 233.

53. Olsen, op.cit., pp 38-9.
54. James Laxer, The Energy Poker Game: The Politics of the Continental Resources Deal, Toronto, New Press, 1970, pp 11-2.
55. Globe and Mail, (Toronto), August 20, 1975, p 1.
56. Globe and Mail, (Toronto), October 17, 1975, p B1.
57. Newman, 1968, op.cit., p 192.
58. Globe and Mail, (Toronto), July 29, 1976, p B4.
59. Libbie Park and Frank Park, Anatomy of Big Business, Toronto, James Lewis and Samuel, 1973, pp 58-60.
60. Richard Gwynn, Smallwood. The Unlikely Revolutionary, Toronto, McClelland and Stewart, 1968, p 272.
61. Ibid, Ch 22-23; Philip Mathias, Forced Growth, Toronto, James Lewis and Samuel, 1971, Ch 3.
62. Globe and Mail, (Toronto), June 26, 1973, p B1.
63. Porter, op.cit., Ch 14.
64. Clive Baxter, "Familiars in the Corridors of Power", Financial Post, July 12, 1975, p 6.
65. David Cubberly and John Keyes, "The Weston Conglomerate", Last Post, 5:1 October, 1975, p 19.
66. Cf. Research Branch, Library of Parliament, "Pressure Groups in Canada", The Parliamentarian L1, 1970; Baxter, op.cit. This movement reflects the close relations that develop between governmental agencies and departments and the corporate interests with which they deal most regularly. Presthus, op.cit., emphasizes that such patterns are part of the functional integration of the various branches of the state apparatus and their corporate client groups.
67. Smith, op.cit., pp 27-8.
68. Brown et al, op.cit., pp 81-2
69. For an excellent analysis of the development of shared assumptions and perspectives on the routine working of the capitalist system among corporate and state leaders, see John Westergaard and Henrietta Resler, Class in a Capitalist Society, London, Heinemann, 1975, Pt 3.
70. A second reason for briefly examining patterns during the war is that relations of power become particularly clear during such periods of crisis.
71. See Newman, 1975, op.cit., Appendices, p 415ff; Porter, op.cit., p 430ff; and especially R. MacGregor Dawson, "The Impact of War on Canadian Political Institutions", The Canadian Journal of Economics and Political Science VII, 1941.
72. Clement, op.cit., p 234.
73. Newman, 1975, op.cit., pp 315-6; see also Appendices, p 415ff. Newman's conclusions are too sweeping; the establishment was not created during the war. The basis of economic power both before and after the war remained the concentrated ownership and control of the major corporations by a small capitalist class. But the war clearly furthered the careers of many individuals within this institutional structure and the interpenetration of the state and corporate sectors was certainly accelerated by these patterns.
74. Abraham Rotstein, The Precarious Homestead, Toronto, New Press, 1973, p 89.

75. Pierre Fournier, The Quebec Establishment, Montreal, Black Rose, 1976, p 80.
76. Research Branch, Library of Parliament, op.cit., p 13.
77. G. R. Berry, "The Oil Lobby and the Energy Crisis" in K. J. Rea and J. T. McLeod, (eds), Business and Government in Canada, Toronto, Methuen, 1976, pp 292-321.
78. Cited in Fournier, op.cit., p 76.
79. Ibid, pp 76-79. Most of Fournier's material deals with the Quebec provincial state, but his and other available evidence indicates that similar relations prevail at the federal level as well.
80. Research Branch, Library of Parliament, op.cit.
81. Ibid
82. Berry, op.cit.
83. Research Branch, Library of Parliament, op.cit., p 18.
84. Cited in W. T. Stanbury, Business Interests and the Reform of Canadian Competition Policy, 1971-1975, Toronto, Carswell/Methuen, 1977, p 20.
85. Hon. Jean-Luc Pepin, "Ottawa Approach: Condensation of Address to Plenary Conference on Industry-Government Relations of the 99th Annual General Meeting of the Canadian Manufacturers' Association", Industrial Canada, July 1970, p 25ff.
86. Industrial Canada, July 1956, July 1962.
87. Industrial Canada, July 1970, p 25ff.
88. Last Post News Service, "What's happening on high", Guerilla, 2, 34, February, 1972.
89. Cited in Clement, op.cit., p 235.
90. Ibid, p 235.
91. Industrial Canada, July 1970, p 25; his emphasis.
92. Robert Chodos, "The Great Canadian DREE Machine" in M. Starowicz and R. Murphy, (eds), Corporate Canada, Toronto, James Lewis and Samuel, 1972, p 147.
93. Berry, op.cit., p 299
94. Presthus, op.cit., pp 211-26.
95. Rianne Mahon, "Canadian public policy: the unequal structure of representation", in Leo Panitch, (ed), The Canadian State, Toronto, University of Toronto Press, 1977, esp pp 175-8. While the Department can arguably be seen as the predominant force in shaping overall state economic policy and intervention, other institutions such as the Treasury Board, the Bank of Canada and the Prime Ministers' and Privy Council Offices are highly important; see Richard W. Phidd and G. Bruce Doern, The Politics and Management of Canadian Economic Policy, Toronto, Macmillan, 1978 and Richard French, How Ottawa Decides. Planning and Industrial Policy-Making 1968-1980, Toronto, Lorimer, 1980. Mahon was not referring to actual political organizations or interest groups representing these capitalist interests, but rather to more structurally determined forms of representation. However, this argument remains relatively abstract and does not indicate concrete mechanisms or relationships that might be involved.
96. French, op.cit., p 110.
97. Berry, op.cit.

98. Clement, op.cit., pp 236-42.
99. Cited in Michael Trebilcock, "Winners and Losers in the Modern Regulatory State", in K. J. Rea and J. T. McLeod, (eds), Business and Government in Canada, Toronto, Methuen, 1976, pp 362-3.
100. Financial Post, August 16, 1975, p 1.
101. Financial Post, December 11, 1976, p 13.
102. Larry Pratt, The Tar Sands. Syncrude and the Politics of Oil, Edmonton, Hurtig, 1976, p 53, p 69.
103. Op.cit., p 35; see also Crouch, op.cit.
104. See Stanbury, op.cit.; H. G. Thorburn, "Pressure Groups in Canadian Politics: Recent Revisions of the Anti-Combines Legislation", Canadian Journal of Economics and Political Science, XXX, 2, 1964, pp 157-74; Bert Young, "Corporate Interests and the State. Anti-Combine Activity in Canada - 1900 to 1970", Our Generation, 10, 1, 1974, pp 70-83.
105. David Kwavnick, Organized Labour and Pressure Politics. Canadian Labour Congress 1956-1968, Montreal, McGill-Queens University Press, 1972, p 217.
106. Ibid, p 217-8.
107. Ibid, p 219
108. See Leo Panitch, "Trade Unions and the Capitalist State", New Left Review, 125, 1981, pp 21-43.
109. Cf. Presthus, op.cit.; Kwavnick, op.cit. Labour incorporation in the state is by no means inevitable; for example, most union representation was withdrawn from federal institutions in protest of the 1975 imposition of wage and price controls.
110. Mahon, op.cit., p 187; MacKasey's emphasis.
111. For general material on Canadian interest groups see Stanbury, op.cit., Ch 2; A. Paul Pross, (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975.
112. Stanbury, op.cit.
113. See Jessop, op.cit., Crouch, op.cit. This dependence upon capital must also be understood in the context of a liberal democratic political system. The state must respond to general public demands of expectations of adequate employment levels and economic conditions both to buttress the electoral fortunes of the governing party and the wider legitimacy of the system as a whole.
114. Ralph Miliband, The State in Capitalist Society, London, Weidenfeld and Nicolson, 1969, pp 152-5. This was emphasized by French in his study of the formation of industrial policy: "Without the commitment of certain key private sector decision-makers, an industrial strategy has no prospect of success, since the organizations through which its socio-economic benefits are ultimately to be delivered are, in Canada, largely in private (and often foreign) hands", op.cit., p 91.
115. Ian Gough, The Political Economy of the Welfare State, London, Macmillan, 1979, p 43.
116. Ibid, Ch 3.

117. See Frank Longstreth, "The City, Industry and the State", and Dominic Strinati, "Capitalism, the State and Industrial Relations", both in Colin Crouch, (ed), State and Economy in Contemporary Capitalism, London, Croom Helm, 1979
118. Rotstein, op.cit., Ch 7; Stanbury, op.cit., Ch 11.

Chapter 4 Taxation and the Political Economy of the State

I. Introduction

This chapter sets out the fiscal context within which tax reform took place and details the structure of taxation of the 1960's before the debates on its reformulation began. This discussion of taxation and the political economy of state finance will interrelate a number of issues first introduced in earlier chapters, especially the connections between the functions and role of the state and class interests. The distribution of the burdens and benefits of state intervention is one of the central questions of political sociology. The general ideological framework within which the modern welfare state has developed holds that this distribution should be progressive; that the overall impact of state activity should benefit the lower-income strata proportionately more and should contribute to improved social equality. How, and to what extent, these goals are accomplished can be the subject of considerable conflict. As Banting concluded in his major study of the Canadian welfare state, "redistribution lies at the heart of modern politics. Virtually all public policies alter the distribution of the naton's product in some way, and political conflict in modern societies largely revolves around the extent to which, and the way in which, redistribution should be carried out."[1]

The development and structure of state finances must be understood in the context of conflicting class interests and political conflict.

O'Connor, for example, argued that particular state spending and programmes and overall budgetary and fiscal policy "are explicable only in terms of power relationships within the private economy."[2] This does not mean, of course, that state finances can be reduced to a simple determinate of class conflict. But within the structural constraints discussed in earlier chapters, the elaboration of fiscal policy and the patterns of state expenditure and revenue are very much shaped by the organization and conflict of competing political forces.[3] In a class-divided society it is inevitable that increasingly pervasive state intervention will have a differential impact upon the interests of the basic class and social groupings. To understand the implications of state activity, fundamental and immediate class interests must first of all be distinguished. It has been seen in earlier chapters that the state plays a central role in the overall reproduction of the fundamental institutional order of capitalist society. More specifically, this also reproduces the system of class domination; the maintenance and continuity of which is clearly in the fundamental interests of the capitalist class. The relationship between the basic functions of the state and class interests defined at a more immediate level is far more complex. This will be explored in the next section through an examination of the trends and composition of state expenditure. The next two sections then discuss the development and structure of taxation.

II. State Expenditure

One of the most striking reflections of the expanded role of the modern state has been the tremendous growth of public expenditure. Significantly rising state expenditure has been a key feature of all advanced

capitalist countries, especially since the Second World War, and Canada has been no exception.[4] In 1926, the total expenditure of all levels of government excluding intergovernmental transfers was $810 million.[5] From a wartime peak (1943) of $5022 million, expenditure declined somewhat to $4080 million in 1950. From that point, there was a rapid increase in total government spending: $7498 million in 1955, $11,380 million in 1960, $16,554 million in 1965, $31,148 million in 1970 and $67,397 million in 1975. While such absolute figures highlight the growth of government spending, they are affected by the rates of inflation and economic growth. The economic impact of state expenditure is best measured in relation to the overall production of goods and services. Total government spending as a percentage of Gross National Product was 15.7% in 1926, increased at the height of the depression (1933) to 27.4% and rose further during World War II to 45.5% in 1943. These proportions showed a rapid decline after the war and a steady growth thereafter: total government spending was 22.1% of G.N.P. in 1950, 26.3% in 1955, 29.7% in 1960, 29.9% in 1965, 36.4% in 1970 and 41.8% in 1975.

The implications of this increased state expenditure can best be seen when shifts in its composition are specified. Similarly, the impact of the changing composition of state spending upon class interests can best be understood when related to the basic functions of the state. As was seen in the preceding chapters, a primary function of the state is to maintain favourable conditions for the accumulation of capital. This has involved enormous expenditure on the direct subsidization of business through a wide range of grants and incentive programmes, extensive tax concessions

and incentives and the provision of essential economic infrastructures such as transportation and communications networks.[6] This is what O'Connor terms social investment-state spending that increases the productivity of a given amount of labour power - and it contributes directly to capitalist production.[7] This expenditure is also of substantial and direct benefit to the capitalist class: it contributes to the expansion of private capital and the generation of the profit upon which their wealth and material position is based. While state spending in support of capital accumulation predominantly benefits the capitalist class, this is not exclusively so. The employment and general prosperity generated by sustained economic growth can be to the immediate interests of sectors of the working class. This apparent coincidence of interests between labour and capital, however, is highly limited; it operates within the permanent conflict between labour and capital over the appropriation of surplus within the process of production and over the conditions and security of employment in the labour market.

While state expenditure in the capitalist sector remained important, the greatest expansion in the post-war period took place in areas such as health, education and social welfare.[8] Expenditure of major income security programmes such as unemployment insurance, family allowances, pensions and social assistance rose from 13.9% of total government spending in 1965 to 13.9% in 1970 and 18.4% in 1975. This expenditure, which excluded intergovernmental transfers, amounted to 4.2%, 5.0% and 7.2& of gross national product over the same years.[9] Such expenditure on the wide range of social programmes of the modern welfare state can certainly benefit

the immediate interests of the working class and the less affluent generally. Income security programmes, for example, can ameliorate the harsher aspects of the capitalist labour market. State supported medical programmes can provide services that many would otherwise not be able to afford. But the implications of the welfare state for class interests are far from unequivocal. First of all, many programmes are universally available to all within the social structure and their impact need not be progressive. More significantly, state expenditure in these areas is also closely related to the wider functional requirements of a capitalist economy.[10] The provision of health, education and similar services and state guarantees of minimum standards of living all contribute to the reproduction of labour power. Through its support of the reproduction of a crucial element in the overall forces of production, this state activity has great economic significance. State reforms designed to improve pressing social and economic problems and to ensure certain minimum material conditions for all citizens are also crucial to the legitimation function. While not economically reproductive, such state activity contributes to the maintenance of political stability and consensus and thus to the general reproduction of capitalist social relations.

These patterns of state expenditure have been greatly influenced by structural factors - by the functional requirements of capital accumulation and the imperatives and dynamics of a capitalist economy - as they are mediated by the state apparatuses and the established framework of state policy. But the development of state programmes and spending was also very much shaped by class conflict and the balance of forces within the political

sphere.[11] Thus the elaboration of income security programmes was at least partially the result of direct pressure from organized labour and the political left and of the state's concern with containing potential conflict from these quarters. Federal political leaders came to see income security as an essential element of "their capacity to manage their economies and to maintain the allegiance of their populations."[12] Similarly, the massive state support and subsidization of business activity was at least partially in response to the demands of particular sectors of capital.

The focus of analysis of this study must be qualified. The preceding outline of the implications of state activity for class interests has been posed at a very general and schematic level; there has been no attempt to analyze the precise incidence of state expenditure. The total impact of the state upon class interests is a function of both the level and composition of expenditure and the source and incidence of government revenue. There is no attempt here to analyze the balance of state expenditure and revenue in a detailed or technical fashion. However, some indication of the overall impact of state activity through the 1960's and 1970's can be seen from an examination of structured social inequality. The overall ideological framework and the stated policy goals of the modern welfare state are pledged to reducing social and economic inequality. However, this policy commitment has been limited in a number of important respects. First of all, official policy has been much more concerned with redistribution between regions rather than between individuals.[13] Secondly, policy has not been geared directly to equalize material conditions, but rather to ensure

that no one falls below a minimum standard of living.[14] In fact, the concrete impact of the welfare state has been highly limited: in spite of increased state expenditure and social welfare programmes there has been no decline in the unequal distribution of income and wealth.[15]

To conclude: during the period in which tax reform took place state expenditure continued to steadily grow. The necessity of expanding state revenue to finance this increased spending was a crucial imperative that the government could not lose sight of during the debates on reform. The specific way in which these patterns developed within the federal structure of the Canadian state system was also of great importance. The expenditures of the three levels of the state did not increase at the same rate. Including transfers to other governments, federal expenditure was 12.8% of the Gross National Product in 1950, 16.8% in 1955, 17.6% in 1960, 15.4% in 1965, 17.8% in 1970 and 21.9% in 1975.[16] While this rise in federal spending was certainly significant, municipal and especially provincial expenditures increased even more dramatically: "of the increase in total government spending, excluding transfers, between 1962 and 1971, the federal government accounted for 32 percent while the combined provincial and municipal governments accounted for 68 percent."[17] These trends highlighted the increasing significance of federal-provincial fiscal relations in the modern political economy and were the basis of extensive intergovernmental negotiation and conflict.[18]

III. Taxation, Government Revenue and the Political Economy of the State

The expanded role of the modern state and the consequent tremendous increase of its expenditure was also reflected in an immense growth of taxa-

tion and state revenue.[19] Total government revenue, excluding intergovernmental transfers, rose steadily from $867 million in 1926, accelerated during the way years and was $4634 million in 1950. From this point, total state revenue rapidly expanded: $7458 million in 1955, $10,710 million in 1960, $16,761 million in 1965, $31,954 million in 1970 and $63,358 million in 1975. In absolute terms, total state revenue had grown to a 1975 level that was approximately fourteen times that of twenty -five years earlier. As noted above, the economic impact of state finance is best seen in relation to the overall Gross National Product. Total government revenue, excluding transfers, declined somewhat from a 1946 peak of 30.4% of G.N.P. to 25.1% in 1950 and 26.1% in 1955. Thereafter, government revenue as a proportion of G.N.P. steadily rose: 27.9% in 1960, 30.3% in 1965, 37.3% in 1970 and 39.3% in 1975. The federal government accounted for the highest proportion of this revenue (19.4% of G.N.P. in 1975, which was 49.4% of total government revenue), although the share of provincial governments had been increasing.[20]

The prime source of these large amounts of revenue appropriated by the modern state has been taxation. For the fiscal year 1971-72, when the long-debated tax reforms were finally to be implemented, taxation constituted almost 90% of federal government revenue.[21]

Taxation in Historical Perspective

As the amount of revenue which it must yield has steadily grown, the tax structure has been radically transformed. Economic trends and fluctuations, crises of war and depression, political conflict, the federal nature of the political system and above all, the vastly expanded

role of the state have all shaped the historical development of the tax system.[22]

Divided responsibility and lack of coordination between the various levels of the federal system characterized state finances in the late nineteenth and early twentieth centuries. At the heart of the government financial structure was the tariff system. Although best known as policies designed to stimulate industrial development, tariffs were contributing the bulk of government revenue in the latter 1800's. The huge state expenditures on railroad construction had largely been borrowed and the tariff system "was expected, as the main source of revenue, to provide for the servicing of this debt and the support of normal government functions."[23]

The tremendous expansion of state expenditure with the onset of World War I and the consequent need for greater revenue created a serious crisis for state finances.[24] Initially, the traditional sources of custom and excise duties and large-scale borrowing were used. However, the huge amounts required necessitated a shift of financing to greater reliance on direct taxation; whereas in 1913 78% of federal revenue came from custom and excise duties, after the war (1921) less than one-third of federal revenue was from these sources.[25] By the latter part of the war, key changes had been made in the tax system: corporate taxation had been systematized, a national tax on personal income was introduced for the first time and the rates for all forms of taxation had been steadily increased. With the addition of sales taxes in 1920, the federal tax structure emerged as a well-rounded system. As the economy stabilized

through the 1920's, the level of taxation was significantly reduced, but the basic structure was retained intact.

The depression of the 1930's again threw state finances into turmoil. Economic stagnation caused a dramatic fall in government revenue at a time when expenditures, especially on relief, were rapidly increasing. Governments reacted with large increases in the rates of corporate and personal taxation. Further complications resulted from a key long-term trend in the Canadian state system. Expenditures had been rising faster at the lower levels of government, especially the provincial, but provincial finances had been particularly badly affected by the fall in revenue and were faced with large deficits. A Royal Commission on Dominion-Provincial Relations (Rowell-Sirois) was established in response to the crisis in federal-provincial fiscal relations. Although the Second World War prevented the adoption of the specific recommendations of the Rowell-Sirois report, its deliberations and basic conclusions had profound influence on the subsequent development of the tax system.[26]

The outbreak of war in 1939 witnessed the massive intervention of the state in the economy. The resulting tremendous growth of government expenditure necessitated equally large increases in revenue. One of the first reactions of the government was to substantially raise the rates of personal and corporate taxation and to institute a special excess profits tax.[27] Of more lasting significance was the recognition during World War II of the importance of taxation and state fiscal policy in shaping economic activity. In particular, depreciation schemes were successfully used to direct and stimulate capital investment. These develop-

ments were in contrast to World War I when the significance of fiscal policy was not fully appreciated.[28]

As discussed earlier, the experience of depression and war had highlighted the growing role of the state in the management of the economy. State intervention continued to be a crucial element in post-war policy on the reconstruction of the peace-time economy.[29] The state explicitly "adopted as its basic fiscal policy a programme involving the conscious use of the tax structure to influence economic behaviour."[30] The continued use of depreciation allowances to promote capital expenditure was a vital element of reconstruction policy[31] and rates of taxation had been quickly reduced at the end of the war.

The tax system in force at the end of World War II had developed in an extremely uncoordinated and piece-meal fashion[32] and was poorly adapted to the rapidly changing industrial structure of the immediate post-war era. Pressure for tax reform was developing in a number of directions. Firstly, there was a distinct lack of political acceptance of high or increasing levels of taxation. In addition, a great deal of discontent with the complexity of the tax structure was being expressed by the media, business community, legal and accounting professions and such organizations as the Income Taxpayers Association.[33] More generally, it had become evident that the tax system had to be rationalized in order to better correspond to the highly concentrated structure of an advanced capitalist economy. It was also recognized that whatever restructuring did take place, the tax system still must generate the increasingly large amounts of revenue necessary to finance expanding state activity.

The government intensively studied the revamping of the tax structure, a special committee of the Senate also conducted an investigation, corporate and other organizations took part in these discussions and Royal Commissions on prices and co-operatives also touched on taxation. These deliberations resulted in substantial changes in the federal tax system: personal income taxes were greatly simplified and their rates reduced by the late 1940's to about one-third of the wartime peak, sustained business opposition led to the reduction of the double taxation of dividend income, and the structure of corporate taxation was overhauled and its rates reduced.[34] However, the attempts to rationalize the tax system in the late 1940's were themselves only partial and the problem of tax reform was to once again become a much discussed issue only a dozen years later.

This brief historical discussion has not attempted to be comprehensive, but merely to illustrate a number of key features of the development of the tax system. The most important long-term influence has been the qualitative expansion of state activity and the consequent increasing need for revenue. In addition, continually changing economic conditions have had a profound effect on fiscal policy and the tax system. By the same token, taxation itself greatly affects the economy. As a result, the tax structure has become a central component of state economic policy and has increasingly been used to shape the tempo and direction of economic growth.

Taxation and Institutional Imperatives Within the State

The historical evolution of the tax structure has never been affected solely by economic factors. Political considerations underlie one of the central problems of contemporary state finances. The realization of large and increasing amounts of revenue is by no means automatic or unproblematic. The political unacceptability of heavy and growing tax burdens hampers the indefinite use of increasing tax rates to raise the necessary revenue; at some point heavier taxation will meet with significant organized public resistance.[35] Alternative sources such as government borrowing and deficit financing are limited by the requirements of the capital market and their inflationary impact. Earlier chapters have stressed the need to analyze the state as a complex institutional system with pressing organizational dynamics and requirements in its own right. One of the most important and problematic of these institutional imperatives is the increasing difficulty facing the state in generating sufficient revenue to finance steadily rising expenditures. Securing adequate levels of revenue was a crucial constraint throughout state deliberations on tax reform.

This fiscal crisis of the state, common to varying degrees to all advanced capitalist countries, has taken a particular form in Canada. The division of taxing powers and the distribution of revenue between the various levels of the state has been the focus of considerable conflict throughout this century.[36] Federal-provincial conflict has pervaded the formation of key areas of state policy. This was very clear in the historical elaboration of income security programmes, which have become the largest component of public expenditure: "Financial flows of this magnitude

have important implications for the fiscal strength of governments, for their capacity to control general economic activity, and hence for their economic power. The sensibility of governments to their own fiscal interests..." was a continual factor in debates on this policy issue.[37] During the 1960's and 1970's the provincial governments, with their rising proportion of total expenditure, were under great pressure to increase their share and sources of revenue. Conflicts of interest and policy between the federal and provincial governments were important elements of the deliberations on tax reform.

The financial dependence upon taxation for revenue also shapes the relation between the state and capital and is a crucial component of the structural constraints upon state policy and action discussed earlier. This issue has been most clearly analyzed by Claus Offe. The state is financially dependent upon resources created during the accumulation process and appropriated through taxation of employment income and business profits. The essential basis of the large amounts of tax revenue needed to finance state activity is thus a healthy overall economy and sustained accumulation: "Its power relationships, its very decision-making power depends (like every other social relationship in capitalist society) upon the presence and continuity of the accumulation process. In the absence of accumulation, everything, and especially the power of the state, tends to disintegrate."[38] In addition then to the political pressures on the state to maintain economic prosperity detailed in earlier chapters, its institutional interests and financial requirements also ensure that the state is

dependent upon capital accumulation:

> Thus, every interest the state (or the personnel of the state apparatus, its various branches and agencies) may have in their own stability and development can only be pursued if it is in accordance with the imperative of maintaining accumulation; this fundamental dependency upon accumulation functions as a selective principle upon state policies. The criterion of the stability of accumulation is thus incorporated in the pursuit of interests and policies that, considered by themselves, may have little or nothing to do with accumulation. Accumulation, in other words, acts as the most powerful constraint criterion, but not necessarily as the determinant of content, of the policy-making process.[39]

The way in which these relationships solidify the political domination of capital was first raised in preceding chapters. Within the institutional separation of the political and economic spheres of capitalist society, the state may be dependent upon accumulation and must maintain favourable general conditions for it to continue, but cannot itself organize or directly control the accumulation process. It is the capitalist class, who ultimately control the allocation of resources and manage the economy, who alone can determine the conditions under which capital will be invested and accumulation can proceed. In order to secure and preserve these conditions state policy must be extremely sensitive to the interests, perceptions and demands of capital.[40]

The large scale of taxation was not only of great significance to the institutional structure of the state, but was also a major factor in shaping economic development. In addition, short-term adjustments in the structure and composition of taxation had become an important instrument of state fiscal policy. For all of these reasons, the nature of the tax system was a vital issue of economic policy. The way in which the necessary

large amounts of taxation were raised and the distribution of the tax burden within the social structure were also crucial political issues.

IV. The Structure of Taxation Prior to Reform

The focus of this study is upon the way in which the tax system affected the concrete interests of the major social classes and groups in Canada and how these interests in turn shaped political organization and conflict throughout the dynamics of tax reform. This analysis must begin from a clear understanding of the structure of taxation in existence during the period when reform policy was being deliberated. The impact upon the material position of key groups within the social structure can be illustrated by examining the incidence of taxation. The conflict of interests within the distribution of the tax burden is clear: within any given amount of taxation, any decrease in the share borne by a particular group must be counterbalanced by increased taxation among other groups. Attempts by specific groups to minimize their tax burdens thus inevitably clash with the interests of others. The limits of this analysis must be specified. Data on the incidence of taxation within the income hierarchy will be reviewed to indicate concrete interests vis-a-vis taxation. This data refers to the immediate distribution of taxes paid, not to where the tax is ultimately borne. This can be complicated in a number of ways; for example, organized workers may be able to force higher wages to make up for increased taxation and thus transfer the cost to their employers, or increased corporate taxation may be passed on to consumers through higher prices.[41] There is no attempt here to provide a detailed technical study of the final incidence of taxation. The focus rather is upon political

conflict over tax reform. It will be seen in this regard that perceptions of the impact of taxation were at least as important as objective incidence.

Distribution of the Overall Tax Burden

By the end of the 1960's, especially in the publications of the Economic Council of Canada, equity had come to be accepted as a central consideration of federal economic policy: "Determining who pays for, and who benefits from, a particular government program is recognized to be equally as important as considering the effect on economic stabilization and resource allocation."[42] Progressive taxation, which taxes higher income earners with a greater ability to pay at a higher rate, was a major component of this overall commitment to equity and of the ideology of the modern welfare state. Such a tax structure was seen to be a crucial mechanism in state efforts to enhance social and economic equality. The incidence of taxation in Canada during the period under study here has been well researched and the nature of the tax system can be determined.

A study for the Economic Council of Canada provided a detailed analysis of the tax structure in force during the major debates on reform. Maslove's data on tax incidence in 1969 clearly revealed the unequal allocation of the tax burden within the social structure: "By far the most striking conclusion to be drawn from an examination of total tax payments is the extreme regressivity of the system at the lower end of the income scale and the lack of any significant progressivity over the remainder of the income range."[43] Given the highly unequal distribution of income seen earlier: "It is important to note, moreover, that a substantial proportion of Canadian family units are included in the low end of the income scale

and are thus subject to the regressive tax system."[44] If a basic purpose of taxation was to contribute to the redistribution of income, then "the tax system as a whole does nothing to contribute to this goal."[45]

Earlier research revealed the same general pattern. A study for the Royal Commission on Taxation by Gillespie on the situation in the early 1960's concluded that "the distribution of effective tax rates is regressive up to an income level of at least $3000 and at most $5000, and progressive beyond,"[46] and that the subsequent degree of progressivity was limited.[47] For the lowest income level, those under $2000, which included 21.7% of all families, total taxes constituted 60.6% of income. The effective tax rates for higher income families ranged from 30 to 34% with the highest category of those earning $10,000 or more having a rate of 38.4%.[48] In terms of the limits noted above, 33.8% of families had incomes of less than $3000 and 62.0% had less than $5000.[49] This means that one-fifth of families payed an extremely high proportion of their income in taxes and between one-third and two-thirds of the Canadian population (or posed in different terms, a substantial proportion of the working class) faced a regressive tax structure. An earlier 1957 study by the Canadian Tax Foundation showed the same highly regressive tax system.[50]

Corporate Taxation

By contrast to the overall tax structure, which had a regressive impact on large numbers of taxpayers, corporate taxation was highly advantageous to capital. A large variety of depreciation schemes, capital cost allowances and incentives ensured that the actual taxes paid by major corporations were far less than the statutory rates. The standard corporate

tax rate was 50%; with a lower rate of 21% on the first $35,000 of business income as an incentive for small business.[51] But in 1969, the average rates of book profits paid in taxes was 40% in the manufacturing industry as a whole, 36% in construction and 41% in retail trade. The average for all non-financial companies was 34%.[52] A complicated and extensive system of specific concessions meant that some sectors paid even less. A wide range of depreciation allowances, exploration incentives and other inducements put the extractive industries in the most advantageous position of all. In 1969, 80% of mining firms declared no taxable income at all, while earning book profits of $400 million. For the 762 mining companies that did pay $134 million in federal and provincial taxes, their effective rate was 18% on book profits of $762 million. Overall, the average tax rate for the mining industry was 11% of book profits; if they had been taxed at the statutory rate of 50%, they would have paid an additional $432 million. Oil and gas corporations were taxed at an average rate of only 8.6%.[53] This highly generous system of corporate taxation was an integral component of state efforts to promote profitable business activity, investment and economic growth. Its development had been shaped by both the financial requirements of capital accumulation and extensive pressure from particular corporate sectors for concessions.

The Shifting Composition of Taxation

These aspects of the tax structure must be seen in the context of a key developing trend: the shifting proportion of total taxation accounted for by personal and corporate taxation. Direct taxes paid by persons increased from 26.1% of total government revenue in 1960 to 38.5% in 1975.

On the other hand, direct taxes paid by corporations contributed 14.8% of total government revenue in 1960, but 10.7% in 1975. In absolute terms, total direct personal taxes amounted to $2,794 million in 1960 and $23,650 million in 1975, and direct taxes paid by corporations were $1,588 million and $6,595 million respectively. At the same time, the share of total revenue derived from indirect taxes was decreasing. Thus, during this fifteen year period, the share of total government revenue accounted for by direct personal taxes increased by 47.5% whereas the share of direct corporate taxes declined by 38.3%. The same trend existed for federal government revenue alone, but was somewhat less pronounced. By relating tax burden to category of income, the significance of these patterns can be clearly illustrated: for all levels of government, direct taxes constituted 9.4% of personal income in 1960 and 18.5% in 1975 (an increase of 96.8%). On the other hand, direct taxes paid by corporations amounted to 41.0% of profits in 1960 and 37.1% in 1975 (a decline of 9.5%). For the federal government alone, the proportion of personal income paid in direct taxes increased by 40.0% between 1960 and 1975, whereas the share of corporate profits paid decreased by 21.3%.[54] This shifting composition was "an essential element of the state's strategy to support and promote the conditions for the profitable accumulation of capital in Canada."[55]

However, as with many other areas of state finance and economic intervention, these developments had contradictory implications. Facing declining real earnings through higher taxation, strongly organized wage and salary earners sought to recover their losses through higher pay increases. This could contribute to inflation. Wolfe outlined the contradiction entailed by the shifting tax base:

> In attempting to foster the conditions for profitable capital accumulation by reducing the burden of taxation on corporate profits, the government has shifted the growing burden of this taxation to wage and salary earners. A more logical solution to this dilemma might have been to reduce the level of government expenditures and thereby reduce the necessity for increased taxation. To do so by reducing its commitment to the package of social services legislation which has come to be associated with the welfare state would exacerbate the legitimation problems which the government faces. Thus, raising the effective level of taxation on personal income remained the most viable alternative. However, by indirectly contributing to the inflationary spiral this policy merely added to the state's other problems and proved to be no solution in fact. The conflicting demands of the accumulation and legitimation functions constantly place the state in the position of having to trade off irreconcilable policy goals.[56]

This type of tension between conflicting functional imperatives and policy goals pervades not only fiscal issues but other crucial areas of state social and economic policy[57], and was a key constraint throughout the deliberations on tax reform.

V. Conclusion

This chapter has emphasized the importance of conflicting interests and political forces in shaping the development of state finances. As has been seen, this need not be explicit or organized; state fiscal policy, for example, must be constantly attuned to the exigencies of maintaining a favourable climate of investment, regardless of any direct corporate pressure or political organization. The structure of state finance is never merely a neutral technical issue; it is never simply a question of raising enough revenue to cover a given amount of widely agreed upon public spending in the most efficient manner. The thrust of state activity, levels and composition of expenditure, and distribution and structure of taxation are all shaped by

conflicting interests and pressures. This discussion has not sought to elaborate a sophisticated theory of state finance. Rather, its goal has been to outline the overall framework within which state fiscal and taxation policy developed and in this way to set out the context within which the deliberations on tax reform took place.

The more immediate context for reform - the existing structure of taxation - has also been examined. The second chapter first explored the relationship between the concrete interests of the major social groupings and taxation at a general level. These classes and group interests can now be seen in relation to the tax structure in force prior to reform.[58] It has been seen that, in spite of a prevailing ideology of taxation that stressed fairness and equity, the progressive impact of the tax system was highly limited. The tax structure was also greatly supportive of capital accumulation and of substantial benefit to the propertied and affluent strata. It would be in the interests of these powerful groups to retain such an advantageous system. By contrast, the working class or less affluent categories of taxpayers would benefit from a more progressive structure. How these interests were affected by, and active within, the debates and conflict over tax reform is the focus of following chapters.

Footnotes

1. Keith G. Banting, The Welfare State and Canadian Federalism, Kingston and Montreal, McGill-Queen's University Press, 1982, p 83.
2. James O'Connor, The Fiscal Crisis of the State, New York, St. Martin's Press, 1973, p 5.
3. Ian Gough, The Political Economy of the Welfare State, London, Macmillan, Ch 4, Ch 6.
4. See Ibid, Table 5-2 for comparative data on the major O.E.C.D. countries. Although general patterns are similar, the specific historical development of each country led to variations in the tempo and absolute level of government spending. Richard M. Bird, The Growth of Government Spending in Canada, Toronto, Canadian Tax Foundation, 1970 provides an historical overview of the growth of state expenditure in Canada. This trend continued into the mid-1970's when the major capitalist states began to attempt, to varying degrees of commitment and efficiency, to reduce the growth of their expenditure. The resulting changes in the composition of state spending and the restructuring of state activity that this entailed are beyond the scope of this study.
5. The data on state finances cited will seek to illustrate both long-term trends and key patterns in the modern period which set the context for the deliberations on tax reform. Thus, highlights and general developments will be noted up to 1960 and data at intervals of five years thereafter. Information for 1960 will indicate the situation as the reform of the tax system was first becoming a public issue. Data for 1965 and 1970 will cover the period when tax reform was being deliberated. 1975 data from after the restructuring of the tax system will show continuing trends in state finances. Data in this paragraph is from Canadian Tax Foundation, The National Finances 1976-77, Toronto, Canadian Tax Foundation, 1977, Table 2-11 and 2-12.
6. Useful data on the scope of this state spending in support of business activity during the tax reform period is provided by David Lewis, Louder Voices: the Corporate Welfare Bums, Toronto, James Lewis and Samuel, 1972. See also Rick Deaton, "The Fiscal Crisis of the State in Canada," in D. I. Roussopoulos, (ed), The Political Economy of the State, Montreal, Black Rose, 1973, pp 18-58. Concessions which reduce the amount of taxation that a corporation would pay and the government receive have the same effect as actual expenditures; hence the term 'tax expenditure".
7. O'Connor, op.cit., Ch 4.
8. See Bird, op.cit., Ch 2 and Ch 8.
9. Banting, op.cit., p 19, Table 7.
10. See Gough, op.cit., Appendix B.
11. Ibid, Ch 4.
12. Banting, op.cit., p 122.
13. Ibid, pp 85-9.
14. Bird, op.cit., p 163.

15. Banting, op.cit., pp 84-5. See also data presented in Ch 2 above.
16. Canadian Tax Foundation, op.cit., Table 2-12.
17. J. C. Strick, Canadian Public Finance, Toronto, Holt, Rinehart and Winston, of Canada, 1973, p 18.
18. Cf. Ibid; J. Harvey Perry, Taxation in Canada. Third Edition, Toronto, University of Toronto Press, 1961. Garth Stevenson, Unfulfilled Union. Canadian Federalism and National Unity, Toronto, Gage, 1979. In spite of these patterns, the federal government remained the most important component of the overall fiscal structure and this was particularly so for taxation. Shifts in the compositon of government spending did not lessen the significance of the federal tax system and its reform.
19. See Gough, op.cit., for comparative data.
20. Canadian Tax Foundation, op.cit., Tables 2-7, 2-8.
21. Strick, op.cit., p. 56; the largest amount (43.5% of total revenue) came from personal income tax.
22. General sources on the historical development of taxation in Canada are Ibid; Perry, op.cit.; Milton A. Moore, J. Harvey Perry and Donald I. Beach, The Financing of Canadian Federation. The First Hundred Years, Toronto, Canadian Tax Foundation, 1966; J. Harvey Perry, Taxes, Tariffs and Subsidies. A History of Canadian Fiscal Development, Toronto, University of Toronto Press, 1955.
23. Perry, 1961, op.cit., p 8.
24. Much of what follows relies heavily on Ibid, p 17ff.
25. Moore et al, op.cit., p 5.
26. Perry, 1961, op.cit., p 27, considers that the Rowell-Sirois commission and World War II were the two major influences in the development of the modern fiscal and tax structure.
27. See Perry, 1955, op.cit., Ch 23.
28. Perry, 1961, op.cit., p 9.
29. See earlier chapters on the acceptance of Keynesian principles of state economic intervention. See also David Wolfe, "The state and economic policy in Canada, 1968-75", in Leo Panitch, (ed), The Canadian State, Toronto, University of Toronto Press, 1977, pp 251-88. Official policy on the role of the state in ensuring post-war economic growth and stability was outlined in the 1945 White Paper on Employment and Income. On the crucial significance of this policy and extracts from the document itself see Canadian Trade Committee, Canadian Economic Policy Since the War, Montreal, Private Planning Association of Canada, 1966.
30. Perry, 1955, op.cit., p 382.
31. Ibid, pp 388-91. Although the impact of these schemes varied, they were particularly important in stimulating the resouce industries.
32. While the historical development of the tax system may have been haphazard and uneven, it was by no means accidental. It was not only the result of changing conditions and policy requirements, but also of never-ending pressure for specific tax concessions and treatment from particular sectors of capital and other interests. The significance of this will become clearer in later chapters.

33. Ibid, Ch 25.
34. Ibid, Ch 25-26
35. See O'Connor, op.cit. on the fiscal crisis of the state; and Deaton, op.cit. for the Canadian situation. Hugh Mosley, "Is there a Fiscal Crisis of the State", Monthly Review, May, 1978 provides a useful critique of O'Connor; he clearly shows that the fiscal crisis must be seen as an important problem for the state, not as an inevitable tendency or law. A prominent later example of the political difficulties for the state of high taxation was the tax revolt in the United States of the latter 1970's; see Economics Education Project, Union of Radical Political Economics, Crisis in the Public Sector, New York, Monthly Review, n.d., Ch 5-6.
36. Stevenson, op.cit., Ch 6 especially.
37. Banting, op.cit., p 116.
38. Claus Offe, "The Theory of the Capitalist State and the Problem of Policy Formation", in Leon N. Lindberg et al, (eds), Stress and Contradiction in Modern Capitalism, Lexington, Lexington Books, 1975, p 126, his emphasis.
39. Ibid, p 126.
40. Bob Jessop, "Capitalism and Democracy: The Best Possible Shell?" in Gary Littlejohn et al, (eds), Power and the State, London, Croom Helm, 1978, pp 29-30.
41. As these examples indicate, the final incidence of taxation can be the result of much conflict: "In the real world the final burden of taxation is determined by the ebb and flow of class conflict, and will vary with the economic and political strength of the contending classes."; Gough, op.cit., p 126.
42. Allan M. Maslove, The Pattern of Taxation in Canada, A Study for the Economic Council of Canada, Ottawa, Information Canada, 1973, p 1; see also Banting, op.cit., Ch 6; Richard W. Phidd and G. Bruce Doern, The Politics and Management of Canadian Economic Policy, Toronto, Macmillan, 1978, pp 64-5. The limited nature of the official view of equity must be emphasized. While increasingly recognized as a key policy goal, its content was very seldom specified. Equity generally meant the reduction of regional income inequality or poverty; class-based inequality was not discussed and the structural basis of inequality in the capitalist institutional system was not acknowledged.
43. Op.cit., p 64; "A tax is progressive if the effective average tax rate (taxes paid as a fraction of total income) increases as income rises...A tax is regressive if the effective tax rate falls as income rises", p 3.
44. Ibid, p 77.
45. Ibid, p 64.
46. W. Irwin Gillespie, The Incidence of Taxes and Public Expenditures in the Canadian Economy. Studies of the Royal Commission on Taxation, Number 2, Ottawa, Queen's Printer, 1964, p 67, his emphasis.
47. Ibid, p 75.
48. Ibid, Table 2-3.

49. Ibid, Table 1-3.
50. Irving Jay Goffman, The Burden of Canadian Taxation. Allocation of Federal, Provincial and Local Taxes among Income Classes, Canadian Tax Papers, No. 29, Toronto, Canadian Tax Foundation, 1962.
51. Strick, op.cit., Table 3.
52. Lewis, op.cit., p 26. Book profits are those reported by corporations to their shareholders. After a wide range of deductions the income that is taxable is considerably less than the profits actually earned.
53. Ibid, p 25.
54. Calculated from Wolfe, op.cit., Tables 7-10.
55. Ibid, p 275.
56. Ibid, pp 276-7
57. See Gough, op.cit., Ch 6. Other sources of tension within state finance include the problem of financing rising state expenditure, and the growth of state spending and employment that does not contribute directly to capital accumulation and which is a burden on total surplus value created during the process of production. More generally, difficult choices must be made between competing priorities of legitimation and coercion as means of maintaining order and between policies geared to the stimulation of economic growth and legitimation. Conflict in this latter area becomes particularly clear over the allocation of resources when state expenditure is being reduced; for example, cutting back on social spending to devote more resources to business support could lead to heightened social conflict.
58. Thus, this chapter has reviewed the incidence and overall impact of taxation within the social structure. The particular provisions and components of the tax structure will be examined in detail in later chapters in comparison to the various reform alternatives under debate.

Stage One: The Royal Commission and the Pursuit of Equity

The consolidation of an advanced capitalist economy during the period after the Second World War had fundamentally transformed the structure of Canadian society. Among the most important developments were greatly expanded manufacturing and resource production, the increasingly dominant position within the economy of a small number of major corporations and the tremendous growth of state intervention throughout society.[1] Such changing social, economic and political conditions stimulated a wide-ranging reformulation of vital areas of state policy.[2] From the influential 1945 White Paper on Employment and Income, which set out the official view of the state's critical role in the economy, a variety of tax forces, Royal Commissions and internal government studies examined the decisive issues of the Canadian political economy. One of the most important policy issues was taxation. The previous chapter emphasized the extremely haphazard, piecemeal and uncoordinated fashion in which the Canadian tax structure had historically evolved. By the early 1960's, it had become increasingly evident that a tax system formed in such a way posed severe problems for the highly advanced economy of the post-war period. Moreover, the business community had become convinced that not only was the tax structure ill-suited for the contemporary economy, but that tax burdens had reached disastrously high levels. Consequently, a great deal of corporate pressure was brought to bear on the government for major tax reductions and a rationalization of the entire system.

In response to mounting demands for the detailed study and ultimate revamping of the tax system, the government established the Royal Commission on Taxation (Carter Commission) in 1962. The three chapters of this stage focus upon the deliberations of this enquiry and the conflict and debates that raged around them. Chapter 5 sets the Royal Commission within the context of the overall development of state economic policy and outlines its initial operations. The Commission quickly elaborated its framework of analysis and launched an extensive research programme. Chapter 6 analyzes the public hearings of 1963 and 1964, which became the focus of extensive discussion of the tax system and its reform. They provide an excellent setting for the analysis of two closely related issues. First of all, an examination of the briefs and testimony to the Commission can illustrate the patterns of participation of the various groups and organizations in the formal policy process. Secondly, an analysis of the content of submissions and evidence presented to the Royal Commission can clearly delineate the basic demands and policy on tax reform put forth by organizations representing the major class and social groupings. Chapter 7 discusses the continuing controversy and pressure on the nature and direction of tax reform outside of the hearings and the report of the Royal Commission on Taxation, published after much delay in February, 1967. Its sweeping recommendations would have totally transformed the Canadian tax structure and had an adverse impact on very powerful social and economic interests.

Footnotes

1. These trends were discussed in Ch 1 above.
2. Cf. Richard W. Phidd and G. Bruce Doern, The Politics and Management of Canadian Economic Policy, Toronto, Macmillan, 1978. Their massive study of state economic policy concluded that "major changes in the institutional structure of the economy will alter the basic system in which the more specific instruments of economic policy...are used.", p 22.

Chapter 5 Tax Reform on the Agenda

I. General Context for the Realignment of State Economic and Fiscal Policy

The major changes in the political economy noted in the introduction to this stage and the related deliberations on key policy issues within the state had attracted a great deal of attention within the business community by the end of the 1950's. A sophisticated and highly influential thrust of business commentary emphasized the need to rationalize the policy and institutional framework within which the growing state direction of the economy operated. It was recognized that the state fulfilled a vital function in maintaining favourable overall economic conditions and that this in turn required coordinated policy. Leading corporate spokesmen increasingly called for some form of systematic and comprehensive national economic planning.[1] These demands became more urgent during the 1957 to 1961 recession when it became clear that the government was unable to prevent or control unemployment and stagnation.[2]

During 1960 and 1961, speeches by E. P. Taylor (to the Canadian Chamber of Commerce)[3], Mitchell Sharp, vice-president of Brazilian Traction. light and Power Co.[4], John Deutsch, vice-principal of Queen's University and a leading economist much involved in government policy making (to the National Industrial Conference Board)[5], John A. Wilson, president of the Canadian Institute of Chartered Accountants (to the National Business Conference on Employment)[6], and A. J. Little, chairman of the

Canadian Tax Foundation (to the 1961 annual meetings of the Canadian Chamber of Commerce)[7] all called for the rationalization and realignment of state economic policy. Mr. Taylor was one of the most prominent Canadian business leaders, head of the powerful Argus conglomerate and director of numerous dominant financial and industrial corporations.[8] His speech emphasized the significance of a coordinated and comprehensive state policy which would follow the lessons of European practice, encourage close business-government relations and include long-range planning on major economic problems. Taylor called for the creation of a new economics ministry to oversee these developments.[9] In an earlier article, Taylor had stressed that the minister of the proposed new department should be a capable and experienced top businessman who would be prepared to implement needed policy whatever its political popularity.[10] The call for a new body within the state to develop coordinated long-term economic planning had been echoed by Mr. Wilson and Mr. Little. The latter recommended the establishment of a separate planning body under a new ministry of economic development. He argued that, as the massive state planning and intervention of World War Two had demonstrated so successfully, this ministry could draw upon the wide experience of businessmen and economists from the private sector.[11] Several of these speakers also hastened to reassure their more hesitant colleagues that this government planning was not socialistic: "It does not mean a planned economy in that sense. It just means applying demonstrated business management principles to government."[12]

An important theme of this extensive corporate discussion of state economic policy was taxation. Eric Kierans, president of the Montreal Stock Exchange and later to be a federal Liberal cabinet minister, decried the lack of coherent government economic policy in addressing the plenary session on investment, savings and taxes of the 1960 annual conference of the Canadian Tax Foundation. Kierans emphasized that the tax system must encourage investment and called for reductions in personal income taxation to stimulate individual savings.[13] The chairman of the Foundation, A. J. Little, argued that taxation was a prime example of the need for planning; tax levels had become dangerously high and controlled changes could have a great effect on the economy. Consequently, "it is time for a complete study of taxation in Canada to determine how our taxation policy of the past has affected our economic growth, and to determine what basic forms of taxation we should have for the future."[14] E. P. Taylor had also called for a critical study of the tax system, especially the use of incentives to stimulate manufacturing, as part of the overall rationalization of state economic policy.[15]

Thus, from the late 1950's, business spokesmen increasingly commented upon the expanded role of the state and argued for the necessity of a fundamental reorientation of state economic policy, the development of systematic planning and the elaboration of new departments or institutions within the state to organize the requisite changes.[16] Within this general commentary, there was considerable concern expressed over the structure of taxation and its relationship to economic growth.

Development of State Economic Policy

The government was well aware of the prevailing climate of opinion within the business community. In fact, extensive discussion of economic policy was also taking place within the state. In the latter 1950's, one of the most important sources of state and public deliberation on economic affairs was the Royal Commission on Canada's Economic Prospects (Gordon Commission).[17] Although the central focus of the Gordon Commission was the way in which foreign ownership affected the growth and structure of the Canadian economy, its deliberations touched on a range of other economic issues as well. It quickly became evident that one of the major areas of concern - and this certainly reflected wider feelings within corporate circles - was the tax system.

The Royal Commission retained J. Grant Glassco, a prominent accountant with Clarkson, Gordon & Co., to study the way in which taxation influenced investment and the high level of foreign ownership.[18] The study recognized (as did the Commission itself) the critical importance of taxation in shaping investment patterns. It stressed the need to abolish those facets of the tax structure that specifically benefited foreign ownership and discouraged Canadian ownership, and urged the development of incentives for Canadian ownership and provisions to make it easier for Canadian capital to maintain control of business enterprises. Glassco stressed four further conclusions: the special conditions of the extractive industry required special tax incentives, high estate taxation impeded the retention of family control of small businesses, clear legislation must replace the uncertainty of administrative rulings,

and a special body should be established to carry out a comprehensive study of the entire tax system. Not surprisingly, the importance of taxation to the health of the economy was also emphasized in the brief of the Canadian Tax Foundation to the Commission.[19] This brief outlined a number of problems in the existing tax structure. It stressed the importance of quick depreciation for industrial expansion, that tax policy should encourage exports and that the tax system should not impede industrial reorganization and integration. The combined effect of succession duties and income taxes was seen as a great problem for small business. The danger of higher provincial taxes on the resource sector was also noted. The Foundation repeated the common business view that reducing corporate taxes and the double taxation of dividends could be an important stimulus for investment. It also emphasized that taxation must not retard initiative and incentive and consequently recommended a reduction of the progressively graduated structure of marginal rates of personal income tax.

Although its basic focus was on the overall structure of the economy, the final conclusions of the Gordon Commission also commented upon taxation. The Report supported faster write-off of capital investment to stimulate manufacturing,[20] more favourable depletion allowances for the oil industry[21] and reducing the impact of tax features that discouraged Canadian ownership. Of more significance than its specific recommendations, the Gordon Commission and the widespread discussion of its deliberations reflected the growing attention being paid to taxation as a vital, but increasingly problematic, component of economic policy.[22]

The extensive review of major areas of state economic policy was intensified during the early 1960's. A basic premise of the comprehensive reformulation and coordination of policy underway within the key federal departments concerned with economic development during 1960 was that secondary industry must be encouraged. The impetus behind these policy initiatives was partly political (the falling popularity of the Conservative party) and partly economic (high unemployment and strong pressure from manufacturing for assistance). Among the new policy directives under consideration were additional protection for manufacturing and wide-ranging tax proposals, including more generous depreciation and various selective incentives to encourage investment and Canadian ownership.[23] The establishment of the National Productivity Council in 1961 reflected government goals of improving the productivity and potential of the economy, systematizing economic policy and increasing coordination with the private sector.[24]

During 1961, the Special Committee of the Senate on Manpower and Employment intensively studied the weaknesses of the Canadian economy, especially the persistence of high unemployment.[25] The proceedings of hearings and research studies of this committee were over 1500 pages in length and constituted a major source of economic discussion and analysis during this period.[26] The Special Committee emphasized state intervention and planning, but found a serious lack of coordination of governmental economic policy. It stressed the need to stimulate the expansion of the secondary manufacturing and capital investment industries. Noting that "taxation, at the level which prevails today, is a powerful instrument

for good or ill", the Report called for tax incentives to promote industrial research and development, innovation and manufacturing exports.[27]

In conclusion, a significant facet of the political context of the late 1950's and early 1960's was the thorough-going examination and review of fundamental issues of economic policy. Given its central impact on the economy, it was not surprising that the development of a tax system conducive to industrial expansion and economic growth was a prevalent theme in these deliberations.[28]

II. Emerging Pressure for Reform of the Tax System

The tax system was not simply being discussed as one important policy issue among many others. By the mid-1950's, taxation was increasingly being portrayed as a severe economic problem by a mounting business campaign for the thorough restructuring of the entire tax system. The business community argued that the tax structure had become needlessly complicated, was fraught with anomalies and inequities and that, most importantly, high levels of personal and corporate taxation dangerously reduced investment and retarded economic growth. The strength of this corporate opposition to the existing system had been shaped by a number of factors. In previous economic crises, such as the First World War and the depression, increased government spending had resulted in higher taxes, but when the crisis passed taxes had been reduced. However, the great expansion of state economic intervention and social security through the period after the Second World War had led to steadily rising state expenditure which did not allow for tax reductions and which in fact resulted in a parallel growth of state revenue. In addition, many businessmen were

apprehensive about the growing encroachment of the state into areas of economic activity traditionally seen as the realm of the private sector. The steadily rising levels of taxation, which were outside of the historical experience of business, became a symbol of this widespread business unease. Although at times somewhat hysterical and varying greatly in sophistication, the belief that high taxation and the overall tax structure were serious impediments to economic growth and accumulation had become firmly established within the business community.

These issues were the subject of much discussion between major corporate associations and state officials. As early as 1955, the Canadian Chamber of Commerce was pressing the government for the rationalization of the tax system. In its pre-budget submission to the federal cabinet, the Chamber argued that the administrative complexity of the sales and excise taxes, and the ad hoc nature of tax decisions on income tax created significant uncertainty.[29] The Chamber's 1956 pre-budget brief again emphasized the need for administrative certainty and clarity. It went on to argue that the structure of income taxes should not favour non-residents, exemptions for succession duties should be raised and provincial resouce taxation should not burden that sector unequally.[30] A delegation of the Canadian Manufacturers' Association met with the Ministers of Finance and National Revenue, top deputy ministers and other officials on December 11, 1956.[31] The C.M.A. contingent reiterated that major points from their recent brief. It was emphasized "that taxation policy should not be framed on a year-to-year basis but on long-term considerations."[32] While recognizing the state's need for revenue, the C.M.A.

submission argued, as it had the previous year, that corporate taxes were too high for the good of the economy. Repeating their brief to the Royal Commission on Canada's Economic Prospects, the Association portrayed steeply progressive rates of personal income tax as a severe problem. As well as calling for reductions in corporate and individual taxes, the C.M.A. argued for higher exemptions on estate taxation. The Canadian Chamber of Commerce's 1957 annual brief to the cabinet on fiscal policy also called for significant personal and corporate tax reductions. In addition, the executive council of the Chamber supported the Gordon Royal Commission's recommendation for quicker depreciation for manufacturing industry.[33]

Extensive discussion of taxation was also common at business conferences throughout the late 1950's. J. R. Petrie, a prominent tax authority, spoke to the 1956 annual conference of the Canadian Manufacturers' Association on "Taxation Policies in a Competitive World."[34] He first argued that given the growth of state activity and expenditure, and the limits this imposed on the possibility of lower taxes, it was all the more crucial to improve the existing tax structure. Petrie listed three basic objectives of taxation: first, raising necessary state revenue, second, fostering production, and finally, "the spreading of the tax burden in the most equitable manner possible, consistent with the above objectives."[35] He noted that the goal of equity was highly intangible (and clearly rated it a distant third). Petrie argued that the complicated structure and high levels of taxation were creating severe problems for investment and initiative. He emphasized the harmful and dangerous nature

of the tax structure and concluded that "a very searching examination of the overall tax system in Canada is now indicated. We have tended in the past to tackle the problem in a piecemeal fashion."[36] In 1957, high levels of personal and corporate income taxation were seen as a major problem by economists, businessmen and government officials participating in a seminar at Queen's University[37] and the annual meetings of the Canadian Manufacturers' Association. Kenneth Carter, a leading tax expert and chartered accountant, spoke to the latter's management session on "Taxation - Does the Government Know Best." While recommending a number of specific changes, such as improved capital cost allowances, Carter's major conclusion was that "finally, I would like to join with such prominent people as the Minister of Finance in stating that I am appalled at the existing rates of personal and business taxation."[38]

Increasing Corporate Pressure for Tax Reform

Business alarm with the tax system and demands for its restructuring continued to mount during the early 1960's and were the focus of extensive discussion within the business press and general media and of numerous well-publicized speeches by leading corporate figures.[39] A prime example of the latter was the 1960 address of W. O. Twaits, president of Imperial Oil and an extremely influential corporate spokesman, to a taxation conference on "Needed - A Philosophy of Realism."[40] Twaits saw the tax system as a serious economic problem and emphasized that "instead of patchwork expediency and destructive competition for the tax dollar, we need a new philosophic base and a renaissance in fiscal thinking with the objective of restoring individual and collective incentives."[41] He argued

that the tax system must "get rid of the shackles of the past" - of the principles and structures inherited from its complex evolution.[42] Twaits underlined how crucial profit and capital were to economic growth, but lamented that state fiscal policy severely limited their accumulation. A serious problem in this regard was the corporate income tax. Twaits echoed a common business complaint that the exemptions from corporate taxation enjoyed by cooperatives and government enterprises were unfair and discriminatory. The basic thrust of Twait's address was that tax reductions must be a primary goal of fiscal policy. He further argued that, given the growing role of the state (a trend that Twaits was clearly uneasy about), close contact between business and the government was essential to the efficient operation of the economy.

Corporate opinion became increasingly solidified and pressure mobilized around a number of specific themes. The view that high taxation was a serious obstacle to economic growth continued to pervade the deliberations of business gatherings and forums. For example, W. H. Flynn, an executive of Canadian Industries Ltd. and chairman of the Taxation Committee of the C.M.A., spoke to the plenary session on management at the association's 1961 annual conference. He stressed that taxation was a major problem for industry and appealed for more favourable tax incentives, especially to promote exports and research and development. He argued that the tax structure discriminated against secondary manufacturing in favour of the resource industries and agriculture. What was needed was a balanced tax system which reduced inequality between the various sectors of production and promoted industrial growth.[43] Similar arguments ran

through the taxation sessions of the 1962 annual meetings of the C.M.A. where a number of speakers emphasized the "rising storm" of opposition to the heavy burden of high personal and corporate taxation.[44] These concerns were also influenced by the specific conditions of that period. Trevor F. Moore, vice-president of Imperial Oil, noted the prevailing anxiety within corporate circles over the likelihood that growing state revenue requirements would force tax increases in the fall 1962 budget, regardless of which party was in power.[45]

The business community's solution to the problem of high taxation was a virtually unanimous demand for tax cuts.[46] This demand was being pressed by the major business organizations on the government. The Canadian Manufacturers' Association's 1962 brief to the Royal Commission on Banking and Finance advocated improved depreciation allowances and investment tax credits to enhance the competitive position of Canadian industry.[47] The C.M.A. president stated in a major speech that in order to create new capital for industrial development, Canadian taxes must be as low as other advanced countries. C. A. Pollock further argued that "corporate and individual income tax reductions are the most urgently needed items to stimulate the economy."[48] The executive council of the Canadian Chamber of Commerce had presented a similar view in their 1960 annual pre-budget submission to the federal government.[49]

An increasingly frequent variant of this business opposition to high taxation was criticism of the progressive structure of personal income taxation. The graduated structure and high marginal rates of personal income tax were a frequent and often heated topic of discussion at the

annual conferences of the Canadian Tax Foundation. J. Harvey Perry, one of the most influential Canadian tax experts, told the 1960 meeting that the tax system must encourage investment.[50] He argued that high and progressive rates of personal income tax severely hampered this goal: "These rates fall with heaviest impact on the very element of the community which has the greatest surplus for savings and investment and unfortunately these rates are almost entirely a political dodge."[51] On purely economic criteria, Perry would like these high rates abolished, but recognized that the ideology of progressive taxation made such a drastic change politically impossible for any government. He did recommend further inducements for corporate investment, such as the capital cost allowances.[52] The 1961 conference of the C.T.F. featured a plenary session on the "Ability to Pay Reconsidered."[70] Dr. A. K. Eaton, an Ottawa fiscal consultant and former top official in the Department of Finance, criticized the premises underlying the principle of progressive taxation: "I have always thought the theoretical justification for a graduated income tax quite hollow and inadequate, but in the past it did not behoove me to say so in public."[53] Eaton argued that a flat proportioned rate of 16% would be more effective and would raise as much reserve as the existing personal income taxes.[54] The speaker following Eaton in the plenary session, Trevor F. Moore, was also troubled by progressive taxation: "I do not consider it unjust that low income groups should pay a low rate of tax, but I do suggest that at the other end of the scale, the financial rewards for the successful use of skill, foresight, energy and risk-taking should not be heavily taxed just because the money is presumably there for the taking." He argued

that because of this impact and the high levels of taxation the tax structure was unable to fulfill its vital role of fostering economic growth: "any system of taxation which inhibits the aggressiveness, ingenuity and ability of the country's citizens is eroding the basis of that country's progress and prosperity."[55]

This pervasive business criticism of the tax structure operated at several levels of analytical sophistication. At the crudest, many businessmen asserted that high taxation severely damaged the economy and that the growth of big government retarded initiative and development. However, more sophisticated and expert commentary was also widespread within the business community. As early as 1955, J. Harvey Perry had outlined the wider context within which the state fiscal policy had to be considered.[56] A severe problem for the development of effective fiscal policy was the fact that the precise distribution of the tax burden, and consequently its economic effect, was not known. Perry detailed several fundamental constraints on tax policy and reform; one fiscal and the other political. The first is simply that the steady trend of increasing government activity inevitably requires high taxation to pay for rising expenditures. For the political factor, Perry noted how solidly entrenched was the principle that taxation should contribute to the redistribution of wealth and income, and how this principle can shape and limit the development of the tax structure. Perry argued, for example, that inheritance tax can hinder the generation of wealth, but given the general ideological commitment to fair taxation, no politician could dare to call for the abolition of this tax. Discussion at the 1959 conference of the Canadian Tax Foundation also

examined political considerations that shape taxation policy; the tax system must not only be fair but appear to be fair.[57] A leading role in more informed and comprehensive debate during the early 1960's was played by the Canadian Bar Association, the Canadian Institute of Chartered Accountants and their jointly-sponsored Canadian Tax Foundation.[58] Although these organizations also stressed the problems of high taxation and the necessity of major reform, such professional and expert spokesmen were often critical of the more strident business demands. For example, Ronald Robertson, director of the Canadian Tax Foundation, was skeptical about much of the "renewed onslaught of criticism of the Canadian tax structure from many quarters."; such complaints frequently ignored state revenue needs and many demands focused on specific areas of taxation in isolation.[59] He urged business to take a more analytical approach to the problems of the fiscal system; to go beyond merely emotional or ideological responses.[60] Nonetheless, Robertson and other tax experts did accept the basic thrust of corporate opinion; that the tax system was too complex and its rates were too high. He recommended that the high rates of personal income tax be reduced and replaced by a flat proportional rate.[61]

Summary: Business Pressure for Tax Reform

From the mid-1950's, the tax system had become an issue of serious concern for growing numbers of Canadian businessmen. Denunciations of the high levels and excessive complexity of taxation had steadily increased in intensity from this period on. So also had demands for immediate reductions and a thorough restructuring of the entire tax system became increasingly prevalent. Throughout the late 1950's and early 1960's the belief that the

tax structure had become a serious economic problem and was in need of drastic reform had been increasingly solidified and mobilized within the business community. The result was that by 1962, corporate pressure on the government for tax changes had become virtually constant: "In the early months of the year, briefs from most major trade associations and business organizations and speeches of individual businessmen centred on tax problems. Opinion crystallized that much was wrong with the present tax system - such words as 'frightful' and 'appalling' became the most overworked in the corporate vocabulary..."[62]

The mounting pressure for tax reform came from all sections of the capitalist class; in speeches, articles and policy statements from prominent executives and directors of powerful corporations and from major industry and trade associations. In addition, taxation was a pervasive theme of discussion at numerous business conferences and in the toutine interaction between corporate and state officials. The business press had played a central role in catalyzing and marshalling the growing campaign to restructure the tax system; more specifically, it was the "...Globe and Mail, which, with the Financial Post, spearheaded the attack.."[63] The extensive coverage of discussions and deliberations on taxation by the Financial Post emphasized the damaging effect of high taxation. This journal, of tremendous influence within the business community[64], consistently and strongly editorialized in favour of tax reductions and rationalization. The extensive attention devoted to taxation in the business press and the journals of various corporate organizations mirrored the concerns and viewpoints of Canadian business. More than this, their detailed

coverage and editorial emphasis served to spread information and mobilize opinion on taxation throughout the business community. In this way, the business press not only reflected general corporate policy on taxation, but further reinforced the organization of business pressure for tax reform.

Similar themes were stressed by the preeminent daily newspaper in Canada, the Toronto Globe and Mail. For example, a December, 1961 editorial strongly argued for a comprehensive study of the tax structure: "this newspaper has been one of many voices calling for such an investigation and review ever since 1945. It has long been apparent in fact that Canada's existing taxation system is the source of many of our present troubles."[65] The editorial then emphasized that "the great defect of the existing system is that it was never thought out or planned in any comprehensive way." With the greatly expanded role of the state, the consolidated structure of the economy of the modern period, and most importantly, the high level of taxation, the haphazard and uncoordinated development of the tax system had become a serious problem. Finally, the paper repeated a common corporate charge that "heavy income and corporation taxes, in particular, are slowing up capital formation, discouraging saving, investment and enterprise, and forcing both industry and government to rely more and more on borrowing from abroad." It will be seen in later chapters that extensive coverage of corporate pressure and other debates in the mass media helped to transform tax reform into a critical political issue and influence public opinion on its significance and implications.

Business demands for tax changes focused on a number of consistent concerns: the increasingly discussed possibility of capital gains taxation, to which business was uniformly and violently opposed[66]; the double taxation of corporate surplus, first as profits and then when distributed as dividends as personal income[67]; and estate taxation, which was seen as a severe obstacle to the retention of control of small and family owned businesses.[68] Business also called for changes in tax administration to reduce complexity and uncertainty. However, the most pervasive and significant thrust of business pressure was the widespread demand for reductions in personal and corporate income taxes. These cuts were not seen solely as short-term adjustments - as mechanisms for the immediate stimulation of the economy (although such considerations certainly were important). Rather there was a widespread conviction that high rates of taxation were a severe long-term or structural economic problem; that they distorted or limited investment, reduced incentives and enterprise, and generally restricted economic growth. Finally, the necessity of a comprehensive rationalization of the entire system to better correspond to the transformed structure of an advanced capitalist economy was repeatedly stressed. A fundamental premise of corporate policy was that state intervention in general and tax policy in particular must encourage economic growth. The tax structure must do so by facilitating and stimulating the accumulation of profit and capital. The idea that taxation should contribute to social equality was recognized in principle, but in practice was very much seen as a secondary consideration.

Corporate pressure for tax reform during this period was by no means monolithic. Business concern with taxation arose out of very different ideological orientations and levels of sophistication. For many businessmen, "part of the criticism was based on an essentially conservative reaction to large government expenditures"[69], especially on social welfare and general unease with the growing role of the state. By contrast, more advanced corporate analysis clearly understood the wider fiscal and political constraints on state finances and argued for a more flexible approach to state policy and intervention. Business debates on taxation were also shaped by concrete sectional divisions within the corporate economy. There were, for example, rumblings of discontent from the manufacturing sector on the far more favoured tax treatment enjoyed by the resource industries. In a similar vein, representatives of the forestry industry wondered why they did not have the tax advantages of petroleum and mining.[70] The oil industry was itself strenuously arguing for more favourable depletion allowances.[71] Nonetheless, such economic, analytical and ideological differences within business opinion were far less significant than the virtual unanimity on the urgent need for the wholesale restructuring of the tax system. Although the diagnosis of the basic problem and the range of proposed solutions varied, there was no fundamental disagreement within business on the pressing need for reduction of the dangerously high levels of taxation and rationalization of the cumbersome tax system.

Mounting Demands for a Study of the Tax System

Increasingly, informed business opinion had been appealing for the comprehensive study of the tax system as a necessary precondition for its

restructuring. Reflecting this belief was the Canadian Tax Foundation's sponsoring of a major research project on the Effects of Taxation on Canada's Economic Growth at Queen's University. The chairman stressed the significance of the heavy financial support for the study from business in addressing the Foundation's 1961 conference: "I believe this strong support is indicative of the great interest of Canadian business in the study..."[72]. Demands for a study of the tax system had become an increasingly prevalent theme in business speeches. This necessity was forcefully argued by the vice-president of Imperial Oil to the 1962 Canadian Manufacturers' Association annual conference: "indeed, so much has been said in recent months by thoughtful people about the need for a study of our complete tax structure, that my remarks can be comparatively brief."[73] John Robarts, premier of Ontario, was naturally much involved in the ongoing formulation of federal-provincial fiscal relations. Recognizing the complexity and interdependence of this issue and the need for a firm analytical base for new policy directions, Robarts called for "a thorough investigation and review of our whole Canadian tax structure."[74]

Finally, one of the most influential businessmen in Canada, W. Earle McLaughlin, president of the Royal Bank and director of numerous other major corporations, took up this call. In his wide-ranging address to the bank's shareholders' meeting in January 1962, McLaughlin argued that "our disincentive tax structure" was the source of severe problems for the Canadian economy. He emphasized that high taxation reduced incentive and caused distortions in the economy, stressed the urgent need for the reform of the harmful aspects of the tax structure, and called for the establishment of a Royal Commission to investigate the tax system in its entirety.[75]

This position was immediately and heartily endorsed by the Toronto Globe and Mail in its lead editorial: "A more rational and scientific system of taxation is needed. The first step in providing it must be an inquiry such as Mr. McLaughlin proposes, by a competent and impartial body of experts, to determine what level of taxation the Canadian economy can endure and what kinds of taxation will provide the least discouragement to national development."[76]

Conclusions: Pressure for Reform

This discussion of the period leading up to the establishment of the Royal Commission on Taxation has focused on the actions and demands of the corporate sector. This is so because it was business that was the driving force in this early juncture of the campaign for tax reform. No other group was as heavily involved in the debates on tax problems or exerted such significant pressure for tax reform.

It could be expected that organized labour would have been highly interested in such a vital issue as taxation, but in fact, labour was far less vocal than business on the need for tax reform. Nonetheless, when the union movement did discuss the tax structure, it was from a policy perspective sharply divergent from that of business. In February 1961, the Canadian Labour Congress' annual legislative brief to the federal cabinet contained a number of consistently progressive proposals for tax reform:

[illegible] of regressive sales taxes, base taxation more on ability to pay by means of more progressive income taxes, close the numerous loopholes in corporate taxation, institute a capital gains tax, expand personal deductions and "in broader terms, we feel that the present tax structure should be changed with a view to redistributing the burden of taxation more

equitably."[77] Labour's policy was more ambiguous than this brief would indicate. In May 1962, a Canadian Labour Congress policy statement on economic growth and unemployment offered qualified support to the prevailing business position when it called for cuts in corporate tax rates to stimulate the economy.[78] The C.L.C. however emphasized that such reductions must be accompanied by increased public investment.

The fundamental point here is that the impetus for tax reform was not basically progressive in any way. The stimulus for changes in the tax structure did not originate with the unions as representatives of organized workers or with various philanthropic or welfare associations as representatives of the less affluent more generally; nor was it based upon any widespread public criticism of the existing system. Rather, the major pressure for the examination and restructuring of taxation came from the business community. Furthermore, these corporate demands for the rationalization of the tax system and for tax reductions to stimulate growth and investment were framed in terms of the concrete interests of capital.

III. Establishments of the Royal Commission on Taxation (Carter Commission: Summer 1967

The government was very much aware of prevailing opinion within the business community. As early as 1958, Donald Fleming, then Progressive Conservative Minister of Finance, conceded that high taxation could have damaging effects: "taxation when it becomes oppressive can blunt incentive and blight initiative."[79] Even earlier, while still in opposition, the Conservative leader had spoken of the problems of taxation: "in a speech at Ottawa on April 26, 1956, Mr. Diefenbaker declared that one of the five

major issues before the country was reduction in taxation to allow Canadian industry to compete in world markets" and a year later he saw Liberal tax policy as threatening the very survival of the free enterprise system.[80] Speaking to the 1962 conference of the Canadian Manufacturers' Association, Fleming outlined the key role of the state in maintaining a favourable economic environment. He stressed the importance of fiscal policy and taxation in promoting economic growth and stability, and reviewed recent tax changes specifically designed to stimulate investment. Fleming further noted: "in our free society we depend essentially on private enterprise to provide new opportunities for production and employment. Accordingly, tax measures to stimulate the economy have been directed to an important extent towards fiscal relief for our business enterprises."[81]

Finally, in response to increasingly intense corporate pressure, Prime Minister Diefenbaker promised in an election speech on May 6, 1962 to create a Royal Commission to study the Canadian tax system.[82] Diefenbaker returned to this issue in the closing stages of the election campaign, promising that "there will be a complete reorganization of the Canadian tax structure to bring it in line with today's business climate."[83] Although business pressure was certainly crucial, it was far from the sole reason for the government's acceptance of the need for a wholesale examination of the tax structure. A number of other factors, both immediate and longer-term, contributed to this policy initiative.

Political Context

The Royal Commission was announced during the midst of the 1962 federal election campaign. The Diefenbaker government had presided over

a period of general economic recession, with slow growth and persistently high unemployment,[84] and had consequently been facing declining popular support. Naturally, these problems were ongoing concerns of state policy, but it became particularly important for the electoral fortunes of the government to be able to offer an optimistic programme for economic growth during the campaign. The result was the Conservatives' sixteen point "prosperity blueprint", of which the promised tax reform was one important element.[85] In order to stimulate the economy other proposed measures included incentives for secondary industry, expanded transportation infrastructure, resource development, increased vocational training and encouragement of small investors.[86]

If tax reform was an important part of the overall Conservative programme for economic growth, it was also a potentially popular electoral ploy. The pledge to develop a fair and equitable tax system was the type of sweeping political gesture guaranteed to appeal to large numbers of voters whose tax burdens had been steadily increasing.[87]

In addition to this immediate electoral context, the promise of a more equitable tax system can be related to the wider political philosophy of the Progressive Conservative party. The Diefenbaker government had swept to power in the late 1950's by contrasting a broad populist appeal to the image of cold corporate efficiency of the long-reigning Liberals. This philosophy, although certainly profoundly opportunistic, shaped government policy to an important degree. One result, at least at a general level, was a consistent committment to redistribution, to the amelioration of regional and social inequality.[88]

Business Dissatisfaction with the Diefenbaker Government

The government had to contend not only with tremendous direct pressure for tax changes, but also with a more general, but extremely pervasive, discontent within business. To solidify his populist image, Diefenbaker had sought to avoid the traditional identification of a Conservative government with the financial community. He portrayed himself as champion of the common people and as critical of the power and prerogatives of big business.[89]

The corporate sector was extremely apprehensive about Diefenbaker 's anti-business public stance, but was even more opposed to specific aspects of the government's economic policy. Business had recognized the opportunistic political motives behind the grand vision of economic prosperity and regional growth contained in Diefenbaker's National Development Policy and had refused to cooperate.[90] Previous sections outlined the widespread unease with state fiscal policy, especially steadily growing expenditures and large deficits. In addition, many corporate spokesmen objected to the government's ideological narrowness; specifically to its hesitation in fully implementing comprehensive economic planning and intervention. There was also general dissatisfaction with the government's lack of success in managing and stimulating the economy.

This prevalent corporate unhappiness with the Conservative government became closely interrelated with mounting business pressure for tax changes. For many years a central focus of criticism had been the graduated structure and high marginal rates of personal income taxation. The government severely antagonized business when it not only failed to heed these

criticisms, but twice further increased the degree of progressiveness. This anger was reflected in a speech by Dr. A. K. Eaton to the 1961 conference of the Canadian Tax Foundation. Eaton decried the expansion of social welfare programmes which he saw to be out of all proportion to real needs and contributions and went on to state:

> Some would say that this system is described by the simple word socialism. And, incidently, when the Prime Minister whose government in the past few years has twice increased the degree of progression in the income tax structure says the issue in the next election is to be socialism versus private enterprise one is perhaps left to speculate as to which side he is going for.[91]

Government Reactions to Business Unrest

In the face of such hostility, the government instituted a number of changes designed to placate business. In 1962, M. Wallace McCutcheon, a key figure in the Argus conglomerate, was appointed to the Senate and brought into the cabinet precisely because of his respected position within the higher circles of corporate power.[92] The government had also created the National Productivity Council to bring together business and political leaders in the formulation of economic policy. Immediately before the Royal Commission was announced, the 1962 budget contained a number of important tax incentives for Canadian industry: lower taxes for manufacturing on revenue from increased sales, more generous depreciation for new production, wider deductions for industrial reserach and development, and concessions to stimulate exploration for oil and gas.[93] And finally, of course, the establishment of the Royal Commission on Taxation was itself a major concession to corporate pressure.

The Structural Basis of Tax Reform

In addition to political and electoral considerations, and the need to appease business opposition, there was an even more fundamental reason for the thorough review of taxation policy. As noted in Section II, massive changes in the economic structure and vastly expanded state intervention had necessitated the comprehensive rationalization of vital areas of state policy. Such a re-examination was especially important for state finances, with the steadily growing levels of expenditure and revenue. The necessity of adapting the tax system to the structure of the modern political economy was the ultimate imperative for the detailed analysis and reform of taxation.

The Royal Commission in Context

Thus, the establishment of the Royal Commission on Taxation was determined by a complex of factors. The tax system had to be rationalized to correspond to the requirements of an advanced capitalist economy. Reflecting this structural basis, but also arising from more immediate economic conditions and the concrete interests of capital, was the pervasive business drive for tax changes. These factors taken together amounted to irresistable pressure on the government for the fundamental reformulation of tax policy. The 1962 election campaign constituted a particularly opportune time for the government to announce its intention of setting up a Royal Commission. By acting then the government could hope to both restore its strained relations with business and gain electoral support.[94]

It was on May 5, 1962 that the tax enquiry was promised. The election was held on June 18 and the Progressive Conservatives were returned,

with a drastic loss of seats from 208 to 116, in a minority situation.[95] The government made good its pledge in the fall of that year with the establishment of the Royal Commission on Taxation and the announcement of its composition and terms of reference.

The Royal Commission on Taxation (Carter Commission)

The preceding section has outlined the electoral factors, political pressure and structural requirements of the economy that all played a part in the genesis of the Royal Commission. It must also be emphasized that the Commission was explicitly created to play a central policy role in the restructuring of the tax system.

On August 27, 1962, Prime Minister Diefenbaker formally announced the creation of the Royal Commission on Taxation. The significance which the government attached to the policy role of the Royal Commission was reflected in its wide terms of reference.[96] It was directed to "inquire into and report upon" the incidence and effect of taxation upon the operation of the national economy. It was to recommend improvements to the tax laws "consistent with the maintenance of a sufficient flow of renenue." Among the specific issues to be addressed were the distribution of the tax burden; the means whereby Canadian ownership could be encouraged without restricting the inflow of foreign capital, the balance of payments and international economic relations; anomalies, inequities and loopholes for the avoidance of fair taxation within the existing laws; changes for "greater clarity, simplicity and effectiveness"; and the effect of taxation on emloyment, living standards, savings and investment, industrial productivity and economic growth and stability. The chairman was to be Kenneth LeMesurier

Carter, a prominent Toronto chartered accountant and noted tax authority. Carter had been chairman of the Canadian Tax Foundation, head of the federal sales tax committee in 1955-56 and president of the Institute of Chartered Accountants of Ontario.[97]

The Policy Role of Royal Commissions

The use of a Royal Commission as a major instrument of state policy formation was not unique: "the Diefenbaker period was notable for the number of major policy issues it launched via the mechanism of the royal commission."[98] Royal commissions have tended to be of two general types.[99] The first have been concerned with non-recurring issues such as industrial disputes, catastrophes or political scandals. In dealing with the immediate problem and initiating some degree of government action such commissions have been fairly successful.

The second category of royal commissions is of most interest here: comprehensive studies of crucial recurring issues of social, political and economic policy. Royal commissions made an important contribution to the thorough rationalization of state policy that took place during the post-war years. From the late 1950's on there had been commissions on the general prospects and structure of the Canadian economy (established 1955), broadcasting (1955), energy (1957), railway transportation (1959), publications (1960), government organization (1960), banking and finance (1961), health services (1961), and bilingualism and biculturalism (1963). While many specific recommendations of these investigations were ignored, their deliberations and conclusions had an important influence in shaping the general framework or parameters of state policy.

The modern royal commission had developed from an ad hoc tribunal into what was in essence a temporary, but sizable government department. They assemble large staffs of social scientists and expert advisers and accumulate a great deal of data.[100] The public, ad hoc and primarily investigative character of royal commissions however imposes certain limitations on their use as a technique of policy development.[101] Their ad hoc nature and the fact that commissions can only recommend, but not enforce, policy limit their effectiveness on issues that require continuous attention and coordination or frequent alteration. For example, while royal commissions have been important sources of policy on federal-provincial relations in the past, a major recent trend has been the establishments of a range of institutions to explicitly coordinate the various levels of government on an ongoing basis.[102] The government can not control the public and relatively independent nature of royal commissions and their conclusions can prove embarassing.[103] There are further ways in which commissions have a distinct political content. Not being obliged to implement the findings of royal commissions, governments have often used them as a delaying tactic - as a means of deferring and diffusing contentious political issues. The government can claim that a problem must be thoroughly studied before direct action can be initiated. By the time the enquiry is completed the immediate furor will hopefully have subsided and the report can be quietly shelved. While such practise can be a critical consideration for the political fortunes of the governing party, it is hardly a rational method of policy formation. Not being bound by Commission recommendations has an additional advantage for the government. Commissions can

be used to broach controversial policy issues. The government can then survey the reaction to the proposed policy and decide how best to proceed.

Nonetheless, these limitations do not prevent royal commissions from being an influential tool of policy analysis. They have been particularly suited for vital issues of more general concern upon which significant public pressure or discussion has been centred and in which major new departures are needed. They can draw on wide sources of expertise and information to develop a comprehensive analysis which is independent of the immediate pressure of state administration. As a public forum, royal commissions can sample general societal opinion and prepare the populace for government initiatives. Further, by reflecting apparent government concern and action on key issues, they can contribute to the overall legitimation of the state. In short, royal commissions can be useful mechanisms of policy formation and were extensively used as such in the post-war years.

These conclusions certainly apply to the Carter Commission. It was clearly intended to be an influential source of analysis and it quickly developed into a major forum for the discussion of taxation policy. The Royal Commission was important precisely because taxation was such a complex issue; it was widely agreed that comprehensive study was a necessary precondition for structural reform. As well as being a crucial component of economic policy, taxation was also a highly sensitive political issue. Its distribution vitally affected the interests of all groups in Canadian society and fair and equitable taxation was a basic element of liberal democratic ideology. The public hearings of the Royal Commission, which allowed for input from all interested parties, could contribute to the political legitimacy of these policy deliberations.

Corporate Links to Royal Commissions

Royal Commissions of the post-war period dealing with central policy issues had an important common feature: extensive corporate participation and influence in their deliberations. In the brokerage tradition of Canadian politics, the composition of the Commissions sought to balance major economic and regional interests. Appointments generally included individuals from the various regions and from diverse occupational backgrounds, such as academic and agricultural. However, seldom was organized labour directly represented and it was prominent corporate executives and officials of leading industry and trade associations who formed the majority of Commissioners.

The Royal Commission on Banking and Finance was at work during the same period as the Carter Commission. It was examining one of the most vital sectors of the economy and issues at the centre of state fiscal, monetary and economic policy. The chairman was Dana H. Porter, chief Justice of Ontario. Other members of the commission were W. Thomas Brown, president of a Vancouver investment firm, James Douglas Gibson, a leading economist and general manager of the Bank of Nova Scotia, Gordon L. Harrold, a top official with the Alberta Federation of Agriculture, Paul H. Leman, vice-president and treasurer of the Aluminum Co. of Canada, John C. MacKeen, president of the Nova Scotia Light and Power Co. and executive of numerous other enterprises, and Dr. W. A. Mackintosh, vice-chancellor of Queen's University and an adviser to many previous government policy bodies.[104]

It is the chairmen who are most important in shaping the direction and operations of royal commissions. Consequently, the type of person

appointed to such key positions is a good reflection of government priorities. The corporate sector predominated here as well. The Royal Commission on Energy was headed by Henry Borden, C.M.G., Q.C.., who was president of Brazilian Traction Light and Power, director of Bell Telephone, the Canadian Bank of Commerce, Massey-Ferguson and other major corporations, vice-chairman of the board of governors of the University of Toronto, and previously chairman of the federal Wartime Industrial Control Board. The chairman of the Royal Commission on Government Organization was J. Grant Glassco, a leading Toronto accountant with Clarkson, Gordon and Co. who was later also to be president of Brazilian Traction. The Royal Commission on Canada's Economic Prospects was chaired by Walter Gordon, a member of a wealthy and long established Toronto business family. Gordon was also highly influential in shaping Liberal social and economic policy and was in fact Minister of Finance from 1963 to 1965 during the deliberations of the Carter commission.

More generally, studies of economic power have shown the widespread involvement of corporate executives in numerous government commissions and enquiries.[105] In addition, research and administrative staff were drawn extensively from business, as well as academic and government circles. The hearings of the royal commissions were open to all interested groups and were in fact attended by a wide variety of organizations. However, there were consistently far more submissions, and of a more impressive quality, from corporate sources than from any other interests.

The Composition of the Royal Commission on Taxation

Following this common pattern, the members of the Royal Commission on Taxation were drawn largely from the advantaged strata of the class

structure and business interests were well represented. As noted above, the chairman, Kenneth LeM. Carter, was a prominent chartered accountant and tax expert, partner in McDonald, Currie and Co. and joint chairman of Urwick Currie Ltd., management consultants.[106] These professional endeavors and his activity in the Canadian Tax Foundation involved him with the highest levels of corporate power. Carter had in fact played a leading role in the formulation of business tax policy. He had been, for example, much involved in the deliberations of the Canadian Manufacturers' Association on this issue.[107] Carter had led the C.M.A. delegation to the federal cabinet in its annual pre-budget submission in December, 1956. Earlier that year he had been co-chairman of the trade and taxation conference at the C.M.A. annual meetings. Again in 1957, Carter gave a major address on taxation to the association's yearly conference. In 1962, he was a member of the panel of the taxation conference at the yearly meetings.

J. H. Perry played a vital role in the work of the commission, second only to that of the chairman. As previously noted, Perry had been a top official in the Department of Finance and then director of the Canadian Tax Foundation. He was a highly respected authority on the Canadian fiscal system and spoke widely to professional and business conferences. In 1961, he became executive director of the Canadian Bankers' Association, one of the most powerful corporate organizations. Perry continued to be active in professional discussions, chairing sessions on fiscal policy at both the 1962 and 1963 conferences of the Canadian Tax Foundation.[108]

One indication of the decisive role of both Carter and Perry was the amount of time spent by the various members on commission work. In

response to a question in the House of Commons on the payment of the commissioners, the following information was provided by the government. All commissioners were paid $100 per diem plus expenses. Carter worked 681 days during the life of the commission for a total payment of $68,100. Perry worked 607 days. By contrast, Beauvais, Grant, Milne and Wall respectively worked 334, 335, 432 and 439 days.[109]

Among the other appointees to the Commission were A. Emile Beauvais, a Quebec City chartered accountant and director of several companies. He had been a director of the Quebec Board of Trade, president of the Canadian Institute of Chartered Accountants and one of the first governors of the Canadian Tax Foundation. In addition, Beauvais had in the past been called upon by the government for fiscal advice.[110] Donald Gordon Grant was a lawyer, general manager of the Nova Scotia Trust Co. and director of numerous other corporations in Halifax. Charles Walls was manager of the British Columbia Federation of Agriculture. Mrs. S. M. (Eleanor) Milne of Winnipeg was treasurer of the National Council of Women and "in addition assists her husband in his accounting practice."[111]

Referring to Grant, Walls and Milne, Perry stated "I am sure that none of these last three persons would take exception to my describing them as not tax experts in the usual sense. Rather they represent broad and varied public interests and provide a necessary counter-balance to the expertise of the other half of the commission."[112] How "broad and varied" the composition of the Royal Commission was is another question. Its membership was certainly balanced in terms of having a woman, a French-Canadian and residents of all the major regions, but it was highly unre-

presentative in class terms.[113] In terms of holding major corporate positions and being involved in significant business enterprises, four of the commissioners (Carter, Perry, Beauvais, Grant) can be seen as belonging to the broadly defined capitalist class.[114] These individuals were also part of the social milieux of the upper class; of exclusive private clubs and enlightened philanthropy. For example, Carter and Perry could meet fellow members from the highest levels of the corporate and political worlds in the Rideau (Ottawa) and the University (Montreal) clubs.[115] Grant was involved with a children's hospital, the Red Cross and other charities in Halifax. Carter had been president of the Canadian Welfare Council,[116] trustee of the United Fund in Toronto and director of the Toronto Symphony Orchestra Association. It is not clear at what level of the business community Mrs. Milne should be located. However, with Walls of the agricultural federation, she must be seen as occupying at least a middle class position.

In conclusion, the commissioners were drawn largely from the business community and the business-orientated tax professions. While there was an official of an agricultural organization on the Royal Commission, there was no direct representation at all from the working class.

IV. Conclusion: Initiation of Reform Process

At one level, the massive business pressure was successful: the Royal Commission on Taxation was established in 1962 and the government was firmly committed to a thorough reorganization of the Canadian tax system.[117] On the other hand however, the government did not accede to corporate demands for immediate tax reductions for a number of reasons.

In the short term, pressing state revenue requirements militated against any substantial tax cuts and in the long term, state policy-makers had to ensure that whatever reforms were made, sufficient revenue would still be produced. More generally, because taxation was such a complex yet central issue of state economic and social policy its reformulation could not be carried out in haste. In addition, party competition ensured that the government must attempt to develop tax changes that would appear attractive to the largest number of voters as well as respond to business pressure. The government's solution, both to moderate the immediate political controversy and allow for extensive policy discussion and consultation, was the time-honoured tradition of creating a Royal Commission. That leading corporate figures had been calling for such an enquiry made this decision particularly suitable.

The crucial significance of the Carter Commission was that the process of tax reform was now firmly underway. The great impact of taxation upon the interests of all groups within the social structure and the fervent opinions and strong pressure already developed within the business community guaranteed that debate on the direction of reform would be lively.

Footnotes

1. John Saywell, (ed), Canadian Annual Review for 1961, Toronto, University of Toronto Press, 1962. This journal provides a useful regular overview of key trends and debates in the political and economic systems.
2. See Richard W. Phidd and G. Bruce Doern, The Politics and Management of Canadian Economic Policy, Toronto, Macmillan, 1978, pp 48-59 on economic trends in the post-war period.
3. Financial Post, October 7, 1961, p 17.
4. Financial Post, November 4, 1961, p 34. Sharp had been a leading bureaucrat in key economic departments of the federal state and had been Deputy Minister of Trade and Commerce before joining Brascan. He was shortly to enter electoral politics and as a member of the Liberal cabinet wield great influence over state economic policy. As Minister of Finance from 1965 to 1968, Sharp was to play a significant role in the later process of tax reform.
5. Financial Post, October 22, 1960, p 15; Deutsch returned to these concerns on other occasions; cf. Canadian Business, November 1961, pp 42-3. Deutsch had been a leading figure in the Department of Finance, worked for such important bodies as the Special Committee of the Senate on Manpower and Employment and the National Productivity Council in the early 1960's and was to be the first chairman of the Economic Council of Canada. He also was a member of policy analysis committees of the Private Planning Association of Canada.
6. Financial Post, January 28, 1961, p 6.
7. Canadian Business, November 1961, pp 46-52.
8. On Taylor and Argus Corporation see Libbie and Frank Park, Anatomy of Big Business, Toronto, James Lewis and Samuel, 1973, Ch VII; Peter C. Newman, The Canadian Establishment, Toronto, McClelland and Stewart, 1975.
9. Financial Post, October 7, 1961, p 17. See also E. P. Taylor, "A Canadian Industrialist's 4-Point Formula for Expansion," Canadian Business, November 1961.
10. Financial Post, November 12, 1960, p 6.
11. Canadian Business, November 1961, pp 46-52.
12. John Wilson, Financial Post, January 28, 1961, p 6; see also Mitchell Sharp, Financial Post, November 4, 1961, p 34. This was a common theme of more informed business commentary: a clear understanding that state economic planning and intervention, far from being socialist, were in fact essential to a modern capitalist society.
13. Canadian Tax Foundation, Report of Proceedings of the Fourteenth Annual Conference, Toronto, 1961. Hereafter these annual meetings will simply be referred to as C.T.F., and the year in which the conference was held, i.e. for this example. C.T.F., 1960 Conference. The C.T.F. is jointly sponsored by the Canadian Bar Association and the Canadian Institute of Chartered Accountants. The introductory remarks of the chairman stressed the role of the C.T.F. in providing objective analyses of fiscal policy and trends and thereby contributing to a fuller understanding of the tax system. He emphasized that

the C.T.F. does not act as a lobby to force tax changes: "The simple fact is that the Foundation has and will continue to fill a very important place in Canadian public affairs just because it is not a public relations lobby or promotional organization" (p 4). This significance is recognized by the corporations that contribute to the C.T.F.: "They do so not because it carries a torch or fans the flames but because it is a fact-finding and research organization which they regard as essential in the modern tax field." (p4) The chairman further argued that the work of the C.T.F. was an indispensible precondition for the development of improved taxation policy: "The task of accumulating facts and studying principles is the absolute starting point of all discussions on what to do about taxes..."(p7)

Whatever its claims to objectivity, the analysis of the C.T.F. was very much within the prevailing overall policy parameters shared by the corporations that supported it, by the legal and accounting professional associations so closely linked to business that sponsored it and by other major corporate organizations. It will be seen that the Foundation in fact played a central role in corporate pressure for tax reform, primarily by demonstrating and arguing for a sophisticated and analytical approach.

14. Canadian Business, November 1961, p 51. This address was also summarized in Financial Post, October 7, 1961, pp 1-2. It is interesting to note that the latter article was headlined "Canada's Tax System Slowing Our Growth." This highlighting (or sensationalizing?) of Little's discussion of taxation reflects the campaign of the Financial Post for tax changes and its editorial emphasis on the harmful effects of the existing tax structure. The leading role of the Financial Post in corporate pressure for tax reform will be seen below.
15. Financial Post, October 7, 1961, p 17.
16. It must be emphasized that these discussions on new directions for state economic intervention came from the more sophisticated sectors of the business community. There were many other businessmen who were far less sanguine about growing state activity. The Canadian Chamber of Commerce, for example, in 1962 launched an "Operation Freedom" campaign designed to warn Canadians about threats to their freedom from government encroachment into areas formerly reserved for individual initiative and from communism; Globe and Mail, Toronto, January 11, 1962, p 5. This seemingly reactionary politics contained profound ambiguities. Whatever its general adherence to the ideology (or mythology) of free enterprise, the Chamber in practice was well aware of the significance of state policy and made constant representations to shape this policy to their interests.
17. Final Report, Ottawa, Queen's Printer, 1957.
18. Certain Aspects of Taxation Relating to Investment in Canada by Non-Residents, a study published for the Royal Commission on Canada's Economic Prospects, Ottawa, Queen's Printer, 1956. Glassco was a member of Walter Gordon's family firm and was later himself chairman of the equally important Royal Commission on Government Organization.

Glassco's brief was summarized in the Financial Post, February 4, 1956, p 20; April 6, 1957, p 32. Such Commission briefs and studies were widely reported in the business press.

19. Canadian Tax Journal, January-February 1957, pp 2-9; also digested in Financial Post, March 17, 1956, p 21.
20. Op.cit., Ch 24.
21. Ibid, appendix H. The oil industry had been demanding improved depletion policies before various government policy making bodies for many years. It finally convinced the Gordon Commission; M. W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate" in A. Paul Pross (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975, p 112, FN 58.
22. See discussions in Canadian Tax Journal, January-February 1957, pp 2-9;
23. Financial Post, September 17, 1960, pp 1, 3.
24. See Phidd and Doern, op.cit., pp 472-5. This body, the forerunner of the Economic Council of Canada, accomplished little directly, but did provide a forum for corporate-state policy discussion. John Porter, The Vertical Mosaic, Toronto, University of Toronto Press, 1965, p 529, also discussed the National Productivity Council as an early example of a government policy body which featured the extensive participation of powerful corporate representatives. It is interesting to note that the Council was "an effort to help plan industrial-sector productivity without calling it 'planning'"; Phidd and Doern, op.cit., p 52. The extreme free-enterprise ideology of the Progressive Conservative party made it difficult for the government to publicly acknowledge such state economic intervention for what it was. Similarly, because Prime Minister Diefenbaker did not wish to appear closely allied with business, the government had in 1960 rejected a suggestion to establish a committee of top businessmen to advise the Department of Trade and Commerce; Peter C. Newman, Renegade in Power: The Diefenbaker Years, Toronto, McClelland and Stewart, 1963, p 194. In this way, objective structural trends and functions of the state which encourage business-government coordination can be constrained by more mundane partisan or ideological considerations.
25. Report, 4th Session, 24th Parliament, 1960-1, Ottawa, Queen's Printer, January 14, 1961.
26. Saywell, op.cit., p 183.
27. Op.cit., pp 4-5.
28. Ian Gough, "State Expenditure in Advanced Capitalism," New Left Review, 92, July-August 1975, p 80 noted that high and increasing levels of state finances had necessitated the formulation of overall planning and policy on state expenditure and taxation throughout the advanced capitalist countries.
29. Financial Post, February 19, 1955, p 8. Each year a number of business and professional organizations were asked to put their views on fiscal and taxation policy to the government to aid its preparation of the annual budget. Delegations from the Canadian Manufacturers' Association, the Canadian Chamber of Commerce and

a joint committee of the Canadian Bar Association and the Canadian Institute of Chartered Accountants each presented a comprehensive brief to the Ministers of Finance and National Revenue, and to other cabinet members. The significance of the latter group's appearance was noted by the chairman of the Canadian Tax Foundation: "Under the heading of tax legislation, the Foundation each year sponsors a delegation of lawyers and accountants who meet in Ottawa to review with departmental officials the annual ammendments to the Income Tax and Estate Tax Acts. This annual examination of tax legislation following first reading by the Commons is one of the highlights of the co-operation between the Foundation, government officials and the legal and accounting professions." C.T.F., 1960 Conference, p 5. This institutionalization of corporate participation in the formulation of budgetary policy can be seen as part of the close functional links emphasized by Presthus which develop between branches of the state (here the major centres of economic policy making) and major organizations within their areas of responsibility and operations (in this case, several of the most powerful corporate associations); Elite Accommodation in Canadian Politics, Toronto, Macmillan, 1973. As discussed in Ch 3, this functional integration is characterized by extensive ongoing contact between state officials and corporate representatives and by a state policy framework which routinely takes into account business interests and reactions.

30. Financial Post, January 7, 1956, p 17.
31. Industrial Canada, January 1957, pp 91-5. The occasion was the presentation of the C.M.A.'s annual pre-budget brief. This group was led by Kenneth LeM. Carter, chairman of the C.M.A. legislative committee. Carter was well known to the government officials, having headed the committee on the Federal Sales Tax and been chairman of the Canadian Tax Foundation. It was Carter, of course, who was to be named chairman of the Royal Commission on Taxation when it was established in 1962.
32. Ibid, p 94
33. Financial Post, February 9, 1957, p 17.
34. Industrial Canada, July 1956; reproduced in Canadian Tax Journal, July-August 1956, pp 262-7 from which this material is taken. Petrie had been a war-time civil servant, then research director for the Canadian Tax Foundation, and was currently director of economic research for James Heward and Company, Montreal.

The conferences of corporate organizations such as the C.M.A. and C.C.C. are extensively attended (and closely followed) by key government officials. These meetings provide a forum where state and corporate leaders can cement their relationships and discuss the pressing policy issues of the day; c.f. Presthus, op.cit. Among the many federal officials who attended the 1956 C.M.A. meetings was W. F. Ball, deputy minister of Trade and Commerce, who addressed its trade and taxation conference. He stressed how pleased he was to participate in such conferences and that they provided ideal opportunities to meet old friends and make new ones. He further

underlined that the resulting exchange of views with leading businessmen was most helpful to the government. Ball noted that "we, in the Department of Trade and Commerce, have a long tradition of working closely with the business community" and that "we are all working toward the same objective, Canadian trade leadership"; Industrial Canada, July 1956, p 127.

More specifically, taxation was a pervasive topic of discussion at the annual meetings of the C.M.A. and C.C.C. throughout the process of tax reform. These meetings provided both a setting in which business policy could be formulated and an influential platform from which demands for tax changes could be pressed on the government.

35. Canadian Tax Journal, July-August 1956, p 263.
36. Ibid, p 267.
37. Financial Post, June 22, 1957, pp 9-10.
38. Industrial Canada, July 1957, p 209; Carter's speech was also published in the Canadian Tax Journal, July-August 1957, pp 308-14.
39. Cf. H. J. Macdonald, "Tax Incentives Are Needed Now," Saturday Night, January 7, 1961, pp 20-3; Monetary Times, November 1961.
40. Canadian Tax Journal, July-August 1960, pp 255-62. Twaits has been described by former cabinet minister and economist Eric Kierans as the most powerful man in Canada; cited in Phillip Sykes, Sellout: The Giveaway of Canada's Energy Resources, Edmonton, Hurtig Publishers, 1973, p 130. When Twaits subsequently retired in 1974 as chairman of Imperial Oil, he was also a vice-president of the Royal Bank and director of other dominant corporations. He had been a member of key policy making forums in the private sector: the Conference Board, major committees of the Private Planning Association, and the Canadian Association for Latin America; and the government, the Economic Council of Canada. He had served on the advisory committees of the departments of Energy, Mines and Resources, and Industry, Trade and Commerce. As with other leading members of the capitalist class, Twaits was involved in philanthropy: he held positions in the Olympic Trust of Canada, the Canadian Arthritic and Rheumatism Society and the board of the University of Toronto. He had appeared before governmental committees and commissions and made numerous representations to state officials on behalf of his corporation and industry.
41. Ibid, p 255.
42. Ibid, p 259.
43. "Tax Incentives for Industrial Progress", Industrial Canada, July 1961, pp 106-8. In the extensive question period following his address, Flynn stated that he would not eliminate the advantages of the resource industries, but would rearrange the tax structure to reduce the inequitable position of manufacturing. Such concerns reflect sectional conflicts of interest within the corporate economy vis-a-vis the tax system.
44. Industrial Canada, July 1962.
45. Ibid, pp 178-9.

46. See the panel discussion at the taxation conference of the 1962 C.M.A. meetings, Ibid, pp 178-82.
47. Financial Post, October 6, 1962, p 10.
48. Globe and Mail, (Toronto) September 27, 1962, p 27.
49. Financial Post, January 30, 1960, p 28.
50. C.T.F., 1960 Conference, pp 19-23. Perry had been a leading fiscal analyst in the federal government. Leaving the civil service, Perry became director of the Canadian Tax Foundation and subsequently executive director of the Canadian Bankers' Association. He was the author of standard texts and major articles on the Canadian fiscal system (see Ch 4). Finally, Perry was to be a member of the Royal Commission on Taxation. At this time, Perry was director of the C.T.F. and this speech provides a good indication of his thinking shortly before serving on the Royal Commission. While highly sophisticated and deeply analytical, Perry's perspective is also solidly within the overall parameters of corporate opinion and interests.
51. Ibid, p 20.
52. Ibid, pp 22-3.
53. C.T.F., 1961 Conference, p 9. Eaton had been one of the most important specialists who developed taxation policy within the Department of Finance. Retiring in 1958 as Assistant Deputy Minister, Eaton became a private fiscal consultant in Ottawa and director of major corporations such as the Beneficial Finance Co. of Canada, Standard Brands Ltd., two investors Group companies and Guarantee Trust Co., He had been a member of the small group of powerful bureaucrats (Dr. Clark's boys) identified by Porter, op.cit., p 426: "Gradually there was built up around the Department of Finance and the Bank of Canada an outstanding group of expert administrators who were to be the architects of the economic and social policies required by the war and port-war reconstruction." Of individuals noted above, Deutsch, Perry and Sharp were also in this group. Perry, Eaton and Deutsch were also members of the Five Lakes Fishing Club, a highly important private meeting place of senior bureaucrats; see Newman, 1975, op.cit., pp 337-8; Appendix H. The careers of these key policy makers illustrates the cohesive nature of senior bureaucrats and their easy movement to prominent positions in the corporate sector.

    Eaton's address was very much within conventional business opinion of the time. He saw no extremes of poverty or wealth; consequently these were not issues that the tax structure should be concerned with. He was also uneasy about the growing state welfare system; arguing that most benefits of welfare were given to all equally, many of whom did not need them. In his opinion, the welfare system should be changed to operate on an insurance basis. These assumptions and his opposition to progressive taxation indicate the conservate perspective which guided Eaton's work while in the Department of Finance.
54. C.T.F., 1961 Conference, p 2ff.
55. Ibid, pp 19-20. This is the same Moore whose speech to a Canadian Manufacturers' Association Meeting is cited above.
56. Business Quarterly, XX, 3, Fall 1955, pp 151-9. Such constraints were generally not recognized in the pervasive business demands for tax cuts.

57. Financial Post, November 28, 1959. p 7. The assumption here that the tax system was in fact fair is clearly unwarranted. As noted by Perry above, the actual distribution of the tax burden was simply not well researched at that time. The later studies of the Royal Commission on Taxation revealed a fundamentally unequal tax structure. Given this discovery, and given the prevailing ideology of taxation, in which themes of fairness and redistribution were so prominent, the Royal Commission was simply carrying these principles of equity to their logical conclusion when it recommended sweeping reforms. Later discussions will link such facets of the politics of taxation to the more general legitimation functions of the state.
58. The nature of these groups as corporate patronage professions has been outlined earlier in Ch 2; their professional activity and rationale are shaped largely by the needs of a single large client group, the various levels of business. This functional basis and the close links that existed between the prominent lawyers and accountants that headed top firms and dominated the professional organizations on the one hand, and the higher circles of the corporate economy on the other, shaped the policy framework of these professional bodies, a framework that wes remarkably similar to major corporations and corporate associations.
59. Canadian Tax Journal, July-August 1962, p 228; but he did stress that "taken all together, these criticisms represent a considerable feeling of dissatisfaction with our tax structure."
60. This again illustrates the critical role played by the C.T.F. and other sophisticated corporate analysts. They attempted to push conventional business thinking towards a more comprehensive or reasoned (and presumably more influential) approach to tax reform.
61. He recognized that political considerations would make such changes difficult. Robertson, in common with majority business opinion, downplayed the significance of equity as a basic principle of the tax system; it was a subjective concept, "equity, like beauty, lives in the eyes of the beholder"; Canadian Tax Journal, July-August 1962, p 233 This of course deflects attention from the concrete inequality of condition within the social structure and lends support to the pervasive corporate view that the progressiveness of the personal income tax structure (highly limited as it was - see ch 4) should be reduced.
62. John Saywell, (ed), Canadian Annual Review for 1962, Toronto, University of Toronto Press, 1963, p 171.
63. Ibid, p 171.
64. A recent study of the policy of business and other groups on economic nationalism relied heavily on the Financial Post as a reliable and informative source on the thinking and political activity of the capitalist class; Phillip Resnick, The Land of Cain: Class and Nationalism in English Canada 1945-1975, Vancouver, New Star Books, 1977. The limitation of such sources is that they deal largely with the public side of business politics; a great deal of corporate-state interaction,

for example, is private and confidential. Nonetheless, with archival material and private correspondence unavailable for the recent period, leading journals of the business press provided a great deal of useful information.

65. December 18, 1961, p 6.
66. It will be seen that the business demands of this period were later repeated in the formal submissions to the Royal Commission. On this issue Dr. A. K. Eaton's speech to the 1959 conference of the Canadian Tax Foundation; Financial Post, November 28, 1959, p 3 and K. W. Lemon, "Canadian Taxation and the Businessman", Business Quarterly, Vol 27, No 3, Fall 1962.
67. Cf. articles by Gilmour and Goffman respectively in Canadian Tax Journal, January-February 1960 and July-August 1960.
68. Cf. G. B. Maclaren, "Death Taxation and the Private Business", Canadian Tax Journal, March-April 1960, pp 124-6.
69. Saywell, 1963, op.cit., p 171.
70. A. Milton Moore, "Forestry Taxation Problems", Canadian Tax Journal, September-October 1962.
71. Keith Fowler, "Gas Production Depletion", Canadian Tax Journal, July-August 1962, pp 274-8. The author was from Imperial Oil. It is interesting to note the widespread participation of this powerful corporation's executives in major policy debates.
72. C.T.F., 1961 Conference, p 4.
73. Industrial Canada, July 1962, p 175. The chairman of the C.M.A.'s taxation committee had made a similar plea at the previous year's meetings: "therefore - following the impetus now being given to trade matters and the emphasis on productivity - that no less attention and energy be devoted to a serious study of our entire tax system"; Ibid, July 1961, p 108.
74. Quoted in Globe and Mail, (Toronto), December 18, 1961, p 6. He was strongly supported editorially by the Globe and Mail. While Robart's pronouncement was certainly motivated by the pressure of federal-provincial finances, there is little doubt that he was also aware of the pervasive demands of business, the most powerful sectors of which were concentrated in Ontario and closely linked to his government.
75. Globe and Mail, (Toronto), January 12, 1962, p 6. On the preeminent position of McLaughlin in the constellation of corporate power see Newman, 1975, op.cit. He was also a member of policy committees of the Private Planning Association of Canada.
76. Globe and Mail, (Toronto), January 12, 1962, p 6. The Canadian Annual Review for 1962 attached great importance to this appeal: "Because the debate was handicapped by lack of factual information, W. E. McLaughlin's call for a royal commission on taxation in a speech in Toronto on January 11 struck a particularly 'responsive chord in the hearts of Canadian businessmen'"; Saywell, 1963, op.cit., p 171.

77. Canadian Labour, February 1961, p 32. The basic thrust of this brief, however, was to establish the legitimacy of the C.L.C. as the primary representative of organized labour. As discussed in Ch 3, constant striving for recognition, with the attendant rights of consultation and participation in government policy making, was the major pre-occupation of C.L.C. politics during this period; see David Kwavnick, Organized Labour and Pressure Politics. Canadian Labour Congress 1956-1968, Montreal McGill-Queen's University Press, 1972.
78. Canadian Labour, May 1962, p 22. In terms of the political incorporation of labour introduced in Ch 3, organized labour and business here have very similar views on the nature and operation of the capitalist economic system.
79. Canadian Tax Journal, January-February 1958, p 35. In this speech to a conference of tax economists, Fleming also outlined what an ideal tax system should be. The features which he stressed corresponded very closely to those demanded by business during that period.
80. Globe and Mail, (Toronto), December 18, 1961, p 6. This editorial stressed that Diefenbaker did not fulfill this promise when in office.
81. "The Contribution of Fiscal Policy to Economic Expansion and Growth", Industrial Canada, July 1962, p 87. The chairman of the plenary conference at which Fleming spoke noted the close contact the C.M.A. had with every level of government.
82. Globe and Mail, (Toronto), May 7, 1962, p 1.
83. Globe and Mail, (Toronto), August 28, 1962, p 1.
84. Phidd and Doern, op.cit., pp 51-2.
85. Saywell, 1963, op.cit., p 13.
86. Globe and Mail, (Toronto), May 7, 1962, pp 1-2.
87. For this reason, the idea of a comprehensive tax review was also supported by the Liberal Party; party leader Lester Pearson was later to say that his party had been calling for such a study for five years, Globe and Mail, (Toronto), August 28, 1962, p 1.
88. Phidd and Doern, op.cit., p 52; see also Newman, 1963, op.cit., esp. Ch 25.
89. Newman, 1963, op.cit., pp 182-93. This popular image was based upon the calculation that there were far more votes available from the remainder of the population than from the business community. These considerations must not be carried too far. Whatever Diefenbakers' personal style and philosophy, links between

the party structure, other political leaders and the state apparatus on the one hand and the corporate sector on the other did not disappear. The ideology of Diefenbaker and his government was still totally committed to free enterprise and the objective functions of the state continued to support the capitalist system. Thus, the vague populism of the Conservative government did not imply any transcendence of the great power of capital. This example underscores the importance of looking beyond the surface appearance and public relations of politics to the underlying enduring structural and institutional relations.

90. Ibid., p 192. Business' refusal to cooperate condemned the plan to failure.
91. C.T.F., 1961 Conference, p 15, his emphasis. This charge of socialism was the strongest possible condemnation of the government. A striking feature of the party politics of the late 1950's and early 1960's was the incredible amount of red-baiting; a major theme of the 1962 Conservative election strategy was to portray Liberal leader Lester Pearson as "soft on communism"; see Newman, 1963, op.cit., p 325ff; Canadian Annual Review throughout this period.
92. Newman, 1963, op.cit., p 193.
93. Financial Post, April 14, 1962, p 5.
94. On the first score, the immediate reaction of business was favourable; for example, the president of the Canadian Chamber of Commerce welcomed the Commission and used the occasion to reiterate the Chamber's demands for tax reductions; Globe and Mail, (Toronto), August 28, 1962, p 1.
95. Newman, 1963, op.cit., p 332.
96. Royal Commission on Taxation, Report, Ottawa, Queen's Printer, 1966, Vol 1, Terms of Reference and Preface, pp V-VI. Hereafter, reference to the Commission will be abbreviated R.C., followed by the specific volume or section.
97. See Globe and Mail, (Toronto), August 28, 1962, p 1.
98. Phidd and Doern, op.cit., p 52.
99. J.E. Hodgetts, "Should Canada be De-Commissioned? A Commoner's View of Royal Commissions", Queen's Quarterly, 70,Winter 1964, pp 475-90. See also G. Bruce Doern, "The Role of Royal Commissions in the General Policy Process and in Federal-Provincial Relations", Canadian Public Administration, X, 1967, pp 417-33; J. E. Hodgetts, "Public Power and Ivory Power" in Trevor Lloyd

and Jack McLeod (eds), Agenda 1970: Proposals for a creative politics, Toronto, University of Toronto Press, 1968, pp 256-80.

100. Hodgetts, 1968, op.cit.
101. Hodgetts, 1964, op.cit.
102. See Garth Stevenson, Unfulfilled Union. Canadian Federation and National Unity, Toronto, Gage, 1979.
103. This certainly proved to be the case with the Royal Commission on Taxation.
104. See Canadian Business, January 1962, pp 30-1.
105. See Ch 3; Wallace Clement, "The corporate elite, the capitalist class and the Canadian state" in Leo Panitch, (ed), The Canadian State, Toronto, University of Toronto Press, 1977.
106. Most of the following biographical data has been taken from the Canadian Who's Who. In addition, a range of articles in the Financial Post and other journals discussed the membership of the Royal Commission. These will be referred to when specifically cited.
107. As reported in Industrial Canada, various issues.
108. C.T.F., 1962 and 1963 Conferences.
109. House of Commons, Debates, March 15, 1967, pp 14022-3.
110. In place of the ill chairman, J. H. Perry addressed the 1962 conference of the Canadian Tax Foundation on the scope and operation of the Royal Commission. He also provided biographical information on its members. C.T.F., 1962 Conference, p 7ff.
111. It is difficult to know how to interpret this statement; it is certainly highly condescending. Perhaps Perry was simply trying to establish Mrs. Milne's qualifications for her appointment. Ibid., p 8.
112. Ibid., p 8.
113. This reflects the common pattern of government appointments, from the cabinet and top bureaucratic positions through the many semi-independent boards, enquiries and agencies. The balancing of ethnic, religious and regional characteristics (never totally representative) takes place within a consistent upper and middle class predominance.
114. These examples speak to an important methodological problem with the elite categorization of Porter, and Wallace Clement. The Canadian Corporate Elite, Toronto, McClelland and Stewart, 1975. Perry, as director of the Canadian Bankers' Association, held a very powerful position within the corporate sector. However, since he was not a director of a dominant corporation he would not be included in the economic elite.

115. I previously discussed the importance of such clubs, and of the social world of the upper class more generally, as forums for the interaction of the capitalist class and other institutional leaders; Ch 2-3.
116. In which capacity he appeared before the Special Committee of the Senate on Manpower and Employment in 1961. It is interesting that Carter's spouse, an author, was also heavily involved in numerous charitable organizations, the symphony and was a member of the World Health Organization from 1945 to 1949. This also is a fairly typical pattern; women's activity adds further layers to the social hegemony of the capitalist class.
117. Direct pressure was not the only factor involved here. As discussed above, structural considerations were also crucial; the tax system had to be adapted to the transformed requirements of capital accumulation of the modern economy.

Chapter 6 Deliberations of the Royal Commission on Taxation

I. Introduction

Reaction to the Royal Commission

Not unexpectedly, the reaction of the business community to the establishment of the Royal Commission on Taxation was highly favourable. As well as commenting upon the Commission, corporate representatives used the occasion to reiterate prevailing business demands on the direction of tax reform. The Canadian Chamber of Commerce heartily endorsed the "long awaited, much needed probe into Canada's tax system."

> No Royal Commission set up in recent years has been received with as much enthusiasm in corporate board rooms as that headed by Mr. Carter. Besides organizations across the country, including The Canadian Chamber of Commerce, have for years been pressing for tax reform. With legislation piled on legislation, a bit added here, a section removed there, the country's tax statutes can no longer be rationalized with national economic goals of growth, incentive and equity.[1]

The Chamber argued that prior to any reform the major problems of the existing tax structure must first be identified. A Canadian Tax Foundation sponsored study of the allocation of the tax burden was cited as an important beginning in this task. The Chamber also endorsed the director of the Canadian Tax Foundation. Ronald Robertson's summary of the basic criticisms of the tax system; legislation was too complex, tax rates, especially on personal income, were too high, reform must consider all forms of taxation, and alteration and extension of sales taxation must be studied.[2] The C.C.C. felt that such questions should guide the analysis of the Royal

Commission. It was also extremely pleased with the appointment of Mr. Carter, who was regarded as a tax expert of the highest standing. The Chamber sincerely hoped that the report of the Royal Commission was to be the genuine starting point of the long needed reform of the tax structure.

The Canadian Manufacturers' Association expressed a similar enthusiastic response to the creation of the Royal Commission. W. H. Flynn, chairman of the C.M.A. taxation committee, saw its establishment as the most important recent event in the field of taxation. He also agreed that Carter was a wise choice to head the enquiry, adding that "you will recall that he was a member of the panel at our Taxation Conference last year in Montreal."[3]

The Royal Commission was also warmly received by the business professions most involved in taxation. The Canadian Tax Foundation noted the Commission's broad terms of reference and stressed the huge scope of its analysis.[4] It cautioned that too much should not be expected from the Carter Commission; that it could not solve all tax problems or economic ills immediately. The most difficult task will be to determine the real effects of taxation on individuals and, most importantly, on business behaviour. "Business and industry tax committees across Canada can perform an extremely valuable service if they will produce for the Royal Commission a hard-hitting, penetrating, logical treatise" demonstrating the harmful effects of high corporate taxation, documenting investments that were not made or projects that were not initiated, and concretely showing the usefulness of tax incentives.[5] The C.T.F. offered the full

use of its resources to assist the commission.[6] The Royal Commission was of course a major topic of discussion at the November 1962 conference of the C.T.F.: here again the chairman repeated the foundation's support for the commission.[7] The journal of the Canadian Institute of Chartered Accountants also welcomed the Royal Commission. It noted that the importance of income taxation would make it a basic focus of analysis, but hoped that this would not preclude a careful examination of the sales tax.[8]

Not all organized interests were so pleased with the Royal Commission. The Canadian Labour Congress complained bitterly to the government that labour was not represented; given that officials from business, agriculture and women's organizations sat on the commission, "we find it difficult to understand why the government should not have found it necessary to appoint a representative of wage and salary-earners." This instance reflected a long standing grievance with the Diefenbaker administration: "we cannot help but feel that this is simply one more demonstration of what we believe is your determination to keep organized labour from being directly represented in most of the public bodies which you have appointed since coming into office."[9]

II. Initial Operations of the Royal Commission

From their appointment in the fall of 1962 the commissioners began to organize their massive project. One of the first tasks was to assemble the research and administrative staff, which at its peak totalled 150 individuals. The three most important positions were chief legal counsel, commission secretary and research director. They were filled

respectively by John L. Stewart, a Toronto corporate lawyer and tax authority; P. Michael Pitfield, who was later to be an influential adviser to Prime Minister Trudeau and chief clerk of the Privy Council Office; and Professor Douglas Hartle of the University of Toronto.[10]

The bulk of the remaining Commission staff were drawn from academic, government, legal and corporate circles. Carter had scoured universities, governments and businesses across the country for the necessary personnel: "I pleaded with some of the largest firms in the country for some of their key staff."[11] Among the major companies who lent the services of executives to the commission were Chevron Oil, Power Corporation, Trans-Canada Pipe Lines and Sun Life Assurance Co.. Also contributing expert employees were some of the most important corporate law and accounting firms. In addition, a number of individuals with the Carter Commission later went on to become prominent political figures: Claude Frenette became a top executive with Power Corporation and an influential Liberal Party organizer in Quebec, Marc Lalonde, a Montreal lawyer, was later a powerful adviser to Prime Minister Trudeau and still later a federal cabinet minister, and Andre Raynauld of the University of Montreal later headed the Economic Council of Canada. In general, the administrative and research staff of the Royal Commission were very much from the advantaged business and professional strata of Canadian society.[12]

The Commission had also been delineating the major aspects of the tax structure to be investigated and formulating the direction of its

analysis. Six national organizations were asked to present their views on the basic problems that the Royal Commission should examine at the preliminary hearings in the spring of 1963. This initial input was intended to aid the Commission in setting out its plan of research and analysis. An extensive research programme was then commissioned, largely from academics, of over fifty studies on all facets of the tax system, twenty-seven of which were eventually published with the final Report of the Carter Commission. In addition to its own research, the second major source of input to the Commission was to be the briefs and testimony presented to its public hearings. Over one hundred organizations interested in taxation were specifically invited to submit briefs and advertisements were placed in newspapers throughout the country soliciting the participation of the general public. Regional hearings in cities across Canada were to be held throughout the summer of 1963. Finally, fifty of the most important national organizations were to present their "complete and comprehensive submissions" on tax and tax reform to the fall hearings in Ottawa.[13] The Commission emphasized what it was looking for from these briefs: "Commission staff is spreading the word that it wants plenty of concrete evidence of the effect of our present tax system, not unsupported generalities."[14] At the same time as the Carter Commission was slowly but surely getting under way, similar studies in four provinces and the research programme of the Canadian Tax Foundation were also at work.[15]

Concurrent Business Organization on Taxation

This comprehensive official review of the tax system and the scheduling of Commission hearings generated extensive activity within the

business community formulating policy on reform and substantial briefs.[16] Within the major corporate and professional associations a great deal of work on the development of their tax policy was taking place: internal tax committees became extremely busy, extensive discussions were held, and questionnaires, proposals and draft material were circulated. Under the impetus of preparing for the Royal Commission, business policy during this period became increasingly systematized. For example, general calls for tax cuts were being replaced by specific demands that the corporate tax rate be reduced from the existing 50% to 40% or at the very least 45%.

As well as preparing for its formal presentations to the Royal Commission, business continued to publicly press its demands for tax changes during late 1962 and early 1963. The Canadian Annual Review for 1962 noted that the creation of the Carter Commission did not weaken this campaign: "the announcement of its appointment relieved little of the pressure on the government for immediate tax relief - a point made emphatically in speeches at the annual meetings of the Chamber of Commerce and the Canadian Tax Foundation and the National Industrial Expansion Conference in the fall."[17]

A prominent but typical example of this continuing corporate pressure was the November 24, 1962 Financial Post editorial entitled "The Grand Design For Stagnation."[18] It posed the question of "how long can this country survive our tax system?" and described the tax structure as "one that punishes progress, makes capital formation very difficult for all but a very few, encourages sell-outs of Canadian companies and works against the really enterprising people and the really progressive firms." The lack

of progress towards alleviation of the high rates of "'soak-the-corporation' tax policies" and "'soak-the-rich' personal income taxes" was condemned. The Financial Post predicted that without new tax incentives the Canadian economy would face extremely serious difficulties. Government policy must be centred upon economic growth: "to do this, Canada needs a tax system that stimulates the risk-takers and encourages the accumulation of capital. It needs lower taxes. It does not need more of the soak-the-rich theology that created the great Canadian tax mess."

The direction of tax reform was much discussed at the 1962 annual conference of the Canadian Tax Foundation. The plenary session on "Corporate Tax - Good or Bad?" was chaired by J. Gear McEntyre, Q.C., Deputy Minister of the Taxation Division of the federal Department of National Revenue.[19] He noted the extensive discussion of taxation and the popularity of various forms of tax incentives. Two contrasting proposals for restructuring corporate taxation were then presented. Frank S. Capon, vice-president of Dupont of Canada, called for the total elimination of corporate taxes.[20] This notion was opposed by Dr. A. K. Eaton, formerly of the Department of Finance and then a private consultant. Eaton instead argued that the corporate tax rate should be cut by 10%, middle and upper personal income rates should be lowered and the lost revenue made up with higher sales taxes.[21] This debate took place within "complete agreement on the need to reduce the burden of the corporate tax" among the delegates to the conference.[22] Jacques Barbeau, former research director of the C.T.F., had earlier noted political limitations on major changes in corporate taxation; directly reducing the rates would be politically unpopular, so it

would be best to achieve the same effect indirectly by means of more generous tax incentives.[23]

Within the business community widespread criticism of the high rates and inconsistencies of the tax structure persisted and the mood continued to be one of crisis and urgency. The long-range object of corporate pressure was the complete restructuring of the tax system; the short-term goal was increased incentives to economic activity.[24] Major corporate organizations continued to press their demands for immediate reductions and overall tax changes. A Canadian Chamber of Commerce editorial proclaimed "needed: courage to cut taxes" and argued that the need for lower personal and corporate taxes was too critical to wait for the Carter Commission to report. It further stressed that government deficits should be controlled by reducing expenditures.[25]

At the same time as the Royal Commission was beginning its operations, the Canadian Manufacturers' Association was also presenting its views on taxation to the government.[26] The general election of April 18, 1963 had resulted in a change of government: much to the joy of business, the Progressive Conservatives had been defeated and the Liberals returned, although in a minority situation.[27] The C.M.A. submitted a brief on taxation and related matters to the new Liberal administration immediately after its installation. This was followed up by a meeting with the Minister of Finance and other key economics ministers in which "we endeavoured to stress the importance of taxation in the Canadian economy and the need for a favourable tax climate."[28]

It would seem that the persistent business pressure was not without effect. The government was apparently considering tax reductions in order to stimulate the economy, and, not incidentally, to attract votes. However, the critical constraint on such cuts was that the subsequent loss of revenue would lead to even higher state deficits. The government had already been facing severe criticism from business for the existing large deficits and could not afford further increases. To allow for tax cuts while at the same time making up the necessary revenue, officials were considering options such as greater reliance on federal sales tax and the possibility of consumption taxes.[29]

Preliminary Hearings of the Royal Commission

The general context in which the first hearings began was thus one of pervasive business dissatisfaction and continual pressure for swift tax reductions and reforms. Input from the corporate sector to the spring hearings reflected these concerns and demands. The preliminary hearings took place in Ottawa in April 1963. As noted above, these hearings were designed to be an important part of the initial organization of the Royal Commission; they were to have a significant influence in identifying the central problems of the tax system to be investigated and in shaping the enquiry's research programme and plan of analysis.

The Commissioners heard from the three major professional bodies whose members were most routinely involved in matters of taxation. These organizations were also considered to be significant centres of expertise on taxation and fiscal policy. The submission of the Canadian Tax Foundation enumerated a number of specific issues that required attention: the

use of taxation as a tool of fiscal policy, the treatment of income from capital, the administrative rationalization and clarification of corporate taxation, the effect of personal taxation on initiative, and the necessity of estate taxation.[30] More generally, its brief echoed current business sentiment, stressing the great concern with high taxation. It argued that the major task of the Royal Commission was to find ways to reduce personal and corporate taxation while preserving equity and providing sufficient revenue. The need to harmonize the overall tax structure was also emphasized.

Although concentrating largely on technical problems, the presentations of the Canadian Bar Association and the Canadian Institute of Chartered Accountants, like their jointly-sponsored Canadian Tax Foundation, reflected the wider concerns of the corporate sector on tax reform. The C.I.C.A. worried about the effect of death taxes on the continuity of family businesses and urged that government expenditures should also be studied.[31] The C.B.A. identified a number of pressing problems: tax incentives, double taxation of corporate profits, the excessively high level of taxation and the need to clarify overall tax policy.[32]

The two most important national corporate organizations also appeared before the early hearings. The Canadian Chamber of Commerce sketched out the critical tax problems as they saw them and indicated the direction their later more comprehensive brief would take.[33] A strong delegation from the Canadian Manufacturers' Association presented a more extensive brief on the basic questions that the Royal Commission should address.[34] The C.M.A. first of all stressed that it represented over 6000

manufacturers from all branches of the economy and all sections of the country, "joined together to consider and take action on common problems." Noting that manufacturing employs one of every four Canadians and C.M.A. members produce 75% of manufacturing output, it argued that: "the association represents a very large segment of the national economy."[35] The C.M.A. brief began by objecting to the enquiry's terms of reference; specifically, that any recommended taxation changes must be consistent with revenue needs. The association argued that: "This trend to greater taxation can only end if a stop is put to the continued increase in government expenditures."[36] The C.M.A. stressed a number of problem areas: the harmful effect of corporate taxation, unfair tax advantages of co-operatives and government enterprises, Canadian ownership of Canadian industry, estate taxation, and the need for a rationalized and extended sales tax. Although these points were posed as questions for study, it was clear that the C.M.A. saw high taxation as a serious economic problem and that its basic concern was with reforms designed to stimulate industrial development.[37]

These initial hearings and submissions were widely discussed in the business press. In commenting on the briefs of the C.M.A. and C.T.F., the Financial Post worried that the fundamental problems of the tax system would be beyond the reach of the enquiry's powers.[38] This leading business journal saw the underlying cause of high taxation as steadily growing state expenditure, but noted that the Royal Commission's terms of reference required that its recommendations must ensure an adequate flow of revenue. Thus, without a reversal of the trend of rising government spending, the Royal Commission could devise a more efficient or equitable tax system,

but it would not likely be able to reduce overall levels of taxation: "this means that high taxes could still remain as the biggest single barrier to sound economic growth." Similarly, the growing fiscal and economic significance of the provincial governments was beyond the purview of the commission.

In distinct contrast to the policy of the other participating organizations, the Canadian Labour Congress strongly emphasized the need for a more progressive tax system.[39] While business could generally agree with C.L.C. contentions that fiscal policy should promote economic growth and that temporary income tax cuts should be initiated, it could not accept the Congress' view that high levels of government spending were necessary, that equity was the key consideration in tax reform and that the sales tax should be revised to make it less regressive. In addition, a number of C.L.C. suggestions would have proved directly harmful to corporate interests: they questioned the need for dividend tax credits, wanted capital gains tax studied and wondered whether certain common business practices such as expense account deductions and stock options constituted tax evasion.

Since the preliminary hearings were important in shaping the organization and analytical framework of the Carter Commission, the nature of the policy presented to them is of great significance. The majority of this early input came from corporate and business-associated professional organizations who called for a broad review and major restructuring of the entire tax structure. Their identification of the basic problems of the existing system was premised upon the conviction that

excessively high and overly complicated taxation was a severe economic problem. Although the stated goal of business demands for tax reductions and rationalization was to stimulate the economy, the adoption of the major corporate reform proposals would also be extremely advantageous to the interests of the capitalist class in profit maximization and the accumulation of capital.

The single opposing policy alternative was offered by the Canadian Labour Congress. They also called for a thorough revamping of the tax system, but diagnosed very different fundamental problems. Implementation of the progressive recommendations of the C.L.C. could benefit large sectors of the population and harm, to some degree, corporate interests.

The Royal Commission fully accepted the need for a comprehensive study and took careful note of the problems stressed by the various organizations before it. Following sections will explore how the competing policy perspectives continued to be elaborated in the full hearings of the Commission and in the persistent pressure on the government which continued throughout the life of the tax enquiry.

Public Hearings of the Royal Commission

The deliberations of the Royal Commission on Taxation proceeded along two fronts. First of all, its extensive research program was well underway. This research had been designed to provide data on all key facets of the tax system and to empirically test the different proposals and viewpoints on the nature and direction of tax reform.[40] Secondly, the Commission's regional hearings met throughout the spring and summer

of 1963 and the national hearings, in which key business, labour and other prominent organizations presented their major submissions, took place in Ottawa from October 1963 to January 1964.

By directly contacting major national bodies and by advertising for briefs from any other interested groups or individuals, the Royal Commission had elicited widespread public response. In total, the hearings received over 300 submissions, heard approximately 700 witnesses and filled 98 bound volumes with the transcripts of their testimony.[41] Despite the massive nature of this input of information and opinion, consistent patterns can nonetheless be discerned of the participation of key organized interests and of the policy perspectives and fundamental demands of the major protagonists.[42]

The Royal Commission attached great importance to the briefs and hearings as sources of information and policy proposals on the state of the tax system. Participating groups and individuals had submitted briefs well in advance of their appearance. These were carefully studied by the members and staff of the Commission. In the hearings themselves, the various groups were questioned in detail on their submissions and asked to explain, amplify and justify their policy and proposals on tax reform. As the examples cited below will illustrate, these deliberations were carried out in a highly conscientious and disciplined fashion.[43]

Given the potential influence of these submissions on the Commission's findings and conclusions, it is critical to delineate the policy and demands being put forth by the various organizations. From the outset, the Royal Commission was well aware of the contradictory basis of the

policy it was presented with: "there is an inevitable and endless conflict of interests among taxpayers that cannot be completely resolved. This is reflected in many of the briefs we received."[44] It was in the interests of all groups in the social and economic structure to minimize their relative share of the total tax burden and this was the basis of fundamentally conflicting policy demands. How these competing policies were presented to the Commission and how it weighed them in developing its judgment of necessary reforms are major questions in the following analysis.

The second, third and fourth sections of this chapter explore three interrelated aspects of the public hearings of the Royal Commission and of the briefs and testimony presented to them. The second section deals with the activity of major corporations and business associations. A great deal of attention is paid to business participation in the hearings because it was the most extensively represented and effectively organized interest. However, the Royal Commission also heard from a wide variety of other groups and the third section analyzes the policy submissions of labour, professional and numerous other organizations. The fourth section compares the patterns of participation of the various interests in the Commission hearings and examines the political competition between the differing policy perspectives.

II. Corporate Submissions to the Royal Commission

Earlier discussions outlined the continual business pressure for tax reform in the years preceding the Royal Commission. Business commentary stressed the damaging effects of high taxation and the drastic

need for tax reductions and a thorough rationalization of the entire system. This pressure, of course, had been a critical factor in the creation of the Commission. The voluminous input of business groups to the Carter Commission reiterated and amplified these prevailing corporate demands. General business opinion on the nature and problems of the tax structure will be examined first. The wide range of specific demands and policy proposals will then be outlined.[45]

General Business Policy

The submissions of major corporations and business associations from all sectors of the economy displayed remarkable unanimity in their diagnosis of the ills of the existing tax system and their prescription for its reform. The briefs of the two most important general corporate organizations, the Canadian Manufacturers' Association and the Canadian Chamber of Commerce, for example, saw high taxation as a pressing economic issue. A strong delegation from the C.M.A. stressed this problem and argued that significant cuts in both personal and corporate taxes were necessary.[46] The brief of the C.C.C. recognized that equity was an important consideration and that revenue needs must be met, but emphasized that the tax system must not disrupt the economy. Arguing that existing burdens of taxation did just that, the Chamber likewise called for major tax reductions.[47]

A large number of organizations representing specific sectors of the economy also complained of the high levels of taxation in their submissions to the Commission. Secondary manufacturing, for example, was represented not only by the C.M.A., but by organizations such as the

Canadian Pulp and Paper Association, Association of Canadian Distillers, Canadian Electrical Manufacturers' Association, Brewers Association of Canada and the Rubber Association of Canada.[48] All of these briefs stressed the importance of their industry in the national economy and of their association as representative of its major producers. As well as making demands based upon their particular sector of production, these associations echoed the common corporate appeal for significant tax reductions.

Profound dissatisfaction with the tax structure extended far beyond manufacturing throughout all areas of Canadian business. One of the predominant organizations of financial capital, the Canadian Bankers' Association, also called for substantial changes to reduce the burden of taxation.[49] The Canadian Importers Association and the Canadian Export Association both argued that a more favourable tax system was needed to make Canadian business more competitive internationally.[50]

Nor was business unease with taxation expressed only by national corporate associations. The delegation of the Board of Trade of Metropolitan Toronto expressed similar themes in their appearance before the Commission.[51] Opposition to high levels of taxation was also pervasive in the submissions of individual corporations. A strong contingent of Imperial Oil Ltd. executives appeared before the Royal Commission. W.O. Twaits, president, noted that their brief and general viewpoint were concerned with the broad impact of taxation, not just its effect on their company. It was stressed that taxation must be an important component of state economic policy. However, the Imperial Oil delegation was extremely

critical of the prevailing situation and argued that existing taxation and fiscal policy was the greatest problem of the economy.[52]

Similar themes were evident in the briefs of the major professional associations most concerned with taxation. The submissions of the Canadian Bar Association and the Canadian Institute of Chartered Accountants naturally focused in considerable detail on a range of technical and specific questions, but they also reiterated the general corporate belief in the damaging effects of high taxation.[53] A subsequent Canadian Chartered Accountant editorial summarizing and commenting upon the C.I.C.A. brief emphasized that high levels of taxation impeded investment, reduced initiative, encouraged careless attitutes to expenditures, and necessitated excessive administrative time and energy spent on taxation, and that these problems were the basis of the extensive criticism of the tax structure.[54] The Institute's brief had stressed the importance of a favourable "tax atmosphere" in which policy is stable, consistent and reliable: "It recognizes that investment capital is sensitive to such changes and warns that business generally attached great importance to political stability."[55] The Canadian Tax Foundation also presented a comprehensive brief containing a range of specific recommendations and observations on the tax structure.[56] More generally, the Foundation noted that the Royal Commission was faced with conflicting objectives; the tax system must be a compromise between social, economic and technical considerations. The brief stressed that the Carter Commission must develop the necessary reform.[57] While recognizing the complexity of constraints and factors that shape the tax system, the C.T.F. was clearly apprehensive about the economic effects of continuing high levels.

A prevailing theme then, of business input to the Royal Commission was the belief that the existing tax system constituted a severe problem for economic growth and prosperity. The predominant tone of corporate submissions was one of crisis and urgency. The call for swift and significant reductions in the overall level of taxation was virtually unanimous. Within this fundamental consensus, there was great diversity in the actual content and focus of the numerous business briefs. The majority, as well as stating common general concerns, stressed the particular problems of the sector or industry which they represented. In addition, there was a wide range in the sophistication and depth of analysis on the precise nature of the necessary reforms. Business commentary on specific aspects of the tax system and on proposals for reform will now be explored.

Personal Income Taxation

The fundamental demand of business was for a reduction in the level of direct taxation, one of the most important components of which was the structure of personal income taxes. Corporate briefs expressed the undivided opinion that the burden of individual taxation was excessively heavy and that it severely retarded initiative and enterprise. The corporate sector objected to two aspects of personal income taxation: its overall level and its progressive structure.

First of all, many submissions called for across the board reductions in the rates of personal income taxes. This was strongly argued by both the Canadian Manufacturers' Association and the Canadian Chamber of Commerce.[58] Secondly, there were widespread demands to modify the steep

level of graduation and reduce the degree of progressiveness of the income tax rates. Both the national Canadian Chamber of Commerce and its local counterpart, the Board of Trade of Metropolitan Toronto, wanted the top marginal rates reduced.[59] This call to lower the rates at the higher income levels was supported by expert bodies such as the Canadian Institute of Chartered Accountants: "the Institute believes that income taxes for management personnel should be lowered so that competent and capable people would be encouraged to remain in this country."[60] The Canadian Bankers' Association argued that such alterations in the steeply graduated structure plus a general reduction of the basic rates of personal income taxation would increase investment.[61] A further, somewhat less typical suggestion directed towards the same end was put forth by the Vancouver and Winnipeg Boards of Trade; they recommended the replacement of the graduated structure of personal income taxation by a single proportional rate.[62]

The submission of the Canadian Tax Foundation set the consideration of such reductions in its broader context.[63] There was a basic conflict between the problems of graduation, technical and administrative as well as the economic damage so vigorously stressed by business, and the more general political commitment to progressive taxation. The C.T.F. brief noted how strongly entrenched was the ideology of progressive taxation and principles of fairness and equity. As has been seen, there was considerable business uneasiness, at times open criticism, of this viewpoint. Regardless, the offical endorsement of these principles within the programmes and goals of the modern welfare state and their general public acceptance made it very difficult to justify any reduction in gradua-

tion. Such a change would be seen to benefit only the wealthy and would conflict with considerations of equity.[64]

For the great majority of businessmen, issues of political acceptability and equity were far less important than considerations of economic growth. Corporate submissions argued that reductions in the progressiveness and level of personal income taxation would accomplish several goals. General reductions would ease the overall tax burden of all Canadians. In conjunction with corporate tax cuts, this would act as a significant stimulus to the economy. The rationale for specific rate reductions in upper income brackets was that this would increase investment and reward initiative. To whatever extent this was true, such cuts would definitely be of great benefit to the more affluent.

Taxation of Wealth

As discussed in earlier chapters, the capitalist class is affected by taxation in different ways. The structure of personal income taxation is clearly critical to their interests as high income earners; this underlay the pressure for reducing the highest marginal rates. The next section will explore the demands for various changes in the taxation of the corporate institutions controlled by capital. Other forms of taxation to be examined here directly affect the interests of the capitalist class as major property owners. It is upon the ownership of significant corporate wealth that the economic power and privileged material conditions of this group are based. Further, their continuity as a social class is dependent upon the accumulation and orderly inter-generational transmission of such wealth.

These concrete interests were the foundation of virtually unanimous hostility of business to the taxation of capital gains. The possible imposition of a capital gains tax had become a frequent topic of debate and was being closely examined by the Royal Commission. Among the many corporate submissions registering their opposition to this possibility were those of the Canadian Institute of Chartered Accountants, Canadian Bar Association, Canadian Chamber of Commerce, Retail Council of Canada, Toronto Stock Exchange and Canadian Mutual Funds Association.[65]

Capital gains was also much discussed in the actual hearings of the Royal Commission. In questioning representatives of the Board of Trade of Metropolitan Toronto, Carter noted the frequent argument that considerable income, especially from speculative sources, was escaping taxation. The delegation responded that they did not see a major problem in this regard, that there was no need for major reforms in this area and that they objected to capital gains taxation.[66]

During the appearance of the Canadian Metal Mining Association, the bulk of the discussion had been focused on technical questions specific to the industry. However, at the end of the session, the following exchange took place.

> Carter: "I think it is noticeable that you made no reference to capital gains at all. We have had a good deal said to us about the desirability or otherwise of taxing capital gains. I think we must assume you are neutral at the present time."
> Edmonstone, Steep Rock Iron Mines: "We are not neutral; we are very much against it."
> Carter: "Are you all together on that?"
> Several members of the delegation: "Yes, very much so."
> Carter: "It is not an open or shut book and not something only recommended by labour unions and that kind of thing; there are all kinds of people talking about it."[67]

Corporate policy on easing the burden of estate taxation can also be related to the interests of capital as property owners. The major general organizations (the Canadian Manufacturers' Association and the Canadian Chamber of Commerce), the leading associations of tax professionals (the Canadian Institute of Chartered Accountants and the Canadian Bar Association) and the financial institutions particularly involved in estates (represented by the Canadian Bankers' Association and the Trust Companies Association of Canada) all called for more favourable estate taxation.[68] The general thrust of these briefs was to retain estate taxation, but soften its impact by raising exemptions. The most frequent proposal was that the basic exemptions be increased to $100,000.[69] Other suggestions would facilitate the transfer of assets within families. The most commonly stated rationale for these recommendations was concern for the continuity of smaller businesses; it was argued that high death taxes could prevent control from being kept within the family and often resulted in the sale of businesses to American interests. The Royal Commission was most interested in this thesis. In reviewing this issue with the delegation of the Board of Trade of Metropolitan Toronto, Carter noted that: "We keep on seeking evidence of the damage which is caused by these capital levies and what evidence there may be as to the sale of businesses at sacrifice prices, if some have occurred. I do not think anybody has supported such a statement very well so far."[70]

There is no doubt that precariousness of smaller businesses was taken seriously in the debates on estate taxation. However the unhindered inheritance of the wealth of the rich, although not politic to openly admit as such, was also certainly a primary consideration in business demands.[71]

Corporate Taxation

Not surprisingly, all business submissions were agreed on the pressing need to reduce the level of corporate taxation. A variety of suggestions were made to the Commission on how this could be achieved. The most pervasive was the demand for a straight reduction in the existing rate of 50% of corporate profits. The Canadian Institute of Chartered Accountants argued that the basic rate must be lowered to at least 45%.[72] The Canadian Chamber of Commerce wanted the rate set at 40%.[73] This specific figure was supported by other organizations such as the Canadian Export Association and the Retail Council of Canada.[74] All corporate sources were agreed that such reductions would be a significant stimulus to economic expansion.

A further key problem identified by business was the double taxation of corporate surplus, first as corporate profit and then as personal income when distributed as dividends. The Canadian Institute of Chartered Accountants and the Canadian Bar Association argued that the distribution of corporate surplus should be simplified.[75] The Canadian Bankers' Association asserted that the elimination of double taxation and raising dividend tax credits would encourage investment.[76] The widespread calls for the removal of double taxation and the easier distribution of surplus took various forms. The C.I.C.A. and the Financial Executives Institute of Canada both proposed that the existing taxation of dividends be replaced by a flat withholding tax of 15%.[77] The Canadian Manufacturers' Association went even further.[78] Their brief held that corporate income tax should be abolished altogether in order to eliminate double taxation. If this was not immediately possible, then

corporate taxation should be eliminated on those profits paid out as dividends.

Business commentary focused on a number of other specific facets of corporate taxation. Existing capital cost allowances and depreciation schemes were generally seen as being highly useful in stimulating investment. A range of diverse organizations such as the Canadian Manufacturers' Association, the Toronto Board of Trade and British-American Oil argued for the retention and in many cases, the extension of such allowances.[79] The view that business was favoured with overly generous deductions for expenses was strongly opposed by corporate sources and the allowance of all legitimate business expenses was defended.[80] The basic rationale put forth for lower corporate rates and improved depreciation and treatment of dividends was that this would encourage investment and stimulate economic expansion. The mechanism through which this would operate - the incentive of higher profits made possible by more favourable taxation - was seldom explicitly discussed. The fact that the direct benefits of these higher profit levels would be enjoyed by only the small minority who own corporate assets was not recognized in the corporate briefs.

Further Themes of Corporate Input

As well as pressing for general reductions in tax levels and other specific changes, business briefs expressed a great deal of concern with "anomalies" and "inequities" in the structure and administration of corporate taxation. This reflected the widespread opinion that the haphazard and uneven development of the tax system had left it excessively complicated and unworkable. The need for thorough rationalization was

most clearly argued by expert bodies such as the Canadian Institute of Chartered Accountants and the Canadian Bar Association,[81] but the general belief that greater certainty and clarity was needed in the operation of the tax structure was characteristic of many business submissions.

This emphasis on the simplification and systematization of the fiscal system reflected the basic nature of an advanced capitalist economy. One of the predominant concerns of the large corporations that dominated the modern economy was long-term planning. Because taxation was among the most important issues that had to be planned for, the major corporations vitally needed consistency and predictability in tax policy. The president of the Independent Petroleum Association of Canada emphasized that certainty of future tax policy was essential in order for corporations to proceed with major investments: "We look hopefully for clarification of uncertainties that now exist from a businessman's point of view, which very seriously retard our policy to carry out business...we hope before too long there will be clarifications that permit us to proceed with reasonable assurance as to the tax laws of the land."[82] The corporate sector's need for a stable policy environment was also the basis of appeals for increasing consultation between industry and government on the development of fiscal policy.[83] A further thrust of corporate plans for administrative rationalization was that this would reduce the excessive organizational resources and trained personnel that then had to be devoted to tax matters. This was also stressed by the I.P.A.C.: "we look forward to the freeing of as many of these keen minds in Canada that have dedicated their full time and energy to working around the tax laws."[84]

Demands for rationalization of the tax structure were normally posed at a fairly general level. One specific recommendation had been made however, that did not attract widespread corporate support. The Canadian Institute of Chartered Accountants suggested that the dual rate of corporate tax, in which the first $35,000 of income was taxed at 21% rather than the full rate of 50%, should be abolished. As well as enhancing administrative simplicity, this change could "be used to permit a significant reduction in the top rate of at least five percentage points."[85] Although this proposal was supported by the Vancouver Board of Trade[86], the dual rate of taxation was not generally discussed in other briefs. Presumably most business organizations were satisfied with the existing structure and would not wish to lose the lower initial rate. The elimination of the dual rate could pose serious difficulties for small businesses. The C.I.C.A. recognized this, but argued that the problems could be offset through special relief measures for small businesses.[87]

Business commentary on inequities did not reflect a concern with social equality. Rather it indicated the displeasure of specific corporate sectors that other groups enjoyed tax advantages which they considered unfair and/or discriminatory. A pervasive demand from all sectors of the business community was for the removal of the tax exemptions of co-operatives and government enterprises.[88] This was expressed in briefs from major organizations such as the Canadian Bankers' Association[89], dominant corporations such as Imperial Oil Ltd.[90], and the Equitable Income Tax Foundation, an organization specifically formed to press for the removal of the tax advantages of co-operatives. This body twice appeared

before the Royal Commission to argue that exemptions of co-operatives were unfair and resulted in significant revenue losses.[91] The Canadian Electrical Association, Canadian Gas Association and Canadian Utilities Ltd. all argued that private utilities should receive the same tax treatment as public.[92]

Sectional Divisions within Business

The second thrust of business concern with inequities arose out of sectional divisions within the corporate economy. While virtually unanimous on the general direction of tax reform, different and at times conflicting specific interests of the various sectors of production led to divisions of policy and opinion within business. The question of regional or special industry tax incentives was one such area of dispute. The general corporate organizations were extremely hesitant about the extensive use of incentives. The Canadian Manufacturers' Association emphasized that they must not be used as substitutes for general tax reductions.[93] The Canadian Institute of Chartered Accountants agreed that "the best incentive would be a general lowering of income tax rates" and was highly critical of the use of special incentives and of the tax system more generally to achieve various social and economic objectives. It urged politicians "to be wary of and resist proposals that merely sound well in a budget speech."[94] The Canadian Chamber of Commerce stressed neutrality as the goal of the tax system; that all corporations in similar circumstances should face the same tax treatment.[95] On the other hand, groups such as the Canadian Export Association and the Electronic Industries Association of Canada defended the use of incentives to stimulate

exports.[96] There was also some resentment expressed within the manufacturing sector of the generous tax concessions enjoyed by the resource industries. The Association of Canadian Distillers, for example, called for the elimination of all tax incentives and was particularly opposed to the "discriminatory" incentives of such great benefit to the resources.[97] However, most industrial associations, while they may have been envious of the tax treatment of the resource sector and skeptical of its necessity, would not have removed the concessions. Rather, there was a general feeling that the manufacturing sector should also enjoy such benefits.

The Resource Sectors Defence of their Tax Position

In addition to unrest from manufacturing, the resource industries faced intensive questioning from the Royal Commission on the necessity and value of its substantial tax advantages. In response, the highly organized representatives of the resource sector mounted a spirited campaign to demonstrate that their various tax concessions were absolutely vital to the growth of their industry and indeed, to the health of the entire economy. The nature of the participation of the major social and economic organizations in the Commission hearings will be analyzed below. It will be seen that there were far more submissions from the corporate economy than from any other competing interests. It will also be clear that business organizations were not simply numerically predominant, but in addition enjoyed certain critical qualitative advantages because of the economic power they represented and the political resources they could mobilize. The contentious deliberations on the special tax position of the resource sector illustrate concretely several of these qualitative

factors. This issue also demonstrates the manner in which the Commission hearings were organized. For these reasons, the nature of the proceedings as well as the policy put forth will be briefly explored here.

The petroleum industry was one of the most crucial sectors in the Canadian economy; it was highly concentrated, had a high level of foreign ownership and was dominated by a small number of multinational corporations.[98] One of the most powerful of these corporations, Imperial Oil Ltd., has been seen to be a leading corporate spokesman on taxation and other pressing policy issues.[99]

Imperial Oil prepared a detailed and comprehensive submission which reviewed both the specific needs of their industry and the general direction tax reform should take.[100] Imperial's strong delegation was led by W. O. Twaits, one of the most influential figures in the higher circles of economic and political power, and included several comptrollers and economists, and two Queen's Counsels. Also appearing was Ronald S. Ritchie, a director of the company and a person "well known in public affairs in Canada."[101] Before joining Imperial Oil, Ritchie, like so many corporate executives, had served with the federal government during World War II, in his case with the powerful Wartime Prices and Trade Board. On loan from Imperial, he had been executive director of the Royal Commission on Government Organization (Glassco) from 1961-62. Ritchie was a leading proponent of the need for a major institution for the analysis and development of public policy and was commissioned by the federal government to prepare a study on this issue.[102] He was subsequently appointed as the first chairman of the government and industry supported Institute for Research on

Public Policy. Ritchie's career illustrates not only the extensive corporate involvement in state policy formation, but also the particular commitment and activity of Imperial Oil personnel in this area.[103]

The delegation from Imperial Oil was warmly welcomed by the chairman: "We very much appreciate the efforts you are making on our behalf. You have given us a most informative submission, which we have all read with a great deal of interest."[104] As well as ranging over general issues, the Imperial Oil brief sought to prove the necessity of the existing petroleum tax provisions and argued further that depletion allowances and research and development incentives should be improved.[105] Another major energy corporation, British-American Oil Co., likewise called for increased incentives for capital investment.[106]

The position of the oil producers was being argued by major industry organizations as well as by individual corporations. The Canadian Petroleum Association, representing the large, fully-integrated and largely foreign-owned corporations that dominated the industry, prepared a detailed brief for the Royal Commission.[107] The C.P.A.'s submission was presented by a strong delegation including its chairman, several consultants and accountants, members of the association's tax committee and the manager of the association's Ottawa office. Charles Hay, chairman of the association, stressed the importance of the oil industry to the national economy and that "...tax revisions are also necessary if the industry is to continue to maintain its role in the growth and development of our country."[108] In detailed and technical questioning from the commissioners, and especially their counsel, the C.P.A. members were asked to explain the

basis and rationale of their tax treatment. The delegation justified existing incentives at great length and went on to argue that more extensive depletion allowances and deductions for exploration and development costs were necessary for the further development of oil and gas production.[109]

A very different sector of the oil and gas industry was organized into the Independent Petroleum Association of Canada. It represented not the major integrated corporations, but smaller and medium sized and largely Canadian-owned independent producers.[110] The I.P.A.C. had occasional differences with the C.P.A., but was in fundamental agreement with the latter's basic policy. The I.P.A.C. was in fact a member of the C.P.A. "because it has substantial resources, you might say, in terms of personnel and otherwise to do jobs, for which we are all in agreement."[111] The delegation included top association officials and members of the consultant's firm that had prepared the I.P.A.C. brief. Once again, these representatives of the oil industry were closely questioned on their tax situation. They strenuously defended the concessions in force and called for improved depletion allowances so that the independents would have the same tax treatment as the major corporations.[112] In justifying their demands, the I.P.A.C. stressed the importance of their member enterprises in the economy.

Carter's reply to this plea reveals important facets of the role of the Royal Commission in relation to the specific interests and conflicting demands constantly being presented to it:

> I couldn't disagree with a word you said. Our problem is that every industry that comes before us feels just as confident of its role in the economy as you do; just as confident the tax system should be used to give them assistance in the national interest. There is no doubt of anyone's sincerity on it.[113]

However, regardless of the contradictory demands placed upon it, the chairman identified the basic task of the Commission to be finding the least damaging overall distribution of taxation. If this objective necessitated reducing the burdens of some groups and increasing that of others then "we certainly propose to face up to that."[114]

A dozen top executives from the largest corporations in the industry appeared for the Canadian Metal Mining Association.[115] Among them was W. J. Bennett, then vice-president of Iron Ore Co. of Canada, who had previously held important government posts under C. D. Howe during the war years.[116] As had been the case with the petroleum representatives, this contingent was closely questioned on what special conditions of the mining industry necessitated their specific tax concessions. The delegation was generally satisfied with the system of depletion allowances and strongly defended the maintenance of their existing tax provisions.[117] When asked by the chairman how the three year tax exemption for new mines had contributed to the development of production, the delegation hastened to give examples of mines that would not have been opened without the incentives and argued that these exemptions were indispensible.[118]

This discussion of the resource sector illustrates the impressive nature of corporate input to the Carter Commission. Technically detailed and comprehensive submissions were prepared by expert consultants and

skilled corporate personnel. These views were presented by powerful associations closely linked to centres of state policy making and by representatives of some of the largest corporations. Appearing on behalf of these organizations were prominent individuals from the highest circles of economic and political power. Through this input, the resource industries mounted a spirited defense of their tax incentives and concessions. This juncture also illustrated key features of the operation of the Royal Commission. The detailed examination of witnesses and the attention paid to briefs and testimony underlined the importance of the formal input of the public hearings to the Commission's deliberations. While open to all viewpoints, the Commission recognized that it must arbitrate and balance the conflicting demands placed before it. If necessary, it appeared that the Royal Commission was fully prepared to incur the wrath of specific interests in order to devise the optimum tax system.

Other Specific Demands

The Carter Commission heard from a variety of other corporate sectors on their particular tax situation and was presented with a wide range of further specific demands. Within manufacturing for example, the submissions of Imperial Tobacco Co. of Canada Ltd., the Brewers Association of Canada and the Confectionary Association of Canada, all objected to particular taxes on their products and called for relief.[119] The construction industry wanted wider exemptions from federal sales taxes.[120] The Investment Dealers Association proposed a number of changes to simplify the investment process and the Association of Canadian Investment Co. wanted

maximum flexibility for closed-end investment companies.[121] The Canadian Section of the Council of Profit Sharing Industries wanted tax policy to encourage profit sharing.[122] The Canadian Gas Association wanted the same sales tax exemptions as producers of electricity.[123] In these ways, corporate submissions tended to focus on two levels. First of all, the great majority commented upon the general nature and direction of necessary tax reforms; in this regard, demands for significant reductions in direct taxation were the most consistent theme. Secondly, many briefs pressed for more favourable treatment for their particular sector of production.

Canadian Ownership

A further important issue discussed by business briefs was tax policy in relation to foreign ownership. The Commission's terms of reference had directed it to develop reforms that would encourage Canadian ownership. In addition, from the time of the Gordon Royal Commission in the mid-1950's, the economic problems of foreign ownership were beginning to attract increasing public discussion.

Majority corporate opinion was very hesitant about specific tax provisions to encourage Canadian ownership, most briefs would agree with that of the Canadian Manufacturers' Association that the tax structure should not be used in this way.[124] Not all business groups however, concurred with such a flat rejection. The Toronto Stock Exchange favoured creating incentives for Canadian ownership.[125] The Independent Petroleum Association of Canada supported incentives, but stressed that foreign ownership should not be restricted.[126] This latter qualification was a

common theme of corporate opinion: whatever the limited support for encouraging Canadian ownership, it was consistently argued that the tax system should not discourage the inflow of foreign capital. This was emphasized by the Canadian Chamber of Commerce, the Canadian Petroleum Association and the Canadian Metal Mining Association.[127] A number of briefs went further and explicitly defended foreign ownership: the Investment Dealers Association and the Montreal and Canadian Stock Exchanges, which called for the reduction of the non-resident withholding tax to promote foreign investment.[128] The I.D.A. even returned to the hearings a second time to emphasize the importance of foreign capital and that it must not be discouraged.[129]

The key structural division between Canadian and foreign controlled capital has never resulted in any fundamental conflict between the dominant fractions of the capitalist class in Canada. The historical integration of foreign and Canadian capital was certainly reflected in corporate tax policy: although prudent for some to express support for Canadian ownership, consistent opposition to any restriction on foreign investment was the norm.[130]

Divisions Within Business: Unity or Conflict?

It is clear that corporate policy on tax reform was far from monolithic. The various sectors of the economy and strata of the business community had quite different concrete interests vis-a-vis the tax system. This in turn led to a range of demands on specific issues, some discontent about the advantaged treatment of certain sectors and occasional policy disagreement. These differences in emphasis and direction were an

important part of the complex politics of tax reform. But they were far less significant than the fundamental unity of the capitalist class on the critical need for reductions in the level of taxation and rationalization of the overall system. Policy differences within the corporate sector were never such that they would divide business as a political force or weaken the cohesive and pervasive pressure it was exerting on taxation.

Corporate policy proposals to the Royal Commission were also posed at different levels of analysis. In the short-term, swift tax reductions were seen as a significant and necessary stimulus to investment and economic expansion. In a more long-term sense, the high levels and existing structure of taxation were perceived as serious impediments to economic growth. A major rationalization of the entire tax system was seen as essential to the continued prosperity and development of the Canadian economy. As has been evident throughout the debates on tax reform, there was also great variation in the sophistication and depth of corporate analyses of taxation. These ranged from simplistic demands for tax cuts to comprehensive explorations of the overall operation of the fiscal system.

Tax Reform and the Wider Fiscal System

A significant number of corporate submissions were aware of the wider context of state finances. The tremendous growth of state activity and consequently of government expenditures was seen as having two crucial implications for taxation: first of all, as the major contributing factor to the rising level of taxation, and secondly, the steadily increasing revenue requirements of the state imposed severe constraints on

the possibility of tax reductions.[131] The corporate sector proposed several strategies to deal with these problems. The first was to call for major reductions in government spending. The Canadian Manufacturers' Association had stressed this demand in its preliminary brief.[132] It was reiterated by a number of groups in the national hearings; the Canadian Electrical Manufacturers' Association, for example, urged the Carter Commission to adopt the Glasco Royal Commission recommendations on reducing government expenditure.[133] When corporate demands for spending cuts were specified, social welfare programmes were normally emphasized. In calling for lower government expenditure, the Canadian Bankers' Association, for example, argued that welfare programmes should be sustained by those who benefit from them.[134]

Indirect Taxation

The second corporate reaction to fiscal restraints on tax reform recognized that state revenue needs would continue to require high overall levels of taxation, but maintained that the contribution of the various forms of taxation could be more effectively distributed. Large numbers of business briefs argued that revenue losses from cuts in personal and corporate taxes should be offset with increased reliance on indirect taxation, the various forms of sales taxes.[135] The Canadian Institute of Chartered Accountants recognized the political difficulties the government would face in accepting corporate demands for lower direct and offsetting increased indirect taxation:

> The Institute is not alone in this recommendation but, no matter what its merits, there may be considerable difficulty in implementation even if the Carter Commission comes out strongly in favour. The problem is that corporations do not vote, high-salaried individuals do not count at the polls, but sales taxes are paid by the voters.[136]

Although corporate support for altering the mix of taxation in this way was fairly widespread, sectional divisions within business did affect policy on increased sales taxation. Representatives of the manufacturing industries, such as the Canadian Manufacturers' Association, argued for an extension of sales taxes to cover services.[137] On the other hand, while concurring with other aspects of general corporate policy, those sectors that would be most affected by higher sales taxes were understandably less enthusiastic. The Retail Council of Canada, for example, did not support the use of sales taxation.[138] The Canadian Wholesale Council argued that sales taxes levied at the wholesale level would be too complex and disruptive.[139] The Canadian Electrical Distributors Association also worried about the administrative complexity of the sales tax.[140]

The adoption of corporate demands for spending cuts and increased use of sales taxation, which is inherently more regressive, would make the overall fiscal system less progressive and increase the burden of lower income groups. On the other hand, lower direct taxation would be of important benefit to business and more affluent strata.

Individual Submissions

It has been seen that the corporate sector was represented not simply by major national organizations, but also by regional bodies and many individual companies. A further element of the business community repre-

sented before the hearings was that of corporate executives. Given the structure of career paths and organizational hierarchies, it could be expected that most managers would accept the policy of their industry and of the wider business community. The material interests, technical functions and general ideology of managers clearly integrated them into the corporations they serve. In addition, managers participated extensively in the major industry and trade associations.[141] This was reflected in submissions from managerial organizations. The Financial Executives of Canada, for example, called for the simplification of taxation, easier distribution of corporate earnings and improved capital cost allowances and incentives for economic growth.[142] The Canadian Life Insurance Officers Association argued that there should be no further tax burden on policy holders and defended the existing tax provisions enjoyed by their industry.[143]

The focus of this study has been upon the role of organized social and economic interests in the debates on tax reform. For this reason, there will be little detailed analysis of the large number of individuals who appeared on their own behalf before the Royal Commission. These personal briefs represented a wide range of points of view, but included significant expressions of current opinion from leading businessmen. As several examples will show, individual business presentations reiterated corporate policy and were often much discussed in the business press. Alexander K. G. Reid, a leading Vancouver investment dealer, presented an extensive personal brief to the Carter Commission arguing that the tax system severely retarded economic expansion and incentive. Reid proposed

a number of changes: significant reductions in personal income tax rates, especially for the $10,000-50,000 bracket; complete tax exemptions on Canadian dividends paid to Canadian residents, more flexible estate taxation, no capital gains tax for individuals, improved depreciation, and more favourable treatment of independent professionals and unincorporated businesses. The Financial Post saw this approach as being slightly unusual in stressing tax cuts for individuals rather than corporations, but concluded that Reid's brief was certain to attract a great deal of attention within the business and financial community.[144] The Financial Post further noted that other individual businessmen had also made comprehensive personal appeals to the Commission for drastic tax reform.[145] Another prominent businessman to appear in an individual capacity was Victor Oland, retiring president of the Canadian Chamber of Commerce and powerful Halifax corporate figure. He echoed the common concern with growing government expenditures and the uncoordinated and rising burden of taxation. Oland argued that the existing high levels of business taxation severely limited the potential for economic growth.[146]

A further interesting individual presentation was made by Frank S. Capon, vice-president of Dupont. Capon argued that "confiscatory levels of graduated personal income tax syphon off for social benefit payments that discretionary part of many Canadian incomes that would otherwise be mainly employed to buy equity securities. At the same time, the heavy reliance on the corporation income tax results in Canadian industry being non-competitive."[147] If not quickly reformed the haphazard and burdensome tax structure would precipitate a severe economic crisis.

Capon's analysis exemplified the more strident imagery of business opposition to corporate taxation: "once the tax rate came to exceed 50%, leaving government as the silent partner in business taking more than half the profits and none of the risk."[148] His highly unorthodox solution was to replace the graduated personal income tax with a flat rate and to eliminate all corporation income tax. He would offset any revenue loss and encourage equity financing by a heavy tax on undistributed corporate income and by taxing dividends paid to foreign and institutional shareholders.

Capon's proposed reforms had become an increasingly popular topic of discussion within business circles. Canadian Business published an enthusiastic report of his "provocative" submission.[149] It noted that he does not offer a statistically backed argument, but rather a philosophy of modern capitalism in which the corporation is seen as the primary instrument of economic growth. The brief was studied carefully by the commissioners: "however, chairman Carter, if not convinced of the rightness of the idea was, on his own admission, disturbed by the possibility that it might be right."[150] Peter Newman, Ottawa columnist for Macleans magazine, also noted that Capon's scheme was attracting a great deal of attention, not least from the Royal Commission: "his ideas so intrigued the commissioners that they asked him to come back a second time to elaborate them."[151] Capon's proposals were highly idiosyncratic and politically impractical, but were not unrelated to the overall thrust of business opinion on the damaging effects of existing personal and corporate taxation. Again, as Newman noted: "It's of course highly unlikely

that any government hoping for re-election would ever be foolish enough to implement Capon's ideas. But his carefully documented case is interesting nevertheless since it reflects accurately and with unusual candor the kind of tax system we might have if big business ever ran this country."[152]

Conclusion: Corporate Input to the Royal Commission

The massive input of business presented the Carter Commission with a clearly defined set of policy demands. The key corporate recommendations included: lower personal and corporate income taxation, less progressive personal taxation, a reduced burden of estate and other taxation of wealth, no capital gains tax, the rationalization of double taxation and other anomalies of business taxation, increased reliance on indirect taxation, and a range of changes designed to effectively adapt the tax system to modern economic conditions. These policy proposals were closely based upon the interests of the capitalist class and the requirements of the corporate institutions they controlled. If accepted, this policy would be of direct and substantial benefit to corporate interests.

Corporate submissions were all the more impressive because they were far more predominant, both in quantitative and qualitative terms, than those of other contending organizations. Nonetheless, a variety of other social and economic groups presented briefs and other competing policy perspectives were put forth. Following sections will explore patterns of participation in the Commission hearings and the nature of the major rival interests and policies.

III. Submissions From Other Interests

This section focuses on the policy formulated by organizations representing social and economic interests other than those of the capitalist class. The presentations of a range of professional and managerial occupations are discussed first. The policy put forth by the traditional independent middle class groups of small business and farmers is then reviewed. The demands of unions, as the only organizations with any claim to speak for the working class majority of the population, are examined. Finally, the perspectives of a variety of groups whose relation to class interests is more tenuous or ambiguous are explored.

Professional and Managerial Groups

As discussed in the second chapter, the professional occupations must be distinguished in terms of the control and autonomy they exercise over their professional activity. Independent or collegiate professionals define their relationship to consumers and the nature of the services they provide.[153] From this category, the medical professions were well represented before the Commission. The principle argument of the Canadian Dental Association, the College of General Practitioners of Canada and the Canadian Medical Association was that wider deductions for conventions, courses and other means of continuing education should be allowed.[154] The organization of French-speaking doctors took a somewhat more general perspective; condemning the heavy burden of estate taxes and arguing that high taxes reduced the incentive to work.[155]

The independence of other professional occupations is constrained by their relation to major client groups or to the institutions within

which they are employed. One of the most important trends in the social division of labour of advanced capitalist societies has been the steadily growing numbers of professional and administrative personnel employed in private and governmental organizations.[156] A number of organizations representing such categories appeared before the Royal Commission. The Canadian Association of University Teachers argued that the academic work of professors should be classified as business activity and consequently as eligible for a range of deductions.[157] Similarly, the Canadian Teachers' Federation held that teachers should receive the same tax benefits as the self-employed. If this was not possible, then specific deductions for the expenses of further education and professional development should be widened.[158] The submission of the Canadian Associaion of Social Workers also maintained that salaried professionals should be able to deduct educational expenses.[159] The Professional Institute of the Public Service of Canada recommended reducing the heavy tax burden on estates of modest proportions.[160] Other professions, even when formally self-employed or in partnerships, shared similar general economic concerns with businessmen. The security and demand for the services of such groups as engineers, architects, investment brokers and management consultants are dependent upon business needs and decisions and upon the overall health of the economy. Thus, the Association of Professional Engineers of the Province of Ontario recommended a range of tax incentives designed to stimulate industrial expansion and research and development.[161]

In terms of their material conditions, autonomy at work, functions within hierarchies of authority, education, prestige and overall position

in the social division of labour, the majority of the professional and administrative occupations discussed above can be placed within the general category of upper middle class.[162] Reflecting the fact that these occupations do not constitute a homogeneous group, there was no unified middle class policy on tax reform. As was seen in the preceding section, the legal and accounting professions and tax experts closely associated with business played a key role in the elaboration of corporate policy and pressure on tax reform. Submissions from these groups and from managerial organizations reinforced the positions of the major corporate representatives. Beyond this, other professional and middle class organizations generally focused on the specific interests of their constituency. There was some general concern with the level and progressiveness of personal and estate taxation, but this was never as explicit or determined as business. It could be speculated that it was not politically prudent for these affluent strata to question the ideology of progressive taxation since the professions could not claim business' expertise and economic rationale in stimulating production.[163] It is clear that the policy presented by the diverse upper middle class interests did not constitute a comprehensive and competing alternative to that of business. When clearly defined, this policy did not conflict with, and in important instances supported the general thrust of corporate thinking.

Traditional Independent Middle Classes: Small Business

The middle class categories discussed to this point have enjoyed tremendous growth with the development of advanced capitalism.[164] The major components of the traditional independent middle classes or petty

bourgeoisie have not been so fortunate. While precarious and unstable, the heterogeneous category of small business still contributed a significant proportion of total economic activity and can be seen as an important component of the wider business community.[165] Although large numbers of relatively small enterprises belonged to the chambers of commerce and other industry and trade associations and many corporate submissions could claim to speak for the business community as a whole, there was no separate organization representing small business at that time and only a few individual small enterprises appeared before the Commission.

Central elements of general corporate policy on tax reform did, however, directly affect small business. Demands for lighter estate taxation were generally framed in terms of protecting the stability and continuity of small family enterprises. Similarly, the interests of small businessmen as property owners, even though on a vastly smaller scale than the capitalist class, could be impaired by capital gains taxation. More generally, the reduction in taxation and the promised economic stimulation that would result would presumably benefit small business as well as large. Nonetheless, while corporate policy could favour the interests of small business and would almost certainly receive the support of the latter, the small business strata were not independently represented before the Royal Commission and cannot be seen as a significant political force in these early deliberations.[166]

Farmers

The other major groups of traditional producers are farmers. It must be emphasized that farmers were not unified by a single class interest; a critical division existed between the coalescence of large-scale, capital-intensive agricultural operations and major corporations in the farm supply sector, food and beverage industry and retail food merchandising often designated as agribusiness, and the much smaller and more insecure labour-intensive family farms which still produced the majority of agricultural output.[167] Despite these internal divisions, farmers were organized into a number of national bodies, several of which appeared before the Carter Commission.

The Canadian Federation of Agriculture generally included representatives from all sectors of agriculture. Its brief argued that taxation and fiscal policy should be part of comprehensive state economic planning and did not view existing levels of taxation as a serious problem.[168] The Federation worried about the application of sales tax and opposed the use of property taxes to finance education. Farmers should not be subject to capital gains taxation and estate taxes must not hinder the inheritance of farms within families. The National Farmers Union more specifically represented independent farmers. Their brief to the Royal Commission emphasized that the family farm must be encouraged.[169] In addition to a number of specific recommendations to simplify the taxation of farm income, the N.F.U. called for higher estate tax exemptions to keep farms within the family.

The interests of farmers as small property owners led to proposals on estate and capital gains taxation similar to general business policy. The farmers, however, did not accept the corporate view of damagingly high levels of taxation. In addition, both of the major agricultural organizations noted here supported the special tax exemptions of co-operatives to which business was so solidly opposed. Thus, although not overly comprehensive, agriculture did offer a distinct policy alternative which in important ways conflicted with that of business.

Co-operatives

Farmer organizations could support the position of co-operatives because the latter also represented the same social and economic interests and ideology of the traditional independent producers. The Co-operative Union of Canada[170] and a wide range of co-ops of fishing and agricultural producers stressed the significant economic role played by co-operative enterprises and argued that their tax-exempt status was both legitimate and necessary. The submissions of the Credit Union National Association[171] and other credit union organizations defended their tax treatment. Although these arguments were directly counter to business demands, these organizations were primarily concerned with protecting their specific provisions and did not challenge corporate policy as a whole.

Organized Labour

Given the pervasive insecurity and inequality of pay within the labour market and the overall highly unequal distribution of wealth and income that were key determinants of the material position of the working class, many within this group would benefit from tax changes that reduced the burden on wage earners and the lower-income strata. It was therefore

not surprising that the policy of the trade union movement also differed substantially from prevailing business opinion. The Secretary-Treasurer of the Canadian Labour Congress noted that "our recommendations are at considerable variance with some you have been receiving recently."[172] The Congress disputed the pervasive corporate arguments that the steeply graduated structure of personal income taxation was harmful[173] and that high overall levels of direct taxation retarded the economy. Further specific recommendations were directly contrary to business policy and would in fact harm corporate interests if implemented: reductions in dividend tax credits, limitation of business expense deductions and capital gains taxation. The C.L.C. was also worried about the increasing use of more regressive forms of taxation such as the sales tax. It much preferred the personal income tax because of its progressive character. The thrust of business pressure, of course, was precisely the opposite.

The C.L.C. policy was consistently progressive. The Secretary-Treasurer summarized as follows: "whenever possible and practicable the incidence of taxation should be based on ability to pay...the tax system should be used to bring about a more equitable redistribution of the nation's income."[174] More generally, the Congress supported tax incentives to promote regional growth and the use of taxation as a fiscal instrument to regulate the economy. Thus, the C.L.C. had presented a thoroughly progressive policy sharply divergent to that of business and which constituted the first major alternative from a significant competing political force.

Public Interest Groups

To this point, the organizations that have been discussed can be related quite closely to the underlying social and economic interests that they represent. The Royal Commission also heard from a variety of bodies whose basis in the social structure was not so clear. Among them were a number of organizations concerned with the general economic well-being of the population, such as the Canadian Welfare Council and the Consumers' Association of Canada, that could be expected to share labour's concern with taxation based on ability to pay. But their submissions were far more limited. The Consumers' Association recommended lower sales taxes on necessary goods.[175] The Canadian Welfare Council called for increased deductions for medical expenses and working women. Their brief questioned the direct use of the tax system for welfare goals; it preferred social security programmes.[176] The briefs of these groups certainly did not follow prevailing business policy, but they also contained little that could be seen as a competing alternative. Neither of these organizations was explicitly worried about inequality of condition; neither proposed changes of a markedly progressive nature.

Submissions were presented by a further variety of organizations that were not clearly related to class interests. Predominant here were various medical, philanthropic and cultural institutions such as the Canadian Conference of the Arts and the Canadian Universities Foundation.[177] It could be noted that while not representing specific class interests, such bodies are generally led by middle class individuals, with significant participation and influence from the upper class.[178] The content of

these briefs reflected their financial dependence upon the wealthy; their basic thrust was to widen allowances for charitable deductions to organizations such as theirs. More generous deductions would at the same time be of considerable benefit to the wealthier strata making the donations.

The National Council of Women was the only major organization speaking for the female half of the population.[179] Its brief called for lower estate taxation to provide better benefits for survivors and argued that one-half of the estate should be considered the property of the wife. In this concern with women's rights under estate taxation the Council could be seen as representing all women. However, the direction of its recommendations was very much like that of other middle and upper income strata with sufficient wealth to make inheritance a problem. A further indication of the class background of this group was their demand that the cost of employing part-time servants be deductible.[180]

The grand exercise in pluralist participation that the hearings of the Royal Commission had become was rounded out by a diverse group of organizations that did not play a critical role in the political system. The Canadian Peace Congress, for example, argued that a reduction in defense expenditures would significantly lessen tax problems.[181] The Canadian Rehabilitation Council for the Disabled urged a range of tax exemptions for the disabled.[182]

Conclusions: Competing Policy Perspectives

The preceding section showed that corporate sources presented the Royal Commission with a consistent and highly organized set of policy demands on the nature of tax reform. This policy framework was supported

by the business associated legal and accounting professions, the Canadian Tax Foundation and managerial organizations. Other professional and middle class groups put forth proposals that were to some degree different from, but in no significant way conflicting with, those of business. A further range of diverse associations discussed many specific issues of taxation, but did not provide cohesive policy models. Agricultural federations did have policy significantly different from business, but it was far from comprehensive. The sole consistently distinct and opposing alternative to corporate policy was the progressive demands of organized labour. The next section explores how extensively and effectively these contending policy perspectives were presented in the Carter Commission hearings.

IV. Patterns of Public Participation in Commission Hearings

The hearings of the Royal Commission had become a major forum for the public discussion of taxation and state policy. These debates would certainly have been closely followed by state policy makers. A more immediate question concerns the potential influence of this massive input upon the deliberations of the Commission. It was clearly taken seriously by members of the Commission; they had stressed that the briefs and testimony were an essential source of information and opinion in the tax structure. To understand possible lines of influence a number of issues must be examined: which social and economic interests were represented by organizations in the hearings, which policy perspectives were most frequently and effectively presented and what was the nature of the competition between these contending groups and policies?

Table 6-1

Organizations that Submitted Briefs to the
Royal Commission on Taxation
1963-1964

Category of Organization		N	%
Business			
Individual Firms	30		
Associations	80		
		110	53.92
Professional			
Corporate Patronage	6		
Collegiate	5		
Mediative	5		
		16	7.84
Expert/Specialized		5	2.45
Agricultural		9	4.41
Co-operatives		11	5.39
Labour/Employee		7	3.43
Political		16	7.84
Women		5	2.45
Religious		7	3.43
Educational		9	4.41
Other		6	2.94
Undefined		3	1.47
		204	

Source: Categorized from R.C., Report, Vol 1, Appendix A
"Submissions Received from Companies and Organizations"

Patterns of Participation: Quantitative

First of all, the patterns of relative participation in the Commission hearings must be determined: what types of organizations appeared and in what proportion? These patterns can be most clearly illustrated by classifying the groups that submitted briefs: firstly, in terms of the nature androle of the organizations that appeared, and secondly, in terms of the specific class and social interests represented by these organizations.[183] Table 6-1 categorizes the various business, professional, agricultural, labour, educational and cultural groups that submitted briefs to the Royal Commission.

Those organizations representing business interests constituted a highly diverse category. A total of 30 individual companies, of all sizes and from all sectors of the economy, appeared before the Royal Commission. Among them were some of the most powerful corporations in the country: Canadian Pacific Railway Co., Eddy Match Co. Ltd., Imperial Oil Ltd., and Moore Corporation.

The most important representatives of the corporate sector were the 80 associations that submitted briefs, generally on a highly technical, detailed and comprehensive character. The significance of these associations has been discussed in earlier chapters. They do not only provide a forum for coordination and communication between the major corporations in the key sectors of the economy, but also protect and promote the interests of their industry in the political sphere.[184] These organizations represent tremendous concentrations of corporate resources and are a pervasive and influential presence within state policy making circles. Corporate

organizations submitting briefs to the Commission ranged from general bodies, such as the Canadian Chamber of Commerce and the Canadian Manufacturers' Association, through large numbers of specific industry and trade associations, such as the Canadian Bankers' Association, the Canadian Petroleum Association and the Retail Council of Canada, to the major Canadian stock exchanges. The basis of the key corporate associations must be specified. Although the majority of their members were medium-sized or smaller companies, association policy and activity was dominated by the large corporations that provided the bulk of their financial, expert and personnel resources.[185] Taken together, the total of 110 briefs from business firms and associations constituted over one-half of all submissions received. Organized capital, with the highly concentrated sector in the forefront, was the predominant source of input to the Royal Commission.

Fifteen professional associations presented briefs to the Commission. As discussed earlier, these occupations must be specified in terms of the control and autonomy they exercise in their professional activity.[186] Six organizations appeared representing those classified as patronage professions whose functions have been largely shaped by the needs of business as their single most important client group. The key role of the legal and accounting professions and their jointly-sponsored Canadian Tax Foundation in the development of corporate policy on taxation has been emphasized above. Five further associations represented collegiate or independent professions, the bulk of these being medical. The remaining five groups were from mediative professions, most of whom were employed

by large public or private institutions, such as social workers or university teachers.

Five organizations appeared that were specifically concerned with questions of taxation and tax reform. These groups tended to be of an ad hoc nature and to be composed of academics and professionals claiming some degree of technical expertise. Several focused on particular issues; for example, estate planning councils and the Equitable Income Tax Foundation, whose goal was to remove the tax exemptions of co-operatives. The policy offered by these diverse groups generally did not conflict with the prevailing corporate viewpoint.

Within the traditional independent middle classes, the direct representation of small business strata was highly limited. The farming community was more active. A total of nine agricultural federations appeared on behalf of farmers. In addition, agricultural interests were closely linked to the co-operative movement. Of the eleven co-operative submissions, four came from wheat pool or elevator groups. The remainder in this category included one fisherman's co-op and six more general co-operative or credit union associations.

Only seven labour organizations appeared before the Carter Commission (3.43% of the total). The most important of these, the Canadian Labour Congress, claimed to speak for all organized workers. However, there were few individual unions and no provincial labour federations in attendance. Furthermore, two of the presenting groups - of policy and government employees - at that time had little ideological affinity or organizational links with the wider union movement.

Sixteen political organizations of various kinds presented briefs.

This category included five regional institutions, such as the Atlantic Provinces Economic Council and the Commissioner of the Northwest Territories; eight municipal groups and diverse bodies such as the United Nations Association. Five women's associations appeared, although they did not necessarily see themselves as representing all women. Organizations such as the Imperial Order of the Daughters of the Empire and business and professional women's clubs had little impact within the political system. Seven Protestant religious organizations appeared. Nine educational institutions submitted briefs, ranging from the governors of the University of Toronto and the Canadian Universities Foundation to local school boards and student federations. A total of six briefs were presented by various health, cultural, welfare and other philanthropic organizations. Finally, three groups did not fit any of these categories.[187]

Patterns of Participation

Thus, a wide range of groups took part in these most important policy deliberations. However, the pluralist image of equal competition from all contending viewpoints and groups was not supported. The activity of corporate representatives was far more extensive than that of any other competing interests. Organized labour was the group whose policy on tax reform and whose working class membership's concrete interests were most diametrically opposed to those of business. But whereas business contributed 54% of submissions received by the Royal Commission, labour briefs accounted for just over 3%.

The quantitative predominance of business is all the more striking when organizations appearing during the hearings are more specifically categorized in terms of the class and social groupings they represented. Table 6-1 delineated the type of groups that presented briefs to the Royal Commission. Table 6-2 more precisely categorizes these organizations in terms of the business, professional, labour or other class interests that they speak for. Naturally, all organizations could not be neatly classified: some were clearly not class based, the Canadian Peace Congress, for example; and some, such as the Consumers Association of Canada, claimed their mandate to be the broad public interest rather than more narrowly conscribed class interests. Nonetheless 146 organizations can be closely related to underlying class and group interests.[188]

The 110 individual companies and corporate associations that appeared on behalf of capitalist interests constituted over three-quarters of this more specifically defined total. If those professional groups that are closely linked to business and whose functional activity is dependent upon the requirements of the corporate sector are included in the business category, then the proportions of corporate representatives rises to 79.45%.[189] A further 6.86% of briefs were from other professional associations, representing occupations clearly within the affluent middle classes. More generally then, over 85% of submissions to the Commission came from the more advantaged strata of the population.[190]

By contrast, labour or employee organizations, as the sole representatives, however limited, of the working class[191] and as the most important competing policy alternative to business, contributed 4.79% of the

Table 6-2

Organizations that Submitted Briefs to the Royal Commission on Taxation, 1963-1964: Specifically Categorized by Class Interests

Category of Organization		N	%
Business		110	75.34
Corporate Patronage Professional		6	4.11
		116	79.45
Other Professional		10	6.85
Labour/Employee		7	4.79
Agricultural			
Associations	9		
Agricultural Co-operatives	4		
	13	13	8.90
		146	

Source: Categorized from R.C., Report, Vol 1, Appendix A "Submissions Received from Companies and Organizations"

of the total in Table 2. A further group with a policy framework different from, although not totally contradictory with that of the corporate sector, was farmers. Agricultural federations plus agriculturally-based co-operatives constituted 8.90% of the total.

Thus, submissions from corporate sources far outnumbered those of other contending groups or policy perspectives. The predominance of business was not merely numerical; the nature of corporate participation in Commission deliberations must also be examined. It will be seen that the corporate sector was able to mobilize its immense resources to ensure that its input was qualitatively as well as quantitatively predominant.

Qualitative Nature of Corporate Participation

The corporate briefs were generally lengthy, highly detailed, technically sophisticated and extremely comprehensive. They were prepared at great expense by highly trained managerial personnel, leading corporate lawyers and specialized consultants. The submission of the Independent Petroleum Association of Canada, for example, was researched and written by Foster Associates and several executives of this consulting firm appeared before the Royal Commission with the I.P.A.C.[192] No other interest commanded the economic and organizational resources of capital: the financial support for research and preparation of policy documents, the skilled manpower within the major corporate institutions themselves and the ability to hire top level expert advise and assistance when necessary. Consequently, no other group could so consistently produce such comprehensive input.

A good example of the impressive nature of corporate submissions to the Carter enquiry is provided by the brief of the Canadian Institute of Chartered Accountants.[193] The Institute's submission was prepared by their special committee on taxation, with membership from all major cities in Canada. Approximately one year of meetings and discussions and a great deal of work went into this formulation. The resulting document was extremely comprehensive: 42,000 words and 175 pages in length and "considerably detailed and technical."[194] It was "described in The Financial Post in its lead editorial as 'a brilliant appeal for tax rates and tax regulations that will put this nation on the path to progress'".[195] The content of the C.I.C.A. brief has been discussed in earlier sections: it ranged over a number of technical questions and general issues, but was essentially a highly sophisticated variant of prevailing corporate arguments for tax reductions and rationalization. The brief was widely circulated and the Institute considered it to be objective, impartial and highly professional. An editorial in the Canadian Chartered Accountant saw the submission as a worthwhile contribution to the Commission: "The preparation of the Institute's brief was to be looked upon as an important work of service."[196]

The C.I.C.A. emphasized that their analysis was particularly relevant for several reasons. First of all, because of the functional role of accountants: "Members of this profession with a wealth of experience in the tax problems of persons and corporations of every sort, are uniquely well placed to form an opinion as to the taxpayer's reaction to high taxes."[197] The Institute's viewpoint was valuable for a second rea-

son: "Most individuals and corporate bodies appearing before the Commission have a particular interest in taxation of direct concern to themselves. The Institute has taken a broad, independent, impartial approach in endeavouring to fulfill its professional obligations to the Canadian public."[198] A further Canadian Chartered Accountant editorial commented on the reception of their submission: "The brief was well received and the committee members who attended the hearings had every reason to believe that the Commission generally felt that a positive contribution had been made to its work."[199]

The briefs of the Canadian Bar Association and the Canadian Tax Foundation were equally comprehensive and sophisticated, and both of these organizations could also claim that their professional expertise substantiated and reinforced their policy proposals. Given the background of leading members of the Royal Commission in these same professions, it could be expected that the Commissioners would accept the logic of these claims. The central point here is that the policy of these professional bodies was remarkably similar to that of the major corporations and industry associations. This meant that the professional legitimacy claimed by such expert analysis and the impressive nature of the briefs themselves would lend further support to the overall thrust of corporate policy on tax reform. No other competing policy perspective could boast the endorsement of such respected and highly specialized professional opinion.

The significance of corporate input to the Royal Commission lay not only in the quality of their submissions, but also in the nature of the institutions and individuals who presented this material. Appearing

before the Commission were large numbers of executives and directors of some of the most important corporations in the economy. Large and powerful delegations representing major industry and trade associations from all sectors of the economy also submitted briefs. Corporate policy was presented not only by powerful organizations, but also by numerous prominent individuals of tremendous personal prestige and influence. Individuals, such as W. O. Twaits and W. J. Bennett noted above were leading figures in the structure of corporate power and much involved in wider state and public policy deliberations. A further example reflecting the close links between the highest levels of political and economic power was the Hon. Roland Michener, P.C., Q.C. He presented a brief to the Carter Commission on behalf of ten general insurance companies which he legally represented. Michener was an important figure in the Conservative party and had been speaker of the House of Commons. He was later High Commissioner to India and later still Governor-General of Canada. Michener was well received by the Commission; the Chairman noted: "We are indeed flattered to have you before us today, Mr. Michener."[200] Michener's response indicates how familiar he was with similar policy enquiries: "May I say, Mr. Chairman, that it is a pleasure to appear before this distinguished Commission and it is also interesting to be on the other side of the bench for a change."[201]

The various corporate associations all had standing or ad hoc tax committees that had been hard at work on the formulation of their policy. The total activity of all these bodies, plus the similar endeavours of individual corporations, constituted an enormous expenditure of time, money

and energy. The great resources that the corporate sector had to devote to such efforts gave it a significant advantage over other groups. Labour unions, farmers' federations, non-business professional associations and the various public interest groups simply did not have comparable resources at their disposal. As important as the resources which business could mobilize, was the crucial position of the major corporations within the political economy. The dominant corporations and the associations into which they were organized were the central institutions of the capitalist economy and collectively were the primary force in shaping the tempo and development of the Canadian economy.[202] The need to maintain what the capitalist class who control these key institutions consider to be a healthy and stable climate for investment was a crucial constraint on state economic policy. Given the critical importance of taxation and fiscal policy within the overall economic environment, the opinion and policy of the major corporate organizations had to be taken into account by the Royal Commission.

Conclusions: Predominance of the Capitalist Class in the Deliberations of the Royal Commission

The political competition centred upon the hearings of the Carter Commission was profoundly unequal. By far the largest number of submissions on the direction of tax reform came from the business community. No other organized interests were as well represented or commanded the political and economic resources of the corporate sector. As a potential source of influence, both in quantitative and qualitative terms, business was far more significant than any other contending group. Concretely this

meant that the predominant input to the Royal Commission came from well defined policy parameters. The numerous corporate briefs called for a range of changes - reduced direct taxation, less graduated personal taxation, overall rationalization, simplified administration, increased indirect taxation, lower taxation of wealth and many more specific changes that would be of significant and direct benefit to capitalist interests. By contrast, calls for progressive reforms, to reduce the inequality of the tax system and the burden of lower income strata, were far less frequent and impressive. More generally, given the overall framework of state economic policy, which tended to be highly favourable to corporate interests and responsive to business opinion, and the close links between the members and staff of the Commission and the wider business community, it could have been expected that the Royal Commission would be receptive to the pervasive corporate demands placed before it.

However, these patterns do not mean that the massive corporate input to the Carter enquiry would be the determining factor in its final conclusions and recommendations. The actual outcome of the policy process is shaped by a complex of factors: conflict between the long-term objectives of fiscal policy and the short-term demands of business; conflict between the general requirements of the capitalist economy and of capital as a whole versus the particular interests of specific sectors of capital; the pressing structural imperative for fiscal policy to support and facilitate the accumulation of capital; political and ideological commitment to fair and progressive taxation; conflict between these competing policy priorities of economic growth and equity; political debate and competition

over the nature and direction of reform; the need to take account of the possible reactions to alternative reforms of key political forces; and the needs of the state for revenue. Because Royal Commissions are relatively insulated from the type of direct political and institutional pressures faced by state policy makers, their balancing of conflicting factors and forces can be more flexible. For the same reasons, their conclusions can be less predictable.

At the same time as the Royal Commission was studying the briefs and testimony it had received, its research programme was being completed and analyzed. When first established, the Commission was expected to report in late 1964. The huge task faced by the Royal Commission quickly proved this estimate to be far too optimistic. The Carter enquiry's report was imminently expected throughout 1965 and 1966, but was not finally completed until December 1966.[203] The six volume Report of the Royal Commission on Taxation was officially released in February 1967 and will be analyzed in the next chapter.

Footnotes

1. "The Royal Commission's tax assignment", Canadian Business, October 1962, p 94.
2. Ibid, pp 94-8. The Robertson article has been discussed above; "What do we want of our tax system", Canadian Tax Journal, July-August 1962.
3. Speaking to the 1963 annual conference of the C.M.A.; Industrial Canada, July 1963, p 117. As noted, Carter had long been active in C.M.A. discussions of taxation.
4. Canadian Tax Journal, September-October 1962, pp 301-4.
5. Ibid, p 303. The C.T.F. can again be seen as one of the most sophisticated organizations within the business community; here they were arguing a concrete, reasoned input to the Royal Commission rather than (in their view all too common) simplistic and purely rhetorical calls for tax cuts.
6. Ibid, p 303-4 and parenthetically noted that three of the Commissioners - Carter, Perry and Beauvais - had been heavily involved in the C.T.F.
7. C.T.F., 1962 Conference, p 6.
8. Canadian Chartered Accountant, December 1962, p 626ff; they joined the Canadian Chamber of Commerce in supporting the extension of the federal sales tax to the service industries as well as manufacturing.
9. C.L.C. Memorandum, December 1962, pp 22-3, cited in David Kwavnick, Organized Labour and Pressure Politics, Canadian Labour Congress 1956-1968, Montreal, McGill-Queens University Press, 1972, p 109.
10. A complete list of all staff is included in R. C. Report, Vol 1, Appendix C.
11. Financial Post, January 18, 1966, p 17.
12. This was not an uncommon pattern. Working for a prominent Royal Commission was often an important stepping stone in a successful political or bureaucratic career; cf John Porter, The Vertical Mosaic, Toronto, University of Toronto Press, 1965, p 440.
13. Perry spoke to the C.T.F., 1962 Conference, pp 9-10, on the beginning stages of the Royal Commission.
14. Financial Post, December 1, 1962, p 25.
15. Ibid.
16. Canadian Tax Journal, January-February 1963, p 7. This pervasive activity illustrates how seriously the Royal Commission was taken by business.
17. John Saywell, (ed), The Canadian Annual Review for 1962, Toronto, University of Toronto Press, 1963, p 172.
18. p 1. They also approvingly cite Canadian Tax Foundation director Ronald Robertson's prescription for the ills of the tax system; op.cit. It is noteworthy how influential this particular article and C.T.F. publications and policy more generally were on business opinion. The Financial Post editorial is also a good example of the prevailing ideology of free enterprise with its emphasis on competition, initiative and risk-taking. But behind all the cliches was a perfectly clear understanding of the importance of capital formation to corporate interests and of favourable taxation to the process of accumulation.

19. C.T.F., 1962 Conference, p 13ff.
20. Capon's proposals will be discussed in detail in the next section as they were presented to the Royal Commission. His ideas became prevalent topics of discussion throughout this period.
21. As noted earlier, business policy was being increasingly delineated in specific terms; a common theme was that corporate and personal taxation should be reduced and the resultant revenue loss offset with increased sales taxes.
22. Financial Post, December 1, 1962, p 25.
23. Ibid. This shows once again how political considerations can shape tax policy. Cutting corporate taxation directly would appear to overly favour the more affluent strata and would consequently conflict with the prevailing ideology of fair taxation.
24. Kerr Gibson "Tax Policy for the Long and Short Run", Canadian Tax Journal, January-February 1963, pp 58-63. Gibson, of Clarkson, Gordon and Co., outlined the basic requirements of the tax system: primarily, the provision of sufficient revenue; then clarity, simplicity of administration and finally equity. Gibson's concept of equity was typical of business opinion of the day. He meant that the tax system should be neutral, that it should have the same effect on taxpayers in similar circumstances. He did not mean that the tax structure should contribute to greater equality of condition or the redistribution of wealth.
25. Canadian Business, February 1963, p 21.
26. Industrial Canada, July 1963, p 117.
27. See Newman (1963), op.cit., Ch 25.
28. W.H. Flynn, chairman of the C.M.A. taxation committee speaking to the 1963 annual meetings; Industrial Canada, July 1963, p 117.
29. Financial Post, December 15, 1962, p 16.
30. The hearings of the Royal Commission on Taxation were recorded and transcribed by a firm of court reporters, which were then made available to the public by different libraries and research institutions in various forms, either separately by session or bound in large volumes. To avoid confusion, references to general themes or arguments will cite the organization presenting the brief or testimony and the date on which it appeared. Specific references to briefs or hearings will cite the organization, date and page (which remains the same in whatever form the session is issued). Because of the large number of references to this material, the short form citation of R.C., Briefs (for written submissions) or Hearings (for the testimony of delegations) will be adopted. A useful and reliable summary of briefs to the Royal Commission is provided by Commerce Clearing House Canada Ltd. (C.C.H. Canadian Ltd.), Royal Commission on Taxation Summary of Public Hearings, 1963-64, Don Mills, Ontario, 1964. This company specializes in providing judicial and legislative reports and precis for the legal profession. The reference for the C.T.F. submission is R.C., Briefs, April 6, 1963.
31. R.C., Briefs, April 19, 1963.
32. R.C., Briefs, April 18, 1963.

33. R.C., Briefs, April 17, 1963. The Chamber's recurring arguments and demands have been noted above.
34. R.C., Briefs, April 17, 1963; see also Industrial Canada, July 1963, p 118; introductory remarks of W. H. Flynn, chairman of the C.M.A. taxation committee, to the Taxation Conference of the 1963 annual meetings. The delegation was asked many questions by the counsel and members of the Commission and it was felt that the session was very useful for all concerned.
35. R.C., Briefs, April 17, 1963, p 1. The majority of organizations introduced their briefs or testimony by emphasizing their role as representatives of vital interests. General associations like the C.M.A. and C.C.C. can best be seen as coalitions or umbrella organizations. Their member firms share certain common interests in a fabourable overall economic environment for manufacturing in the case of the C.M.A. and for business as a whole for the C.C.C. These bodies can play a key role in the development of common policy and representing these general interests in dealing with the state. But there are also important lines of division within them: by size of corporation, specific sector of the economy and Canadian or foreign control. Many members of the general organizations, such as forestry or steel corporations, can also be represented by more specific industry associations. The way in which sectional interests and divisions within capital were important in the dynamics of tax reform will be explored throughout following chapters.
36. Ibid, p 4.
37. As with other corporate organizations, the C.M.A.'s taxation committee was at work formulating its comprehensive brief containing its definite views on necessary tax changes to be presented in the fall; Industrial Canada, July 1963, p 118.
38. April 20, 1963, p 13.
39. R.C., Briefs, April 17, 1963.
40. R.C., Report, Vol 1, Preface, p XIV.
41. Ibid, Vol 1, Preface, p XII. For an excellent summary of this enormous input see CCH Canadian Limited, op.cit.
42. These hearings provide an excellent source of data on the policy and analysis of major organizations in the Canadian polity on the tax structure and its necessary reform. Furthermore, the hearings became a forum for the participation of all interested parties and for the large-scale public discussion of tax reform. As such, they also provide a good case study of the nature of political competition and participation in policy formation.
43. The Canadian Tax Journal, May-June 1963, p 174 stressed this point, but it is also clear from the hearings themselves.
44. R.C. Report, Vol 1, Preface, p XIII.
45. This section will not repeat the general business arguments discussed above. But it will be seen that the arguments presented in the corporate briefs had become much more systematic and comprehensive. This further elaboration of corporate policy will be examined in detail here. A total of 110 business organizations submitted briefs to the Commission and not all of these have been directly cited here.

Specific references are generally made to submissions from the most important organizations in the corporate economy or to those that best express a particular point. For good summaries of all briefs to the hearings see CCH Canadian Ltd., op.cit.

46. R.C. Briefs, January 6, 1964. Se also Industrial Canada, January 1964, p 14; which reported on the C.M.A. delegation's appearance before the Carter Commission and summarized their brief. Corporate submissions were widely reported in the business press. This continual discussion and debate on taxation served to reinforce and mobilize business pressure by spreading the views of the major corporate associations throughout the business community and by keeping businessmen informed of the progress of the Commission. The interrelated nature of business input was also illustrated by the C.M.A. submission. It approvingly cited the brief of the Canadian Tax Foundation which had argued that high levels of taxation were the most critical problem of the fiscal system.
47. R.C. Briefs, January 18, 1964.
48. R.C. Briefs, respectively November 27, 1963, November 1, 1963, December 4, 1963, January 16, 1964 and two appearances by the latter group on May 23, 1963 and January 21, 1964.
49. R.C. Briefs, January 20, 1964.
50. R.C. Briefs, both October 29, 1963. In reporting their appearances, the Financial Post, November 16, 1963, p 52 emphasized how critical these two associations had been of the tax system.
51. The participation of such local business organizations added further layers to the corporate presence before the Royal Commission. The Toronto board emphasized the importance of their opinions: "not only those of Toronto business interests but also represent the views of a major cross section of the business and professional interest of our Province." R.C. Hearings, December 3, 1963, p 5905.
52. R.C. Hearings, October 7, 1963, pp 3675-7; see also Financial Post, October 12, 1963, p 7. The Post summarized the basic contention of the Imperial Oil brief as follows: "First aim of Canadian tax policy should be to encourage people and firms to accumulate capital and invest it in productive ways." For this, lower taxes than those of competing nations were necessary. Through the extensive activity of its leading executives, Imperial Oil was at the vanguard of corporate policy formation during this period.
53. R.C. Briefs, January 11, 1964 and December 12 and 13, 1963 respectively. The critical role of these organizations as sources of sophisticated corporate analysis of taxation has been seen. The close functional and organizational links between the higher levels of these professions and the corporate sphere have also been discussed. Because of this and because the policy of these associations was so solidly within the parameters of prevailing business opinion, their activity in the hearings is discussed in this section.
54. January 1964, p 25.

55. Ibid, p 8. Such corporate sensitivity can be a key constraint on state economic policy; the need to retain business confidence in the overall investment climate and to promote political stability imposes important limitations on the state's freedom of operation.
56. R.C. Briefs, January 11, 1964. The submission was published in Canadian Tax Journal, January-February 1964, Supplement.
57. Ibid, p 8.
58. R.C. Briefs, January 6, 1964 and January 18, 1964.
59. R.C. Briefs, January 18, 1964 and December 3, 1963.
60. Canadian Chartered Accountant, November 1964, p 377 and R.C. Briefs, December 12 and 13, 1963.
61. R.C. Briefs, January 20, 1964. This argument contains a tacit recognition of the importance of inequality of condition. Reducing the top rates would increase investment because only the affluent strata have funds available for investment.
62. R.C. Briefs, August 15, 1963 and August 26, 1963.
63. Canadian Tax Journal, January-February 1964, Supplement, p 8ff.
64. It will be seen that the Royal Commission Report emphasized such issues. The Commission was concerned that the tax system be viewed as fair and just by the Canadian population. This, of course, is part of the larger process of legitimation, of ensuring popular acceptance of the overall political and economic system.

    Here again, the Canadian Tax Foundation can be seen as among the most sophisticated corporate analysts. Like other business organizations the Foundation considered progressive rates to be harmful. It argued that if income redistribution was the goal, then other mechanisms were more efficient; Ibid, p 12. However, it went beyond a simple condemnation of progressive income taxation to an understanding of the political constraints on any modification.
65. R.C. Briefs, December 12 and 13, 1963, January 11, 1964, January 18, 1964, January 8, 1964, January 13, 1964 and January 16, 1964 respectively.
66. R.C. Hearings, December 3, 1963, pp 5910-13. This line of questioning shows clearly that the Commission was seriously considering capital gains taxation. After a lengthy discussion of the technical and administrative problems that could be entailed, Carter concluded that "we will continue our search for an easy way of doing it!", Ibid, p 5927.
67. R.C. Hearings, December 2, 1963, p 5900. Carter expressed surprise at this strong opposition. It is not clear whether this statement implies that "labour unions and that kind of thing" are somehow less legitimate or reliable sources of policy opinion.
68. R.C. Briefs, January 6, 1964, January 18, 1964, December 12 and 13, 1963, January 11, 1964, January 20, 1964 and October 31, 1963 respectively.
69. Cf. the submission of the Canadian Institute of Chartered Accountants, R.C. Hearings, December 12 and 13, 1963; see also Canadian Chartered Accountant, January 1964, p 11.

70. R.C. Hearings, December 3, 1963, p 6017. While insisting that such occurences were common, the Board could not provide specific examples at that time. Earlier, the Trust Companies Association had been asked during their appearance to supply the Commission with concrete data on the harmful effects of estate taxation.
71. It will be seen that estate taxes were also a concern of organizations as varied as universities and charitable institutions, and farmers and women's groups.
72. R.C., Briefs, December 12 and 13, 1963.
73. R.C., Briefs, January 18, 1964.
74. R.C., Briefs, October 29, 1963 and January 8, 1964 respectively. As noted above, in the period before the Carter Commission corporate demands for tax reductions had remained at a fairly general level. However, as preparation for the hearings got underway and as taxation became more widely discussed within business circles, more coherent and comprehensive policy was developed and demands became more specific. In this case, pleas for corporate tax cuts became demands for reduction of the basic rate to 40 or 45%.
75. R.C., Briefs, December 12 and 13, 1963 and January 11, 1964 respectively.
76. R.C., Briefs, January 20, 1964.
77. R.C., Briefs, December 12 and 13, 1963 and January 23, 1964 respectively.
78. R.C., Briefs, January 6, 1964.
79. R.C., Briefs, January 6, 1964, December 3, 1963 and November 8, 1963 respectively.
80. Cf. the submission of the Canadian Bar Association; R.C., Briefs, January 11, 1964.
81. R.C., Briefs, December 12 and 13, 1963 and January 11, 1964 respectively.
82. R.C., Hearings, December 5, 1963 p. 6264.
83. Cf. the submissions of the Canadian Petroleum Association and the Canadian Metal Mining Association; R.C., Briefs, January 22, 1964 and December 2, 1963 respectively; and the testimony of W. O. Twaits of Imperial Oil Ltd,; R.C., Hearings, October 7, 1963, p 3769ff.
84. R.C., Hearings, December 5, 1963, p 6264. This statement indicates that the goal of these "keen" corporate minds is to avoid the payment of taxation.
85. Canadian Chartered Accountant, December 1964, p 441.
86. R.C., Briefs, August 15, 1963.
87. Canadian Chartered Accountant, December 1964, p 441.
88. It was never well documented that such institutions were a major competitive threat to the private sector. It could be speculated that the basis of business resentment was primarily ideological.
89. R.C., Briefs, January 20, 1964.
90. R.C., Hearings, October 7, 1963; the testimony of the Imperial Oil delegation provides a particularly detailed explanation of corporate opposition to co-ops.

91. R.C., Briefs, October 11, 1963 and January 23, 1964, when it returned specifically to refute the presentations of the co-operatives and credit unions. See also Financial Post, October 19, 1963, pp 31-2.
92. R.C., Briefs, December 4, 1963, October 28, 1963 and August 20, 1963 respectively.
93. R.C., Briefs, January 18, 1964.
94. Canadian Chartered Accountant, December 1964, p 441.
95. R.C., Briefs, January 18. 1964.
96. R.C., Briefs, October 29, 1963 and November 14, 1963 respectively.
97. R.C., Briefs, November 1, 1963.
98. From a large literature on the political economy of the energy industry see James Laxer, Canada's Energy Crisis, Toronto, James Lewis & Samuel, 1974.
99. See James Laxer, "Always look to Imperial for the best: Imperial Oil and Canadian energy policy," in James Laxer & Anne Martin,(eds), The Big Tough Expensive Job. Imperial Oil and the Canadian Economy, Erin, Press Porcepic, 1976, pp 19-39.
100. R.C., Briefs, October 7, 1963.
101. As described by the Privy Council Office; Ronald S. Ritchie, An Institute for Research on Public Policy, Ottawa, Information Canada, 1971, Foreword, p III.
102. Ibid.
103. Ritchie was later active in the highest levels of the Progressive Conservative party; Financial Post, September 27, 1975, p 5. See also his articles defending the "competitive enterprise system" and discussing public policy affecting petroleum development in K. J. Rea & J. T. McLeod (eds), Business and Government in Canada, Toronto, Methuen, 1976, Ch 7 & 21, for Ritchie's leading role as a spokesman on key policy issues.
104. R.C., Hearings, October 7, 1963, p 3674. These remarks were typical of the reception accorded to groups appearing before the Commission. They indicate the attentiveness and seriousness with which the briefs and testimony were received by the Commission.
105. R.C., Briefs, October 7, 1963.
106. R.C., Briefs, November 8, 1963.
107. R.C., Briefs, January 22, 1964. See G. R. Berry,"The Oil Lobby and the Energy Crisis," in Rea & McLeod, op.cit., pp 292-321, on the C.P.A. and the Independent Petroleum Association of Canada to be discussed next, and the tremendous political influence of these organizations. The Edmonton Chamber of Commerce, as with other regional business organizations, echoed majority corporate opinion on the problems of the tax system. More specifically, it supported the policy of the oil and gas industry and called for imporved depletion allowances to encourage exploration; R.C., Briefs, August 19, 1963.
108. R.C., Hearings, January 22, 1964, p 5903.
109. Ibid. This had long been a persistent demand of the petroleum industry; cf. Keith Fowler, "Gas Production Depletion," Canadian Tax Journal, July-August 1962, p 278: "We have heard a great deal during the past few years about the inadequacy of the present depletion allowance in so far as the oil and gas industry is concerned." Fowler was also with Imperial Oil.

110. R.C., Hearings, December 5, 1963, p 6125ff. Like the I.P.A.C., most groups prefaced their testimony be explaining the membership, goals and overall nature of their organization, and by stressing the importance of their industry for the wider national interest.
111. Ibid, p 6130. These "jobs" would largely involve the representation of the industry's interests within the political sphere. Beyond these political links, the independent producers of the I.P.A.C. were economically dependent on the major corporations that dominated the entire industry.
112. Ibid, pp 6252-3.
113. Ibid, p 6248.
114. Ibid, p 6262-3. This implies a clear warning to business that regardless of the economic importance of the major corporations and associations their demands will not automatically be met.
115. R.C., Hearings, December 2, 1963.
116. See John Porter, op.cit., p 430 on Bennett as one of the "men whose careers were interwoven with big business and public service in and around the Howe empire."
117. R.C., Hearings, December 2, 1963; also summarized in Financial Post, December 7, 1963, p 37.
118. R.C., Hearings, December 2, 1963, p 5799ff.
119. R.C., Briefs, April 29, 1963, January 16, 1964 and May 16, 1963 respectively.
120. R.C., Briefs, January 17, 1964; submission of the Canadian Construction Association.
121. R.C., Briefs, January 13, 1964 and January 16, 1964 respectively.
122. R.C., Briefs, January 21, 1964.
123. R.C., Briefs, October 28, 1963.
124. R.C., Briefs, January 6, 1964.
125. R.C., Briefs, January 13, 1964.
126. R.C., Briefs, December 5, 1963. Note that the I.P.A.C. represents medium-sized Canadian corporations in an industry dominated by foreign capital.
127. R.C., Briefs, January 18, 1964, January 22, 1964, and December 2, 1963 respectively. The latter two organizations represent sectors dominated by powerful foreign-owned corporations.
128. R.C., Briefs, both January 13, 1964.
129. R.C., Briefs, January 23, 1964.
130. This reflects the general commitment of the capitalist class during this period to significant levels of foreign ownership in the Canadian economy; see Phillip Resnick, The Land of Cain. Class and Nationalism in English Canada 1945-1975, Vancouver, New Star Books, 1977.
131. Providing a sufficient flow of revenue from the new tax system was part of the terms of reference of the Royal Commission. On these points briefs reflected an important advance in the sophistication of business policy demands. Previous commentary on taxation had generally not focused on such wider aspects of the fiscal system.

132. R.C., Briefs, April 17, 1963.
133. R.C., Briefs, December 4, 1963.
134. R.C., Briefs, January 20, 1964.
135. Cf the briefs of the Canadian Manufacturers' Association, Canadian Chamber of Commerce and Canadian Export Association; R.C., Briefs, January 6, 1964, January 18, 1964 and October 29, 1963 respectively.
136. Canadian Chartered Accountant, November 1964, p 377.
137. R.C., Briefs, January 6, 1964.
138. R.C., Briefs, January 8, 1964; they argue that sales taxation is regressive, an issue normally ignored by business. It is interesting that a major corporate association only discussed the inequality of the tax system when such a concern coincided with its own material interests.
139. R.C., Briefs, January 15, 1964.
140. R.C., Briefs, January 21, 1964. The use of the more neutral rationale of technical and administrative simplicity rather than that of material interests was common in corporate demands.
141. The position and role of managers in corporate hierarchies and the overall class structure and their relationship to economic power and the capitalist class have been discussed in an earlier chapter.
142. R.C., Briefs, January 23, 1964.
143. R.C., Briefs, January 14, 1964.
144. Financial Post, January 18, 1964, p 18.
145. Ibid.
146. Financial Post, October 19, 1963, p 57.
147. R.C., Briefs, April 24, 1963, p 5. The submission was entitled "The Case for Eliminating the Corporation Income Tax." As noted in the last chapter, Mr. Capon had been promoting his scheme for tax reform at business meetings and conferences for some time.
148. Ibid, p 5.
149. June 1963, p 42. This issue of Canadian Business highlighted two views of taxation. The other was put forth by leading tax lawyer H. H. Stikeman, Q.C., on "Why can't we have proportional income tax"; Ibid, pp 52-6.
150. Ibid, p 42.
151. Macleans, December 2, 1963, p 2.
152. Ibid, p 3.
153. See Terrence Johnson, Professions and Power, London, Macmillan, 1972. The position of these various social and occupational groups in the class structure and the problems of such categorization have been discussed in Ch 2.
154. R.C., Briefs, May 3, 1963, May 13, 1963 and October 10, 1963 respectively. In this demand the medical professions were supported by the organization of drug manufacturers, the Canadian Pharmaceutical Association, who also called for increased deductions for continuing education; May 2, 1963.
155. L'Association des Medicins de Langue Francais du Canada; R.C., Briefs, June 7, 1963.

156. Johnson, 1972, op.cit., classes employed professionals as mediative. For a more general discussion of the professional and managerial strata see Pat Walker (ed), Between Labour and Capital Montreal, Black Rose, 1978.
157. R.C., Briefs, April 26, 1963.
158. R.C., Briefs, January 14, 1964.
159. R.C., Briefs, December 6, 1963.
160. R.C., Briefs, May 27, 1963. This demand reflects the specific situation of state administrative personnel: fairly well paid, able to amass personal savings, but not owners of great wealth.
161. R.C., Briefs, January 20, 1964.
162. The complexities of these intermediate and contradictory class locations have been discussed in Ch 2.
163. The proposition that professional organizations are most politically influential on issues directly involving their recognized interests and sphere of activity is supported by the general literature on pressure groups; cf. A. Paul Pross (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975.
164. See Walker, op.cit.. For this reason they have often loosely been termed new middle class. These issues were examined in Ch 2.
165. See Rein Peterson, Small Business. Building a Balanced Economy, Erin, Porcepic, 1977.
166. It will be seen that the subsequent debates on tax reform stimulated the increasing political organization of small business; Ibid, p 133.
167. See Don Mitchell, The Politics of Food, Toronto, James Lorimer, 1975, Ch 2-3.
168. R.C., Briefs, December 9, 1963.
169. R.C., Briefs, January 15, 1964.
170. R.C., Briefs, October 3, 1963. The co-operatives were supported by the submission of the United Church of Canada; October 28, 1963.
171. R.C., Briefs, November 12, 1963.
172. R.C., Hearings, January 10, 1964, p 7348. In its submission the Canadian Labour Congress reiterated its claim to be the preeminent representative of labour.
173. This contention was explicitly expressed in terms of the interests of lower income earners by Mr. Bell of the C.L.C.: "I am not at all concerned about what they do at the top marginal rates, unless, of course, top marginal rates - any reduction of them resulted in any increase in the tax burden of the lower income rates." Ibid, p 7389.
174. Ibid, p 7349.
175. R.C., Briefs, November 13, 1963. The Association argued that it represented the public interest rather than the narrower interests of most briefs.
176. R.C., Briefs, December 6, 1963.
177. R.C., Briefs, October 15, 1963 and November 7, 1963 respectively.
178. Cf. Porter, op.cit.
179. R.C., Briefs, April 26, 1963.
180. Historically, the availability of domestic servants has been a long standing problem for advantaged women and was an early concern of the National Countil of Women; see Janice Acton et al (eds), Women at Work Ontario, 1850-1930, Toronto, Canadian Women's Educational Press, 1974. To the extent that the N.C.W. tended to represent women of the more advantaged strata and given the limited membership

of women in unions during this period, this meant that working class women were very poorly represented before the Commission.

181. R.C., Briefs, November 28, 1963.
182. R.C., Briefs, November 26, 1963
183. A listing of all organizations that made submissions is contained in R.C., Report, Vol 1, Appendix A.
184. Pierre Fournier, The Quebec Establishment. The Ruling Class and the State, Montreal, Black Rose Books, 1976, Ch 4.
185. Ibid., p 51.
186. See Terrence Johnson, op.cit., and Ch 2 above.
187. These were the Canadian Owners and Pilots Association, the School of Economic Science Alumni Group and the Canadian Federation of Property Owners Association with the Ontario and Toronto chapters of this body.
188. There is no assumption here that the various organizations precisely corresponded to underlying class groupings, saw their role in purely class terms or were perfectly conscious of their class interests. Nevertheless, their functions and policy can be closely related to the specific classes and social groups that form their constituency.
189. This figure could be higher if groups classified in the expert or technical category in Table 6-1 and who shared key elements of overall business policy were also included.
190. It must be remembered that these affluent strata constituted no more than one-fifth of the population.
191. The limited nature of this representation must be recognized; in 1965 29,7% of non-agricultural paid workers were union members, Robert Laxer, Canada's Unions, Toronto, James Lorimer, 1976, p 37.
192. R.C., Hearings, December 5, 1963, p 6122.
193. R.C., Briefs, December 12 and 13, 1963; also summarized and discussed in Canadian Chartered Accountant, January 1964.
194. Ibid., p 25.
195. Canadian Chartered Accountant, September 1964, p 159.
196. Canadian Chartered Accountant, January 1964.
197. Ibid., p 25.
198. Ibid., p 26.
199. Ibid., p 25.
200. R.C., Hearings, December 10, 1963, p 6484.
201. Ibid., p 6486. Shortly after this appearance, Mr. Michener was appointed chairman of the Manitoba Royal Commission on Taxation.
202. Cf. Wallace Clement, The Canadian Corporate Elite, Toronto, McClelland & Stewart, 1975.
203. For discussions of the immense scope of the Royal Commission study and its prolonged delays see Canadian Chartered Accountant, November 1964, pp 337-79 and Financial Post, June 18, 1966, p 17.

Chapter 7 The Royal Commission: Blueprint for Progressive Reform

The deliberations of the Royal Commission did not take place in isolation. Nor did controversy and debate over the tax system cease with the completion of its public hearings in early 1964. The first section of this chapter focuses on two closely interrelated issues: firstly, the pervasive business pressure for tax reductions and reform which continued unabated throughout the life of the Royal Commission and secondly, the more general context of evolving state policy, political currents and developments, and structural trends in the state and economy within which the deliberations on taxation took place. The discussion will begin with the latter general trends and then move on to the specific debates on tax reform. This first stage in the tax reform process came to an end with the publication of the Carter Report in early 1967. The second section examines the sweeping recommendations of the Commission and their implications for key class and social interests. The concluding section surveys the prospects for reform following the Royal Commission proposals.

I. Context for Commission Deliberations and Continuing Corporate Pressure, 1964-1967.

Political Context

The Liberal government which had come to power in April 1963 was at first warmly welcomed by the business community. There was hope of a return to the close business-government relations and pro-corporate Liberal policy of the C.D. Howe era. However business leaders quickly became

disillusioned with the social and economic policy of the new administration. This dissatisfaction came to be centred upon Minister of Finance Walter Gordon and the more interventionist thrust of policy changes with which he had been identified.[1] Corporate opposition became particularly heated over the provisions to encourage Canadian ownership in the 1963 budget. Intense direct pressure on the state and the withdrawal of financial support from the Liberal Party eventually resulted in the removal of Gordon from the critical Finance portfolio and the speedy repudiation of his most controversial economic policies.[2] This conflict was a stark illustration of the ability of capital to force major changes in state policy to which they were opposed and was an ominous sign for a government contemplating major changes in the tax system. The possibility of business opposition to certain types of tax reforms was explicitly raised by the Vancouver Board of Trade in its brief to the Royal Commission. It noted that the government must have the support of business to make major tax changes if an uproar such as that over the 1963 budget was to be avoided.[3]

The early and mid 1960's was a period of continuing development of the structure and functions of the state. Both the Conservative and subsequent Liberal administrations had been proceeding with the implementation of the Glassco Royal Commission recommendations on the overall rationalization of government organization.[4] State policy and intervention became increasingly important in shaping the direction of economic activity. The Department of Industry was created in 1963 specifically to represent manufacturing interests within the cabinet and to facilitate

the restructuring of Canadian industry.[5] Similarly, the Economic Council of Canada was established in 1963 as a forum for business-government coordination and the formulation of long-term economic policy.[6]

Leading corporate spokesmen recognized the significance of state intervention to a healthy economy, but stressed the limits within which it must operate at the 1963 meetings of the Canadian Manufacturers'Association, for example, W. E. McLaughlin, head of the Royal Bank, noted the emergence to respectability of economic planning. He emphasized, however, that while the state should provide a favourable environment for corporate activity, it must not limit private decision making. McLaughlin went on to list areas where planning could be useful and called once again for "the removal of dis-incentives from our tax structure."[7] Robert Winters, former federal politician, then president of Rio Tinto Mining and soon to re-enter the Liberal cabinet, also spoke on the general role of the state in the economy: "It has always been my view that the role of governments in a private enterprise society is to create a favourable economic climate in which industry and commerce can flourish without undue interference." Winters stressed a highly significant point: reforms, which a few years earlier would have been considered "unrealistic socialism, had in fact strengthened the capitalist system."[8] However, there was also significant apprehension within business circles over the growth of state economic activity and intervention.

The Liberal government during this period was elaborating a close connection between its economic priorities and a social policy explicitly committed to redistribution. Economic policy was geared to promoting

growth and full employment as preconditions for redistribution of income.[9] In a January 1966 speech to the Canadian Club in Toronto, Minister of Finance Mitchell Sharp outlined the wider role of the government in obtaining not simply economic objectives, but also greater social opportunities.[10] The development of state welfare programmes and an official ideology committed to greater equality of opportunity and the reduction of poverty were crucial features of the overall context in which tax reform was debated. In fiscal terms, Sharp stressed that the government would require greater revenue in order to abolish poverty. In political terms, Sharp stated that tax reform must be guided by considerations of equity as well as efficiency.[11] A further complicating feature of the politics of the time was the government's minority status; it was dependent in parliament upon the support of the New Democratic Party who favoured much more progressive policy.

The expansion of economic intervention and social welfare had resulted in steadily rising levels of state expenditure. The need for growing sources of revenue to cover this increased spending was a crucial constraint on the possibilities of significant tax reductions. In addition, the mid 1960's was a period of high inflation and there was widespread concern about the size of government deficits as a major contributing factor. There was continuing business pressure on the government not to allow expenditure to rise faster than revenue to create even larger deficits or place heavier pressure on revenue levels. A. J. Little, president of the Canadian Chamber of Commerce, echoed a common corporate belief when he argued that the cost of the expanded welfare state was the basis of damagingly onerous levels of taxation.[12]

In summary, the mid-1960's was a period of strained relations between the business community and the federal government over the direction and scope of state economic intervention and particularly over the growth of social welfare programmes. The prevailing atmosphere within business during the early stages of the reformulation of tax policy was one of apprehension and hostility. Unhappiness with the tax system was one part of this general unease.

Continuing Corporate Pressure

Throughout the entire period that the Carter Commission was at work, business continued to press its views on necessary tax changes. Major corporate organizations continued to make frequent representations to the government on economic policy. In 1964, Walter Gordon noted the extensive business input on taxation and budgetary policy: "Suggestions, recommendations and even briefs have been flowing in to the Department of Finance since last June covering almost every conceivable subject", Gordon further stressed the significance of such advise:

> In discussing general tax policy, the Minister of Finance indicated that the preparation of the Budget had benefited greatly from briefs and letters received. He stated that the government has welcomed such assistance and that he looks forward to improving the departmental arrangements for receiving and discussing suggestions and comments on this perennial and difficult subject.[13]

The Canadian Tax Foundation had become an important focal point for corporate input to the state. The Foundation asked its members to send their comments on tax features of the budget to both itself and the Minister of Finance. The Foundation then summarized this opinion and passed it on to the government for consideration before the finalized budget was enacted. This input had been particularly extensive during 1966.[14]

Familiar themes were reiterated in routine corporate submissions to the government. The 1965 annual pre-budget brief of the Canadian Chamber of Commerce, for example, argued that government expenditure be held down and that priority be given to the reduction of personal and corporate income taxes.[15] The Financial Post continued to complain of "punitive and confiscatory tax rates" that punished successful enterprises and energetic individuals.[16] Large numbers of speeches, conferences and meetings within the business community repeated demands that had been formally presented to the Carter Commission.[17] For example, a range of participants at the 1963 annual meeting of the Canadian Manufacturers' Association and the 1964 conference of the Canadian Chamber of Commerce argued that high taxation was seriously retarding economic growth, personal and corporate income tax rates should be reduced, indirect taxes should be relied upon more, capital gains should not be taxed and the double taxation of corporate surplus must be eliminated.[18] A key threat of corporate pressure was that "today's viciously progressive personal income taxes punish success, hard work and the creation of job-creating enterprises."[19]

Corporate pressure also began to be increasingly expressed in a number of specific forms. In the fall of 1964, the federal government was expected to have a budget surplus. Because continual deficits had been a key constraint on the reform of state finance, business urged the government to take this opportunity to reduce taxation.[20] At about the same time business was arguing that recent tax cuts in the United States had been highly successful in stimulating the American economy[21] and that Canadian rates could not be higher or there would be a drain of capital

and labour.[22] The business community was greatly disappointed that there were no significant tax cuts in the 1965 budget: "Although the widespread demand for tax cuts and the startling reduction in the federal deficit led many to believe that a reduction in corporate tax rates would be forthcoming, the Minister chose not to grant any general relief at this point."[23] The president of the Canadian Manufacturers' Association also expressed disappointment with the budget: the C.M.A. had hoped for cuts in corporate taxation and "we were encouraged to believe beforehand that Ottawa was at least able and willing to do something for the overtaxed producer."[24] Finance Minister Walter Gordon, while admitting the strength of the C.M.A. case, stated that government policy was to avoid major tax changes until the completion of the Royal Commission's report.

The Canadian Manufacturers' Association had been waging a strenuous campaign against the sales tax on production machinery since it was introduced in 1963. This pressure was intensified through 1965 and 1966: "On every possible occasion throughout the year, the Association actively pressed to have the sales tax on production machinery and apparatus repealed by the government. In addition to direct representations to the Government and articles published in 'Industry', there was forceful comment by the President in the many speeches he made across Canada."[25] The president of the C.M.A. argued that "a clear obligation rests on industrialists to speak up against this tax, and sharply."[26] The vice-president and general manager of the Association referred to the numerous submissions made to the various levels of government on this and other issues of taxation: "Whenever necessary, these submissions were followed up by personal interviews with the authorities concerned."[27]

In addition to this specific pressure the C.M.A. continued to urge immediate rax reductions. Its president emphasized: "the Association, we may be sure, will certainly not relax its efforts to achieve this goal."[28] This demand for tax cuts remained the predominant element of the unrelenting corporate pressure on the state. Prevailing corporate opinion was well expressed by Allan T. Lambert, president of the Toronto-Dominion Bank, who called for tax cuts to stimulate the economy in his address to the corporation's annual meeting in December 1964.[29] He emphasized that "our present tax rates weigh most heavily on business and personal incentives." The need for tax reductions was too pressing to wait for the completion of the Royal Commission. The Commission was concerned with the efficient and equitable operation of the overall system; while such general reforms could be accomplished later, the tax burden must be lowered immediately.

More Sophisticated Business Commentary

While majority business opinion during the period that the Royal Commission was underway emphasized the need for substantial and immediate tax reductions, there were also more sophisticated and comprehensive currents of analysis within the corporate sector. As in earlier stages, a leading role in this area was played by the business-associated legal and accounting professions and by a range of tax experts and specialists. It was recognized, for example, that tax reform would be highly complex and business was cautioned not to expect simple acceptance of their demands. W. R. Koerner, a tax advisor with Shell Investments Ltd., commented on the widespread arguments that the tax structure must be simplified. He empha-

sized that the underlying economic structure was itself complex and that this limited the possibility of simplification.[30] A Canadian Tax Journal article noted that tax policy must reconcile conflicting objectives of economic growth (upon which the bulk of corporate discussions has been focused), stabilization and the redistribution of income.[31] It was widely perceived that political and ideological commitment to progressive personal income taxation would make the implementation of business demands for lower top marginal rates and less graduation very difficult.[32]

More sophisticated discussions also noted that the pervasive business demands for tax changes were often not distinguished by their empirical support or analytical quality.[33] Professor John Due, an academic tax specialist, challenged a central theme of prevailing business opinion: that high taxation, especially income taxes, to pay for prolifigate welfare programmes was the root of all economic problems. He noted: "It's a cliche that almost all businessmen seem to believe and almost none ever tire of repeating."[34] Due singled out the Financial Post, the most important journal of Canadian business, which "has such an unquestioning adherence to this dogma that expressions like 'present punitive tax rate' and 'Canada's bruised and battered taxpayers' now seem to be second nature to both its reporters and editorial writers."[35] He criticized the basis of the strenuous business campaign for tax cuts; available data indicated that the general level and structure of taxation in Canada was not markedly different than those of other capitalist countries. Notwithstanding this lack of evidence: "But regardless of international

comparisons, businessmen and their publications insist that our income taxes weaken the incentive to expand business and dry up the funds that make expansion possible."[36]

Key elements of conventional corporate arguments on the harmful nature of the existing system were supported by a major study of taxation. In 1963, the Canadian Trade Committee of the Private Planning Association of Canada financed and published Tax Aspects of Canada's International Competitive Position by Ronald Robertson, executive director of the Canadian Tax Foundation;[37] through its committees and policy analysis the Association was a crucial and sophisticated forum for the elaboration of corporate policy on pressing issues of the Canadian political economy. The Canadian Trade Committee described itself as:

> established in 1961 to study Canadian trade problems and policies. Its membership comprises approximately 50 business, labour, agricultural and professional leaders who are broadly representative of different regions of the country and different sectors of the economy. The Committee is sponsored by the Private Planning Association of Canada - a private, non-profit research company established in 1958 to undertake objective studies on issues of national importance[38]

The Committee sponsored a "series of objective and comprehensive studies" and issued policy statements on vital aspects of the economy: "The primary objective will be to create wider public understanding of these problems in their proper perspective, and to develop appropriate conclusions in Canada's national interest."[39] The Committee's deliberations were highly influential within state policy circles.[40]

The general orientation of these attempts to aid "public understanding" was solidly corporate. "The Committee's work is financed from

funds contributed from private sources in Canada"[41] and the majority of its members were from the corporate sector. Members of the Committee endorsing the publication of the Robertson study included five prominent labour leaders, four academics, four agricultural representatives and twenty-seven businessmen, including top executives of the Toronto-Dominion Bank, Dominion Textile Ltd., MacMillan, Bloedell and Powell River Ltd., Alcan, Inco, Hudson's Bay Co., Asbestos Corporation Ltd., Ford Motor Co., Imperial Oil Ltd., and the Canadian Pulp and Paper Association.[42] The composition of such bodies also reflects the close links between the political and corporate worlds: Jean Marchand, president of the Confederation of National Trade Unions in Quebec, was later to be a federal cabinet minister; Hon. James Sinclair, a former federal minister, was president of Lafarge Cement of North America Ltd.; Jr. R. Murray, of the Hudson's Bay Co., was over a decade later to be the first head of the Foreign Investment Review Agency; Donald Gordon, chairman of Canadian National Railways, later held important corporate positions in the private sector; Allan T. Lambert, president of the Toronto-Dominion Bank, headed enquiries into the administration and organization of the federal government during the 1970's; and Dr. A. K. Eaton, fiscal consultant, and Professor John J. Deutsch, vice-principal of Queen's University, had both been much involved in the formulation of state economic policy.

The Canadian Trade Committee noted that: "there have recently been many expressions of concern in Canada regarding the impact of the tax system on the health of the economy."[43] The purpose of their study was to provide a detailed analysis of "the impact of taxation upon the

international competitive position of Canadian industry" and "...we believe that it makes an important contribution towards better understanding of some of the complex issues involved in this question."[44]

Robertson noted that "concern expressed in recent months about the level and structure of taxation in Canada resulted in the appointment of a Royal Commission on Taxation by the federal government in September, 1962."[45] His study, begun before the announcement of the Carter Commission, did not attempt to prejudge issues before that enquiry. Robertson's specific focus was on the Canadian tax system in comparison to those of other advanced countries. His basic conclusion was that "the overall burden is not out of line with that in other countries, and the contention that the Canadian tax structure is a major factor adversely affecting the international competitive position of Canadian industry would appear to be an exaggeration."[46]

Like many other professional commentators, Roberston urged business to adopt a flexible and reasoned approach to the reform of tax policy. He noted, for example, the growing uncertainty about the real value of complicated tax systems: "This is an area where Canadian businessmen can be of great assistance to the Royal Commission on Taxation by defining more precisely what they have in mind when they refer to the need for tax incentives over and above those already available."[47] More generally, Robertson appealed to business to temper their attack on the tax system: "in criticism of the Canadian tax situation, care should be taken to ensure that suggestions for needed improvement, adjustments and streamlining are not blown up into wholesale condemnation of our tax

system and the erroneous conclusion that if our system needs improvement, then the systems our competitors suffer under must be better."[48] He also warned against an overly optimistic attitude towards the Royal Commission: "From the Carter Commission great things are expected, but optimistic hopes that spectacular and final solutions can be found should be kept in check. The tax system, like all other public policy, will continue to reflect compromises between various social objectives, each for the most part legitimate, though not for that reason easily harmonized with the others."[49]

These differences within the business community must not be minimized. They were not simply a question of style or presentation, but did involve important differences in substance, in evaluation of the needs of capital accumulation and economic growth and in perspective on the best course of tax reform. But the limits within which these divisions existed must also be emphasized. While the more sophisticated discussions of tax reform were often critical of the cruder facets of business pressure, they were in fundamental agreement with the basic corporate drive for tax reductions and rationalization. For example, by the summer of 1965, it was rumoured that the Commission would recommend a "considerably different approach to corporate taxation."[50] The Canadian Tax Journal hoped that this restructuring would incorporate proposals put forth by the corporate sector: "Hopefully, this is what will happen if the Carter Commission confirms the widespread belief that long run productivity and growth will be fostered by lightening the load on the business sector of the economy."[51] The Canadian Chartered Accountant hoped that the enormous business and professional effort expended in the deli-

berations on tax reform would be rewarded: "The taxpaying public and, more particularly, tax practitioners have devoted a truly astronomical amount of time in the last few years in an attempt to make the Canadian tax system one of the best."[52] It stressed that there would be great disappointment, and also less future involvement in tax policy, if these efforts were seen to have little influence. By demonstrating and encouraging a more reasoned and comprehensive approach within the general business community, such tax experts and professionals served to strengthen the overall corporate campaign for tax reform.[53]

Anticipation of the Carter Commission

As well as the familiar demands and themes outlined above, throughout 1966 there began to appear discussions which anticipated the completion of the Royal Commission. It seemed that finally, after prolonged delays, the Commission's Report really was imminent.[54] Numerous business articles and speeches speculated on the direction of Royal Commission recommendations, examined the implications of possible tax changes and considered the way in which the corporate sector should organize its reaction to the Commission's findings and proposals.

Of central importance during this period was a Financial Post series of articles by W. A. Macdonald, a Toronto lawyer, designed to "set the stage for the long-awaited report of the Carter Royal Commission on Taxation by defining some of the issues and outlining some of the factors which will affect the federal government's decisions in implementing the report."[55] The first of the Macdonald series appeared in February 1966 and argued that "Canada's major business and industry groups should now

be planning the way in which they will organize their response" to the Report.[56] It was expected that the implementation of the Commission's recommendations would be protracted. To speed this process, officials in the Department of Finance were studying draft chapters of the Report as available. Not having this advantage of advance knowledge, business would have to anticipate the basic thrust of the Royal Commission conclusions. Among factors that business representations on the final Report would need to take into account were the following: the political and economic climate within which taxation decisions are made, the fact that tax policy is not shaped solely by technical and economic considerations, federal-provincial fiscal relations, and above all else, the need for well reasoned and solidly supported input from business; "the psychological satisfaction of ideological rhetoric must give way to the much more mundane aspirations of facts, figures and modest claims."[57]

A similar plea for sophisticated business participation in the state policy process was earlier made by C. B. McCutcheon, former Conservative cabinet minister and a powerful director of many leading corporations.[58] Noting the ability of corporate pressure to force government retreat on key issues such as limitations on foreign ownership, he urged business to look beyond their immediate or specific interests to the long-term health of the economy as a whole. Senator McCutcheon argued that business must not automatically oppose any change, as was the case with the introduction of government pension and old age security programmes; or offer only simplistic or short-term policy demands, as was the case with taxation. He saw categorical calls for tax reduc-

tions at the same time that various incentives and special provisions ensured that some sectors actually paid very low rates as prime examples of short-term thinking.

The Macdonald Financial Post column outlined the "hard facts" that must be faced if a better tax system was to be developed: increasing tax revenue, the growing burden on wage and salary earners, the effect of taxation on saving, and the possible shift in the incidence of taxation from investment and production to consumption.[59] He hoped that the Royal Commission would clearly state its policy objectives and their relation to wider social and economic goals. The material reviewed here and the continuing efforts of the Canadian Tax Foundation, professional associations, tax experts, and informed corporate opinion sought to encourage a more reasoned and sophisticated perspective on tax reform among the majority of businessmen. On the assumption that such an approach would be more influential in subsequent deliberations, this commentary was an important part of the organization andmobilization of business response to the Royal Commission.

A further interesting feature of the Financial Post series setting the stage for the Commission is that it provides a good summary of then current business concerns and demands, especially as they appear in a journal that led the corporate campaign for tax reform. The April 1966 Macdonald column questioned the basic fairness of corporate taxation, arguing that it harmed the most efficient enterprises. A key question was where theburden of corporation taxes finally fell. It was stressed that the Carter Commission must deal with such problems and

link tax changes to overall economic policy.[60] Similarly, the Commission must explore the effectiveness of tax incentives, which Macdonald felt had stimulated production and expansion.[61] He worried about disturbing indications that the Commission would retain income as the primary tax base. Further, he fervently hoped that ideological commitment to progressiveness would not limit tax reform: "Changes in our tax system undoubtedly are desirable. But in making them we must be wary of relying on the glib presumptions enshrined in such mythologies as 'ability to pay', income taxes as the finest and most efficient of taxes, 'neutral' tax systems and 'erosion of the tax base'."[62] A June column queried: "will income taxes continue to be a Canadian skill crippler?" Macdonald reemphasized the pervasive corporate opposition to progressive rates of personal income tax: this structure retarded productivity by not rewarding top performers, created difficulties in attracting top managers, limited competition by taxing the most productive and reduced the incentive for higher returns.[63]

Increasing Speculation on the Carter Report

As well as reiterating prevailing policy demands, corporate discussions during this period speculated on the direction of Royal Commission reform proposals. One much debated possibility was that its recommendations would include the taxation of capital gains. The regular Tax Review column of the Canadian Chartered Accountant predicted: "There is a reasonable possibility that the Carter Royal Commission will come out in favour of its introduction."[64] A number of political considerations made the taxation of capital gains likely: it would yield significant

revenue, it fell on a small group who could afford it and left the average taxpayer unaffected, and finally, it was supported by the unions.[65] A further reason why a capital gains tax was seen as probable was its recommendation by the Quebec Royal Commission on Taxation.[66] Robert Bourassa, former adviser to the Quebec Royal Commission and then a member of the group within the federal bureaucracy studying the Carter Report, defended capital gains taxation in a 1966 speech on grounds of equity and progressiveness.[67]

Not unexpectedly, there was heated corporate opposition to the imposition of capital gains taxation.[68] A prime example of this hostility was an address by Jean P. W. Ostiguy, president of the Investment Dealers' Association. He strenuously argued that "in the face of an already heavy tax burden", further taxation of capital gains was impossible.[69] A Canadian Chamber of Commerce editorial noted that as expenditures continue to rise, the state must find new sources of revenue and that there had been some government discussion of a capital gains tax. The Chamber argued that this would hinder investment and initiative: "For a country like Canada where more domestic risk capital must be put to work if the nation is to realize its growth potential, a capital gains tax is the wrong medicine."[70]

Corporate speculation on the content of the Carter Report was becoming even more specific. In August 1966 the Macdonald Financial Post series predicted that the Royal Commission would rely at least as heavily, if not more so, on income as the basis for personal and corporate taxation.[71] The key problem had been that high personal and corporate rates

had led to tremendous efforts to reduce the base on which these rates applied. The result had been the growth of a complicated system of exemptions and deductions. Carter was expected to recommend lower rates, but a wider tax base through elimination of special exemptions. The goal would be to develop a comprehensive economic, rather than narrowly legal, concept of income that would include virtually all actual income and "to make taxes neutral in their effects on different types of economic activity."[72]

> The suspicion that this kind of thrust may be forthcoming is aroused by the firmness with which the minister of finance clung to the tough new stock option changes in this year's budget - and by the intended repeal of favourable tax concessions to the shipping industry.
>
> Their significance - at a time when the Department of Finance had a good portion of the Carter Report in its hands - is that each represents a move against tax base erosion."[73]

Although widening the tax base seemed a likely emphasis of the Report, it was by no means clear that the government would accept all of the Commission's recommendations: "More likely, the government will pick and choose, less on grounds of loyalty to the pure concept of an eroded tax base, but for a complex of political, economic, financial and administrative reasons."[74] Furthermore, wholly accepting the Commission's approach "would constitute a fundamental shift in government economic and social philosophy which is nowhere apparent today."[75]

Philip F. Vineberg, Q.C., a prominent corporate lawyer and chairman of the Canadian Tax Foundation, also predicted major changes that the Royal Commission would recommend.[76] He foresaw proposals for a wider tax base, more use of sales taxes, no discouragement of foreign investment,

taxation of capitals gains (although possibly with an internal difference of opinion), new treatment of corporate distributions, the use of the family as the basic tax unit and improved administration.

Immediate Context for the Commission Report

There was also a great deal of discussion of how the government should proceed when it finally received the Carter Report. In introducing the ninth Macdonald column, the Financial Post called for "deliberate and exceedingly careful changes flowing from the Carter Tax Report."[77] Macdonald stated: "The biggest danger accompanying the publication of the Carter Royal Commission on Taxation report is that the long delays may have built up irresistable pressures for fast government action."[78] There was growing concern that the government would quickly develop legislation based on the Carter proposals. Macdonald urged, and this certainly reflected wider corporate opinion, that given the crucial significance of taxation and of the Carter enquiry to economic policy, the pressures for speedy implementation must be resisted. The Royal Commission must simply be the first stage in a prolonged process of policy formation: "the Carter report can still not be anything more than a very important first look at the direction which an effective Canadian tax policy for the 1960s and 1970s should take."[79] Moreover:

> Only after a protracted appraisal by interested taxpayers and provincial governments can effective submissions be presented to the federal government. There must be informed public discussion before draft legislation can even seriously be considered. The availability of this time will be an essential test of the good faith of the federal government that it really wants genuine public discussion of fiscal issues."[80]

The demand for a protracted period of policy deliberation was supported by the Canadian Institute of Chartered Accountants and the Canadian Bar Association. In a joint submission to the federal cabinet they argued that if major tax changes were proposed, the procedures of 1948 should be adopted. A draft bill should be introduced, subjected to public scrutiny and criticism, and only then reworked into final legislation.[81] A year earlier the Canadian Tax Journal had also editorialized in favour of sufficient time to study and formulate responses to the Report.[82] Thus, there were widespread corporate demands for significant public participation in the analysis and implementation of the Royal Commission proposals for tax reform. In practice this meant the business community wanted the opportunity to mobilize and organize its response to the Report in order to attempt to shape the resulting legislation to its own policy and interests.

In the period just before the completion of the Carter Commission, in addition to the ongoing debates on the direction of reform, business and the federal government had clashed on a further specific aspect of tax policy. In the interests of greater overall equity, Finance Minister Sharp had included provisions in the 1966 budget that would significantly reduce the advantages of stock option plans for corporate executives. There was immediately great corporate opposition to these changes: "Sharp's office has received an unusually large number of complaints from businessmen."[83] A common defense of stock options was that "the budget's authors gave too little weight to considerations that these small rewards pay off where it counts - in increased efficiency and productivity in

Canadian industry."[84] It was anticipated that in the face of this pressure the government would soften the impact of the new regulations. This expectation was in line with Sharp's view that major revisions on the basis of public reaction to draft proposals would be a normal part of the budgetary process.[85]

In response to business complaints, the government announced that the new provisions would be retained, but that the treatment of stock option plans would be reviewed after the Carter Report was received and that the regulations would not be retroactive.[86] The Macdonald Financial Post column on the imminent Royal Commission commented that these slight changes would not restore the usefulness of stock options as a means of rewarding top managers.[87] He hoped that the Senate Committee on Banking and Commerce could persuade changes in these regulations, even if post-budget representations could not, and that the government would drop them after studying the Carter Report. Since the government did not wait for the Commission's completion and the Department of Finance already had draft chapters, Macdonald inferred that the stock option changes would not conflict with the emphasis of the Royal Commission. If these specific changes had been introduced with the Commission in mind, their most worrying aspect was that they had occured before possible public discussion. Macdonald emphasized that the public, clearly meaning organized business, must be able to take part in the formation of tax policy.[88] The conflict over stock options and the government's refusal to significantly retreat was unsettling to business as an indication of things to come when the Royal Commission was eventually published.

Government Preparation for the Royal Commission

The intense corporate pressure that was exerted throughout the life of the Carter enquiry did not go unnoticed by the government. Early in the deliberations of the Commission, major tax changes were under consideration within the government.[89] These included cuts in personal income taxation, popular with voters, and various changes to encourage investment. For the latter purpose, one possibility being discussed was to lower the basic rate of corporate taxation, but broaden the tax base by removing exemptions such as that for new mines.[90] The vital constraint on any tax cuts was the large size of state deficits. These deficits had been severely criticized by business and could not be allowed to grow further. For this reason, corporate tax reductions would have to be offset with increased revenue from other sources. Among options being discussed was greater reliance on sales and consumption taxes.[91] These possible reforms, however, were not enacted and corporate demands for immediate tax relief continued unabated. The government did not accede to this business pressure and throughout maintained that there would not be major tax changes until the Royal Commission had reported.

While resisting corporate appeals for immediate action, there was nevertheless significant government apprehension about the eventual reception of the Carter Commission. On December 31, 1964, Walter Gordon, then Minister of Finance, wrote a memo to Prime Minister Pearson calling for an early election. Gordon's basic argument was that in the government's minority situation they would have great difficulty in dealing with a number of central policy issues (he hoped for a clear majority in

a 1965 election). Preeminent among these issues was the Carter Commission: "This will pose some awkward and controversial questions."[92] On the timing of the election Gordon argued "I would prefer to go before, not after the Carter Commission report is published."[93] During this period, the government was also under pressure from its left. The New Democratic Party had been demanding progressive reforms along the lines of those proposed by the Canadian Labour Congress before the Carter Commission hearings. Party policy on taxation was outlined by Mr. Herridge in the House of Commons on May 20, 1966.[94] For the N.D.P., taxation was a vital component of state economic planning designed to "redistribute the national income on a fairer basis and help to regulate the pace of economic activity." Specifically, "a large part of the accumulated investment funds of private companies must flow into the public treasurey, there to be used to realize public economic objectives" by means of increasing corporate taxation, reducing "excessive depreciation and depletion allowances" and limiting business expense deductions. Further reforms would include capital gains taxation, higher estate taxes, "abolition of the special privileges which now go to the recipients of corporation dividends", removal of sales taxes on necessities and, more generally, "reduction in the tax burden of lower income groups."

The government fully accepted business demands for a comprehensive and protracted public discussion of the findings and recommendations of the Royal Commission before they were implemented. In a speech to the Canadian Club in Toronto in January 1966, Minister of Finance Mitchell Sharp promised that the government would not put forth proposals based

on the Carter Report until interested parties had time to study it and submit their views.[95] Even with further delays in the completion of the Commission, Sharp still promised ample time for public discussion and review. In May 1966 when the Commission was expected (again erroneously) within a month, the Financial Post noted: "It has certainly been Sharp's ambition to give all those interested ample time to study and comment on the report before any action is taken."[96] Finally, in October 1966, Sharp addressed the National Industrial Conference Board. He emphasized the importance of a favourable tax system: "it is essential that our tax structure be as fair and efficient as possible and interfere as little as possible with the incentives and the means of achieving the maximum growth in productivity."[97] Sharp outlined the process of policy formation to be followed: the government planned a major review of the federal tax structure in light of the Carter Report, it expected to receive and consider the views of many groups on the Royal Commission, the government would then publish draft proposals for tax reform, which would begin a second round of public discussion.[98]

Given the tremendous size and comprehensiveness of the Royal Commission Report, the government faced a massive task in simply digesting its findings and recommendations, let alone deciding which proposals to accept and how to implement the necessary changes. During 1966 the Department of Finance had been receiving draft chapters of the final Report as they were completed. Department officials and specially retained outside consultants conducted a detailed study of the technical and economic implications of the Commission proposals. The use of tem-

porary expert assistance to aid the government's deliberations on the Carter Report had first been suggested in 1964 by Arthur S. Pattillo, Q.C., a Toronto corporate lawyer and then chairman of the Canadian Tax Foundation, in a letter to the Minister of Finance. Walter Gordon accepted this advice and had decided to appoint three tax experts to help with the implementation of the Carter recommendations.[99]

As delays mounted and the massive size and scope of the Royal Commission became clear, these functions were enlarged and systematized with the creation of the Tax Analysis Unit. Established in the summer of 1965, this team of special advisers was to play a key role in the policy process.[100] The first function of the Unit was analytical: it was to make a detailed study of the problems and implications of the Carter Commission conclusions, and to summarize and clarify these findings for state policy makers. Secondly, it was to advise on the drafting of the reform proposals into legislation, to ensure that there were no administrative problems or loopholes.[101]

The operations of the Tax Analysis Unit were closely integrated with the key government departments in the tax field; it reported to a committee of top officials, chaired by the Deputy Minister of Finance.[102] The Unit was headed by James Brown, C.A., a partner in the Montreal chartered accountants firm of Peat, Marwick and Mitchell. The eight remaining members were lawyers, accountants and government officials with extensive experience in taxation. Among this group were Robert Bourassa, previously secretary, research director and counsel for the Quebec Royal Commission on Taxation and earlier a lawyer with the federal Department

of National Revenue; Donald R. Huggett, C.A., a partner in McDonald, Currie and Co. and former author of the regular Tax Review column of the Canadian Chartered Accountant; H. David McGurran, an officer of the tax policy division of the Department of Finance who formerly worked for the Canadian Tax Foundation and Massey-Ferguson Ltd., and A. E. John Thompson, a chartered accountant and former manager in the tax department of Price, Waterhouse and Co. who had been with the research staff of the Carter Commission.[103]

In early 1967, "one of the proposals being studied seriously in senior policy-making circles on the eve of the presentation of the long-awaited report" was the appointment of a cabinet minister specifically to oversee the enormous task of implementing the Royal Commission reform proposals.[104] The nucleus of such a special ministerial staff already existed in the Tax Analysis Unit. Speculation of such an appointment was prompted by the sheer mechanics of digesting the huge Report, the apparently well-founded rumours that the Commission would recommend sweeping changes and the consequent large number of organizations who would want to put their views to the government. Such a special ministerial appointment was not in fact created, but intense activity within the Department of Finance, Tax Analysis Unit and other centres of state policy making in preparation for release of the Carter Report continued.

Summary: Awaiting the Royal Commission

Throughout the long period in which the Carter Commission operated, the corporate sector continued to exert extensive pressure on the federal government on taxation and fiscal policy. No competing political force

remained as active or well-organized in the public debates on tax reform. The most pervasive corporate demand was for immediate tax reductions. However, within variations in sophistication and emphasis, business reiterated a relatively cohesive set of policy demands that had first been presented to the Commission's formal hearings. The changes proposed - such as lower rates and a general streamlining of corporate taxation, lower rates and less progressiveness of personal taxation, no capital gains and more favourable estate taxation, and the retention or extension of a range of special incentives - were solidly based upon capitalist interests and designed to facilitate and support capital investment and economic growth.

II Report of the Royal Commission

The long awaited and eagerly anticipated Report of the Royal Commission on Taxation was finally released in February 1967. The six lengthy volumes comprising over 2,700 pages of the Report and the twenty-seven research studies published at the same time constituted an imposing and comprehensive analysis of the Canadian tax system. The Report called for sweeping changes in the overall tax system and made hundreds of specific recommendations on all aspects of taxation.[105]

This section will not provide a technical or detailed examination of the fiscal economics of the Report. The basic purpose here will be to identify the guiding rationale or philosophy of the Carter Commission, to enumerate the most critical reform proposals, and assess the impact of these recommendations on the structure of the economy and the interests of the major classes and social groupings. Only by relating the consequences and direction of the proposed tax changes to concrete social and eco-

nomic interests can the subsequent process of debate and deliberation on tax reform be understood; the reactions of various groups to Commission recommendations, the vehement opposition of organized business to the thrust of the Report and the dynamics of the pervasive conflict and pressure over the adaptation and implementation of this first set of reform proposals.

On the basis of its extensive study of taxation in Canada, the Carter Commission identified a number of fundamental problems with the existing system: it did not afford fair treatment for all, it contributed to the inefficient allocation of resources, the fiscal system had not been properly used for general economic objectives, there were major weakeneses in the development and administration of the federal tax system, and there was unnecessary and costly federal-provincial duplication.[106] It was these problems that were the basis of the extensive criticism of the tax structure and which necessitated major reforms: "We therefore recommend many fundamental changes, which, if adopted, would produce a complete transformation and, we believe, result in greater equity and efficiency."[107]

Basic Philosophy of the Royal Commission on Taxation

The Commission noted that a tax system has many objectives, some of which may conflict. For example, maximum economic growth and equity are encouraged by very different types of structures; a system designed specifically to stimulate growth would be highly inequitable.[108] The Report was solidly opposed to such a combination: "To propose the adoption of an inequitable tax system that would force Canadians to bear the

costs of a higher growth rate than they may want would be both presumptuous and foolish."[109] The Commission emphasized that significant compromises and trade-offs were inevitable between such conflicting objectives. The cardinal problem of the existing tax structure was that it "contains a number of features inimical to both growth and equity."[110]

When there were conflicts between the various objectives of taxation the Commission accorded the highest priority to considerations of equity: "When faced with these hard choices we have consistently given the greatest weight to the equity objectives."[111] This was fundamental to the whole structure and analysis of the Report:

> We assign a higher priority to the objective of equity than to all the others... We are convinced that unless this objective is achieved to a high degree all other objectives are of little account. Thus the need for an equitable tax system has been our major concern and has guided us in all our deliberations... Consequently, the focus of our Report is the attempt to outline what we feel to be an equitable tax structure that will find wide acceptance among Canadians. We have tried, in our recommendations, to achieve the other objectives only to the extent that they do not bear too high a price in terms of equity foregone."[112]

The Report developed at some length exactly what was meant by equity.[113] Two dimensions were identified: horizontal equity, in which individuals and families in similar situations bear the same taxes, and vertical, in which those in different circumstances pay appropriately different taxes. Central to their recommendations on equity was the concept of discretionary economic power: the residual power to command goods and services over and above the basic necessities of life. To achieve horizontal equity, those with the same gains in discretional, economic power pay the same amount of tax. Vertical equity would exist when indi-

viduals and families pay taxes that are a constant proportion of their discretionary economic power.

The Royal Commission continually emphasized the wider political importance of an equitable tax structure: "The first and most essential purpose of taxation is to share the burden of the state fairly among all individuals and families. Unless the allocation of the burden is generally accepted as fair, the social and political fabric of a country is weakened and can be destroyed."[114] This concern can be closely related to the general state function of legitimation; promoting public acceptance of the justice and legitimacy of the overall political and economic system and ensuring favourable conditions for the maintenance of political stability and the control of social conflict. The stress on fairness and equity in taxation was an important component of the more general ideology of a liberal democratic political system and the modern welfare state.

While the Commission emphasized equity, it recognized that the implementation of these principles was always a question of belief not fact, of political considerations and commitment.[115] However, the Commission also emphasized that "adoption of these equity principles is of profound significance for this Report"[116] and developed a series of reforms designed precisely to create a more equal tax system.

Policy for Redistribution

The Royal Commission felt that not only must taxation afford equal treatment for all, but it must also directly contribute to the redistribution of wealth and income.[117] Its study of the existing fiscal system

found that the tax burden was distributed in a highly unequal fashion; those in the lowest income categories paid a higher proportion of their income in taxes.[118] The regressive features of taxation were offset by the more progressive patterns of government expenditure. The result was some limited net benefit for low income groups, but, in the Commission's opinion, not enough. It argued that the wealthy did not pay enough taxes and that the tax system did not sufficiently promote redistribution. The Carter Commission consequently recommended a complex schema of changes that would increase the progressiveness of the tax structure.

The basic philosophy of the Commission, and especially its strong commitment to equity and progressive taxation, could not be accepted by business. While acknowledging equity as a general principle, corporate policy had primarily emphasized tax reforms that would stimulate investment and economic expansion. In addition, business had a far more restricted view of equity; it was generally agreed that business in similar situations should face comparable tax treatment, but there was no conception that taxation should address problems of redistribution or social inequality. Among the objectives of taxation identified by the Carter Commission there was no doubt that economic growth was the fundamental concern of the business community.

In spite of business suspicions, the progressive orientation of the Royal Commission was far from revolutionary. The Report's perception of equity was limited; it did not specify the degree of redistribution envisioned and it did not entail the abolition of inequality of condition. The Royal Commission accepted the conventional argument that unequal re-

wards were a necessary economic incentive. Tax changes to promote greater equity must not go too far; there must still be "the continuation of differences in income that reflect differences in personal capabilities and effort. Without these differences in income, incentives to efficiency would be reduced."[119] Similarly, the guiding philosophy of the Royal Commission did not question the basic rationality of a capitalist economy. It fully recognized the need for economic growth and for a favourable climate for investment and accumulation. The Report argued that its reforms would not only improve equity, but would do so without reducing the rate of economic growth: "Our purpose here is to show that in achieving greater equity we do not have to sacrifice economic growth."[120] The proposed reforms would produce a more efficient, as well as equitable, system by removing distortions in the allocation of resources.[121]

Royal Commission Recommendations as a Comprehensive Package

All of the Commission's recommendations were framed in terms of the basic philosophy outlined above. Its essential thrust was to develop a more progressive tax system which at the same time would more efficiently promote economic growth. The Commission argued that the effect of the proposed changes could only be seen in their totality. Because of the complex and often conflicting objectives of taxation, the specific recommendations tended to balance and offset each other. The Report stressed that its proposals constituted a unified system and that it was their joint effect that was most important. Because of this interdependent nature of the reform proposals, the Royal Commission urged the government not to adopt particular recommendations piecemeal: "If any one of the

major elements of the reform package were not adopted we believe that it would be necessary to modify one or more of the other elements."[122]

Taxation and Fiscal Policy

The Report of the Carter Commission also set the analysis of taxation in the wider context of state fiscal policy. First of all, the Commission studied the implications of its proposed reforms for governmental revenue requirements. It stressed that although the state must raise the necessary revenue, a range of alternative methods are available. The alternative that is developed and its pervasive effects on the economy and taxpaying population are always policy choices.[123]

The Report estimated the effect of its proposed tax changes on revenue.[124] In the short term the reforms would produce less revenue. This was because the impact of the recommendations would be gradual and a number of concessions had been introduced to soften certain major changes. However, after the initial transitional period of three to five years, the revamped tax structure would yield substantially more revenue. The Commission's conclusions related revenue needs to its underlying concern with equity and public approval: "We are confident that our proposals would improve the equity of the Canadian tax system and would enable a given amount of revenue to be raised with wider public acceptance than under the existing system."[125]

The Royal Commission recommendations would also produce a significant shift in the mixture of taxation; there would be a much greater yield from corporate taxes and less from other forms. Estimates of long-term effects were developed by applying the proposed changes to 1964

fiscal date: corporate income taxes would have increased by $532 million, whereas personal income, gift and estate, and sales and excise taxes would have decreased respectively by $42, 143 and 125 millions.[126] It should be remembered that these trends, if implemented, would be precisely the opposite of business demands for lower corporate taxes and greater reliance on indirect taxation.[127]

The Commission's terms of reference bound it to ensure that the reformulated tax structure would produce sufficient revenue. There was, however, a critical potential contradiction in the Royal Commission's analysis of revenue requirements. Sufficient was interpreted to mean the same level as under the existing system. As the Report itself noted, their analysis ignored the expenditure side of state finances.[128] Such an interpretation had very serious implications. The consistent trend of steadily rising government expenditures required constantly expanding amounts of revenue. This would put severe pressure on a tax system designed only to maintain existing revenue levels.

The Royal Commission was critical of federal fiscal policy for its lack of success in providing employment and controlling inflation[129] and went on to a wide-ranging analysis of fiscal policy and its effects.[130] In discussing economic stability, the Commission urged political leaders not to obscure critical policy issues for partisan reasons. For example, while the demand for a balanced budget may be popular electoral politics, it is not necessarily the soundest policy instrument: "It is important, too, that leaders of opinion should not cater to prejudice by interjecting the balanced budget thesis when it suits their short-term advantage."[131]

In reviewing fiscal policy for growth, the Commission argued that its proposed system would stimulate the economy through a more efficient allocation of capital and resources. The Report suggested a number of mechanisms to increase saving which were considered superior to a general cut in corporate rates.[132] It also argued that the tax system would not be distorted through special incentives or exemptions to promote economic growth; a balance of fiscal and other measures was more useful.[133]

The federal tax system was not analyzed in isolation and the Royal Commission was well aware of the complex fiscal relations with the provincial governments. Increased consultation and harmonization of the federal and provincial tax systems was called for, but the federal government was still to play the predominant role. The Report recommended that personal and corporate income taxes remain in the federal domain and retail sales taxes be collected by the provinces.[134]

The Recommendations of the Royal Commission on Taxation

The Carter enquiry had diagnosed severe problems with the existing tax structure. It was not achieving the basic objectives of an equitable and efficient tax system. The Commission therefore called for a fundamental transformation of the overall structure.

> While we have made many detailed recommendations, relatively few basic changes would be required to make the tax system a better vehicle for allocating the costs of government. The basic changes we propose are: the taxation of the family as a unit, integration of the corporation and personal income taxes, the inclusion of all economic gains in the tax base, the elimination of separate taxes on gifts and bequests, and the revision of concessionary allowances to make them more equitable.[135]

The following sections will analyze the direction and significance of major Royal Commission recommendations: the rationale of the proposed changes, the specific content and effect of the recommendations, and the relation of Commission proposals to the demands of business and other organized interests.

Comprehensive Tax Base

The Royal Commission sought to develop a more equitable system in which taxation would be based upon ability to pay. Fundamental to this goal was the implementation of a comprehensive tax base. The principle here was that all economic gains, all increases in command over goods and services, would be taxed regardless of source.[136] Specifically, it was recommended that various forms of income be brought into the tax base to be taxed at full progressive rates that had previously been untaxed. These included family allowance and other government assistance; stock option benefits, bonuses and allowances; payments from profit-sharing plans, insurance policies, credit unions and co-operatives; and benefits provided by employers.[137] Most importantly, the concept of a comprehensive tax base entailed radical changes in two highly controversial areas.

Capital Gains

The Report recommended the full taxation of capital gains (and the full deductability of losses).[138] Capital gains occur when property, such as corporate shares or real estate, is purchased at a certain price and later sold at a higher price. The profit derived from such transaction is capital gains and had previously been untaxed. The effect of this recommendation would be significant; the inclusion of capital gains and

losses would result in total tax increases of $200 million from 1964 levels.[139] The Commission defended this change against the objections commonly voiced by business, stressed that it would not be retroactive, noted that considerable revenue would be raised and emphasized that capital gains must be seen as part of the overall reform package. Its consequences, potentially disastrous on their own, would be alleviated by other proposed changes.[140]

Gift and Estate Taxation

The repeal of existing gift and estate taxation and the inclusion of all gains from these sources in the comprehensive tax base was recommended.[141] Transactions within the immediate family unit would not be taxed and a number of annual and life-time exemptions would ensure that most people would never pay such taxes. However, the wealthier strata, who had largely been able to avoid gift and estate taxation in the past, would be much affected: "The proposed system would be much more effective than the present gift tax in bringing large gifts into the tax net. The present tax is often avoided."[142] The Report further emphasized the favourable treatment of wealth within the existing structure: "Through the use of personal corporations, trusts and exemptions, it is possible to avoid and postpone substantial gift and death taxes. These taxes almost certainly are not effective in breaking up pockets of wealth held by family dynasties, as is sometimes believed."[143] As with capital gains tax, these changes would be offset by income averaging, lower general rates and other facets of the overall reform schema.

Effect of the Comprehensive Tax Base

The adoption of the comprehensive tax base would increase the "certainty, consistency and equity" of the system, but would make no concrete difference for the vast majority of taxpayers.[144] For individuals with annual incomes of less than $10,000 (over 95% of taxpayers), all except the lowest brackets would have higher average taxes because of the wider tax base, but this would be more than offset by general rate deductions.[145] This limited effect would be particularly marked for employees, virtually all of whose economic gains were normally taxed.[146]

On the other hand, the establishment of the comprehensive tax base would pose severe problems for more affluent categories: "To the few, particularly property holders, it would involve a great broadening of the tax base."[147] This would be so because such a large amount of upper income, especially that from investment and property ownership, was untaxed. Under the existing system, over 92% of income as defined by the comprehensive tax base of the more than 90% of Canadian residents who earned less than $8,000 was assessable, but this proportion steadily declined to just over two-thirds for the highest income categories.[148] The widened tax base would increase the taxes of those earning $20,000-24,999 by $1,372 and as income rises the amount of the increase steadily grows, to over $16,000 for incomes exceeding $100,000.[149] As a further indication of the impact of these recommended changes on property owners, it was the category of investors that faced the highest increases of direct taxation under the proposed system.[150]

Thus, the widening of the tax base would not affect most taxpayers, but would lead to significant increases for many in the more affluent strata with substantial, and then lightly taxed, property income. The inclusion of all income in the comprehensive tax base would also raise significantly more revenue and would consequently allow the reduction of general rates of income taxation. This reduction would result in a net benefit for the great majority of taxpayers.

In more specific class terms, the addition of capital gains and other property income to the tax base would entail considerably higher taxation for the capitalist class, whose income and wealth were largely derived from the ownership of corporate property. Those among the more advantaged middle class strata with significant property income would face a heavier tax burden.[151] Because of this impact, major opposition to the Commission's concept of the broadened tax base could be expected from business and other affected groups. In addition, the general concept of the comprehensive tax base, premised as it was on a fundamental commitment of equity, was antithetical to the prevailing corporate emphasis on growth and accumulation. More specifically, business had been strongly objecting to the imposition of capital gains taxation before the Carter Commission and elsewhere for years. Similarly, business had long been demanding wider exemptions and an overall reduction in the burden of gift and estate taxes. At first glance, the repeal of these latter taxes would seem to be even more than business had called for. But of course the inclusion of gifts and inheritances in the tax base at full rates would result in heavier, not lighter, taxation for major property owners

and went totally against the thrust of corporate policy injunctions. In these critical areas the tremendous input of business had not been successful in influencing the Royal Commission recommendations in a direction favourable to corporate interests.

Personal Income Taxation

The Royal Commission recommended further wide changes in the taxation of personal income. Its starting point was a firm commitment to progressiveness and because the personal income tax was the only fundamentally progressive form of taxation, the Commission stressed its importance. A schedule of personal income tax rates for individuals and families was devised based upon the principle of taxation according to ability to pay.[152] The proposed rate structure was consistently progressive; it entailed a lighter burden on lower income groups to compensate for the regressive effects of other taxes and substantial reductions for middle income brackets.

While the goal of these recommendations on personal income taxes was to decrease the taxation of those with lower ability to pay, the Report also proposed that the higher marginal rates be lowered to a top rate of 50% from the previous maximum of 80%. Such a reduction was one of the central demands put forth by the business community. As discussed above, the Commission had accepted the argument that differential rewards were necessary as inducements for productivity and effort: "it is essential the marginal rates of tax be kept low enough that the incentive to produce goods and perform services and invest funds is not destroyed."[153] The existing structure had high marginal rates, but also large numbers of

loopholes by which the highest levels could be avoided: "It has been argued that these loopholes had to exist if Canadian businesses were to retain the best men and be able to bonus those who worked the hardest."[154] By reducing the top marginals this reasoning would no longer apply, and the Commission consequently recommended a range of specific alterations that would effectively close tax loopholes. The goal here was neutrality, the principle that all taxpayers should be treated alike. Commission attention to the existence of widespread loopholes for higher income earners and the low effective rates actually paid by the affluent can be seen as part of its concern with the legitimacy and public acceptance of the tax system.[155]

A number of modifications in personal income taxation were closely related to recommendations discussed above. The institution of a comprehensive tax base required alterations in the definition of assessable income. As noted, this entailed very little change for most employees, virtually all of whose income was then taxed. However personal employment benefits, such as employer contributions to pensions and medical plans, would become taxable. For the propertied, the inclusion of gifts, inheritances and capital gains; and the integration of personal and corporate taxation to be discussed below, all expanded the tax base. The Commission recommended a more liberal system of income averaging to counterbalance these changes. Averaging, designed to smooth out large fluctuations in earnings and to allow the deferment of taxation on lump sums, was to be extended to all taxpayers. This again illustrated that specific proposals had to be seen as part of the entire reform package; here, averaging compensated for the impact of the wider tax base.

Among the most important additional proposals was that of defining the family, as well as unattached individuals, as a basic unit of taxation. Because it is total family income that determines the standard of living, considerations of equity required that it be taxed as such. Overall rates for family income would be lower than for individuals. The proposed scheme of basic personal deductions was modified, but remained similar in outline. A number of specific changes in deductions were proposed: the treatment of retirement plans would be liberalized, charities would retain their tax-exempt status and exemptions for individual donations would be raised, and allowances for medical expenses would be altered to differentiate between the needy and affluent.[156]

The effect of these changes in personal income taxation would be highly progressive.[157] For unattached individuals there would be a modest increase at lower income levels and a significant reduction for middle income taxpayers. There would be tax reductions for families at all income levels and various tax credits would result in substantial decreases for families with dependent children. These changes would reduce but not eliminate the differences for Canadian middle income taxpayers with the more favourable U.S. tax structure.[158]

Integration

The Royal Commission called for the full integration of personal and corporate income.[159] This meant that all income from corporate ownership would be included with an individual's other income for purposes of personal income taxation. This recommendation followed from the basic principle of treating all accrued income as taxable and was seen as the

fairest and most effective treatment of corporate income. Integration addressed the problem of double taxation, in which corporate revenue was taxed first at the corporate level and again when distributed as dividends as the personal income of shareholders. Specifically, it was recommended that corporations pay tax on their income at a flat rate. In effect, they would be paying tax on behalf of their shareholders. When dividends were subsequently distributed and corporate income allocated, this amount would be added to the taxable income of individuals. However, resident shareholders would receive full credit for taxes already paid on the corporate income distributed to them. Because of this credit the Commission argued that integration would increase investment and encourage Canadian equity ownership.[160]

Integration would entail very little change for taxpayers earning less than $10,000, primarily because this group did not have significant income from corporate sources. Even among the higher income categories, most would pay less taxes as a result of integration; for example, those with incomes of between $35,000 and $75,000 would save over $900. Only at annual incomes of over $150,000 would integration result in higher taxes, and even here the effect would be far less significant than that of widening the tax base.[161] The Commission further argued: "Another advantage of the integration of corporation and shareholder taxes and the full taxation of property gains would be the prevention of tax avoidance." By treating all sources and kinds of profit in the same fashion, widespread abuses designed to shift transactions to lightly taxed forms of payment would be eliminated.[162]

Corporate organizations had consistently demanded the elimination of double taxation. Integration, however, was a more radical departure than business would have likely wished.[163] While business could agree with dividend tax credits, it would have strong objections to the addition of dividends, as it objected to the addition of capital gains and other property income, to the overall tax base.

Corporate Taxation

The Royal Commission found serious problems with the existing system of corporate taxation. The Report stressed the haphazard and uncoordinated historical development of Canadian taxation: "the present tax structure is the result of past crises and revenue requirements and is not a coherent system designed to achieve widely accepted economic and social objectives."[164] The Commission emphasized that the existing system was the basis of severe distortions in the allocation of resources:

> The narrow tax base and some extremely expensive incentive or concessionary provisions built into the present system mean that to raise the required revenue, tax rates have to be higher than would otherwise be necessary, and the tax burden on some is therefore correspondingly heavier. This has the effect of driving labour and capital away from activities that are heavily taxed and drawing them into tax-favoured activities. Unless these pressures nicely compensate for non-tax distortions in the market, labour and capital are less productively employed than they should be. Fewer goods and services are available for Canadians.[165]

The Report detailed a number of the most problematic features of corporate taxation.[166] The treatment of business losses was inadequate. The dual rate of corporate taxation, in which the first $35,000 of profit was taxed at a considerably lower rate, subsidized large corporations and failed to differentiate small firms that really needed investment stimula-

tion. The absence of a capital gains tax encouraged investment that generates capital gains as opposed to income. Large-scale special concessions to particular industries encouraged more investment in these areas than market forces would normally determine and reduced capital available for other sectors.

In these concerns the Carter Commission was addressing the general problem of rationalizing corporate taxation in order to better facilitate and promote the most effective allocation of capital. A prime goal was to increase the neutrality of the system. It was argued that all corporations in similar circumstances throughout the economy should face similar tax treatment and that the rates of return of all corporations should be affected the same way by taxes. Capital would then be allocated purely on market considerations, in terms of prospective return on investment.[167] As will be seen, the Royal Commission proposed a series of changes designed to remove the distortions and increase the neutrality of the tax structure.

For the Royal Commission, the basic goals of increasing the equity and efficiency of the system were always interrelated. As well as seeking to rationalize the overall structure, the recommendations on corporate taxation must be seen in the context of wider Commission efforts to develop a more progressive tax system which at the same time would be more effective in fostering economic growth. Prevailing business opinion had a very different diagnosis of the ills of the tax system. It could agree that wholesale rationalization was necessary and that taxation should not distort the allocation of resources. However, business saw the fundamen-

tal problem as being the excessively high level of taxation. As will be seen, the corporate sector was to strongly object to many of the specific recommendations of the Commission. These recommendations will now be outlined.

The Basic Rate of Corporate Taxation

The Report proposed that the lower rate of taxation (21%) on the first $35,000 profit be abolished and that all corporate income be taxed at the flat rate of 50%. The rationale for this recommendation was that it would eliminate inefficient concessions to small enterprises with poor profit potential and remove the unncessary subsidy to large corporations.[168] The Commission argued that this change would have little effect on corporations with income over $200,000 (who accounted for 70% of total corporate income): the maximum increase for large corporations would be just over $10,000.[169] The effect on smaller corporations would be more mixed. The Commission recommended a series of incentives for expanding small firms designed to remove biases in the capital market against new and/or risky ventures. These provisions would offset the loss of the dual rate for growing smaller corporations.[170] Presumably however, smaller businesses that were not rapidly growing or had limited potential would be adversely affected. Since large numbers of small businesses are in a highly precarious economic situation this effect could be significant. The Royal Commission was vague on this possibility and did not concretely indicate the implications of removing the lower initial rate for the less prosperous sectors of smaller business. In addition, integration meant that business income would ultimately be taxed at the marginal rate of the proprietor.[171]

If their taxable income was over $4,000, the personal rate would be higher than the existing 21% initial rate of corporate taxation.[172]

It has been seen that the fundamental corporate demand was for the reduction of their basic rate to 40% or 45%. The Commission recommendation to tax all corporate profits at the flat rate of 50% could be expected to arouse considerable business disappointment and anger. The lower rate on the first $35,000 profit was little discussed in business presentations to the Commission hearings. However, this change could be expected to provoke corporate opposition. Even though the Royal Commission downplayed its significance, the larger enterprises would not wish to lose the subsidy of the dual rate. Even if offset for some, many smaller businesses would face considerably heavier tax burdens, to which strong objection could be expected.[173]

Elimination of Special Concessions

The Commission made a number of radical recommendations that would eliminate many of the special concessions enjoyed by key sectors of the economy. Several of these changes sought to ensure that banks and insurance companies would be taxed in the same manner as other corporations.[174] The Commission argued that the tax structure should not be used to guarantee the solvency and liquidity of these institutions. It was noted that the 1964 revenue of Canadian insurance companies was $90 million, but that taxes paid were less than $5 million.[175] The Report also proposed the withdrawal of important concessions of the extractive industries: the immediate cancellation of mining and petroleum depletion allowances and the phased elimination of the three year tax exemption for new mines.[176]

The fundamental rationale for these recommendations was the goal of tax neutrality.[177] The Report concluded that the special concessions were not justified economically; the major corporations that dominated these industries did not need such large-scale assistance. While arguing that the specific situation of these industries did not warrant such highly favoured treatment, the Commission did recognize that these conditions could be taken into account. For example, it would retain allowances for exploration and development costs in the extractive industries.[178] A further deciding factor was the high cost of these special incentives. To raise the necessary revenue taxes on other sectors and corporate rates in general had to be higher than would otherwise be necessary. If the expensive concessions were withdrawn then "the extra revenue could be used to reduce rates on business income generally."[179] Furthermore, by correcting the distortions in investment patterns caused by these concessions, a better allocation of resources can be achieved, which in turn could have a positive effect on future productivity.[180]

The effect of eliminating these special concessions would be substantial; extractive and life insurance companies would face relatively large tax increases. The elimination of special provisions would increase corporate taxes by $150 million for life insurance companies and by $50 million for other financial institutions. The elimination of depletion allowances for the mining and petroleum industries and of the three year exemption for new mines would each result in corporate tax increases of $160 million.[181] Much of this would be borne by a small number of the largest resource corporations. These increases would constitute

a substantial proportion of capital expenditure in some industries.[182] If life insurance companies were taxed on the same basis as other corporations, their cash flow would be reduced by about $75 million.[183] Similarly, a small number of major integrated mining and petroleum corporations would suffer declines in their cash flow of about 10% and in their rate of return of as much as 25%.[184]

These proposed changes would come as a considerable shock to the corporate sectors affected. Leading representatives of the resource industries particularly had vigorously defended the necessity of their special concessions in detailed testimony and comprehensive briefs to the Commission's hearings. Given the tremendous impact of the removal of the concessions, considerable opposition from these sectors could be expected.

Other Reforms of Business Taxation

As noted above, many Commission proposals were geared to increasing the neutrality of the tax system. In general, the Commission preferred direct grants, rather than the potentially distorting effects of tax incentives, as mechanisms of state intervention. However, it still saw a continued role for tax concessions, especially to offset the bias of the capital market against new, small and unknown operations. The Royal Commission would also retain capital cost allowances to stimulate investment, maintain incentives for research and development and for mining exploration and development, allow immediate write-off of capital costs for new businesses in order to increase their cash flow, and permit write-off of mining and petroleum capital costs.[185]

A further series of recommendations were designed to both remove anomalies within the existing structure and make it fairer. The Commission saw the range of allowances and deductions of "expense account living" as a severe problem for the overall legitimacy and public acceptance of the tax system. "The problem of taxpayer morale is serious, and the strongest measures are called for."[186]

Effect of the Proposed Changes in Corporate Taxation

The Royal Commission estimated that corporate taxes would increase $538 million from their 1964 level - or approximately 25% - if its recommendations were adopted. Nearly one-half of this rise would be due to the withdrawal of the dual rate of corporate taxation. A further 40% of the increase would be caused by the elimination of the special industry tax concessions outlined earlier.[187]

The driving force of capitalist production is profit maximization and the accumulation of capital. Both of these processes could be adversely affected by increased corporate taxation. Higher taxes on profits directly cut into funds available for capital expenditure and corporate expansion, and for distribution to shareholders. This in turn has a direct effect on the concrete interests of those individuals and groups that own and control corporate enterprises; first of all, by potentially restricting their income from dividends and other corporate payments, and secondly, by constraining the potential growth of corporations, which can then be reflected in more limited future profit and dividend levels and appreciation of share values.[188]

The recommended changes would not affect all sectors of the corporate economy in the same way.[189] Enterprises facing the heaviest increases would be the large life insurance companies and the major multinational mining and petroleum corporations. The increase in those industries without special concessions would be relatively small.[190] Similarly, the impact on corporate owners would vary considerably. The effect on resident shareholders of corporations that would face large increases would be significantly offset by credits against their personal income taxes. For large resident owned corporations without special concessions, while there would be a small increase at the corporate level, "the tax reduction at the shareholder level would be substantial."[191] The bulk of the increase in corporate taxation would be borne by non-residents, especially those with investments in the extractive industries.[192]

The effects of the proposed changes in corporate taxation can be further specified in class terms. Because of their concentrated ownership and control of major corporations it was the capitalist class who would be most seriously affected by the proposed changes. This would be particularly so for those fractions of the capitalist class based upon dominant foreign controlled corporations in the resource sectors who would face increased taxation that would not be offset by tax credits.[193] Important sectors of Canadian capital centred upon industries whose concessions were to be eliminated would also incur heavier corporate taxes. This would be especially important for the interests controlling the major insurance and other financial companies long at the heart of the structure of economic power in Canada. The Royal Commission, however,

argued that the effect of corporate increases for resident shareholders would be counterbalanced by tax credits. In this, the Commission did not differentiate between major capitalists and the much larger number of small stockholders. The impact of the corporate changes would vary greatly in this regard; income from corporate sources would ultimately be taxed at the marginal rate of the shareholder,[194] which in the case of wealthy capitalists would be at the highest levels of the rate schedules. By contrast, the Report maintained that there would be a net benefit for low and middle income investors: "The after-tax return from Canadian equities to these shareholders would in general increase because of the integration of corporation and personal taxes and despite the full taxation of share gains."[195] As noted, the impact on small business could also vary, but given the relatively limited scope of offsetting incentives, large numbers of smaller firms would face higher taxes.

Given the content and potential consequences of Royal Commission recommendations, it is clear that business had not been successful in promoting its policy demands. The general scope of the Commission proposals did not follow business' diagnosis of the problems of the existing structure and the primary corporate demand for lower rates was not accepted. A number of the most important recommendations would drastically affect the interests of key sectors within the capitalist class. These implications must also be seen in the light of capital gains, integration, the comprehensive tax base and other changes discussed above that would also increase the tax burden of the propertied classes.

Summary: Effect of Direct Taxation

Reforms of personal and corporate income taxation and the expansion of the tax base to include capital gains, gifts and inheritances all involved forms of direct taxation. The specific consequences of these changes have been outlined above. Their most important effects, however, would be cumulative. Taken together, the adoption of these Royal Commission proposals would result in an increase of $347 million in direct taxation; $271 million for non-residents and $76 million for residents.[196] As has been seen, the great accretion for non-residents is due almost entirely to changes in corporate taxation in sectors with high levels of foreign ownership which would lose special concessions and exemptions. The changes in direct taxation would have a consistently progressive impact: taxpayers earning less than $5,000 would have an average decrease of 3.3%. These income categories that would benefit from the proposed system constituted 95% of all taxpayers. By contrast, the direct taxes of all those earning more than $10,000 would increase: the average increases for the income brackets of $10,000 - 14,999, $15,000 - 24,999, $25,000 - 49,999, and over $50,000 would respectively be 3.8%, 3.9%, 6.9% and 26.0%.[197]

Sales Taxes

The significance of sales taxation and the direction of its reform were evaluated by the Royal Commission in terms of equity. The Commission wanted to reduce the weight of sales taxes because of their inherently regressive character.[198] A series of recommendations were developed designed to reduce this regressive effect: the dropping of the 11% federal

sales tax at the manufacturing level, its replacement by a 7% retail tax broadened to include some services, and coordination with the provinces who would administer the sales taxes at the retail level.[199]

The new system of sales taxation would raise only slightly less revenue,[200] but would be far more progressive. All families with incomes of less than $10,000 would enjoy average drops of from 2.5% to 13.5%, especially favourable for the middle income; while the sales taxes paid by families over $10,000 would rise on average by 18.4%.[201] Here again, the content and implications of the recommendations were totally antithetical to business demands for increased indirect taxation to counterbalance cuts in direct taxes.

More General Recommendations

The Commission's specific proposals ranged over a further variety of issues. For example, major changes in tax administration and improved federal-provincial coordination were recommended.[202] In addition, the members of co-operatives would be taxed on their dividends and rebates and these organizations would be taxed at the flat corporate rate.[203] On this issue at least, the Commission had followed business advice. A number of moderate changes were also recommended that would encourage Canadian ownership without restricting foreign capital.[204]

Economic Effects of the Recommendations

Before discussing the impact of the reform proposals on the tax burdens of the various groups within the social structure, the Commission's appraisal of the overall economic effects of its system will briefly be examined. The Report argued that its recommendations would create a more

efficient, as well as more equitable, tax system. The proposed changes in corporate taxation, in conjunction with such features as capital gains tax and integration, would result in a much improved allocation of investment and economic resources.[205] Although business saving would be reduced in industries facing large increases such as the extractive sector, the adverse effects of removing their incentives would nonetheless be limited: "Because the special concessions to the mining and petroleum industries are so inefficient, for the most part subsidizing projects that would have been undertaken in their absence, the resulting reduction in capital expenditures would not be as great at the increase in tax revenue might suggest."[26] Corporate investment patterns would be unaffected in most sectors.[207] Increased progressiveness would change the distribution of disposable income and consequently patterns of personal saving. A relatively small decline would result from the reduced saving of higher income groups and the fact that much of the tax reductions of the low income would be spent. Far more important would be a dramatic alteration in the form of personal saving; tax credits and other changes would encourage increased investment in equities, which in turn could stimulate the economy.[208] Foreign investment would not likely be reduced, but there would be more inducement for Canadian capital to invest in Canada rather than abroad. In summary, Commission recommendations would not effect the rate of investment, but would greatly improve the allocation of capital. The Report[209] also argued that its proposals would have little effect on labour effort.

These general economic effects, and the specific proposals which produced them, were directed towards the overall rationalization of the

tax system. Taxation and the fiscal system were vital elements of state economic intervention. They are part of the range of policy instruments and programmes whereby the state serves to create and guarantee favourable conditions for the accumulation of capital. Because of this crucial function of state policy, the Royal Commission had to be much concerned with problems of economic growth. While its focus on equity was primary, the Commission never saw this goal as being in fundamental contradiction with the necessity of fostering expansion and accumulation.

Incidence of the Proposed Tax System

The incidence of the new tax structure, the relative tax levels borne by the various income groups, was the most important consequence of the Carter Commission recommendations in two senses. Firstly, for the Commission itself, for its goal of devising a more equitable tax system, and secondly, for the politics of the reform process, for the concrete effects of the proposals on the tax burdens of the major classes and social groups. The Commission developed detailed estimates of the incidence of taxation that would result from the implementation of its recommendations.

Fundamental changes had been advocated for virtually all key components of the tax system and the proposals entailed a radical restructuring of the entire system. Not surprisingly, large numbers of taxpayers would find themselves in very different positions within the proposed structure. The direct taxation paid by 3.1 million taxpayers (46% of the total) would decrease by over 15%; the vast majority of this group earned less than $5,000 annually. Just under three million taxpayers would face changes of less than 15%. Only 631, 490 taxpayers (slightly less

than 10% of the total) would incur increases in direct taxation of more than 15%.[210] At the simplest level then, far more taxpayers would benefit from significant decreases than would face large increases.

The combined impact of changes in sales and direct taxation was estimated. All families with annual incomes of under $10,000 would pay less taxes; the taxes of families with incomes of less than $2,000 would decline by 14.6% and those of families under $5,000 would decrease by over 10%. Families with incomes of more than $10,000 faced average increases of 13.7%.[211] This data indicates that the overall effect of the reforms would be progressive and that the great majority of the Canadian population (95.02% of Canadian taxpayers earned less than $10,000) would benefit from the proposed changes.

The effects of the Carter recommendations must be specified in two directions : in terms of the nature and consequences of the particular proposals and in terms of their concrete impact on the various classes and groups within the social structure. In this regard, the implications of the proposed restructuring were significantly different for residents and non-residents. Total taxation of Canadian residents would decrease by $49 million; comprising a slight increase in direct taxation and a reduction of sales tax. The taxes paid by non-residents would increase by $271 million: "largely because of the preponderence of their investment in the resource industries and in certain financial institutions."[212] To specify further: this increase would be borne largely by a small number of large integrated multinational corporations. While this would affect many small investors, the most serious consequences would be felt by major

foreign capitalist interests, especially American and including some of the most important families and groups at the core of the U.S. power structure, who owned and controlled the dominant corporations whose tax concessions would be eliminated.

It has also been seen that the expected impact of the proposed changes varied greatly for the different social groups. The manner in which specific groups were affected by particular proposals reflected their class position. For example, the most important change for low and middle income earners was the lower overall rates of personal income taxation.[213] This reflects the fact that these categories derived relatively little income from property and were virtually all employees; that in fact they largely occupied working class positions within the class structure. For the upper income strata on the other hand, the critical recommendation was the adoption of the comprehensive tax base. This importance reflected the significant amounts of income derived by the affluent from the ownership of property. Concentrated wealth and consequent high income levels were largely centred in the capitalist class and the higher levels of the middle classes.

It is extremely difficult to precisely specify the effects of proposed tax changes on the basic class groupings. Data on the general incidence of taxation by income groups and the consequences of the numerous recommendations does not translate precisely into class categories. However it is abundantly clear that individuals and families within the working class would benefit from the increased progressiveness of the overall system. It has been seen that all those with annual incomes under

$10,000 would pay less taxes under the proposed structure and that this group includes 95% of all taxpayers. It can safely be assumed that virtually all of the working class fell within this range. Further, over 80% of taxpayers earned less than $1600,[214] and it can again be assumed that the bulk of the working class would be included in these income levels. The average taxes of families within this range would decline by well over 7%.[215]

The impact of the recommended reforms on the more advantaged middle classes and contradictory class locations is much harder to unequivocally determine; the Commission did not provide specific data by occupation or business and professional situation for its various income categories. In analyzing the distribution of wealth and income the top quintile can be seen as a general approximation of the more affluent upper and middle class categories.[216] At the time of the Royal Commission, 18.28% of taxpayers earned more than $6,000.[217] If this is taken as a general indication of the dimensions of the most advantaged strata, a significant proportion within this group would benefit from the Commission's recommendations: 13.30% of taxpayers earned between $6,000 and $10,000 and all within this category would have decreases in combined sales and direct taxation.[218] This category would exclude the very wealthy, but does indicate that many within the middle classes would benefit. More specifically, the Report noted that high income employees or self-employed people who received the bulk of their income as salary or professional payments would generally incur lower taxes.[219] The examples developed by the Commission to illustrate the impact of its proposals indicate that some

middle strata would benefit: a married male employee earning $12,000 - 12,999 and a married self-employed professional or business proprietor with income of $30,000 - 34,999 would incur small declines in their total taxes. However, the taxes of a married male employee with income of $50,000 - 74,999 would increase by $3,752.[220] This would indicate that some high-level administrative or managerial employees could be adversely affected. Thus, while the effect of the proposed alterations on the middle classes would vary a great deal, many would directly benefit from lower taxes.

The most severe impact within the affluent strata would be felt by those who derived large amounts of income from property ownership because a great deal more property income would be brought into the wider tax base for full taxation.[221] Among the Commission's illustrative examples, the highest increase in taxation, of over $12,000, would apply to married male investors or renters earning $30,000 - 34,999.[222] In a further table, compared to employees, professionals, salesmen, and farmers and fishermen in all age categories, investors faced by far the largest tax increases.[223]

These effects of the Royal Commission recommendations would be felt not simply by the affluent and propertied strata as a general economic category. More specifically, it was the capitalist class who would be most seriously affected because it was this group in which a predominant share of total wealth, especiallycorporate, was highly concentrated. In a purely quantitative sense then, the capitalist class, as the wealth-

iest owners, would face the largest tax increases on property income. Even more important is the nature of the wealth held by capital and the nature of the proposed changes in taxation. The power and position of the capitalist class is based upon their ownership of significant corporate property and their consequent control of major corporate institutions. Because of this controlling ownership, the elimination of the dual rate, the removal of special industry concessions and other changes in corporate taxation would directly affect capitalist interests: higher corporate taxes potentially could diminish profit levels, reduce corporate income available for distribution to shareholders and limit the potential for expansion. A primary method of accumulating wealth is through the appreciation of corporate shares and the subsequent realization of their increased value. The taxation of capital gains would severely limit such a possibility. Similarly, the full taxation of gifts and inheritances would pose problems for the smooth transfer of wealth from one generation to the next and the continuity of the fortunes of major capitalist families. Although offset by the lower top marginal rates, the progressive character of personal income taxation would weigh heavily upon the very high income from corporate salaries, dividends and other sources enjoyed by members of the capitalist class. Thus, the thrust of the Royal Commission proposals and the content of many of its most important recommendations can be seen as directly infringing upon the immediate economic interests of the powerful capitalist class.

In addition to the capitalist class, members of the wealthier profesiional, managerial and administrative strata of the middle classes

with significant property and investment income could also face heavier taxes under the proposed system. One particular group which could be notably affected was high level corporate executives: stock option plans would be limited by specific regulations and capital gains taxation, perquisites and expense account benefits would be more restricted, and salaries and bonuses linked to profit levels could be threatened. Thus, although not to the same degree as the capitalist class, important sectors within the more advantaged and propertied middle class strata could also face tax increases. The small size of these class groupings whose interests could be adversely affected by the implementation of the Royal Commission must be emphasized. Those earning over $10,000, who would incur increases in overall taxation, constituted only 4.98% of all Canadian taxpayers.[224] Only those earning over $35,000 would face increases in their average rates of direct taxation of 10% or over,[225] and this category included only 0.58% of resident taxpayers.[226] These consequences for the affluent must be juxtaposed to the significant benefits which progressive taxation would bring to the remainder of the population.

In summary, the implementation of the Royal Commission reform package could result in substantial tax increases and difficulties for key sectors of the capitalist class and the corporate enterprises they controlled. Organized business had clearly not been successful in protecting and promoting its economic interests during this process of policy formation. Moreover, the content and direction of major Commission proposals was dramatically contrary to the changes demanded by business. In terms of the policy outcome of this initial stage of tax reform, the corporate

sector, regardless of its immense resources and large-scale input, had not been able to exert significant influence over the deliberations of the Royal Commission on Taxation.

Minority Reports

The force of the Commission proposals was mitigated by two minority reports which revealed important areas of disagreement within the enquiry. Donald G. Grant and A. Emile Beauvais objected to a number of key recommendations, especially the comprehensive tax base. They both rejected the inclusion of all capital gains in the tax base for taxation at full progressive rates.[227] Grant emphasized that this was too stringent and could inhibit investment in a young economy such as Canada's. Instead, he proposed that gains from property held beyond a certain minimum period should be taxed at one-half of an individual's marginal rate.[228] Both Grant and Beauvais objected to the taxation of unrealized capital gains. Beauvais argued that capital gains tax should be limited to specified assets, such as securities and real estate, owned for a certain period of time. Only half of these gains should then be taxed and only to a maximum rate of 50% as in the American system. Beauvais also opposed a number of specific proposals, such as the stricter limits on business entertainment expenses and integration. For the latter, he preferred a 15% withholding tax on dividends and no further taxation as personal income. Finally, he argued that their proposals should be seen as alternatives to those of the majority Report.[229]

These minority reports weakened the overall thrust of the Commission Report by pressing for modifications of one of its central components,

the comprehensive tax base. The lack of unanimity within the Commission on this key issue would certainly qualify its potential impact upon subsequent public debates and state deliberations on reform. These reservations also conflicted with the majority Report's emphasis that its major proposals must be considered as an interdependent and integrated package. More concretely, it will be seen that the minority reports came to provide powerful legitimacy and support to corporate criticisms of the majority conclusions and were frequently incorporated into business opposition to the reform proposals.

III. Conclusions: First Stage of Tax Reform

The establishment of the Royal Commission on Taxation in 1962 stimulated an extensive and wide-ranging debate on the Canadian tax system and its restructuring. A number of conclusions can be drawn from this first stage of the overall reform process. First of all, public participation in these debates and in the formal processes of policy formation was consistently highly unequal. As seen earlier, the initial pressure for tax reform came overwhelmingly from the business community. In addition to successfully calling for a comprehensive review of the tax system, this corporate pressure included pervasive demands for significant tax reductions and rationalization. When established, the Royal Commission was itself closely connected to the corporate sector, its members were drawn largely from the advantaged strata of the class structure, and business and associated professional occupations were well represented within the Commission and its research and administration staff. Submissions from major corporations and corporate associations were both quantitatively

and qualitatively predominant in the public hearings. No other competing political force could present its case as extensively and impressively as the well articulated and highly organized corporate policy. Throughout the lengthy deliberations of the Carter enquiry, corporate pressure for immediate tax reductions and for reforms conducive to their concrete interests continued unabated. More generally, the overall framework of state policy within which these specific debates took place was designed to maintain favourable conditions for economic growth and the accumulation of capital.

A second conclusion from this state is that objective class and group interests in relation to the tax system were a key influence upon the policy of major competing organizations. The relatively consistent set of demands contained in corporate briefs and argued by business representatives would certainly enhance the interests of capital and the advantaged strata generally. Similarly, the progressive changes called for by organized labour would benefit the working class and less affluent. Finally, and most importantly, the predominance of the capitalist class within the formal hearings of the Royal Commission and the wider context within which economic policy is developed did not determine the outcome of this juncture. In spite of the massive input of business, the Commission recommended a series of sweeping changes that were in many cases the opposite of those demanded by the corporate sector. The complex of factors that shaped this apparent paradox will now be explored.

The Royal Commission, the Capitalist Economy and the Interests of Capital

The manner in which the Carter Commission proposals could adversly affect the immediate interests of the capitalist class and of crucial sectors of the corporate economy has been outlined. In spite of these consequences and regardless of the vehement hostility of business, it must not be concluded that the Royal Commission was anti-capitalist or that the damage to capital was devastating or irreversible. The Commission never questioned the legitimacy or continued existence of the basic social and institutional structure of capitalist society. This was made particularly clear by Professor Douglas Hartle, who had been the Commission's research director, when he prefaced his explanation of the importance of low maximum rates of personal income tax with the remark "anyone who accepts the fundamental tenets of the capitalistic system, as I do."[230] The Commission saw its fundamental purpose to be the development of the most efficient and favourable tax system for precisely that kind of society. It fully understood the basic dynamics and imperatives of capital accumulation and the central role of state policy and intervention - including taxation - in supporting this process. The difference between the Royal Commission analysis and prevailing corporate opinion - vast as it was when compared to more simplistic business thinking - was over firstly, the exact nature of the optimum tax structure, and secondly, the most efficacious balance between conflicting objectives and short and long-term aspects of taxation.

The implications of the guiding rationale and key recommendations of the Royal Commission can only be understood by differentiating immedi-

ate and specific interests from the more long-term and general interests of the capitalist class as a whole. Business had been demanding the removal of the many anomalies and inequities produced by the haphazard development of the fiscal system and the government had directed the Commission to devise a tax structure properly adapted to modern economic conditions. To these ends, the Commission has proposed a sweeping series of changes designed to streamline and systematize the structure of taxation. The wide scope of these recommendations was later explained by Toronto lawyer W. D. Goodman: "It might be well to remember that when the Carter Commission was appointed in 1962, it at first approached its review of our tax system in the belief that it needed a relatively few minor reforms but that, in general, it was a pretty good system.[231] But this was not what the Commission's investigations revealed: "closer examination of the tax system persuaded the commissioners that it was both unfair and inefficient and that it required drastic measures of reform in order to meet acceptable standards."[232] The Royal Commission then, confronted with a tax system weakened by far more fundamental problems then had originally been foreseen and wanting to make a thorough job of the necessary restructuring, consequently recommended much more extensive changes than could have been expected. Its basic aim was to develop the most efficient tax system for long-term overall economic development. It must be emphasized that this objective did not conflict with the essential interests or goals of capital. The difference lay in the Commission's diagnosis of the problems of the existing structure and prescription for its reform. It did not accept the more simplistic business view that tax cuts

and some relatively minor adjustments could solve these problems. The Commission argued that its comprehensive reform schema would in fact provide a highly effective tax structure for stimulating economic growth.[233] If such a rationalization did successfully support the processes of accumulation and economic growth, then these reforms would be beneficial to the fundamental interests of the capitalist class as a whole.

The complex and at times conflicting economic implications of the Commission programme were clearly seen in its emphasis on neutrality. Following this principle, the Report had recommended the elimination of a range of specific concessions, such as those enjoyed by the financial and resource sectors. It argued that these concessions had a detrimental effect on the economy by distorting the operation of market forces and the allocation of capital. In addition, the revenue lost through these special incentives was extremely costly. Their elimination would contribute to improved economic development and the revenue saved would allow the general corporate tax rate to be reduced. The Royal Commission was clearly determined to make whatever changes were necessary for the general health and requirements of the economy, even if this meant restricting the immediate interests of specific sectors of capital, such as those industries that would lose generous concessions.[234]

The Politics and Ideology of Progressive Taxation

The Carter Commission stressed that there were conflicting objectives of taxation and that it assigned highest priority to considerations of equity over economic growth. The difference between the Commission and business appeared so great because the more simplistic currents of

thought within the latter did not acknowledge such conflicts or accorded first importance to growth without qualification. The more sophisticated business commentators recognized the significance of equitable taxation, but would be extremely hesitant to concede it precedence over growth. Despite these differences the Commission's choice of priorities was in no sense radical. First of all, it emphasized that the improved equity its system would achieve would not be at the expense of economic growth. Secondly, the guiding principles of equity and fairness were widely accepted elements of the Canadian political culture and of the ideology of the modern welfare state. The view that the tax structure should contribute to these goals was also a central assumption of prevailing orthodox theories of public finance.[235]

However, the Royal Commission found the tax structure to be highly unequal. This inequality had not been properly documented before and it had been generally assumed that the system was largely progressive.[236] In addition, the generally accepted notion that taxation should be based upon ability to pay was contradicted by the fact that a great deal of income, especially that from property ownership, was not taxed.[237] Given all of this, the Commission's sweeping recommendations to increase the progressiveness of the tax system can be seen to simply carry through the general principles of equity and fairness to their logical conclusion.[238]

The Commission's concern with equity was not based solely on general principles, but was also shaped by important political considerations in a liberal democratic system. The Carter Report saw fairness as essential to public acceptance of the tax structure and clearly held this

acceptance to be crucial to wider public morale and the legitimacy of the overall political system. More concretely, organized labour in the Commission hearings and the New Democratic Party in parliament and wider political debates had been pressing for progressive taxation and specific reforms such as a capital gains tax. Although not nearly as pervasive or impressive as business, these efforts did place progressive taxation squarely on the political agenda. Pressure from these quarters and the extensive media and public discussion of taxation ensured that once the inequality of the existing system had been documented, the interests of the majority of the population in progressive taxation could not be ignored. The Commission's emphasis on the large number of people who would benefit from the proposed changes indicated its sensitivity to these types of issues. More generally, electoral competition ensures that the state, and especially the governing party of course, must respond to the concerns and demands of the public at large. Later commentary argued that the Commission fully realized that there were far more voters who would benefit from the recommended system than would be harmed.[239] By solidifying popular acceptance and support of the fiscal system and the wider institutional order, and by addressing the interests of large numbers of citizens, the reform package can be related to the range of programmes and policies that constitute the legitimation function of the state. In this sense also, the Royal Commission can be seen to have taken a broader perspective on its task; it could look beyond the immediate concerns forced upon individual capitalists by competitive pressures to the long-term order and stability of the overall political and economic system.

The Royal Commission and the Process of Policy Formation

The Carter Report was destined to have a key impact on the evolution of the tax system and transformed the terrain upon which debate on reform took place. But it was not the end of policy deliberations on tax reform; it was really only the end of the beginning, the culmination of the first stage of what was to be a protracted and complicated process. Whatever the Commission's expressed hopes for the acceptance of its recommendations as a package, this had not been the historical experience of such enquiries and could not reasonably be expected in such a controversial case.[240] The importance of its central proposals in the eventual shape of the tax structure can only be understood in the context of the complex processes of negotiation, compromise and balancing of conflicting demands and priorities that pervade policy formation. This was apparently realized by the Commission itself. According to Minister of Finance Mitchell Sharp: "one member of the Commission had told him that the Commission had never thought all its recommendations could be implemented overnight, and that the Commissioners looked upon them as being "very revolutionary"; but they felt it was a goal to which we might be moving."[241] There were bound to be many adjustments in moving towards these goals set by the Commission. There was, in fact, later speculation that the strong manner in which the recommendations had been posed would make it easier for the government to enact compromises and still retain significant reforms.[242]

Business participation in the policy process can be seen in a similar light. The consistency within corporate submissions to the Commis-

sion and wider pronouncements would indicate that their beliefs were firmly held. But by presenting their demands in the strongest possible terms, business also allowed room for later concessions from their side. For example, business had been uniformly opposed to capital gains tax during the Carter hearings. However, as will be seen in the next stage, majority business opinion after the Commission reported came to accept that some form of capital gains taxation was inevitable, but insisted that it must not entail the recommended full rates and inclusiveness. It could be surmised that the total business opposition prior to the Report, followed by the latter's proposals for full taxation, facilitated the possibility of compromise along the lines of a partial capital gains tax. More generally, the top executives, lawyers and lobbyists who represented corporate interests in these deliberations had considerable experience of how to successfully bargain for the ultimate goal they sought. In their ongoing negotiations with the state, such corporate representatives had become highly skilled at setting their initial demands higher than they could expect to achieve in order to allow room for the compromises they fully expected to make, in order in turn to arrive at the final result they had hoped for.

Corporate input to the Royal Commission was by no means monolithic; as has been seen, there were important differences of viewpoint and sophistication within the business community. These divisions within business thinking would have allowed the Commission greater leeway to independently formulate its conclusions than had it been confronted with total unanimity. It must be remembered that the Commission agreed with business that the tax structure must encourage economic growth. The difference with the corporate sector lay in the Commission's very different balance of

priorities and level of analysis. The perspective of the Commission itself was certainly closest to that of the more sophisticated professional, corporate and expert commentators out of which its members and staff had largely been drawn. It could be speculated that the Commission saw itself drawing support from those elements of the business and professional community who recognized the need for significant reform, and then, as discussed above, carrying through what were generally accepted principles to what seemed to be their rational conclusion. However, to whatever extent such considerations were relevant, it was very clear that the Commission's proposals went far beyond what was considered reasonable or necessary by even the most enlightened within corporate circles. A past chairman of the Canadian Tax Foundation later argued that the Commission had posed its recommendations too strongly for them to be acceptable: "I would think in their heart of hearts many members of the Commission would, if they had to do it all over again, ask for less rather than more, because in going as far as they did they made the implementation of the Report much more difficult."[243] In these terms, the Commission may simply have miscalculated the limits of possible compromise.

All of the factors outlined here have to be taken into account within the routine processes of state policy development. But they can become particularly important because of the nature of Royal Commissions as semi-independent bodies within the institutional structure of the state whose mandate is to study and recommend, but not implement, key areas of policy. As an independent enquiry more insulated from the incessant direct pressure and structural constraints that limit the state's freedom

of action, the Carter Commission could more readily and fully pursue the goals of rationalization and efficiency and the reordering of the conflicting priorities of growth and equity. The result was far more comprehensive reform proposals than could have been expected from a department or agency directly within the state apparatus. The autonomous character of Royal Commissions also has important advantages for the government. First of all, it can distance itself from unpopular recommendations. Secondly, the government can use Commission reports to gauge public opinion and the reaction of key political forces to policy proposals without itself being committed to a specific course of action.[244] Finally, it is easier for the government to compromise and retreat from an independent enquiry's conclusions than from those emanating from within the state itself. These factors were all to be important in the government's response to the Carter Report.

Further reasons for the sweeping nature of the Carter recommendations lay within the Commission itself. One plausible explanation is that it simply got carried away with the enormous task of bringing order to a chaotic, inefficient and inequitable tax structure and creating a tightly integrated and well coordinated system. The Commission was certainly charged with optimism that it could do so and did not hesitate to propose far-reaching changes. In approaching its assignment it was also clear that pride of craftsmanship greatly influenced the scope and complexity of the Commission's recommendations. In this regard, the Commission had placed great emphasis on the logic and symmetry of its proposed system and in the importance of appraising and implementing it as a whole.[245] It

was in fact much criticized later for trying to devise a "too perfect" tax structure and thereby ignoring many practical problems of the real world.[246] Such enquiries can develop a momentum of their own in which, enthused with the task at hand and faced with unforeseen difficulties, they take their deliberations further than could have been expected. The Carter Commission certainly went further in its conclusions than the government could have anticipated.[247]

The Royal Commission's Judgment

The scope and contentiousness of the Carter recommendations were also shaped by a number of crucial failures of judgment within the Commission's analysis. The formulation of economic policy is a complex and inexact process; it is always possible to be mistaken over the trends and patterns upon which conclusions are based and over the effect and implications of policy alternatives being considered. However consistent and logical the Commission's deliberations may have been internally, they could have seriously miscalculated the complex balance of forces and factors that affect the fiscal system.[248] For example, the Commission argued that its reform schema would benefit the economy as a whole. However, one of the central problems of the orthodox economic theory that the Commission drew upon was that it ignored the interests and reactions of class forces in its evaluation of policy. Especially crucial, of course, was the response of the capitalist class to the Carter Report. Even if the Commission was correct that its recommendations should result in a more efficient economy, it had soundly rejected a range of key corporate policy demands. In addition, it had challenged central precepts of business

ideology: the taxation of capital gains and other forms of wealth was seen by many businessmen as confiscatory and as threatening the very foundations of the free enterprise system, and business firmly believed that profit was a reward for risk and investment and must not be treated like any other form of income. The Carter Commission appeared to have neglected one of the central structural constraints of a capitalist economy: state economic policy can not work without continued business willingness to invest. In this regard, business' perception of the effect of the proposed reforms was as important as their objective impact. If the capitalist class believed that the recommendations would be detrimental to profit prospects, then investment would be reduced or redirected and economic growth would decline in a self-fulfilling prophecy. The Commission did not seem to take account of the pressing need to maintain business confidence and of the latter's inherently conservative character. For the capitalist class, a favourable climate of investment was one in which policy changes were slow, predictable, orderly and above all, conducive to accumulation. More specifically, it will be shown that business virtually unanimously saw the Report as a severe threat to their material interests and as having a disastrous impact on the overall strength of the Canadian economy. Whatever its objective or rational basis, a pervasive corporate reaction of anger and vehement opposition to the Royal Commission recommendations was to become the predominant feature of subsequent stages of the reform process.

All of this was very clear for the Royal Commission's analysis of neutrality, which was certainly logical and consistent in theory. But

whatever benefits a neutral tax system may have had for the economy as a whole, the necessary changes would have damaged the immediate interests of very powerful sectors of Canadian capital. By not recognizing that these sectors were bound to oppose the elimination of specific concessions that they had become accustomed to, the Commission seriously misjudged the effect of its recommendations. Rather than resulting in a better allocation of capital within the economy, all indications were that resource capital particularly, given its multinational nature would leave the country in substantial amounts.

More generally, the successful implementation of any instrument of economic policy is always influenced and limited by its political viability.[249] However, the Commission said that it did not consider the political implications of its recommendations, leaving that for the government.[250] If this was really the case, then the Commission was badly mistaken. As has been argued in earlier chapters, fiscal policy is never simply a question of economic or technical factors but is also shaped by political conflict and the action of competing class forces.

The Commission expected the public and the business community to receive the Report in a cool logical manner.[251] It anticipated opposition at first, but that the merits of the new system would be increasingly recognized and accepted.[252] In this also it was to prove mistaken. The Commission ignored the powerful class interests that would be affected and offended by the proposed changes. The new system entailed heavier taxation for the capitalist class and affluent property-owning strata generally and for vital sectors of the corporate economy. The Commission's pursuit of

a more equitable redistribution of the tax burden not only affected these concrete interests, but through its increased taxation of property and its promise that income from property should be treated in the same way as any other, it also defied a basic distributional principle of capitalist society. The goals of greater equity and efficiency of the economy as a whole would seem highly abstract to individual capitalists and, more significantly, clashed with their immediate interests. The Commission had either been politically naive or exercised extremely poor judgment in not anticipating the depth of business hostility.[253] Given these misconceptions about the reception of its Report, it is easier to understand how the Commission could confidently have developed its wide ranging reforms. Had it realized the opposition it was bound to face, the scope and severity of its proposals could possibly have been tempered.

The discussion of these political and other factors has sought to explain how the Carter Commission arrived at recommendations so thoroughly antithetical to prevailing business demands. It was certainly clear that the Commission's deliberations had been shaped by a range of considerations beyond the massive corporate pressure that had dominated its hearings and wider public commentary on tax reform. Whatever the source of its conclusions, the Carter recommendations were certain to provoke business hostility. It will be seen that intense and sustained corporate ooopsition was to be the dominant force in the next stage of the overall process.

Footnotes

1. See Peter Newman, The Distemper of our Times, Winnipeg, Greywood Publishing Ltd., 1968 and John Saywell, (ed), The Canadian Annual Review for 1963, Toronto, University of Toronto Press, 1964, p 231ff.
2. This issue was discussed above in Ch 3; see also Newman, op.cit., pp 340-2. The 1966 budget of Mitchell Sharp, for example, continued the dismantling of the key elements of the 1963 Gordon budget; Financial Post, April 1966, p 17.
3. R.C., Briefs, August 15, 1963; Financial Post, August 17, 1963, p 9.
4. "What is Ottawa doing with the Glasco Report?", Canadian Business, March 1964, pp 42-3.
5. Richard W. Phidd & G. Bruce Doern, The Politics and Management of Canadian Economic Policy, Toronto, Macmillan, 1978, p 291. Business was distinctly unhappy with the latter function of the new department.
6. Ibid, pp 182-5.
7. Industrial Canada, July 1963, pp 87-8; see also Canadian Public Administration, Vol 8, No 2, June 1965 for a collection of articles on the growth and development of state economic planning.
8. Industrial Canada, July 1963, p 92.
9. Phidd and Doern, op,cit., p 53. The limits of this commitment have been noted in earlier chapters; redistribution was primarily seen in regional terms and the basis of inequality in the class structure and institutional order of capitalist society was not addressed. See Keith G. Banting, The Welfare State and Canadian Federalism, Kingston and Montreal, McGill-Queen's University Press, 1982; Glenn Drover, "Income Redistribution", in Allan Moscovitch and Glenn Drover, (eds), Inequality: Essays on the Political Economy of Social Welfare, Toronto, University of Toronto Press, 1981, pp 199-226.
10. Canadian Tax Journal, January-February 1966, p 1.
11. Canadian Tax Journal, March-April 1966, p 100.
12. Canadian Business, October 1964, pp 42-6. This was also a common theme at the Chamber's 1964 convention, Ibid, November 1964. The president of the Canadian Manufacturers' Association also decried the high taxation needed to pay for "elaborate social services"; Industrial Canada, September 1965, p 5.
13. Canadian Chartered Accountant, May 1964, p 385.
14. Canadian Tax Journal, May-June 1966.
15. Canadian Business, January 1965, p 28.
16. March 7, 1964, p 1.
17. The regular "Tax Review" column of the Canadian Chartered Accountant provided a useful summary of issues of wider concern and discussion within the business community from 1963 on.
18. Industrial Canada, July 1963; Canadian Business, November 1964. The latter's panel discussion was titled "The Developing Crisis in Taxation" and was addressed by Premier Duff Roblin of Manitoba on federal-provincial fiscal problems.
19. Financial Post, April 23, 1966, p 1; see also Canadian Tax Journal, March-April 1964, pp 129-33.

20. Cf. Financial Post, September 12, 1964, p 1.
21. The editorial of Industrial Canada, January 1965, p 5 called for similar cuts in Canada. See also Canadian Business, January 1965, p 28 and the Financial Post, December 26, 1964, p 32 on this common theme in the advice of the C.M.A., Canadian Chamber of Commerce and the joint committee of the Canadian Bar Association and the Canadian Institute of Chartered Accountants to the government on the 1965 budget.
22. Financial Post, September 12, 1964, p 1; Canadian Business, January 1963, p 8. This reflected the wider dependence of the Canadian fiscal system upon the U.S. This was graphically illustrated in the crisis over the 1963 interest equalization tax; see Gerald Wright, "Persuasive Influence: The Case of the Interest Equalization Tax", in Andrew Axline et al, (eds), Continental Community? Independence and Integration in North America, Toronto, McClelland and Stewart, 1974, pp 137-63.
23. Canadian Chartered Accountant, July 1965, p 53.
24. Industrial Canada, July 1965, p 15.
25. Ibid, p 30.
26. Industrial Canada, September 1965, p 5.
27. Industrial Canada, July 1965, p 28. The tax was eventually repealed by stages in 1967 and 1968 as a short-term measure to direct the tempo of capital investment; J. C. Strick, Canadian Public Finance, Toronto, Holt, Rinehart and Winston, 1973, p 148.
28. Industrial Canada, July 1965, p 15. He defended the corporate right to press their opinions on taxation: "We in manufacturing have every right to express a viewpoint on this. After all, more than half of all federal corporate income taxes each and every year comes from manufacturing industry." See also "Senator McCutcheon to businessmen: get serious about politics", Canadian Business, April 1965, pp 66-8, 71. A number of business speeches during this period advocated greater business involvement in politics.
29. Canadian Tax Journal, January-February 1965, p 48. Shareholders' meetings were a further widely reported forum for the discussion of key policy issues.
30. "The Tax Law Is Not Too Simple", Canadian Tax Journal, March-April 1964, pp 93-100.
31. July-August 1964, p 283ff.
32. Financial Post, January 11, 1964, pp 17-8.
33. Cf. discussions in Business Quarterly, Spring 1963 and Summer 1964.
34. Macleans, May 2, 1964, p 48.
35. Ibid, p 48.
36. Ibid, p 48
37. Ronald Robertson, Tax Aspects of Canada's International Competitive Position, sponsored by the Canadian Trade Committee, Private Planning Association of Canada, Montreal, 1963.
38. Ibid, p IV.
39. Ibid, p IV.

40. During the 1960's and 1970's, this and other committees of the P.P.A.C. such as the Canadian-American Committee published economic reviews and analyses, sponsored studies and discussions, and issued reports and policy statements on trade patterns, capital movements, the role of the government in the economy, Canadian-American relations, energy resources and other key problems. Robert MacIntosh, a senior executive of the Bank of Nova Scotia and co-chairman of the Canadian-American Committee, expressed pride in the influence of these organizations in the development of public policy in these areas; Globe and Mail, (Toronto), October 15, 1974, p B1.
41. Ibid, p IV.
42. Listed in Ibid, pp 21-2.
43. Ibid, p V.
44. Ibid, p V.
45. Ibid, p 1.
46. Ibid, p 19, his emphasis. Because these conclusions disputed such a central element of business demands for tax changes they were not readily accepted. W. O. Twaits, president of Imperial Oil and a member of the Canadian Trade Committee, added a qualification to his signing of the Robertson study: "It cannot be emphasized too frequently that the data contained in this survey do not provide the basis for final comparisons."; Ibid, p VII. This study may have been in mind when discussion at the 1964 Chamber of Commerce meetings questioned the validity of comparative statistics; Canadian Business, November 1964.
47. Robertson, op.cit., p 11.
48. Ibid, pp 19-20.
49. Ibid, p 20.
50. Canadian Chartered Accountant, July 1965, p 53.
51. May-June 1965, p 174.
52. May 1964, p 385.
53. This role is at least partially due to being more removed from the pressure of profit maximization, which compels most capitalists to be primarily concerned with their immediate and specific interests. Additionally, the central function which top professionals, especially powerful corporate lawyers, play in the operation and coordination of the overall economy encourages a more long-term and general perspective on the interests of capital.
54. Minister of Finance Mitchell Sharp disclaimed governmental responsibility for these continued delays; Canadian Tax Journal, July-August 1966, p 479.
55. Financial Post, February 19, 1966, p 1.
56. Ibid, p 1.
57. Ibid, p 4.
58. Canadian Business, April 1965, pp 66-8, 71.
59. Financial Post, March 5, 1966, p 22.
60. Financial Post, April 23, 1966, pp 1 & 4.
61. Financial Post, May 28, 1966, p 19.
62. Ibid, p 19.
63. Financial Post, June 11, 1966, p 30.

64. November 1966, p 360.
65. Ibid, p 360. It is difficult to interpret this latter statement. It surely cannot imply that union policy would have such a direct influence on the Royal Commission. It must be emphasized that this journal, like all other sectors of the business community, did not support capital gains taxation.
66. Canadian Chartered Accountant, March 1966, p 164.
67. In a Quebec City address; Financial Post, February 26, 1966, p 17. Bourassa later left the federal tax team to stand as a Liberal in the Quebec provincial election. If elected he was expected to play a key role in Quebec;s fiscal and economic policy; Financial Post, April 23, 1966, p 23. He was, of course, later to be Premier of Quebec.
68. In the weeks following Bourassa's speech, the Financial Post published a number of letters strongly objecting to his arguments.
69. Financial Post, March 19, 1966, p 25.
70. Canadian Business, April 1966, p 104.
71. August 20, 1966, pp 1 and 5.
72. Ibid, p 5.
73. Ibid, p 1. The stock option changes will be discussed shortly.
74. Ibid, p 5.
75. Ibid, p 5.
76. In a speech in Montreal to the American Bar Association digested in the Financial Post, February 18, 1967, p 22. The fact that there were such indications of Royal Commission recommendations (and many of these informed speculations later proved largely correct) partially explains the quickness of the corporate response when the Report was finally released. The massive and highly negative reaction of business to the Carter reform proposals will be detailed in the next chapter.
77. August 27, 1966, p 6.
78. Ibid, p 6.
79. Ibid, p 6.
80. Ibid, p 6.
81. Canadian Chartered Accountant, March 1966, p 164.
82. 1965, p 466.
83. Financial Post, April 30, 1966, p 1.
84. Ibid, p 1.
85. Ibid, p1.
86. Financial Post, June 18, 1966, pp 1 and 3.
87. July 2, 1966, p 6.
88. Ibid, p 6.
89. Financial Post, December 15, 1982, p 16.
90. Canadian Business, January 1963, p 8.
91. Financial Post, December 15, 1962, pp 16-7.
92. Reproduced in Denis Smith, Gentle Patriot. A Political Biography of Walter Gordon, Edmonton, Hurtig Publishers, 1973, p 243.
93. Ibid, p 243; at that time the Royal Commission was expected to report in 1965. This example illustrates the complexity of a liberal democratic political system. The formulation of vital areas of economic policy, central to the basic functions of the state, are shaped by purely partisan electoral considerations.

94. House of Commons, Debates, May 20, 1966, p 5388.
95. Canadian Tax Journal, January-February, 1966, p 7.
96. May 21, 1966, p 1.
97. Canadian Chartered Accountant, December 1966, p 402.
98. Ibid, p. 402.
99. House of Commons, Debates, August 27, 1964, p 7324.
100. Financial Post, November 13, 1965, p 17; See House of Commons, Debates, February 2, 1966, p 593 on the Unit's terms of reference.
101. On the second function the outside experts could provide a viewpoint which government officials simply could not have. Their professional role and training was precisely designed to find loopholes in tax legislation: "To put it bluntly, the analysis unit is made up of experts in the business of helping clients keep taxes as low as regulations permit."; Financial Post, November 13, 1965, p 17.
102. House of Commons, Debates, February 2, 1966, p 593.
103. Ibid, see also Financial Post, November 13, 1965, p 17.
104. Financial Post, January 7, 1967, pp 1-2.
105. A useful summary of the vast scope of these recommendations is provided by CCH Canadian Limited, Recommendations of the Royal Commission on Taxation (Carter Commission), Don Mills, 1967.
106. R.C., Report, Vol 1. pp 1-2.
107. Ibid, Vol 1, p 2.
108. Ibid, Vol 2, p 48.
109. Ibid, Vol 6, p 74.
110. Ibid, Vol 2, p 48, the Report's emphasis.
111. Ibid, Vol 1, p 4.
112. Ibid, Vol 2, pp 17-8.
113. Ibid, Vol 1, pp 4-5.
114. Ibid, Vol 1, p 4; see also Vol 2, Ch 1.
115. Ibid, Vol 1, p 5. As such, the actual structure of taxation is a good illustration of the politics of the state, of the degree of commitment to progressive principles.
116. Ibid, Vol 1, p 6.
117. Ibid, Vol 2, Ch 6.
118. The incidence of the existing tax structure was detailed below in Ch 4. See also W. Irwin Gillespie, The Incidence of Taxes and Public Expenditures in the Canadian Economy, Studies of the Royal Commission on Taxation, No. 2, Ottawa, Queen's Printer, 1964.
119. R.C., Report, Vol 2, p 239.
120. Ibid, Vol 6, p 73.
121. Ibid, Vol 6, Ch 37.
122. Ibid, Vol 6, p 73. As will be seen, the government subsequently did exactly what the Commission warned against.
123. Ibid, Vol 2, p 1. The Carter Commission was arguing therefore that the nature of the tax system does reflect explicit government policy. Such a connection had certainly been less clear with the haphazard and uncoordinated historical development of the fiscal system. But now that taxation was being reorganized and rationalized, the tax structure that finally resulted should clearly reveal government priorities. In this way, the formation of tax policy provides a useful illustration of the nature of state politics.

124. Ibid, Vol 1, p 39ff.
125. Ibid, Vol 6, p 1.
126. Ibid, Vol 6, p 42.
127. As was seen in Ch 4, the actual trend has been for the proportion of total taxation contributed by corporate taxes to decline while that of personal income taxation has increased. This pattern indicates that this particular thrust of the Commission's recommendations was never significantly implemented. That this was the case can be seen as at least a partial reflection of the tremendous corporate pressure unleashed against the Carter Report and the concessions which were forced from the government.
128. R.C., Report, Vol 6, p 1.
129. Ibid, Vol 1, pp 30-1.
130. Ibid, Vol 2, Ch 3-5.
131. Ibid, Vol 2, p 89.
132. Ibid, Vol 2, Ch 4. Specific recommendations will be examined below.
133. Ibid, Vol 6, p 74.
134. Ibid, Vol 6, Ch 38.
135. Ibid, Vol 1, p 32.
136. Ibid, Vol 1, p 5ff. This concept was later to be crudely charaterized as "a buck is a buck".
137. For a useful compilation of the range of changes involved in the widening of the tax base see C.C.H., 1967, op.cit., p 35 and p 78ff.
138. R.C., Report, Vol 1, pp 13-5.
139. Ibid, Vol 6, Table 35-4.
140. Ibid, Vol 1, pp 13-5. The compensating changes will be detailed below.
141. Ibid, Vol 1, p 16ff.
142. Ibid, Vol 1, p 17.
143. Ibid, Vol 1, p 18.
144. Ibid, Vol 1, p 10.
145. Ibid, Vol 6, Table 36-6.
146. Ibid, Vol 1, p 32; which means that essentially all within the working class were fully taxed.
147. Ibid, Vol 1, p 10.
148. Ibid, Vol 6, Table 36-4.
149. Ibid, Vol 6, Table 36-6.
150. Ibid, Vol 6, Table 36-8. In order to graphically illustrate the impact of its proposals, the Commission detailed resultant changes in the tax burden for a number of different categories of taxpayers. These illustrative groups were delineated in terms of age, sex, family situation, occupation, and source and amount of income. Although these examples applied directly to only sizteen thousand of 6.7 million taxpayers, the Report argued that they do reflect the situation of "typical reaidents" and demonstrate the consequences of its recommendations, Vol 6, p 52-5.
151. The concrete effect of the various recommendations will be detailed more precisely below.

152. R.C., Report, Vol 3, Table 11-18; see also Vol 3, Ch 7 on the underlying principles that shaped the construction of these rates. The Royal Commission's analysis and recommendations on the taxation of individuals are detailed at great length in Volume 3 of the Report.
153. Ibid., Vol 1, p 20.
154. Ibid., Vol 6, p 81.
155. Ibid., Vol 1, p 20.
156. Ibid., Vol 6, p 19ff.
157. Ibid., Vol 6, Ch 37.
158. See also the summary in CCH, 1967, op.cit., pp 94-5.
159. R.C. Report, Vol 1, p 7.
160. Ibid., Vol 1, p 27ff.
161. Ibid., Vol 6, Table 36-6.
162. Ibid., Vol 1, p 28.
163. For a comparison of the existing system and the effect of integration see C.C.H. Ltd., 1967, op.cit., pp 36-7.
164. R.C., Report, Vol 6, p 88.
165. Ibid., Vol 1, p 25; see also Vol 6, Ch 37.
166. Ibid., Vol 6, p 89ff.
167. Ibid., Vol 6, p 90.
168. Ibid., Vol 6, p 91.
169. Calculated as follows: the existing 21% on the first $35,000 of corporate income yielded tax of $7,350, the proposed flat rate of 50% on the same income would produce $17,500, and the difference is $10,150.
170. Ibid., Vol 6, p 98.
171. CCH Ltd., 1967, op.cit., p 43.
172. R.C., Report, Vol 3, Table 11-18.
173. It will be seen that this issue was crucial in the subsequent political organization of small business.
174. R.C., Report, Vol 1, p 25; Vol 6, Ch 37.
175. Cited in CCH Ltd., 1967, op.cit., p 46.
176. R.C., Report, Vol 1, pp 24-5; Vol 6, Ch 37.
177. Ibid., Vol 6, pp 91-4.
178. Ibid., Vol 6, pp 92-3.
179. Ibid., Vol 1, p 25. This possibility indicates a potential source of conflict between the various sectors of the corporate economy. While it was in the interests of the financial and extractive sectors to retain their special incentives, it was in the interests of other sectors to see their general rates reduced through the removal of the special concessions.
180. Ibid., Vol 6, p 94.

181. Ibid., Vol 6, Table 35-4. The Report attempted to quantify the effects of its proposals for corporate taxation. The estimates of the long-term implications of the recommendations were based on 1964 data and did not adjust for shifting.
182. Ibid., Vol 6, p 98.
183. Ibid., Vol 6, p 94ff.
184. Ibid., Vol 6, p 99. It could be speculated that major enterprises in these areas were confident of their position. In mining for example, the key industry associations took part in the Carter Commission hearings, but few individual dominant corporations did. They clearly did not see their advantaged tax status as threatened. The Commission recommendations would be all the more of a shock for this reason. See M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate", in A. Paul Pross (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975, pp 89-114.
185. R.C., Report, Vol 6, pp 92-4.
186. Ibid., Vol 1, p 13.
187. Ibid., Vol 6, p 94ff; Vol 1, p 46.
188. This discussion focuses on short-term effects of higher corporate taxation. The Royal Commission argued that the fundamentally sounder system it proposed would be highly beneficial over the long-term. Whatever the validity of this thesis, it was in terms of their immediate interests that subsequent business opposition to the Commission recommendations was framed.
189. See R.C., Report, Vol 6, p 98ff.
190. Ibid., Vol 6, p 171.
191. Ibid., Vol 6, p 171.
192. Ibid., Vol 6, p 98.
193. In Canada at least. Many of these foreign owners could claim tax credits in their resident country, Ibid., Vol 1, p 46.
194. CCH Ltd., 1967, op.cit., p 43.
195. R.C., Report, Vol 1, p 47.
196. Ibid., Vol 6, p 47.
197. Ibid., Vol 6, p 56.
198. Ibid., Vol 6, p 30.
199. Ibid., Vol 1, p 9; further detailed in Vol 6, Ch 38.
200. Ibid., Vol 6, Table 35-1.
201. Ibid., Vol 6, Table 36-10.
202. Ibid., Vol 6, Ch 38.
203. See CCH Ltd., 1967, op.cit., p 49.
204. R.C., Report, Vol 2, Ch 5.

205. Ibid., Vol 6, Ch 37.
206. Ibid., Vol 1, p 46.
207. Ibid., Vol 6, p 173.
208. Ibid., Vol 6, pp 173-4.
209. Ibid., Vol 6, p 81.
210. Ibid., Vol 1, Introduction, Table 6. As noted above, these estimates were derived from 1964 statistics. The Report stressed that such averages could contain many exceptions; Vol 1, p 43.
215. Ibid., Vol 6, Table 36-11.
216. See Ch 2 above.
217. Calculation of income groups from R.C., Report, Vol 6, Table 36-4.
218. Ibid., Vol 6, Table 36-11.
219. Ibid., Vol 6, p 60.
220. Ibid., Vol 6, Table 36-2. See this table for complete details on the age and family situation of these examples.
221. Ibid., Vol 6, p 52.
222. Ibid., Vol 6, Table 36-2.
223. Ibid., Vol 6, Table 36-8.
224. Ibid., Vol 6, Table 36-4, my calculations.
225. Ibid., Vol 6, Table 36-5.
226. Ibid., Vol 6, Table 36-4, my calculations.
227. Ibid., Vol 1. See also Financial Times, March 13, 1967; Financial Post, March 25, 1967, p 3.
228. R.C., Report, Vol 1, pp 105-8.
229. Ibid., pp 61-72. Beauvais' minority report was the more detailed; including tables and appendices, it was 52 pages in length.
230. Financial Post, December 2, 1967, p 16.
231. Financial Post, October 10, 1970, p 35. This is a very important point. The Commission began its analysis from a perception of the existing system very much within the mainstream of at least the more informed business thinking of the time. It certainly did not start with any firm assumptions about the need for radical change. Mr. Goodman argued that this was hardly surprising given the background of the commissioners, especially Carter and Perry, "the two members who carried most of the load."
232. Ibid.
233. This was later strongly argued by three of the Commission's top researchers in their defence of the Report; Financial Post, December 2, 1967, pp 15-6.

234. As cited in Ch 6 above, Mr. Carter had emphasized this in the public hearings. More generally, as discussed in Ch 1, an important element of the role of the state is the provision of conditions and the pursuit of objectives that the capitalist class is not able to because of competition between specific capitals.
235. Critics of the Commission from the left (cf. Canadian Forum, May 1967, June 1968) and from business (cf. C.T.F., April 1967 Conference and November 1967 Conference) agreed on these origins of the Commission's basic framework.
236. In fact, one of the themes of the business attack on the existing tax system was the belief that it was too progressive.
237. Financial Post, October 10, 1970, p 35.
238. It was only in the sense of relentlessly applying these principles, which were themselves solidly within contemporary economic theory, that the Commission could be considered radical; Stephen H. Hymer and Melville H. Watkins, "The radical centre - Carter reconsidered", Canadian Forum, June 1968, p 52. In addition, the limited nature of the Commission's conception of equity has been discussed above. The Commission's emphasis on rationalization and neutrality were similarly well within the assumptions of conventional liberal ideology and public finance theory and practice. Here again, the Commission had found the existing system wanting and followed the general principles through to their conclusion.
339. Citizen, (Ottawa), February 25, 1967.
340. See Hugh Whalen "Problems of Implementation", Canadian Forum May 1967, p 43: "Other Commissions have made similar requests, usually to be thwarted by ultimate parliamentary determinations. In practical politics the 'all or nothing' formula normally implies nothing."
241. Canadian Tax Journal, January-February 1968, p 2.
242. Cf. Financial Post, April 8, 1967, p 18.
243. C.T.F. November 1967 Conference, p 34.
244. Traves has shown the historical significance of such considerations in his analysis of the role of the tariff board in the formation of state industrial policy early in this century; Tom Traves, The State and Enterprise: Canadian Manufacturers and the Federal Government, 1917 - 1931, Toronto, University of Toronto Press, 1979, p 166.
245. See Whalen, op.cit. The two principle architects of the Report, Carter and Perry, were both accomplished tax experts who could be expected to take considerable professional pride in their efforts.
246. Cf. debate at C.T.F. April 1967 Conference.
247. Just before the release of the Report, the government was very apprehensive over its reception; Financial Times, January 23, 1967.

248. See Suzanne de Brunhoff, The State, Capital and Economic Policy, London, Pluto, 1978 on the complexities of policy formation.
249. Ibid., p 84.
250. Citizen, (Ottawa), February 25, 1967.
251. See a later speech by Mr. Carter; Financial Post, March 23, 1968.
252. C.T.F., April 1967 Conference, p 41.
253. See Walter Stewart, Shrug: Trudeau in Power, Toronto, New Press, 1971, p 96, Canadian Forum, May 1967, pp 39-40.

Stage Two: Retreat from the Royal Commission

The process of tax reform had formally began with the establishment and deliberations of the Royal Commission on Taxation. Its enormous Report shifted the debates on tax reform to an entirely different plane. When tax reform had first become an important issue and when the Commission deliberations were underway, opinion on what type of tax changes were necessary could vary a great deal. However, the focus of debate was considerably sharpened with the February 1967 release of the Report; discussion was not centred upon a concrete set of proposals. More fundamentally, the Carter recommendations would entail significant changes in the tax position of vital and powerful forces within Canadian society. In a later speech to the 1970 conference of the Canadian Tax Foundation, J. R. Brown, senior tax adviser in the Department of Finance, noted the increased tempo and intensity of the deliberations on tax reform: "This debate began while Canadians were preparing briefs to be presented to the Commission, and interest remained high while the commissioners were reaching their conclusions. However, the debate really began in earnest once the Report was made public in February, 1967 - the number of participants increased greatly, the scope broadened greatly, and the fervour with which views were put forward also increased greatly."[1]

State officials had consistently promised sufficient time for interested parties to study and commend upon the findings of the Carter Commission. When the Report was released, the government again stressed

that there would be no hasty implementation and hastened to allay business uneasiness. When tabling the Report in the House of Commons, Minister of Finance Mitchell Sharp stated:

> The government intends to study the report and the views expressed on it during the next few months, before reaching concludions about the recommendations made by the commission or alternate suggestions from other sources. In the meantime, we do not intend to comment upon the substance of the report, nor indicate our intentions concerning its recommendations. Any premature comments, or forecasts of our intentions on these matters, could have substantial effects upon markets and upon business decisions. There will no doubt be uncertainty in some of our markets and insome industries during the period that is necessary to come to wise decisions after public discussion of these important but contentious issues.[2]

The formulation of these "wise decisions" and the dynamics of this public discussion" on the Royal Commission proposals is examined in the next four chapters.

The Commission's sweeping proposals would have restricted or removed important advantages enjoyed by the capitalist class within the existing tax system and quickly became seen as a serious threat th corporate interests. This stage of analysis focuses upon the immence corporate opposition to implementation of the Commission's basic framework and central recommendations and the series of successive government retreats in the face of this massive pressure. Each of the four following chapters explores a particular juncture of the corporate campaign against the Report and public debate on reform, and of the government's Proposals for Tax Reform on November 7, 1969 which was itself a substantial retreat from the Royal Commission.

However, as will be seen, a range of countervailing forces and factors ensured that the issue of progressive reform could not be entirely dropped and that the White Paper was not a total victory for business.

Footnotes

1. C.T.F., 1970 Conference, p 7.
2. CCH Canadian Ltd., Recommendations of the Royal Commission on Taxation, Don Mills, 1967, p IV.

Chapter 8 First Retreat: Mining Taxation

I. Initial Reaction to the Carter Report

Immediate Reaction in the Press

The Carter Report was accompanied by thirty-one lengthy press releases which summarized the major priorities, recommendations and implications of the Commission's reform schema,[1] and which stimulated extensive discussion in the media.[2] A number of consistent themes appeared in the initial editorial response of the major metropolitan daily newspapers.[3] There was great admiration for the impressive and comprehensive nature of the Commission's analysis. The Toronto Globe and Mail exclaimed: "The report of the Carter Royal Commission on Taxation has certainly lived up to its advance billing. In its comprehensiveness, in its sheer volume, in its literally hundreds of recommendations, it is unlike any report that has come Canada's way before."[4] The Report was also seen as a major contribution to the understanding of taxation and the fiscal system. The same Globe and Mail editorial stressed that the Commission challenges conventional thinking and accepted principles: "But what it does most importantly of all is to present a whole new philosophy of taxation."[5] The Commission's basic goal of developing a fairer tax system was widely applauded.[6]

Within this widespread admiration for the Royal Commission's accomplishment, initial commentary on the Report foresaw serious problems with the implementation of its reform proposals. The sweeping nature of

the recommendations and the sheer scope of the tax changes that would be entailed was a source of much concern.[7] It was emphasized that such a substantial document would require lengthy study before there was any movement towards its adoption. The Globe and Mail again noted: "As Finance Minister Mitchell Sharp said even before he saw it, the sheer size of the thing, its incredible scope, its shattering new ideas, will take a lot of digestion. No legislation can possibly come of it for months."[8] Practical and administrative problems were also much discussed. The central question for the Toronto Telegram was simply whether or not the restructured tax system would work,[9] The Ottawa Citizen wondered whether the rationalization of taxation proposed by the Commission could be accomplished "without committing new injustices and without stifling incentive."[10]

The early media commentary also anticipated the political conflict that was to be of continuing importance in the debates and controversy on the Royal Commission. It was recognized that its core recommendations offended and threatened powerful interests. The Globe and Mail's Report on Business noted: "Some of the worst fears of business have been confirmed."[11] Similarly, the Toronto Star emphasized: Many sacred cows of the business world have been gored by the Carter Royal Commission on Taxation and the rumblings from that quarter are only a prelude to powerful lobbying at Ottawa to get the report changed or shelved."[12] The Financial Post expected that the Commission would face strong opposition from those groups most affected by its proposals. The recommendations on the insurance industry, for example, were not unexpected, but would still

entail significant tax increases for the major companies and would arouse considerable hostility. Similarly, the changes in gift and estate taxation could pose significant problems for the wealthy.[13]

It was widely predicted that debate over the fate of the Royal Commission would be long and bitter.[14] The government would be faced by conflicting forces and pressures. On the one hand, the political attractiveness of proposals that would allow the government to reduce taxes for the majority was obvious.[15] At the simplest level, those affluent and corporate groups who could be adversely affected by the recommendations constituted a far smaller body of voters than the vast majority who would benefit [16] and widespread support for the Commission's efforts towards redistribution was expected.[17] But on the other hand, organized business would oppose the increased taxation it would face. The Toronto Star predicted the lines of this conflict: "Vigorous public support will be needed to save the report from emasculation at the hands of business and financial special interests."[18] In addition, while the Tax Analysis Unit had ensured that the recommendations were administratively feasible, the controversial character of the recommendations made their implementation politically difficult: "A minority government that will be coming up toward another election by the end of 1968 isn't likely to want to take too unpopular a line, however intellectually attractive it might be."[19]

The press releases and statements of the commissioners themselves had presented the Report as a system of integrated and interdependent proposals. Early press commentary, however, foresaw little chance of the implementation of the recommendations as a package. The Montreal Star

argued that "there are just too many pressures, too many conflicting interests" so that the Report "would have small chance of total acceptance."[20] A parallel was drawn between the Carter Commission and the earlier Porter Royal Commission on Banking and Finance. That Report had also called for a sweeping package of interlinked recommendations on crucial issues of economic policy. Moreover, the government planned to proceed with Carter in the same way as it had with the Porter Commission: draft legislation would be presented after the Report had been studied and would then be the subject of parliamentary hearings. Because of these similarities, the experience of the Porter Commission was seen as instructive for the fate of the Carter study; the Porter reform proposals were not accepted as a package, but compromise recommendations were adopted in a partial and piece-meal fashion. John Meyer noted in the Montreal Star: "There is the very real danger that the same thing will happen to the Carter recommendations."[21]

Reaction from the Business Community

Business response to the Report in the first few days after it appeared was mixed and guarded, but by no means totally hostile. A number of business spokesmen applauded the accomplishment of the Royal Commission while reserving judgement on its specific recommendations. Toronto investment executives, for example, accepted philosophically the capital gains proposal and were thankful of no greater disruptions. The vice-chairman of the Toronto Stock Exchange commented: "I feel relieved that the recommendations in general do not drop a bomb on investment confidence."[22] A characteristic response from the accounting profession

was that: "While it is too early to evaluate the report fully, the recommendations in general appear sound, and...they will meet with general acceptance."[23] This initial relatively favourable, if not overly enthusiastic, business reaction was short-lived. On the Monday following the Friday release of the Report, the Globe and Mail noted: "Opposition to recommendations of the Carter Royal Commission on Taxation emerged yesterday as the Canadian business community recovered its voice following a weekend of anguished study."[24] This developing hostility was especially pronounced from those sectors, such as the resource and financial, who would be most adversely affected.

The initial response of the key corporate organizations to the Carter Report varied a great deal. In a statement released on Sunday, February 26, Henri W. Joly, president of the Canadian Manufacturers' Association, welcomed the recommendation to remove the sales tax on production equipment as being of "immediate benefit to industry."[25] He also supported the shift of the federal sales tax from the manufacturing to the retail level and the abolition of death taxes.[26] However, the C.M.C. was opposed to the capital gains taxation, which it felt would discourage investment and development, and to the removal of the dual rate of corporate income tax, which would damage small business. Spokesmen for the investment community were generally favourable to the Report, but worried about its overall effect on the stock market and upon those sectors that would lose important concessions.[27] The president of the Canadian Construction Association stated that "the industry is pleased with the report and gratified that many of the recommendations in our brief

appeared to have received attention."[28] He supported recommendations on sales taxes, profit averaging, the treatment of co-operatives and estate taxation. It was seen in the previous chapter that the Royal Commission proposals would affect the various corporate sectors very differently. Although facing overall changes to which all business was to become opposed, the actual effect on the industries represented by the C.M.A. and C.C.A. would be relatively limited. This partially explains the mixed and uncertain first reaction of these organizations to the Report. However, the situation was far more clear-cut for those financial and resource sectors that would pay higher corporate taxes under the Royal Commission. Their response was correspondingly unequivocal. From the very beginning, the reaction of those industries that had most to lose from the implementation of the Royal Commission was uniformly hostile. Three days after the release of the Report, Robert H. Reid, president of London Life Insurance Co., attacked key recommendations as "grossly discriminating" and as "vicious and unjustified." He argued that the Commission ignored the realities of the insurance industry and noted that his company would shortly be making representations to the government in opposition to the Report.[29] The equally quick and equally hostile response from the resource sector will be discussed separately below.

Just as it had been highly important in the initial pressure for tax reform, the Financial Post's editorial analysis and extensive coverage of the Royal Commission played a leading role in informing the business community of the reform proposals.[30] Such discussion was a critical precondition of the mobilization and organization of business opinion.

In its lead editorial column entitled the Nation's Business, the Financial Post attached great importance to the Commission's Report.[31] It warned "the 'instant experts' who are pontificating about what's bad in the recommendations" to recognize the solidly analyzed and well prepared nature of the Report. The Post believed the greatest problem of the existing tax system to be its haphazard and complicative structure. Following from this, it saw great danger in the package nature of the proposals: "If the government handling the reform legislation is willing to be pushed around easily, we can readily end up with another patch job, in which some Carter ideas are accepted, some rejected. If that happens, we may be worse off than when we started." The Post recognized that the tax structure must be widely accepted by the public and that high levels of taxation were an inevitable feature of the modern period. The latter factor made the rationalization of taxation all the more important; it was stressed "that big taxation is here to stay, and that the incidence of taxation, the particular way in which it is incurred, has a very great deal to do with shaping our society and with determining business patterns." The primary concerns of the Financial Post were very clear in its delineation of the central criteria for evaluating the proposed reforms: "Will this tax system give maximum incentive to the people whose decisions and activities produce economic health and growth for the whole population? Will this tax program be a reform which will result in a better growth rate for our whole economy?"

W. A. Macdonald, a leading Toronto corporate lawyer, had published a very important column on taxation in the Financial Post in the

period leading up to the release of the Royal Commission. Such informed anticipation had played a critical role in facilitating a speedy and reasoned corporate reaction to the Report when it finally appeared. Macdonald's continuing series on the content and implications of the Report became a highly significant component of ensuing debates.[32] His first observation on the Royal Commission was to caution businessmen to "keep your cool"; deliberations would be lengthy and implementation of the Report was far from certain. He argued that "in the meantime, careful study is the order of the day" and urged the major corporate organizations to begin preparation of solid and detailed submissions on the Carter Report, which must include "the kind of study and research which will lend real weight to the representations," for presentation to the government.[33] Macdonald emphasized the importance of such corporate input at this early stage of the process; it was far better to influence the direction of the draft proposals as they were being formulated than to attempt to change government policy once it had been put forth, "despite the oft-stated intention that there will be time and opportunity to make submissions against the draft Bill as well as in respect of the Carter recommendations."[34] He also underlined that corporate planning and investment decisions could be much affected and constrained by the likelihood of the adoption of key recommendations. Uncertainty in this regard could necessitate government assurances of a sufficient transition period.

Reaction of the Stock Market

Fluctuations in the stock market can be seen as important indicators of business reaction to changes in economic policy or the general economic environment. Market response was seen as a key barometer of business confidence and the need to ensure stable and healthy market conditions was a crucial constraint on state economic intervention. In fact, in the month before the Report's publication, the government was extremely apprehensive about its effect: "Senior ministers expect the report to be a blockbuster. They are already anxious about the effect which the Carter proposals may have on the stock markets. They are afraid that a shaken financial community will demand quick government reaction 'to restore confidence'."[35] The market was quick to respond to the release of the Royal Commission. On the day the report was released industrial shares weakened in the heaviest recent turnover on the Toronto Stock Exchange. This decline was interpreted as reflecting "apprehension about the impact that the Carter Royal Commission Report would have on stock values when trading resumes Monday."[36] All the major exchanges in Canada did in fact show declines on Monday February 27. The sectors that would be most affected by the recommendations experienced the greatest losses; among the major corporations whose shares dropped significantly in price were Great-West Life Insurance, Inco, Falconbridge, Dome Petroleum and Imperial Oil.[37] The resource industries were particularly hard hit: "Mining and oil share values dropped sharply yesterday in swift response to the report of the Carter Royal Commission on Taxation. The market response indicates that investors believe the outlook has dimmed for

Canada's extractive industries."[38] More specifically: "Oil company shares have taken the worst drubbing from the Carter recommendations." The Toronto Stock Exchange Western Oils index fell 2.8% in two days and the four major integrated oil corporations suffered declines of $1.50 to $2.00 per share.[39]

These immediate declines in the stock markets reflected the perception of investors that the Commission recommendations would have an adverse effect on the profits and prospects of major corporations. One analyst, however, argued that the immediate fluctuations after the release of the Report were not that significant; that they largely reflected selling by small investors and that the critical question was "adjustments in large holdings over the next six months."[40] The Financial Post was less sanguine in interpreting the short-term market trends. On the sharp decline in oil shares, for example, it noted: "Although much of the initial selling has been of the emotional type and mainly of small investors there has also been some 'pretty sophisticated investor selling as well', an official of a large investment firm told FP this week."[41] At the very least, the adverse reaction of the stock market to the Royal Commission certainly does indicate significant business unease and apprehension.

The drop in share values was a major focus of early editorial commentary.[42] The fluctuations were seen as indications of significant uncertainty as to future prospects, especially of those sectors that would be most affected, if the recommendations were enacted. The problem of business uncertainty was much discussed during this early period. The

Globe and Mail, for example, noted that with the expected difficulties of implementation and the unlikelihood of total acceptance of the reform package business was "plunged into a guessing game of uncertain duration."[43] Similar concerns were voiced by W. T. Brown, president of the Investment Dealers Association. He had predicted the adverse reaction to the Report in the stock market and added "that until there is a policy statement from the Government, there is considerable danger of a hesitation in all Canadian security markets."[44] This business uncertainty and the related stock market gyrations were of great concern to the government. As previously discussed, one of the critical priorities of state economic policy is the maintenance of business confidence and a stable and attractive climate for investment. While this confidence certainly has an ethereal quality the pressure on the government to sustain the conditions perceived as optimum by business is nonetheless very real. The fact that the initial reception of the Royal Commission revealed significant business alarm and anxiety was definitely one factor encouraging the government to be cautious in its study of the recommendations.

Conclusions: First Reaction to the Royal Commission

The immediate reaction of business to the Report was somewhat hesitant. There was general admiration for the Commission's contribution to the understanding of public finance, but many corporate spokesmen felt that it was too early to precisely foresee the full implications of the reform proposals. For this reason, many organizations withheld comment until succeeding weeks. The response of those business executives and groups who did comment was very much shaped by the position of their

specific industry. It was from those sectors whose tax burden would not be drastically altered and who would benefit from the overall rationalization of the tax system that the initial reaction was vaguely favourable, albeit with grave reservations and qualifications. By contrast, those industries that would face large tax increases were strongly opposed to the recommendations from the beginning.

A further issue that was to be of ongoing significance was the regional context within which the conflict on tax reform took place. From the very beginning, opposition to the Royal Commission was particularly strong in Western Canada. Business spokesmen from the major Western cities were greatly concerned over key recommendations of the Commission; capital gains and other taxes on wealth, and the elimination of resource incentives were seen as real threats to regional economic development.[45] On this latter issue, for example, a common view was: "Canadians from the West and North may read also with a great deal of anxiety. The provinces and territories have pinned high hopes for development on the mining industries, but the commission seems to look very philosophically on shift of investment with other activities."[46] Similar concerns were reflected in editorial commentary from leading Western newspapers during early March.[47] These anxieties and concern over the effect of the recommendations on regional economic development were to shape the policies and role of provincial governments, especially those of the West, throughout the process of tax reform. In addition, the provinces were uneasy about Commission recommendations to further centralize fiscal power at the federal level.

There was also considerable business discussion of state deliberations on the Royal Commission and reform. In March of 1967, Finance Minister Mitchell Sharp was engaged in a detailed study of the Report and there would be no official pronouncements until government policy was formulated. It was expected that "a special team of officials, probably headed by a junior minister, will be up to handle the expected flood of public reaction to the Carter recommendations."[48] This group would be based on the Tax Analysis Unit within the Department of Finance that had been at work on the Carter proposals since late 1965. The government's planned timetable was to receive public representations and hold discussions with the provinces during the spring and summer, put forth a detailed set of proposals in the form of a White Paper in the fall, and after public discussion of this document began final implementation in 1968. Again, the Macdonald Financial Post column succinctly summarized business thinking on how the government should proceed.[49] Most importantly, he argued that the government must not act precipitously; it must "resist all pressures, however insistent or persuasive, for any legislative response to the massive, visionary, Carter report." In the government's examination of the Report, "the most careful thought will have to be given to the means of receiving effectively briefs from interested firms, individuals and associations. Seriously prepared briefs must be assured of serious and effective hearings." There was considerable unease within business circles on this issue; the joint committee of the legal and accounting professions had long been unhappy with the existing mechanisms of input to annual budgetary tax changes. The corporate sec-

tor was most anxious that its submissions be assured of an influential role in the policy process. The Business Quarterly stressed that the Carter proposals were only recommendations and "hoped that views of Canadian business will be expressed and taken into consideration before this most important choice is made by the government" on how to proceed.[50] Macdonald suggested that the close involvement of the Tax Analysis Unit within the Department of Finance with the Royal Commission may bias them in favour of the reform proposals. The Economic Council of Canada, with its concern for overall economic policy goals, could be a useful organization to ensure an objective analysis of the recommendations. Macdonald again strongly argued that the government must not proceed directly to draft legislation. The general parameters of government policy on the Commission and tax reform must first be stated and debated: "This would seem to call for something in the nature of a government White Paper putting the report in the context of a much more cohesive national policy for social and economic goals than exists at the present time."[51]

II. Mobilization of Corporate Opposition to the Royal Commission

The tempo of reaction to the Royal Commission radically changed within the first weeks following its release. During the first few days editorial commentary perceived some problems with the Report, but was generally positive. At the same time, business reaction was mixed and guarded, but at least somewhat favourable. In his study of the political conflict and debate over the Carter Commission, Bossons argued that this situation was very shortlived and that this initial corporate response quickly solidified into general opposition.[52] He characterized

this next phase "as primarily consisting of the expression of two types of concern: (1) a realization on the part of professional tax counsellors of problems which would arise in implementing the Report's proposals, and (2) a realization on the part of adversely affected special interest groups of the potential financial cost to them of these proposals."[53] Initial hesitation over the Commission's scope quickly began to harden into strong objections to its central elements. This growing opposition was expressed in a number of forms. Former Conservative Minister of Finance Donald Fleming spoke to the Empire Club in Toronto in March.[54] He condemned the extreme nature of the recommendations and was firmly opposed to the all inclusive nature of the comprehensive tax base, capital gains taxation and the elimination of resource concessions and the special position of insurance companies. Other articles in the business press attacked the recommendations on capital gains[55] and the treatment of foreign capital.[56] A common argument on the latter issue was that "Carter's proposals in this area raise enough doubt in the mind of the foreigner to question whether Canada would remain an acceptable area for investment."[57]

The major corporate organizations were quickly at work formulating their analysis of the Royal Commission for submission to the government.[58] A special committee of the Canadian Institute of Chartered Accountants and the Canadian Bar Association was studying the Report in March, 1967. Tax experts called for ample time "for detailed examination and further public submissions" on the Report.[59] The role that tax professionals could play in the formulation of a concrete and sophisticated response to

the Royal Commission was frequently stressed. For example, the Tax Review column of the Canadian Chartered Accountant noted: "It is hoped that this column will be able to provide, in the ensuing months, some assistance in the understanding of the Report and some comfort to those who feel that they are adversely affected."[60] Tax experts also cautioned that submissions to the government must be properly prepared.

Once the Royal Commission had so amply documented the inadequacies of the existing system it had made fundamental reform inevitable. In the face of such a comprehensive analysis those who disputed the Report must be prepared to devote lengthy study to the development of solidly supported arguments. If critics hope to influence the deliberations on the reform proposals, "it will be amply evident that those who wish to see certain modifications made will have to do their homework well."[61]

Not only was corporate opposition increasing in intensity, but it had also begun to coalesce around a number of distinct issues. As in earlier stages, the Canadian Tax Foundation played a particularly central role in the elaboration of business policy and its deliberations provided a good indication of these emerging themes within corporate thinking on the direction of tax reform.

The nineteenth annual conference of the Canadian Tax Foundation held in Toronto April 24-26, 1967 was entirely devoted to the discussion of the Report of the Royal Commission on Taxation. There were the meetings that had been continually postponed as the completion of the Report was perpetually delayed. The importance of the Foundation in facilita-

ting and encouraging a sophisticated approach to tax reform within the higher circles of the corporate economy has been stressed in earlier chapters. This conference came at a particularly important juncture in the policy process; it provided the first opportunity for a detailed and comprehensive analysis of the Commission proposals.[62] Over 1700 participants heard prominent lawyers, accountants, corporate executives and academics examine the implications of the recommendations.[63] The conference was also extensively attended and its discussions closely followed by government officials. A number of speakers emphasized that the Foundation's responsibility for the analysis and development of fiscal policy had never been more important than with the publication of the Royal Commission: J. R. M. Wilson, F.C.A., president of the C.I.C.A. stressed that the public were "looking to the meetings for the next three days for the informed, critical appraisal of the recommendations of the Commission "[64], and Phillip Vineberg, Q.C., chairman of the C.T.F. stated "today we're concentrating our attention on a Report which, whatever its final outcome is bound to have a vital impact upon the future evolution of the fiscal system of Canada."[65] In addition, the conference was a highly authoritative forum whose deliberations would carry considerable weight in the subsequent development of tax policy. In opening the general session on the taxation of corporations, H. Marcel Caron, C.A., vice-chairman of the C.T.F., noted: "Our meetings on this Royal Commission Report carry, this year, a paramount responsibility. We are no doubt shaping our tax system of tomorrow."[66] He then argued that change in taxation and other policy areas was inevitable and that it was for "construc-

tive business leadership" to guide the optimal course and direction of change. In this regard, "I believe this gathering and the Foundation research staff can, and must, accept this challenge and offer objective guidance to our political leaders."[67] This point was reiterated in Vineberg's introduction to the closing general session: "And with no group more than this one will the responsibility lie in determining the future evolution of the recommendations made by the Carter Report."[68]

Opposition to the Commission's Basic Framework

A common theme within prevailing business criticism of the Carter Report that was also much discussed at the C.T.F. conference was the belief that the changes proposed by the Commission were simply too sweeping and revolutionary in character. Howard I. Ross, a Montreal chartered accountant, was greatly worried by the possible economic dislocations that could result from such major alterations: "In my view, our economy is too delicate, too complicated, too unpredictable an organism to justify us in introducing violent and radical changes, however confidently supported by a priori reasoning." For this reason, he concluded "I have great doubts as to whether they have produced a practical program which could, or should, be put into operation over anything but a very long period of time."[69] These themes were reiterated at the conclusion of the conference in the summing up address of H. E. Stikeman, leading corporate lawyer and tax authority. Mr. Stikeman recognized the serious inadequacies of the existing system, but argued that "over the years the politicians and businessmen have managed to evolve a more or less workable compromise."[70] As problematic as the existing system may have been,

business had nonetheless been able to adapt to it: "it is true that the present structure does not always make sense, but at least we know where it does not make sense and can plan accordingly. Under Carter we do not yet know. To jettison this overnight, which is really what embracing the Carter Report amounts to, would administer a shock to all Canadian taxpayers." The key question was whether the advantages of rationalizing the tax structure would outweigh "the cost in terms of dislocation, business uncertainty and all the attendant unpleasantness."[71] Mr. Stikeman answered in the negative; it would be far better to adapt the existing system by incorporating the more useful Carter recommendations. The sweeping nature of the Report was also condemned for its apparent categorical rejection of the existing structure: "The Chairman has been quoted, in a press interview, to the effect that the Commission proceeded as though it were starting from scratch, with a clear slate."[72] Mr. Stikeman argued that "the most serious flaw in the approach of the Report is the illusion that one can devise a new tax system for Canada in a vacuum."[73] Tax reforms could not ignore the existing structure, problematic as it was. Stuart D. Thom, Q.C., a prominent Toronto lawyer, stressed that this fails to recognize that the tax system is shaped by a complex of forces, not least of which is the pressure of specific social and economic interests to minimize their particular tax burdens. Mr. Thom concluded: "The Commission, having set itself to design a new system, may have attempted a task that simply cannot be accomplished, for no other reason than that tax systems are not designed. Rather the complex of tax laws grows as a consequence of pressures from many directions

over a period of years."[74] A related common criticism of the Commission was that it was too theoretical. Its analysis may have been solidly based in accepted economic theory of public finance and logically coherent, but the practical application of its model to the Canadian economy had not been demonstrated.

There was also extensive opposition to the concept of the major recommendations as an integrated and interdependent package. Business opinion was virtually unanimous that the proposals could not be accepted in their totality; that the change would be too drastic and the overall effect too unpredictable. Because of the great pressure that the key proposals were coming under, it was argued that the package nature of the Commission would hinder its implementation: "In such circumstances, might the tight interlocking of the various major components of the Report prove to be a fatal inflexibility."[75] Since such severe problems were seen as resulting from its central proposals and they could only be implemented as a whole, must then the overall framework of the Commission be rejected? W. A. Macdonald blamed the Commission itself for the large numbers who supported this position: "The Commission has pressed hard - I think too hard - that we must take all or nothing. The result of this ploy is that quite a number of people are opting for nothing."[76] A second school of thought recognized that the core proposals, especially the comprehensive tax base and integration, were closely related and were the focus of great controversy. This position condemned the idea that the proposals had to be accepted or rejected as a whole. It was argued that opposition to certain key recommendations should not prevent other useful

changes from being considered and implemented on their own.[77] Both schools saw little chance for the acceptance of the Commission's central proposals and preceived adaption of the existing structure rather than the wholesale reform of the Commission as the direction to take.

Faced with this tremendous controversy, the chairman of the Royal Commission made a very important qualification to its programme. "Great attention has been given to the 'package' concept, as we intended. It may well be that the firmness of this concept has been somewhat overstated in the public discussion which has occurred up till now. The Report nowhere has been so arrogant as to propose that it be accepted or rejected in toto."[78] This was interpreted in the business press as a very significant moderation of Commission policy.[79] Writing in the Financial Post, W. A. Macdonald described Carter's attempted "back-off" from the package concept as "very probably the single most important outcome" of the conference.[80] He further argued that Carter's concession may have represented "the most accurate weather vane of how the report is faring so far."[81] This was so because the fundamental principle of the comprehensive tax base, upon which the entire structure of recommendations was based, had attracted far more criticism than the commissioners had foreseen.

A great deal of hostility to the overall principles and priorities of the Commission had also quickly emerged. This was well exemplified in a speech by W. O. Twaits, president of Imperial Oil: "the overwhelming question raised by the six volumes of the Report and its supporting studies is really one of social philosophy. I suggest to you that the Commission was neither required, nor constituted to present a social

plan for Canada."[82] A stronger case against the Royal Commission's philosophy was developed by J. R. Petrie, a Montreal consulting economist, former Department of Finance official and leading tax authority.[83] He likewise stressed that "the most important feature of the Carter Report is the tax philosophy that it is recommending"[84], which was "dominated by a fervent and idealistic dedication to the principle of tax equity."[85] Dr. Petrie's fundamental objection to the Commission's approach was that it would entail a drastic reordering of the economic structure, with a great extension of government control and planning and a resultant "certain amount of economic regimentation and restriction of freedom of choice in such matters as saving and investment."[86]

In opposing the overall philosophy of the Royal Commission, the business community also rejected its ordering of priorities; above all the primary emphasis on equity. This was emphasized by W. O. Twaits: "Perhaps the underlying problem here is the question of 'equity', so fundamental in the Commission's thinking, so attractive as a social objective and so utterly impossible to define in practice as even the Report reveals."[87] It was argued that the Commission's overriding commitment to equity was not supported by public opinion; Harold Buchwald, Q.C., a Winnipeg lawyer, concluded that "the Commission's concepts of equity and the primary motives and desires of Canadians are really not compatible."[88] Business spokesmen objected to the concept of equity itself, arguing that it was vague, totally subjective and had different meanings for different people. It was argued further that key changes in the taxation of wealth proposed by the Commission were themselves

inequitable. Mr. Twaits, for example, disputed the legitimacy of gift, estate and capital gains taxation: "Is it consistent with equity to tax the man who works and saves as hard as the non-saver? Is it equity to tax the innovator, the entrepreneur at the same rate as the drones in society?"[89] Business argued that the government would have to choose between redistribution and the economic costs of this socially desirable result.[90] The journal Executive left no doubt as to where it, and a sizeable proportion of Canadian business, stood on this issue:

> On the surface of it, the Carter Report is a very humane document and, very largely, it has been greeted thus by the press. There is no doubt, however, that it is one which, if implemented fully, might undermine our remaining urges to personal initiative, cause the brain drain to become a flood, and allow an already pervasive Government to scrutinize our every action that hints of producing personal profit. [91]

The editorial further argued that the Report's prescription for tax reform must be seen in the context of rapidly increasing state intervention and expenditure, declining work commitment and government social assistance far in excess of basic needs. Expanding on this theme: "let us state just as clearly, the Carter Report tends to penalize achievement - a course perilous to this nation." The heavier burden on high income earners was also decried: "They are the spark plugs of this country and, at this moment, we need more of them."[92] While such arguments were certainly within the more conservative spectrum of business opinion, there was a clear consensus that the Commission had got its priorities wrong; that the fundamental goal of a tax system and of its reformulation must be the maintenance and stimulation of economic growth. Even if equity was

accepted as a basic goal of taxation, many argued that it could best be achieved by means of stimulating rapid economic growth rather than through redistribution.[93] Finally, W. A. Macdonald criticized the Commission's radical approach to this objective: "I find the charge that the undoubted inequities of the present system can only be reduced by revolution rather than in a more evolutionary manner to be a long way from proven. Also, the equity results which would be achieved are, so far as I am concerned, far from clear."[94]

The Taxation of Wealth and the Minority Reports of the Royal Commission

Corporate opposition to specific proposals had also intensified; among the most consistent and heated hostility was directed against the comprehensive tax base. One feature of the Royal Commission that was attracting a significant amount of attention in this regard was the two minority reports submitted by commissioners Beauvais and Grant.[95] It will be recalled that both minority reports were concerned that the full taxation of capital gains and the inclusive nature of the comprehensive tax base would limit investment and damage economic development. They consequently recommended modifications to the Commission proposals, such as only a partial or reduced level of taxation of capital gains, that would soften their impact.

These recommendations of the minority reports were often approvingly cited by critics of the Commission recommendations for the taxation of wealth. A Toronto Telegram editorial, for example, argued that "Canada still desperately needs risk capital, as the dissenting comments of one of the commissioners made clear."[96] The same point was made by

the author of one of the minority reports when interviewed by the Financial Post: "Grant emphasized Canada's growth and said that he thought full taxation of capital gains too stringent and liable to inhibit investment in Canada."[97] The Financial Times commented on the significance of the minority reports: "If interpreted literally, their objection to the scope of the comprehensive tax base as defined by the majority could seriously weaken or destroy the basic foundation on which the Carter tax system is based."[98] A more limited explanation of the importance of the minority opinions was also being put forth: "if interpreted less strictly, the minority reports could be viewed as accepting a modified comprehensive tax base."[99] The dissenting commissioners themselves supported this view: "Neither Beauvais nor Grant believes that the minority report strikes at the fundamental underpinnings of the majority report."[100] Most tax experts surveyed by the Financial Post argued that the minority recommendations could easily be incorporated into the main Report and that "the mollifying effect of the capital gains tax proposal would be welcome."[101]

While there was some disagreement on the impact of implementing the minority reports, their political consequences in the debates raging on the Royal Commission were quite important. The minority reservations weakened the force of the majority recommendations.[102] At the extreme, they threatened the fundamental principle of the comprehensive tax base; at the least, they would modify its key components and entail a less exacting taxation of wealth. In either case, they were certainly seen as authoritative pleas for the moderation of central elements of the reform

proposals. It was in this regard that the minority reports were much discussed and favourably cited by business commentary in support of their opposition to full capital gains and the comprehensive tax base.

The comprehensive tax base was also a central focus of the discussion at the April Conference of the Canadian Tax Foundation. Reaction to this radical concept ranged from guarded and partial approval from a minority to outright opposition from the majority of speakers. Opening the general session and representing the former response, Howard Ross welcomed the Commission's intention to widen the base of personal income taxation: "What kind of social justice is this, where those who work are taxed, while those who make profits unintentionally, go free?" However, he was far less enthusiastic about the method recommended: "But if the Commission is right in broadening the base, I have serious doubts about the way they propose to do so...The Gertrude Stein-like concept of 'a buck is a buck is a buck; is ingenious and daring - but is it not also dangerously doctrinaire? Here - as elsewhere in the Report - one may wonder whether the Commission's treatment of taxation is not excessively ideological." Far more pervasive were arguments that all sources of income were not alike, that capital and income must be distinguished and that the full taxation of all property gains would have disasterous consequences for incentives and investment.

Discussion at the conference of capital gains tax echoed the concerns expressed in the minority reports of the Royal Commission. H. O. Spindler, C.A. chairman of the panel on capital gains noted that "the Commission's recommendation to tax realized capital gains at full rates

was so unexpected that it appears to have knocked people off balance."[103] Other participants accepted that some form of capital gains tax had been widely expected for some time, but strongly objected to its full taxation at progressive rates as proposed.[104] This was well stated by P.N. Thorsteinsson, a Vancouver lawyer: "In common with Commissioners Beauvais and Grant, I agree that capital gains should be taxed, but on a basis of some preferential treatment that recognizes the significance of incentive in decisions about risk-taking."[105] W. O. Twaits argued that there was "no reason to change the long-established view that the taxation of capital gains is basically inappropriate for a country dependent on capital imports."[106] The majority of speakers also argued that gifts and estates should not be included in the comprehensive tax base.[107]

In summary then, whatever limited degree of support there was for widening the tax base and for the specific recommendations on the treatment of capital gains, gifts and estates, virtually all participants opposed the total inclusion of all gains from these sources in the base for taxation at full progressive rates. There was consistent and sustained hostility to the harsher taxation of wealth entailed by the Commission's proposals. The opposition to the comprehensive tax base was often expressed in severe ideological terms. Harold Buchwald, for example, proclaimed "I resent and intend to resist this unnecessarily extended expropriation of personal property and acquisition."[108] Toronto lawyer John G. McDonald, Q.C., objected to the proposed taxation of property gains when taxpayers leave the country: "I believe that we should all oppose, in the strongest possible terms, the introduction of

Gestapo techniques for the collection of tax from Canadians who wish to retire outside the country."[109]

Income Taxation

Specific recommendations on personal and corporate income taxation had also begun to attract considerable criticism. There was, for example, widespread corporate hostility to the all-inclusive application of the wider tax base. W. A. Macdonald condemned the "puritan quality in the Commission's zeal to leave virtually nothing out which might be a benefit" and what he termed the Commission's double standard - its harsher treatment of the higher income strata.[110] He particularly objected to the stricter limitations on stock option benefits, over which there had been a great deal of conflict the previous year, and on expense accounts. On the latter: "I regard the repressive and arbitrary approach to travelling and entertainment expenses as both unrealistic and irresponsible in its unsubstantiated suggestion that unwarranted expense account living is such a pressing problem that it can only be dealt with in a way which is in basic conflict with the equitable objective claimed by the Commission."[111] Macdonald captures the underlying tone of corporate objections to the Commission's approach; worrying about a "picayune and hair-splitting approach" and implying visions of "a twenty-four hour a day Big Brother world."[112] Not surprisingly, a number of recommendations, such as reduced top marginal rates, more generous averaging and the general simplification of the personal income tax structure, were applauded. However, it was also realized that these recommendations which could benefit higher income strata were dependent upon the wider tax base and other core proposals to which business was strongly opposed.

It was recognized that the proposed system of integration would solve the persistent problems of double taxation of corporate surplus and would be of major benefit to shareholders. However, regardless of these advantages, integration was too radical a change for most commentators, especially as it was so closely interlinked with other central recommendations. George Tamaki, a Montreal corporate lawyer, stressed the latter point: "A tax at progressive rates on share gains plus a further tax on successions is a high price to pay for integration of corporate and personal tax."[113] Tamaki suggested that the flat 15% withholding tax on dividends favoured by the Canadian Institute of Chartered Accountants and the Canadian Bar Association would be preferable.[114] The necessity of a thorough rationalization of corporate taxation was widely accepted. But just as integration had been regarded as too high a price to pay for the elimination of double taxation, so too were the major recommendations for a more efficient and neutral system seen as being too disruptive and restrictive. The Commission was heavily criticized for applying its principles in a rigid and doctrinaire manner. Stuart Thom, Q.C., a Toronto corporate lawyer, argued that whatever the logic of the principle of integration may have demanded, "it is a flat distortion of reality to ignore the legal and practical existence of the corporation and its enormous importance as a taxpayer in itself."[115] Thom also expressed the common worry that conflict over recommendations to which business objected would hinder necessary reforms in less contentious areas: "We should be greatly concerned that, as a result of de-emphasizing the corporation as a taxpayer in its own right, the necessary and urgentreconsideration of busi-

ness income may become tied in with, and held back by, the controversial proposal for the full integration of personal and corporation income for tax purposes. I cannot think it necessary that the two matters must stand or fall together, and it will be most unfortunate if business income does not receive the early attention so urgently called for."[116]

Many speakers to the C.T.F. Conference were uneasy with the Commission's emphasis on neutrality. The elimination of the dual rate of corporate taxation was seen as an excessive and rigid application of this principle. In speaking on this issue, F. G. Townsend, C.C., argued: "If it were not for three or four more controversial features in the Report, it is likely that the proposal to eliminate the low rate of tax on the first $35,000 of taxable income would have drawn much more critical attention than it has to date."[117] He further argued that the abstract principle of neutrality must give way to wider social objectives of taxation and "the fact that what we can call apparent equity may be more acceptable than a rigorous equity based on technical analysis or assumptions."[118] It was stressed that small businesses played a vital role in the economy and would be severely damaged by the loss of the lower rate. Commentators did not object to the elimination of the dual rate as such (it was accepted as a reasonable simplification), but argued that more generous concessions than the Commission proposed were necessary to make up for its loss.[119]

In the name of neutrality, the Royal Commission had also proposed major changes in the taxation of financial institutions. The banks were uneasy about restrictions on their allowable reserves and losses and the

trust companies and mutual funds, while not directly affected, were apprehensive about the major changes in the overall environment for the financial sector.[120] It was the major life insurance companies that would be most drastically affected and their representatives were most forthright in opposing the Report. G.F.S. Clarke, vice president of Manufacturers Life Insurance, argued that the Commission's approach to the insurance industry was impractical and infeasible.[121] J. A. Turk, managing director of the Canadian Life Insurance Association, stressed that "the Report proposes a complete revolution in life insurance taxation."[122] He was highly critical of the Commission for not analyzing the specific features of the industry; that it provides an insurance as well as saving mechanism and that social priorities such as the provision for dependent survivors as well as purely economic factors must be considered. He noted that the insurance companies were preparing their detailed study of the Report for submission to the government: "They realize their responsibility to the 11 million Canadians now insured with them to stress the importance of equitable taxation of life insurance."[123]

The effect of the recommendations on foreign capital in Canada and Canadian economic activity abroad first attracted extensive attention at the conference and were to become major themes in continuing business pressure against the Report.[124] There was significant opposition to the proposed heavier taxation of non-resident investment and frequent predictions of the adverse economic impact of such a change. Mr. Davies of Rio Tinto-Zinc warned that in a capital-short world "this is not the kind of climate which is attractive to overseas capital."[125] He echoed the

common belief that such restrictions would severely damage the economy: "I can only hope that the un-Canadian basis of this Report will be rumbled by Canadians before it is too late for them to complain. Otherwise they will find that they have been sold the safety and mediocrity of a Scandinavian socialism, which at the present stage of its development would be to my mind a disaster for Canada."[126] There was also considerable opposition to the harsher treatment of international companies based in Canada. Speaking to the general session on corporate taxation, H. A. Hampson, vice-president of Power Corporation, emphasized the undesirable nature of these recommendations: "The net effect would be to drive such companies as Massey-Ferguson and Moore Corporation out of Canada. This would be regrettable since business trends favour the emergence of large international corporations and since one of the better ways for Canada to make herself felt in the world is to develop a few such corporations of her own."[127] It was predicted that the implementation of recommendations in these areas would place considerable strain on tax treaties and fiscal relations with other countries.[128] A familiar business theme was that the Canadian tax system could not get far out of line with other countries and must not be allowed to reduce the international competitiveness of Canadian industry.

Summary: First Debates on the Carter Commission

In the first few months following its release, corporate opposition to the Carter Report had significantly increased and had solidified around a number of key themes. The great majority of businessmen rejected the Commission as the guiding framework for reform and argued instead

for changes within the existing tax structure. There was also considerable hostility to the basic principles and priorities and the central recommendations of the Report. Majority corporate opinion was well summarized by W. O. Twaits. He argued that problems in the practical application of the reform proposals and particularly their failure to provide sufficient stimulation for economic growth were so severe that the Report must be rejected: "To be blunt, the inequity of the proposals, together with the unreality of the concept of allocative neutrality, would make it very difficult indeed to implement or administer them within the Canadian framework...I must come to the conclusion that the basic philosophy and therefore the total concept is not only unacceptable, but impractical. It does not, in short, provide the essential stimulus for a dynamic economy which even the present system with all its imperfections has done."[129]

As pervasive as this opposition had become, there were still important differences of emphasis and sophistication within the business community. As argued above, a good indication of the state of corporate opinion was provided by the intensive deliberations of the April meetings of the C.T.F. This was outlined by Philip F. Vineberg, Q.C., chairman of the Canadian Tax Foundation: "It is already apparent at the summing-up stage that we have not achieved unanimity of opinion. There is room for difference of viewpoint. I hope you are all now agreed that the differences are informed - better informed than they were before."[130] There was also the oft-stated admiration for the accomplishment of the Commission: as Vineberg stated, "there is no denying the great admiration that everyone feels for the high quality of intellectual attainment reflected in it

and for the reasoning ability and analysis which it portrays."[131] More importantly, there was qualified support for many of the central recommendations. In his summation, Vineberg concluded that this group, whose attitude he characterized as "Yes, but...", represented the largest school of thought at the conference. This formulation is reasonable in the sense that very few speakers totally condemned the Commission as being of no value. But the narrow limitations within which most support for the Report was expressed must be emphasized. Vineberg's yes category must be seen as being highly limited: as general agreement that rationalization of the tax system was necessary and inevitable, as praise for the intent of the Commission in this regard, and as acceptance, with varying degrees of enthusiasm, of specific recommendations. The but was far more fundamental: this entailed widespread reservations about the guiding principles and parameters within which the Report was organized, the full impact and particular form of the core proposals, the interdependent character of the key recommendations and the sweeping scope of the reform package as a whole. For example, most participants accepted, however grudgingly, that some type of capital gains tax was inevitable. But the great majority strongly opposed the form proposed by the Commission: the total inclusion of capital gains in the comprehensive tax base for taxation at full progressive rates. Likewise, there was virtually unanimous approval for reducing the top rates of personal income tax to 50%, but great misgivings with the closely linked proposals for integration and a wider tax base.

The beginnings of a defense of the Royal Commission analysis and some of its key recommendations, especially against less-informed and simplistic attacks, began to emerge for the first time at the C.T.F. conference. The former chairman of the Commission urged foundations participants to adopt a broad perspective in their consideration of the Report: "In your appraisal of the recommendations you will, of course, compare them with the present system. I urge that in doing so you do not accept what we now have without a very critical look. We have considered that our task was to find the best, not to patch up the present."[132] He emphasized that the wider tax base and the removal concessions, preferential rates and loopholes were essential to the overall reforms, especially to the recommended lower rates of taxation. Critics must look beyond the narrow interests of those who had long benefited from the loopholes in the existing system: "If we are not prepared to place the national interest ahead of our own, there can be little reform resulting from this or any other Report."[133] Mr. Carter was clearly aware of the reception which the Royal Commission had received to that point. He commented on the highly politicized and personalized nature of the attacks on the Report: "Recently I have observed myself to be branded as a socialist, a communist and even a conservative - that's with a small 'c'. All I want to say on this score is that my personal ideology doesn't matter one bit, and I know you will all agree that the Report and its recommendations must be considered by themselves without regard to what one thinks about the personal beliefs of one of the Commissioners."[134]

There were also corporate spokesmen who supported the reformist goals of the Commission. For example, H. A. Hampson, vice-president of Power Corporation, endorsed with only minor hesitation, the major proposals on neutrality and equity. He recognized that they would quite naturally provoke hostility: "No change can be made in any tax system without catching some people in their tenderest spot - their profit centre - and thus arousing opposition of a highly practical and plaintive kind."[135] He argued however that this was no reason to reject reform, nor to accept the contention that the existing system, faulty as it may be, was at least known to function: "But it would be both costly and unwise to quickly condemn change because it sacrifices the comforts of our present confusion: and because it conflicts with the inherent caution of the tax expert's character."[136] Hampson stressed that the system was in need of thorough reform and that the prevailing case against any basic change was simply unfounded: "The basic arguments are that change can never be made because it is so disruptive; that resources will not flow into alternative uses; and that the people who propose such changes are at best impractical and at worst left wing socialists. But if the changes are sensible, they should be adopted, and the interests concerned given a subsidy if they need it."[137] Hampson argued that the well-reasoned system proposed by the Commission was far superior to the existing:

> In concluding, Mr. Chairman, my view is that the Report's broad proposals are workable and fair, contain more bias to growth in them than has generally been recognized, and could - with appropriate political leadership - receive broad acceptance from the tax-paying public. To be sure, some of the economic effects are uncertain, but the future is never predictable. In short, I think the consequences of Carter are less chilling to contemplate than are the consequences of continuing with the creature we now have.[138]

The Commission was also defended against the more strident of business during the C.T.F. conference; John G. McDonald, a Toronto corporate lawyer, "told the meeting the Carter report had been subjected to too much destructive criticism. 'It deserves general support, and more constructive criticism than it has received in the past three weeks', he said. 'There has been too much criticism from vested interests. Remove the blindfold and take a second look'."[139] Mr. Hampson also condemned the ill informed or deliberately misrepresentative character of prevalent attacks on the Commission: "For example, the president of one large resource company was quoted as saying that the Report had 'surprisingly ignored the problem of human incentive; and as suggesting that considerations of economic growth had been overlooked by the Commissioners. In fact, they gave this matter attention and argument throughout the Report: one may feel that they have too readily subordinated future expansion to current equity, but it is careless, irresponsible or worse to suggest that the Commissioners neglected such an obvious and important aspect of their work."[140] The really fundamental point was stressed by Mr. John McDonald. He argued that the Report was not the radical document it was often portrayed as; while it may have " a liberal sprinkling of N.D.P. language" the reality of the recommendations were far different. He emphasized that implementation would in fact benefit the corporate sector.[141]

Competing political forces other than capital played a very limited role in these early debates on the Carter Report. For example, there were only two groups represented at the C.T.F. Conference who could be seen as speaking for social and economic interests which differed from

the predominant business viewpoint. Both Mrs. A. F. W. Plumptree, past-president of the Consumers' Association of Canada, and John L. Fryer, Research Director, Canadian Labour Congress, applauded the Commission's general emphasis on equity.[142] Both of these speakers were also concerned about the rising criticism of the Report from those economic interests that would be most affected by its recommendations. Fryer stressed that the C.L.C. was "in favour of using fairness as the fundamental criterion in judging any system of taxation and the emphasis given by the Royal Commission to equity is, in our considered judgment, wholly appropriate."[143] While supporting the comprehensive tax base in principle, the C.L.C. was more hesitant about its application to transfer payments, fringe benefits and all facets of employment income. For this reason, Fryer, like so many corporate representatives, was uneasy about considering the Report only as a totality. Nonetheless, labour provided the only significant perspective that, with its full support for the Commission's objectives of equity, differed sharply from the prevailing corporate judgement.

In summary, the dominant force in the early debate on the Royal Commission was business and the closely associated legal and accounting professions. Business opposition to the Report was by no means unanimous, but had increasingly focussed on a number of consistent themes. Differences of opinion within business operated within very narrow limits; there was never doubt that the tax system should support the processes of capital accumulation and economic growth. The disagreement was over what type of system best fulfills this function. More reformist analysts such as Hampson and J. McDonald realized that the existing tax structure

was in drastic need of a thorough rationalization. They argued that the Royal Commission provided a comprehensive and systematic framework within which to accomplish this and as such was in the long-term interests of the economy as a whole. Such a view was very much in the minority. The great majority of business was more concerned with the effect of the recommendations on immediate or specific interests or could not accept the wholesale scope of the changes proposed.

III. Specific Pressure from the Resource Sector

Within the generalized business antagonism towards the Royal Commission, specific industries had begun to raise strong objectives to these proposals that threatened their particular interests. The hostility of insurance companies has been noted, but the most intense campaign against the Commission came from the resource sector. In the first months following the release of the Report, the leading forces in the growing corporate opposition to the reform schema were the mining and petroleum industries. Commission recommendations to eliminate tax concessions to the extractive industries generated as much commentary as more general proposals. On no other issue was the response so consistently hostile or as highly organized. The mining industry, and especially the dominant multi-national corporations within it, would have been severely affected by the withdrawal of their tax incentives and it was from this sector that the most intense pressure came.[144]

The relatively uncertain and mixed initial corporate reaction to the Carter Report was shown above, but there was no such hesitation from the resource sector. From the very beginning, the response of these in-

dustries that had most to lose from the implementation of the Royal Commission was uniformly hostile. In the first week following its publication, the opposition was particularly strong from smaller mining and oil companies. Larry Labow, a junior mines developer was most emphatic: "Throw it in the garbage - it's absolutely ridiculous... I wouldn't undertake exploration and development unless I had the existing three-year tax holiday." He saw little chance of the implementation of the recommendations: "The Liberal party will get their brains beaten out if they tried to pass it."[145] The reaction of major resource firms and organizations was somewhat more circumspect, but in essence very similar.

A survey of oil industry experts and officials published three days after its release revealed that although most felt it was too soon to precisely predict the implications of the Report, there was significant cause for alarm. The Chairman of the Alberta division of the Canadian Petroleum Association condemned the recommended removal of incentives for its "short-term view."[146] Jack Pierce, president of Ranger Oil Canada, hoped that this Report would joint those of other commissions "on the shelf."[147] Later in the week, an industry tax expert noted: "This is a hefty withdrawal of funds from the industry,...Such a change is bound to have important repercussions on our operations."[148] The much harder impact on the major integrated corporations was stressed.

Spokesmen for the mining industry were equally harsh in their condemnation of the recommendations to withdraw their tax incentives. The tenor of this response had been indicated even before the release of the Report. In a speech two weeks earlier, W. S. Kirkpatrick, retiring presi-

dent of the Mining Association of Canada, strongly argued that the existing tax provisions had been a critical factor in stimulating mining development. Any radical change in this situation would "create uncertainty and a lack of confidence which would severely curtail the growth of the industry with consequences harmful to the whole economy."[149] Predictions of dire consequences from mining officials continued immediately after the Royal Commission appeared.[150] The executive vice-president of Falconbridge Nickel Mines foresaw lower profits, difficulty in selling equity and reductions in the opening of new mines.[151] Similar concerns were contained in a detailed statement issued by J. D. Barrington, president of the Mining Association of Canada. Referring to recommendations to eliminate depletion allowances and exemptions for new mines, Barrington maintained: "In a frontier economy such as Canada to lump income and capital together for taxation purposes displays an ignorance of the factors, which had led to the expansion of this country not only in mining, but in all basic industries."[152] As a result of such changes, new mining properties would not be brought into production. Mining in Canada published the first reaction of a number of leading resource officials including Barrington, W. S. Kirkpatrick, chairman of Cominco Ltd. and past president of the Mining Association of Canada, W. S. Row, president of Kerr-Addison Gold Mines, K.S.C. Mulhall, vice-president of Canadian Petrofina, and Thomas Elliot, manager of the B.C. and Yukon Chamber of Mines.[153] While they admitted that firm conclusions could only be reached after a thorough study of the Report, the initial consensus of these top mining executives was that the resource recommendations would reduce available

capital for the industry, cause a slowdown in exploration and development, curtail growth in mining and have a severe impact on the economy as whole.

This early opposition was quickly mobilized into an intense and well-organized campaign of lobbying and public pressure against the Commission. This pressure took a number of forms. A paper presented by a Toronto counsulting geologist to the annual meeting of the Canadian Institute of Mining and Metallurgy severely criticized the Commission for its interpretation of mining development.[154] Robert D. Armstrong, president of Rio Algoma Mines, was highly critical of the Commission in his address to this major international corporation's annual meeting in early April 1967: he portrayed it as "directed at achieving massive, idealistic and highly unrealistic re-arrangement of Canada's economic affairs. In my judgment it is based on a number of false premises and a gross misconception of business and financial realities."[155] He argued that the Canadian economy was based on resources and was short of necessary capital; that Canada was in fact "capital-poor." He disputed the Commission's thesis on neutrality, maintaining that the mining concessions were required to counter-balance government support of other industries. Finally, Mr. Armstrong warned: "Any reduction in the present tax incentives for the mining industry while incentives continue for other industries can only result in reallocation of resources, which, in my opinion, will reduce the gross national product and depress the standard of living."[156] An unending series of statements and speeches from industry representations reiterated these themes. For example, the president of Granisle Cooper Ltd. argued that the Commission would retard mining and adversely affect the

entire economy.[157] D.G.C. Mengel, a Toronto lawyer and former top executive with Falconbridge and Rio Algoma, predicted that the elimination of the resource concessions "would have in the long run a much more adverse effect than the Carter Commission supposes."[158] He argued that the incentives were necessary to stimulate exploration and development and listed major projects for which the concessions had been vital. He dismissed the Commission's contention that removal would have little effect: the number of new mines opened would be reduced and mining capital which operates in a global context would simply leave the country. These adverse consequences would be felt throughout the Canadian economy because a healthy resource sector was crucial for secondary manufacturing and the balance of payments.

The government also came under great pressure from the major national and provincial mining organizations. Robert Presthus intensively studied the activities and importance of a variety of organized interest groups in the process of state policy formation. He used a lengthy and detailed interview with the director of a provincial Chamber of Mines on that organization's actions immediately following the release of the Carter Report to concretely illustrate the role of corporate interest groups.[159] Because this case study also clearly demonstrates the speed and intensity with which the mining industry was mobilized against the Royal Commission, it will be examined here. Upon the release of the Report on Friday, February 24, 1967, the director noted: "After reading through it, with my years of experience, I saw the weakness of it and I figured I had to give a quick reaction."[160] He began to prepare a state-

ment on Saturday morning, took copies to the daily newspapers and received national publicity on the Monday morning. The director attached particular significance to this widespread publicity, especially in "backwoods newspapers" from smaller communities where resource activity was based. The speed of this reaction can be explained by two factors: first of all, the recommendations were not unexpected; "When the Report was brought down, I knew it was coming. And of course, I was ready for it"; and secondly, "I didn't need to read other than his press releases. It was obvious what he was driving at, and I didn't need to read all the fine print to know that he was hitting at the fundamental requirements for a flourishing mining industry in Canada."[161]

The activity of this organization took a variety of forms: "we used every possible way to build up opposition. I"ll be honest about it. We did everything a man can reasonably do to oppose something that you feel can destroy your industry."[162] The Chamber hired a firm of consultants to prepare a critical study of the Report for them, produced a thousand copies of this brief and "we distributed these to all the political people in Ottawa and most of the political people in...Then we mailed copies to pretty well most of the Cabinet ministers of every province across Canada so they would know what mining people thought about Carter."[163] The director stressed the importance of this brief: "well, we wanted to get to him so we mailed copies to other organizations around the country, etc. Our brief or reply to the Carter commission was a very effective thing because we got a lot of comments on it."[164] The Chamber was also in direct contact with state officials: "I might have mentioned to...,

Deputy Minister of Mines that it would be a good thing if our Minister of Mines was to oppose it."[165] The Chamber urged its members and others in the industry to put their views to the government: "we did everything we could to instigate action to protest against Carter...we instigated the action of prospectors all over the country, small mining companies, large mining companies and so on. I told I don't know how many hundreds of them, write a letter to Ottawa...and also express yourself to your local M.P. and they did."[166]

The director was very pleased with the impact of the Chamber's efforts: "I've had some good people, solid people, tell me that the campaign conducted by the Chamber of Mines was the most effective campaign against Carter in Canada. We hit him hard, we hit him right where it hurts and we based it on solid honest facts."[167] He set their campaign in the context of the routine and continuing pressure exerted by the larger corporate organizations: "The big ones are always involved, they always get in, but we got all the little fellows involved, and we got the equipment supply people involved too. Because a lot of them are members of the Chamber of Mines and they do a lot of business for the mining industry service groups. And we got them involved. I talked to dozens and dozens of them. We got a series of articles in the daily press and we gave a series of talks around the country and expressed our opinion on it."[168] The director stressed the unanimous hostility within the mining sector against the Carter proposals: "it was the opinion of everybody. If you got in any mining camp and talked, this was the reaction. They realized that if Carter had his way they would be hurt."[169] Finally, the

director emphasized the Chamber's basic message to the government: "It wasn't the Liberal government that introduced it. It wasn't their fault but we had to make them realize they had a hot potato here and they'd better be awfully careful before they started tampering with the mining tax laws of Canada or they'd have a real continuing battle."[170]

This mining attack on the Carter Report had reiterated the basic premise of their submissions to the Commission hearings: that mining was crucial to the overall health of the national economy and that the tax incentives were crucial to the development of the industry. But corporate spokesmen then argued that the Commission had seriously misunderstood the position of the industry and that its proposed elimination of special concessions would have a devastating effect on mining development. For example, Alan G. Davies, a British lawyer and tax expert and executive director of Rio Tinto-Zinc Corporation, dismissed the Commission's analysis of resource taxation as "so airy-fairy and stratospheric that it is difficult to know how to deal with them without taking almost every sentence and paragraph and arguing about it."[171] Reiterating a familiar charge, he stated "I find it difficult to accept that these flippant arguments show a proper attitude to Canadian development. They represent the logic of minds which have already arrived at conclusions and then cook up inadequate grounds for these conclusions. I hope Canadians will read the small print of the Report. The detailed arguments have all the characteristics of a well-laid confidence trick."[172] He argued strongly that, contrary to the Commission, international resource corporations were highly sensitive to after-tax rates of return and removal of their concessions

would have severe impact on their operations. The case for the continuance of the mining concessions was put most explicitly by W. B. Dix, vice-president and treasurer of McIntyre Porcupine Mines Ltd.[173] Depletion allowances had long been a crucial stimulus to the expansion of mineral production. He rejected the Commission's contention that it overly favoured the largest mines. Depletion was necessary for the overall exploration and development activity of the entire industry; to support the many unsuccessful mines as well as the few successful. He further argued that the removal of the three year exemption would reduce the number of new mines developed and would particularly hurt small companies. Dix categorically dismissed the thesis that these incentives caused a misallocation of resources: "The Commission has apparently accepted, without serious question, the application of theories, developed mostly in the United States, concerning the misallocation of resources resulting from incentives to particular industries...It is highly improbable that such theories have much significance for Canadians. Capital attracted to mining in Canada does not result in a material reduction of resources available to other industries. On the contrary, mining complements and attracts resources to other industries, particularly those which depend and thrive on a growing mining industry."[174] He stressed that mining operates within international markets for its capital and products and that Canada could not therefore "for long sustain a mining industry in a tax climate substantially different from that in other competing countries."[175] Mr. Dix argued in conclusion that mining was vital to other key sectors such as the steel and automobile industries and that the damaging

effect of "Carterizing the mineral industry" would consequently be felt throughout the entire economy.[176]

Bucovetsky summarizes the nature and tempo of the pressure from the mining industry: "What appears to have been an orchestrated campaign of alarm took shape about a month after the Report came out."[177] As seen above, industry spokesmen warned of dire consequences if the Commission recommendations were implemented in a continuous round of speeches and statements. It was argued that not only would the continued development of the resource sector be severely curtailed, but that because of the crucial position of these industries the overall level of economic activity was also threatened. These grim forebodings increasingly took a more concrete form:

> The Globe and Mail of Toronto, whose masthead proclamation 'Canada's National Newspaper' is not entirely hyperbole, published a sequence of news stories, reports of addresses, and signed comments whose message was that uncertainty engendered by the Report was already responsible for the loss of millions of dollars in capital spending by the mineral industries, with much more to come if the government did not disavow the Report. The campaign by headline reached its culmination on April 29, 1967 when the front page of the Globe and Mail carried a three-inch banner proclaiming '$90 million program. Moranda shelves plans, blames Carter Report'. [178]

The unmistakeable theme of this campaign was that uncertainty over the continuation of the mining incentives had directly resulted in major cutbacks in exploration and development and in planned investments. These cancellations involved very large projects and the most important corporations in the industry; a further prominent example was the suspension by Asbestos Corporation Ltd. of its $80 million Ungava project.[179]

The Petroleum Industry

Although mining corporations and organizations were most active, they were not alone in their hostility to the Commission recommendations to eliminate resource concessions. The Report also attracted tremendous opposition from the petroleum industry. The basic themes of this opposition were starkly illustrated in the deliberations of the 11th Annual Tax Conference of the Canadian Petroleum Tax Society in early May.[180] The principle speakers and questions from the floor were highly critical of the data and analysis upon which the Royal Commission based its conclusions. It was argued that the industry was far more important to the economy than the Report recognized: "No-one in the petroleum industry (or in the other extractive industries) can understand why Carter's cohorts wrote off investment in petroleum and mining as practically a wasted effort which did no good to the national economy."[181] It was further asserted that the Commission did not understand the special conditions of the oil industry. There was a widespread feeling that the Commission's conclusions were "pre-cooked"; that they had been arrived at beforehand and that supporting arguments had then been developed afterwards to back them up.

A prime example of the oil industry attack on the Commission was an address to the conference by H. G. Pearce, president of the prominent Calgary firm of Foster Economic Consultants Ltd.[182] He disputed the Commission's analysis of tax revenue lost due to the resource concessions: "it is impossible to accept the Commission's statement that a significant reduction in taxes levied in other businesses would be possible if exis-

ting allowances to mining and oil were removed."[183] The Report did not grasp the special features of the oil industry: exploration and development are not the same as industrial research and development, nor were smaller oil companies in a comparable position to smaller manufacturing firms. Pearce also rejected the contention that capital invested in resources would be easily (and more productively) allocated to other sectors. First of all, "the Commission does not seem to accept the fact that there is a pool of specialized international capital that is earmarked for mineral extraction."[184] The development of the Canadian oil industry had been largely based on such foreign capital. This would be seriously threatened by the Commission proposals: "If the investment climate for this capital is not attractive in Canada these funds will be invested in the search for and development of oil in other parts of the world."[185] Similarly, the Commission ignored the wider contribution of the industry to the economy through the stimulation of secondary manufacturing and services, generation of employment and its favourable balance of international trade. Mr. Pearce's consulting firm had prepared an analysis of the impact of the Commission recommendations on oil production. They concluded that the discounted cash flow rate of return would decrease by approximately 15% and that this reduction in profitability would cause a diversion of capital from Canada and a cut in exploration and development. These adverse economic effects would be particularly pronounced in Western Canada.[186] This latter point was becoming an important theme of the industry campaign. R. F. Winfield, C.A., vice-president of finance and administration of Shell Canada Ltd., stressed that a

healthy petroleum industry made a vital contribution to the national, and especially to the Albertan economy. For this to continue the existing favourable tax provisions must be retained. In support of this contention, Mr. Winfield cited the speech of the chairman of Great Canadian Oil Sands Ltd. to that company's annual meeting: "He said that if these recommendations had been in effect when the Athabasca tar sands project was planned, it is unlikely that it would have been proceeded with. His point was, and the Commission did not seem to even contemplate it, that production from the tar sands can only be proceeded with on an economic basis if existing tax incentives remain in force. He remarked that the implementation of the recommendations could have a detrimental effect on the future development of the tar sands."[187] In concluding his critique of the Report, Winfield argued that the recommendations "need the most careful and critical examination by the public and by government. Anything else would be a gamble of the worst type, where what is to be gained is a relatively modest amount of additional tax revenue and what is to be lost, by way of a slow-down in one of Canada's most important industries and loss of international and general investor confidence, is unknown but practically limitless."[188]

The mobilization and political organization of the oil industry against the Carter Report was well under way in the spring of 1967. It was recognized that the recommendations constituted a very serious problem: "this could easily be the biggest selling job in the industry has ever had to do...It may literally determine the industry's survival in an obviously hostile environment."[189] The beleaguered mentality prevailing within the industry was highly suspicious of the motives behind the Report:

"A good many oilmen were beginning to see collusion in the concurrent blossoming of the taxation white paper and the foreign investment white paper."[190] There were calls for the oil industry to prepare a long and strenuous struggle: "It looks as if a busy summer lies ahead of the industry planners and managers. They not only must present their submissions to Ottawa, but it is extremely important, as tax society speakers warned, to enlist public and provincial government support in the resource based provisions."[191]

The arguments of the resource industries also received some important professional and academic support.[192] G. David Quirin, of the University of Toronto Business School, condemned the mining proposals as "the most deplorable proposals in the entire report."[193] In his opinion, the removal of the resource incentives would seriously damage the oil and mining industries and would have a particularly harsh impact on the less developed regions in which these activities were concentrated. In what was to be a common theme, Quirin argued that the resource concessions were necessary to offset the tariff protection enjoyed by other sectors: "a neutrality in taxation which ignores the substantial non-neutrality introduced into the fiscal system by the tariff is a very peculiar beast indeed."[194] He also stressed that the removal of the concessions would increase taxes in past investment which had been made in the expectation of continued favourable treatment. Such a drastic reversal constituted "in effect, retroactive legislation, effecting a partial expropriation without compensation, and as such should be rejected out of hand, if only to preserve the credibility of any incentives we may wish to introduce in

the future."[195] This latter point indicates an important structural constraint on fundamental changes in the framework of state economic policy and intervention. Major investments are made in the expectation that the basic "rules of the game" will be maintained. Fundamental changes could threaten business confidence that the future climate for their investment would remain stable and favourable. Such a loss of business confidence could lead to the reduction of vital future investment.

In summary from the release of the Report throughout the spring of 1967, the government had been confronted with unrelenting pressure from the resource industries. There were grim predictions of severe long-term consequences of eliminating the tax incentives and major corporations announced cancellations of large projects. Even more ominously, it was widely forecasted that the foreign capital that was the dominant force in the extractive sector would leave the country.

IV. First Retreat: Government Concessions to the Mining Industry, May 1967

The Report had quite definitely not met the reception that the Commissioners had anticipated: "What Carter hoped for was that the shock of his revolution - which he expected to provoke strong negative reaction- would be followed as a result of closer acquaintance with its meaning and practical implications, by a growing appreciation for the basic merits of the report."[196] The first reaction to the Report had certainly been one of shock, but this response had not diminished. Widespread opposition to the Commission's fundamentals, rather than growing acceptance, had prevailed. Corporate spokesmen were urging the government to allevi-

ate the pervasive uncertainty over the future direction of the changes. This was emphasized by W. O. Twaits, head of Imperial Oil: "I think that this cloud of uncertainty can be reduced if we remind ourselves that none of the recommendations made in the Carter Report is entirely new, hence if it had wanted to, government could have imposed any or all of the recommendations long before the appointment of the Carter Commission."[197] Twaits called for a confirmation of the basic parameters of state economic policy which have "normally attempted to stimulate investment, enterprise and employment...More important than a decision on the specific Carter recommendations is a basic statement of principle by the Canadian government. If Canada still stands in favour of equity as between classes of investor, and if she still stands for progress and higher living standards on behalf of her people, it should not be hard, after a detailed study of the Carter proposals, to say so and in so doing clear away the cloud of uncertainty that has been generated by this report."[198]

A Financial Post editorial summarized the state of affairs in early May 1967.[199] It identified the most pressing problem as the tremendous uncertainty engendered by the sweeping recommendations: "Confidence is the ingredient essential for forward planning and, with major changes likely on the ground rules for taxes, confidence can be expected to falter." Nowhere was this clearer than for mining. Commission recommendations to withdraw the industry's special concessions "literally invited the cancellation of projects ($160 million announced so far) that has now taken place."[200] In addition, the Western provincial governments had grown increasingly uneasy about the adverse impact of such cancella-

tions and reductions in resource production on the economic development of their regions. They were beginning to express serious misgivings about the Carter Report, especially the proposed withdrawal of resource concessions. Premier Ross Thatcher of Saskatchewan had publicly criticized the Commission resource recommendations as "ill-advised and short-sighted."[201] The widely publicized threat of a capital strike from the mining industry was beginning to have an effect.[202] There was reported to be "considerable sympathy in senior policy circles "for industry complaints of crippling uncertainty. The government was considering giving a firm undertaking to the resource industries that existing incentives would remain in effect for a set period of time, thus allowing long-term investment to proceed.[203] What the corporate sector was asking for was some signal from the government of its intentions - some indication of its attitude towards the Carter Report and the future tax environment. Such a signal was not long in coming.

Guarantees to Mining

On May 11, 1967, Minister of Finance Mitchell Sharp made a major announcement on the Carter recommendations for the mining industry. Sharp stressed that the government still "does not intend to come to any conclusions concerning the recommendations of the Royal Commission on Taxation until after it has had an opportunity to receive the views of taxpayers, experts and various associations" and that "this announcement does not mean either that the government has adopted the commissioners' recommendations or that we have rejected them."[204] Nonetheless, in order to alleviate the uncertainty emphasized by many representations to the

government and to enable delayed mining investments to proceed two decisions had been made. The first was a commitment that whatever final decision was made, the three year exception for new mines would be continued until January 1, 1974. This extension was designed to allow large investments in development and processing to go ahead: "It is felt that this undertaking should permit companies which will be faced between now and the end of the year with decisions involving a commitment of substantial sums of money to proceed in the expectation of receiving the benefits of the three year tax exemption." Secondly, incentives for prospectors were extended to "minimize the effect of the commission's proposals upon 1967 exploration programs."[205]

This was a particularly important juncture in the policy process because it was the first government pronouncement of substance on the Commission recommendations. Even more significantly, it was widely interpreted that the government had bowed to the massive pressure being exerted by the mining industry.[206] The concessions would certainly be of significant short-term benefit to the major mining corporations; they would guarantee at least three further years of lucrative tax incentives. These developments also illustrate the constraints imposed upon the freedom of action of state policy by the structure of a capitalist economy. Levels of investment and production in mining, and all other vital sectors of the economy, are controlled by highly concentrated private capital. Government policy must maintain an economic environment in which the future prospects of profit and accumulation for these corporate interests are stable and promising. If such conditions are not maintained,

if business confidence is threatened, then major corporations can reduce their investment and the consequent decline in production and employment can cause severe economic dislocation. For these structural reasons, the government is extremely vulnerable to corporate complaints of uncertainty and a loss of confidence in the investment climate, and threats of cancellations and cutbacks.

Prospects for Reform

Not unexpectedly, the May 11 announcement was favourably received by mining interests. Their response was discussed in parliament: R. J. Orange, M.P. for the Northwest Territories, congratulated the Minister on his decision and noted how relieved the industry was.[207] Noranda's shares rose $1.75 and mining stock analysts were generally enthusiastic about the government action.[208] Bucovetsky summarized the situation: "The industry was somewhat reassured and the Minister was suitably rewarded for moving in the right direction. The day after his message, Noranda announced that it would proceed with the $60 million Brenda project after all. But this was not the end of the campaign; indeed it was only the beginning."[209] While the tax exemption for new mines had been guaranteed for a further three years, its future was by no means assured. The Royal Commission had called for the elimination of resource concessions and the adoption of this recommendation was still possible. Such an eventuality was still seen as a serious threat by the mining industry and it continued to press for the complete rejection of the Carter resource proposals.

The May 11th announcement would prove to be the first in a long series of government retreats in the face of corporate pressure. Nonetheless, while the mining industry was able to win this immediate concession, the fate of the Carter Report and the future direction of tax reform was by no means settled. Heated debates and persistent controversy were to continue.

Footnotes

1. They were later described as "the superb piece of salesmanship contained in the very cleverly drawn public relations releases"; C.T.F. April 1967 Conference, p 41.
2. An important result of these comprehensive press summaries and the widespread press coverage that they and the Report received was that quick reactions from major organizations and spokesmen were facilitated.
3. For an overview and summary of editorial opinion during this early period see John Saywell (ed), The Canadian Annual Review for 1967, Toronto, University of Toronto Press, 1968, p 313. These editorials are important not only as representing the views of major media institutions, of the primary sources of news information and analysis for most citizens, but are themselves closely watched by political leaders and highly influential in the formation of public policy. The ownership and control of newspapers in Canada was highly concentrated during this period. They were controlled by the same class of powerful capitalists as were dominant corporations in other fields; see Wallace Clement, The Canadian Corporate Elite, Toronto, McClelland and Stewart, 1975, Ch 7-9.
4. February 25, 1967.
5. Ibid
6. C.f. Star, (Toronto), February 27, 1967; Citizen, (Ottawa), February 25, 1967 and Star, (Montreal), February 27, 1967.
7. John Bossons, "The Objectives of Taxation and the Carter Commission Proposals", Canadian Public Administration, Summer, 1969, pp 137-65. Bossons argues that the "fascinating case study in the politics of tax reform" can be delineated into several phases: "The initial reaction to the Report was one of general favour and surprise, mingled with concern for the magnitude of the changes proposed by the Commission", p 163.
8. February 25, 1967.
9. February 28, 1967.
10. February 25, 1967.
11. Febraury 25, 1967; See also Business Quarterly, Spring 1967, p 75 which identifies this as the central theme of the initial reaction of business.

12. February 27, 1967.
13. March 4, 1967, p 33.
14. Cf. Telegram, (Toronto), February 28, 1967; Star, (Montreal), February 27, 1967.
15. John Meyer, "Real Test for Carter Report Consistency in Application", Gazette, (Montreal), March 1, 1967. Meyer's business column was widely reprinted in other papers and he had a regular feature in the Monetary Times.
16. Charles Lynch, Citizen, (Ottawa), February 25, 1967. Lynch was a prominent syndicated political columnist.
17. Globe and Mail, (Toronto), February 25, 1967.
18. February 27, 1967.
19. Financial Post, March 4, 1967, p 32.
20. February 27, 1967
21. March 1, 1967; see also Globe and Mail, (Toronto), March 1, 1967.
22. Globe and Mail, (Toronto), February 25, 1967, p 15.
23. Garfield P. Smith, C.A., "The Royal Commission on Taxation: It's a Sound Integrated Program", Telegram, (Toronto), February 27, 1967, p 5; cited in Bossons, op.cit., p 163.
24. February 28, 1967, p B7.
25. Quoted in Telegram, (Toronto), February 27, 1967, p 14. Removal of this sales tax had been frequently demanded by business for several years.
26. This mistaken impression was not uncommon in the first reaction to the Carter Commission. Business had long urged the abolition of estate taxation and several spokesmen were pleased when the Commission apparently recommended this. This turned to consistent hostility when it was realized that the Report would include all receipts from estates in the comprehensive tax base.
27. C.f. Globe and Mail, (Toronto), February 25, 1967, p 15; February 28, 1967, p B7.
28. Quoted in Globe and Mail, (Toronto), February 25, 1967, p 15.
29. Globe and Mail, (Toronto), February 28, 1967, p B7.
30. For example, the week after the Report appeared, the Post published a special section analyzing in great detail the major recommendations and their implications; March 4, 1967, pp 31-4.
31. March 4, 1967, p 1; for all direct references in this paragraph.
32. Macdonald was a partner in the top Toronto corporate law firm of McMillan, Binch, Stuart, Berry, Dunn, Corrigan and Howland. He had been chairman of the Ontario Taxation Section of the Canadian Bar Association and a member of the Joint Committee on Taxation, Chartered Accountants and Canadian Bar Association; see biographical sketch in CTF, April 1967 Conference, p 484. On the general importance of such prestigious firms in the corporate power structure see Jorge Niosi, The Economy of Canada: A Study of Ownership and Control, Montreal, Black Rose Books, 1979, p 135-40.
33. Financial Post, March 4, 1967, p 32.
34. Ibid.
35. Financial Times, January 23, 1967.
36. Globe and Mail, (Toronto), February 25, 1967, p 40.

37. Globe and Mail, (Toronto), February 28, 1967, p B11; also p B7.
38. Ibid, p B1.
39. Financial Post, March 4, 1967, p 3.
40. John Meyer in Gazette, (Montreal), March 1, 1967.
41. March 4, 1967, p 3.
42. C.f. Telegram, (Toronto), February 28, 1967.
43. Globe and Mail, (Toronto), March 1, 1967.
44. Quoted in Globe and Mail, (Toronto), February 28, 1967, p B7.
45. See particularly Globe and Mail, (Toronto), February 28, 1967, p B7.
46. Sun, (Vancouver), March 2, 1967.
47. This was very clear from the range of editorial material collected as "Carter Comment II" in Taxation Division, Department of National Revenue, Press Clips, March 22, 1967. C.f. Leader Post, (Regina), February 28, 1967; Province, (Vancouver), February 28, 1967; Sun, (Vancouver), March 2, 1967.
48. Financial Post, March 4, 1967, p 32. This first timetable was to prove hopelessly optimistic. The White Paper containing the government's reform proposals did not finally appear until November, 1969.
49. March 11, 1967, p 6.
50. Spring 1967, p 88.
51. Financial Post, March 11, 1967, p 6.
52. Op.cit., p 167.
53. Ibid, p 163.
54. Gazette, (Montreal), March 17, 1967. Fleming was to later become a top executive in the Bank of Nova Scotia.
55. Executive, April 1967, p 72. This article also exemplifies the conservative business belief that the equity and progressiveness emphasized by the Commission would destroy initiative and effort: "It will take a tax climate that encourages effort by protecting, not destroying, the concept of differential effectiveness".
56. Ibid; Monetary Times, April 1967, p 14.
57. Ibid, p 14.
58. Cf. Toronto Board of Trade Journal, April, 1967, p 10 on the efforts of that organization's tax committee.
59. Financial Post, March 25, 1967, p 7.
60. May 1967, p 371. The Canadian Tax Journal also sought to contribute to this goal by reproducing the Introduction of the Report in full and summarizing the major recommendations and conclusions; March-April 1967.
61. Canadian Chartered Accountant, May 1967, p 371; also citing a Financial Times editorial on the same point.
62. There was some unease that the haste at which the conference had been convened had not allowed sufficient time to fully study the complexities of the Report; cf. W. A. Macdonald, C.T.F., April 1967 Conference, p 116. The C.T.F. had already scheduled a second conference for November in which more comprehensive analyses of the wider implications of tax reform could be developed.
63. The leading professional firms and dominant corporations represented constituted a virtual who's who of the higher circles of the Canadian business community; see Registration List, Ibid, p 493 ff.

64. Ibid, p 3.
65. Ibid, p 1.
66. Ibid, p 40.
67. Ibid, p 50.
68. Ibid, p 435.
69. Ibid, p 17.
70. Ibid, p 453. Terms such as "expert" and "prominent" are not used lightly here, but are based upon individuals' participation in professional bodies; speaking, consulting and writing on taxation and other relevant policy issues; corporate and government experience; and institutional positions held. The high level of expertise at the conference can be seen from the biographical information on the various speakers; Ibid, pp 482-92.
71. Ibid, p 454, his emphasis.
72. Ibid, p 13.
73. Ibid, p 453.
74. Ibid, p 52.
75. Canadian Chartered Accountant, April 1967, p 264.
76. C.T.F. April 1967 Conference, p 115.
77. Cf. Stuart D. Thom, Q.C., Ibid, pp 48-58; G. David Quirin, Ibid, p 205.
78. Ibid, p 3.
79. Globe and Mail, (Toronto), April 25, 1967.
80. May 6, 1967, p 1.
81. Ibid, p 4.
82. C.T.F., April 1967 Conference, p 459.
83. Ibid, pp 108-15; Petrie later prepared a major critique of the Royal Commission for the Canadian Chamber of Commerce to be discussed below.
84. Ibid, p 115.
85. Ibid, p 110.
86. Ibid, p 115.
87. Ibid, p 459.
88. Ibid, p 420.
89. Ibid, p 460. As was seen in the previous chapters, the prevailing business conception of equity was not concerned with redistribution of wealth or greater equality of opportunity and condition, but with fairness. The idea of fairness was itself narrowly defined within the values and institutions of a free enterprise system; it meant equal treatment for all categories of business, a level of taxation that did not restrict incentive and accumulation, and a minimum of interference with the risk takers and producers of society.
90. Business Quarterly, Spring 1967, p 88.
91. April 1967, p 23. This editorial provides a good example of the more conservative business viewpoint. Its fundamental conclusion was that "Canadians need a change of character more than they need a revised system of taxation." It has been seen in earlier chapters that a general unease about growing state intervention was one significant theme of business commentary throughout the 1960's.
92. Ibid.

93. This was very clear in discussions at C.T.F., April 1967 Conference, cf. p 152.
94. Ibid, p 117.
95. R.C., Report, Vol 1. The minority reports of Beauvais and Grant were outlined in the preceding chapter. They were also clearly summarized in the commentary in the business press to be cited below.
96. February 28, 1967.
97. March 25, 1967, p 3.
98. March 13, 1967, p 4.
99. Ibid.
100. Financial Post, March 25, 1967, p 3.
101. Ibid.
102. Canadian Tax Journal, May-June 1967, p 273-86.
103. C.T.F., April 1967 Conference, p 346.
104. For reports see Globe and Mail, (Toronto) April 27. 1967; Financial Post, April 29, 1967, p 30; May 6, 1967, p 20. The panel was not unanimous; E. J. Newman, a Montreal chartered accountant fully supported the recommendations for the taxation of property gains, C.T.F., April 1967 Conference, p 361.
105. Ibid, p 359. Thorsteinsson had previously been with the federal Department of National Revenue and two of the most important Montreal and Toronto legal firms; see biography in Ibid, p 489.
106. Ibid, p 463. That the Canadian economy was short of capital and that therefore tax changes that would curtail investment must be rejected was a common theme. This thesis was emphasized by the resource industries in defense of their incentives and by Western provincial governments in their concern for regional economic development.
107. Ibid, pp 274, 375-380. An example of the flippant and strident tone occasionally adopted in criticisms of the Commission is W. M. Carlyle's review of the effects of changes in gift taxation. He introduced one hypothetical example as "little Johnny Canuck is born as a citizen in Carterland" and implied that "Carter's Quick Tax Relief Remedy" may influence decisions on family size; Ibid, p 246.
108. Ibid, p 420.
109. Ibid, p 357.
110. Ibid, p 119, p 121.
111. Ibid, p 123.
112. Ibid, p 123.
113. Ibid, p 353. Tamaki, a member of the same firm as H. E. Stikeman, lectured on tax at McGill University and edited a bulletin on taxation.
114. Ibid, p 351. He noted that this proposal was supported by Beauvais in his minority report. Both Tamaki and Beauvais had been members of the Committee of Four, a committee of prominent tax experts that had earlier investigated the taxation of corporate surplus, that had originally made this recommendation.
115. Ibid, p 50.
116. Ibid, p 50.
117. Ibid, p 88.

118. Ibid, p 88.
119. C.f. Townsend, Ibid, p 88; Thom, Ibid, p 57.
120. See the panel on financial institutions, Ibid, pp 230-44.
121. Ibid, pp 289-93.
122. Ibid, p 240.
123. Ibid, p 243. The restricted view of equity commonly held by business is once again clear. By equitable Turk clearly means that the tax burden should not be unduly harsh on their industry.
124. There were two panels on international aspects; Ibid, pp 173-199, 315-345.
125. Ibid, p 190. Given the interests of this major multinational resource corporation, it is hardly surprising that Davies would strongly oppose any tax increase for foreign capital.
126. Ibid, p 195.
127. Ibid, p 61. As will be seen, this speculation was to prove prophetic. Hampson was to later head the government established Canada Development Corporation.
128. Ibid, pp 329-37.
129. Ibid, p 460.
130. Ibid, p 434-5. See also Globe and Mail, (Toronto), April 27, 1967: "Views of the 92 speakers ranged from flat rejection to full approval...Almost every discussion was marked by controversy, and at the end of the conference there was no indication that a consensus had emerged."
131. C.T.F., April 1967 Conference, p 434.
132. Ibid, p 6.
133. Ibid, p 6.
134. Ibid, p 5.
135. Ibid, p 59.
136. Ibid, p 59.
137. Ibid, p 68.
138. Ibid, p 69.
139. Globe and Mail, (Toronto), April 27, 1967.
140. C.T.F., April 1967 Conference, p 59.
141. Quoted in Star, (Toronto), April 27, 1967, the article was headlined "Carter Good For Capitalists."
142. C.T.F., April 1967 Conference, pp 32-8 and 123-7 respectively.
143. Ibid, p 124.
144. M. W. Bucovetsky has provided a good case study of mining pressure throughout the whole process; see "The Mining Industry and the Great Tax Reform Debate", in A. Paul Pross (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975, pp 87-144; Tax Reform in Canada: A Case Study of the Mining Industry, Unpublished Ph.D. dissertation, University of Toronto, 1971.
145. Star, (Toronto), February 27, 1967, p 24.
146. Ibid.
147. Ibid.
148. Financial Post, March 4, 1967, p 3.

149. Mining Association of Canada, Today in Mining, March, 1967; quoted in House of Commons, Debates, September 29, 1967, p 2660.
150. C.f. Globe and Mail, (Toronto), February 28, 1967, p B1.
151. Star, (Toronto), February 27, 1967, p 24.
152. Quoted in Telegram, (Toronto), February 27, 1967, p 14. Barrington was one of the group of men whose careers had moved back and forth between corporate and state positions and who had worked for C. D. Howe in the federal government during the war and post-war reconstruction period. C.f. John Porter, The Vertical Mosaic, Toronto, University of Toronto Press, 1965, p 430: "In 1957 questions were asked in the House of Commons about the facts that J. D. Barrington, president of the Crown-owned Polymer Corporation, was at the same time a director of McIntyre Porcupine Mines Ltd."
153. March, 1967.
154. Journal, (Ottawa), March 30, 1967.
155. Star, (Toronto), April 4, 1967.
156. Ibid.
157. Sun, (Vancouver), March 31, 1967.
158. Financial Post, April 22, 1967, p 25.
159. Robert Presthus, Elite Accommodation in Canadian Politics, Toronto, Macmillan, 1973, pp 148-52. The verbatim interview (August 22, 1968) with the director will be extensively cited in order to show the pervasive and almost messianic zeal of the opposition to Carter. The identity of the director or the Chamber were not revealed.
160. Ibid, p 149.
161. Ibid, p 149.
162. Ibid, p 151.
163. Ibid, p 150. Just as the Chamber of Mines was not specified, neither was the provincial capital or the firms which prepared the brief given.
164. Ibid, p 150.
165. Ibid, p 151.
166. Ibid, pp 150-1.
167. Ibid, p 151. A striking feature of much corporate and especially mining, opposition to the Report was its vehement and highly personalized nature.Great hostility was directed against Mr. Carter himself.
168. Ibid, p 151.
169. Ibid, p 152.
170. Ibid, p 152.
171. C.T.F., April 1967 Conference, p 193.
172. Ibid, p 194.
173. Ibid, pp 209-220.
174. Ibid, p 214.
175. Ibid, p 215.
176. Ibid, p 218. The mining spokesmen were not concerned solely with the specific recommendations that affected their industry, but also strongly opposed the basic principles and foundations of the Royal Commission. Dix argued that "the Report is replete with highly so-

cialistic concepts involving revolutionary changes in the philosophy of taxation" and particularly objected to its overemphasis on equity and neutrality at the expense of fairness and basic justice; pp 210-11.

177. 1975, op.cit., p 94.
178. Ibid, p 95; see also p 111, footnote 30 on the tenor of these media reports.
179. Monetary Times, September 1967, p 20.
180. For an overall report on the conference see Les Rowland, "Notepad", collected in Taxation Division, Department of National Revenue, Press Clips, No 3, June 27, 1967. The publication in which this article appeared is not given, but from its format it was very probably in one of the major oil industry journals. It should be remembered that such conferences are generally well attended and closely watched by government officials; cf. Presthus, op.cit.
181. Rowland, op.cit.
182. "Economic Repercussions of the Carter Commission Proposals", Canadian Chartered Accountant, August 1967, pp 98-100. The preamble to this summary of his address stressed Pearce's "wide background in oil industry economics"; p 98.
183. Ibid, p 98.
184. Ibid, p 98.
185. Ibid, p 98.
186. Ibid, p 100.
187. C.T.F., April 1967 Conference, p 228. For the manner in which the power of the oil industry was able to guarantee continued favourable tax incentives and financial concessions for the development of the tar sands through the 1970's see Larry Pratt, The Tar Sands. Syncrude and the Politics of Oil, Edmonton, Hurtig, 1976.
188. C.T.F., April 1967 Conference, p 229.
189. Rowland, op.cit.
190. Ibid. It is clear that he is referring to the Carter Commission and not the expected government white paper outlining its own reform proposals.
191. Ibid. Rowland concluded his article: "Up and at 'em!"
192. See the speeches to C.T.F., April 1967 Conference by leading American tax economist Dr. Carl S. Shoup and accountant and management consultant Howard Ross; pp 70-7 and 7-17 respectively.
193. Ibid, p 205. He also speculated on the origin of these recommendations: "It appears that, having added up the cost of the goodies elsewhere in the package, the Commissioners suddenly remembered that they had to leave revenues unimpaired, cast about for someone to pick up the cheque for the free lunch, and settled on the oil and mining companies and the life insurance companies as possible benefactors"; p 205. While the resource sector certainly would have liked to be seen as an undeserving scapegoat, the principle of neutrality is so central to the overall Commission framework that this explanation is unlikely.
194. Ibid, p 209.
195. Ibid, p 207.

196. Financial Post, May 6, 1967, p 4.
197. C.T.F., April 1967 Conference, p 464.
198. Ibid, p 464.
199. May 6, 1967, p 1.
200. Ibid; The Post fully supported the mining industry's pleas for maintaining the concessions. See also Monetary Times, September 1967, p 20.
201. Quoted in Bucovetsky, 1975, op.cit., p 95.
202. Bucovetsky, 1971, op.cit., p 36.
203. Financial Post, May 6, 1967, p 3.
204. House of Commons, Debates, May 11, 1967, p 111. This qualification illustrates the contradictory forces facing the government. Massive concellations, pervasive pressure and the prevailing air of uncertainty were certainly a powerful impetus to the government to act to reassure the industry. But on the other hand, this would encourage other sectors to demand similar assurances and this could severely constrain later policy options. The Minister of Finance did not want to deal with specific recommendations in a piecemeal fashion.
205. Ibid, p 111.
206. C.f. Saywell, 1968, op.cit., p 314; Bucovetsky, 1971, op.cit., p 36; Monetary Times, September 1967, p 20.
207. House of Commons, Debates, May 18, 1967, p 364.
208. Globe and Mail, (Toronto), May 15, 1967.
209. 1975, op.cit., p 95.

Chapter 9 Second Retreat: The Scope of Reform

The extension of the mining incentives was certainly a major decision and it clearly indicated the government's sensitivity to corporate demands and the need to allay business uncertainty and unease. However, the government continued to study the Carter reform proposals and to insist that no firm conclusions had been reached on the eventual restructuring of the tax system. Plans for dealing with the Report were outlined by Minister of Finance MitchellSharp in a major address to the April 1967 conference of the Canadian Tax Foundation.[1] He first of all emphasized the nature of the overall reform process: "Making our tax system more modern, more equitable and more efficient is going to be a long and controversial process. The Royal Commission has been only the first stage. The second stage is now in process - the consideration of the whole subject by the taxpayers and the experts, in the light of the facts and conclusions brought out by the Report, and the expression of their views on the matter."[2] The timetable proposed was a tight one: legislation reforming the tax structure was planned for 1968, and to this end Sharp hoped to produce a White Paper in the autumn. He delineated the nature of this document: "I think this first group of government decisions would be incorporated in a White Paper which could contain an explanation of the main proposals we intend to make in regard to the income tax...These recommendations would be made after consideration of the Report and of the comments we have received on it by that time. There would be recommendations subject to revision after they are publically studied and debated."[3] This

White Paper would then be reviewed by a parliamentary committee where there would be further opportunities for input from interested parties. On the basis of these deliberations and the views of the provincial governments changes could be incorporated in the draft legislation.

In order to facilitate the government's formulation of policy, Sharp invited submissions on the major Commission recommendations before the end of September: "I would ask that these comments be sent to me, or to my department, in writing, in the first instance. We will try to see as many as possible of those who wish to follow up a written report with some oral presentation. It will be recognized that we shall have to be working intensively on these matters ourselves and will have limited time for supplementing the study of written material with discussion."[4] Sharp realized that these briefs would have to be prepared quickly, but assured the conference that "there will be further opportunities to consider and express views upon the White Paper and later upon the draft bill."[5] He outlined the major recommendations upon which he sought comment: integration; the inclusion of capital gains, gifts and bequests in the comprehensive tax base; the family unit and rates of personal taxation; income averaging; retirement plans; business expense deductions; the elimination of the dual rate and the treatment of small business; the proper treatment of the oil, mining and insurance industries; the taxation of income from outside the country; and "finally, how far all these major recommendations are essential parts of a single package and how far there can be variations in what is included and the time of their incorporation in the system."[6] He stressed that the government was less interested in ques-

tions of detailed implementation than in evaluation of the fundamental proposals and that "we shall need much help from the comments and suggestions of those with special knowledge and ability."[7]

This input to the government and the continuing public debate on the Royal Commission and tax reform are examined in this chapter. Corporate opposition to the basic principles and key proposals of the Report intensified through the summer and early fall of 1967. The most fully developed corporate response to the Commission and most comprehensive policy statements on necessary tax changes were contained in formal submissions to the Minister of Finance in the fall of 1967. This input from the capitalist class and other competing interests came at a particularly important juncture in the policy process, at a point where it could exert significant influence on government decisions on what elements of the Commission reform schema should be adopted. This period of intensified debate and pressure culminated in a number of pronouncements within the November 1967 federal budget. These statements amounted to a further considerable retreat from the Royal Commission; the government had essentially rejected the Report as the basic framework for tax reform.

I. Intensified Corporate Opposition

A Financial Times editorial emphasized the "mounting wave of business criticism" that had developed by mid-summer. It concluded that a number of the key Carter recommendations would have to be rejected in the light of this vigorous business response.[8] The Royal Commission was a major topic of discussion at a large number of business conferences. The president of the Canadian Manufacturers' Association, H. W. Joly, summed

up the situation in opening the Association's annual meetings in June: "The business community, not surprisingly, continues to be exercised over the sweeping nature of the proposals in this massive document and the cloud of additional uncertainty that overhangs business decisions during the period that these recommendations are under government consideration."[9] Opposition to the Commission pervaded the sessions on taxation at the C.M.A. meetings and those of the Canadian Chamber of Commerce in September.[10] The economic implications of the Report were explored at conferences organized by the York University Business School and the Toronto Society of Financial Analysts,[11] the University of Western Ontario[12] and Queen's University. The background paper presented to the latter by Ronald Robertson, former director of the Canadian Tax Foundation and then with one of the preeminent Toronto corporate law firms, McCarthy and McCarthy, provides a good summary of prevailing business opinion. He delineated four major lines of business criticism of the Report: "a largely unspoken but fundamental disagreement with the idea that the tax system should be used deliberately as a vehicle for redistribution of income, or that redistribution is (as the Commission emphatically concludes) per se fair"; just as fundamental an objection to the "buck is a buck" widening of the tax base; opposition to the elimination of special incentives; and the view that the recommendations are simply too sweeping and disruptive.[13] Mr. Robertson noted the ideological terms in which this opposition was framed. The hostility of high income strata to progressive rates was generally expressed in terms of risks and incentives;[14] and the all embracing nature of the comprehensive tax base conflicted with individualistic phi-

losophy, it was seen as "by logic, inadvertance or design (or a bit of each) too close to Big Brotherdom to suit the Canadian temperament."[15] The essence of business hostility to the major proposals was the belief that "the Commission has gone too far in its redistributive, loophole-closing and equity pursuits."[16] This emerging consensus within business was also evident at the June annual meeting of the Investment Dealers' Association of Canada. One panelist, Toronto tax lawyer John G. Macdonald, emphasized the "groundswell of opposition" to the full taxation of capital gains: "After two months on the conference circuit, I can report that a majority of informed observers think that the taxation of capital gains in some form is inevitable, but almost all oppose the treatment of such gains as ordinary income."[17] He also predicted that the recommendations on inheritances, integration and the transfer of the sales tax to the retail level would not be adopted. This latter change was unlikely because the effect of the sales tax would then be clearly visible to consumers, rather than hidden at the wholesale level. The fate of the resource incentives was naturally much discussed at the June meetings of the Canadian Institute of Mining and Metallurgy. A speech by Mr. Jack Davis, parliamentary secretary to the Minister of Energy, Mines and Resources, to this conference was applauded by the oil industry. Davis had stressed the need for low-cost assured energy resources. An editorial in Oilweek strongly supported this policy goal and argued that "nothing could be more fatal to the policy espoused by Davis than the tax proposals of the Carter report."[18]

Opposition to the Royal Commission was expressed in numerous statements and speeches by powerful corporate executives. In an address

to the American Iron Ore Association, V. W. Scully, chairman of the Steel Co. of Canada, condemned the Report as "an academic fantasy." He attacked integration, the wider tax base and limitations on capital cost allowances that would affect his company. He particularly objected to the recommendations to eliminate mining concessions; "the wise use of incentives at appropriate times" had contributed much to economic development and their removal would have serious consequences.[19] J. Grant Glassco, president of Brazilian Light and Power Co. Ltd., in a speech to the company's annual meeting "added its voice to the swelling chorus of corporate objections to specific parts of the Carter Report." The proposed changes in the taxation of foreign-source income would create "an intolerable burden" for corporations like Brascan.[20] A. H. Lemon, president of the Canadian Life Insurance Association, argued before the Toronto Junior Board of Trade that the Royal Commission was far too complex and that this lack of clarity and simplicity limited its central goal of equity.[21] The mobilization of business pressure against the Carter Commission took a range of additional forms. Dofasco, one of the three largest steel producers, added a note to its quarterly report stating its "strong disagreement with some of the concepts on which the report is based and concern with the uncertain economic and social implications of some of the recommendations."[22] This corporation preferred change within the existing system to the sweeping reforms of the Commission and, like other companies, urged its shareholders to write to the Minister of Finance along such lines. Prominent investment firms commented on the Royal Commission to their clients. Richardson Securities issued a newsletter on the effects of integration,[23]

and Merill Lynch, Pierce, Fenner and Smith published a review of the Report's implications for stock market trends.[24] Shell Canada distributed a letter to its shareholders warning of the adverse impact of the Commission recommendations on capital gains, integration and, of course, the elimination of resource concessions.[25] In these ways, major firms attempted to enlist investor and shareholder support for corporate opposition to the Carter Commission.

The philosophical orientation of the Commission came under attack in increasingly harsh ideological terms. An organization which embodied the most fervent opposition to the Commission's rationale and priorities was the Equitable Income Tax Foundation. Writing for the Foundation, leading Winnipeg tax lawyer I. H. Asper argued that the Commission viewed business as the "fiscal servant of government." He condemned the harshness of the Report's "fiscal dogma": "One is inexorably led to the frightening impression that the Commission views all capital and income as being the property of the state, and if one is allowed to keep a portion, it is purely a gesture of munificence from on high."[26] The Foundation published a series of pamphlets and organized a cross-country speaking tour against the Royal Commission.[27] It was widely felt that the Report would overturn widely accepted norms of social behaviour and economic organization. A Financial Post editorial entitled "What about us humans" noted that many experts were worried as much about the social repercussions of the Commission as its economic effects: "Their major reservation adds up to this: "The commission, it seems, first decided how it thinks people should live. Then it produced a package to force them into

that mold. But the mold doesn't always square with how human beings really act, think or feel."[28] These issues were also prevalent at the annual meetings of the Canadian Bar Association. A prominent Winnipeg lawyer, Harold Buchwald, was quoted as saying that the Commission would "drastically alter present thoughts, motivations and aspirations on both an individual basis and as instruments of national domestic policy."[29] Among the harshest critiques was a widely distributed press statement from W. M. Anderson, the president of the Canadian Chamber of Commerce.[30]

> Because of its undesirable social implications, the report of the Carter Royal Commission on Taxation is in many respects a definite threat to Canadians, to Canada and its future growth. The report ignores, to an amazing degree, the human foundations of both society and the economy. Searching for a theoretical ideal - based on a particular concept of how Canada should be governed - it brushes aside the facts of how people actually behave or what they want out of life.

The Chamber particularly worried that recommendations on the family unit and the inclusion of gifts and inheritances in the tax base could potentially interfere with family life and threaten the continuity of family businesses. The range of proposed changes "represent a purposeful extension of government intervention in our way of living" and "would bring pressure on every Canadian to conform with bureaucratic standards for spending, saving and investing."

> The Report pays lip-service to the protection of the liberties and the rights of individuals, yet in its efforts to distribute income more equitably, it pushes aside the privacy of property which has always been considered one of the qualities of Canadian society.

Thus, a further sense in which the Royal Commission was seen as being too radical and revolutionary was in its seeming challenge to the traditional

and unquestioned ideological framework within which business operated. For those sectors of the business community uneasy about growing state economic intervention, the underlying rationale and sweeping recommendations of the Carter Commission were seen as a further, and highly significant, step in the inexorable expansion of state economic control.

Withdrawal of Investment

This pervasive corporate assault on the Royal Commission continued to take more concrete forms as well. A. A. Thornborough, president of Massey-Ferguson Ltd., said that his company had told the government that implementation of the Carter recommendations would immediately force consideration of relocation outside of Canada.[31] The vice-president of finance of this same major industrial corporation had argued that the Commission had seriously misjudged the effect of its proposals on multinational corporations.[32] Stock market analysts calculated that Massey-Ferguson would experience significantly higher taxes and lower profits and that all other large Canadian multinationals would face similar adverse impacts from the proposals. Among those companies whose profit situations and shareholders' returns would be severely affected were Moore Corporation, Alcan Aluminum, International Nickel, George Weston Ltd. and Canadian Breweries.[33] The international implications of the Report were also not lost on foreign capital: "Business consultants report that some U.S. or European individuals or organizations who were contemplating setting up a Canadian vehicle for international operations now are dropping their plans."[34] It was widely feared that the harsher impact of the recommendations on foreign interests would be reflected in a reluctance to commit

further capital to what was seen to be an inhospitable climate for investment.[35] In addition, it was becoming increasingly difficult to sell Canadian securities on the United States capital market.[36]

The oil industry also maintained its highly organized campaign against the loss of its concessions. Announcements of cancelled projects continued into the fall. J. C. Sproule and Associates said that a planned $30 million exploration program in the Arctic Island would be very difficult under the Carter recommendations.[37] Shell Canada and Imperial Oil both deferred major exploration programmes in the Northwest Territories until the government's position on the Report had been clarified.[38] W. O. Twaits, chief executive of the latter corporation, who the Monetary Times referred to as "the most articulate and fiercely opposed of businessmen who have spoken on Carter"[39], had widely criticized the resourse recommendations. Such public pronouncements and more concrete threats of cancellations and cutbacks were not unrelated. In the case of Imperial Oil, "some government officials were certain the number one oil producer's action was a well-calculated back-up to the verbal attack."[40]

Although the May 11 extension of the tax exemptions for new mines had reassured the industry somewhat, there was still considerable anxiety over the future course of tax reform. The postponement of further major mining projects through the summer of 1967 reflected this continued uncertainty.[41] The industry view was succinctly expressed by J. C. Parlee, senior vice-president of International Nickel, in a speech to the Canadian Club in Winnipeg. He argued that the "complete overthrow of mining taxation" which the Royal Commission amounted to would have devastating conse-

quences: "Canadian mining companies operating under the commission tax proposals would explore less, develop fewer new mines, and expand fewer existing properties."[42] To illustrate this argument calculations had been made of the effect on Inco if the proposals had been enacted in 1957: the company's taxes would have doubled, their activity would have been severely curtailed and they would not have developed major currently producing properties. The regional context of this impact was stressed; the town of Thompson, Manitoba would not have been developed.[43] Basically similar views were put forth in an address by the Hon. Robert Winters, Minister of Trade and Commerce, at the opening of a major project in the Athabasca tar sands. Winters stated: "It would be a great pity if we didn't continue to provide incentives in our legal structure that allow projects such as this to be completed."[44] The Montreal Gazette commented on the significance of this speech: "Mr.Winters was not mentioning the Carter Report by name. But the implications seem clear. He evidently believes that the Carter recommendations would dampen the present incentives for new mining ventures."[45] This was the first public appearance of opinion within the cabinet that was firmly opposed to key Commission proposals.[46] It will be seen that divisions within the government on the scope of tax reform would become very important at later stages. More immediately, support from such a prominent politician added legitimacy to the policy demands of the mining industry. On the same occasion, Premier Manning argued that the existing concessions "are essential to the continuing development of Alberta."[47] These cancellations of major projects and threats of reduced investment and withdrawal of capital had been gaining momentum through the summer and fall of 1967.

Support for Resource Capital in the Political Sphere

Tax incentives to the mining industry were much discussed within the political realm as well. A critical facet of state economic intervention in the modern period is a wide range of programs of support and subsidization for various sectors of the economy. Deliberations in the House of Commons on one such program, the Energy Gold Mining Assistance Act, in the fall of 1967 became the forum for debate on the Royal Commission's controversial recommendations on mining. Mr. Aitken, Progressive Conservative spokesman on this issue, extensively referred to industry briefs and opinion in his argument against the Commission proposals.[48] He cited a report in the Northern Miner on the consensus of a panel of mining experts: "Withdrawal of tax concessions to the mining industry as recommended by Carter will cripple Canada's greatest industry."[49] The same prediction of disastrous consequences was contained in the press summary of the submission of the Mining Association of Canada to the government.[50] Other members spoke in the same vein. Mr. Dinsdale noted that his office had received a flood of briefs from the mining industry on the Commission and that they all urged the government to quickly indicate its attitude to the proposals. He himself called on the government to adopt a more encouraging and positive policy of support towards the industry.[51] Mr. Nielsen argued that the possible implementation of the Carter recommendations, in addition to the specific difficulties of gold mining, "is just about putting the last nail in the lid of the coffin of the mining industry as a whole and particularly the gold mining industry." He urged the Minister of Energy, Mines and Resources to reject the Commission: "If

he does so he will find 100 per cent support from the mining industry as a whole."[52] In response the Minister, Jean-Luc Pepin, protested that he had not established the Royal Commission and was not responsible for its conclusions, and objected to insinuations that the government had already accepted the recommendations.[53] The government did in fact extend the assistance to gold mining for three years.[54] While this decision can be seen as a further concession to the pressure of the mining industry, it did not directly involve a recommendation of the Royal Commission. Nonetheless, approval of this specific incentive certainly went against the spirit of the Report.

Criticism of the Carter resource recommendations recurred a week later in debates on general fiscal policy. A Liberal backbencher, Mr. Deachman, noted the large number of submissions from mining interests opposing the Commission.[55] He stressed the great importance of mining within the Canadian economy and warned that the May 11 short-term assurances had not eliminated widespread uncertainty over the long-term situation within the industry.[56] Mr. Deachman also extensively cited the industry briefs to the government: the Mining Association of British Columbia's submission to the B.C. provincial government stressed the great importance of the industry in the provincial economy,[58] the British Columbia and Yukon Chamber of Mines reiterated the same point, the Mining Association of Canada emphasized the severe consequences of the removal of the concessions, communications from prospectors objected to the recommendations that would curtail their operations, and finally, the brief of the Vancouver Board of Trade opposed tax changes that would adversely affect the

development of the resource industries. He argued in conclusion that a "long-term climate of confidence" was necessary for the continued investment and development of the extractive industries and to this end called for "long-term assurances that the mining industry is not going to be upset by massive changes in the methods of providing incentives and imposing taxes."[59]

These parliamentary debates underscore the pervasive nature of the pressure being exerted against the Carter recommendations on resource taxation. Not only was the government facing a continuous onslaught from the industry itself, but it was barraged by criticism within the legislature. The Progressive Conservative party supported the demands of the resource sector and opposed the Commission recommendations, which they saw as harming a crucial Canadian industry. The arguments of M.P.'s in citing industry submissions and endorsing their policy served to reinforce and legitimate industry opposition to the Royal Commission. This indicates that in spite of the concentration of power within the executive branches of the state, the cabinet and senior officials, individual Members of Parliament could still play a significant role in policy debates. Individual M.P.'s support of the mining industry's position was shaped by a number of factors: they received large numbers of briefs from industry sources and contact with corporate officials was common. In their lobbying efforts, the mining industry certainly did attempt to influence M.P.'s as well as more powerful individuals within the state structure.[60] Equally important was the ever-present regional context of Canadian politics. The most outspoken members in the debates on the resource proposals tended to repre-

sent Western constituencies which contained large mining projects and which were very dependent on the health and development of resource industries. This was the case even for members of the governing party; the espousal of mining's cause by Mr. Deachman, a Liberal member from British Columbia, went against the official policy of non-commital.

Development of Corporate Policy for Submission to the Government

Major corporations and business associations, and their tax advisers were hard at work on the preparation of their formal briefs on the Carter Report for the Minister of Finance. Such activity was among the more important functions of powerful industry and trade associations. Given the crucial importance of tax reform to corporate interests, they devoted extensive manpower and time to this task. The Independent Petroleum Association of Canada and the Canadian Association of Oilwell Drilling Contractors, for example, had "gathered a battery of technical, economic and tax experts to prepare their briefs" and distributed questionnaires to their member companies to assemble concrete data on the effect of the proposals."[115] Special committees of the Canadian Bar Association and the Canadian Institute of Chartered Accountants were at work on their response to the Royal Commission.[62] The Canadian Tax Foundation was using the same method of organizing input as it had regularly done for its annual pre-budget brief to the federal government: "Members, both corporate and individual, are therefore invited to send the Foundation a copy of their submissions; these will be co-ordinated into a single, subject-by-subject summary of the proposals. A copy will be forwarded to the Minister of Finance."[63] The implications of the Carter recommendations for

stock issues, dividends, bond prices, corporate and government financing, and stock market performance were being analyzed by the Independent Dealers' Association committee preparing its submission to the Minister of Finance.[64] Individual dominant corporations had also been employing their considerable resources in the preparation of comprehensive briefs: "Three or four people in these companies (but as many as 15) have been working on presentations to the federal minister over the past two months."[65]

Business was taking the development of its formal input to the government very seriously. Jacques Barbeau, former research director of the Canadian Tax Foundation, urged an oil industry conference to prepare effective rebuttals to the Carter recommendations. He stressed that the comprehensive Report could not be countered "with hastily-prepared argument or a low-budget brief prepared by a small group of introverted individuals in their spare time."[66] The industry must not seek to prove that the existing tax incentives are justified or equitable, but that they are necessary on economic grounds. A well organized campaign in which the industry must be willing to spend $200,000 to $400,000, must be developed by mid-July.[67] Finally, Barbeau warned of the consequences of ineffective or inadequate action: "If the industry fails to discharge this responsibility, political realism will dictate an immediate implementation of the spirit, if not the substance of the Carter recommendations as they relate to the petroleum industry."[68] A Canadian Business editorial argued that debate had been so heated because there was not consensus on the fundamental priorities and value judgments upon which tax policy was based: "That is why it is so important for all segments of business to put forward

their point of view. The stakes are high. Not only has the Carter Commission proposed a new tax system, it has also set out an economic philosophy for the country. Now is the time for voices to be raised."[69] In order to clarify such issues, the Canadian Chamber of Commerce had commissioned a critical commentary on the Report by Dr. J. R. Petrie, a prominent Montreal consulting economist and former federal government tax official. Canadian Business strongly recommended Dr. Petrie's study as a useful aid to the understanding of the Royal Commission proposals.[70]

Petrie's study is an excellent example of a sophisticated, but fundamentally conservative, reaction to the reform proposals.[71] Dr. Petrie was extremely uneasy about the Commission's objective of the redistribution of income; he argued that policy on equity was inevitably based on value judgements. In addition, he did not share the Commission's confidence in the beneficial economic effects of its progressive recommendations, such as those on capital gains.[72] Nor did he accept the contention that tax incentives had caused a misallocation of resources: "The conflicting assumptions and the inconclusive argument leave unproved the Commission's charge of undue and excessive investment caused by the tax concessions to the mining and petroleum industries."[73] The Report's analysis of its effect on the international balance of payments and investment patterns was similarly rejected: "The argument is too glib and the assumptions too dogmatic and doctrinaire. So much depends upon foreign investor reaction to actual implementation of the proposals."[74] Petrie's concluding observations were highly critical: "It is pointed out in various parts of this Memorandum that many of the conclusions regarding the impact of the Com-

mission's tax proposals must be indefinite and cannot be as conclusive as the Commission has tried to make them."[75] His final word was that: "The Report should neither be damned in its entirety nor accepted as a 'basket' proposal, as the Commission appears to urge in the text."[76] He repeated the common argument that the more constructive recommendations could be adapted, even though other proposals required more detailed and critical attention.[77]

Dr. Petrie's fundamental criticism was of a more ideological nature. Above all else, he objected to the overall orientation of the Commission: "The most important feature of the Report is the tax philosophy that it is recommending for adoption by the Government of Canada. The Commissioners are committed deeply to a greatly extended control of the national economy. It is their stated aim to provide not only greater economic stability and growth by extensive centralized planning, but to affect a considerably greater redistribution of income that will increase progressively as the nation's per capita income rises."[78] Such large-scale changes in the fiscal system and the associated expansion of state control would have unpredictable and disruptive effects on the economy. Such massive fiscal planning "almost inevitably would have to be centred in a technocracy of elite civil servants. This raises the question whether or not it is consistent with democratic principles as understood and practiced in Canada to transfer the control over the nation's economic destiny to a technocracy which, no matter how competent, cannot be possessed of either omniscience or infallibility, and which is not responsible to the people."[79] On the basis of the Petrie critique of the Royal Commission, a

special committee of the Chamber of Commerce had prepared a draft brief for submission to the government.[80] The chairman of this committee, W. H. Flynn, presented a summary of the proposed brief to the September 1967 conference.[81] The brief, which rejected the central Carter proposals, was extensively discussed by delegates and then adopted as Chamber policy.[82]

The corporate sector made extensive use of such professional and academic expertise and specialized consultants in the elaboration of their policy submissions. A further critique of the Report by Professor Neil J. Jacoby, of the University of California at Los Angeles, was sponsored by the International Nickel Co. of Canada, one of the world's most powerful mining corporations.[83] Jacoby argued that the Commission's priorities were at variance with those of other Western countries and Canadian historical experience, and that economic growth, rather than income redistribution, should be the prime goal of tax policy.[84] He was highly critical of the emphasis on neutrality, the overly theoretical view of corporate income[85] and the "nationalistic bias of the Carter proposals and their threat to international capital movements."[86] He stressed the central role of mining in Canadian economic development and the importance of tax incentives to the industry's continued development.[87] The Commission's analysis of resource taxation was summarily rejected; citing international and historical evidence Jacoby argued that "it is clear that a substantial rise in Canadian tax burdens on multinational petroleum companies relative to those imposed in other countries, would shift invesment out of Canada. No doubt, similar consequences would ensue in the mining industry. The Carter Commission's expectation that these companies would sustain their

investment in Canada is unrealistic."[88] He disputed the notion of the Report as a package that must be accepted or rejected holistically: "Most of the Commission's proposals should be considered separately from the others on their individual merits. The Commission's set of reforms is only one in a constellation of alternative changes in the Canadian tax structure.[89] Jacoby concluded that the Canadian people must decide on the priorities and compromises of tax reform: "In reaching these judgments, however, Canadians should bear in mind that the tax system proposed by the Carter Commission would probably call for a sacrifice of growth in national income, and a worsening of the balance of payments, in order to attain the Commission's definition of 'equity' in taxation."[90]

These studies are a further indication of the tremendous resources that major firms and corporate organizations could themselves marshall or hire for the preparation of comprehensive and impressive critiques of policy to which they were opposed. By the latter part of the summer, the federal government was receiving a "mountain of post-Carter briefs" expressing these business views. According to the Financial Post: "Almost all of the representations received - or promised - are critical of the underlying concept of the Carter Commission."[91]

The Monetary Times reviewed the state of corporate opinion on the Royal Commission in the fall of 1967: "All business takes issue with much of Carter. Certainly the package is unacceptable."[92] Business was also aware that the government would be facing a number of counter pressures which could favour acceptance of some Commission proposals. A Montreal management consultant, for example, argued that the complexity of the Report

meant lengthy government study, during which time there would be pressure from the public, so many of whom would benefit from implementation of the proposed changes.[93] An investment analyst writing in Western Business and Industry addressed the political parameters within which the Commission would be debated.[94] Two considerations were outlined that could encourage the adoption of key Carter recommendations: firstly, the need for revenue sources to cover the growing state deficit, and secondly, pressure from the left-wing within the Liberal leadership for reformist policy that would appropriate electoral support from the New Democratic Party.[95] The regional context of Canadian politics was also stressed: "Strongest lines of defence against such policies will be much less the organization of business than the premiers and finance ministers of the provinces of Canada."[96] It has been pressure on Ottawa from the mining provinces, spurred by threatened cancellations and deferred projects in their regions, as much as that of the industry itself, that had been instrumental in the May concessions. More generally, while solidly opposed to the recommendations, the business community seemed to be far less agitated about the concrete possibilities of their implementation. A Financial Post survey had found that "with relatively few exceptions, Canadian business appears to be playing a waiting game on the Carter Commission taxation proposals."[97] Aside from sectors such as the resource industries that could face a particularly severe impact, most corporations had not made specific changes in their policy and operations on the basis of how the Carter recommendations would affect them. The reason for this was quite simply that business did not expect the core recommendations to be implemented: "The attitude appears

to be, as expressed succinctly by one business consultant, 'no government will buy a thing like the Carter proposals'."[98] The limited changes that corporations had made were "more the result of a feeling of uncertainty rather than any hard expectation that a particular aspect of the Carter recommendations will become law."[99] Nonetheless, whatever confidence business may have had that the reform package could not be accepted, this outcome was not being left to chance. Massive corporate pressure on the government to reject the Royal Commission proposals continued.

II. Deliberations Within the State

The federal government planned to proceed quickly with its examination of the Royal Commission and the development of policy on tax reform. In April Mitchell Sharp had announced that there would be only five months for the preparation of briefs to the government. The primary reason for this expeditious timetable was the need to reduce business uncertainty.[100] An indication of government thinking was contained in the June 1, 1967 budget statement from the Minister of Finance. Sharp provided a general evolution of the Report: "We have found it a thoughtful, radical and stimulating report, but one that bristles with both technical and policy problems and, need I add, political problems."[101] In this regard, he felt that the concept of the comprehensive tax base required particularly careful consideration. The Minister reiterated that there would be no government decision until all interested parties had had the opportunity to comment. Mr. Sharp realized that this furthered the problem of business uncertainty, but argued that hasty or ill-prepared implementation would be even more harmful.[102] The lack of tax changes in this budget was inter-

preted as giving the government the maximum freedom of action for its major policy developments. Sharp's speech was also seen as reflecting his efforts "to shift the focus of thinking from the report to the prospects of a specific government program for tax reform" to be presented in a White Paper late in the year.[103]

Federal-Provincial Conflict

A vital factor in the dynamics of reform continued to develop as it became clear in the months following the publication of the Royal Commission that the provinces were highly uneasy about the implications of the Report and that there would be significant conflict between the provincial and federal governments.[104] The activity of provincial governments had already proved critical in the course of tax reform. The support of the Western provinces for the opposition of the resource industries to the elimination of their concessions was an important element in the May 11 extensions.[105]

Provincial suspicion of the Royal Commission was clearly evident in the June 1967 meetings of the federal-provincial Tax Structure Committee, an intergovernmental coordinating committee on fiscal policy.[106] The provincial representatives argued that there be no action taken on the Carter Report until there had been a significant redistribution of fiscal powers between the federal and provincial levels. The position of the Minister of Finance was that the federal government had to formulate its policy quickly in order to reduce certainty in the private sector and that the Royal Commission dealt with the rationalization of the overall structure of taxation rather than with inter-governmental tax sharing. Pro-

vincial opposition was led by the Ontario government. Ontario policy was stated in an address by Provincial Treasurer C. S. MacNaughton to the Tax Structure Committee. He argued that "it is impossible to even contemplate basic changes without confronting the continuing requirements for new tax-sharing arrangements."[107] Mr. MacNaughton outlined the key elements of the crisis of federal-provincial fiscal relations as documented by the studies of the Tax Structure Committee: rising state expenditures were increasingly concentrated at the provincial and municipal levels, but these governments had far more limited sources of revenue and consequently bore a larger proportion of total state deficits. No effective implementation of the Carter proposals was possible without redressing these problems and increasing the financial strength of the junior levels of government. The provinces also objected to Commission recommendations that the federal government have corporation, personal and succession taxes to itself and that the provinces should concentrate on sales taxes. The result of these disputes was the Finance Minister Sharp's timetable for tax reform was delayed. Senior federal and provincial officials would intensively study the Report and another ministerial conference would be held in the fall.[108]

The response to the Royal Commission was particularly hostile from the Western provinces. This early Western opposition to the Report was led by Premier Ross Thatcher of Saskatchewan. At the Tax Structure Committee meetings he had said that it would be "a sad day for Canada" if Ottawa proceeded with the Commission and argued that key recommendations, such as those eliminating resource concessions, discriminated against

Western Canada.[109] Saskatchewan had planned to follow Alberta in eliminating the provincial share of the estate tax, but the positive effect of this change in investment would be cancelled by the Carter proposals. He also argued that the recommendations on the resource industries would restrict capital investment in Saskatchewan.[110]

These concerns were strongly expressed at the meeting of the Prairie Economic Council in June where the Premiers of Manitoba, Alberta and Saskatchewan, with the latter again the most outspoken, agreed in condemning the Report. It was feared that recommendations on capital gains and resource incentives would impair Western economic development.[111] This opposition was reinforced when Premier Bennett of British Columbia supported the objections of the prairie Premiers. He stressed that he would resist any changes that would harm resource development in B.C. and concluded that "the Carter report is dead as such because it was a package deal."[112] In July, these views were firmly put to Prime Minister Pearson in Ottawa after the formal ceremonies making the Western Premiers members of the Privy Council.[113] They warned against any hasty implementation of the recommendations and Mr. Pearson reassured them that this would not be done.[114] As well as the familiar fears that the capital gains, estate tax and resource proposals would harm regional economic development, the Premiers were worried about the centralization of fiscal and economic control in the federal government, the adverse effect on provincial revenue and the even greater concentration of industry in Central Canada that they believed the recommendations would cause.

A clear consensus also emerged from the August annual conference of provincial premiers in Fredericton that the federal government must slow down its plans of moving quickly from the September deadline for the submission of briefs to actual legislation on tax reform.[115] Provincial opposition to the Royal Commission was clear in commentary solicited by the Financial Post.[116] Premier Robarts of Ontario accepted the Commission's main finding that the tax system was in desperate need of major reform. He supported the wider tax base, but was far more hesitant with the mining proposals. Mr. Robarts objected to the limited scope of the Report; it ignored the need to contain the growing tax burden and the critical fiscal problems of the provincial and municipal levels. The provinces guaranteed sources of revenue before any further action could be taken. Premier Thatcher of Saskatchewan reiterated his categorical opposition to key Commission proposals for their uneven regional impact. He argued that the rapidly growing Saskatchewan economy needed large amounts of capital which would be threatened by their implementation. The Ontario and Saskatchewan positions were supported by the provincial treasurer of Manitoba. He also opposed any quick implementation of the Report and supported the Ontario interpretation of the critical fiscal situation. Premier Thatcher predicted problems with Western Liberals if the government accepted the Report.[117] This prognosis was quickly proven correct when Western Liberal M.P.'s and Senators urged the Minister of Finance to reject the Carter Commission.[118]

Continuing Deliberations in the Political Sphere: Fall 1967

Another issue attracting considerable conflict and debate during this period was the fiscal context for tax reform. An important constraint on the adaptation of the Carter recommendations was the necessity that all deviations from the Report be balanced by other compensating changes in order that total revenue should not fall.[119] The business view of this problem had long been clear: a Financial Post editorial on the expected fall federal budget argued against the use of tax increases to solve the government's fiscal problems. Instead, the state should reduce "increasingly lavish spending plans" so as to be able to cut taxes rather than raise them.[120]

Fiscal considerations, and above all finding adequate sources of revenue, had also been the primary focus of the Ontario Committee on Taxation - the Smith Report. The very different emphasis and rationale of this Report in comparison to the Carter Royal Commission was much commented upon in the business press. Recognizing that trends of rising state expenditure would continue, the Smith Report was concerned with the means of raising sufficient tax revenue without damaging the economy and with relieving fiscal pressures at the provincial and municipal level. While the Carter emphasis on the redistribution of income and these goals are not inherently contradictory, "many will nonetheless feel Smith is far more in tune with today's problems by identifying the revenue-expenditure balance as the major unsolved fiscal task."[121] W. A. Macdonald outlined further key differences between the Smith and Carter Reports: the former was seen as "much less theoretical, doctrinaire and perfectionist",

it had a more flexible view of fairness which was less rigidly based on the concept of ability to pay,[122] and "the Smith Report also made it clear that redistribution of income, while undoubtedly one objective of social policy, was by no means the only one."[123] Most fundamentally of all, the Smith Report was "with a few major exceptions, an extensive patchwork job on the present fiscal system. It is a conservative document...The Committee decided to take the approach, in the main, of working with the existing system and building on it, rather than building anew."[124] For these reasons the Smith Report was judged "to have a greater likelihood of influencing practical legislation."[125] Corporate support for the more limited and pragmatic types of reforms proposed by the Smith Committee can be seen as one element of their critique of the more far-reaching recommendations of the Carter Commission.

The Smith Report was one of seven provincial studies of taxation reporting during this general period.[126] The primary focus of them all had been the deteriorating fiscal situation of the provincial and municipal governments. The provincial studies arrived at very similar conclusions on the required direction of change; their prescriptions included the thorough rationalization of the overall tax system, restructuring of the intergovernmental balance of expenditure and revenue, improved federal-provincial coordination, and quick action to deal with the pressing immediate fiscal problems of the junior levels of government.

Tax reform had also become an important issue of partisan politics in the campaign for the leadership of the Progressive Conservative party. Several prominent candidates had expressed opposition to the Royal

Commission. Senator Wallace McCutcheon, one of the controlling figures in Argus Corporation, had called the Report "a model for a taxation system that might be appropriate in a mature, stagnant society," but which was "quite inappropriate in a developing, dynamic, growing society."[127] Donald Fleming, who was Minister of Finance when the Commission was established, had been highly critical of core Carter proposals in an earlier speech.[128]

As the onslaught of briefs on the Carter Report poured in to the government in the early fall, an important element of official policy was clarified: "Finance Minister Mitchell Sharp and his officials appear to reject completely any suggestion that they must take or leave the Carter Royal Commission recommendations as a whole."[129] This was a highly significant policy development. It will be recalled that opposition to the package nature of the Commission proposals had been a central thrust of corporate pressure. This was a further indication of government receptiveness to business demands. Sharp also delineated the nature of the White Paper scheduled for the end of the year. It would not simply be the government's response to the Report: "What it will be, in fact, is the government's general views on taxation, a starting place for debate. The Carter recommendations are only one input into the decision-making."[130] He stressed that there would then be ample time for further debate and revision of these policy proposals. Such assurances were not enough to quiet business unease. The Financial Times referred to the anticipated White Paper as a "political bomb" which even its formative stage had attracted considerable provincial opposition. Moreover, "despite official reassurances that the document will merely indicate the broad trend of federal

thinking, there is no escaping the fact that it will carry the weight of the central taxing authority and will make most of the decisions that have to be made."[131]

III. Corporate Submissions to the Government: Fall 1967

Formal Input to the Government

The government had constantly reassured interested parties that they would have ample opportunity to contribute to the formation of policy on tax reform. The means to be used was the submission of large numbers of briefs from corporations, business associations, labour organizations and various other groups. Government spokesmen had long stressed that the opinions and argumentsexpressed in these submissions would be of significant influence in official deliberations.

In April, the Minister of Finance had outlined the key facets of the Royal Commission reform schema for consideration and called for the submission of briefs on these issues by September. The deadline was subsequently extended into October. During the early fall large numbers of briefs were presented to the government. Minister of National Revenue Edgar J. Benson stressed how grateful the government was for this massive input: "The briefs and letters that we have received have varied in length, style and content but all have been helpful to us in our study of the Commission Report."[132] He noted that by late November the government had received between 950 and 975 written submissions. Most of these were relatively short letters or submissions, but there were 150 more substantial briefs.[133] The great majority of these major briefs were from corporate sources.[134]

This formal input to the government came at a particularly crucial point. It was the last opportunity to influence the development of government policy as its basic outline was still being distilled. The White Paper that was to be issued would represent not just a set of recommendations put forth by an advisory Royal Commission, but proposals that, however much they were open to revision, were official government policy and could eventually be implemented. For this reason, this was the point at which detailed and specific critiques of the Carter Commission and concrete policy alternatives on the direction of tax reform had to be produced. The resulting briefs represented the clearest and best developed policy statements and the strongest efforts to influence official conclusions on the Carter Report and the direction of tax reform. As at earlier stages, this formal input to the government was highly unequal. Submissions from the corporate sector far outnumbered those of labour or any other competing interest. The great material and organizational resources that top firms and associations devoted to the preparation of their response to the Royal Commission also ensured that they would be far more comprehensive and impressive than those of other groups. The central criticism of the Report and demands for tax changes contained in the corporate submissions is examined in this section. To some extent, these briefs reiterated themes of prevailing corporate pressure and this will not be repeated in detail. However, they also constituted a further elaboration and systematization of corporate policy.[135] Such further development and the qualitative nature of the business briefs will be concretely analyzed. The next section returns to the submissions of other organizations and explores the

nature of the political competition at this juncture of the reform process.

Corporate Briefs on the Royal Commission: General Themes

Running consistently through the corporate briefs was a pervasive opposition to the Royal Commission reform proposals as a whole.[136] The fundamental theme that the recommendations would have a severe adverse effect on economic growth was expressed by organizations ranging from the Canadian Manufacturers' Association to the Canadian Construction Association.[137] Among the harshest and most conservative critiques came from the Canadian Chamber of Commerce.[138] A delegation from the Chamber had presented their brief to the Minister of Finance in which virtually all the key Commission recommendations were opposed.[139] The submission feared not simply damage to the economy, but that "the Commission is advocating much greater use of federal government tax and expenditure policies for controlling the Canadian economy" and that this in turn "would produce a marked change in the atmosphere and climate for competitive enterprise in Canada."[140] Similar concerns were stressed by the Chamber's constituent bodies such as the Vancouver Board of Trade; "The Report, although ostensibly concerned with the reform of the Canadian tax structure, constitutes in fact a theoretical framework for a highly centralized economy, in which Federal authority is greatly increased."[141]

The comprehensive nature of the corporate input in the Report is well illustrated by the submission of Algoma Steel, one of the three major corporations that dominated this crucial sector of the Canadian economy.[142]

The brief, a 58 page booklet with a statistical supplement of 41 tables, was both a thorough critique of the general reform package and a detailed and technical case study of the concrete effect of the recommendations on this corporation and industry. Algoma described the brief as "the result of intensive studies of the Canadian income tax system during the past twelve months and of the Report of the Royal Commission on Taxation since it was released. The studies were undertaken to ensure a thorough understanding of the effect of taxes on the operations and growth of Algoma Steel and of the Canadian iron and steel industry and to prepare for sound appraisal of the then forthcoming Report of the Royal Commission."[143] In addition to two of its executives, Algoma had enlisted the services of J. Douglas Gibson, financial and economic consultant and former member of the Royal Commission on Banking and Finance, J. J. Singer, economic consultant with W. A. Beckett Associates, W. A. Macdonald, corporate lawyer and author of the regular column on taxation in the Financial Post, and L. F. Heyding, a leading chartered accountant.[144] Although the brief was severely critical of the Commission's major recommendations, the need for reform was recognized: "A review of the whole tax system, which has grown like Topsy, was overdue and there seemed to be room for reform and improvements. However, the Report advocates revolution rather than reform."[145] Similarly, the importance of equity was acknowledged, but "at this point in Canada's history, it is evident that economic growth deserves high priority."[146] Algoma Steel argued that it would be far better to improve the existing structure rather than risk the adverse economic effects of the radical changes proposed.[147]

The financial sector plays a central role in the systems of exchange and circulation and in the coordination of the overall economy. Reflecting these general functions, the major financial organizations were most concerned with the impact of the Commission recommendations on the health and growth of the economy as a whole. Their briefs commented extensively on this issue. The Investment Dealers Association praised the comprehensiveness of the Royal Commission, but felt that it should also have studied provincial and municipal finances and government expenditure. It did not defend the existing structure, but was highly critical of the radical changes proposed: "Implementation of the prime recommendations could lead, we believe, to major problems which could have serious effects on Canadian security markets and on the economy as a whole."[148] The basic focus of the brief was on patterns of capital investment: "As an integral part of the investment industry, the Investment Dealers' Association of Canada is concerned with the ability of its member firms to raise the funds which will be required if the Canadian economy is to continue to expand."[149] Their fundamental thesis was that "a growing economy needs an increasing supply of capital" and that the recommendations would seriously limit its availability.[150] The I.D.A. warned that the stability and investor confidence necessary to raise large amounts of capital would be severely strained by the Commission: "Security markets are extremely sensitive to actual or threatened changes in the economic and political climate."[151] The submission predicted a range of adverse effects of the Royal Commission: reduced savings, dislocations in the capital markets,

"accumulated pools of capital would be depleted", the international competitive position of Canadian industry would be damaged, Canadian ownership of small businesses would be threatened, and "foreign investor confidence could be damaged and could lead to a financial crisis in Canada."[152] Other financial organizations expressed similar fears: the brief of the Toronto Society of Financial Analysts warned that implementation of the Report could ultimately result in a lower standard of living in Canada[153] and the Association of Canadian Investment Companies predicted that the uncertainties created by the Commission would drive investment capital out of the country.[154] In presenting his company's submission to the Minister of Finance, N. J. McKinnon, chairman of the Canadian Imperial Bank of Commerce, maintained that implementation would severely damage the whole economic fabric of Canadian life.[155]

Finally, a joint brief from the Montreal and Toronto stock exchanges argued that the proposed tax changes would discourage savings, threaten pools of capital and retard economic growth.[156] In discussing this submission, the Financial Post stressed the unanimity of opinion within the financial sector: "Group after group from the financial community has gone on record as opposed to the proposals - investment dealers, financial analysts, life insurance companies, trust firms and finance companies."[157] It also noted the paradox that the recommendations, especially integration with the expected rise in share prices and expansion of the equity market, would appear to benefit the stock business: "Yet, despite these attractions, the Canadian financial community is deeply uneasy about the overall capital market implications of the Carter package."[158] A Toronto Globe

and Mail editorial praised the brief of the Montreal and Toronto exchanges in particular for looking beyond the short-term interests of their individual members to the long-term interests of the economy as a whole. It approvingly quoted John R. Kimber, president of the Toronto Stock Exchange: "The increased volume of trading in equities would be good for brokers, who would earn commission on the increased sales, but in the long run the recommendations would have serious results for the capital market and for the economy."[159] The editorial endorsed a common criticism of the recommendations: "while they might conceivably serve the needs of a matured, resource developed, industrialized economy, they would take the ginger out of an economy, like Canada's, that is hardly more than beginning to plumb its growth potential."[160] The overwhelming message from financial and other elements of Canadian capital was that the Carter proposals would damage economic growth and must therefore be rejected.

Overall Framework of the Royal Commission

There was widespread corporate criticism of the framework within which the Royal Commission had developed its reform proposals. This was succinctly voiced by the Investment Dealers' Association: "The Commisions's Report is an outstanding exercise in logic and symmetry, based upon the academic concept of the perfect model and designed for a mature economy operating in a complete vacuum. The highly theoretical approach of the Commission pays scant attention to the hard practicalities of every day life and the less than perfect state of the Canadian economy at its present stage of development."[161] The Mining Association of Canada was

even harsher: "The Commission's portrait of Canada is based on certain economic assumptions that are, in many cases, sheer absurdities."[162] Both the Canadian Institute of Chartered Accountants and the Canadian Bar Association argued that the proposed system was far too complicated; that many recommendations would prove unacceptable and therefore unenforceable.[163]

Even more hostile was the corporate response to the guiding philosophy and basic priorities of the Royal Commission. At its most extreme, this opposition saw the Commission, in its zeal to redistribute wealth, as a dangerous threat to the survival of the free enterprise system.[164] The Investment Dealers' Association tookstrong exception to the basic philosophy of the Report:

> It appears that pure value judgments have played a major role in the development of these philosophies. We refer specifically to their concept of horizontal and vertical equity and their obvious intent to use the federal tax system as a prime means of redistributing economic wealth among the various income groups. While one cannot fault these concepts in the abstract, the extent to which the Commission would apply them must be strongly opposed. The socialistic overtones of the Commission's recommendations provide a virtual blueprint for a whole new system of government control over individuals and business. This is certainly not in keeping with our present system of free enterprise and the democratic principle that government is the servant of the people.[165]

The Trust Companies Association of Canada carried forward this theme: "we regard government in a democratic country to be the servant not the master of the people, we reject a system of taxation designed to provide for the planning, direction and control of the national economy at the expense of the liberties and property rights of the individual."[166] The Association agreed that some redistribution of income was necessary, but argued that the Commission:

> ...is obviously prepared to see Canada go much farther toward full redistribution of income than we believe most Canadians would be prepared to accept. For our part, we firmly reject the Commission's proposition that taxation should become more steeply progressive and that redistribution should go substantially farther...What we do want to emphasize is that redistribution can be carried to the point where the state assumes a control over the individual and his financial affairs which we regard as being inconsistent with Canada's traditional ideas of the role of democratic government as a servant of the people.[167]

A common theme of corporate briefs, then, was their strong opposition to the Royal Commission's overall priorities; to its choice of equity as the primary goal of tax reform. The Report was ominously condemned as a precursor of socialistic control of economic life. The legitimacy of equity as the fundamental objective of taxation was denied; business felt that equity was a subjective and value-laden concept and that the Report had gone too far in its drive for redistribution. Most importantly, brief after brief from individual firms and major associations identified economic growth as the essential objective of the tax system.[168] The comprehensive brief of Texaco Canada Ltd., for example, argued that "no one can deny that the objectives stated are desirable but there is room for argument in their order of preference and interpretation" and that government policy and the tax structure must provide a "favourable climate for vigorous and efficient economic activity as a basis for meeting the needs of the Canadian people in promoting a high standard of living for all."[169] Imperial Oil Ltd. also objected to the "sacrifice of economic growth to the Commission's concept of equity."[170] Business was not simply opposed to the Report's ranking of priorities, but firmly believed that tax policies designed to improve equity and redistribute wealth would

reduce incentives, especially for risk-taking and investments, and consequently retard economic growth.[171] Business agreed with the Royal Commission that the objectives of equity and growth were antagonistic, but there was no question that sustained economic growth was the goal chosen by the corporate sector. Carrying this general argument further, an important corporate thesis was that redistribution may be a worthy goal, but if it resulted in lessened economic growth then there would be less national income to redistribute. All would be better off with steady economic growth.[172]

The corporate input also commented on wider issues of state fiscal policy. A number of submissions argued that the Royal Commission had ignored the really crucial issue of the level of government expenditures.[173] Others condemned the Commission for its inadequate analysis of federal-provincial fiscal relations.[174]

It was abundantly clear by the fall of 1967 that corporate opinion overwhelmingly rejected any consideration of the reform proposals as a package. That the government had received this particular message was seen in the previous section. This view reappeared in the briefs to the Minister of Finance; the Canadian Chamber of Commerce, for example, stressed that the major proposals should each be dealt with on their own.[175] When considering the major recommendations separately there was also great consistency in the corporate briefs: there was tremendous opposition to all of the core proposals of the Commission. The brief's evaluation of the major recommendations on first personal, and then corporate income taxation will now be examined.

Personal Income Taxation

There was some corporate acceptance, albeit highly limited and undoubtedly superficial, that the structure of individual taxation should be progressive. However, as has been seen, there was great hostility to the degree of equity and redistribution emphasized by the Commission and equally strenuous opposition to the Report's major proposals for increasing the progressiveness of the tax system. The opposition was so strong at this level that little detailed attention was paid to the actual rate structure proposed or to the number of other specific issues. For example, although not extensively discussed, most corporate briefs did not support the use of the family as a unit of taxation. The business submissions did approve of a number of recommendations such as the lower top marginal rates of personal income tax[176] and improved income averaging.[177]

Comprehensive Tax Base

As has been seen, one of the central focuses of the corporate opposition that had developed to the Carter Report was the increased taxation of property income and wealth it would entail. This was carried through to the business briefs where there was a virtually unanimous rejection of the comprehensive tax base. The major recommendations that would widen the tax base will be discussed more fully below; while there was limited recognition that some taxation of capital gains was very likely, there was consistent hostility to the inclusion of gifts and inheritances in the tax base. But the overall concept of the comprehensive tax base was abhorrentto the Canadian capitalist class: strong opposition was registered by the briefs of the Canadian Manufacturers' Association,[178] the

Retail Council of Canada,[179] The Vancouver Board of Trade,[180] Texaco Canada Ltd.,[181] and many others. The Mining Association of Canada dismissed the concept of "a buck is a buck" as "utter nonsense."[182] The distinction between capital and income and the adverse effect of the wider base on capital accumulation was widely emphasized. The Trust Companies Association darkly predicted that the comprehensive tax base would result in a "very large annual disappearance of private capital."[183] In objecting to these recommendations, the Association echoed a firmly held canon of business ideology: "It is human nature to invest in the hope of substantial gain."[184]

Gift and Estate Taxation

Corporate briefs consistently and strongly attacked the recommendation to tax gifts and inheritances at full progressive rates and predicted dire economic consequences if this was implemented. Once again it was the Trust Companies Association that voiced the harshest aversion to this taxation on wealth: "Of all the Commission's recommendations we find this to be the most objectionable. It is a radical and, indeed, revolutionary concept with which we must voice our profound disagreement."[185] And once again, this opposition was framed in moral and ideological terms: "The passing on of family capital from generation to generation seems to be a basic human instinct...Inclusion of gifts and bequests in the income tax base would remove a major incentive for Canadians to work and produce for the benefit of their families."[186] In a similar vein the brief of the Canadian Chamber of Commerce had "outlined a social philosophy on which the taxing of inheritances and gifts might be based."[187] It firmly objected to the Commission's apparent goal of "levelling down" wealth by means of

taxation. The Chamber argued that the motivation to accumulate wealth, far from being anti-social as the Commission implied, was a central dynamic in the operation of the economy. This motivation, whether to achieve financial independence or to pass on wealth to future generations, was seen as a powerful incentive to economic productivity. When this goal is "impeded or frustrated by high taxation, resentment and resistance to taxation will be strongest."[188] The Chamber believed that in order to maintain economic incentives "a lightening of the tax load on gifts and inheritances - or at least not an increase in tax on them - would appear to be socially desirable and feasible at this time."[189]

The Trust Companies Association further argued that, in conjunction with capital gains, the impact of the changes in gift and estate taxation would be severe: "The effective result would be virtual confiscation of the property of every Canadian family, even of modest means, in each generation. The proposals would lead to the sale of family owned firms and businesses on the death of the surviving spouse.[190] The "confiscatory nature" of adding gifts and inheritances to the tax base was also stressed by the Investment Dealers' Association.[191] A variety of organizations, among them the Canadian Manufacturers' Association and the Canadian Institute of Chartered Accountants, asserted that the increased taxation of gifts and inheritances would reduce capital investment.[192] Representatives of the resource sector reiterated these general themes. Hudson's Bay Oil and Gas argued that they "will hamper the accumulation of investment capital"[193] and Imperial Oil favoured the elimination of gift and estate taxes but maintained that they must not be included in the com-

prehensive tax base.[194] The objections of the Mining Association of Canada were even more fundamental: "The present social pattern in Canada is that one works hard during his lifetime, makes sacrifices and saves money to provide his heirs with a start in life...If one of the rewards of industriousness is the knowledge that one properly provided for his heirs, the Commission's plan makes a mockery of this goal. The estate tax plan should be ignored."[195]

Capital Gains

Corporate opinion was somewhat less unanimous on capital gains taxation. As has been seen, it had been increasingly recognised in public and business commentary that some form of capital gains taxation was virtually unavoidable. It must be emphasized, however, that all briefs rejected the Royal Commission proposals to include all such gains in the tax base for taxation at full progressive rates. In addition, many corporate organizations were flatly opposed to any type of capital gains tax. Representatives of the financial community, such as the Investment Dealers' Association and the Toronto Society of Financial Analysts, argued that investment and risk-taking would be discouraged.[196] Imperial Oil was opposed to such a tax in a growing economy which still required large amounts of capital.[197] The Mining Association of Canada stated: "Apart from the inherent fallacy of a capital gains tax in a developing country, the Commission based its argument in favour of the tax on a glib but absurd foundation - 'a buck is a buck'." The M.A.C. argued that all forms of income were not the same: "If you equalize risk; if you equalize sacrifice; if you equalize hardship, capital investment and a host of other factors,

then, and only then is a 'buck a buck'. Since that cannot be done, the tax treatment of different kinds of gains must be different if the system is to be fair. To ignore this would be calamitous for Canada." And finally: "The proposed capital gains tax implies that Canada no longer needs the risk-taker, the venturesome entrepreneur - we think otherwise."[198]

Other prominent organizations accepted the inevitability of a capital gains tax, but argued strongly that it must be less stringent than recommended. Repeating a familiar theme, the Canadian Manufacturers' Association argued that in a capital hungry economy like the Canadian a full capital gains tax would be unacceptable.[199] The C.M.A. and the Association of Canadian Investment Companies both opposed capital gains tax, but maintained that if it was necessary then it should be structured like that of the United States.[200] Other briefs, such as those of the Vancouver Board of Trade, Inco and Texaco, simply argued that the rates must be kept low.[201]

Integration

The Royal Commission proposals for the integration of personal and corporate income were not supported in the corporate briefs. Organizations such as the Canadian Bar Association,[202] Canadian Institute of Chartered Accountants,[203] and the Vancouver Board of Trade[204] were all highly uneasy about its practical implications. The Toronto Society of Financial Analysts worried that integration would alter savings patterns and increase the volatility of the stock market.[205] Resource enterprises such as Imperial Oil,[206] Texaco[207] and Alcan Aluminum Ltd.[208] were particularly opposed. At first glance, the business attitude to integration

seems unusual; the recommendations were expected to result in higher share prices which would be of great direct benefit to shareholders and these changes would simplify the complicated taxation of corporate surplus. The basis for this corporate opposition was clearly revealed by the submission of the Toronto Board of Trade. Integration was rejected because it was so closely interlinked with other core recommendations, especially the comprehensive tax base and capital gains, which could not be accepted.[209]

Corporate Taxation

The recommended changes in the structure of corporate taxation naturally attracted a great deal of attention in the submissions to the Minister of Finance. These briefs ranged over a variety of issues. Several of the more minor recommendations, such as the streamlined capital cost allowances and the removal of the special treatment of co-operatives, received some corporate support.[210] Sectional interests also shaped commentary on particular proposals; the Retail Council of Canada, for example, objected to the transfer of sales taxes to the retail level.[211] Such specific commentary (and occasional limited approval) was lost in the overwhelming opposition to the fundamental changes in corporate taxation proposed by the Royal Commission. Pervading the briefs was the belief that the sweeping and revolutionary nature of the recommendations would have a devastating impact on business activity and the economy in general.

Many briefs attempted to support this thesis concretely by examining the impact of the recommendations on their sphere of operations. Prominent among these efforts were the submissions from the steel industry, one of the most important sectors of the Canadian economy. Algoma

Steel developed a case study of the effect of the proposed changes on their firm.[212] Because of the highly integrated nature of the major steel corporations, the loss of tax incentives on their iron ore mining would be highly significant. In conjunction with limitations on depreciation, earnings and cash flow would be severely impaired. The brief argued that "if in the broad national interests, Algoma Steel and the integrated steel industry are to develop effectively," then these changes must not be made.[213] The brief of the Steel Company of Canada developed a similar analysis.[214] The effect of implementing the Carter proposals on their operations was estimated for the 1968-80 period: profit would be reduced by 20% or $200 million and cash flow by $250 million. 80% of this impact would result from the withdrawal of mining incentives and the remainder from changes in capital cost allowances. More than $1 billion in planned capital expenditures would be restricted or abandoned if the Royal Commission was adopted and investment in mining would be shifted outside of Canada. Stelco argued that such a severe impact would be a great shock to the Canadian economy and would require government corrective action.

Neutrality

If equity was the cornerstone of the Carter recommendations on individual taxation, then neutrality was the primary rationale underlying the most important proposals for restructuring corporate taxation. Corporate interests were just as fundamentally opposed to this basic concept as they had been to equity. Although there was some qualified business support for the principle of neutrality, there was consistent antagonism to its being so central to the overall Royal Commission framework. There

was virtually total opposition to the Commission's application of this principle, which was seen as inflexible and dogmatic.

A further major recommendation designed to improve the neutrality of the system was the elimination of the dual rate of corporate taxation with the withdrawal of the lower rate on the first $25,000 of profit. General business associations were ambivalent on this recommendation, although all agreed on the need to support small business. The Canadian Chamber of Commerce, for example, approved of neutrality in general but was unsure of the Commission's method here.[215] By contrast, the Vancouver Board of Trade agreed with the single corporate rate for all.[216] Organizations representing larger numbers of small firms were more consistent: the Retail Council of Canada and the Canadian Construction Association opposed the Commission proposals.[217] The strongest criticism came from the submission of Nesbitt Thomson and Co. Ltd., a prominent investment house. It argued that large numbers of small businesses would face substantial tax increases under the proposed changes; some small owner-managed companies by as much as 70%. It concluded that "the national interest would be better served if they were allowed to keep their 'special' status."[218]

There was widespread opposition to the recommendations that would increase the taxation of the foreign operations of Canadian corporations from the general business organizations, legal and accounting professions, resource corporations and financial associations. The Canadian Manufacturers' Association expressed the common fear that this harsher treatment would cause Canadian multinationals to move their base outside of the country.[219] This opposition was firmly voiced in the brief of a St. Catherines

manufacturing company with subsidiaries in the United States, Europe and Latin America. Athnes Imperial Ltd. argued that the proposals would discriminate against Canadian based international corporations. In a letter accompanying the brief D.G. Willmot, president, "expresses doubt about the economic and social environment which might result if the recommendations are implemented."[220] Further international implications of the recommendations were addressed in the briefs. There was great concern that the harsher treatment of foreign capital proposed by the Commission would lead to a decline in investment. An additional theme was that tax reform must not be allowed to harm the international competitive position of Canadian industry; in particular it was often argued that Canadian taxes must not be higher than in the United States.[221]

Specific Sectors: Financial

Since the Report first appeared the strongest opposition had come from those financial and resource sectors that would be most drastically affected by the recommendations. This was reflected in both the large numbers and impressive quality of the briefs submitted to the government from these powerful corporate interests. The major financial institutions firmly rejected the proposals on their operations. In meeting with Mr. Sharp to present his company's views, the chairman of the Canadian Imperial Bank of Commerce said that he concurred with the submission of the Canadian Bankers Association in opposing the recommended tax treatment of the banks' appropriations for losses; implementation would "alter the whole character of their lending operations."[222]

The brief of the Canadian Life Insurance Associates was greatly "concerned about the effect on policyholders and beneficiaries of the proposals in the Report. The proposed new taxes would fall on these people."[223] It argued that "life insurance is of prime importance in providing personal financial security for 11 million Canadians and their families."[224] The social significance of insurance, as a form of savings and as a source of financial stability, was stressed. The recommendations would limit these functions. The association was equally concerned with the reduction in investment funds flowing through their companies. In combination with savings reductions caused by other proposals, "the inevitable consequence would be an aggravation of the capital shortage facing Canada."[225] In conclusion: "Because of the social and economic importance of life insurance it is urged that the present treatment, which is well-founded in public policy, be carefully assessed in a broad context before changes are made."[226] The delegation which discussed the brief with the Minister of Finance was composed of top executives of the major insurance company, including K.R. MacGregor, president of Mutual Life Assurance Co. of Canada and former Superintendant of Insurance with the federal government.[227] The industry's objections to the Carter Report were supported by other corporate bodies; the Canadian Chamber of Commerce, for example, agreed that "the social purpose of life insurance...should be the overriding consideration," that the industry provided large amounts of investment capital and that consequently the recommendations should not be enacted.[228]

The Resource Industries Against the Report

Virtually from its release, corporate opposition to the Royal Commission had been led by the resource sector. This tremendous pressure had

met with partial success in the May 11, 1967 guarantees to mining. But both the mining and petroleum industries continued to demand the rejection of the Carter recommendations for the elimination of their tax incentives. This pressure was carried forward into their formal submissions to the government. This massive input on the Royal Commission was larger than those of any other industries; there were over one hundred submissions from the oil industry alone.[229] The resource sector was so hostile to the recommendations quite simply because it had most to lose; the elimination of its valuable tax incentives would affect its profit levels far more than other industries and this impact would be most severe for the large multinational corporations that dominated resource production. Bossons stressed this factor as the basis of the industry's massive mobilization against the Commission proposals: "Because of the financial importance of some of the tax changes that would result, some special-interest groups (such as mining and oil companies) can afford to mount very expensive public relations campaigns in order to emphasize their point of view. Even though such publicity campaigns may be expensive, they can be worthwhile protective investments for their sponsors."[230]

The extractive industries had devoted tremendous resources to the preparation of lengthy, detailed and comprehensive briefs. The highly impressive nature of these submissions illustrates the qualitative predominance of corporate input to the state.[231] This is demonstrated in the briefs of two of the most powerful corporations in the Canadian economy. The International Nickel Co. had submitted a massive brief of some 300 pages of text and appendices and a condensed version of 38 pages summarizing its

basic points. "In order to ensure that our assessment would be subject to the most knowledgeable examination available", a number of prominent individuals and firms were retained as consultants: three York University professors, Professor Dan Throop Smith of Harvard, an American consulting economist, the legal firm of Osler, Hoskin and Harcourt, and the accountants Price Waterhouse and Co.[232] The brief's introduction stressed the economic importance of Inco and added: "We believe the resources and experience of the Company and its staff provide an important background for assessing the proposals of the Commission both in terms of their domestic significance and their international implications."[233] The highly detailed, technical and exhaustive 227 page brief of Imperial Oil first stressed the objectivity and validity of its viewpoint: "Since issuance of the Report of the Royal Commission on Taxation, Imperial has undertaken intensive analysis by internal staff, senior officers and outside consultants. Our approach recognizes a dynamic economy within foreseeable international trade and monetary disciplines. This document is, therefore, not devoted to the 'protection' of a corporate position".[234]

As was the case with input from other corporate sources, the resource sector were highly critical of the Commission's method of analysis. The mining submissions believed that the Commission's recommendations had resulted from a fundamental misunderstanding of their industry. The Mining Association of Canada, for example, was "convinced that the economic theory on which the Commission had relied is inappropriate to the actual circumstances faced in our economy and is completely unreliable as a basis for predicting the probable effect of its proposals."[235] The mining briefs

consistently rejected the Royal Commission's contention that resource investment was relatively insensitive to after-tax rates of return. Asbestos Corporation Ltd. argued that, aside from the theoretical weaknesses of such a view, "there are practical business decisions to be made by the management of a mining company and certainly the tax climate is a major consideration in such decisions" and added that two of its projects under consideration could be prevented by the proposed changes.[236] Mining interests also strongly objected to the Commission's emphasis on neutrality, not only as one of the primary goals of reform, but also as it was applied to their industry. The M.A.C. argued that special concessions were needed precisely on the grounds of equity; to compensate for the special risks and difficulties faced by mining, especially those of exploration: "The Commission shows a remarkable ignorance of the mining industry in drawing a parallel between industrial research and mineral exploration in respect to the degree of risk involved."[237] Very similar criticisms were expressed by the leading petroleum corporations and associations. The Canadian Petroleum Association stated: "The Commission in general uses a theoretical approach in its analysis of taxation. We look in vain for the extensive survey studies of the real world which should complement the theoretical framework. Above all, we look in vain in its report for historical and developmental perspectives to illuminate the principles and conclusions in the Canadian context."[238] Texaco argued that "the conclusions appear to be based on data which was at times irrelevant, at other times incomplete and at still others, improperly interpreted," and that the Commission had simply failed to prove that its recommendations would improve the

tax system and economic growth.[239] A further strong criticism of the Commission's methodology was expressed by the C.P.A.: "The Association is disturbed by the apparent indications that the Commission predicated several of its recommendations relating to the oil and natural gas industry on conclusions reached by certain independent studies."[240] The industry's real concern was that even though the studies, which had not been referred to in the public hearings, had apparently been highly influential, there had been "no opportunity to test them in cross-examination or present rebuttal evidence before the Commission's verdict was reached."[241] This criticism of the validity and use made of the research studies was an important thrust of the industry's attack on the basis of the Commission's conclusions.

The Resource Sectors' Defense of their Tax Concessions

Like other sectors of Canadian capital, the extractive industries had condemned the overall direction and priorities of the Carter Report. But their strongest opposition was reserved for the recommended withdrawal of their valuable special tax incentives. In presenting their views originally to the Royal Commission, the resource sector had made three interrelated arguments: firstly, the resource industries were of tremendous importance to the Canadian economy; secondly, their special conditions required special tax treatment to stimulate exploration and production; and finally, the existing incentives were essential to the industry's continued growth and must therefore be retained. As had been the case in earlier pressure, the first two arguments remained the premise of industry criticism of the Commission and were reiterated. The submissions then went

on to respond specifically to the proposed elimination of their incentives, arguing that this would have disastrous consequences both for resource production and the economy as a whole.

Special Mining Concessions

Naturally, it was the recommendation to remove the three year tax exemption on new mines and depletion allowances that aroused the greatest hostility from mining. It was strongly argued that not only were these incentives justified in terms of the special conditions of the mining industry, but they had also been highly efficient in stimulating mineral production and the discovery and development of new mines. The continued growth of the industry and the wider economic benefits which it supplied would be seriously threatened by the Carter recommendations. The basic position of the industry was succinctly stated in the massive brief from International Nickel:

> The Commission's proposals for the elimination of the long-standing tax incentives for the mining industry should be completely rejected. Adoption of the Commission's proposals would have an enormously damaging impact on the miningindustry. The result would be to slow up the development of large areas of Canada, particularly in the far North, and to reduce provincial revenues and ultimately federal tax revenues from the mining industry. The Commission's proposals would reduce Canada's exports, divert foreign capital from Canada, and reduce the mining industry's important contribution to Canada's overall economic growth.[242]

Inco supported its case by estimating the impact on its own operations if the recommendations had been implemented a decade earlier. In the subsequent ten year period the corporation's taxes would have doubled and one-half of its mining investment would have been uneconomic.[243] The second major nickel producer was equally adamant in its opposition to the Commis-

sion's mining recommendations. In a letter accompanying their brief to the Minister of Finance, Falconbridge Nickel Mines also predicted that the reform proposals would have an adverse effect on the mining industry and the economy as a whole.[244]

The Mining Association of Canada condemned the Commission's optimistic view of the effect of removing the concessions as "preposterous."[245] Without the incentives, expenditure on exploration and development would decline and new ore reserves, upon which the future growth of the industry is dependent, would not be found. Investment displaced from the mining industry would not be redirected to other sectors, but would leave the country: "The mining industry is international. If its capital is unwelcome in one country it will invest in the same industry elsewhere, if it is made to feel at home."[246] Furthermore, the mining and other proposed measures that discriminated against foreign capital would be disastrous in a capital hungry country: "The international competition for industry and capital is keen and Canada must remain an advantageous home for its mining capital. After all, we are not the only country with rich ore deposits to discover and develop."[247] Removal of the concessions would not yield additional revenue as the Commission predicted, but would cause a decline in production and consequently of the overall tax base. Given these adverse effects, the M.A.C. concluded that there was "no prospect of possible benefits of sufficient magnitude to justify such a gamble."[248]

The Petroleum Industry's Attack on the Royal Commission

In very similar terms as had been expressed by the major mining interests, the input from the petroleum industry to the Minister of Finan-

ce harshly condemned the Carter proposals. The large number of impressive submissions consistently emphasized the severe impact the recommended changes would have on the levels of investment and exploration, and consequently on the future growth of the petroleum industry.[249] The major oil corporations underlined this argument with reference to their own operations. The largest producer stated: "The effect of the Commission's proposals are severe and abrupt to Imperial. The Commission's transition proposals are of virtually no assistance to us." The result of adopting the recommendations would be that projected 1968-70 exploration programs "will have to be severely curtailed to the point that they will not constitute effective exploration."[250] Similarly, both Hudson's Bay Oil and Gas and Texaco argued that implementation would reduce capital available for investment from retained earnings and consequently retard the growth of their corporations, and that furthermore, that this result would be typical for the industry as a whole.[251] A critical factor in these cut-backs would be the "substantial reduction in confidence in the investment climate in Canada...While modest changes in the effective tax rate can be judged to be an acceptable business risk, a major change introduced after long-term investments have been made would be regarded by the investment community as partial expropriation."[252] The Canadian Petroleum Association disputed the assumption that the industry was insensitive to after-tax rates of return and predicted that skilled people and capital would leave Canada for more favourable tax environments. Texaco argued that capital for the petroleum industry had been attracted from outside the country and had not caused any misallocation of resources that would have been better

invested in other sectors: "On the contrary, the oil industry put to work resources that otherwise would not have been employed in Canada."[253]

The common industry argument, like that of mining, was that the special tax concessions were necessary because of the special conditions facing the oil and gas producers, especially the high costs and risks of exploration and development. Also like mining, the need for the concessions was posed in terms of equity, to counterbalance the particular disadvantages of the petroleum industry.[254] The Canadian Petroleum Association summarized the major policy demands being put to the government in the oil submissions: retention of the existing depletion allowance, depreciation of plant and equipment, and fast write-off of expenditures on exploration and development, and alteration of the present net depletion allowance to gross depletion.[255] In arguing that the tax incentives were vitally necessary, the submissions consistently emphasized that they must not be replaced by direct government subsidies.[256] Contrary to the Commission, it was asserted that tax incentives were more efficient because they rewarded only successful enterprises rather than subsidizing all operations: "A reward to the successful will ensure that money will be invested wisely...it is more desirable to provide a broad incentive to promote maximum efficiency than attempt to establish a subsidy program that will inevitably lead to inequities, uncertainties and inefficiency."[257]

And finally, the most fundamental corporate objection: "Subsidies are also detrimental because they require increased governmental control over private business."[258]

Regional Context of Resource Pressure

A pervasive argument in the submissions from the resource sector, and a theme that had already been the focus of much heated political debate and was to remain central to the controversy surrounding the Royal Commission, was that the withdrawal of their tax concessions would have devastating impact on regional economic development. This thesis was not surprisingly emphasized by regionally based resource organizations. The British Columbia and Yukon Chamber of Mines, in a brief which was a "consolidation of the current thinking and opinions of the mining community, and in particular the members of the Chamber", stated that "the Carter Commission Report is a pill that the B.C. mining industry finds hard to swallow!"[259] There had been harsh criticism of the recommendations from the region's miners "Letters, statements,protests, and submissions of one type or another in which opinions are expressed have been received by Tom Elliott, Manager of the British Columbia and Yukon Chamber of Mines. It is apparent that the mining industry of B.C., silent in the past, is not going to be silent in the future."[260] The Chamber brief argued that the future of the mining industry was highly questionable; $400 million of investment was immediately threatened in B.C. The policy choice was starkly presented: "Present Tax Laws lead to Progress" versus "Carter's Proposals lead to Stagnation."[261] If the recommendations were implemented over half of the region's prospectors, geologists and engineers would leave, essential foreign capital would disappear, mining activity would stagnate, communities dependent on the industry would suffer and the government would lose more revenue from the lost production than it would

gain from tax changes. The opposition of the B.C. mining industry to the Commission recommendations was supported by the Vancouver Board of Trade: "in view of the importance of these industries in the infrastructure of the British Columbia economy, not to mention the Canadian economy generally," the Board rejected the elimination of the extractive concessions.[262]

The major national organization of the industry, the Mining Association of Canada, also stressed the adverse regional impact of the proposals. It emphasized that "in many parts of Canada the soundest and most hopeful prospects - indeed, in vast areas, the only hope - of economic development depend on the extractive industries."[263] The M.A.C.'s shorter booklet argued that mining was the primary basis for the development of the Canadian North: "One need only look with pride at the miracles of Labrador City, Thompson, Fort MacMurray, Sudbury, Steep Rock, Noranda, Lynn Lake, Flin Flon, to mention only a few mining cities, to see the untold and immeasurable contribution made to Canadian development by the industry."[264] If the concessions were withdrawn and mining development consequently reduced, the damage would be concentrated in these vulnerable regions. The M.A.C. cited the concern expressed in this regard by the premiers of Manitoba, Saskatchewan and Alberta in support of the industry opposition to the Carter recommendations.[265].

Similar themes were expressed in the briefs from the petroleum industry: the Royal Commission was condemned for dismissing the regional implications of its recommendations.[266] The submissions stressed that Western and Northern Canada had greatly benefited from the develop-

ment of oil and gas.[267] The Canadian Petroleum Association cited the Economic Council of Canada in underlining the importance of regional development and argued that through its large investments and employment creation "the petroleum industry has made possible the removal and reduction of income disparities in the western Canadian provinces."[268] It was strongly argued that the reduction in oil and gas production and exploration that would result from implementation of the Carter recommendations would have a severe impact on the prosperity and future development of these regions.

While there was certainly a great deal of hyperbole in industry claims, these regions were highly dependent on the extractive industries. This economic importance of the resource sector, plus the extensive links between the major corporations and the provincial governments and the great pressure the industry could exert in the political sphere, have long shaped regional politics.[269] Unease over the impact of the resource proposals was clearly reflected in the policy of the Western provincial governments throughout the process of tax reform. As seen above, during the summer and fall of 1967, the Western provincial premiers had been expressing great apprehension over the implications of the Carter Report and urging the federal government to delay its implementation. The basis of this regional concern was recognized by one of the chief architects of the reform proposals. In a speech to the Banff School of Advanced Management, Professor Douglas Hartle, former research director of the Royal Commission, noted the great contribution of oil and gas to the economy of Western Canada: "In part, its

contribution has been psychological. It seems to me it represents to western minds the big breakthrough. It is the long-awaited payoff for the time and effort and saving made in the hard years - a struggle made harder by federal tariff policies."[270] Given this, the hostility of Westerners to the withdrawal of the resource tax incentives was understandable. Professor Hartle reiterated the Commission's rationale on these recommendations: the existing favourable treatment of the resource industries appeared to be unwarranted and the revenue yielded from the elimination of these expensive concessions would finance other significant reforms. But he also conceded that the Report had not paid sufficient attention to the regional implications of the recommendations. The overall reforms would benefit the country as a whole, but the effect of the changes in resource taxation would be concentrated in specific geographical areas. The Commission argued that any negative effect would be limited, but many believed that the Western economy would be severely damaged. Professor Hartle identified these considerations as the basis of regional opposition: "if I were in western shoes, I would be unwilling to accept the risk of even a minor negative effect if the benefits of the change were going to be shared by all while the costs were to be concentrated here."[271] Finally, he argued that more effective incentives or compensation to make up for any regional losses were not incompatible with the Royal Commission framework.

Other Corporate Sectors on the Resource Concessions

In their opposition to the withdrawal of their special tax concessions, the resource industries were supported by other sectors of the

economy. The Canadian Chamber of Commerce, for example, had concluded that, given the arguments of the mining and petroleum organizations as to the harmful effects on their operations and given the great importance of these industries in the Canadian economy, then the recommendations should not be implemented.[272] The financial community was similarly hostile to the resource recommendations: the submissions of the Montreal and Toronto Stock Exchanges, the leading investment house of Nesbitt Thomson and Co., and the Investment Dealers' Association all worried about their adverse impact on the extractive industries.[273] As noted above, the most sustained critique of the Carter proposals and the one which most closely paralleled the policy of the resource industries themselves was presented by the major steel corporations.

Individual Submissions

As has been the case with earlier stages of the reform process, the main focus of this analysis has been upon the policy and activity of various groups and organizations representing key social and economic interests. However, there were a large number of submissions from individuals to the Minister of Finance, the great majority of which were in the form of relatively short letters. A smaller number of the individual briefs were of a more substantial nature and it would appear that a significant proportion of these submissions came from business and professional circles. A number of these focused on specific areas of taxation; the brief of R.C. McColl, a Vancouver lawyer, for example, explored estate planning and criticized the recommendations that would affect it.[274] Others commented more generally on wider issues of the

overall reform proposals. A key example of the latter was the brief of L.F. Heyding, a prominent Toronto chartered accountant.[275] He argued that the foundations of the Royal Commission and its emphasis on equity were not sound and that the comprehensive tax base would render the tax system dangerously inflexible.[276] Heyding was also critical of the recommendations on capital gains and gift and estate taxation.[277]

Conclusions: Corporate Submissions on the Carter Report

The optimum tax system was identified by one of the Commission's foremost critics:

> The Mining Association of Canada is committed to the principle that the tax atmosphere in which Canada's destiny will be fulfilled and the greatest benefit for all can be derived is one in which diligence is rewarded, risk-taking is encouraged and incentives are given to those whose courage and sacrifice in regional and northern development make reality out of the great Canadian vision of a fully settled nation, developing its resources and establishing world markets with its produce.[278]

For this goal a tax system that encourages steady economic growth is necessary, but "under the Commission's recommendations instead of reform we find replacement: instead of industry being stimulated, it is to be stifled."[279] For this fundamental reason corporate input to the federal government was unanimous that the Carter Commission was simply too sweeping and revolutionary to serve as the guideline for the restructuring of the tax system. There was considerable corporate resentment of the radical nature of the reform proposals. This was well expressed by the Mining Association of Canada: "The Commission appears to have gone beyond its terms of reference in that it was expected to make recommendations relevant to the improvement of the existing system, and

not ignore the system and substitute a new system of its own. We, like hundreds of others, made submissions to the Commission on this basis."[280] Widely held views of the proper course for tax reform were summarized by the leading professional organizations. The Canadian Bar Association argued that such major changes as those proposed should only be made "in the reasonable prospect of hard gains in fairness between individuals or in efficient tax administration or in the improved functioning of the economy as a whole."[281] However, the Commission's interlocking package of reforms was simply too complex to know precisely what its effects would be. It was also commonly asserted that the Commission's zealous pursuit of equity and neutrality would damage or disrupt economic growth. The Canadian Institute of Chartered Accountants stressed that since the gains in fairness and efficiency claimed by the Commission were seen as highly uncertain, it would be preferable to make changes within the existing structure rather than risk the severe economic upheaval the Carter reforms would cause.[282] This latter conclusion was the most pervasive theme of all within the corporate submissions. It was argued again and again that tax reform should take place within the existing structure rather than along the radical lines suggested by the Carter Report. The government was also urged to quickly indicate its own attitude to the Royal Commission. The Canadian Chamber of Commerce called on the government to provide in its planned White Paper "its own detailed assessments of the economic effects of any major changes in the tax structure which it proposes, and the extent to which these confirm, or differ from, those of the Commission."[283]

IV. Capital and Competing Interests

It has been argued that the formal submission of briefs to the government in the fall of 1967 came at a critical juncture in the policy process, as state policy-makers were studying the Carter Report and formulating their own outline proposals on tax reform. It was in the hope of shaping the direction of state policy formation on this vital issue that the enormous number of corporate briefs were presented. The large number of submissions from corporations and business associations far outnumbered those of labour, agriculture or any other contenting interests. Equally as important, the message of consistent opposition to the Royal Commission reform framework contained in these corporate briefs was presented in a most convincing and effective fashion. Business submissions tended to be lengthy; those of a number of the largest corporations were several hundred pages long. These briefs were detailed, technical and comprehensive, often supplemented by statistical appendices and major research studies. They were frequently presented to the government directly by delegations of prominent corporate leaders. The briefs were officially released with great publicity, and were much discussed in the business press and general media. This extensive coverage and commentary on the major corporate briefs had important implications for the shaping of public opinion on tax reform. Although state policy makers rather than the more ethereal public opinion were the primary targets of their efforts, the corporate sector, especially through the routine activities of the in-

dustry and trade associations, did regularly attempt to educate and inform the public on key policy issues, of which tax reform was certainly one. Organized business mounted an extensive public relations campaign, particularly through the widespread dissemination of their briefs and press releases and summaries of them at this juncture, seeking to create a climate of public opinion on the nature of the Carter Report and the necessities of tax reform amenable to their policy perspective and interests.[284] The recommendations were portrayed as being highly revolutionary and disruptive and as threatening the economic growth upon which the standard of living of all Canadians depended. Business downplayed and disputed the benefits progressive reform would entail for large numbers of taxpayers.

Although often doctrinaire and certainly unyielding on fundamental issues, the nature of the corporate submissions was nevertheless highly impressive. Their major policy demands and critique of the Royal Commission were put forth in a well-reasoned, systematic and sophisticated manner. The basic arguments were extensively documented and supported in the briefs. As had been the case in earlier stages, the high quality of this policy input reflected the vast resources that the corporate sector could devote to the defense of its interests. Within the major corporations a great deal of executive time and energy had been devoted to the preparation of their submissions. The effective presentation of their views on the Carter proposals and tax reform was clearly seen as a critical task by leading corporations. They were prepared to invest considerable expenditure to this end; it was stated in

285

parliament that International Nickel had spent $250,000 on their brief.

> The nature of such submissions did not go unnoticed. Minister of National Revenue, E.J. Benson noted in the fall of 1967: "the International Nickel Company has submitted to us a brief which rivals some of the volumes of the Carter Report in length and learning, and perhaps through no coincidence is bound in the same manner and colour.[286] Mr. Sopha, N.D.P. member of the Ontario provincial legislature for Sudbury, also commented on the Inco brief: "I thought somebody had brought me a case of beer. That is the size of the box it took to deliver the three very thick volumes which led me to immediately conclude that there must be merit in the Carter commission, since it took them so many pages to criticize it.[287]

The leading industry and trade associations had also devoted considerable resources to the formulation of their critique of the Carter Report. The major corporate associations were routinely in contact with state officials and regularly submitted their views on a wide range of policy matters to the government. On such a vital issue as taxation the associations had been particularly active in the preparation of comprehensive briefs. Internal committees of the business groups had solicited and collated the views of their members, produced analyses of the Report and preliminary responses to its central recommendations, and then organized extensive discussions within their associations of their draft proposals on the Royal Commission and the direction of tax reform. Both the dominant corporations and major associations had relied upon outside expertise as well as their own personnel and research facilities. The services of prominent academic and professional consultants had been retained to aid the elaboration of corporate policy; the studies prepared by leading economists J.R. Petrie for the Chamber of Commerce and E.J. Hanson for the Canadian Petroleum

Association were prominent examples. The final submissions were the result of the expenditure of a great deal of money, time and effort on the development and revision of corporate policy. The widespread discussion and debate that had gone on within the various industry forums in the preparation of the corporate briefs was an important element of the overall mobilization of the business community on this vital policy issue. The consistent opposition of these submissions to the Report and the tremendous resources that had been consigned to their formulation must be seen, especially in the context of the pervasive pressure that for months had been exerted upon the government, as a concerted attempt to discredit the Commission as the basis for tax reform.[288]

Competing Interests

The massive corporate input to the Minister of Finance on the Royal Commission did not exclude the presentation of differing policy perspectives from other social and economic interests. As with earlier formal junctures in the policy process, the government received the views of a range of organizations.

The most important of these competing interests was organized labour. Like business, labour bodies had been at work formulating their policies on tax reform during the summer and fall of 1967. The Canadian Labour Congress had held a study session on the Carter Report at its summer school in late June. In it C.L.C. research director, John Fryer noted that the Congress supported the Commission's goal of a tax system based on fairness and equity "rather than, as in the past, on privilege."[289] He did however call for a careful study of the specific recommendations

and had serious reservations about the inclusion of fringe benefits in the tax base. The consensus that emerged from other labour seminars and research papers during this period was also generally favourable to the Commission framework.[290]

The formal submissions of union groups to the government in the fall of 1967 reiterated this support for the Royal Commission. The brief of the United Steelworkers of America supported the Royal Commission reform proposals and agreed that existing tax concessions unduly favoured the large integrated mining corporations and should be removed. A supplementary letter from the union's Canadian Director William Mahoney accompanying the submission strongly condemned the efforts of the industry to maintain "the present inequities in our tax structure" and argued that the campaign against the Report "amounts to a planned effort to ensure a welfare state for investors."[291] The U.S.W. had earlier contended that mining industry threats of postponements and cancellations, and predictions of declining production were simply bluffing.[292] A union delegation had presented these views in a meeting with the Minister of Finance; the major mining corporations were again criticized for deliberately withdrawing $200 million of investment in order to pressure the government.[293]

The major national union organization, the Canadian Labour Congress, submitted a 25 page brief. The Congress strongly endorsed the Commission's basic rationale: "We are thus on record in favour of using fairness as the fundamental criteria in judging any system of taxation and the emphasis given by the Royal Commission to equity is, in

our considered judgement, wholly appropriate."[294] It consequently supported the principle of a comprehensive tax base, although with reservations over the inclusion of items such as employee benefits and transfer payments. It also accepted the key recommendations on capital gains tax, gift and estate taxation, the family unit, integration, the special tax treatment of the life insurance and other financial institutions, and the elimination of the dual rate of corporate tax.[295] The C.L.C. did not fully accept the all-or-nothing approach to the Commission; it reserved the right for detailed criticisms of specific recommendations.[296] However, the limits imposed by the interdependent nature of the proposals were recognized: "implementation of only the more popular aspects of the report and acceding to the requests of particular influential groups would destroy its intent."[297] The C.L.C. strongly objected to the corporate pressure that had been exerted against the Commission: "We can think of no other Royal Commission report that has generated so much organized hostility from the groups in society that have, until this time, been afforded preferential tax treatment."[298] It was particularly opposed to the enormous pressure from the mining industry to preserve its concessions. The brief sharply criticized the government for bowing to this pressure in its May 11 announcement: "This accession on the part of the government to the pleas of a pressure group is, we feel, both premature and unjust. We strongly urge the government not to grant similar concessions to other special interest groups."[289]

The importance of the labour submissions was that they provided a policy perspective sharply divergent to that of business. In contrast

to the corporate defense of the existing system and resistance to the recommended changes that would reduce their advantaged position, organized labour supported progressive reforms. These sharply competing reform demands and policy alternatives put to the Minister of Finance were also a clear reflection of underlying class interests. The massive business protest was directed against the taxation of profits, wealth and high income entailed by the Carter Report. The union briefs supported progressive reforms that would reduce the tax burdens of their members and of middle and low-income workers more generally. Even the slight hesitation of the C.L.C. over total endorsement of the Commission package concerned the full taxation of employee fringe benefits that had previously been untaxed. Finally, it was also clear that these divergent class interests had shaped the clash of policies and the direction and intensity of pressure on tax reform. This was explicitly emphasized by union organizations in their strong condemnation of the corporate assault on the Carter proposals.

The progressive orientation of the Royal Commission was supported by several other groups as well as labour. The Ontario Woodsworth Memorial Foundation, "a Toronto group that studies economic, social and political problems," favoured complete acceptance of the basic proposals.[300] It called for an end to unjustified concessions to specific corporate sectors because they unfairly increased the tax burden of other groups. The executive director of the Canadian Welfare Council had earlier also endorsed the Commission's emphasis on equity and redistribution.[301]

A further small number of submissions commented on particular facets of the Report germane to their specific interests. The Canadian Federation of Agriculture, while not questioning the general orientation of the proposals, worried about serious consequences for farmers.[302] It opposed the recommendations on gift and estate taxation, arguing that they would hinder the transfer of farms between family generations, and maintained that these forms of income should be taxed separately at the existing rates. The C.F.A. favoured capital gains taxation, but with qualification to take account of the special situation of farmers.[303]

The Co-operative Union of Canada's submission took strong exception to the Carter recommendations designed to tax their operations on a similar basis as privately owned enterprises.[304] Similarly, Cuna International Inc. objected to the proposed changes in the taxation of interest rebates and other aspects of credit union finances.[305]

Summary: Formal Submissions to the Government on the Royal Commission

During the fall of 1967 the government had been presented with a number of distinct policy perspectives on the direction of tax reform. However, the participation of the various organized interests in this critical juncture of the policy process was decisively unequal. The limited number of union and other briefs calling for progressive tax changes were vastly outnumbered by the enormous volume of input from the business community. Corporate submissions were not only numerically superior to those of any competing interests, but qualitatively predominant as well. These extremely impressive corporate submissions were consistently and intensely hostile to the overall rationale and core re-

commendations of the Carter Report. No other competing groups were able to mount a defense of the Royal Commission remotely comparable to this massive business opposition.

Nonetheless, state policy is not determined solely by the intensity and content of the demands pressed upon it, however consistent and persuasive. The policy of labour had a significance beyond its quantitative and qualitative inferiority in comparison to the enormous pressure wielded by the capitalist class. The union movement was a key political force, representing the interests of large numbers of citizens. Both the general role of the state in the political and ideological legitimation of the capitalist system and the electoral fortunes of the governing party required that the needs of the working class in relation to taxation, and the demands of the major union organizations more specifically, had to be taken into account. Labour's support of the Royal Commission had a continuing crucial importance. It meant that however responsive the state was to business, the issue of progressive reform could not be overlooked, but had to be addressed to some extent in state policy formation. As will be seen in the next chapter, the significance of labour's position was to be further enhanced as a more widespread defense of the Carter Commission, highly limited as it has been to this point, continued to develop. But whatever such patterns were to emerge, it must be emphasized that at this specific juncture organized business undeniably remained the dominant force in the conflict over the Carter Report.

V. Second Retreat: The November 1967 Budget and the Abandonment of the Royal Commission as the Guiding Framework for Reform

Department of Finance officials had not been pleased at the strident tone of the corporate briefs. The department had hoped for more constructive alternatives to be discussed. In speaking to U.S. business leaders in New York Mitchell Sharp had wished that "companies and others wouldn't restrict their comments to features of the report to which they are opposed." He further noted that Canadian businessmen now "seemed more satisfied with the present tax setup then they once were."[306] The enthusiasm of the corporate sector for preserving the existing tax structure was ironic in that it had been business that had argued most strongly for the need to restructure the fiscal system in the first place and that had been the driving force in the establishment of the Royal Commission on the initiation of the reform process. Notwithstanding this official dismay concerning the focus and tenor of corporate input, it was clear that the pervasive business opposition to the Carter Commission had been taken seriously in government deliberations.

An indication of government thinking was given by E.J. Benson, Minister of National Revenue, in speaking to the November 1967 conference of the Canadian Tax Foundation. He naturally would not outline government plans for tax reform, but he did stress two points: "The first is that we will not be accepting all of the proposals of the Royal Commission - nobody could be that right. The second is that after reform, the Canadian tax system is almost certain to be closer to the system proposed by the Royal Commission than it is now."[307] So the Report wou-

ld not be accepted as a total package to serve as the basic framework for tax reform.[308]

The official position was confirmed in the November 30, 1967 federal budget. The crucial significance of this budget is that it constituted the first comprehensive government policy statement on the scope and direction of tax reform and on the place of the Royal Commission recommendations within this restructuring.[309] The Minister of Finance remarked on the tremendous input to the government through the many submissions and meetings with officials and ministers, and expressed appreciation for this advice.[310] Mr. Sharp noted that "four points have played a central role in the public discussion of the report, and in the submissions made to the government." First, the sweeping nature of the reform proposals made prediction of their effects highly uncertain. Second, major difficulties could be caused by the resulting Canadian tax system, which would be radically different from that of other countries. Third, the Canadian economy would require large investments within the decade and "we shall need to attract substantial amounts of foreign capital to supplement our own savings. Many people feel the commission did not give adequate weight to this consideration in deciding on its recommendations and I am inclined to agree." Fourth, there was great concern over the regional impact of the recommendations, especially those dealing with the extractive industries.[311] The key points identified by Mr. Sharp were in fact central themes of the prevailing corporate opposition to the Carter Report. The "public discussion" referred to by the Minister came overwhelmingly from business, strongly

supported by major provincial governments; these four points were not emphasized by other groups.

In addition to this widespread criticism of the Commission, Mr. Sharp also stressed that "our tax reform program must be undertaken under circumstances quite different to those contemplated in the terms of reference of the royal commission and its work."[312] The Commission had been directed to design a tax system that would maintain 1964 levels of revenue, but much higher amounts were subsequently needed. In the light of the changed fiscal situation and of the advice received by the government, a number of conclusions had been reached. Substantial reforms of the tax system were still necessary, but they would be of a more restricted nature than those envisioned by the Royal Commission. The Minister of Finance outlined the shape these changes would take:

> while the reforms we will place before parliament and the public in the form of a White Paper and ultimately in draft legislation will undoubtedly be influenced by the monumental report of the royal commission, they will be more in the nature of reforms of the existing tax structure rather than the adoption of a radically different approach.[313]

The November Budget constituted an extremely important policy development. It established that the government had adopted a far more limited view of tax reform than the Royal Commission had propounded and that the Commission's reform schema would not serve as the guiding framework for tax changes. This commitment to reform within the existing fiscal structure rather than through the sweeping proposals of the Carter Commission must be seen as a highly significant concession to one of the most pervasive corporate demands of all. The enormous pressure

that had been exerted against the key recommendations - both through the formal submission of large numbers of comprehensive briefs and the informal, but unrelenting, series of public pronouncements, conferences, and meetings between corporate and state officials - has been examined. As pervasive as this hostility to the individual major proposals was, the unifying theme within business demands had been consistent opposition to the underlying rationale and philosophy of the Royal Commission and to the integrated and interdependent nature of the core recommendations that constituted its reform package. In its fundamental goal of preventing the Commission framework from serving as the basis for the overall reform of the tax system, business opposition had been largely successful. This was far more important than the more mixed results corporate pressure was to obtain on specific recommendations.

The November budget was the culmination of a consistent pattern. Since the release of the Carter Report earlier in the year, its reform schema had faced unrelenting opposition from the business community. In addition to the multifarious direct pressure emanating from the instrumental relations between the state and Canadian capital, structural factors were also crucial. The spectre of a capital strike hung constantly over the government with the innumerable threatened cancellations of major projects or investments and dire predictions of an imminent flight of capital from the country. Given the state's dependence upon private capital to ensure a healthy level of production and economic activity, such portents could not be ignored. All of this had been

particularly important in shaping provincial opposition to the Report, especially from Western Canada, which closely paralleled the corporate critique of the Commission. Other social and economic interests had been heard from, but their activity was of a far more limited nature and there was no evidence of any widespread public support for the Carter programme. The key developments in state policy to this point must be seen as part of a steady retreat in the face of massive corporate pressure: first of all, with the May concessions to the mining industry, and then with the rejection of the Royal Commission as the fundamental basis for tax reform contained in the November budget.

Footnotes

1. C.T.F., April 1967 Conference, pp 471-80. The Minister noted that he had been discussing this schedule with a number of conference participants. He also stressed the central role of the Canadian Tax Foundation in the formulation of tax policy: "no organization plays a more valuable role in the periodic review of our system." State policy makers were very appreciative of this function: "On behalf of all those who will be working on tax reform in Ottawa over the coming year, I wish to say how grateful we are that the Foundation has been able to arrange this conference and to thank all of those who have participated in it. We value your advice highly, and we value as well the promptness with which it has been given."; pp 471-2.
2. Ibid, p 480.
3. Ibid, p 473.
4. Ibid, p 473.
5. Ibid, p 473.
6. Ibid, pp 473-3. Sharp listed twelve specific recommendations; I have collapsed them here.
7. Ibid, p 474.
8. July 10, 1967. They also, however, rejected the more simplistic and strident business attacks: the existing system, of which there was suddenly so much support, had many problems; nor was the Carter Report totally valueless.
9. Industrial Canada, July 1967, p 14.
10. Ibid, pp 153-76; Canadian Business, November 1967. As was common for business conferences, these meetings were well attended by political figures. Trade and Commerce Minister Robert Winters made a major speech calling for restraint in the demands Canadians placed on the government and "also urged greater participation by businessmen in government affairs. His reason: government decision-making is having an ever-increasing impact on the business realm."; Financial Post, September 23, 1967, p 28.
11. Financial Post, April 29, 1967, p 30.
12. Canadian Tax Journal, May-June 1967, p 273.
13. Ibid, pp 232-3.
14. Ibid, p 235.
15. Ibid, p 45.
16. Ibid, p 246.
17. Financial Post, June 24, 1967, p 3; Globe and Mail, (Toronto), June 20, 1967. Ibid; the reference to the "conference circuit" indicates how extensively tax reform was being discussed within organized business circles.
18. June 5, 1967.
19. Financial Times, July 10, 1967. The recommendations affected not just mining corporations, but also the major integrated steel manufacturers with their interests in iron ore mining; see G. D. Quirin, Economic Consequences on the Primary Mineral Industries and the Adoption of the Recommendations of the Royal Commission on Taxation, Toronto, Institute for the Quantitative Analysis of

Social and Economic Policy, University of Toronto, Number 6804, February 1968, p 12.

20. Financial Times June 26, 1967. Glassco had been chairman of the Royal Commission on Government Organization and was a leading figure in the Toronto business community. It had been Brascan that Minister of Finance Sharp had worked for prior to entering electoral politics.
21. Globe and Mail, (Toronto), July 27, 1967, p 28. In addition, speeches by A. T. Seedhouse, president of Manufacturers' Life Insurance and Mr. Lemon elsewhere had condemned the recommendations pertaining to their industry, Monetary Times, September 1967, pp 18, 45.
22. Quoted in Monetary Times, September 1967, p 19.
23. Ibid., p 20.
24. Star, (Toronto), October 26, 1967.
25. Globe and Mail, (Toronto), October 31, 1967, p B3.
26. Monetary Times, September 1967, pp 19, 20. Asper published a regular column on taxation, commenting extensively on the Commission and tax reform during this period, in the business section of the Toronto Globe and Mail.
27. Saturday Night, October 1967, p 60.
28. September 16, 1967, p 6.
29. Ibid.
30. Published in Western Business and Industry, December 1967, p 12; all of the following quotations are from this source.
31. Financial Post, October 7, 1967, p 1.
32. Ibid, p 2.
33. Ibid, p 3.
34. Financial Post, August 26, 1967, p 17.
35. This was a pervasive theme at the earlier C.T.F., April 1967 Conference.
36. Financial Post, August 26, 1967, p 17.
37. Financial Post, September 9, 1967, p 26.
38. Sun, (Vancouver), August 3, 1967.
39. September 1967, p 19.
40. Ibid., p 20.
41. Canadian Business, July 1967, p 43.
42. Excerpted in Financial Post, September 30, 1967, p 5.
43. Ibid.
44. Gazette, (Montreal), October 3. 1967.
45. Ibid. This editorial provides an excellent overview of industry arguments against the Royal Commission.
46. Colin Cameron, a N.D.P. Member of Parliament, asked the Prime Minister if the Winters speech contradicted the assurances from the Minister of Finance that no decisions would be made until all government deliberations had been completed. The question was neatly evaded by Mr. Pearson. House of Commons Debates, October 2, 1967, p 2699.
47. Gazette, (Montreal), October 3, 1967.

48. House of Commons, Debates, September 29, 1962, p 2660ff.
49. Ibid., p 2661; referring to the September 25, 1967 issue.
50. Ibid., p 2661.
51. Ibid., p 2681.
52. Ibid., p 2672.
53. Ibid., p 2681.
54. Ibid., p 2673.
55. Ibid., October 6, 1967, pp 2882ff.
56. Ibid., he attributed these assurances to the numerous protests from mining.
57. Ibid., pp 2882-6.
58. Deachman commented on this brief as follows: "It is quaint to find this association hurling itself on the mercy of the premier of British Columbia to save its members from the Minister of Finance and from Mr. Carter"; Ibid, p 2883.
59. Ibid., p 2885, 2886.
60. Cf. Presthus, op.cit.
61. Financial Post, September 9, 1967, p 43.
62. C.T.F., April 1967 Conference, p 2.
63. Canadian Tax Journal, May-June 1967, p 222.
64. Financial Post, June 24, 1967, p 3.
65. Monetary Times, September 1967, p 18.
66. Canadian Petroleum, July 1967.
67. Ibid. This is an indication of the great material resources that the major industries can bring to bear against the Royal Commission.
68. Ibid. Barbeau provides a good example of the role of professional and expert advisors in the organization of corporate pressure against the Royal Commission. By urging a comprehensive and detailed presentation of industry objections to the Report, a more sophisticated, and potentially influential, corporate input to the government was encouraged.
69. September 1967, p 110.
70. Ibid.
71. J.R. Petrie, A Review of Some Critical Issues in the Report of the Royal Commission on Taxation, prepared for the Carter Commission Committee of the Canadian Chamber of Commerce, July 1967. The study was widely distributed by the Chamber and widely discussed in the media. The Montreal Gazette, for example, referred to it as one of the best studies on the Commission and endorsed its conclusions; August 15, 1967.
72. Op.cit., Ch III, especially p 72.
73. Ibid, p 115.
74. Ibid., p 134.
75. Ibid., p 134.
76. Ibid., p 135.
77. Petrie is ambiguous on this point. The thrust of his study had been highly critical of the core proposals and guiding framework and he had found little to support in the Report.
78. Ibid., p 134, his emphasis.
79. Ibid., p 135.

80. Monetary Times, September 1967, p 18.
81. See Gazette, (Montreal), September 19, 1967.
82. Toronto Board of Trade Journal, October 1967, p 14.
83. Neil J. Jacoby, Canada's Tax Structure and Economic Goals. A Critique of the Royal Commission on Taxation. Faculty of Administrative Studies, York University, October 1967. See An Examination and Assessment of the Report of the Royal Commission on Taxation, Submitted to The Honourable Mitchell Sharp, Minister of Finance. By: The International Nickel Company of Canada, Limited, September 29, 1967, Appendix P on this company's extensive use of academic and consulting expertise such as the Jacoby critique, in developing their massive response to the Royal Commission. Inco also submitted a 38 page condensed version of its brief.
84. Op.cit., Ch 4.
85. Ibid., Ch 6.
86. Ibid., p 9.
87. Ibid., Ch 9.
88. Ibid., p 34.
89. Ibid., p 44.
90. Ibid., p 44.
91. August 19, 1967, p 1.
92. September 1967, p 18.
93. Canadian Business, July 1967, pp 42-4, 46.
94. July 1967, pp 40, 48.
95. Gad Horowitz has argued that the latter consideration has been very important historically in Canada; Canadian Labour in Politics, Toronto, University of Toronto Press, 1968, Ch 1.
96. Western Business and Industry, July 1967, p 48.
97. August 26, 1967, p 17.
98. Ibid.
99. Ibid.
100. Financial Post, June 3, 1967, p 29.
101. House of Commons, Debates, June 1, 1967, pp 855-8.
102. Ibid, p 857.
103. Financial Post, June 10, 1967, p 22.
104. See R.M. Burns, "Some Implications for Federal-Provincial Relations", Canadian Forum, May 1967, pp 40-2. This problem was also attracting a great deal of attention in corporate circles; Cf. the speeches by Marcel Belanger, former chairman of the Quebec Royal Commission on Taxation, to the C.M.A. taxation conference; Industrial Canada, July 1967, pp 163-5. He had earlier addressed the C.T.F. conference on the same issue.
105. As discussed above; see Western Business and Industry, July 1967, p 48.
106. Saywell, 1968, op.cit., p 314; Star, (Montreal), January 14, 1967.
107. Digested in Financial Post, June 24, 1967, p 7.
108. Star, (Toronto), June 15, 1967.
109. Quoted in Ibid.
110. Globe and Mail, (Toronto), June 20, 1967.

111. Tribune, (Winnipeg), June 29, 1967.
112. Gazette, (Montreal), July 12, July 13, 1967.
113. Free Press, (Winnipeg), July 8, 1967.
114. See also Pearson's conciliatory response to an earlier telegram from the Western Premiers; House of Commons, Debates, June 23, 1967, p 1874.
115. Free Press, (Winnipeg), August 4, 1967.
116. September 9, 1967, pp 19, 36.
117. Globe and Mail, (Toronto), October 31, 1967, p B3.
118. Globe and Mail, (Toronto), November 14, 1967, p B5.
119. Financial Times, August 21, 1967.
120. September 9, 1967, p 6.
121. Ibid., p 15.
122. By more flexible is meant less thoroughly progressive. The ideological terms within which opposition to the Commission was couched have been noted earlier. In this regard no one was against progressive taxation per se, but recommendations that went "too far" or "too fast" in this direction were seen as inflexible and dogmatic.
123. Ibid, p 15.
124. C.T.F., November 1967 Conference, p 170. This approach was much preferred by critics of the Carter Report who had condemned the the latter as too sweeping and revolutionary.
125. Financial Post, September 9, 1967, p 15.
126. For useful summaries and commentaries on the provincial reports see the panel session at C.T.F., November 1967 Conference, pp 159-85; see also Financial Post, September 9, 1967, p 15-6.
127. Quoted in Monetary Times, September 1967, p 19.
128. Cf. Gazette, (Montreal), March 13, 1967.
129. Financial Post, August 19, 1967, p 1; see also Saturday Night, October 1967, p 60.
130. Quoted in Financial Post, August 19, 1967, p 1.
131. August 21, 1967.
132. C.T.F., November 1967 Conference, p 356.
133. Ibid., p 356. The large number of briefs contributed to the continued delay in tax reform. Government officials were not expected to complete their review of this material until early March 1968; Financial Post, January 13, 1968, p 8.
134. Only a small number of briefs came from labour, social welfare and various other organizations. The content and significance of this competing input will be returned to below. Meanwhile, the central themes and demands of the corporate briefs will be the focus of this discussion.

An important methodological qualification must be noted at this point. All of this enormous input on the Royal Commission was not examined. My primary source of data was the large number of briefs held by the research library of the Canadian Tax Foundation. This was supplemented by briefs reproduced in various business and professional journals and by reports in the business press and general media. While not totally exhaustive,

this selection includes the submissions of all the most important "actors" in the debates on tax reform: the most powerful corporations, the major industry and trade associations, and top organizations from other fields. The corporations and associations whose views are analyzed here are not the most important simply because they are the largest and most powerful bodies, but also because they are the leading force in shaping the overall policy and political activity of the business community as a whole. A further indication of the validity of this selection is the high degree of consistency that will be seen in the basic themes contained in the corporate briefs.

135. It is for this reason that the briefs constitute a particularly good source of data. Corporate policy on tax reform is fully elaborated in them. While generally released publically, the submissions' detailed arguments were not designed for the public at large as such, but were serious attempts to shape policy.

136. Participants in the November C.T.F. conference who had been closely following the briefs as they appeared stressed this concerted opposition: cf. a leading chartered accountant, D.R. Huggett, a prominent lawyer, Phillip Vineberg, and the Hon Edgar Benson, who, having access to all briefs to the government, was in the best position to see their prevailing themes; November 1967 Conference, pp 8, 31 and 357 respectively.

137. Cf. Financial Post, October 7, 1967, p 5 and October 4, 1967, p 19 respectively.

138. Canadian Chamber of Commerce, Submission to the Minister of Finance on the Report of the Royal Commission on Taxation, October 1967. This was a 39 page booklet with the Petrie study sponsored by the Chamber appended. The brief was summarized in Canadian Business, November 1967, pp 44-54. The titles of the various briefs are noted here exactly as they appeared. There is consequently considerable variation in the bibliographical format used.

139. On the meeting with the Minister see Globe and Mail, (Toronto), October 6, 1967, p B4.

140. Op.cit., p 4, their emphasis.

141. Submission by the Vancouver Board of Trade to the Minister of Finance on the Report of the Royal Commission on Taxation, September, 1967, p 8; This passage was set out in bold type for emphasis. In this 30 page booklet the Board repeated the claim of its original brief to the Carter Commission hearings to represent vital business and professional interests of British Columbia, p 3. The brief had been prepared by a special committee of the Board with the assistance of two British experts: A.R.Ilersic, an academic and author of texts on fiscal policy, and Sir Frank Bower, formerly head of the taxation department of Unilever Ltd. and a leading official in the British Chamber of Commerce; House of Commons, Debates, October 6, 1967, p 2885.

142. Submission by the Algoma Steel Corporation, Limited to the Honourable Mitchell Sharp, P.C., M.P., Minister of Finance, Government of Canada, on the Report of the Royal Commission on Taxation, August 1967.

143. Ibid., Introduction.
144. Ibid., Introduction. The Financial Post, September 30, 1967, pp 1, 5 (in an article headlined "Hearing Pummeling for Carter, Giant Steelmaker Swings a Power Punch") was much impressed by the quality of this brief: "The Algoma study is no ordinary submission to be dismissed as the complaint of entrenched interests." The brief was seen as particularly significant because it was "prepared by a brilliant group of economists, lawyers and accountants" and because the tremendous importance of the steel industry in the overall economy made its conclusions of even wider importance.
145. Ibid., p 21.
146. Ibid., p 21.
147. Ibid., p 37.
148. Submission to the Minister of Finance The Honourable Mitchell W. Sharp on the Report of the Royal Commission on Taxation from the Investment Dealers' Association of Canada, September 1967, p 1. The brief was 39 pages long plus appendices. See also the report on the brief in the Globe and Mail (Toronto), October 4, 1967, p B4: "Canada's investment dealers fear major dislocations of securities markets, and the economy generally if the report of the Carter Royal Commission on Taxation becomes law."
149. Ibid., p I.
150. Ibid., pp I-II.
151. Ibid., p I.
152. Ibid., p IV.
153. Globe and Mail, (Toronto), October 31, 1967, p B3.
154. Globe and Mail, (Toronto), November 16, 1967, p B5.
155. Globe and Mail, (Toronto), November 10, 1967, p B2.
156. Financial Post, November 11, 1967, p 18.
157. Ibid.
158. Ibid.
159. November 16, 1967, p 6. The distinction in this commentary between the short and long-term indicates a relatively sophisticated grasp of the effect of taxation on corporate economic interests.
160. Ibid.
161. Op.cit., p III. See also Vancouver Board of Trade, op.cit., p 21; submission of Athnes Imperial Ltd., Globe and Mail, (Toronto), November 14, 1967, p B5.
162. Mining Association of Canada, The Report of the Royal Commission on Taxation. A Critical Assessment, October 1967, p 6. The M.A.C. had earlier submitted a more comprehensive document to the government: Submission re Recommendations of the Royal Commission on Taxation, September 1967. The October booklet was a shorter summary of the Association's views and tended to be more strident in its hostility to the proposed reforms.
163. Globe and Mail, (Toronto), November 21, 1967; p B9; and Financial Post, October 14, 1967, p 19 respectively.

164. It has been seen above that such a fervent ideological reaction had been an important thrust of business hostility to the Report.
165. Op.cit., p II.
166. Trust Companies Association of Canada, To: The Honourable Mitchell Sharp Minister of Finance. Re: Report of the Royal Commission on Taxation, 1967, p 2.
167. Ibid., p 2.
168. Edgar Benson stressed this in his summary of the basic themes of the briefs: C.T.F., November 1967 Conference, p 357.
169. Texaco Canada Ltd., Submission to the Honourable Mitchell Sharp Minister of Finance Relative to the Report of the Royal Commission on Taxation, October 1967, p 11.
170. Imperial Oil Ltd., Submission to the Minister of Finance Regarding the Recommendations of the Royal Commission on Taxation, September 1967, p A-10; also Part B.
171. Cf. Vancouver Board of Trade, op.cit., p 7.
172. Cf. the brief of the Toronto Board of Trade: Toronto Board of Trade Journal, November 1967, p 25; also reported in Globe and Mail, (Toronto), November 1, 1967.
173. Cf. Mining Association of Canada, October, op.cit., p 5; Texaco Canada Ltd., op.cit., p 2.
174. International Nickel, op.cit., p 4; Texaco Canada Ltd., op.cit., p 7.
175. Op.cit., p 29.
176. Cf. Imperial Oil Ltd., op.cit., Pt. D. However it was seldom acknowledged that this reduction was only possible with a wider tax base.
177. It was recognized that this averaging would not be necessary if key elements of the comprehensive tax base were not adopted, as business fervently hoped they would not.
178. Financial Post, October 7, 1967, p 5.
179. Retail Council of Canada, Comment on Report of Royal Commission on Taxation The Honourable Mitchell Sharp P.C., M.P., Minister of Finance, September 1967; see also Globe and Mail, (Toronto), October 4, 1967, p B4.
180. Op.cit., p 23.
181. Op.cit., p 7.
182. October, op.cit., p 7.
183. Op.cit., p 3. This argument was supported by many other briefs; cf. Inco, condensed version, op.cit., p 3-2, Canadian Imperial Bank of Commerce, Globe and Mail, (Toronto), November 10, 1967, p B2.
184. Op.cit., p 8.
185. Ibid., p 16.
186. Ibid., p 16.
187. Op.cit., this quotation is from the excerpt in Canadian Business, November 1967, p 53.
188. Ibid., p 54.

189. Ibid., p 54. These arguments are good examples of prevailing business ideology; they justified the drive for wealth and profit as "socially desirable." Such ideological opposition was solidly based on concrete class interests; increased taxation of wealth would directly affect the capitalist class and to a lesser extent the property-owning middle classes.
190. Op.cit., p 16.
191. Op.cit., p 24.
192. Financial Post, October 7, 1967, p 5; Globe and Mail, (Toronto), November 21, 1967, p B9, respectively.
193. Submission of Hudson's Bay Oil and Gas Company Ltd., to the Minister of Finance with respect to The Report of the Royal Commission on Taxation, September 1967, Pt. IV.
194. Op.cit., Pt. D.
195. October op.cit., p 5.
196. Op.cit., pp 24-6; Globe and Mail, (Toronto), October 31, 1967, p B3.
197. Op.cit., Pt. D, pp 1-12.
198. October, op.cit., p 5. This imagery of sacrifice and hardship hardly corresponds to the material conditions of the affluent groups to whom capital gains taxation would pose the greatest problem. On the conditions of the wealthier strata of the capitalist class see Peter C. Newman, The Canadian Establishment, Toronto, McClelland and Stewart, 1975.
199. Financial Post, October 7, 1967, p 5.
200. Globe and Mail, (Toronto), November 16, 1967, p B5.
201. All op.cit., respectively p 23; condensed version, p 2; p 15.
202. Financial Post, October 14, 1967, p 19.
203. Globe and Mail, (Toronto), November 21, 1967, p B9.
204. Op.cit., p 23.
205. Globe and Mail, (Toronto), October 31, 1967, p B3; Financial Post, November 11, 1967, p 18.
206. Op.cit., Pt. D, pp 13-23.
207. Op.cit., Ch III.
208. Alcan Aluminum Ltd., Comment on the Report of the Royal Commission on Taxation Submitted to the Minister of Finance, 31 October 1967. Alcan had also submitted a separate brief on August 28 dealing only with integration (included in the October brief as appendices I and II). The foreign controlled resource corporations were particularly concerned about integration because the dividends they remitted outside of Canada would be adversely affected.
209. Toronto Board of Trade Journal, November 1967, pp 24-6; the Board also opposed integration because of its discrimination against Canadian corporarions with foreign operations.
210. Cf. the brief of the Canadian Construction Association; Financial Post, November 4, 1967, p 19.
211. Op.cit. Sharp had not asked for input on sales taxation and there was consequently little discussion in the submissions.
212. Op.cit., Ch V.

213. Ibid., p 58. In commenting on the Algoma brief, the Financial Post stressed that the rapid expansion of the steel industry had been based on huge capital investments which had in turn been based upon favourable tax treatment; September 30, 1967, p 1, 5.
214. Globe and Mail, (Toronto), November 17, 1967, p B4.
215. Op.cit., p 24; see also the Canadian Manufacturers Association; Financial Post, October 7, 1967, p 5.
216. Op.cit., p 27.
217. Op.cit.; Financial Post, November 4, 1967, p 16 respectively.
218. Globe and Mail, (Toronto), September 13, 1967.
219. Financial Post, October 7, 1967, p 5.
220. Globe and Mail, (Toronto), November 14, 1967, p B5.
221. Cf. Imperial Oil, op.cit., p A-4.
222. Quoted in Globe and Mail, (Toronto), November 10, 1967, p B2.
223. Canadian Life Insurance Association, Submission to the Minister of Finance on the Proposals for Life Insurance Taxation in the Report of the Royal Commission on Taxation, October 1967, p 1. A supplementary submission, An Economic and Financial Appraisal of the Report of the Royal Commission on Taxation and a fact book on the association, which represented 106 life insurance companies, were also presented.
224. Ibid., p 2.
225. Ibid., p 2. Given the control of the major insurance companies over large pools of capital this is a powerful argument. In a earlier speech to the Canadian Club in Ottawa, A.H. Lemmon, president of the C.L.I.A. had maintained that the Royal Commission would reduce domestic saving by $600 million; Globe and Mail, (Toronto), October 4, 1967, p B4.
226. Ibid., p 2. The Association's submittion was criticized by Lawrence E. Coward, an actuary with William M. Mercer Ltd., Toronto, at the Canadian Tax Foundation, November 1967 Conference: "The position taken by the C.L.I.A. in its brief to the Minister of Finance is rather astonishing. It is not surprising that the Association would like the present treatment to be retained since it amounts to virtual exemption. However, the Association's thesis stripped down to essentials is that nobody makes any appreciable gain out of life insurance and therefore there is nothing to tax.", p 226. Coward urged a more realistic appraisal: "Even if the whole Carter package is not adopted a revised tax basis for life insurance is bound to come. It is to the advantage of both government and the industry that this be well researched, fair in varied circumstances, stable and certain"; p 227.
227. Gazette, (Montreal), October 14, 1967, p 12.
228. Op.cit., p 25; see also Imperial Oil, op.cit., Pt. D, pp 63-7.
229. M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate", in A. Paul Pross, (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975, p 96.

230. John Bosson, "The Objectives of Taxation and the Carter Commission Proposals", Canadian Public Administration, Summer, 1969, p 163; see also M.W. Bucovetsky, Tax Reform in Canada: A Case Study of the Mining Industry, Unpublished Ph.D. dissertation, University of Toronto, pp 30-35. It should be remembered that the target of this campaign was not so much the public at large, but state policy makers.
231. In a paper to the Canadian Tax Foundation conference, Professor Bucovetsky emphasized that this industry "counter-attack has provided employment to an army of economists, accountants and lawyers"; November 1967 Conference, p 210.
232. Op.cit., Appendix P; plus Dr. Neil J. Jacoby, Dean of the Graduate School of Business Administration, University of California, who had prepared a critique of the Report for the company; op.cit.
233. Ibid., p 1.
234. Op.cit., p 1.
235. Op.cit., September, p 2. The submission, which also included a 68 page supplementary study, listed the member companies of the association, among which were some of the most powerful corporations in the country.
236. Asbestos Corporation Ltd., The Right Honourable Mitchell W. Sharp, P.C,, M.P., Submission Concerning The Recommendations of the Report of the Royal Commission on Taxation, October 27, 1967, p. 9.
237. Op.cit., September, p 7.
238. Canadian Petroleum Association, Submission to the Minister of Finance on the Report of the Royal Commission on Taxation, September 1967; p 28. As discussed in earlier chapters, the C.P.A. was the preeminent organization of the major multinational corporations that dominate the Canadian oil industry. Its 58 page submission was highly comprehensive with additional statistical appendices and two supplementary studies on the industry's contribution to the economy.
239. Op.cit., p 5. See also Imperial Oil, op.cit., Pt.C. The criticisms of the Royal Commission developed in the massive brief of Imperial closely paralleled those of the equally massive submission of Texaco.
240. Op.cit., p 7.
241. Imperial Oil, op.cit., p A-11; Texaco, op.cit., p 38ff developed a critique of the Commission's study #8 by Professor Bucovetsky: "It is regrettable that the Commission chose to ignore the views of the industry and accept those of Mr. Bucovetsky without affording the industry an opportunity of cross-examining the author" p 52.
242. Op.cit., condensed version, p 2-2.
243. Ibid.; see also Globe and Mail, (Toronto), October 13, 1967, p B3.
244. Globe and Mail, (Toronto), November 10, 1967, p B2.
245. Op.cit., October, p 7.

246. Ibid., p 8.
247. Ibid., p 9.
248. Op.cit., September, p 2.
249. Canadian Petroleum Association, op.cit., Ch 5 and 8.
250. Op.cit., p A-12.
251. Op.cit., respectively Pt. II, pp 71ff.
252. Canadian Petroleum Association, op.cit., pp 304; see also Texaco, op.cit., p 4.
253. Op.cit., p 24.
254. See Texaco, op.cit., p 66, Hudson's Bay Oil and Gas, op.cit., p 8 and Imperial Oil, op.cit., p A-12. This again illustrates the narrow view of equity held by business; fair treatment for their specific enterprise in relation to other corporate sectors.
255. Op.cit., p 5. These demands were reiterated in the recommendations made by individual corporations; cf. Imperial Oil, op.cit., p A-13, which additionally called for the retention of the three-year tax exempt period for new mines.
256. Ibid, Pt. E; C.P.A., op.cit., p 4. This was supported by the mining industry; cf. Mining Association of Canada, op.cit., September, p 10.
257. Texaco, op.cit., pp 69-70.
258. Ibid, p 69.
259. Effect on Mining of Carter Commission Report, Brief Prepared for Presentation to the Government of Canada, n.d., Foreward, p 1. The brief which "summarizes the thinking of the prospecting and exploration part of the mining industry in B.C.", had been prepared by Stevenson and Kellogg Ltd., management consultants, who had conducted extensive interviews within the provincial mining industry. The imagery of the Report as a pill which was very difficult to swallow was not uncommon in business attacks. The symbolic reference was to a well-known product of the time, Carter's little liver pills.
260. Ibid., p 1. The extensive provincial resource opposition to the Commission had also been noted by Mr. Grant Deachman, M.P. for Vancouver Quadra; he quoted a brief from the Mining Association of British Columbia to the provincial government which stressed the industry's great economic importance within the region, House of Commons, Debates, October 6, 1967, pp 2882-6.
261. Ibid, p 24, their emphasis. This choice was graphically illustrated on the front cover of the brief. The artwork, entitled mining's future, depicted a mining operation held in the balance between progress and stagnation, symbolized by a set of scales containing on the one hand, the present system, and on the other, Volume 4 of the Carter Report.
262. Op.cit., p 17.
263. Op.cit., September, p 9.
264. Op.cit., October, p 11.
265. Ibid., p 2.
266. Cf. Hudson's Bay Oil and Gas, op.cit., p 4; Canadian Petroleum Association, op.cit., p 48.

267. Cf. Imperial Oil, op.cit., p 12.
268. Op.cit., p 49. To support its argument the C.P.A. enlisted the services of a prominent University of Alberta economist: "Because the Commission has implied that the benefits are of limited consequence and because it is our firm conviction, that on the contrary, these benefits are of major significance, the Association has retained Dr. Eric J. Hanson to advise on this matter", p 49. Studies of the national and regional impact and the regional employment and income effects of the petroleum industry by Hanson, plus statistical appendices, were included in the C.P.A. submission. In addition, Hanson's earlier publications were liberally quoted in the text, p 49ff.
269. On the importance of the resource industries in the political economy of the western provinces see John Richards and Larry Pratt, Prairie Capitalism: Power and Influence in the New West, Toronto, McClelland and Stewart, 1979.
270. Financial Post, October 28, 1967, p 16.
271. Ibid., p 17.
272. Op.cit., pp 24-5; this view was also argued by the brief of the Canadian Manufacturers' Association, Financial Post, October 7, 1967, p 5, and the Canadian Bar Association, Financial Post, October 14, 1967, p 19.
273. Respectively Financial Post, November 11, 1967, p 18; Globe and Mail, (Toronto).
274. This was a 22 page submission addressed to the Minister of Finance.
275. This 36 page brief was also addressed to the Minister, August 4, 1967. In an accompanying letter, Heyding modestly downplayed his background: "It should be emphasized that this submission expresses my personal views. It is not written from my position as Senior Canadian Tax Partner of Peat, Marwick, Mitchell and Co., nor as Chairman of the C.I.C.A. Taxation Committee and Co-chairman of the Joint Committee of the Canadian Bar Association", p 1. He had also consulted for International Nickel in the preparation of their brief.
276. These general points were summarized in Heyding's letter, especially p 2.
277. Heyding's Brief, pp 16-7.
278. Op.cit., October, p 3.
279. Ibid., p 3.
280. Op.cit., October, p 6, their emphasis.
281. Quoted in Financial Post, October 14, 1967, p 19.
282. Globe and Mail, (Toronto), November 21, 1967, p B9.
283. Op.cit., p 4.
284. See Bossons, op.cit., p 163ff. This does not imply any acceptance of the conventional political science assumption that it is the mobilization of public opinion that determines state policy. Max Saltsman, New Democratic Party M.P. and finance critic during the reform period, attributed much of the success of opposition to the Royal Commission to the massive campaign to per-

sude public opinion of the damaging implications of the Report: "The public had been panicked into believing that what was essentially an attack on privilege was an attack on the ordinary person"; "Reflections on Tax Reform in Canada" Canadian Taxation, Winter 1979, p 25. More generally, Colin Crouch argues that the superior ability of capital to influence public opinion through its ownership of media and greater resources for advertising and publicity is always an important element of the balance of forces in a liberal democracy; "The State, Capital and Liberal Democracy", in Crouch, (ed), State and Economy in Contemporary Capitalism, London, Croom Helm, pp 40-2.

285. House of Commons, Debates, November 29, 1968, p 3328.
286. C.T.F., November 1967 Conference, p 356.
287. Ontario Legislative Assembly, Debates, July 17, 1968, p 5854, cited in Bucovetsky, op.cit., 1975, p 96. The Carter Report itself suffered by comparison to such briefs; it had not been properly printed, but had been loosely bound in mimeo form. Max Saltsman remarked that "most M.A. theses get better treatment. As I recall, it was done in typewritten sheets with a blue cover, with something that looked like a safety pin holding it all together. Compare this to, for example, the Report of the Royal Commission on Banking, which was published as a very nice hard-cover book", op.cit., p 25.
288. Bossons, op.cit., pp 163-4.
289. Canadian Labour, July-August 1967, p 43. As discussed above, Fryer had earlier made the same points on behalf of the C.L.C. at the April conference of the Canadian Tax Foundation.
290. Financial Post, August 19, 1967, p 19.
291. Quoted in Canadian Labour, November 1967, p 21. Like corporate submissions, that of the U.S.W. stressed its importance as a major organization, representing 90% of workers in metal, mining and smelting.
292. In the union's magazine Information; cited in Financial Post, August 19, 1967, p 17.
293. Globe and Mail, (Toronto), October 28, 1967, p B3. This charge seems to contradict the thesis that the industry was only bluffing.
294. Submission to the Honourable Mitchell Sharp, P.C., M.P., Minister of Finance on the Report of the Royal Commission on Taxation, November 1967, p 3. The brief was also discussed in Canadian Labour, December 1967, p 19ff, Gazette, (Montreal), November 16, 1967, p 13 and Globe and Mail, (Toronto), November 16, 1967, p B5. The latter newspaper article contrasted this brief to the vast majority of the submissions that had been critical of the Carter Commission.
295. Brief, op.cit., pp 5-17.
296. Ibid., p 7.
297. Quoted in Canadian Labour, December 1967, p 19.
298. Quoted in Ibid., p 19.

299. Op.cit., p 17
300. Globe and Mail, (Toronto), October 31, 1967, p B3. This group was not a major influence within the political system.
301. Canadian Welfare, March-April 1967, pp 21-2.
302. Globe and Mail, (Toronto), November 7, 1967, p B7.
303. This point was seconded by organized labour. The C.L.C. approved of capital gains taxation, but only with realistic exceptions for farmers; Canadian Labour, December 1967, p 19.
304. They were characterized as "heavy-handed interference in the democratic operations of co-operatives"; as reported in the Globe and Mail, (Toronto), November 1, 1967.
305. Financial Post, November 4, 1967, p 21.
306. Quoted in Gazette, (Montreal), November 16, 1967, p 13.
307. C.T.F., November 1967 Conference, p 358.
308. This must be seen in the context of Mitchell Sharp's earlier dismissal of the idea that the Commission must be rejected or accepted as a whole; see Financial Post, August 19, 1967, p 1.
309. The budget also contained a number of specific income tax changes which aroused great debate and which will be discussed in the next chapter.
310. House of Commons, Debates, November 30, 1967, p 4906.
311. Ibid., p 4906.
312. Ibid., p 4905.
313. Ibid., p 4906.

Chapter 10 Third Retreat: The Taxation of Wealth and Property Income

The Minister of Finance's pronouncements on the Royal Commission in his November budget were widely interpreted at the time as spelling the demise of the Carter reform package.[1] This first response fairly quickly gave way to a more realistic awareness that some significant restructuring of the tax system was still all but inevitable.[2] Nonetheless, general business opinion remained guardedly optimistic: "As a result of the budget statements many opponents of the recommendations are expressing cautious hopes that at least the more revolutionary of the Carter proposals are now dead."[3] It was hoped that his would include the recommendations on the comprehensive tax base, integration, resource incentives and the family unit. The uncertainty which had plagued business since the release of the Report was still seen as a serious problem: "While the indications given in the budget speech have gone a considerable way to allay the worst fears of the business community a detailed and precise statement of the government's plans for tax reform is still urgently required."[4] The corporate sector continued to resist any significant implementation of the central Commission proposals. Prominent tax expert and lawyer Philip Vineberg noted the depth of this continuing opposition: "In the entire history of Royal Commission Reports, none has evoked more constant, almost universally hostile reaction than that of the Royal Commission on Taxation."[5]

Within prevailing business opinion, however, significant currents of thought had begun to believe that some adaptation of the general goals

and programme of the Commission could be valuable in the rationalization of the tax system. At the same time, a more systematic defense of the Carter Report and more sustained pressure from the left for progressive reform had also developed. The increasing importance of these factors from the latter part of 1967 on greatly complicated the context for tax reform. This was reflected in a number of policy decisions contained in the October 1968 budget which constituted both a further retreat from the Royal Commission and a partial adoption of reforms it had proposed.

I. Developing Support for Moderate Reform

Although the majority of businessmen remained highly critical of the Carter Commission, more favourable attitudes to at least its general objectives began to appear. These more reformist views were first presented in a coherent fashion at the November 1967 conference of the Canadian Tax Foundation. A number of participants that remained uneasy about the reform proposals as a whole, nonetheless called for a more realistic assessment and criticism than the recommendations had been receiving. Mr. R. D. Brown, C.A., noted that while it was clear that the government did not accept the entire reform package, the major proposals were still closely interrelated: "It is, therefore, not realistic to select one particular aspect of the Commission's proposals and criticize these to the exclusion of others, since in the aggregate the Commission's proposals have considerably more merit than many of their individual aspects."[6] Dire predictions of the adverse effects of individual recommendations could be misleading if they ignored the offsetting benefits of other proposals. Donald Huggett also argued that the effect of the

Royal Commission would be far less drastic than widely publicized but inaccurate examples had implied?

In addition to such pleas for a more reasoned evaluation of the Report, its central proposals were attracting more explicit support. While the great majority still opposed the Commission's overall framework, virtually all of the panels at the C.T.F. conference had speakers who endorsed, with varying degrees of reservation, specific recommendations. For example, D.Y. Timbrell, a leading Toronto chartered accountant, supported the comprehensive tax base precisely because it was comprehensive. The existing tax structure had developed on the basis of earlier traditions and conditions and was no longer appropriate for a modern economy. Moreover, the haphazard and uncoordinated legislation was not in any sense a tax system. The comprehensive tax base offered the opportunity to create a workable system of taxation.[8] Mr. Timbrell also condemned the more strident business attacks on the Commission, especially those that labelled it as socialist. This common business charge was "not so much an objection, as an instinctive reaction."[9] The underlying cause of this corporate unease was the growth of various government social welfare programmes which in turn necessitated higher taxes to pay for them. The Carter Commission had simply offered a systematic means of raising the necessary revenue it could not be blamed for patterns of state expenditure.

The Royal Commission was increasingly defended against its more strident critics. Academic economists were prominent in leading "the counterattack against the more hysterical aspects of the business com-

munity's reaction."[10] Professor M.W. Bucovetsky of the University of Toronto disputed the basic thrust of the massive opposition of the extractive industries and the large number of briefs they had presented to the government. Professor Bucovetsky concluded that the recommendations would certainly reduce immediate profit levels, but that the resource sector would survive.[11] The critique of the Report by Professor Jacoby that had been sponsored by Inco has been discussed above; it had attacked the priority given to equity and had called for much greater emphasis on economic growth. This theme, which had become a pervasive element of the corporate assault on the Commission, was disputed by two other studies published by the Faculty of Administrative Studies of York University.[12] It was argued that in fact "the Commission's priority for equity does not imply in any sense a lack of concern for the effect of its proposals on growth. On the contrary, the Commission makes its concern for growth quite explicit."[13] Critics had neglected this commitment and the Commission's contention that its reforms would not damage economic growth, a contention which these studies found to be largely warranted. Lawrence E. Coward, a consulting actuary, argued that while insurance may be unique and make an important economic contribution (like many other industries), this was not sufficient to justify such special tax treatment.[14] He was highly critical of the industry position:

> The position taken by the C.L.I.A. in its brief to the Minister of Finance is rather astonishing. It is not surprising that the Association would like the present system to be retained since it amounts to virtual exemption. However, the Association's thesis stripped down to essentials is that nobody makes any appreciable gain out of life insurance and therefore there is nothing to tax.[15]

Whatever the fate of the Carter package as a whole, Mr. Coward emphasized that changes in the taxation of life insurance were certain. In agreement with the Commission Report, he called for extensive consultation between the industry and government on the details of the revised structure: "It is to the advantage of both government and industry that this be well researched, fair in varied circumstances, stable and certain."[16] This latter point constituted a very important piece of advise. If changes were inevitable, then the industry must shift its strategy from simply opposing the Royal Commission altogether. The industry must ensure through contact with the government that it will be able to influence the content of the eventual changes in the most beneficial, or at the minimum, the least damaging, direction for its concrete interests. Such considerations would apply not just to insurance, but to other affected sectors of the economy as well.

These more moderate and reformist analyses were part of a wider recognition that important reforms were inevitable. The Financial Post stressed that "Canada no longer has a choice between the Carter system and the present system. New and basic changes will be made and carried through very soon."[17] Whatever changes were made, there was no question that the tax system must contribute to economic growth and accumulation. While most business spokesmen, including the Financial Post, felt that the Carter Report was inadequate on this score, the Commission could still be a useful model or standard to facilitate the rationalization of the existing inadequate structure.

Defense from the Royal Commission

Members and staff of the Carter Commission were defending the reform proposals against prevailing criticisms. J. Harvey Perry expressed great disappointment in the reception given to the Report. The commissioners had hoped that it "would be examined in a thoughtful and judicious way and that from this process some new synthesis might emerge"[18], but the strident and pervasive hostility the proposals had received had been just the opposite. He emphasized that the Report was far from revolutionary: they had not invented the principle of equity and the major recommendations were all widely known and practised.[19] A good deal of the opposition was due to "the fact that it is largely the views of the business community that have been expressed."[20] It seemed that business was unable to accept the need for any change in the tax system at all. The paradox of this business reaction and its apparent espousal of the existing system was taken up by the Financial Post: "After decades of public complaint about Canada's ramshackle and jerry-built tax system, it is ironic that the first comprehensive alternative to be devised should be so vehemently criticized and so little examined. The existing system has taken on a sudden respectability and the obvious comfort of the known."[21] Mr. Perry recognized that the impact of the proposed changes on concrete corporate interests underlay this criticism. For example, the "passion" aroused by the resource recommendations arose because of the "high stages" involved; moreover these proposals, "because of the power and influence of the companies involved, may have been responsible for inspiring a fair amount of the negative attitude towards the Report."[22]

The Financial Post conducted an extensive interview with Professor Hartle and two other top Commission researchers on their reaction to prevailing criticisms of the Report.[23] Hartle defended the necessity of progressiveness: "If the public by and large thinks that the tax system is basically unfair, I think this will have a negative effect on people's attitudes towards our society - and this will affect productivity and growth. I don't think you can get sustained growth in a system where people think they are being cheated. The system will be too unstable." This reveals the wider vision of the Commission on the politics of taxation. The emphasis on equity was based, not on abstract theoretical premises as was often alleged, but on the Commission's conclusion that the tax system must be seen as fair by the general population and that reform must be directed towards this end. The Commission's emphasis on equity was not based solely on such political concerns; Professor Hartle stressed that widespread dissatisfaction with the overall system would retard reproductivity and economic growth.[24]

The three former members of the Royal Commission staff rejected the common charge that the Report would reduce economic growth; the goal had always been to increase equity without limiting growth.[25] In addition, the simplification and rationalization of the tax system would improve its efficiency. Mr. Perry stressed that the haphazard historical evolution of taxation in Canada necessitated major changes. The recommendations on capital gains, double taxation and the comprehensive tax base were required because the existing treatment had simply become untenable. Perry allowed that incentives had contributed to the develop-

ment of natural resources production, but the Commission had found that such generous concessions were not justified on grounds of efficiency or economic necessity.[26] The major recommendations were also defended against specific criticisms by the researchers. The recommendations on gift taxation, for example, had attracted more attention than they deserved; in combination with other offsetting changes they would not impose an undue burden. Similarly, the opposition to capital gains was seen as being basically emotional; in combination with other recommendations the Carter proposals were more generous than compromises often mentioned such as the U.S. system. The claims from financial organizations, such as the stock exchanges and insurance industry associations, that the recommendations would reduce savings and retard a dynamic economy were rejected: "If Canada is as dynamic and strong as these critics maintain, why are they so worried about a few tax changes."[27] Similarly, predictions of disastrous consequences for the resource sector and of the flight of Canadian multinations were dismissed. Mr. Perry concluded that the Commission's "principles and rules provide an unshakeable foundation for a sound tax system...No one would be naive enough to assume that any set of rules can answer all problems, but I am firmly convinced that without some set of rules there are no lasting answers to any problems."[28]

The former Commission researchers stressed the fiscal constraints on alteration to their proposals; any revenue loss caused by changes to the recommendations to reduce their impact or by additional special concessions would have to be made up by higher basic rates. A critical

concern had been expressed (by Ron Robertson, former director of the Canadian Tax Foundation, among others) that the revenue needs of a future government would lead it to raise the basic rates of the Carter system, perhaps to the existing level. Professor Hartle foresaw that rejection of the Commission reforms was far more likely to lead to this unfortunate result than would its implementation: "If Carter is rejected I would think that it is likely that we will see a lot of ad hoc changes all aimed at broadening the base. As long as these changes in the base are ad hoc, it will be almost impossible to sharply reduce top marginal rates, for some kinds of income will remain outside the tax net. Rejection of Carter could well mean that Canada backs into a system of the kind that Robertson deplores."[29]

Given the growing realization that important tax changes were inevitable, warnings that rejection of the Commission could lead to the adoption of less systematic, but more onerous reforms were becoming more frequent. This point was made by Kenneth Carter himself in a speech to the combined Canadian and Empire Clubs in Toronto. He specifically noted that adoption of a U.S. style capital gains tax, in the absence of the offsetting recommendations of the Commission, would result in a higher overall tax burden.[30] The Financial Post was well aware of these implications: "This statement from Commissioner Kenneth Carter is a pointed reminder that unless Canadians take great care they may well get the worst of all tax worlds - painful new taxes without compensating offsets in the tax system."[31] Mr. Carter condemned one-sided and exaggerated criticisms and called for a more comprehensive examination of the

Report as a whole. He further stressed that the Report was in no sense a radical document.[32]

A series of studies was commissioned by the Department of Finance from the Institute for the Quantitative Analysis of Social and Economic Policy of the University of Toronto. These studies were submitted to the government on December 4, 1967 and provided a more thorough, technically sophisticated and consequently reliable analysis of the economic effects of the proposed reforms than did the Report or its research studies.[33] The basic conclusions of these studies was that the Royal Commission had overestimated the economic difficulties that would result from implementation of its recommendations.[34] Dobell and Wilson's comprehensive analysis of the aggregate effects of the recommendations on savings, investment and capital flows concluded that it was "totally incorrect to describe the proposed tax reforms as sacrificing the goal of economic growth" and that economic upheaval need not follow implementation of the proposed tax reforms."[35] The economic adjustments necessary to accommodate the tax changes "would be far less than has been suggested elsewhere."[36] In addition, they stressed that the proposed system would be perfectly compatible with any specific investment tax credits or incentives needed to achieve growth targets.[37] Taken together, this series of studies refuted the basic contention of most critics that economic effects were so unpredictable that such major reforms were too big a gamble.[38] There was one critical exception to this conclusion: the study of the resource sector by G. D. Quirin indicated that the unfavourable effect of removing the special concessions had been underestimated by the Report.[39] The petroleum recommendations would result

in an immediate reduction of $50 million in exploration expenditures and within five years a decline of $25 million in development drilling. This impact would be regionally concentrated: exploration and development would fall by 10% in Alberta, 70% in the North-West Territories and 25% for Western Canada as a whole.[40] The mining industry would face even larger tax increases. Exploration spending would likely be reduced by 40% and the net value of new mines would drop by a similar proportion. The growth rate of the industry would decline from 5% to less than 3% annually.[41] Professor Hartle agreed that the regional effect of the reform proposals was a critical problem. He reiterated, however, that more effective incentives for the extractive industries could be developed than those in existence.[42]

The implications of these studies were outlined in a speech by Professor Douglas Hartle, director of the Institute, to a Toronto financial conference. First of all, "the studies will reassure some who accept Carter as an equitable tax system but who have been frightened about its economic effects."[43] Secondly, the studies severely weakened the arguments of the many critics who had attacked the recommendations for their supposed adverse impact on economic growth: "If the objections to Carter based on economic considerations are cleared away, these critics may find that they cannot complain if a modified version of the Carter system is introduced."[44] Finally, the implications of the studies for government policy were also important. The November 30, 1967 budget had been interpreted at the time as the death of the Commission as the fundamental basis of tax reform, although it had subsequently be-

come clear that this did not preclude major changes in specific areas of taxation. Professor Hartle commented on the government's conclusions: "The Institute's studies indicate that to the extent that the Minister rejected the Carter package because he was worried about the effects on savings, growth and the balance of payments he should reconsider."[45] Professor Hartle also rejected the view that higher revenue needs had made the Carter system obsolete: "the level of taxation changes in burden among income classes recommended by Carter could still be achieved."[46] In other words, reform of the relative incidence of tax burdens could still be carried out even if higher levels of overall tax revenue were needed.

Thus, from the latter part of 1967 on, a significant degree of support for the Royal Commission was being expressed from academic and other sources and some more moderate and reformist currents had appeared within the business community. The unifying theme in this was the view that a more effective and efficient tax system was essential to long-term economic development. Although there was certainly hesitation over the sweeping nature of the Commission framework, acceptance of the Report's objective of rationalization was increasingly widespread. These developments constituted an important shift in the general context for tax reform. While great corporate opposition and pressure against the Report continued unabated, the overall climate of opinion was not so totally hostile to the Royal Commission.

II. The Shifting Political Context for Tax Reform

That there would still be major reforms of the tax structure was confirmed by the Minister of Finance in a press conference early in 1968. Mr. Sharp's comments were interpreted to "suggest that the government contemplates changes rather more basic than were suggested by the budget speech."[47] The government had concluded that the Report could not be accepted as a package, but that there would still be "substantial tax reform not based, however, necessarily upon the Carter Commission framework."[48] The reforms would be different from the Commission proposals, but would be considered by many to be quite fundamental. Mr. Sharp again stressed the changed fiscal context for tax reform: "And in all these matters, there is one consideration that had weighed more with the government than it has with the Commission, and that is the rising costs of government. When Mr. Carter brought his report down, the needs of the government for revenue were much lower than they are today. So reform has to be kept within the limitations of possibilities."[49]

The New Democratic Party and Progressive Reform

Debate on the content and fate of the Royal Commission had been raging in the political realm. The July 1967 convention of the New Democratic Party had adopted resolutions in favour of the Carter Report[50] and subsequently pressed this support in parliamentary debates on fiscal and economic issues. The N.D.P. was highly critical of the Liberal government's policy as revealed in the November 30, 1967 budget. M.P. David Lewis condemned the Minister of Finance for apparently rejecting the basic principles of the Carter Commission and for implying his agre-

ement with prevailing attacks on the Report. Mr. Lewis emphasized the four key objections identified by the Minister came from "the vested interests whom the Carter report was trying to get into the tax net."[51] In reply, Mr. Sharp cautioned against relying upon newspaper interpretations: "I see from the press that there has been a tendency to say that the government has ditched Carter...My words do not say that."[52]

Parliamentary Debates Over Immediate Tax Changes

The November budget was important not only as a key juncture in the continuing process of tax reform and as an indication of future government intentions, but also for the specific fiscal changes it contained. The budget, designed to be anti-inflationary, responded to the fiscal pressures facing the federal government; it would raise an additional $520 million in annual revenue.[53] The most important immediate tax change, the imposition of a 5% surtax on personal income taxation to a maximum ceiling of $600, attracted considerable controversy in parliament. The effect of this $600 upper limit was significantly regressive: the actual surtax paid would be a much lower proportion of total income for higher income categories than would have been the case without the ceiling.[54] Coming on top of an overall tax system which had been described by the Royal Commission as highly inequitable - a diagnosis with which the New Democratic Party fully agreed - this surtax was strongly opposed by the N.D.P. Mr. David Lewis, citing extensively a Toronto Star editorial which strongly opposed the proposed changes, attacked the government for "the placing of an unfair and inequitable additional burden of income tax on working people.[55] If revenue was need-

ed then special concessions to the resource and insurance industries should be removed as the Carter Commission had recommended. Using these means of revenue would "have gone a little way toward offsetting the imbalance and inequity of our tax system."[56] By contrast: "this striking difference between the treatment accorded working people and the loving care accorded to wealthy and powerful corporations runs right through the budget."[57] More generally, Mr. Lewis defended a greater role of the state within the economy against vague and unspecified demands for cutting expenditure from both the Liberal and Conservative Parties.[58]

These themes re-emerged in the debates on the specific income tax act that would implement the proposed surtax during February and March of 1968. Mr. Germa of the N.D.P. condemned the Minister of Finance for ignoring the Carter recommendations on capital gains, resource incentives and the insurance industry as sources of tax revenue.[59] M.P. Edward Schreyer of the N.D.P. objected to the further amendment of a tax system that had "been condemned, after long and painstaking study on the part of the Carter commission, as inequitable."[60] He argued that there was no better indication of this inequitable nature and of the privileged position of the affluent than the tremendous corporate opposition to the Royal Commission's reform proposals. Mr. Schreyer was harshly critical of this corporate pressure: "Through their briefs and their tax counsel they got their message over very quickly. They were opposed in essence to what the commission recommended. These people and their spokesmen were articulate, influential and powerful. They have succeeded in petrifying the government into inaction."[61] Not only had

corporate pressure paralyzed the government but "a hoax of epic proportions has been perpetrated on the Canadian people", the majority of which would benefit from tax reform, but who had been "led to believe by reason of these submissions and subsequent publicity in the press and elsewhere that they would somehow suffer a disadvantage ultimately if the principal proposals in the Carter report were accepted."[62]

The political factors that shaped the dynamics of tax reform were much discussed by N.D.P. Members of Parliament. On the one hand, the ideological importance of fair taxation was stressed. Mr. Germa warned that the morale of the population was being lowered by the perpetuation of an inequitable tax system: "I believe we have to take steps to correct these inequities so the people of Canada will have faith in this government."[63] On the other hand, N.D.P. representatives also emphasized the clash of concrete interests that underlay conflict over tax reform. Mr. Gilbert argued that "5 per cent of the population controls this country financially and that the same 5 per cent are not taxed proportionately as high as the other 95 per cent. This 5 per cent screams the loudest about the Carter recommendations..."[64] The same point was stressed by Mr. Gilbert: "Almost 100 per cent of the objections comes from the elite of the corporate and monopolistic enterprises."[65] The N.D.P. particularly objected to the tremendous propaganda and pressure that the mining industry had exerted in defense of its lucrative concessions. Party speakers continued to argue that the industry had forced the government to pass the earlier Emergency Gold Mining Assistance Act: "This is socialism for the rich and free enterprise for the poor."[66]

Organized Labour and Pressure from the Left

Union briefs to the Minister of Finance in the fall of 1967 had strongly approved of the progressive orientation of the Royal Commission. Subsequent routine labour submissions to the state continued to express this support. The annual briefs to the cabinet of both the C.L.C. and the C.N.T.U. on general economic policy endorsed the basic principles of the Carter Report and urged the government to implement its key recommendations.[67] These labour demands were being expressed at the provincial level as well. The annual Ontario Federation of Labour brief to the provincial cabinet in early 1968 called for a more progressive tax system and urged the adoption of the Royal Commission as a guideline for the necessary changes.[68] The C.L.C. and C.N.T.U. submissions were approvingly cited by Mr. Orlikov of the N.D.P. in the continuing parliamentary debates in the spring of 1968. Both leading labour organizations opposed the surtax on personal income taxation and other immediate changes when nothing was being done about the inequities of the tax system as a whole.[69] Such themes were echoed in the comments of prominent labour leaders. The C.L.C. statement on the November 30 budget opposed the recommended tax increases, especially at a time of serious unemployment. Donald MacDonald, acting president of the Congress, opposed government fiscal policy, arguing that its first priority must be the stimulation of economic growth.[70] In a six point statement released on March 7, 1968, Mr. MacDonald reiterated labour opposition to the immediate tax increases and argued that what was needed was more jobs not more taxes.[71]

The similar policies on tax reform being expressed by organized labour and the social democratic left during this period were highly important. Despite the emerging support for the Royal Commission from academic and expert quarters, the major current in public discussion continued to be the strong opposition to the Carter recommendations from the corporate sector. The N.D.P., the third largest and only significant left-wing party in the federal parliament, and the major union centres, who claimed to speak for a high proportion of the working class, were the most significant political force to defend the reform proposals. Their strong endorsement of the Carter Commission and pressure on the government to implement its recommendations ensured that tax reform would remain a highly visible and contentious political issue. By keeping tax reform before the public eye and by emphasizing the benefits of progressive reforms for the majority of the population, this pressure from the left, especially as pervasively argued by the N.D.P. in parliament, was a key factor in making it impossible for the government simply to ignore the Carter Report and in ensuring that the government would have to proceed with some form of tax reform.

The issue of tax reform had been politicized by the activity of labour and the N.D.P. in a second important way. N.D.P. arguments in parliament had emphasized the concrete interests that lay behind the pressure and debate on tax changes. The great benefits of the existing system for the capitalist class and affluent strata more generally had been stressed. The N.D.P. and the various labour briefs to the government had strongly condemned the massive corporate pressure exerted

against the Report in defense of these interests. They were even more harshly critical of the government for conceding to this pressure on specific issues such as resource incentives and, more generally, by its failure to accept the Carter proposals as the basic framework for tax reform. The N.D.P. put forth a relatively crude instrumentalist explanation of the government's rejection of the Royal Commission and its pro-corporate tax policy. Mr. Orlikov argued that "the report has been greeted with approval by everybody except the Minister of Finance and the special interests who, it seems to me, he is here to represent and to defend."[72] While the great majority of the population would benefit from the Commission recommendations, the small group with special privileges under the existing structure resisted any such progressive changes: "While these special interests represent only 5 per cent of the people of Canada obviously they have the ear of the Minister of Finance and of the government because the Minister has found innumerable reasons to ignore the commission's recommendations and to refuse to implement them."[73] Thus, the demands of organized labour and the N.D.P. had not only provided a competing policy perspective sharply divergent to that of business, but had also brought the underlying nature of the debates on tax reform clearly into the public view. The formation of fiscal policy could no longer be presented as a purely technical choice between various alternatives in terms of their relative efficiency. The effect of the tax structure and its reform on concrete social and economic interests had been widely emphasized. This public defense of the Royal Commission and progressive reform made it very dangerous politically for the government

to appear to be pro-business in the tax policies being developed and it certainly prevented the outright abandonment of tax reform altogether.

Immediate Tax Increases

Parliamentary opposition to the proposed surtax on personal income tax proved important. The income tax act to implement the 5 per cent surtax was defeated in the House of Commons on February 19, 1968. The defeat was largely accidental; government leaders did not realize such large numbers of Liberals were absent from the House until after the vote had been called. Peter Newman, a leading political journalist argued that underlying this inefficiency was the government's general lack of faith and interest in parliament.[74] Nonetheless, the defeat of a major financial bill precipitated a serious political crisis. Such a defeat had generally been seen as a demonstration that the government had lost the confidence of Parliament. The Liberal administration, however, argued that this defeat was more the result of the uncertainties of a minority government situation and did not really constitute a vote of non-confidence. The government introduced a motion to this effect which was passed on February 28, 1968.

The new income tax bill that was reintroduced contained some important changes: rather than a 5 percent surtax on personal income taxation alone, there was to be a 3 per cent surtax on corporate income tax. Unlike the earlier bill, there would be no ceiling on the personal income surtax so that all taxpayers would pay the same proportion. These changes made the new income tax bill less regressive than its predecessor. This was recognized by the N.D.P. Speaking for the party, Tommy

Douglas acknowledged that "there is no doubt that this is some improvement" but remained highly critical of the government's overall policy.[75] Even the less offensive surtax was still "based on a structure which is already inequitable and unjust. The New Democratic party maintains that the government has no right to put on any tax until it restructures our tax system and places it on a fair and equitable basis."[76] In revising these income tax increases, the government was clearly responding to the political pressures it had been facing. Operating as it did in a minority situation, the government was extremely vulnerable to parliamentary opposition and had been under sustained attack from the N.D.P. for its failure to adopt progressive tax policies.

Although these immediate tax changes were finally enacted in the spring of 1968, the direction of overall reform remained the focus of heated partisan debate in Parliament. The government continued to refuse to make any major structural changes or signify its policy intentions until the release of the White Paper outlining its reform proposals. To the satisfaction of the N.D.P. at least, the immediate tax increases introduced in the winter of 1967-68, coming as they did on top of a highly inequitable basic tax structure, and the rejection of the Royal Commission as the guiding framework for reform, demonstrated the government's lack of commitment to any significant progressive restructuring of the tax system. In the search for new sources of tax revenue (and in its constraints on expenditures as well) the government had shown itself to be much more sensitive to the interests of the wealthy and powerful groups who benefited under the existing system than to making the tax

structure more equitable for the majority. The consistent direction of government policy since the publication of the Royal Commission certainly tended to support the N.D.P. argument.

The Liberal Government

Developments within the wider political sphere continued to have an important bearing on the progress of tax reform. Department of Finance studies of the huge number of briefs on the Royal Commission were not expected to be completed until early March.[77] Government deliberations had also been delayed by the Liberal leadership race. Prime Minister Pearson had announced his resignation as leader of the party in December 1967 and the contest for his successor preoccupied prominent Liberals throughout early 1968. One of the contenders was Finance Minister Sharp. The continued delay was confirmed in a January 10, 1968 press release from P.M. Pearson. He stressed that the formulation of the new policy would require considerable discussion and that "this would best be provided in a new session when a new Prime Minister would have taken office."[78] In the meantime, the relevant government departments were continuing their formulation of reform proposals in the light of the many submissions received, provincial policy and current economic trends. N.D.P. leader Tommy Douglas saw more to this delay than simply the pressures of the leadership campaign. He argued that Pearson had announced the deferrment of tax reform "because he does not want leadership candidates taking opposite positions on the Carter report. Everybody knows that the Cabinet is split down the middle on the Carter report."[79]

On April 6, 1968 Pierre Trudeau was chosen leader of the Liberal Party.[80] It was initially felt that this would not result in any major shifts in economic policy and that Mr. Sharp would go ahead with the planned White Paper reform proposals.[81] However on April 20, Mr. Sharp became Minister for External Affairs and was succeeded as Minister of Finance by Edgar Benson, a successful Kingston chartered accountant who had held increasingly important economic portfolios within the Cabinet, most recently as President of the Treasury Board. This appointment did have implications for the process of tax reform.[82] First of all, Mr. Benson proposed an important change in procedure; the planned White Paper would be dropped and the government's reform proposals would be presented directly to parliament as draft legislation. He felt that commentary on a White Paper would be similar to the many representations already received on the Carter Commission and that the government should proceed quickly with its long delayed reforms. There would still be ample opportunity for public discussion of the draft bill when it was reviewed by a parliamentary committee.[83] Mr. Benson also noted that while some "easy things" could be enacted in his first budget, the necessary more far-reaching reforms would not be put forth until 1969.[84]

Secondly, and much more nebulously, Mr. Benson was identified with the more left-wing and nationalist elements within the Liberal Party. It was uneasily expected that his policies on tax reform and other key issues would differ significantly from the more mainstream views of Mr. Sharp.[85] In a harshly critical editorial, the Globe and Mail condemned the uncertainty resulting from the new appointment: "Canadians had a

rough idea of the Liberal Government's financial policies as embraced by Mitchell Sharp. Now they are faced with the unknown...and from his admittedly limited statements so far it is at least to be suspected that his policies will differ widely from Mr. Sharp's." It argued that while streamlining the policy process by eliminating the White Paper may be reasonable, "the public has a right to know what 'easy things' Mr. Benson would pick up immediately and especially what far-reaching tax reforms he contemplates." Moreover, given the sweeping and controversial nature of the Royal Commission, he "must state specifically where he stands on the Carter proposals."[86] The significance of this ministerial shift should not be overemphasized. Mr. Benson had declared, as had his predecessor, that the Royal Commission reform package could not be accepted as a whole.[87] In addition, there would be no disruption of the normal mechanisms of government policy consultation and formulation; Mr. Benson intended to meet with top corporate and labour leaders to inform them of the government's plans on economic policy and enlist their aid.[88] Nonetheless, the immediate prognosis for tax reform under the new administration was still somewhat unclear. This was heightened by the late April announcement of a general election to be held on June 25, 1968.

The 1968 Federal Election

Taxation was an important focus of contention during the ensuing election campaign. In a television debate between the party leaders in June all agreed that taxes should not be raised.[89] N.D.P. leader Tommy Douglas stressed that reducing the tax burden of lower income groups was the most important issue and criticized the government for ignoring the

Royal Commission Report. However, there was no marked enthusiasm for progressive tax reform from either of the major business-associated parties. Both Mr. Stanfield and Prime Minister Trudeau felt that conditions were not then opportune for a capital gains tax. Mr. Trudeau argued that the central question was not the morality of capital gains tax, but its limited efficiency as a source of revenue and its possible inhibiting effect on investment. He stated that his government would soon introduce tax reform legislation which would be "an improved version of the Carter report."[90] In a Saskatchewan election speech the Minister of Finance reiterated that the government would reform the existing structure rather than adopt the Carter recommendations.[91] Mr. Benson argued that the effect of such sweeping changes as those proposed by the Royal Commission would be highly unpredictable and that Canada's integrated capital market meant that its tax system could not be radically different than those of other countries, especially the United States.

The continuing debates on the direction of tax reform - most notably the sustained corporate pressure against the Royal Commission proposals and the far more limited, but nonetheless highly visible, defense of the Carter recommendations from organizations such as the N.D.P. - ensured that it remained a salient public issue. The Prime Minister's own rhetoric of a fresh new approach to political problems and his slogan of a just society also guaranteed that tax reform would have to be recognized during the 1968 election campaign. As Mr. Douglas of the N.D.P. pointedly reminded the Liberals: "there could be no Just Society until there had been established a just and equitable system of

taxation."[92] No politician could appear to be against more equitable taxation in an election campaign. However in practice, the Prime Minister's promise of "a fair tax law for all Canadians"[93] was highly limited. There was no commitment to substantial reforms designed to create a significantly more progressive tax structure. Having clearly rejected the Royal Commission as the overall basis for tax reform, and having expressed considerable hesitation over key recommendations such as these on capital gains, the Prime Minister could only say "we are trying to bring in what we can of it."[94]

In summary then, controversy over the Carter Report and tax reform, especially the pressure from the N.D.P. for adoption of the Commission proposals, had continued unabated. Taxation had also been much discussed during the 1968 election campaign. Nonetheless, while all parties and politicians were publicly in favour of fair taxation, there had been no significant shift of government policy towards the implementation of the Carter or any other progressive reforms. The result of the 1968 election, in which the Liberals were returned with a solid majority, markedly altered the political context for the development of the new Finance Minister's policy. This was emphasized by a leading business columnist: "It must be remembered in attempting to anticipate Mr. Benson's tax reform, that the Liberal government is in a position to ignore Opposition objections to them. It is no longer vulnerable, as the preceding administration was, to the N.D.P. insistence on a capital gains tax as a social measure, in that party's terms, as a punitive measure from every other point of view."[95]

The Economic Context for Tax Reform

The general economic situation in the late 1960's was one of uneven growth, rising unemployment and persistent inflation.[96] The government was facing great pressure from all sides on how to deal with this crisis. Familiar demands were contained in the Canadian Manufacturers' Association's 1968 annual pre-budget brief to the federal government: it strongly argued that a significant reduction in growth would not take place unless personal and corporate taxes were cut.[97] In order to allow this, the government must rigorously control its high levels of expenditure. Specifically, the C.M.A. demanded that the 3 per cent on personal and corporate income tax enacted earlier should be dropped, the Carter recommendations on a uniform retail sales tax should be adopted and earlier restrictions on stock option benefits should be repealed. By contrast, the Canadian Labour Congress opposed government economic policy which emphasized price stability at the expense of creating employment.[98]

More generally, the direction of state economic activity and policy were the subject of much discussion within business. The report of the president to the annual conference of the Canadian Manufacturers' Association identified major policy initiatives on foreign ownership and the establishment of the Canada Development Corporation as well as taxation as potential problems for manufacturing. Mr. J.C. Whitelaw was very uneasy about these trends as indications of wider state economic intervention.[99] Other business commentators were aware of the benefits of such intervention, but wanted it to be more systematically

organized. An article in Canadian Business called for the establishment of an economic secretariat to ensure a cohesive direction in national economic policy.[100]

State fiscal policy was very much shaped by the overall condition of the economy. The primary goal of this policy was the control of inflation, a priority choice that was widely supported within the business community.[101] One direction of state anti-inflation policy sought to limit the size of federal deficits and restrain the growth of expenditure. The government had in fact been under widespread business pressure to curtail the "flossy welfare and flamboyant prestige spending of the Pearson Pattern."[102] As had been increasingly clear through the latter 1960's, the possibilities of tax reform were also constrained by the fiscal situation of the state. As the Minister of Finance had repeatedly emphasized, whatever changes would be made, the tax system must yield sufficient revenue to cover increasing government expenditure. Within the Canadian political system such fiscal constraints were reflected in conflict between the federal and provincial governments. This continued to be the case through the summer of 1968. The early August meetings of premiers was deeply concerned over the deteriorating fiscal position of the provincial governments and urged an early federal-provincial conference to reapportion tax revenues. The premiers' conference stressed the need for full consultation with all provinces before any comprehensive tax reform was put forward by the federal government. Finally, the premiers' conference endorsed the views expressed earlier by the Prairie Economic Council; reminding the federal government that the provinces

had grave concerns about implementation of the Carter proposals and urging that a White Paper still be issued.[103] Prime Minister Trudeau replied that the government would proceed directly to legislation and that ample opportunity would be available for provincial input.[104]

III. Elaboration of Corporate Policy

The unsettled economic context and political conflicts within which deliberations on tax reform took place has been outlined. At the same time, strong corporate opposition to the basic Carter proposals continued. There was however, an important shift in the tempo and tenor of this corporate pressure from the beginning of 1968 on.

The appearance of qualified support for the Royal Commission proposals, especially from expert and academic sources, and some indications of reformist currents within corporate opinion have been noted. In addition, the Carter Report came to be viewed with greater favour more generally within business circles. Contemporary interpretations explained this as a reaction to the strident opposition of the corporate briefs submitted to the government in the fall.[105] The briefs themselves could not be understood "without assuming that their authors believed that by discrediting the Report's proposals the present tax system could be preserved."[106] However, as it became clear that the government still intended to institute major tax reforms, such an approach became less popular.[107] It was increasingly recognized that if the hostile opposition of the briefs resulted in the total rejection of the Carter proposals the ensuing restructuring could have even worse consequences. Whatever changes were eventually made could lack the systema-

tic nature and offsetting effects of the Commission reforms. This emerging view was summarized as follows: "the increasing realization on the part of many analysts that some of the alternatives to the Commission's proposals which have been made more likely by the opposing briefs would have effects that would be worse, even from the point of view of some of the interested parties who submitted the briefs."[108] Such considerations were well expressed by a Financial Post editorial: "The hard truth, however, is this: Canada no longer has a choice between the Carter system and the present system. New and basic changes will be made and carried through very soon." The Post condemned the harsh and ill-informed character of most briefs as having "failed the test of objectivity and general public interest."[109]

From early 1968 on, then, a more moderate tone had emerged in business criticism of the Carter Report. This included a widespread acceptance of the inevitability of major tax changes and a more reasoned, albeit still critical, analysis of the Commission recommendations.[110] The Financial Post was particularly uneasy about the consequences of the massive pressure that had been exerted against the Carter Report and the resulting government concessions: "The result has been the dismemberment of a carefully balanced tax system without the creation of a viable alternative. This leaves the government supremely free to levy new taxes, raise old ones and, in general, put more patches on an already inequitable and discredited system."[111] Such concerns informed the discussion of capital gains taxation. Some form of implementation was widely expected, but it was speculated that the milder United States

tax would be adopted. In defending the Report, the former chairman Mr. Carter argued, however, that the Commission proposals were offset by other factors and that the result was a lower total tax on capital gains than would ensue under the U.S. system. The Financial Post strongly objected to the taxation of capital gains in a country in need of rapid economic development, but "if such a tax must be contemplated, the Carter approach is more equitable and less burdensome."[112]

Thus, it was increasingly recognized that such flat opposition as had been contained in the onslaught of corporate briefs attacking the Royal Commission could be counter-productive in influencing the reforms that would inevitably take place. An equally important factor in the moderation of business pressure was the simple fact that business had won a major policy concession. The most fundamental corporate objection had been to the overall rationale and framework of the Commission's reform schema. Corporate opposition at this level had been successful; the government had repudiated the Carter Report as a package, as the fundamental framework for tax reform. While business was to have mixed success with its demands on specific reform proposals, the most important issue at stake was the guiding philosophy and basic framework of closely interlinked core reforms put forth by the Royal Commission. With this victory, business could afford to adopt a more temperate stance while still attempting to share the direction of subsequent reforms.

The limits within which this moderation took place must also be stressed. The essence of corporate policy continued to be strong opposition to the central proposals of the Royal Commission and to any sig-

nificantly progressive reform. This was very clear, for example, at the November 1967 Canadian Tax Foundation conference on the Carter Report.[113] The great majority of participants rejected the Commission's balance of priorities, economic growth was regarded as the primary objective of the tax system, and remained highly critical of the central package of recommended changes. A Financial Post editorial summarized these deliberations: "Canada's extremely articulate lawyers, accountants and professional tax specialists, by and large, do not approve of the wholly new tax system proposed by the Carter Royal Commission on Taxation." While joining in the general view that the Commission must not serve as the basis of tax reform, the Post still saw the Report as having "immense value as a standard or model of what an equitable and concise tax system might be."[114] Although the tenor of business pressure had become more reasoned and less harsh, the substance of business demands remained substantially unaltered.

In addition, examples of the more strident corporate pressure continued. In a widely distributed December 1967 press statement, W. M. Anderson, president of the Canadian Chamber of Commerce, severely criticized the Report: "Because of its undesirable social implications, the report of the Carter Royal Commission on taxation is in many respects a definite threat to Canadians, to Canada and its future growth."[115] He argued that the Report ignored "the human foundations of both society and the economy" and represented "a purposeful extension of government intervention in our way of living." The recommendations would damage capital investment and "in its efforts to distribute income more equit-

ably, it pushes aside the privacy of property which always has been considered one of the qualities of Canadian society." The Chamber recognized the importance of fair taxation: "But it does not make sense to impose a rigid tax structure on a growing country like Canada in the name of social justice, especially if that structure will impede the attainment of necessary growth." Similar themes were echoed the following year by the new chairman of the Chamber's executive council. Lionel P. Kent also called for caution in implementation: "we strongly urge that there be no precipitant action by government on any proposed legislation before business in the country has had an opportunity to make its views known."[116]

Specific sectors of the corporate economy continued to oppose those recommendations that would adversely affect their immediate interests. The life insurance industry maintained its opposition to the Royal Commission proposals concerning its operations.[117] In February 1968, the president of the Mining Association of Canada met the Minister of Finance: "the Minister had indicated to the Association that 'we had made our point' on the Carter recommendations."[118] Nonetheless, the mining industry continued its pressure.[119] For example, Mr. J.H. Salter, western region vice-president of Cominco Ltd., in a speech to the Canadian Institute of Mining and Metallurgy noted that at least fifty new mines had been brought into production in the most recent three year period. Given this great economic contribution, he argued that the industry should be able to expect favourable government policy. On the contrary, mining faced the loss of its most important tax incentives:

"We find the mineral industry, more than any other resource industries, advocated as a source of additional public revenue."[120] Such changes would have severe consequences on production: "The prospect of short term realizations so completely obscuring public appreciation of long term benefits from Canada's immense mineral potential is disturbing to say the least."[121] Such conflicts were occuring not just at the federal level; the Mining Association of British Columbia had successfully opposed clauses in new provincial legislation that would have included the processing of minerals in mining taxation.[122]

The basis of this continuing corporate pressure at a specific and immediate level was recognized by defenders of the Royal Commission. In an address to the Tax Executives Institute, J. Harvey Perry reiterated the need to revamp a tax structure that had haphazardly evolved in an earlier period to modern social and economic conditions.[123] What was needed was taxation on the widest possible base with the lowest possible rates for all sectors. The fundamental obstacle to such a rational tax system was the interest of all groups to reduce their particular tax burden and the resulting constant pressure from the various groups for specific concessions. The contradiction was that "in the end, the result of all concessions is to shift the burden to other taxpayers, and since all taxpayers are basically in favour of special concessions the pressure is steady and powerful." A tax system shaped by such pressure is uncoordinated, inefficient and inequitable. Further difficulties facing tax reform arose "because most businessmen and others can think of an annoying feature of some specific tax which they would like to have

changed but are seldom faced with the challenge of revising the shape and size of a whole tax system." Business misgivings about tax reform were also based simply upon their being adjusted to the existing structure, whatever its faults. Finally, "The politician probably cherishes a fragmented bit-by-bit approach to taxation because it suits his basic need of producing a rabbit from the hat for everyone." Mr. Perry's arguments speak to a very important limitation on the overall rationalization of state policy. A central function of the state is to ensure favourable conditions for the long-term development of the economy as a whole and this is certainly in the interests of capital in general. This vital role, however, is constrained by the pressing competitive imperatives upon individual capitalists and elements of capital to pursue and protect their specific interests.

Majority corporate opinion lay between the extremes of relatively reformist, although much qualified, acceptance of the Carter Report and continuing unswervinghostility. Most business leaders had come to recognize the need for reform, but still rejected the basic principles and core proposals of the Royal Commission. It was generally expected that the major recommendations would be substantially weakened and only partially implemented.[124] Pressure to this end continued. For example, the key changes in the taxation of property income and wealth were still vigorously opposed. Although it was widely recognized that a capital gains tax was highly likely, business strongly argued that it must be milder than the form proposed by the Commission.[125] Writing in the Financial Post, W.A. Macdonald stressed the political factors that in-

creased this probability. Government reform plans must take account of the popular belief that it is unfair to exempt particular forms of economic gain from tax: "in the current climate of Canadian opinion it may be difficult to gain political acceptance of any tax system as fair without some taxation of capital gains."[126] In this way, the prevailing ideology of fair taxation would require some apparent movement towards taxation of gains derived from property ownership. Mr. Macdonald emphasized, however, that whatever form of capital gains taxation was adopted, it must not retard savings and investment. Similarly J. Kerr Gibson, a leading Toronto accountant, objected to the Commission's application of the principle of equity; he could not accept the "buck is a buck" philosophy and believed that the existing taxation of gifts and estates was a reasonable compromise.[127] More generally, hostility to the basic ides of a comprehensive tax base remained a central unifying theme within business.

IV. Third Retreat: The October 1968 Budget and the Rejection of the Comprehensive Tax Base

To briefly recapitulate: tax reform remained a contentious public issue in the fall of 1968. Although corporate pressure had been significantly mollified and business had largely accepted the inevitability of important reforms, there was still pervasive opposition to the core Carter Proposals. At the same time, the government was under increased countervailing pressure from the New Democratic Party, organized labour and other supports of the Royal Commission. This controversy ensured that the Report could not be ignored; that its findings and recommenda-

tions would be a factor of some importance in subsequent policy formation. In addition to these political pressures, the government was faced with an economy characterized by uneven growth, rising unemployment and inflation; rising state expenditure and strained revenue; and uneasy fiscal relations with the provinces. Within this unsettled atmosphere the government continued to work on its reform proposals. The state of its deliberations was summarized by the Minister of Finance.[128] Officials in the Department had reached certain conclusions from their detailed study of the existing laws, the Carter Report and the extensive input to the government. Decisions Mr. Benson had reached on the basis of this review were being formulated into draft legislation. This would be put before the cabinet for approval and alteration and then submitted to parliament in early 1969. In light of ensuing discussion, the bill would be revised into final form by the latter part of 1969.

Before these overall proposals were completed, a number of important tax changes were introduced in the federal budget presented by E.J. Benson on October 22, 1968. One of the major goals of this budget, as had been the case in the immediately preceding years, was the control of inflation.[129] In order for the government to limit its capital borrowing and contribute to price stability while at the same time provide necessary public investment, the budget must be balanced. To accomplish this, Mr. Benson emphasized "that we must raise substantially more revenues in order to bring the budget into balance in 1969-70."[130] A number of tax changes were contained in the budget to implement this policy. The first and most important set of changes had to do with gift

and estate taxation and the second concerned corporate taxation, especially of the major financial institutions. Mr. Benson later explained that the government had proceeded at that time because a clear case had been made for these reforms. No clear consensus had emerged in other areas and further consideration was necessary.[131] In presenting these changes to parliament, the Minister of Finance emphasized:

> The tax recommendations which I am making tonight are not an integral part of next year's reform package. By that I mean that they stand on their own and should be implemented, whether or not there is to be any further reform. They do not commit us to particular changes in other areas.[132]

Gift and Estate Taxation

The government had decided that receipts from gifts and bequests "should not, at least for the present, be included in income like other items that have normally been regarded as income of a recurring nature" and should continue to be taxed separately.[133] In reaching this conclusion, the government had clearly rejected the comprehensive tax base which lay at the heart of the Carter reform schema:

> While respecting the intellectual coherence and elegance of the case made by the Royal Commission on Taxation on this matter - crudely summed up in the phrase that 'a buck is a buck is a buck ' - and I believe that the overwhelming weight of Canadian opinion is against it now, and many Canadian practices and institutions would be seriously disrupted if we embraced this proposal.[134]

However, important changes in the existing structure of gift and estate taxation were proposed in the budget.[135] Bequests between spouses were to be totally exempt. The revenue loss from this exemption was to be recouped from a new and higher rate structure; with a basic exemption of $20,000 (as opposed to $50,000) and steeply progressive rates to

a maximum of 50%. A major loophole was closed by the integration of gift with estate taxation. Gifts would be treated as advance distributions of estates. Progressive and substantially higher rates would be applied on a cumulative basis. Gifts between spouses would be exempt and there would be wider definitions of non-taxable gifts.

By not including gifts and estates in the tax base for taxation at full personal rates, these proposals constituted a significant retreat from the Royal Commission. This represented a considerable tax saving for the wealthier strata of taxpayers. On the other hand, the higher rate structure and lower exemptions was more progressive than the existing system. Although the precise effect was difficult to determine, it was estimated that the overall level of gift and estate taxes would be higher under the new rates.[136] The exemption of gifts and bequests between spouses moved towards the Carter recommendations on the family as the basic unit of taxation.

Corporate Taxation

In the most important change in this area, life insurance companies would henceforth be taxed on generally the same basis as other corporations.[137] The government had not accepted the precise recommendations of the Royal Commission on life insurance, but neither had it been convinced by industry arguments for the retention of the prevailing situation, in which the companies had been virtually exempt from taxation.[138] The provisions contained in the budget were not as sweeping or complicated as the Commission proposals, but they did move in their direction and did entail heavier taxation of the industry. Taxa-

tion on the operations of life insurance companies would increase by $95 million annually.[139] This result must be seen as a significant setback for the extensive pressure that the industry had been exerting on the federal government. The taxation of banks and mortgage lending companies would increase by $45 million in the current fiscal year through restrictions on their tax-free transfers to reserves.[140] A technical change in corporate taxation was also included; the dates on which payment was due were moved forward.[141]

Conclusions

Just as the primary significance of Mitchell Sharp's November 30, 1967 budget lay in its rejection of the Royal Commission as the guiding or fundamental framework for the overall reform of the tax structure, so too the crucial importance of Mr. Benson's October 1968 budget was its rejection of the vital Carter concept of the comprehensive tax base. This principle constituted one of the most sweeping of the proposed changes and it underpinned other core recommendations. The wider tax base had been the focus of intense corporate opposition. Its heavier and more systematic taxation of income from property ownership and of accumulated wealth challenged the fundamental distributional principles of a capitalist economy. The wider tax base was the crucial prerequisite of the Commission's primary objective of developing a more equitable tax system. Its rejection was a major retreat from the principle of equity. The government's repudiation of the comprehensive tax base must be seen as a crucial concession to capital.[142]

This retreat from the comprehensive tax base was far more important than the specific changes in gift and estate and in corporate taxation. These budget provisions had rejected the sweeping nature of the Carter reforms, but had still adopted major elements of them in order to increase revenue. The new treatment of gifts and estates "when taken together tend to diminish opportunities for tax avoidance and to that extent would increase tax revenues."[143] Similarly, the expanded taxation of financial institutions' reserves and life insurance companies greatly increased revenue. The underlying rationale of these changes was identified by the Monetary Times: "The common theme in these selections from Carter was the increase in revenues to be derived from extending taxation into areas which hitherto had been totally exempted."[144] In the face of this government search for additional revenue, business pressure had had limited influence: the changes did run counter to prevailing corporate demands and in some sectors would entail significantly heavier tax burdens. Not surprisingly, it will be seen in the next chapter that the implementation of these changes was to be the focus of much dispute.

On the one hand then, the dropping of the comprehensive tax base was part of a consistent pattern of government retreat from the Royal Commission proposals under sustained corporate pressure. On the other hand, while the budget changes were a substantial moderation of the original Carter recommendations, they were still stronger than the existing system. This heralded the emergence of a new pattern in the conflict over tax reform.

Footnotes

1. As summarized by Douglas G. Hartle, The Six Studies of the Carter Report Prepared by the Institute of Policy Analysis for the Department of Finance. Remarks made to the Financial Markets Conference, School of Business, University of Toronto, February 29, 1968, Toronto, Institute for the Quantitative Analysis of Social and Economic Policy, University of Toronto, March 1968, p 6; see also Canadian Chartered Accountant, April 1968, p 279 and Canadian Tax Journal, January 1968, p 1. John Saywell, (ed), The Canadian Annual Review for 1967, Toronto, University of Toronto Press, 1968, p 316.
2. Cf. Financial Post editorial, December 2, 1967, p 1.
3. Business Quarterly, Winter 1967, p 77. The author of this regular column on taxation was chartered accountant K. W. Lemon and the article was entitled "An End to the Carter Proposals?"
4. Ibid., p 78.
5. C.T.F., November 1967 Conference, p 30.
6. Ibid., p 120.
7. Ibid., p 93; he referred specifically to a widely circulated example published in the Financial Post.
8. Ibid., pp 55-60. Such an opinion remained well outside the mainstream of business thinking. However, many could accept Timbrell's rationale of creating a more systematic tax structure that was better adapted to modern conditions. He qualified his advocacy of the wider base: "I do not suggest that we should start immediately with a completely new system - that would be too upsetting - but for the long haul, I am an optimist"; p 60.
9. Ibid., p 57.
10. Saywell, 1968, op.cit., p 315.
11. C.T.F., November 1967 Conference, pp 210 - 216. Bucovetsky was also the author of one of the Commission research studies that had attracted the most vehement corporate hostility.
12. Albert J. Robinson, The Concept of Equity in the Carter Report and James Cutt, Equity and Growth, published together as a booklet, Toronto, Faculty of Administrative Studies, York University, December 1967.
13. Cutt, Ibid., p 2.
14. C.T.F., November 1967 Conference, p 222.
15. Ibid., p 226.
16. Ibid., p 227.
17. December 2, 1967, p 1.
18. C.T.F., November 1967 Conference, p 10.
19. Perry then noted: "My own candid appraisal of it is that it calls for some obvious adjustments in elements of a tax structure already in existence.", Ibid., p 10.
20. Ibid., p 10. By contrast to businessmen: "In order of rank wage-earners and consumers are ahead of him in their tribute to the state, but they have been largely silent."
21. December 2, 1967, p 1.

22. C.T.F., November 1967 Conference, p 18.
23. December 2, 1967, pp 15-6.
24. Ibid., p 15.
25. Ibid., p 15.
26. C.T.F., November 1967 Conference, p 21.
27. Financial Post, December 2, 1967, p 16.
28. C.T.F., November 1967 Conference, p 21.
29. Financial Post, December 1967, p 17.
30. Star, (Toronto), March 19, 1968; the article referred to Mr. Carter as the "embattled chief author" of the Commission.
31. March 23, 1968, p1.
32. Star, (Toronto), March 19, 1968.
33. Hartle, op.cit., pp 1-4.
34. Ibid., p 4.
35. A.R. Dobell and T.A. Wilson, Overall Effects of the Proposed Tax Reforms: Savings, Investment and the Balance of Payments, Toronto, Institute for the Quantitative Analysis of Social and Economic Policy University of Toronto, Number 6806, February 1968, pp 86-7.
36. Ibid., p 87.
37. Ibid., p 86.
38. Hartle, op.cit.; see also the summary of the six studies by Wilson in the Financial Post, March 9. 1968, p 13. These conclusions were supported by a number of articles published in the Canadian Journal of Economics, February 1968.
39. G.D. Quirin, Economic Consequences on the Primary Mineral Industries of the Adoption of the Recommendations of the Royal Commission on Taxation, Toronto, Institute for the Quantitative Analysis of Social and Economic Policy, University of Toronto, Number 6804, February 1968.
40. Ibid., pp 5-8.
41. Ibid., pp 13-8.
42. Op.cit., p 7.
43. Ibid., p 7.
44. Ibid., p 8.
45. Ibid., p 7.
46. Ibid., p 3.
47. Canadian Tax Journal, January-February 1968, p 1.
48. Ibid., p 2; quoting Mr. Sharp.
49. Ibid., p 2; quoting Mr. Sharp.
50. House of Commons, Debates, December 14, 1967, p 5450.
51. Ibid., December 14, 1967, p 5423.
52. Ibid., December 14, 1967, p 5428.
53. Peter Newman, The Distemper of Our Times, Winnipeg, Greywood Publishing, 1968, pp 408-10.
54. For example, the full 5% surtax on incomes of $20,000 and $50,000 would be $1000 and $2500 respectively. The ceiling limit of $600 represented a considerable saving for such high income earners.
55. House of Commons, Debates, December 6, 1967, p 5124.
56. Ibid., December 6, 1967, p 5124.
57. Ibid., December 6, 1967, p 5124.

58. Ibid., December 6, 1967, p 5125.
59. Ibid., February 15, 1968, p 6790.
60. Ibid., February 15, 1968, p 6764.
61. Ibid., February 15, 1968, p 6765.
62. Ibid., February 15, 1968, p 6765.
63. Ibid., February 15, 1968, p 6772.
64. Ibid., February 15, 1968, p 6790.
65. Ibid., February 15, 1968, p 6772.
66. Ibid., March 22, 1968, p 7971.
67. Ibid., March 14, 1968, p 7643.
68. Canadian Labour, April 1968, p 57.
69. House of Commons, Debates, March 14, 1968, p 7643.
70. Canadian Labour, December 1967, p 24.
71. Ibid., April 1968, p 61.
72. House of Commons, Debates, March 14, 1968, p 7645.
73. Ibid., March 14, 1968, p 7645.
74. Newman, op.cit., pp 408 - 10.
75. House of Commons, Debates, March 7, 1968, p 7367.
76. Ibid., March 7, 1968, p 7367.
77. Financial Post, January 13, 1968, p 8.
78. Canadian Tax Journal, January-February 1968, p 1.
79. House of Commons, Debates, February 23, 1968, pp 6936-7.
80. See Newman, op.cit., Ch 30 on the dynamics of this development.
81. Financial Post, April 13, 1968, p 5.
82. Cf. Canadian Tax Journal, May-June 1968, p 22ff.
83. Gazette, (Montreal), April 24, 1968 published an extensive interview with the new Minister.
84. Ibid.; Globe and Mail, (Toronto), April 26, 1968.
85. Ibid.; Gazette, (Montreal), April 24, 1968. A later interpretation also stressed this point: "there are signs that Finance Minister Benson is bolder and more radical in his thinking about tax reform than Mr. Sharp would have been"; Financial Times, September 8, 1969.
86. (Toronto), April 26, 1968.
87. Gazette, (Montreal), April 24, 1968. Before deciding to remain in the government, Mr. Benson had recently been offered a "top corporate job in private industry." This indicates that some members of the business community at least were not worried about his "left-wing" policy orientation.
88. Ibid. This can be seen as part of a key developing trend in the process of state policy formation discussed at the November 1967 C.T.F. conference: "I refer to the climate which is at present impelling our government leaders to seek, directly or indirectly, the counsel of knowledgeable individuals and groups from outside the confines of Parliament Hill. The Commission itself, of course, expressed a wish for more participation by taxpayers and their advisers in formulation of tax policies." The large number of briefs to the Commission and the even larger number of submissions to the Minister of Finance on the Carter recommendations reflected this trend. This development was not confined solely to taxation; John Turner, Registrar General "not only appointed an outside task force

of legal and academic experts to make some far-reaching recommendations for amendments to the Canada Corporations Act, but...he is going to have the proposals eventually reviewed by groups of chartered accountants, practising lawyers and business executives"; p 5. The key point here is that the close integration of business and the state in the process of policy formulation was a clear and recognized development.

89. Star, (Montreal), June 10, 1968.
90. Ibid.
91. Globe and Mail, (Toronto), June 10, 1968.
92. Star, (Montreal), June 10, 1968.
93. Quoted in Ibid.
94. Quoted in Walter Stewart, Shrug: Trudeau in Power, Toronto, New Press, 1971. p 97.
95. "Your Business", the syndicated column of John Meyer, Gazette, (Montreal), November 14, 1968, p 34. Mr. Meyer's work also regularly appeared in leading business journals such as the Financial Times and Canadian Business.
96. Richard W. Phidd and Bruce Doern, The Politics and Management of Canadian Economic Policy, Toronto, Macmillan, 1978, p 54.
97. Financial Times, September 16, 1968.
98. Canadian Labour, April 1968, p 61.
99. Industrial Canada, July 1968.
100. August 1968, pp 72-76.
101. John Saywell (ed), The Canadian Annual Review for 1968, Toronto, University of Toronto Press, 1969, p 326.
102. Business Quarterly, Autumn 1967, p 79.
103. Western Producer, (Saskatoon), August 8, 1968; Gazette, (Montreal) August 7, 1968.
104. Ibid.
105. Cf. John Bossons, "The Objectives of Taxation and the Carter Commission Proposals", Canadian Public Administration, Summer, 1969, p 163.
106. Ibid., p 164; see also Hartle, op.cit., p 7.
107. Ibid., p 7.
108. Bossons, op.cit., p 163.
109. December 2, 1967, p 1.
110. Cf. Business Quarterly, Winter 1967, pp 77-8; Globe and Mail, (Toronto), March 29, 1968, p B2.
111. March 23, 1968, p 1.
112. Ibid.
113. C.T.F., November 1967 Conference.
114. December 2, 1967, p 1.
115. As published in Western Business and Industry, December 1967, p 12; all quoted material in this paragraph is from this source.
116. Canadian Business, October 1968, p 53. One would think that business views had become fairly well known at this point.
117. Financial Post, April 6, 1968, p L8.

118. M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate." in A. Paul Pross, (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975, p 96; citing Globe and Mail, (Toronto), February 22, 1968.
119. For continuing themes in this pressure see Canadian Chartered Accountant, January 1968, pp 68, 71.
120. Financial Post, August 10, 1968, p 6.
121. Ibid.
122. Financial Post, March 23, 1968, p 22. In a later speech to the B.C. Institute of Chartered Accountants, K.E. Steves, secretary of the Bethlehem Copper Corporation, objected to the higher taxes that would still result from the new law. He saw this as a complete reversal of the B.C. government's earlier position, which had supported the industry in opposing the Carter recommendations; Financial Post, June 29, 1968, p 17.
123. Financial Post, June 15, 1968; source of all following quotations.
124. Cf. Financial Post, March 30, 1968, p 19; Canadian Chartered Accountant, April 1968, p 279; and an address by Toronto lawyer W.A. Macdonald; Globe and Mail, (Toronto), March 26, 1968. Macdonald's speech was interpreted elsewhere as follows: "It was significant that a major address to the American Management Association meetings in Montreal this week was devoted to trying to keep the Carter report buried as much as it was to its advertised theme of tax reform in Canada"; Globe and Mail, (Toronto), March 29, 1968, p B2.
125. Cf. Saywell, 1968, op.cit., p 317.
126. December 16, 1967, p 35.
127. C.T.F., November 1967 Conference, pp 21-30.
128. House of Commons, Debates, October 22, 1968, pp 1684-5.
129. This goal met with widespread approval within the business community; see Saywell, 1969, op.cit., p 326.
130. House of Commons, Debates, October 22, 1968, p 1684.
131. In a speech to the Canadian Tax Foundation 1970 Conference, p 256.
132. House of Commons, Debates, October 22, 1968, p 1685.
133. Ibid., October 22, 1968, p 1685.
134. Ibid., October 22, 1968, p 1685.
135. Ibid., October 22, 1968, pp 1685ff; the Tax Review column of the Canadian Chartered Accountant in the January, February and March 1969 issues provides a concise summary of these changes and their implications.
136. Canadian Chartered Accountant, February 1969, Table II and III; March 1969, Table II.
137. House of Commons, Debates, October 22, 1968, p 1686.
138. "Financial Times News Service", in Gazette, (Montreal), November 5, 1969.
139. Monetary Times, September 1969, p 25.
140. Ibid.
141. House of Commons, Debates, October 22, 1968, p 1691.

142. It must also be remembered that organized labour, echoed by the N.D.P., had not totally endorsed the comprehensive tax base. This policy was very short-sighted; the wider base would have included previously untaxed employee benefits. Had labour fully supported this crucial principle, it would have been that much more difficult for the government to abandon it.
143. Monetary Times, September 1969, p 25.
144. Ibid., p 25.

Chapter 11 Fourth Retreat: The White Paper

The first response of business to the October 1968 budget was one of apprehension: "the indication that the Report of the Royal Commission on Taxation is not nearly as dead as some had hoped. It is now evident that the Report has been seriously studied by the Government and that reform is on its way."[1] The budget proposals were seen to have a "strong Carter flavour and can be regarded as modified versions of more radical recommendations made by the Royal Commission."[2] Most ominously, the budget was perceived by business as an indication of the direction of government thinking for its comprehensive reform of the tax system. It was feared that these reforms would be influenced by the Carter Commission to a greater degree than business had hoped for. Moreover, divergence from the Report would have to be more strongly justified: "It can also be said with certainty that deviations from the Carter design will require considerably more thought and justification than appears to have been expended to date."[3] Thus, business warily regarded the budget changes as portents of what was to come in tax reform; these provisions were all seen as leaning towards the Royal Commission approach.[4] There was even some uneasiness about the most important aspect of the budget for business - the Minister of Finance's rejection of the comprehensive tax base. Mr. Benson's statement that transfers of property in estates and gifts should not be included in the tax base added the qualification "at least for the present."[5]

I. Conflict over the Budget Tax Changes

The Controversy over Estate Taxation

While the implications that the overall direction of the budget appeared to hold for tax reform evinced considerable foreboding, the actual immediate tax changes themselves unleashed a storm of protest. The business community was strongly opposed to the changes in estate taxation. A common view agreed that the mildness of these recommendations in relation to those of the Royal Commission was welcome, but criticized the Minister for not addressing the issue of whether or not there should be estate taxation at all.[6] Large numbers of business speeches and statements from corporate associations argued that the higher rates of estate taxes were severe threats to the survival of small family businesses and the availability of capital necessary for economic development.[7]

A great deal of the opposition to the changes in inheritance taxes came from small businesses and farmers.[8] A major theme of this criticism was the widespread fear that onerous estate taxation forced the sale of family-owned businesses, especially to foreign interests. This issue was taken up by I.H. Asper, a Winnipeg lawyer, prominent figure in the Manitoba Liberal Party and widely published columnist on taxation. He disputed the contention of the Department of Finance that these taxes were not a significant factor in such sales; citing the conclusions of the study by Grant Glassco for the 1956 Royal Commission on Canada's Economic Prospects and a 1968 study for the Ontario Economic Council.[9] Not being as well organized as major corporate interests, with their routine contact with the highest cabinet and bureaucratic officials, small business brought pressure to bear on individual Members of Parliament. Reflecting

this, M.P.'s had received a larger volume of mail attacking the estate tax changes than on any other current issue.[10] The proposed changes in estate taxation had mobilized a new force on the complex politics of tax reform. The traditional independent middle classes of small business and farmers had for the first time to any significant degree been galvanized into participation in the debates on tax reform. This was in fact the beginning of a critical trend; small business was to play a major role in the pressure against the overall reform plans of the government in the next few years.

The pressure against the proposed tax changes was especially strong in Western Canada. An advertising campaign in prairie weekly papers had been predicting the demise of the family farm as a result of the changes[11] and radio commercials in the West had also denounced the recommendations and urged listeners to write to their M.P.'s.[12] The heightened opposition in the West resulted largely from the specific features of the regional class structure; its much higher proportion of the population in the traditional independent middle calsses, especially farmers. This must also be seen in the context of the persistent opposition of the Western provincial governments to those changes in the taxation of wealth and resource production which were seen to have adverse consequences for regional economic development, In addition, Alberta's elimination of succession duties in 1967 had successfully attracted new wealth to the province and the favourable effect of these rebates would be reduced by the federal proposals.[13]

Because much of this hostility had been focused on individual M. P.'s, pressure began to mount on the government for changes in the proposals from back benchers within the Liberal Party caucus itself.[14] Liberal M.P. John Roberts, for example, declared that he would not support the government recommendations unless they were altered to ease the burden on those who inherit small businesses and farms. He referred to the "flood of mail" he and other members had been receiving daily against the proposals.[15] In addition, the government faced partisan attacks from competing political parties who sought to attach themselves to the groundswell of opposition to the budget proposals; Conservative leader Robert Stanfield had charged that farms and small businesses would have to be sold to pay inheritance tax.[16]

The government's initial response to this criticism was to attempt to justify the estate tax provisions. In a major speech in London in mid-January 1968, the Minister of Finance argued that they did not limit the transfer of family farms or businesses, worked towards the redistribution of inherited wealth and provided essential government revenue which otherwise would have to come from higher income taxes.[17] However, in late January, Mr. Benson announced that the estate tax recommendations would be altered and noted that the new provisions "reflect the Government's response to representations made by Canadians to the minister, both directly and through their members of Parliament."[18] In the most important change, the basic exemption was raised to $50,000 from the $20,000 proposed in the budget. This would certainly benefit the smaller business strata who had been the most vociferous critics of the initial recommendations. In addi-

tion, a number of further specific changes, such as allowing easier payment by installments and extending the gift tax exemption to trusts, were put forth.[19]

In subsequent parliamentary debates Mr. Benson strongly defended the necessity of estate taxation and the revised government proposals. He condemned the more flamboyant criticism as being "far out of proportion to the impact of estate taxes...Some of the argument has been misleading and destructive, such as the expensive advertising claiming that the legislation means the end of family farms and small businesses, or that the whole thing is a communist conspiracy."[20] The Minister also emphasized the revenue needs of the state; those who demanded the abolition of estate taxes "do not have to raise the funds to pay for the expenses of the state in creating an economic climate in which business can survive."[21] Mr. Benson outlined the constraints imposed by these fiscal requirements: "The rising demand for services from all levels of government makes it unlikely that the total revenues of government can be reduced."[22] Given this, the loss of revenue that would be caused by the abolition of estate taxes would need to be made up in other areas.[23] Mr. Benson also supported estate taxation on grounds of fairness and equity; with income taxes, it was one of only two forms of progressive taxation available to the government.

The Budget Changes in Corporate Taxation

The conflict around the provisions for insurance and other financial institutions was not as dramatic. Nonetheless, the life insurance industry strongly objected to the higher taxes they would face. Representati-

ves of the industry appeared before the Senate banking committee to defend the specific nature of their operations and the need for special tax treatment. K.R. MacGregor, president of Mutual Life and former government superintendent of insurance, argued that the changes would have a major "weakening effect on insurance companies."[24] Because of the tax changes, the insurance companies had withdrawn from the long-term bond markets.[25] In spite of this industry pressure, the Minister of Finance intended to implement the proposed measures to tax the reserves held by insurance companies to meet unexpected emergencies. The underlying rationale of government action here was clarified by the Minister when he appeared before the Senate committee. Mr. Benson argued that if special concessions were given to the insurance companies, then there would be pressure from other sectors for similar concessions.[26] Again, fiscal considerations were also important; the concessions enjoyed by the life insurance companies constituted a major additional source of tax revenue that could be tapped. Regardless of industry protests, this could easily be justified in the name of neutrality and fairness.

Notwithstanding these policy differences, there was extensive contact between the Minister and industry representatives on the detailed legislation that would put the proposed changes into force. Referring to a mid-November occasion: "Mr. Benson said it was one of a number of meetings he is having with the life insurance industry to work out the way in which taxation changes would be implemented. The consultations will help determine the nature and working of the tax regulations."[27] The Minister later stressed the importance of this consultation: "Despite the views

of the life insurance industry as to the weight of the tax it should bear, it worked with government officials for more than six months to develop the detailed legislation necessary to make this tax a fair one, and one which would fit the special circumstances of the industry. I would like to express my appreciation to them for their constructive co-operation."[28] It was later argued by Mr. David Lewis of the N.D.P. that this consultation had resulted in the weakening of the revised provisions by the government.[29]

The manner in which tax policy had been presented and formulated by means of the October 1968 budget was also much discussed. Addressing the 1970 conference of the Canadian Tax Foundation, a leading Toronto lawyer supported the procedure whereby the general proposals for amending estate taxation were intended to be open for subsequent revision: "It contained broad changes in policy and public discussion was invited. The response generated quite a bit of heat and there were a number of changes that were quite definitely improvements before the Bill became law months later."[30] Business was much more uneasy about the uncertainty this method of policy formation created. The October budget informed life insurance companies that they would be taxed more heavily, but the precise burden and exact details were only worked out much later.[31] Less important than the mechanism of policy formation here was the actual result. The changes in estate taxation during this period must be seen as a further instance of the pattern of concession and retreat in the face of concerted corporate pressure and in this case, of the mobilization of the smaller property-owning strata as well. This is not to say that the business community was

pleased with the outcome; it was still believed that the higher rates would have harmful effects.[32] For the reasons outlined, government concessions to the objection of the insurance industry were more limited.

II. Awaiting the White Paper

Developments Within the State

Beyond the specific conflict over these immediate tax changes, heated debate over the general range and objectives of the overall reform of the tax system continued unabated until the release of the government proposals in November 1969. The federal government had been steadily proceeding with the formulation of its reform programme. The task of directly drafting these proposals into detailed workable legislation had proved extremely difficult. While the Minister of Finance had stressed his willingness to alter the bill in response to public reaction, "it is clearly not the government's intention to have to make wholesale changes because of careless initial drafting...This would be a setback to its image of modern efficiency, which the Trudeau government obviously would not want."[33] As delays in the formulation of the reform legislation continued to mount, the government decided in February 1969 to return to its original plan of first issuing a White Paper outlining its general proposals.[34] Even more important than technical difficulties in this decision was the opposition facing the government on advancing directly to a draft bill. The business community worried that there would not be sufficient opportunity and time for the discussion of the proposed legislation.[35] Similar concerns had been pressed on the government in parliament; Conservative leader Robert Stanfield favoured a White Paper because the government would be too committed to legislation, even if only in draft form.[36]

Fiscal pressures and constraints remained central to state deliberations on fiscal policy during 1969; whatever tax reforms were eventually developed, the new system must yield sufficient revenue. The Minister of Finance's goal of balancing the federal budget as soon as possible made this provision of adequate levels of revenue all the more important.[37] To this end the government had severely restricted expenditure and had postponed important social reforms, such as the guaranteed annual income, unless new or diverted sources of revenue could be found to pay for them. It was in this context that the anticipated tax reform was viewed by a leading business columnist: "the White Paper will be rather more an exercise in increasing revenues without increasing tax rates than reform in the Carter sense."[38] The June 1969 federal budget was also much discussed. W.A. Macdonald argued in the Financial Post that the budget's highly moderate and selective anti-inflation measures implied a recognition of the limited success of conventional across-the-board stabilization techniques and anti-inflation policies and illustrated the great difficulties of the type of sweeping tax changes recommended in the Carter Report. The Commission had argued that relatively minor fiscal and monetary adjustments could solve any unwanted effects of its proposals, but such an easy adjustment could not be assumed. In addition, in its initial efforts at tax reform the government had failed to demonstrate the practical advantages and efficiency of its estate and insurance tax changes.[39] Elements of the budget were also geared to regional differences within the Canadian economy. This led Mr. Macdonald to wonder whether such differences would also be a consideration in the overall tax reform proposals;

this could influence the government to retain the resource incentives whose basic impact was in the less developed regions of the country.[40]

Similarly, conflict between the federal and provincial governments over fiscal relations and the implementation of tax reform continued. Provincial demands for greater shares of total tax revenue were urgently pressed at the March federal-provincial constitutional conference. The Ontario government indicated that it had lost hope in any overall agreement and would proceed to develop its own separate tax policy.[41] The federal government's offer of allowing the provinces into the field of indirect taxation made at the June meeting of the Prime Minister and the provincial Premiers would yield only very limited additional tax room.[42] In the meantime, Ontario had released its own White Paper on tax changes. Included was a capital gains tax modeled on the United States system rather than the Carter Commission. Even more importantly, the Ontario proposal made it virtually certain that such a tax would be included in the federal government's tax reform policy: "What the Ontario government has done essentially is to pre-empt the federal government's decision on whether there will be a tax."[43] Combined with the provinces's apparent support for a guaranteed annual income, these Ontario reforms would increase the progressiveness of the tax structure. Other proposed changes rejected the Carter recommendations to widen the base of sales taxation and, while increasing mining taxation somewhat, did not adopt "the potentially crippling taxes recommended by the Smith Report."[44] The Ontario White Paper must be seen as part of the continuing conflict over the division of tax revenue. Unable to secure federal cooperation, the Ontario government

had seized the initiative. As the leading province others would follow Ontario's example and the federal government would not be able to ignore this direct warning of unilateral provincial action.[45] There was some interpretation that the Ontario proposals were a bargaining play to extract the best fiscal agreement from the federal government. Premier Robarts stressed that the provincial plan did not represent fixed or final positions and there would be consultation with the federal government when its policy was released.[46]

In the spring of 1969, there was great uncertainty within the business community over the government's plans for tax reform. There was, for example, significant concern about the timing and implementation of the widely expected capital gains tax. Mr. Benson reassured business that any such change would not be retroactive and there were indications that the government would enact transitional measures to soften its impact.[47] On this and other issues, "Benson and his officials are still consulting various groups on the whole taxation policy question." Final decisions were expected soon.[48] In a major speech to the conference of the Tax Executives Institute in Washington the Minister of Finance outlined the key considerations in the government's mind as it formulated the tax reform package.[49] Mr. Benson first of all noted that "the size of the total tax bill makes it imperative that the burden be distributed fairly." While an arbitrary and inequitable tax structure is less important when taxes are low, high levels create problems of voluntary compliance, can distort economic decisions and place an unfair burden on the 90% of taxpayers who are unable to take advantage of gaps in the existing system.

However, he emphasized that "to say that the tax laws must be fair is not to say that they should not be used to provide incentives." Considerable use of incentives had been made in Canada and while there had been a shift of incentives from taxation to the expenditure side of state finances, this would not be rigidly applied. Mr. Benson stressed that the government would not be doctrinaire or uncompromising in its objectives of equity and neutrality. There would be no retroactive legislation and the government sought to develop a stable tax system, which, while not unchangeable, would facilitate long-term planning. The contemplated tax changes would take into account the central role of foreign capital in Canadian development: "Canada has a vested interest in pressuring its present image as a safe and rewarding place in which to invest." In essence, the Minister was defending the government's objectives of equity and fairness while at the same time reassuring business that the reforms would not restrict incentives or investment. The government had also, of course, been extremely sensitive to uncertainty in the mining industry over its future tax treatment. In early 1969, acting minister Otto Lang sought to placate the 1700 delegates to the prospecters and developers conference. He hinted that the government would not impose restrictive taxes on mining when its new policy was unveiled later in the year; departing from his prepared speech he noted that it was "not in the government's interest to propose any new tax situation that would not consider the high risks of the mining business."[50]

Reformist Pressures

The business community certainly remained the predominant voice in the ongoing debates on tax reform. But at the same time, the government

continued to be confronted with countervailing pressures from a number of directions in favour of progressive reforms and in support of the basic framework recommended by the Carter Commission. John Fryer, research director of the Canadian Labour Congress, reiterated organized labour's support for the Royal Commission's progressive emphasis and for fundamental recommendations such as the comprehensive tax base.[51] The C.L.C.'s endorsement of capital gains taxation was posed quite clearly in terms of workers' interests: "As far as the Canadian Labour Congress is concerned unless capital gains are taxed in Canada the working people of this country will continue to bear a disproportionately large share of the nation's tax burden as they have in the past. Such a state of affairs is both intolerable and unjust."[52] Mr. Fryer was highly critical of corporate pressure against the Report: "One of the most disquieting developments since the publication of the report has been the concerted effort by special interest groups in this country to bury the report, its contents and its recommendations. If I may be permitted to paraphrase Winston Churchill: Never before in the history of Royal Commission Reports has so much been done to protect the selfish interests of so few at the expense of the legitimate welfare of so many."[53] Similarly, the May 1967 government concessions to the mining industry were condemned: "This accession on the part of the government to the pleas of a pressure group is, we feel, both premature and unjust. We have consequently urged the government not to grant similar concessions to other special interest gropus."[54] The implications of adopting the Carter recommendations were clearly seen in terms of their effect on the interests of specific social groups. On the

one hand, the affluent would pay their "fair share of the tax burden"; this group would include corporations, especially from the resource and insurance industries with their major concessions, and "people who make a living from capital gains and stock manipulation, shareholders, especially foreigners."[55] On the other hand, "the ordinary wage and salary earner, together with the small farmer, would be better off which surely is reason enough for our endorsing it."[56] Finally, fair taxation was related to the wider political rhetoric of the governing Liberal Party: "Personally, I find it hard not to remind Prime Minister Trudeau that surely it will be difficult to build in Canada a truly just society without first devising a just system of taxation - a just system for distributing the wealth of our society."[57]

Local labour centres were also active in the support of the Royal Commission. The Hamilton and District Labour Council forwarded a submission to the Minister of Finance outlining the widespread dissatisfaction of its members at the inequitable structure of taxation.[58] The Council also described its efforts on behalf of the Carter reform proposals: "Our labour Council took part in the Canadian Labour Congress Citizenship Month campaign to publicize our support for the principle of fair and equitable taxation and general support for the recommendations for reform contained in the Carter Report. The response that this campaign met with is certainly indicative of the widespread public support for such reforms."[59] In this campaign the public were asked to sign cards indicating their support for the Carter proposals; hundreds of these cards were received by politicians and thousands by the Council itself. The Council noted how

well organized and highly publicized had been the opposition of corporate interests: "They present their case well and constantly, and it is a case for the 'status quo' or, at best, as little change as necessary - and only when necessary."[60] By contrast, the case for significant reform could only rely upon the efforts of individuals and concerned unions. For this reason the Hamilton Council called on the Minister of Finance, in view of the widespread public support and his responsibility as a public representative, to quickly initiate major tax reforms: "This makes it imperative, if people are to continue to have faith in people as politicians, that you, as a minister of the people, put their interests firmly ahead of the vested interests of the few."[61]

The analysis put forth by organized labour clearly recognized the connection between the distribution of the tax burden and the concrete interests of the various class groupings. Progressive reforms along the lines suggested by the Royal Commission would be in the economic interests of the majority of the population; and specifically of the workers represented by unions. On the other hand, such reforms would entail heavier taxation on affluent taxpayers. Because of this threat to their concrete interests, the corporate sector had organized pervasive pressure against the Carter reform proposals. Labour was highly critical of the narrow basis of this opposition and of the government for granting important concessions to it. This labour pressure was posed squarely within the conventional ideology of liberal democracy; if the government was the representative of the population as a whole then it must safeguard the interests of the majority by enacting progressive reforms. This overall inter-

pretation of the politics of tax reform was seconded by the New Democratic Party in debates in the political sphere.[62]

An important change in the political milieux for reform occurred when the Liberals were returned with a majority in the June 1968 election. The government was no longer dependent on the N.D.P. for parliamentary support. Despite this marked reduction in their influence, the N.D.P. continued to press its demands in parliament. Their predominant theme was harsh criticism of the government's failure to enact the progressive recommendations of the Carter Commission and thereby contribute to improving the unequal distribution of income.[63] The N.D.P. was firmly opposed to the various budgetary tax increases introduced since 1968 and to the further 2% social development tax on personal income proposed in June 1969. It was argued that these surtaxes were regressive and that they imposed additional increases for low and middle income earners on top of an already highly unequal tax structure.[64] N.D.P. members argued that the government must not attempt to solve its fiscal difficulties by means of such inequitable surtaxes or arbitrary cutting of necessary social expenditure. If additional tax revenue was required then key Royal Commission recommendations, such as those calling for the elimination of resource concessions, should be implemented.

The N.D.P. also opposed the recent changes in estate taxation: the Liberal reforms were far too limited and the basic structure remained unfair.[65] Mr. Max Saltsman contrasted the fate of the original estate tax proposals, in which "there were some complaints that this legislation was hurting people with large estates. The minister responded to the democra-

cy of his backbenchers and changed that legislation"; to the 2% social development tax, which was widely criticized but which the government still intended to adopt.[66] Mr. Brewin had earlier condemned the government for bowing to the pressure of the rich in its rejection of the Commission recommendations on estates taxes and the comprehensive tax base at the expense of higher taxes for the majority of taxpayers. He stressed the meaning of this juncture as "a measure containing such a glaring and explicit message, that the government rejects a fairer and more just taxation system."[67]

In more general public commentary, the Liberal government was being pressed to act on its campaign slogan of building a "just society." A Toronto Star editorial argued that the content of the White Paper would be a good test of the government's view of economic justice. The Minister of Finance had already indicated that the Carter framework would not be fully adopted: "But the white paper should reveal whether the Trudeau government stands for genuine reform or only superficial tinkering in this field."[68] In a speech to the Canadian Chamber of Commerce, Ruben Baetz, director of the Canadian Welfare Council, agreed that much needed tax reforms could be very expensive. Nonetheless, he maintained that such a cost was justified when compared to the cost of a breakdown of law and order that could result from pronounced social inequality.[69] Prominent tax experts such as J.H. Perry, former member of the Royal Commission and then director of the Canadian Bankers' Association, continued to stress the necessity of a major restructuring of the tax system along the lines recommended by the Report. He argued that while there had been some par-

tial implementation of the Carter proposals, the haphazard and inequitable structure remained intact and fundamental issues were still to be resolved.[70]

These reformist currents were also felt by the Progressive Conservative Party. The party's policy conference in October 1969 was warned by a leading economist, Dr. David Slater of Queen's University, of a potential "taxpayers' revolt". Most significantly, the conference reversed the party's "long-held view that a capital gains tax would have adverse effects on the Canadian economy."[71] This policy was confirmed in a speech by Conservative leader Robert Stanfield to the Empire Club in Toronto in which he declared that his party could support capital gains on the grounds of equity. In addition, he called for a new approach to welfare, with higher exemptions for the low income.[72] This placed the Conservatives in the unusual position of agreeing with the N.D.P. on a major element of tax reform. This policy was certainly shaped by electoral considerations: with tax reform such a visible public issue the Conservatives could not appear to be against greater equity in taxation. In that a capital gains tax was widely recognized as inevitable anyway, this was hardly a radical step. It was seen, however, as having the effect, in the context of earlier Ontario movesin this direction, of virtually guaranteeing some form of capital gains tax.[73]

Business Uncertainty

The support of labour, the N.D.P. and others for tax reform was highly significant in keeping this controversial issue before the public eye. Nonetheless, the much stronger pressure from business against any

major reforms based on the Royal Commission framework remained pervasive. The mood within the business community as they awaited the government's White Paper proposals was one of trepidation and uncertainty. In a speech to the Chartered Institute of Secretaries, for example, I.H. Asper, the influential Winnipeg lawyer, tax consultant and columnist, had noted that "a sense of fear and gloom over Canadian fiscal policies has pervaded the country's business community over the past year."[74] Industrial Canada stressed business and public dismay with the lack of progress of tax reform, conflict between the levels of government and the high levels of taxation.[75] These problems, plus the shortened payment period for corporate taxes and the prospects of a capital gains tax all had created "a wintry climate for investment." The Canadian Manufacturers' Association president stated: "There are other places in the world which are hungry for capital and we should not delude ourselves that we will always have enough of it regardless of what policies are followed here in Canada."[76] Overall, the C.M.A. was harshly critical of government fiscal policy: "What it all adds up to is that no reasonable man will deny the necessity of reasonable taxation, but for unreasonable and short-sighted taxation policies there is not place within the framework of an industrial economy."[77]

Business was apprehensive that while the Commission package may have been rejected, its spirit was still likely to be of influence in the government proposals.[78] The Financial Times, for example, had concluded that "the climate for substantial changes is more favourable than two years ago."[79] For one thing, it was widely believed that Minister of Finance Edgar Benson had a bolder and more radical attitude towards the pos-

sibilities of tax reform than had his predecessor Mr. Sharp. One commentator concluded on the basis of the October 1968 budget that Mr. Benson "appears to be more in sympathy, than his predecessor, with the spirit of the Carter proposals, if not with all their detail."[80] More specifically, Canadian Business emphasized the strong personal commitment of Edgar Benson to tax reform: "his main desire is to go down in history as the man who brought about the first fundamental reform of the Canadian tax system in decades."[81] In addition, the Trudeau government was more favourable to the goal of a fairer tax system.[82] On one much discussed possibility, for example, a decided shift had occurred: "Just last year Prime Minister Trudeau was still questioning whether a capital gains tax was worth having in Canada because of its effect on incentives and investment. Now the arguments for equity have prevailed and a fairly tough gains tax seems assured."[83]

There also continued to be a great deal of conjecture on the content of the White Paper proposals. It was recognized that a crucial consideration in the formation of tax policy was the pressing need for higher, and increasing, levels of revenue. The Royal Commission schema had been based upon maintaining existing revenue levels, but the government now had to find larger sources of revenue to pay for steadily expanding state expenditure. The political impossibility of raising tax rates much beyond their existing levels constituted a crucial constraint on the government's ability to increase its tax yield. The Monetary Times speculated on a solution the Minister of Finance might adopt to this dilemma: "What is better than reducing or wiping out altogether the wide variety of

tax exemptions built into the present system? That is the direction he has already taken with his initial changes in the tax structure and it seems unreasonable to expect him to stop there when the still untapped potential is so promising."[84] Among the possibilities discussed were capital cost allowances and depreciation schemes, and especially, the reduction of miningand oil concessions.[85] While the more sophisticated business commentary could accept the logic of these possibilities, there was still considerable concern over their impact on production and investment levels.

In light of such speculation, business opposition to any such major reforms was mobilized and ready. On the eve of the release of the White Paper the situation was described by the Financial Times: "The Government risks a head-on clash with business this week in two of the toughest political areas of tax reform - oil and mining taxation, and the dual rate of corporate income tax."[86] These concessions, extremely expensive as calculated by the Royal Commission for 1964, had become even more so by 1969. There was strong reasons for eliminating such special incentives and taxing corporations on a neutral basis, but this would arouse intense opposition from those sectors affected. In anticipation of the White Paper then, "thousands of businessmen are poised on the other side, ready to attack the government's tax reform plans if their tax privileges are reduced" and more specifically "resource firms have dug in their heels against any change in their tax privileges and have lined up support from the Alberta, Saskatchewan and Ontario governments."[87] The resource sector had remained at the centre of corporate pressure.[88] For

example J. Kerr Gibson, F.C.A., a partner in a major Toronto accountancy firm who had acted as a consultant for the Mining Association of Canada in the preparation of its brief on the Carter Report, he emphasized the adverse effect of the proposals on mining investment, exploration and development, and the overall growth of the industry.[89] He criticized in detail the Commission studies and the research study by G.D. Quirin, of the University of Toronto, commission by the Department of Finance,[90] for underestimating the consequences of removing the tax incentives. The president of the Mining Association of Canada stated that any major change in existing concessions would lead to a shift in capital investment out of Canada and would have drastic consequences throughout the economy. In a speech to the Canadian Club in Toronto John Kostuik, also president of Denison Mines, underlined the "considerable apprehension within our industry on the eve of publication of the white paper." He stressed how seriously the White Paper was regarded as a sign of government intentions: "What it contains will either escalate uncertainty, or serve to restore some badly needed confidence in the long-term climate for mineral development in Canada."[91]

Government Preparation for the Release of the White Paper

It was in this context of continuing controversy and conflicting pressures from those in support of progressive reforms based upon the Carter recommendations and the much more pervasive business opposition to any such thorough changes that the government was finalizing the White Paper proposals. The continued delays through the fall of 1969 were often said to have been caused by serious disagreements within the

Cabinet.[92] The formulation of the White Paper had first involved several years of analysis and debate within the Department of Finance. The proposals had then been presented to a committee of Cabinet and then to the full cabinet where the necessary changes were made to achieve consensus on the government's policy on tax reform.[93] In late October it was confirmed that the White Paper would be tabled in the House of Commons on Friday, November 7 after stock markets across the country had been closed. During the day representatives of the provincial governments, M.P.'s and Senators, and the media would be intensively briefed on the proposals. The government's plans for dealing with the White Paper were also confirmed: it would first be discussed by a parliamentary committee which would hold public hearings and then return to Cabinet for final revisions and formulation into legislation on the basis of the committee's recommendations.[94]

The composition of the parliamentary committee charged with examining the White Paper had become a source of conflict. In July the government had proposed that the White Paper be examined by a joint committee of twenty Members of Parliament and ten Senators.[95] This was supported by the Progressive Conservative and Social Credit parties, but strongly opposed by the N.D.P. The latter argued that to appoint Senators with large numbers of corporate directorships to a committee deliberating on the formulation of tax policy would constitute a clear conflict of interest. This was especially so, given that the Royal Commission recommendations, to whatever degree they were reflected in the White Paper, would greatly affect the taxation of corporations and

the more affluent strata of the population. M.P. Max Saltsman stressed that "any committee dealing with such a sensitive matter ought to be above suspicion and ought not to have on it members whose interests may conflict with that of the people" and that "even from the very incomplete list of senators with corporate appointments that I have been able to obtain, it is very obvious that most senators to be appointed to that committee will be faced with conflicts of interest."[96] Mr. Saltsman then read into the record the information he had on the Senators who were to be appointed to the committee: Senator Beaubien held 10 directorships, including Empire Life Insurance and Canadair Ltd.; Senator Cook held 10 positions, including the Bank of Montreal; Senator Everett was president of Royal Canadian Securities Ltd.; Senator Gelinas held 15 positions in some very prominent firms; Senator Hayden held 21 appointments in powerful companies including Rio Algoma Mines and the Bank of Montreal; Senator Laird had 3 directorships; Senator J. D'Arcy Leonard held 6 positions, including Canadian Industries Limited and Canada Permanent Trust; and Senator Thorvaldson held 10 directorships, including Athnes Imperial Co., C.A.E. Industries and Canadian Premier Life Insurance Co.[97] These Senators held positions in some of the most powerful corporations in the country and more specifically, in banks, insurance companies and oil corporations whose tax treatment could be radically changed if the Royal Commission recommendations were adopted. While not imputing motives to the Senators, Mr. Saltsman argued that these corporate responsibilities could present them with some difficult choices in their deliberations on the White

Paper.[98] Although the motion establishing the joint committee had in fact been passed,[99] the government did prove sensitive to these arguments. The joint committee was dropped and hearings on the reform proposals would be held separately in the standing committees concerned with economic policy in both the House of Commons and Senate.[100]

III. The White Paper

The long anticipated White Paper Proposals for Tax Reform, issued by the Hon. E.J. Benson, Minister of Finance, was finally tabled in the House of Commons on November 7, 1969.[101] It was released with all the intensive media scrutiny and public attention of a budget. The major recommendations and their implications will be discussed in relation to two crucial points of comparison: firstly, the existing tax structure, and secondly, the Royal Commission proposals. The direction of change in the White Paper from these two junctures will be evaluated in terms of the recurring questions that have throughout guided this study: the effect of the new recommendations on key social and economic interests and their relation to the policy demands put forth by major organizations representing these class or group interests.

The White paper stressed that the present stage in the reform process had arisen out of a decade of debate and discussion of the overall tax system. In formulating its reform proposals, the government had examined the Carter Royal Commission Report and the extensive commentary it had engendered. It had concluded that "the need for a general reform is clear, and in some instances striking." The White Paper

Paper proposals were characterized as: "the result of careful study of tax principles, practices and impact. The government believes that they are the best practical proposals to attain our objectives in present circumstances."[102] As had been promised since the publication of the Carter Report, the government again stressed that it would "welcome public discussion of the proposals, particularly in the parliamentary committee considering them. Detailed discussions are also planned with provincial government representatives."[103] It was also emphasized that the White Paper proposals were open to revision: "They are advanced for discussion and review in the light of that discussion... The government believes that taxpayers and those who represent them in Parliament and in provincial legislatures should contribute actively at an early stage to the formulation of policies that so directly and vitally affect them."[104] The overall objectives and basic rationale of the White Paper will first be examined and then the specific recommendations and their implications will be discussed.

Overall Rationale of the White Paper

The White Paper stated the basic goals of reform as follows: "a fair distribution of the tax burden based on ability to pay; steady economic growth and continuing prosperity; the recognition of modern social needs; widespread understanding of and voluntary compliance with tax laws, combined with enough details to block loopholes; and finally, a system that can and will be used by the provinces as well as Canada."[105] Given the large amount of revenue required by the government and the consequent high level of overall taxation, it was particularly crucial

that this burden be distributed fairly. However, as Mr. Benson noted when explaining the guiding premises of the White Paper to the conference of the Canadian Tax Foundation the following spring: "The burden of taxation on the lower income groups has been increasingly recognized as unfair. Most Canadians believe that our tax structure must be more progressive, must impose a lesser burden on those with low income. All federal political parties are committed to this step."[106] The White Paper viewed such unfairness as a serious political problem: "Many of the wealthy in our society have benefited unduly. A taxpayer is understandably angry when he sees that he carries an extra tax burden to pay the cost of unfairly low taxes on others."[107]

The Royal Commission had documented the unequal structure of taxation and had developed recommendations designed to greatly increase the progressiveness of the system. While accepting the central importance of fairness and the concept of taxation bases upon the ability to pay, the government believed that "the commission carried some of its arguments to extremes which the Canadian public would not support."[108] Mr. Benson noted the widespread belief that the Carter Commission had emphasized equity at the expense of economic growth and administrative simplicity. The White Paper set a very different balance between the competing priorities of tax reform: "An improvement in the fairness of the tax system is still clearly the primary goal of tax reform. At the same time, however, the government feels that its proposals place more weight on the economic effects of taxation the practical problems of administering the system."[109] Because of their different

balance of priorities, the reform proposals contained in the White Paper were significantly unlike those of the Carter Report.[110] There was no doubt of the importance of economic growth to the White Paper: "the second main objective of tax reform is to see that the tax system does not interfere seriously with economic growth and productivity." It reaffirmed the government's commitment to "interfere as little as possible with incentives to work and invest and with the directions our economy follows in meeting demands of consumers and foreign markets" and to the continued use of tax incentives to spur specific economic activity.[111]

The restricted view of fairness and equity development by the Royal Commission has been discussed in Chapter 7 above. The White Paper's concept of equity was even milder and more limited. The focus was on fairness of treatment between individuals and on reducing the unfair burden of taxation on low-income strata. Any explicit commitment that tax reform should contribute to a redistribution of income and wealth, never that pronounced in the Royal Commission in the first place, virtually disappeared in the White Paper. In neither the Carter or White Paper proposals had there been any real analysis of the interrelationship between taxation and inequality of condition. Neither document had questioned, nor had their key recommendations in any way threatened, the fundamental principles of property ownership and employment within the labour market which govern the distribution of income in a capitalist economy.[112] The White Paper was a clear statement that, whatever reforms were undertaken in the name of fairness,

taxation must not limit the overall structure of profit and pay incentives that ordered and regulated the economy. This explicit emphasis must be set in the context of the debates that had raged over the basic priorities of tax reform. One of the most pervasive themes of corporate pressure had been that economic growth must not be sacrificed to the ethereal and subjective concept of equity propounded by the Carter Commission. This message had evidently been received by the government. Beyond such direct pressure, however, were more general features of the institutional structure of a capitalist economy. Major sources of investment capital are controlled, and decisions on its allocation are made, by private capital. If the incentives to invest - the expectation of profit and long-term accumulation of capital - were perceived by business to be threatened, then levels of investment would be reduced. The severe impact of a general pattern of reduced investment on employment and economic activity could weaken the political support of the administration in office and undermine the legitimacy of the institutional order as a whole.[113] The government was clearly determined that its new fiscal policy should not cause such a loss of business confidence and the attendant risk of such disastrous economic consequences.

A further central objective of the proposals was to "produce a reasonably stable system which can develop, but which need not be fundamentally revised for a considerable period."[114] While short-term adjustments and rate changes may be necessary, it was hoped that the overall framework could remain intact. By these means, the government

hoped to ensure a favourable climate for investment: "repeated changes, particularly in the basic structure of the tax, would be likely to bring uncertainty and apprehension. Individuals and businesses must be able to plan their affairs sensibly, particularly in making investments that yield a return for many years. This need for stability also implies that reforms should not include retroactive changes."[115] These concerns for stability and certainty were part of the more general objective of the rationalization of the tax system. The proposals also sought to simplify the tax system to make it readily understandable, but at the same time, to provide sufficient detail to block loopholes that allowed unfair benefits to some taxpayers. Such systematization was directed towards guaranteeing the political legitimacy of the fiscal system: "Our tax laws must be trusted, the burdens they impose must in the end enjoy public acceptance, and their administration must be seen to be efficient and impartial."[116]

The scope of the White Paper reform proposals was not nearly as sweeping as those of the Royal Commission; they did not entail such a major restructuring of the system. On the other hand, R.B. Bryce, Deputy Minister of Finance, explained that neither were the proposals simply alterations to the existing structure: "As a method of reform the government has discarded efforts at patching up the existing system. There are an awful lot of patches already in the law and the government has chosen a new framework - a system based on the work of the CarterCommission - with as many as possible of the existing sections and definitions carried on so as to enable the previous jurisprudence

to be used."[117] The government thus was clearly commited to systematic reform, even if far more limited than the Royal Commission had recommended, rather than simply tinkering with the existing structure. The new framework sought to synthesize the taxation of personal and corporate income, and capital gains into a coherent system. Mr. Bryce also stressed that stability and predictability would be prime concerns of the government in pursuit of this goal. While the proposals were certtainly open for modification, "it is felt to be most desirable in making changes or variations to preserve the integrated core of the system and adjust the other elements to such a frame."[118] He did emphasize, however, that while the government intended to increase the consistency of the system, it would not be inflexible on basic principles. He pointed to the changes in gift and estate taxation already enacted which had not rigidly followed "that exotic principle that 'a buck is a buck is a buck'".[119] It must be remembered that it was to just such basic principles of the Royal Commission, especially the comprehensive tax base, that corporate opposition had been the strongest.

These, then were the overall goals of tax reform delineated in the White Paper. Taken together, they were more limited and less comprehensive than those of the Royal Commission and were more explicitly attuned to the needs of economic growth. The government was also very well aware of the constraints within which any reformulation of tax policy would take place. Fundamental among them was the pressing need for revenue. The White Paper stressed that the Royal Commission revenue assumptions, based upon maintaining 1964 levels, and the reduc-

tions in personal income tax allowed by these estimates were no longer valid.[120] The importance of revenue considerations had been clear in the changes in the taxation of life insurance and other financial institutions and in the accelerated payment of corporate taxes already instituted: "Major sources of new revenues anticipated in the royal commission's proposals have already been tapped by Parliament to meet current requirements."[121]

The logic and balance of these priorities and the fiscal and political constraints facing the state defined the outlines of the White Paper reform framework. More specifically, the goal of sustaining the institutionalized incentives and rewards of a capitalist economy and at the same time yielding sufficient revenue shaped the major recommendations for personal and corporate income taxes.

Personal Income Taxation

The White Paper stressed that personal income taxes must remain the most fundamental element of the overall tax system. They were the most important source of revenue and could be most easily adjusted to individual income and ability to pay: "To see that the whole tax system is fair, we must ensure that the income tax remains the main tax levied on Canadians."[122] If a fairer distribution of income taxation was the primary goal of tax reform, there still remained the problem of how this was to be achieved. The Minister of Finance identified the fiscal constraints: "the government's revenue requirements mean that tax reform must be self-financing so that a lowering of the tax burden for those with low incomes must be offset by an increased tax

burden for those with higher income."[123] The White Paper stressed that the distribution of income imposed limits on tax relief through changes in the rate structure. Over one-half of taxpayers had incomes of less than $5000, and this group would benefit the most from the proposed changes. Somewhat less than 40% were in the $5000-10,000 range. While some relief for taxpayers here was possible, the cost would have to be borne by those at the upper level of this category.[124] Tax levels would also have to be higher for upper income earners. Mr. Benson later noted the political necessity of this: "The tax burden on those just above the middle income range cannot be increased unless we can assure those people that upper income groups will also bear their share."[125] However, the White Paper emphasized that "the wealthy alone could not possibly pay the cost of any substantial tax reduction for low-income Canadians." The rates of high-income taxpayers could not be increased farther: "The way to obtain more revenue above this level is to tax capital gains, close the loopholes, and encourage people to work and invest by avoiding excessive rates on incomes in the highest brackets."[126]

The government's problem then was how to reduce the burden on low-income taxpayers, without losing revenue or imposing unduly high rates on middle and upper-income categories. The main strategy adopted was to widen the tax base. While this moved some way in the direction of the Royal Commission, the White Paper did not accept the Commission's concept of the comprehensive tax base: "The government rejects the proposition that every increase in economic power, no matter what its

source, should be treated the same for tax purposes."[127] This had already been clear in the earlier reform of gift and estate taxation. The result of this rejection was that the taxation of accumulated wealth would be far less onerous than the Royal Commission had proposed. But the government also did not accept the contention that capital gains were so different from other income as to warrant total exemption or sharply reduced taxation. While recognizing that this was a major and controversial change, the White Paper argued that capital gains taxation was necessary for a fair and effective tax system.[128] With the exception of homes and personal property, the proposals would generally include capital gains on all forms of property in income. Special treatment would be accorded to the shares of widely held Canadian corporations; only one-half the gains or losses of such shares would be taken into taxable income. In addition to capital gains realized upon the sale of property, accrued gains and losses would be revaluated and taxed on all eligible assets every five years even when no transactions occurred.[129] The inclusion of capital gains in the personal tax base would yield estimated net revenue of $60 million in the first and $245 million in the fifth year after implementation.[130] The bulk of this increased taxation would naturally fall upon the wealthier strata of the population. That capital gains would henceforth be taxed was far from surprising. Such a tax was widely expected within the business community, the three major national political parties accepted it, and there was considerable support for some form of capital gains tax within prevailing public discussions. Nonetheless, while

gains from the shares of widely-held corporations received special treatment, the overall proposals were harsher than the partial and limited capital gains taxes that business spokesmen had demanded.

The two most significant proposals on personal income taxation were capital gains, discussed above, and higher basic personal tax exemptions.[131] Taken together, they would produce a more progressive income tax. Through the former, "the inequity of allowing substantial tax-free gains to many well-to-do persons would be ended."[132] The higher basic exemptions were the major mechanism designed to reduce the tax burden on the low-income. The higher exemptions alone would remove about 750,000 individuals from the tax roll entirely. In conjunction with other changes, they would reduce taxes for a further 3,000,000 at the lower end of the tax scale.[133] The cost of raising the basic exemption was high; estimated to be $1 billion in 1969. Given that the new system must yield at least as much revenue as the old, these changes necessitated a higher rate structure on taxable income remaining after all deductions and exemptions. The new personal income tax rates would increase revenue by $1,255 million in 1969.[134] The proposed rate schedule was also progressively graduated; upper income taxpayers in the various categories faced higher rates, although the absolute difference was never large for any individual.[135]

A further important change was proposed in the rate structure. The Royal Commission had recommended that the top marginal rate be reduced to 50%: "The government does not accept all of the theoretical arguments of the commission in favour of this rate. It is impressed,

however, with economic arguments for this course."[136] The government believed that high rates in combination with a wider tax base would deter savings and investment and reduce incentive for high income earners. It also argued that the top rate of personal income tax should not exceed the corporate rates. For these reasons, the government accepted the Carter recommendation that the top personal rate be gradually reduced to 50%. By the fifth year of operation of the new system, the lower top rates would result in a reduction of $40 million per year in total taxation.[137] These key recommendations were closely interconnected. Capital gains taxation ensured that a higher proportion of the income of the wealthy would be taxed. This allowed the overall system to be "significantly more progressive even without the ostentatiously high rates now in use."[138] The White Paper emphasized that a wider tax base was a far better way of taxing the wealthy than very high rates on an incomplete base.[139]

A number of more specific changes were also recommended in the taxation of personal income. The overall rate structure was simplified and streamlined.[140] The government had carefully considered the Carter recommendation on treating the family as the basic unit of taxation but had concluded that this would be too great a change to impose on a newly restructured system.[141] While this had not been a matter of great contention, business had largely opposed the Commission's family unit concept. The government was also concerned about the disparity between the range of deductions available to businessmen and professionals, but not to employees. As one remedy to this problem,

the White Paper would set stricter limits on expense account deductions. These changes would increase total taxation by $60 million per year.[142] Secondly, the White Paper argued that the Commission's recommendations on employment deductions were too broad and complex, and would instead allow a general deduction for employment expenses, although with a lower maximum than the Carter Report had proposed.[143] Deductions for child care expenses would be permitted for working parents.[144] These and employment expense deductions would reduce total taxation by $330 million per year.[145] In addition to property gains, other forms of income, such as unemployment insurance but not government assistance, would be added to the tax base. The inclusion of unemployment benefits in income would increase total taxation by $85 million per year.[146] Such changes were among the few areas in which organized labour had opposed the Royal Commission. Finally, the White Paper system of income averaging was simpler and in fact less generous than that proposed by the Carter Commission.[147]

Compared to the existing system, the overall direction and impact of these changes was progressive. The primary goal of reducing the burden on the low income was to be achieved by higher personal exemptions and deductions. Various other changes, such as capital gains and the wider tax base, and the new rate schedule were inevitable consequences of reducing taxes for low-income groups while maintaining the total tax level. The White Paper calculated the effect of the new exemptions, rate schedules and deductions for employment income on various categories of taxpayers for income from employment only.[148] Mar-

ried taxpayers earning less than $10,000 would pay less federal and provincial income tax; those under the $300-3500 range would have their taxes cut to nil, others would have reductions of up to $131. A married taxpayer earning $5000 with two dependent children under age sixteen would have taxes decreased from $422 to $309, a difference of $113. A married taxpayer with no dependents earning $4000 would have taxes cut from $331 to $219, a difference of $112. All married taxpayers earning over $10,000 annually would face higher taxes; the absolute increases were not large, only for those earning $100,000 was there an increase of over $200. A married taxpayer with no dependents earning $15,000 would face an increase of total taxation from $3,661 to $ 3,821, a difference of $160. The tax rise for a married taxpayer with two dependent children under age sixteen earning $25,000 would be $47, from $7910 to $7956.[149] After the reduction of the top marginal rates, the highest income categories would in fact have lower taxation, reductions of over $5000 for those earning $100,000. The progressive effect of these changes was less marked for single taxpayers without dependents. In families where both husband and wife received employment income and received allowances for child care expenses the tax reductions tended to be larger and to extend further up the income scale. For example, in families with two dependent children under age sixteen where the husband earned $7000 and the wife $5000 total taxes would decline by $210, where the incomes were $10,000 and $5000 respectively the reduction was $27.[150]

The estimates detailed above were for employment income. The effect of the proposed structure would be progressive, but the impact would be relatively limited, there would be only moderate increases even in the upper income categories. As capital gains taxes began to take effect larger amounts of the income of the wealthy would become taxable. However, this would be at lower top rates so the precise impact was difficult to estimate. The progressiveness of the White Paper reforms appeared particularly modest when compared to the Royal Commission. The government's recommendations on personal income tax were consistently more limited, especially with the abandonment of the comprehensive tax base, than were those originally put forth in the Carter Report.

Integration

R.B. Bryce, Deputy Minister of Finance, outlined the rationale for rejecting the Carter proposals for the integration of personal and corporate income tax. Fundamentally, the government believed that full integration would be too disruptive economically. In addition, the Commission's argument that integration would make share ownerhsip more attractive had lost most of its force with the growing demand for Canadian equities.[151] The White Paper proposed different treatment for income arising from different types of corporations.[152] There would be full integration for small closely held corporations, shareholders would receive full credit for corporate tax paid. This and other changes to be discussed were designed to put such corporations in the same tax position as small unincorporated businesses. The authors of

the White Paper felt that their proposals conferred important advantages on small closely held corporations.[153] For widely held Canadian corporations, their Canadian shareholders would be given credit for one-half of the Canadian corporate taxes paid. This partial integration would not be extended to individuals holding shares in foreign corporations; the government did not intend to provide an incentive for such investment.[154] In formulating these proposals the government appeared to have largely accepted the corporate view that integration would be too unsettling. The recommended integration of personal and corporate taxes would lead to a reduction of total personal taxation of $140 million in the first year of operation and $230 million in the fifth year after implementation.[155] Given the highly concentrated ownership of shares, these reductions would benefit a relatively small proportion of the population. In 1968 the top 1% of all income earners held 42% of all shares, the top 10% owned 72% of all shares.[156]

Corporate Taxation

The White Paper concluded that corporate taxation in Canada was already high by international standards and that any "further increases would be damaging to our economic development and competitive ability."[157] This was, of course, an argument that was much emphasized in prevailing corporate commentary. The government did not go as far in this direction as accepting demands for corporate tax cuts. The pressing revenue needs of the state would hardly allow this, nor would it be politically possible to justify such reductions as part of reforms designed to create a more progressive system. Given these pressures, it was

an important gain (or at least a non-defeat) for capital to have the basic rate structure of corporate taxation left untouched.

While the overall rates of corporate taxation would not be altered, there would be important changes within this structure in the treatment of particular sectors and categories. Neutrality was an important principle in the proposals contained in the White Paper but in a more limited fashion than had been the case in the Royal Commission. The Carter emphasis on neutrality had been severely criticized by business as rigid and doctrinaire. The Deputy Minister of Finance was at great pains to stress that the government had "not taken a rigid line on economic neutrality." Mr. Bryce outlined significant tax concessions that would still be retained for capital investment generally and for particular areas such as mineral resources.[158] The White Paper recognized the continuing need to encourage certain kinds of economic activity and that tax incentives would still be necessary for this purpose.[159] Nonetheless, as Mr. Bryce noted, the government proposed that departures from neutrality had to be clearly justified.[160] Neutrality was an attractive principle for state policy makers in two ways. Firstly, neutrality in taxation was generally seen to increase economic efficiency. Secondly, the state could tax previously untapped sources of revenue in the name of neutrality. While the removal of the specific concessions or incentives would face opposition from the particular sectors affected, they would not raise general rates and could be justified in terms of the efficiency of the overall economy. The taxation of such "special interests" could easily be presented to the general population for approval for the same reasons.

One of the most important recommendations was closely connected to the principle of neutrality. The White Paper proposed to eliminate the dual rate of corporate tax by removing the lower rate on the first $35,000 of profits. The government felt that in the interests of fairness and neutrality all smaller businesses should be taxed in the same way whether incorporated or not.[161] The proposed full integration for small unincorporated businesses and closely-held corporations was designed for the same purpose. The goal there was to tax small business income at the personal rate of the major individual shareholders.[162] Because its withdrawal would result in higher taxes for small corporations, the lower rate would be removed gradually over a five year period. The elimination of the dual rate was seen to be an important part of the overall rationalization of corporate taxation. The dual rate had allowed tax evasion and double taxation of corporate income, and had long been recognized as one of the most critical problems of the existing system.[163] In adopting this policy the White Paper had followed the reasoning of the Royal Commission, although the details of the changes for small business and their relation to other closely associated changes were quite different.[164] The government had also gone against virtually unanimous business demands for the retention of the existing structure. The Minister of Finance sympathized with the financing problems of small business, but felt that the dual rate was an inefficient mechanism for this purpose.[165]

In making these changes, the White Paper was attempting to simplify and streamline the structure of corporate taxation. However, its

basic rationale was very different from that of the Royal Commission in this regard. It stressed the different kinds of corporations and corporate relationships, especially the distinction between private closely-held and public widely-held corporations.[166] For the former category, the proposed elimination of the dual rate and integration were designed to ensure the same tax treatment for all small firms regardless of their corporate form. On the other hand, whereas the Carter Report had regarded corporations as mere intermediaries for the individuals who controlled them, the White Paper saw widely held corporations especially, with their more tenuous link between shareholders and management, as important economic entities in their own right.[167] Key recommendations, such as the partial integration for these corporations, followed from this premise. More generally, the government had concluded that the general system of business and property income taxation had worked well. While there would be no radical changes, a number of specific proposals were designed to rationalize the overall system.[168] There were recommendations to capture taxes on income that corporations receive from other corporations, but at the same time to ensure this was not taxed twice.[169] Partial deductions for "nothings", expenditures such as those that create goodwill, that had previously not been deductible would be allowed.[170] The government endorsed the existing general depreciation system, but would close loopholes in it.[171] The tax treatment of co-operatives and credit unions was brought closer in line with other corporate enterprises.[172]

International

A number of recommendations in the White Paper touched on the taxation of international income. First of all, the government stated that it welcomed foreign investment, but would not subsidize it. The proposals on integration would not give foreign shareholders of Canadian corporations credit for corporate taxes paid.[173] More generally, the existing treatment of the Canadian income of non-residents would largely be continued.[174] A number of specific changes, such as increased rates of withholding taxes on dividends, were designed to prevent the use of Canada as a tax haven.[175]

The government wanted taxation to be neutral in its effects on the foreign source income of Canadians. It intended to continue the existing treatment of business profits and wages earned abroad and, with some exemptions, the exemptions of dividends received by a Canadian corporation for a foreign corporation it controls.[176] However, the recommendations on integration made a number of important distinctions in this regard: there would be no credit for individuals owning shares in foreign corporations or for Canadian corporations with any portfolio investments in foreign corporations for taxes paid by the foreign corporations.[177] The effect of these changes would vary greatly. The return for Canadians holding foreign shares would decline substantially; the White Paper predicted a consequent shift of investment from foreign to Canadian equity. There would be relatively little impact on non-resident investors, except in certain sectors of the economy such as resources, and the government did not expect any overall reduction of foreign investment in Canada.[178]

Resource Sector

In strictly adhering to the concept of neutrality, the Royal Commission had called for the elimination of the special tax concessions of the resource industries. It was this recommendation that had aroused the most strenuous corporate opposition. The White Paper did not accept the Commission's rationale on resource taxation. The government recognized the specific risks and conditions of resource production and the fact that the expansion of this industry benefits the less developed regions of the country, a position strongly argued by the many industry submissions on the Royal Commission. It concluded that the resource industries still required government financial support, as did research and development more generally, but on a less generous scale than had been the case. The White Paper summarized as follows: "The government has concluded that special rules are still needed for the mineral industry, but that they should be revised substantially to ensure that really profitable projects bear a fair share of the burden of taxation."[179] A number of recommendations would enact these changes. The two most crucial changes had to do with the three year tax exemption for new mines and depletion. The former exemptions were seen to be often overly generous. The three-year exemption was to be replaced by "a special rule permitting capital costs of fixed assets purchased for the development and operation of a new mine to be charged off against income from that mine as quickly as desired...The new rule would ensure that in the high-risk business of mining, taxes would not be paid until investments in new projects are recovered, but it would

do so on a more economical basis than the present exemption."[180] The old exemptions would continue in force until the end of 1973 as promised by the government in May 1967. On the second key change, the White Paper argued that the existing depletion allowance was inefficient in applying regardless of the actual exploration effort. This problem would be reduced by relating depletion more directly to the exploration activities it was designed to encourage; "every $3 of qualifying expenditures made after this White Paper is published would 'earn' the taxpayer the right to $1 of depletion allowances if and when his production profits permit."[181] This "earned " depletion would be instituted gradually in order to "enable the mineral industries to make a smooth transition to the new system."[182] A number of more specific recommendations were also made: when prospectors sell mineral property they would be liable to capital gains taxation and depletion allowances for non-operators would be repealed.[183] The existing treatment of exploration and development costs would be largely retained, with improved deductions for individual taxpayers.[184]

The White Paper stressed that these proposals were more specifically suited to the conditions of the resource sector in providing powerful incentives and facilitating financing, but also receiving fair taxation from profitable operations.[185] The government argued that the effect of the proposed changes would not be drastic. There could be some reduction in capital expenditure and in the rate of return on new mining and oil projects, but the overall effect could not be predicted with certainty, "it would probably depend on general attitudes as

well as on calculations."[186] The White Paper concluded: "All in all, the mineral industries would continue to be stimulated by some tax measures not offered to other industries, but not to as great a degree as under the present law."[187]

In summary, the White Paper did not follow the Royal Commission recommendation to eliminate the resource concessions. The government accepted the general proposition that the specific conditions of the resource industries required special tax treatment. But the government also considered the existing incentives to be problematic: the provisions were overly generous to the industries involved, they were not effectively directed to those specific areas that needed them most, and, in a less stated but equally important criticism, the concessions were very expensive for state finances. While a significant retreat from the Royal Commission, the White Paper proposals restricted resource concessions far more than industry could approve. The significance of the White Paper resource recommendations has been clearly illustrated by Bucovetsky. He developed quantitative estimates of the effect of the various tax alternatives under debate on mining production: with the index of mineral output under the existing system as 100.0 output under the Royal Commission recommendations would be 85.8 and under the White Paper proposals 94.3.[188] Thus, the White Paper was a substantial retreat from the Carter Report in the area of resource taxation, but was still harsher than the existing system. The industry had strongly argued for the retention of its existing incentives and had darkly predicted severe consequences if they were significantly

reduced. It will be seen that the White Paper was far too glib in its optimistic argument that the effect of the resource changes would depend upon general attitudes as well as economic calculations. Attitudes, and more specifically, business confidence in a stable and favourable climate of investment do in fact have a critical economic impact. If resource capital perceived that state fiscal policy was a threat to its long-term prospects for profit and accumulation then investment could be reduced.

Summary: Corporate Taxation

The White Paper was far more cautious than the Royal Commission in its proposed changes in corporate taxation. The government did not intend to increase the rates of corporate taxation and while there were a range of changes designed to rationalize the system, they were largely alterations to the existing basic structure. Nonetheless, taken together, the proposed changes in corporate taxation would have a substantial impact on the incidence of corporate taxation. The revenue yield of the various changes was calculated in the White Paper on the basis of the 1969 fiscal situation.[189] The elimination of the dual rate of corporate taxation had the largest effect of any recommendation. The gradual reduction of the amount of corporate income subject to the lower 21% rate would result in increased taxation of $95 million in the first year of implementation and $390 in the fifth.[190] A number of other changes in the treatment of corporate income would also increase revenue: tax on the dividends received by closely-held corporations from widely-held corporations would increase by $60 million

annually; tax on capital gains received by corporations would rise by $35 million in the first and $100 million in the fifth year; the disallowance of entertainment and other such expenses would increase revenue by $5 million annually; the termination of resource depletion allowances on royalty income to non-operators would raise taxes by $10 million annually; and changes in withholding taxes designed against tax-haven abuses would also increase taxes by $10 million. Counterbalancing these changes somewhat, corporate taxes would be decreased by $5 million through wider capital cost allowances and by $5 million in the first and $10 million in the fifth year through wider deductions for resource exploration and development for companies based in other sectors of the economy.[191] Overall, the major proposals and the general scope of the changes involved was far more limited in impact than the Carter Commission recommendations, but there would still be a significant increase in corporate taxation. The total amount of corporate taxation would increase by $205 million in the first year and $560 million in the fifth year of operation of the White Paper system.

Conclusions: General Impact of the White Paper

The goal of these reforms was to redistribute the burden of taxation in order to better attain the broad social and economic goals set out in the White Paper.[192] As always, the possibilities of tax reform were constrained by fiscal requirements. The proposals were designed to produce approximately the same amount of revenue initially as had the existing structure; if applied in 1969 the total of personal income taxation would decrease by $35 million and that of corporate taxation would

increase by $210 million. The new system would then yield increasing rates of revenue in the next decade; tax revenue would have increased by 5 per cent in the fifth year. The level of provincial revenue yielded by the new structure would also remain relatively constant; it would increase by $20 million.[193] More generally, the White Paper argued that both levels of government should retain access to wide powers of taxation and that there must be adequate coordination and harmonization.[194] The prevailing federal stance that the White Paper was concerned with the basic structure of income taxation rather than with the relative use by the different levels of government was reiterated. The federal government argued that it had taken account of provincial reports and consultation; it specifically noted that the Ontario White Paper proposals could be accommodated within the federal reforms.[195]

The White Paper stressed that the overall economic effects of the recommended changes were expected to be relatively modest.[196] It saw the effect of tax rates on work incentive as being open to debate. In agreeing with the Royal Commission on the adverse effect of high marginal rates, it hoped that the graudal reduction of the top rates would increase incentive for high income earners. The White Paper did not see tax differences with the United States as a problem in keeping and attracting top people.[197] A moderate decline of aggregate saving was foreseen: "Some impact on the flow of savings is inevitable in a tax reform that includes capital gains in taxable income, shifts the weight of the tax from those at the lower income levels to those better able to pay and ensures that the income of closely-held corporations is taxed

at rates appropriate to their shareholders."[198] It was estimated that the level of personal saving would decline by $30 million in the first and $75 million in the fifth year. The increases in corporate taxation would directly result in lower corporate saving; when this was added to the expected decline of personal saving and the offsetting effect of integration there would be an estimated total reduction of $150 million initially and $525 million in the fifth year. To set these figures in context, it was estimated that total personal and corporate saving was about $14 billion in 1969.[199] The effect of the proposals on investment patterns would vary throughout the economy. Return for Canadians holding foreign shares would decline substantially; the White Paper predicted a diversion of investment from foreign to Canadian equity. There would be limited effect on non-resident investors in Canada, except in specific sectors such as mineral extraction after the three year exemption is ended. No substantial overall reduction of foreign investment was anticipated.[200] There could be some reduction of capital expenditures of closely-held corporations and the mineral industry, but this would be offset by increased public revenue and could be taken into account by fiscal and monetary policy.[201] In summary, the clear and predominant theme was that the rationalization and limited redistribution proposed by the White Paper would not significantly damage the prospects for economic growth and the processes of capital accumulation.

Not surprisingly, the White Paper recommendations, with their commitment to increased progressiveness, would have very differential effect on the key groups within the social structure. First of all,

the tax burden on the more affluent strata of the population would increase. Among the most significant changes affecting the interests of the more affluent strata were the wider tax base and capital gains taxation, all involving heavier taxation on income from property ownership. R.B. Bryce, Deputy Minister of Finance, set these proposals in context: "many of the faults of the old system have had an important economic significance because almost invariably they favoured those who saved and accumulated wealth... The correction of these major faults in the old system, which were pointed out vividly by the Royal Commission, inevitably impinges on savings and on the use of various channels for the investment of savings."[202] It must be remembered that the ownership of wealth, especially of the corporate wealth that would be most affected by recommendations such as those dealing with capital gains, was highly concentrated. As noted above, in 1968, the top 1% of all income earners owned 42% of all shares, the top 10% held 72% and only 10.3% of all taxpayers owned any shares at all.[203] As well as such direct changes in the taxation of personal income derived from ownership, changes in corporate taxation also affected shareholders. If corporate rates of return, and consequently dividend levels and share appreciation, were reduced (the White Paper argued that this effect would not be large) then the total income derived by shareholders from their corporate ownership would also decline. Given the concentration of corporate wealth noted, this effect would be felt largely by the higher income strata. Higher income taxpayers also have been affected by the recommended changes in the rate structure. Although greatly offset at

the higher income categories by the proposed lower top marginal rates, the overall effect was progressive. The higher income categories faced heavier tax burdens, although the increases were never large for any individual. Approximately three million taxpayers would sustain higher taxes, the great majority of which would be relatively small scale.[204]

It was the increased taxation of the more affluent categories and of corporations that allowed tax reductions for large numbers of lower income taxpayers. A total of 750,000 taxpayers would be removed from the income tax rolls altogether and taxes would be reduced for a further 3,000,000 taxpayers.[205] For the great majority of these lower income categories the most important changes would be the higher exemptions and new rate structure of personal income taxation. The result was that total taxes would be less for single persons up to an income of $3400 and for married persons up to $9100. To set this in context, 1967 income statistics revealed that over one-half of those paying income tax earned less than $5000 and a further 38.5% of all taxpayers earned $5-10,000.[206]

When compared to the existing system, the overall effect of the White Paper reforms would be progressive. However, the lightening of the tax burden on the lower income strata would be relatively limited and the corresponding heavier taxation of the more affluent would certainly be modest. There was no evidence that these changes would have a significant impact on structured inequality of condition or bring about any substantial redistribution of wealth and income. Nonetheless, the shifts in tax incidence, increased taxation of wealth and restructu-

ring of corporate taxation would entail higher taxation for the capitalist class and also for the more affluent middle class categories. The progressive direction of the White Paper and a number of its key recommendations went directly counter to the policy demands put forth by the corporate sector.

On the other hand, when compared to the comprehensive nature of the Royal Commission reform schema, the far more limited scope and moderate impact of the White Paper proposals is striking. The Royal Commission had clearly been influential in the formulation of government policy. But just as clearly, and far more significantly, the overall Carter framework had not provided the fundamental basis for the reforms put forth in the White Paper. Similarly, the key recommendations were considerably weaker than those of the Carter Report. The tax base was widened, but not nearly to the extent of the Commission's comprehensive tax base. A capital gains tax was introduced that was certainly harsher than the business community had hoped for, but was less inclusive than the Commission's. The White Paper did follow the Commission on the elimination of the dual rate but was considerably more restrained in other areas of corporate taxation. While resource incentives would be more restricted under the White Paper, they would not be the sweeping elimination of all concessions proposed by Carter.

IV. Conclusions of the Second Stage: First Lessons on the Politics of Reform

The publication of the White Paper in November 1969 completed the second protracted and controversial stage in the overall process of

tax reform. This section summarizes the central development during this period and outlines the preliminary conclusions that can be drawn on the politics of reform.

Corporate Pressure and Government Retreat

The White Paper was the culmination of a consistent pattern of step-by-step government retreat in the face of pervasive and intense corporate pressure since the release of the Carter Report. The government had initially refused to comment until there had been sufficient time to study the recommended changes. However, this caution was quickly eclipsed in the growing corporate hostility to the Commission proposals. In a May 1967 decision that was widely interpreted as bowing to the massive opposition of the resource sector to the recommended elimination of their generous tax concessions, the Minister of Finance guaranteed that important mining concessions would be continued for at least three years. In November 1967, the federal budget clearly indicated that the Royal Commission would not serve as the basis or guiding framework for radical changes in the tax structure. The October 1968 budget firmly rejected the vital concept of the comprehensive tax base, but did contain changes in the taxation of gifts and estates that partially followed the Royal Commission, albeit in a much milder form. Pressure on the government against these provisions led to their further weakening. Finally, the White Paper itself was considerably more moderate than the key recommendations and fundamental rationale of the Royal Commission.

The decisive factor in this consistent retreat from the progressive principles and recommendations of the Royal Commission was the political power of capital. The controversial and sweeping nature of the Carter reform schema and the significant impact its implementation would have had on corporate interests led to the extensive mobilization and organization of business in opposition to the Commission. That the Carter Report was greeted with such intense hostility within the business community should come as no surprise. Whatever the long-term overall benefits to economic efficiency and social stability it promised the major recommendations would have harmed the immediate interests of important elements within the capitalist class. They would have felt the impact of higher corporate taxation, especially in particular sectors such as the resource and financial (where the opposition was consequently strongest), and higher taxation on income from property through widening the tax base. Thus, corporate opposition to the proposed tax reforms was not irrational, nor simply reactionary, but was based upon the impact of the changes on the immediate economic interests of capital. In these terms, business complaints of being adversely affected and constrained were real, even if exaggerated. The day-to-day exigencies of competition and business activity press such short-term and particularistic considerations on individual capitalists. It would certainly appear that this more narrowly focused perspective of most businessmen can be an important restriction on the ability of the state to develop long-term policy geared to the interests of capital in general when such policy conflicts with the immediate interests of key sectors of the capitalist class.

The strenuous antagonism to the Royal Commission must also be seen in the context of the strained business-government relations of this period and the widespread corporate unease over the direction of state economic policy and intervention. The Commission was perceived by many more conservative businessmen as challenging traditional values and widely accepted assumptions of conventional business ideology. At the most extreme, the Carter recommendations were seen as a further encroachment of state control into the economy, as entailing the confiscation of private property and as a threat to the overall structure of economic incentives; in short, as shaking the very foundations of the free enterprise system.

The highly organized and extensive corporate opposition to the Report took a number of forms. The predominant source of formal input to the state on the Commission and the direction of future reform was the large number of comprehensive and impressive submissions from major corporations and business associations. Business policy demands were also constantly put forward in the routine contact between corporate and state officials. The business community mounted a public campaign of speeches, articles and appearances by prominent spokesmen warning of the dire economic consequences of the Carter proposals and darkly predicting that investment would be reduced, production would decline and living standards would deteriorate if they were implemented. The cumulative and pervasive nature of this pressure must be emphasized; business had been demanding a relatively consistent set of tax changes more or less continually since the establishment of the Royal Commission.

No other political force was as significant a presence throughout the debates on the Carter Commission or could exert such pressure on the government.

The tempo and content of corporate pressure gainst the Royal Commission on Taxation reflected the structure of Canadian capital. Within important differences of sophistication, there was a high degree of unanimity on the broader issues of tax reform and on proposals that tended to affect all business in roughly the same way. Thus, virtually all corporate spokesmen strongly condemned the Commission's overall framework and, while most came to recognize that some tax changes were inevitable, insisted that reforms be far more limited than the Carter programme. Similarly, majority opinion within the business community was hostile to the comprehensive tax base and integration. Other key recommendations more specifically affected the operations and interests of particular industries and sectors and resulted in a number of campaigns directed against these specific proposals. One of the most striking features of corporate opposition during this stage was the success of the resource sector in protecting its lucrative tax incentives and the subsidization of profit and investment levels that they provided. The May 1967 announcement was an important concession to mining and the White Paper contained much milder treatment of the resource industries generally than the Royal Commission had recommended. These retreats were certainly shaped by the massive and unrelenting pressure exerted by resource capital as one of the most powerful sectors in the economy and as one which has long been well connected to the state apparatus.

However, a further crucial additional factor here was the wider structure of the Canadian political economy. Policy formation and the dynamics of power within the state system have long reflected the uneven regional development and structure of the Canadian economy. Mining and petroleum production was concentrated in the less developed regions, especially the Western provinces. Any curtailment of production, a likelihood which was widely prophesized by the industry and demonstrated by cancellations of major projects, would have adverse effects on these regions. The threats of the industry to reduce exploration and development and pull out capital have to be seen in this light. The result was that the industry was strongly supported by the Western provincial governments in its attack on the Carter resource recommendations and this provincial pressure was an important element in the federal decisions. In addition, the resource industries were characterized by high levels of foreign ownership and the preeminent position of major multinational corporations. The government was particularly sensitive to predictions that international capital would be withdrawn from the country if the proposals were adopted.

Reinforcing and underlying direct corporate pressure, the possibilities of reform were limited by the fundamental structure of a capitalist economy. The need to maintain business confidence and ensure a favourable climate of investment was a critical constraint on state economic policy. More specifically, tax changes could never be allowed to restrict the profit and pay incentives that ordered and regulated economic activity. Expectations of future profit determine the

amount and flow of investment and, whatever the objective effect, the overall level of taxation could not become so high or the distribution of taxation so burdensome on capital that business perceived a threat to the continued process of accumulation and expansion.[207] The reduced investment that could result from such a perception and its resulting effect on economic growth would be a severe problem for the state. These factors received concrete manifestation during the onslaught on the Royal Commission with frequent announcements by dominant corporations of cancellations and deferments of major projects and widespread predictions on investment cut-backs and a flight of capital from the country if the Commission proposals were implemented. Given the state's dependence upon private capital to maintain satisfactory levels of production and growth, and given that only capital can define the conditions under which it will allocate the requisite investment resources, the state must be highly responsive to the demands and interests of organized business.[208] The vulnerability of the state to a capital strike, a possibility expressed with varying degrees of subtlety by many corporate representatives, severely limited the parameters of acceptable or realistic reform. Such considerations were particularly clear in the conflict over resource taxation.

The State System and the Dynamics of Reform

It has been emphasized that momentum and imperatives arising from within the institutional structure of the state system itself are important factors in the dynamics of policy formation. This was certainly the case during the debates on the Royal Commission, when the

provincial governments especially, played an increasingly important role. Federal-provincial conflict over the division of tax room, the distribution of revenue and the concentration of fiscal power was a key element of the general context for reform. Equally importantly, the major provincial governments were highly critical not only of the resource recommendations, but of the Commission's basic priorities and overall reform package. This policy closely paralleled that of the business community and provincial pressure on the federal government supplemented and legitimated prevailing corporate opposition to the Carter Report.

It was argued in the conclusions of the first stage that the autonomous nature of the Royal Commission was an important factor in the outcome of its deliberations. However, once the Commission had reported, the policy process was then centred within the state apparatus itself; the evaluation of the Report and the many submissions on it, and the drafting of policy alternatives was largely carried out in the Department of Finance. This meant that these deliberations would be subject to a range of direct pressure and constraints that an independent enquiry was not. In addition, the subsequent development of reform policy took place within the routine assumptions and parameters of state economic policy; policy which was predicated upon maintaining favourable conditions for the accumulation of capital.

The manner in which deliberations within the state contributed to the moderate character of the White Paper has been outlined by a person intimately involved in the process. Professor Eric Kierans was

a minister in the Liberal government and a member of the Cabinet Committee on Tax Reform.[209] An important factor was the key in which the cabinet committee studied the implications of the Carter Report and formulated the policy that eventually constituted the White Paper. Its members had limited knowledge of the Report or taxation in general and had to rely upon civil servants. The committee was presented with detailed assessments of specific features of the existing system and recommendations for change by the Department of Finance in a very piecemeal fashion. They were never able to see beyond these specific evaluations: "for a year and a half, we studied trees, and we never saw the forest, we never saw the issue of tax reform as a whole."[210] That the Department of Finance and Treasury Board did not press for radical reforms did not surprise Professor Kierans. The Carter Report was a sustained critique of post-war fiscal policy: "The people who had been responsible for those policies were the people who were in power and in the higher ranks of power in the government in 1968. It is difficult to get people to examine objectively a report which in effect was a criticism of the manner in which tax policy had developed in Canada and of their role in that development."[211] Finally, major reforms of this nature could not be pushed through the cabinet without the decisive support of the Prime Minister and this had not been forthcoming. The result of all this according to Kierans was that "the White Paper was a very, very pale imitation or facsimile of what had been in the Carter Commission Report."[212]

A further factor that was of crucial significance throughout the reform process was the need of the state for sufficient levels of tax revenue. This imperative had been used by the Minister of Finance to justify the government's rejection of the Royal Commission as the basic framework for reform in late 1967. Those facets of the state institutional system discussed to this point tended to contribute to the moderation of reform policy. However, the constraints imposed on the type of reforms that could be adopted by the need for revenue had more complex implications. It meant that any alteration in the tax system had to be counterbalanced by offsetting changes in order to ensure adequate revenue levels. Thus, if the tax burden on lower income strata were to be reduced, the more affluent categories would have to pay more. If concessions for particular groups or sectors of the economy were to be retained, then greater taxes would have to be raised from other areas. Not only did the need for revenue limit possible reforms, but it could also be a more direct factor in the choice of policy alternatives. For example, a number of changes in the treatment of corporate and property income, especially the extension of taxation to areas previously exempt, had been interpreted as efforts by the state to secure new sources of revenue.

The White Paper and the Power of Capital

Because tax reform quickly became such a contentious issue, because the progressive tax changes recommended by the Royal Commission would have had a significant impact on capitalist interests and because the corporate sector was so strongly opposed to the Carter Report, this

provides a particularly good case study of business power in action. When compared to the recommendations orginally put forth by the Royal Commission the White Paper reforms were highly modest. The White Paper provisions that emerged after two and one-half years of compromise and concession represented a consistent moderation of the Carter Report in the direction of business demands and objectives. The significance of the political mobilization and power of capital in forcing these retreats can be clearly illustrated by delineating the key facets of the Carter programme that business was able to prevent being included in the White Paper and those recommendations whose impact was substantially softened in deference to corporate demands.[213]

Most generally, and most importantly, business had been able to prevent the full enactment of what it considered to be a highly objectionable and dangerous reform schema. The first major victory for corporate pressure had been the government's rejection of the Royal Commission as the fundamental basis and guiding framework for reform. Pervasive business demands that tax changes not be as sweeping as those proposed in the Carter Report, but rather take the form of alterations within the existing structure must be seen as decisive here. Also crucial was the government's subsequent abandonment of the Commission's fundamental principle of the comprehensive tax base; rejection of this key concept had been a central thrust of corporate opposition to the Report. Business pressure was highly influential in preventing the full impact of key individual Carter recommendations: the controversy that erupted over the changes in gift and estate taxation proposed in

late 1968 resulted in eventual legislation that differed only modestly from the existing structure, recommendations to reduce the special incentives of the resource industries had also been much moderated at several stages, and the treatment of integration that appeared in the White Paper was far more limited than that of the Royal Commission. Business could claim important successes in these key substantive concessions made by the government; it was able to prevent the full adaptation of measures that would have had the greatest impact upon capital and upon which the strongest opposition had centred.

But the corporate sector could not claim a complete victory in its campaign against the Royal Commission. The power of capital as an organized political force was far from absolute; it could not totally determine the outcome of the debates and policy deliberations on the Carter Report. Business pressure had not been able to prevent the process of tax reform from continuing in directions to which it remained hostile. First of all, in the face of sustained corporate antagonism, the Report had not been abandoned outright or, a not unusual occurrence in Canadian political history, effectively ignored by the government.[214] In the period following the release of the Report and especially with the November 1967 federal budget, business had optimistically assumed that the Royal Commission's core proposals had been repudiated. However, it subsequently became clear that even though the Carter reform programme would not serve as the guiding framework for the restructuring of the tax system, it would still be closely studied by the government. While the White Paper did not follow the Commission's overall

rationale and priorities, the government maintained that the Report had nonetheless been influential in its conclusions. Secondly, the content of the White Paper certainly did not represent an unqualified success for corporate pressure against the Royal Commission. In framing its reform proposals the government had compromised and retreated, but not nearly as far as powerful capitalist interests had demanded. The recommendations of the White Paper contained some significant departures from the existing system. The moderately progressive impact of these changes would entail some degree of heavier taxation for the corporate sector and the propertied and affluent strata of taxpayers. The key question at this juncture thus becomes: given the tremendous pressure that organized business could exert in the policy arena and given the dominant position of highly concentrated private capital in the economy, then how could progressive reforms, at least partially based on the Carter Commission, be put forth in spite of massive corporate opposition? The answer lies in the complicated politics of policy reform within a liberal democracy and in the complex of pressures and constraints that shape state fiscal and economic policy.

Countervailing Forces

It was clear that once the Royal Commission had reported some degree of significant reform was all but inevitable. The Commission's massive documentation of the anomalies and inefficiencies that riddled the tax system ensured that these problems could not be avoided by the government. This was emphasized by the Deputy Minister of Finance: "in my view reform - and radical reform - was inevitable once the Carter

Commission was appointed in September 1962...it was inevitable because there was just too much wrong with the old system and once that was laid bare by an authoritative and thorough examination, as it was, the government was bound to act."[215] While the Royal Commission would not be the basic framework for tax reform, its fundamental principles and priorities and its central recommendations nonetheless remained the starting point for public debate and state deliberation. The government's responsibility for maintaining an effective fiscal system and favourable economic policy compelled it to address the problems identified by the Commission.

More specifically, the Commission had documented the unequal nature of the tax system and had consequently proposed a series of highly progressive reforms to redress this inequity. In this way, fair taxation had been posed as a major public issue. Once the extent of fiscal inequality had been demonstrated and the potential of progressive reform brought to the fore of public discussion, then it became politically impossible for the government to simply drop the Carter Report. To do so would be to abandon fairness and equity as primary goals of fiscal policy. This would be incompatible with the pervasive ideology of the modern liberal democratic state, in which progressive taxation taxation was generally seen to be an integral component of the overall commitment to social and economic justice. This was certainly the case within the federal government in Canada in the latter 1960's when the various policies and programmes of the modern welfare state were being elaborated and expanded, and when social and regional

redistribution was a much vaunted goal of the Liberal administration.[216] The government, for example, could hardly declare a war on poverty as a major thrust of official policy while at the same time refuse to amend a tax structure that imposed an unduly harsh burden on low-income groups.

In addition, tax reform had become the focus of a great deal of public and media discussion. On the eve of the release of the White Paper one prominent syndicated columnist commented: "Interest in the tax system has never been higher nor more widespread. Pick up any of Canada's newspapers on any day and one sees editorials, commentaries and letters reflecting on the tax system."[217] This widespread interest was attributed to the fact that taxation no longer simply raised revenue, but had a profound effect on the development of the economy as a whole and on every individual's life. In its efforts to improve the tax system, the government claimed to be acting with considerable public support. The Minister of Finance, for example, stated: "The burden of taxation on the lower income groups has been increasingly recognized as unfair. Most Canadians believe that our tax structure must be more progressive, must impose a lesser burden on those with low income. All federal political parties are committed to this step."[218] Mr. Benson went on to note: "If the government were moved by numbers alone it would long ago have implemented the Carter Report recommendations intact without further debate. I personally have received about 50,000 cards asking me to do just this."[219] From the private sector, Mr. Stuart Thom, Q.C., of the prominent Toronto corporate law firm Osler,

Hoskin and Harcourt, noted that "the government obviously feels itself to be under some pressure from the Carter Report which has had a wider and deeper appeal than might be thought from listening only to the highly vocal criticisms of certain business and industrial groups."[220]

Once the inequitable nature of the existing system had become a prominent issue, the government was under great pressure to act. As noted above, this arose partially out of the state's general functions of legitimation; to ignore the issue of fair taxation would contradict the state's role in maintaining and promoting general approval, or at least acceptance, of the existing institutional order. Pressure for reform was also felt by the government through its fundamental, if only occasional, dependence upon the public for electoral support. It would certainly be to the electoral advantage of the government to institute reforms that would close the many loopholes and exemptions that were of such obvious benefit to a wealthy minority and that would result in a fairer distribution of the overall tax burden. By the same token, the Liberal government could not afford to be seen as the party that catered to the affluent and betrayed the interests of the majority by totally rejecting the Carter Report.[221]

The political and ideological factors discussed here all have to be routinely considered by the state in the development of policy. But their importance was heightened during this juncture by pressure on the government from the New Democratic Party and organized labour. Both defended the Carter Commission's overall framework and central recommendations. In parliament, the N.D.P. continually attacked the

government for its failure to adopt the Commission proposals and to implement progressive tax changes. Organized labour, the most important competing political force with a policy perspective sharply divergent to the pervasive corporate opposition to the Report, also consistently demanded progressive reform. More generally, varying degrees of support for the Commission were expressed by a range of consumer, welfare and other groups and by the more reformist currents within the academic, professional and business worlds.

These countervailing forces did not command the political and economic resources of the capitalist class; they could not protect the Royal Commission reform package from significant dismemberment and weakening. But they did ensure that the Carter recommendations and the direction of tax reform remained a highly politicized and salient issue. Pressure from labour and the N.D.P. particularly meant that the government could not easily weaken the Commission's original recommendations drastically without facing widely publicized criticism. In their cumulative and interconnected effect, the organized defense of the Royal Commission, widespread public appeal of progressive changes, ideological pressures for equitable taxation and partisan electoral considerations meant that, once the inequality and inadequacy of the existing structure had been documented and concrete proposals for its reform put forth by the Royal Commission, then the issue of tax reform had been placed before the public, the government had no option other than to proceed.

Summary

The White Paper proposals were the result of the balance between these conflicting political forces and the complex interplay of the range of economic, political and ideological factors outlined. The dominant power of capital had been able to force a consistent government retreat on the scope and impact of reform and to prevent a number of key changes to which it was solidly opposed. On the other hand, the activity of competing forces and the nature of politics in a liberal democracy ensured that some degree of reform had to be carried through and that proposals for progressive changes, however limited in comparison to those of the Carter Report, were put forth by the government.

The White Paper was not only the culmination of the intense debates on the Royal Commission, but it was also the prelude to heightened conflict in the ensuing stage. The central priorities and recommendations of the White Paper pleased neither side. While far more moderate than the Royal Commission, the corporate sector still opposed key facets of the government proposals that would affect its interests. Those who favoured progressive reform were disappointed at the White Paper's abandonment or weakening of the original Carter reform package. Lines of conflict and political forces that pervaded this stage were to be of continuing significance in the coming debates of the White Paper.

Footnotes

1. Canadian Chartered Accountant, January 1969, p 34.
2. Business Quarterly, Winter 1968, p 17.
3. Canadian Chartered Accountant, March 1969, p 178.
4. Cf. the series of three articles on "A Taste of Carter" in the Tax Review column of the Canadian Chartered Accountant, January, February, March, 1969; See also the later overview of I.H. Asper in Globe and Mail, (Toronto), November 6, 1969.
5. House of Commons, Debates, October 22, 1968, p 1685. For discussion of this point see Canadian Chartered Accountant, February 1969, p 119.
6. Ibid., pp 119-121.
7. Business Quarterly, Spring 1969, pp 105-6; Globe and Mail, (Toronto), January 31, 1969.
8. Cf. Financial Post, January 25, 1969, p 1.
9. Globe and Mail, (Toronto), January 30, 1969.
10. Star, (Toronto), January 16, 1969.
11. Star, (Toronto), January 28, 1969.
12. Globe and Mail, (Toronto), January 31, 1969.
13. Globe and Mail, (Toronto), January 24, 1969.
14. Globe and Mail, (Toronto), January 31, 1969.
15. Star, (Toronto), January 18, 1969.
16. Ibid.
17. Star, (Toronto), January 17, 1969.
18. Quoted in Globe and Mail, (Toronto), January 31, 1969.
19. See the later discussions in House of Commons, Debates, February 5, 1969, p 5178ff.
20. Ibid., February 5, 1969, p 5179.
21. Ibid., February 5, 1969, p 5179.
22. Ibid., February 5, 1969, p 5179. The implications of this loss of revenue were detailed: if the effect was to be confined to the 5% of taxpayers who paid estate taxes then this group would face a large increase in their income taxes, or alternately, all taxpayers would face a 1% rise in income taxation.
23. Ibid., February 5, 1969, p 5179.
24. Gazette, (Montreal), January 25, 1969.
25. Ibid., January 23, 1969.
26. Ibid., January 25, 1969.
27. Globe and Mail, (Toronto), November 15, 1968.
28. C.T.F., 1970 Conference, p 256.
29. Louder Voices: The Corporate Welfare Bums, Toronto, James lewis and Samuel, 1972, p 100. This illustrates a further dimension of corporate political power. Even when policy was passed counter to their immediate economic interests, extensive corporate involvement and consultation in the administration of the legislation could soften its adverse impact. On this issue, see Research Branch, Library of Parliament, "Pressure Groups in Canada", The Parliamentarian, Vol LI, 1970, pp 11-20.

30. C.T.F., 1970 Conference, p 15. Stuart D. Thom, Q.C., set this issue in its historical context: "The government had probably learned something from the disastrous treatment given to the proposed take-over tax amendment of 1963. Had that proposal been introduced as a suggested policy open for public comment instead of as legislation ready to be passed into law, something might have come of it."
31. Gazette, (Montreal), August 7, 1969.
32. Business Quarterly, Spring 1969, pp 105-6.
33. Financial Post, January 11, 1969. This article also referred to the fiasco of the 1963 budget, where the government was forced to withdraw some very moderate limitations on foreign ownership in the face of immense corporate opposition. The lesson of these events was still remembered and the government was very cautious of any reoccurence. See also footnote 30 above.
34. Canadian Business, April 1969, p 11.
35. Gazette, (Montreal), January 23, 1969; Financial Post, January 11, 1969.
36. House of Commons, Debates, January 21, 1969, p 4547.
37. See Canadian Business, February 1969, p 10.
38. John Meyer in Gazette, (Montreal), August 15, 1969.
39. June 14, 1969, p 40.
40. Ibid., p 40.
41. Globe and Mail, (Toronto), March 13, 1969.
42. Gazette, (Montreal), June 18, 1969.
43. Financial Post, March 15, 1969, p 13.
44. W.A. Macdonald interpreted the latter development as a significant victory for mining industry arguments, Ibid., p 13.
45. Ibid., p 13.
46. Financial Post, October 11, 1969, p 0.8.
47. Financial Times, September 8, 1969, p 8.
48. Financial Post, March 1, 1969, p 1.
49. Excerpts published in Financial Post, March 22, 1969, p 40; all following references are to this source.
50. Free Press, (London), March 14, 1969.
51. Canadian Labour, January 1969, pp 15, 16, 28.
52. Ibid., p 16.
53. Ibid., p 15.
54. Ibid., p 16.
55. Ibid., p 16.
56. Ibid., p 28.
57. Ibid., p 28.
58. The submission was read into the parliamentary record by Max Saltsman of the N.D.P.; House of Commons, Debates, June 2, 1969, pp 9365-7. All subsequent references are to the submission as produced there. Both Saltsman and the president of the Council were extremely angry that the Council had been unable to secure an appointment with the Minister of Finance to present its views; p 9365.

59. Ibid., June 2, 1969, p 9366.
60. Ibid., June 2, 1969, p 9366.
61. Ibid., June 2, 1969, p 9366.
62. While sharply divergent from the conventional business viewpoint, the labour/N.D.P. policy stance nonetheless remained moderate and social democratic in tone: references were to working people, rather than the working class and to pressure groups or special interests, rather than the capitalist class. Similarly, the concept of a "fair share" of taxation entailed the belief that in a democratic system the majority should benefit rather than any focus on the inheritent inequality of a capitalist system.
63. See Tommy Douglas; House of Commons, Debates, June 11, 1969, p 10008.
64. Ibid., June 11, 1969, p 10008; also June 2, 1969, p 9365.
65. Ibid., February 20, 1969, p 5766ff.
66. Ibid., June 5, 1969, p 9365.
67. Ibid., February 20, 1969, p 5767.
68. October 23, 1969.
69. Star, (Toronto), October 2, 1969. He referred specifically to a negative income tax. This was a clear recognition of the state function of accommodating potential conflict and legitmating the established institutional order by means of judicious social reforms. Such considerations were noted by the N.D.P. in regard to taxation; failure to reform the highly inequitable tax structure could lead to a serious loss of public confidence in the overall political system. The limited nature of reforms directed towards this end was somewhat flamboyantly stressed by Max Saltsman: "It is the better off who benefit from most of the taxes paid, in return for which they always seem to be willing to throw a few crumbs to the unfortunate in our society to keep them quiet. This is sort of an insurance policy which undercuts revolution in the country."; House of Commons, Debates, June 2, 1969, p 9365.
70. Canadian Banker, July-August 1969, pp 18-20. See also his speech to a National Industrial Conference Board seminar; Financial Times, October 27, 1969.
71. Globe and Mail, (Toronto), October 16, 1969.
72. Star, (Toronto), October 3, 1969.
73. Globe and Mail, (Toronto), October 10, 1969.
74. Tribune, (Winnipeg), September 16, 1969.
75. May 1969, p 5; see also Canadian Business, April 1969.
76. Industrial Canada, May 1969, p 5.
77. Ibid., p 5.
78. See Financial Times, September 8, 1969, pp 7-8 and Monetary Times, September 1969, pp 25-6.
79. September 8, 1969, p 7.
80. Executive, February 1969, p 46.
81. April 1969, p 10. To whatever extent this was true, it illustrates a critical facet of the complex politics of this period: the intersection of the personal and the political. The process of tax reform was shaped not only by the structural constraints and

pressures within the state and the wider political economy, and by the activity of organized interest groups, but also by the personal prestige, goals, ambitions and perspectives of political leaders.

82. Cf. Telegram, (Toronto), September 2, 1969, editorial.
83. Financial Times, September 8, 1969, p 7.
84. September 1969, p 26. As noted above, the tax changes included in the October 1968 budget had been seen as important clues to the direction of government thinking. Although very much downplayed by the Minister of Finance, their common feature had been an increase in revenue derived from the extension of taxation into areas previously exempt.
85. See also Financial Times, September 8, 1969, p 8.
86. Financial Times New Service in Gazette, (Montreal), November 5, 1969.
87. Ibid.
88. Cf. a speech to the meeting of the American Iron and Steel Institute tax committee by W.A. Macdonald and report on the mining industry issued by the Toronto investment firm of W.D. Latimer: Respectively Financial Post, September 27, 1969 and quoted in Star, (Toronto), September 19, 1969.
89. Canadian Chartered Accountant, February 1969, pp 104-7.
90. Op.cit., Quirin had concluded that the Commission underestimated the adverse effect on resource production of its recommendations. Mr. Gibson argued that he did not go far enough in this conclusion.
91. Quoted in Globe and Mail, (Toronto), October 28, 1969.
92. Cf. Globe and Mail, (Toronto), September 25, 1969.
93. Globe and Mail, (Toronto), November 6, 1969.
94. Globe and Mail, (Toronto), October 23, 1969.
95. House of Commons, Debates, July 18, 1969, p 11356.
96. Ibid., July 18, 1969, p 11360.
97. Ibid., July 18, 1969, p 11361.
98. Ibid., July 18, 1969, pp 11360-1.
99. Ibid., July 18, 1969, p 11363.
100. It will be seen in the subsequent stage that the N.D.P. criticism of Senators' participation in the deliberations on tax reform continued to be relevant. Members of the Senate Committee on Banking Trade and Commerce that convened hearings on the White Paper held large numbers of directorships in some of the most powerful corporations in the country.
101. Ottawa, Queen's Printer; hereafter this document will simply be referred to as W.P.
102. W.P., p 5.
103. W.P., p 5.
104. W.P., p 5.
105. W.P., p 6.
106. C.T.F., 1970 Conference, p 255.
107. W.P., p 6.
108. W.P., p 6.

109. C.T.F., 1970 Conference, p 256.
110. Ibid., p 255.
111. W.P., p 7.
112. For an excellent analysis of these basic principles and the way in which they constrain state social and economic policy see John Westergaard, "Social Policy and Class Inequality: Some Notes on Welfare State Limits," in Ralph Miliband and John Saville (eds), The Socialist Register 1978, London, Merlin Press, 1978, pp 71-99. See also Ch 2 above.
113. For a comprehensive discussion of the way in which such structural characteristics of the economy shape the parameters of state policy see Colin Crouch, "The State, Capital and Liberal Democracy," in Colin Crouch (ed), State and Economy in Contemporary Capitalism, London, Croom Helm, 1979, pp 13-54. See also the introductory chapters above, especially Ch 3.
114. W.P., p 7.
115. W.P., p 7.
116. W.P., p 7.
117. C.T.F., 1970 Conference, p 414. This seemed to be a much stronger conclusion than had been evident several years earlier when Mr. Sharp appeared to have rejected the Royal Commission as a basis for reform.
118. Ibid., p 415.
119. Ibid., p 414.
120. W.P., p 8; this had been a common theme in government-business commentary. The implication was generally seen to be that the Commission reforms were no longer relevant.
121. W.P., p 8. The government stressed that it had not followed the Commission on increasing revenue from gift and estate taxation. The new treatment, enacted after the great pressure and controversy discussed in the preceding section, maitained existing levels.
122. W.P., p 8.
123. C.T.F., 1970 Conference, p 255.
124. W.P., pp 8-9.
125. C.T.F., 1970 Conference, p 255.
126. W.P., p 9.
127. W.P., p 36.
128. W.P., p 36.
129. W.P., pp 38-41.
130. W.P., p 88. On the basis of a sample of 100,000 1967 tax returns, the White Paper calculated estimates of the effect of the various proposed tax changes as they would apply to the structure of income of 1969; see Ch 8.
131. By contrast, the effect on state finances was contradictory. Capital gains taxation would reduce it, whereas higher exemptions would cost the revenue a great deal.
132. W.P., p 14.
133. W.P., p 9.
134. W.P., p 87.

135. W.P., Ch 2, Tables 1 and 2 for the proposed schedules.
136. W.P., p 20.
137. W.P., Ch 8, Table 15.
138. W.P., p 10.
139. W.P., p 21.
140. W.P., p 87ff.
141. W.P., p 15.
142. W.P., Ch 8, Table 15.
143. W.P., p 16.
144. W.P., p 15.
145. W.P., Ch 8, Table 15.
146. W.P., pp 17-8, Ch 8, Table 15.
147. W.P., p 23. This was the conclusion of CCH Ltd., a leading firm of legal and legislative analysts; cited in Star, (Toronto), December 4, 1969. The largest tax saving would be enjoyed by those regularly with the highest annual income who received the largest single-year increase; see the examples in Ch 2, Table 12. Such a situation would be most common within the business and professional occupations.
148. W.P., Ch 2, Tables 4-6.
149. These figures, and the apparent mathematical error, are directly from W.P., Ch 2, Table 6.
150. W.P., Ch 2, Table 10.
151. C.T.F., 1970 Conference, pp 415-16.
152. W.P., Ch 4.
153. J.R. Brown, senior tax adviser, Department of Finance, and Mr. Bryce at the C.T.F., 1970 Conference, pp 8-11, 414-17 respectively.
154. W.P., pp 53-4.
155. W.P., Ch 8, Table 15.
156. Leo Johnson, "The development of class in Canada in the twentieth century" in Gary Teeple, (ed), Capitalism and the National Question in Canada, Toronto, University of Toronto Press, 1972, p 156, Table 7.
157. W.P., p 8.
158. C.T.F., 1970 Conference, p 414.
159. W.P., p 7.
160. C.T.F., 1970 Conference, p 414.
161. W.P., pp 48-50.
162. See J.R. Brown of the Department of Finance to the C.T.F., 1970 Conference, pp 9-10 for a full explanation.
163. This was stressed by the Minister of Finance: "Much of the impetus for tax reform in the early '60s arose because of the failure of the system to embody a sound solution to the problem of taxing corporate-source income";
C.T.F., 1970 Conference, p 254.
164. Former commissioner J.H. Perry noted that the elimination of the dual rate was not accompanied by the offsetting benefits to small business recommended by the Carter Report; Globe and Mail, (Toronto), December 6, 1969.

165. Cited in C.T.F., 1970 Conference, p 11.
166. W.P., pp 45ff.
167. W.P., pp 11-12.
168. W.P., p 60.
169. W.P., p 54.
170. W.P., p 60-1.
171. W.P., pp 62-3.
172. W.P., pp 57ff.
173. W.P., pp 53-4.
174. W.P., p 71.
175. W.P., p 76.
176. W.P., pp 72-5.
177. W.P., p 53.
178. W.P., pp 92-3.
179. W.P., p 64.
180. W.P., p 13.
181. W.P., p 13.
182. W.P., p 67.
183. W.P., 67-8: the latter change would increase total corporate taxation by $10 million annually, Ch 8, Table 16.
184. W.P., p 64.
185. W.P., p 66.
186. W.P., p 94.
187. W.P., p 94.
188. M.W. Bucovetsky, Tax Reform in Canada: A Case Study of the Mining Industry, unpublished Ph.D. dissertation, University of Toronto, 1971, Table 7.2, p 251.
189. Summarized in W.P., Ch 8, Table 16.
190. W.P., p 89.
191. W.P., pp 89-90, Ch 8, Table 16.
192. W.P., p 85.
193. W.P., p 85.
194. W.P., Ch 8, p 80 specifically.
195. W.P., p 82.
196. W.P., p 90ff.
197. W.P., p 91.
198 W.P., p 91.
199. W.P., p 92.
200. W.P., p 92-4.
201. W.P., p 93.
202. C.T.F., 1970 Conference, p 417.
203. Leo Johnson, op.cit., pp 156-7.
204. W.P., pp 8-9.
205. W.P., p 9.
206. W.P., pp 8-9.
207. Cf. Westergaard, op.cit.
208. Cf. Crouch, op.cit.
209. "Problems of Tax Reform", Canadian Taxation, Winter 1979, pp 22-4.
210. Ibid., p 23.

211. Ibid., p 22.
212. Ibid., p 25.
213. See W.T. Stanbury, Business Interests and the Reform of Canadian Competition Policy, Toronto, Carswell/Methuen, 1977, p 200, for a similar formulation of the way in which corporate pressure shaped the reform of a further crucial area of state economic policy.
214. This possibility was recognized in commentary of the time. Referring to the fact that the Commission had been established by the preceding Conservative administration, Mr. Stuart Thom noted: "The government had not set the Commission up or invited its comments. When its Report came to hand, one response, which a good many people would have welcomed, would have been to say, 'Thank you, thank you so much, very stimulating; very interesting; deserves deep study.' It would then be put on a top shelf along with the reports of all other Royal Commissions, and the government would announce that it was proceeding with an orderly process of tax amendments that had been delayed while waiting for the Commission to get off the stage." C.T.F., 1970 Conference, p 15.
215. C.T.F., 1970 Conference, p 414. The inevitability of reform was recognized at an early stage by more sophisticated business commentary; cf. Canadian Chartered Accountant, May 1967, p 371.
216. See Keith G. Banting, The Welfare State and Canadian Federalism, Kingston and Montreal, McGill-Queen's University Press, 1982; Allan Moscovitch and Glenn Drover, (eds), Inequality: Essays on the Political Economy of Social Welfare, Toronto, University of Toronto Press, 1981.
217. I.H. Asper in the Globe and Mail, (Toronto), November 6, 1969.
218. C.T.F., 1970 Conference, p 255.
219. Ibid., p 257. No further information on this input was provided. As noted above, organized labour had mounted a drive to send cards to the Minister of Finance endorsing the Carter Report. The Minister may have overstated his case for significant public support. While the prospect of lower taxes for many citizens had obvious appeal, whatever support did develop was largely unfocused and unorganized. Max Saltsman, N.D.P. M.P. and finance critic during this period, argued that a central factor in the failure of widespread support to emerge was the massive business publicity and lobbying campaign against the Report; "Reflections on Tax Reform in Canada", Canadian Taxation, Winter 1979, p 25.
220. C.T.F., November 1967 Conference, p 16. This reflects an important facet of the nature of political competition. Public support for the Commission was obscured by the far more highly organized and well publicized corporate criticism of the proposals.
221. The pressure on the government to accept the Carter proposals arising from party competition could have been even stronger: "If the Conservative Party, the putative founder of the Royal Commission, had come out wholeheartedly in favour of the Report

this would have imposed very serious pressure on the present government and would have constituted a source of embarassment to them if they took it apart to see what ticked and what didn't." Phillip Vineberg, C.T.F., November 1967 Conference, p 35. That the Conservatives did not significantly endorse the Carter Commission certainly facilitated the government's retreat.

Stage Three: Conflict over the White Paper

The White Paper on Tax Reform was released on November 7, 1969 with all the secrecy and fanfare of a federal budget. Although the reforms contained in the White Paper were far more limited than those originally recommended by the Royal Commission on Taxation, they would still entail a thorough restructuring of the Canadian tax system and have a significant impact on all groups within the social structure. Even more importantly, the White Paper contained not simply the recommendations of a commission of enquiry, but was a concrete set of official government proposals. However much these proposals were open to revision, they could in some fashion eventually be implemented, and the White Paper was widely seen as indicating at least the broad outline of future legislation.[1] This enhanced significance of the White Paper within the policy process was clearly recognized by business leaders. Mr. Stuart Thom, a prominent Toronto corporate lawyer, in addressing the Canadian Tax Foundation, noted that "the Paper is a plan for action while the Report was merely food for thought."[2] For these reasons, the White Paper touched off a fierce debate on the efficacy and impact of its proposals and the direction of tax reform.

As was the case in earlier stages, the dominant force in these debates was business. The three chapters of this stage analyze the intense corporate opposition to the White Paper that quickly developed. Initial response to the proposals and the mobilization of corporate pressure it discussed in Chapter 12. The main forum for the public debate

which the government had invited on the White Paper was the hearings of key House of Commons and Senate standing committees on economic affairs. The nature of public participation in these deliberations is analyzed in Chapter 13. Chapter 14 outlines continuing pressure against the White Paper and a number of crucial government concessions in the summer of 1970. This stage concludes with the release of the report of the Commons and Senate committees in the fall of 1970.

Footnotes

1. See M.W. Bucovetsky, "Tax Reform in Canada: A Case Study of the Mining Industry," Unpublished Ph.D. Dissertation, University of Toronto, 1971, p 39; Canadian Tax Foundation, 1970 Conference, pp 1-2.
2. Ibid., p 14.

Chapter 12 Debate on the White Paper

I. Initial Response

First Public Reaction

The reaction to the White Paper in the first weeks following release was highly ambiguous. The Paper's promise that large numbers of taxpayers would benefit from the progressive impact of its reforms could have been expected to attract considerable public support. The government did claim that its mail was running 20 to 1 in favour of the proposals[1] and general media and editorial commentary had praised the programme of tax relief for low-income groups.[2] But evidence of widespread political support for the White Paper was slow to develop and important lines of opposition quickly emerged.[3]

The Minister of Finance, in what was described in the press as the "Benson road show", toured the country ostensibly to explain the reform schema. Mr. Benson also clearly hoped to garner public support for the proposals and promote those facets of the White Paper, such as the reduced tax burden on the low-income, that would be most politically popular. In fact, the Minister found himself constantly on the defensive in the face of hostile questions and sharp ciritcism. This attack was strongest when he appeared in Western Canada, where opposition to any reforms that were seen to threaten regional economic development had been particularly severe against the Royal Commission. For example, Mr. Benson was "met with a barrage of complaints and objections from chamber

members" on issues such as capital gains and resource taxation when he spoke to the Regina Chamber of Commerce. Mr. D.G. Stewart, Saskatchewan treasurer, was greatly concerned that the recommended changes would damage the provincial economy.[4] In an earlier appearance in Calgary much of the criticism directed at Mr. Benson represented the "specific interests of wealthy executives and investors in the oil business."[5] Throughout Mr. Benson's road trip, opposition to the White Paper was strongest from small business. Already angered because of the 1968 controversy over estate taxation, spokesmen for small business objected to the capital gains proposals, the heavier burden on middle income levels, and especially to the elimination of the preferential rate of corporate taxation.[6]

Initial Corporate Response

The first reaction of major corporate interests tended to be much more cautious and restrained, but at the same time distinctly equivocal. Most corporate commentary applauded the goal of tax relief for the low-income, but was uneasy about the practicality of the proposals themselves. Most importantly, there was marked apprehension about the impact of the White Paper. The mixed nature of the initial corporate reaction was well illustrated in the first pronouncements of the Canadian Manufacturers' Association. In a late November speech, Mr. L.F. Wills, president of the Association, stated that the "C.M.A. has long accepted the need for a sweeping reform of the tax system."[7] In a further press statement the C.M.A. welcomed the prospect of a fair and equitable tax structure. In this first reaction described as "both temperate and cautious", President Wills welcomed the absence from the White Paper of "some of the more

radical and unacceptable provisions of the Carter Report."[8] However, the C.M.A. reiterated its consistent opposition to capital gains taxation in a developing economy which needs large amounts of capital. It was also greatly concerned about the removal of the lower tax rate for small businesses and the heavier tax burden on the middle-income.[9]

Important sectors of the business community responded to the White Paper with considerable moderation. Such a mild tone was well expressed by the Financial Post. Its editorial described the proposals as being largely constructive and advised readers that it was "a time of keep cool", to refrain from snap judgements.[10] Others responded with obvious relief that the White Paper was not nearly as bad as it could have been. Reflecting such as initial evaluation, "the Canadian stock market responded to the White Paper proposals with the sharpest daily rise in six years."[11] Investors were also encouraged by the final removal of the long uncertainty concerning the government's reform plans and the apparent benefit to dividend-paying Canadian shares of the integration proposals. It is significant that this initial favourable market reaction came from key sectors of Canadian capital; the biggest buyers had been the major financial institutions.[12] The oil and gas industry, which had been a leading force in the opposition to the Royal Commission and had been greatly concerned that it would lose its extensive tax concessions, was also much relieved that its incentives had been left largely intact by the White Paper. Having been successful with this result, the industry was planning to press for further concessions on the calculation of depreciation allowances.[13]

Still others were far less sanguine; many business commentators were markedly uneasy about the practical economic impact of the proposals.[14] This was very clear in a number of articles by prominent executives, lawyers and tax experts on the key recommendations and their implications.[15] While these spokesmen tended to approve of the White Paper at a general level, they argued that there were a number of major problems with the proposals. For example, even though a capital gains tax had been widely expected, a severe controversy was still expected to erupt around the specific format recommended. This change and the Paper's general emphasis on fairness were seen to be good politics, but concern was expressed that the new programme could discourage saving and consequently reduce economic growth.[16] Similarly, an investment counsellor worried that the heaviest tax burden fell on those high-income strata who were the preeminent risk-takers and entrepreneurs.[17] It was also expected that considerable opposition would develop to the recommended treatment of business expenses and the five year revaluation of unrealized capital gains.[18] In addition to such extensive commentary within the business press, similar themes quickly began to appear in many discussions and gatherings within the business community. By the latter part of November, a number of seminars had already taken place in which serious concern was expressed over the economic effects of the White Paper.[19] There were also rumblings from those sectors of the corporate economy that would be most affected by the proposed changes. Representations of privately owned gas utility companies had met with the Minister of Finance to protest their being denied dividend tax credits within two weeks of the release

of the White Paper.[20] Just as quickly, the assistant treasurer of Noranda Mines had predicted that the White Paper would cause reduced investment and cancelled development of new mines.[21]

Thus, the initial reaction of the corporate sector to the White Paper was mixed. The overall response was relatively moderate. Just as with the first response to the Royal Commission, corporate representatives had expressed some support for the goals of the White Paper and the general principle of fair taxation. Given that these initial statements were very much intended for public consumption, it would have been highly impolitic to oppose such a widely accepted principle. The government had in fact expected a far more critical reception for the White Paper.[22] However, it also quickly became clear that significant apprehension had developed within the business community over the impact of the proposed tax changes on the economy. The next section details the coalescence of these initial misgivings and the development of more coherent and forceful criticism of the White Paper. Most significantly, this growing opposition came not just from organized capital, but from small business and the provincial governments as well.

II. Emergence of Opposition to the White Paper

The government had constantly emphasized that the White Paper was a set of reform proposals that were open to revision and that public participation in the further evaluation of tax policy was welcomed. The major forums for this participation were to be standing committees of the House of Commons and Senate, whose hearings on the White Paper were due to begin in January 1970. Interested groups and individuals were

urged to submit briefs and appear before the committees to present their views. In the meantime, debate on the reform proposals continued to grow. Through December of 1969 and the early months of 1970 the White Paper became the focus of increasing controversy and opposition.

Developing Corporate Opposition

The initial uneasiness of the business community over the economic impact of the White Paper had quickly hardened into severe criticism of its priorities and proposals. The predominant theme of the growing corporate opposition to the White Paper was that it would damage investment and reduce economic growth.[23] A Financial Times editorial, for example, argued that Mr. Benson ignored the most fundamental principle of reform in his proposals: "It is the need to encourage Canadians, as individuals and as corporations, to defer consumption and reinvest their earnings in productive enterprises. No tax proposals which discourage investment can be called reform."[24] Whatever early corporate acceptance there had been of general principles of fairness and equity, reduced economic growth was seen as too high a price to pay.

The increasing corporate hostility to the White Paper was being expressed in a large variety of forums. Speeches by leading businessmen attacked the proposals: the executive vice-president of the International Nickel Co. of Canada Ltd. condemned the White Paper for its static approach to the generation of wealth.[25] and the president of Chrysler Canada Ltd. told the Toronto Board of Trade Club that the proposals could "virtually eliminate the growth of small business from the Canadian economic scene."[26] A number of critical analyses of the White

Paper were prepared and circulated by leading firms: chartered accountants Riddell, Stead and Co. wrote a critique for their clients and staff,[27] and a study by the director of a Toronto investment house argued that the government had seriously underestimated the adverse effect on pools of private capital of the capital gains and other proposals.[28] Prominent corporate organizations commented on the White Paper: the board of directors of the Toronto Stock Exchange were greatly worried that the elimination of the dual rate of corporate taxation would retard the development of small business and objected to the distinction between widely and closely-held corporations.[29] Finally, the White Paper continued to be extensively discussed within the business press. Two examples of the more conservative variants of business opposition to the White Paper were editorials in the Monetary Times and Executive magazine. The former summarized general opinion: "Finance Minister Benson, with the support of the cabinet, is attempting to penalize risk, discourage savings, break down the family business and place the weightiest part of the tax burden on the productive middle income bracket."[30] The latter continued in the same vein, seeing the White Paper as part of a government plan for a new type of society. Executive saw the proposals as an increasing incursion on property rights and entailed growing public control of investment and the economy.[31]

This intensified attack on the White Paper was led by the financial sector, with a particularly prominent role being played by the chairmen of the major banks.[32] In addressing his bank's annual meeting, Neil J. McKinnon, chairman of the Canadian Imperial Bank of Commerce,

stressed that Canada had traditionally needed a great deal of capital, that the bulk of this saving had come from middle-income groups, that this had been encouraged by tax incentives, and that this had all resulted in economic growth. He argued that this process would be severely threatened under the White Paper; the proposals would make "it impossible for the private sector to accumulate private capital of consequence." He further predicted a range of drastic economic consequences which would "depress the general standard of living, particularly for the lower-income groups." Mr. McKinnon darkly concluded that "both the economic consequences of the proposals of the White Paper and the principles that underlie them constitute a threat to the Canadian economy and to the people of this nation."[33] At the annual meeting of the Bank of Montreal, its chairman G. Arnold Hart also predicted adverse effects from the White Paper. He saw this as a further troubling manifestation of growing state intervention and expenditure and emphasized the extensive public debate that had emerged: "One can only hope that the criticisms being voiced will not be taken by the government just as special pleading."[34] W.E. McLauglin, chairman of the Royal Bank, told his shareholders meeting that heavier burdens on the middle and upper-income constituted a tax on capital accumulation. He further condemned the White Paper for hindering the flow of the foreign capital so necessary for Canadian economic development.[35]

Such pressure came not only from the top executives of the three largest banks, but from other sections of the financial community as well. J. Allyn Taylor, chairman of Canada Trust and President of the

Canadian Chamber of Commerce, addressed the trust company's shareholders: "We can't afford a tax system that dampens incentive for capital investment. I believe that is exactly what the white paper proposals will do."[36] Mr. Taylor stressed that the White Paper's discouraging effect on investment must be seen in the context of the similarly damaging 1968 changes in the taxation of estates and financial companies. He stressed that "the white paper proposals have given rise to a groundswell of criticism from all across the country."[37] An issue that had attracted considerable attention within the financial sector was the recommended periodic revaluation of unrealized capital gains. In a survey of underwriters at brokerage houses, the Financial Times found "a growing feeling in financial circles that the pressure on the government to abandon the five-year revaluation of widely-held shares will be too strong to resist."[38]

Another crucial sector of the corporate economy also launched an all-out assault on the White Paper. The mining industry was quick to oppose the recommended reduction of their tax incentives and to appeal to regional economic interests and provincial governments for support in their campaign. The chief executive officer of Cominco Ltd. stated that the heavier taxation entailed in the White Paper "obviously would inevitably result in the drying up of investment in the mining industry."[39] The supervisor of taxation for Cominco noted that his company was considering shutting down a major operation of Trail, British Columbia if the White Paper were implemented and predicted that Cominco would direct its capital outside of Canada.[40] The Liberal government of Saskatchewan

had quickly called on their federal counterparts to reconsider the White Paper reforms. It was felt that proposed changes in resource taxation would fall disproportionately on the Western provinces.[41] A brief submitted by the Ontario Mining Association to Premier Robarts of Ontario argued that the White Paper threatened the province's long-term interests: "Adoption of the proposals in their present form will inevitably mean a slowing down of the growth of Ontario's mineral industry, thereby paralyzing Ontario's economy, particularly as it relates to northern Ontario."[42] The O.M.A. urged the province to initiate discussions with the federal government to develop a more favourable mining policy.

The House of Commons committee conducting hearings on the White Paper had originally set March 1 as the latest date for the receipt of briefs. While this deadline was subsequently relaxed, there was considerable pressure on interested groups to formulate their views quickly.[43] The result was that major corporations were hard at work at the preparation of briefs on the White Paper in the early months of 1970. The Ottawa Board of Trade, for example, had distributed 1200 questionnaires to its members to ascertain their reaction to the key proposals of the White Paper, the results of which would be incorporated in the Board's brief.[44] A special committee of the Toronto Stock Exchange, in conjunction with a firm of economic and financial consultants, was examining the central policy implications of the White Paper preparatory to drafting its submission to the government.[45] Similarly, the taxation committee of the Toronto Board of Trade was preparing its brief for the government and the parliamentary committees. In an editorial entitled

"Meet the Challenge" in its monthly Journal the Board set this preparation in its wider context. As the implications of the White Paper became clear, the Board's apprehension had deepened: "It sees its concern reflected in the public utterances of many outstanding Canadians and in the groundswell of protest from businessmen and middle-income Canadians whether they be engaged in business or not." The Board emphasized the serious consequences of the White Paper: "Make no mistake about it. That way of life whose disciplines of initiative and risk brought Canada its present enviable standard of living is being seriously challenged." Because of this threat, board members had a responsibility to fight the White Paper. In addition to the Board's collective brief, members were urged to write to government leaders: "Meanwhile it is imperative that members take action immediately, not only as officers of the companies which they serve, but also as individuals."[46] This plea for action was successful; the Board received numerous copies of letters to the government from its members.[47] Because the "council of the Board recognized that the White Paper proposals were of singular importance to the business community", it had established a steering committee to oversee its activities on the proposals and its standing taxation committee had conducted an in-depth study of the White Paper.[48] The board held three seminars to discuss the White Paper and exchange views on the proposals between the Boards' taxation committee and its members: "approximately 1,200 members representing hundreds of other members in a wide range of capacities in Metro Toronto attended these seminars."[49] Such feverish activity by organizations like the Toronto Board of Trade illustrates

the wider significance of the preparation of briefs for the government. It will be seen that the extensive application of corporate resources and energy to this task resulted in the development of comprehensive and impressive critiques of the reform plans and the formulation of relatively coherent counter-policies on tax changes. Equally importantly, these widespread efforts were a critical part of the growing political mobilization of the business community against the White Paper.

As has been seen above, the central theme of early business criticisms of the White Paper had been that it would adversely affect economic growth. This opposition was galvanized by a speech made by the Deputy Minister of Finance to the Canadian Bankers' Association. Mr. R. B. Bryce downplayed the reduction in private savings expected the result from the White Paper and added that "it would be quite possible to increase savings in the government sector by as much as private saving would be reduced."[50] This pronouncement touched off a great uproar within the business community, which was solidly and vehemently opposed to any shift of investment from the private to the public sector. A Financial Times editorial entitled "An alluring speech" strongly objected to Mr. Bryce's views: "The whole implication was to confirm that the tax reform white paper is based on a philosophy which considers it inherently desirable to take more savings out of private hands into government hands."[51] The Times wanted to be assured unequivocally that this was not government policy. More generally, business was deeply suspicious of the government's intentions on tax reform: there was much criticism that supporting economic studies to the White Paper conclusions had not

been made public and a widespread feeling that Department of Finance officials were isolated from public opinion.[52]

The lines of corporate opposition to particular proposals of the White Paper had also become clear by the new year. Opinion on capital gains taxation ranged from flat rejection to resigned acceptance, but all agreed that the five-year revaluation of unrealized gains was impractical. An argument that was to become an important theme of business opinion was that capital gains must be considered along with other taxes on wealth, especially estate taxation. Business had become increasingly concerned about this combined impact:

> It seems apparent that many entrepreneurs (to use the term broadly) view the White Paper as a disaster and talk of giving up or moving elsewhere. No matter how skeptical one might be of substance of these reactions, the point remains that if a certain group of people predict a stated result, it may well happen even if all the premises for the prediction are incorrect. In other words, if the new tax reform proposals are viewed by individuals with initiative, capital and ability as being punitive, the toll to the economy may be far greater than logic would support.[53]

As has been discussed at other points, however much such beliefs are based on emotional or ideological grounds rather than the concrete impact of the recommended changes, they are still highly significant. If the changes were seen to damage the climate for investment by those who control allocative capital, then regardless of their objective effect, investment could be cut. These objections to the taxation of wealth arose from the prevailing business view of the entrepreneur: "he works as hard as he does and takes the risks that he assumes for the purpose of building a business or an estate for himself, his family and his as-

sociates. If the result of this effort is 'confiscated', he loses his desire and drive."[54] The taxation of capital gains during lifetime combined with a substantial estate tax upon death would have this effect: "On the other hand, if the estate tax were eliminated (or reduced substantially) it seems that the desire to create and be productive would still remain in spite of the tax on capital gains."[55] Opinion on integration was still mixed, but all agreed that the distinction between widely and closely-held corporations must be dropped. The general feeling was that support for small business had to be far more generous than proposed, and very many opposed outright the elimination of the dual rate of corporate taxation. There had been increasing protest against the stringent limitations on allowable business expenses.[56]

Within this hardened corporate opposition, there were still a number of prominent voices who argued a more reformist perspective that braodly accepted the need for reform and the White Paper goals. Lancelot J. Smith, one of the most influential professional tax experts stated: "The white paper is a valid proposal. It is here and it has to be dealt with in a constructive manner. It cannot be dismissed as precipitously as many of its critics would wish."[57] He went on to make an even more heretical declaration: "As time goes on, I think everyone is becoming more appreciative of the wisdom and logic of the members of the Carter Royal Commission on Taxation."[58] The more reformist commentators all agreed that the distinction between widely and closely-held corporations and the five year revaluation of unrealized capital gains must be dropped, but that the other proposals could, with suitable modi-

fications, form the basis of a workable restructuring of the tax system. Such views had been argued by Mr. Smith, former Minister of Finance Walter Gordon and A.J. Little, past president of the Canadian Chamber of Commerce.[59] These more reformist attitudes were, however, by no means the preeminent themes within corporate commentary. The predominant current within the business community remained strong, and increasingly well organized, opposition to the White Paper as the basis of reform.

Small Business

From the first release of the White Paper, there had been considerable opposition from small business. This hostility quickly coalesced into an organized form with the establishment of the Canadian Council for Fair Taxation in December, 1969.[60] Although the primary impetus for the Council's formation had been opposition to the elimination of the dual rate of corporate taxation, it also strongly objected to the whole tenor of the White Paper, which it termed a "deceitful document". The C.C.F.T. had quickly received enquiries from about 300 businesses in the Toronto area, was forming chapters in other cities, and planned to organize a speakers bureau, monthly bulletin and an advertising campaign against the White Paper. The general secretary of the Council was Mr. John Bulloch, an instructor at Ryerson Polytechnical Institute and director of a family tailoring company, and other directors were presidents of local businesses. Although the C.C.F.T. was primarily an organization for small businesses, Mr. Bulloch expected support from people in all occupations and stressed that larger busines-

ses also were greatly concerned about the proposals. The Council did plan to submit a brief to the government, but did not believe that such submissions would change the government's basic philosophy on reform: "We don't believe they are going to listen to us unless we are a threat at the polls."[61] Consequently, the Council's goal was to mobilize public opinion against the White Paper.

The campaign against the proposals was spearheaded by Public Relations Services Ltd., one of the largest public relations firms in the country. Its president, John O. Hall, was also a director of the Canadian Council for Fair Taxation. The firm was well connected to both the Liberal and Conservative parties. Mr. Hall described the White Paper as a "socialistic document" and "an attempt to obliterate the middle class." He noted that the C.C.F.T. expected to raise between $300,000 and $500,000 for its campaign, had already got pledges of $50,000 and planned to "carry this fight into the next federal election."[62] Other similar groups were also being favoured to combat the White Paper. The Committee of Concerned Londoners was orgnized in December and claimed to have attracted considerable local business support. This group opposed the elimination of the lower rate of corporate taxation, the harsh capital gains tax, the higher revenue yield of the proposals and the overall thrust of the White Paper, which it saw as being "directed toward socialism in its truest sense."[63]

The mobilization of small business opposition continued to build momentum through early 1970. The Canadian Council for Fair Taxation pursued its goals of killing the White Paper and forcing the resig-

nation of the Minister of Finance, and in uniting middle class Canadians in this opposition. The Council, with a growing membership of 6000, sought to provoke a revolt within the Liberal caucus against the proposals by organizing public protest and by urging its supporters to vote in the next election only for those candidates who opposed the White Paper.[64] The Council's message was put forth at a February rally of three thousand[65] and a stormy meeting in which the Minister of Finance was subjected to harsh criticism from small businessmen and upper and middle-income earners.[66] Council secretary-general John Bulloch was enthusiastic after a two-week trip through western Canada in which he found extensive opposition to the White Paper and support for the Council's campaign.[67] By April, the Council's membership had grown to 12,000 and further ralliеswere planned across the country. In a speech to the Canadian Importers' Association, Mr. Bulloch said that the council had applied for a government charter to become a permanent political body.[68] Other groups also continued to be active in the battle. Over one thousand people had contributed a total of $40,000 to a fund established by London businessman Colin Brown to oppose the White Paper. Mr. Brown had placed full-page advertisements in newspapers across the country urging taxpayers to write their M.P.s and more than 34,000 people had sent clippings from the advertisements opposing the proposals to Ottawa.[69]

This pervasive protest from small business had a twofold significance. First of all, it marked the emergence of small business as an organized political force. This category had traditionally been seen

as an important constituency by the major political parties; politicians often paid lip-service to the idea that small businesses were the bedrock of the economy and society. In the past, pressure from small business had also occasionally been an important factor in policy formation; for example, protests to individual Members of Parliament over 1968 estate tax changes were an important factor in the subsequent government retreat. However, small business had never been a permanent presence in policy deliberations. It was the campaign against the White Paper that saw the emergence for the first time of small business as an organized and relatively coherent force in the political realm.[70]

Secondly, and of more immediate importance, the mobilization of small business against the White Paper added to the already pervasive opposition from major corporate interests. The small business campaign against the reform proposals was stridently right-wing: the White Paper was constantly portrayed as a socialistic document perpetrated by left-wingers in government.[71] The tenor of this hostility was so extreme that a number of more sophisticated corporate commentators were decidedly uneasy. Lancelot J. Smith objected to such "irresponsible" criticism: "Emotional and intemperate condemnations, accompanied by loud clamors that the white paper will ruin small business, destroy the economic base of the country and cause a new brain drain, leave me astonished."[72] The Financial Post wryly commented on the "remarkable bedfellows" in the attack on the proposals: "There is evidence, for instance, that one of Canada's largest financial institutions is helping to bankroll a group protesting the loss of lower tax rates for smaller companies."[73] Not-

withstanding the harshness of their rhetoric, the small business pressure was not far removed from the more conservative thrust of corporate opinion that predicted that the White Paper would shake the foundations of the Canadian economy and way of life. The Canadian Council for Fair Taxation and other small business spokesmen stressed very similar themes as more powerful corporate interests.

This widespread small business campaign generated extensive publicity and a great deal of mail to the government against the White Paper.[74] While there is no evidence that these protests were highly informed, the government still had to be sensitive to such expressions of public dissatisfaction. The effectiveness of this campaign was enhanced by its focus on issues, such as capital gains and the elimination of the dual rate of corporate taxation of widespread emotional appeal.[75] The White Paper was portrayed as confiscating private property and savings, sapping initiative and incentive, destroying family businesses and threatening the very basis of the Canadian economy.[76] Such messages were coming not just from small business, but from the highly skilled publicists of major corporate organizations as well. The cumulative effect was the creation of a climate of opinion sharply hostile to the White Paper.

The well organized protest of small business reinforced the extensive opposition of dominant corporate interests to the recommendations. The stridency of the small business campaign made the criticisms of major corporations and associations seem reasonable and moderate by contrast. Whatever the specific influence of small business demands,

they added a further important layer to the pervasive hostility faced by the government over its reform proposals. As it was formulating its final policy, it would seem to the government that it was confronted by a business community united in solid opposition to the White Paper.

III. Political Context

Provincial Opposition

Debate on the White Paper was complicated by a number of further developments within the political system. First of all, the federal reform proposals were also attracting increasing provincial hostility. As noted above, opposition to the White Paper had developed soon after its release in the Western provinces. In late November, the Saskatchewan provincial Liberal Party convention overwhelmingly approved a resolution expressing "grave concern" over the long-term effects of the proposals on the West and particularly their province.[77] A statement signed by the premiers of British Columbia, Alberta and Saskatchewan described the White Paper as "little short of disastrous to Western Canada" and completely unacceptable to their provinces. Premier Thatcher of Saskatchewan warned Prime Minister Trudeau of the danger of Western separation if such problems were not attended to.[78]

Provincial opposition to the White Paper was especially pronounced at the federal-provincial finance ministers' conference in mid-December, 1969. The main provincial objections closely paralleled the main themes of prevailing corporate criticisms of the White Paper. This was very clear in a major critique of the federal proposals presented by the Ontario government. Ontario favoured tax credits rather than

higher personal exemptions to aid low-income taxpayers. Provincial treasurer Charles MacNaughton argued that the elimination of the dual rate and other changes in business taxation would "inhibit growth and expansion of small businesses, penalize scarce entrepreneurial talent, and deter new, innovative, high-rish enterprises.[79] He called for the moderation of the White Paper treatment of small business or the introduction of additional more favourable incentives, and also questioned the proposed limitation of resource incentives. Ontario further argued that death duties should be gradually eliminated with the implementation of capital gains taxation. The federal Minister of Finance announced that three key aspects of the White Paper would be reconsidered in light of the major provincial criticisms: the elimination of the dual rate, taxation of unrealized capital gains and the elimination of existing resource concessions.[80]

Provincial opposition to the White Paper continued to grow during the early months of 1970 and Ontario came to play an increasingly leading role. In a speech to the Society of Industrial Accountants of Ontario, Mr. MacNaughton argued that the federal proposals were inflationary and designed to reduce the provincial share of total income tax revenue.[81] Premier John Robarts presented a severe critique of the White Paper to the Financial Executives Institute.[82] The Ontario government supported the principle of capital gains taxation, but felt that the federal proposals were far too stringent. The Premier condemned the treatment of small businesses as having "a devastating impact on Canadian initiative and independence. It could spell the end of the

small business developed by individuals, which has been the well-spring of our economic success and strength through more than one hundred years."[83] Mr. Robarts also joined with "many conscientious Canadians" in the concern that the "reduction in personal and corporate savings will severely curtail our long-run potential for growth." He further objected to the White Paper's lack of consideration of provincial fiscal problems and the large tax increase of $1300 million (12% over existing levels) entailed by the proposed structure.[84]

The significance of provincial opposition to the White Paper was clearly recognized and much discussed within the business community. One leading commentator argued that a sustained effort by the major provinces, especially Ontario, would be required to force significant changes to the White Paper.[85] As this provincial opposition developed, its effect was to powerfully reinforce prevailing objections to the proposals from business sources.[86] So much so that more reformist corporate spokesmen were alarmed, as they had been with the extremist small business pressure. It was felt that Premier Robarts' harsh attack on the White Paper lent considerable support to the right-wing groups opposing the reforms.[87] If this pressure forced the abandonment of the White Paper, then no other government would dare to propose necessary rationalizations to the tax structure for many years.[88]

Partisan Political Competition

To further compound the pressure against the government, Profressive Conservative leader of the Opposition Robert Stanfield had launched a national campaign against the White Paper in February.[89] This was

announced at the end of a Conservative Party policy conference on the reform proposals. Party leaders had concluded that the White Paper would be the major issue in the next election and seized upon an all-out attack on the proposals as the means to reinvigorate the party's sagging fortunes.[90] Mr. Stanfield called for the immediate withdrawal of the White Paper and put forth a series of alternatives: all with incomes below official poverty levels to be removed entirely from the tax rolls; rates that would foster small business; less stringently applied capital gains at a 25% rather than 50% rate; integration of estate and capital gains taxation; and closer coordination of federal, provincial and municipal taxation.[91] Mr. Stanfield pressed this message in a three month cross-country campaign in which he travelled over 50,000 miles, spoke in 26 cities and gave numerous press conferences.[92] In common with many businessmen, he clearly saw the proposals as a further encroachment of the government into the private sector: "The White Paper reflects a desire to siphon off, to transfer, a very substantial block of private resources - savings or what not - into the public realm." He further condemned the White Paper's willingness "to sacrifice certain active parts of the community - small corporations, for example - with relatively small gain in revenue" and "to subject middle-income groups to substantially higher rates."[93] Several of Mr. Stanfield's party colleagues were far more strident in their attacks. Two Conservative M.P.'s from Alberta compared Mr. Benson to Karl Marx and the White Paper to the Communist Manifesto and argued that the purpose of the reforms was to seize private capital and individual property.[94]

Pressures Facing the Government

The government had anticipated strong corporate hostility against the reform proposals.[95] This proved correct: the initial uneasy but cautious appraisal of the White Paper quickly hardened into virtually total rejection of its basic priorities and central recommendations. What the government had not envisioned was the rise of a highly organized and extremely right-wing opposition, based largely upon small business. Such pressure was reinforced by the partisan attacks of the federal Conservatives and the growing opposition of provincial governments. The increasing tempo of this pervasive opposition had apparently struck a responsive chord in the public mood. Mail to the Minister of Finance, which initially had been 20-1 in favour of the proposals, had by early January become mainly critical.[96] As attacks on the White Paper continued to build through the early months of 1970, "organized opposition, at the grass roots level, was fanned to a hysterical pitch, mainly through expensive advertising campaigns. At the height of these campaigns, letters of protest were said to be arriving in Ottawa at the rate of 7000 daily."[97] As noted above, individual M.P.'s had also received a great deal of critical mail, including many coupons clipped from advertisements opposing the proposals. Conservative party headquarters was also receiving many protests against the White Paper.[98]

What all of this meant is that tax reform had become a very hot political issue for the government and that the White Paper could prove to be a distinct liability in terms of public and electoral support. The efforts of small business organizations had been especially effective.

As noted above, the Canadian Council for Fair Taxation had hoped to spark a revolt amongst the Liberal caucus and had asked its members to vote only for those candidates who opposed the White Paper in the next election.[99] Feeling this pressure, Liberal M.P.'s in turn pressed the government to retreat from the White Paper.[100] In early parliamentary debates in December, 1969, several Liberal members severely criticized the proposals and announced their intention of voting against them.[101] Individual M.P.'s were also speaking against the White Paper outside of the House: Liberal Judd Buchanan told one hundred executives at a meeting of the Canadian Industrial Management Association that he would not vote for the White Paper.[102] Pressure on the federal government was also being exerted by provincial Liberal parties: Ontario Liberals opposed the Paper out of fear that it would become valuable ammunition for their Conservative opponents in the next election.[103]

Government Response

The first response of the government to the White Paper's hostile reception was to attempt to justify its central proposals. In a series of speeches to business and professional meetings, the Minister of Finance stoutly defended the revaluation of unrealized capital gains, the government's need for revenue and the elimination of the lower rate of corporate tax.[104] Mr. Benson criticized the Canadian Council for Fair Taxation for its efforts to mobilize opposition to the White Paper rather than contribute to constructive reform, and wondered whether the Council was really an organization of big businessmen masquerading as small businessmen to gain tax advantages.[105] This strategy did not prove

notably successful and opposition continued to build. The government then quickly responded with a number of early concessions: the treatment of capital gains on bonds and mortgages and of profits of private utility enterprises would be relaxed.[106] The government also reiterated, as it had stressed before the release of the White Paper, that the proposals were open to revision. On Mr. Benson's first western tour to promote the newly published White Paper, he stated: "We're willing to change anything if you can convince the government that it would be in the public interest to do so."[107] In a later January speech, as opposition to the White Paper solidified, Mr. Benson stated that there would be major changes in the reform proposals before they became legislation. He told 600 businessmen at the Canadian Club of Toronto's annual luncheon with the federal Minister of Finance that "some things in it simply won't work."[108] He refused to specify the unworkable proposals, but promised to do so when appearing before the imminent parliamentary committee hearings. Mr. Benson urged those with ideas on how to improve these proposals to present them to the parliamentary committee.

The government's original strategy had been to wait out the expected opposition as the White Paper was being examined by the parliamentary committees and then put forth compromise legislature.[109] However, the tremendous pressure against the White Paper, far more than ever anticipated by officials, could force quicker action. In late February, a Toronto Globe and Mail editorial urged the Minister of Finance to defuse the pervasive, and in their view often hysterical, opposition by dropping the most objectionable proposals.[110] If this was

not done, the majority of the White Paper that was both sound and necessary could not be salvaged, and the overall process of reform would be rejected by the public. As noted above, this possibility had been the source of some anxiety among the more reformist business spokesmen. There was great concern that the heated partisan political debates and extremist hostility against the White Paper would in effect harden the battlelines on the key issues of reform. By forcing the government either to stubbornly defend its position or to make precipitate and unwarranted concessions, this could hinder the revision of the proposals and the objective and rational reformulation of policy.[111] Business was also aware of the constraints on government concessions to the enormous pressure it faced. Concessions to small business, for example, "are highly unlikely to be made at the expense of the low-income taxpayer. They are unlikely to be made at the expense of federal revenues either: the government can be expected to guard its extra income with all its might."[112]

Limited Defense of the White Paper

One of the major reasons the drive against the White Paper was felt so strongly by the government was the relative lack of any sustained defense of the reform proposals from outside the state. There was certainly some public support for the White Paper, but it in no way matched the resources and zeal of the campaign against the reforms. As had been seen, there were voices within the corporate sector who felt that the White Paper, with suitable modifications, could serve as the basis of a reformed fiscal system.[113] Such limited corporate support for re-

form provided the government with little relief; the predominant thrust of business opinion and pressure was solidly critical of the White Paper.

More explicit support for progressive tax reform came from a number of directions. The president of the Canadian Labour Congress, Donald MacDonald, issued a statement on the White Paper three days after its release.[114] He noted that "the need for a drastic reform in our Canadian tax structure has long been apparent" and that the C.L.C. had endorsed the general proposals of the Royal Commission. The White Paper, however, would not fundamentally correct the unfair distribution of the tax burden and was a retreat from these goals: "While the government's White Paper in principle has recognized the inequitable nature of our tax system and is proposing some modifications of existing inequities, it has stopped far short of recommending what we believe should have been a drastic reform in Canadian taxation." It did not eliminate the regressive federal manufacturing sales tax, yielded only small savings for low-income taxpayers and "fails to provide for proportionate tax increases for those with higher incomes." The Congress planned to present its views to the parliamentary committee: "At these hearings, the C.L.C., which has for years stood for a fairer distribution of the tax burden, will put forward a strong case on behalf of Canada's workers."[115] The New Democratic Party had also long called for progressive reform and had supported the Carter proposals. Their first reaction was very similar to that of organized labour. Donald MacDonald, an Ontario M.P.P., prepared a brief on the proposals: "the general thrust of the White Paper is in the right direction. The N.D.P. welcomes the moves to greater equity in the tax structure."[116] But the party had many fundamental

criticisms: the reliance on personal exemptions rather than tax credits, the departure from the Carter concept of a comprehensive tax base, concessions to the mining industry and "in typical Liberal fashion, the proposals shift the burden from the lower-income groups, and fix it more heavily on middle-income groups, while reducing it for the higher-income groups." Credit unions also objected to proposals to treat their operations like standard businesses.[117]

Thus, there were organized interests pressing the government to bring in progressive tax changes. The government itself has stressed that the White Paper would help low-income Canadians and it would be hard to abandon this promise. Of further importance was the great personal commitment of the Minister of Finance to tax reform. However, the pervasive opposition to the White Paper from Canadian capital, small business and provincial governments sharply reduced the significance of these factors and their political advantage to the government. It was the massive attack on the proposals from business that was of central importance as debate shifted to the hearings of the parlimentary committees.

Footnotes

1. Star, (Toronto), January 10, 1970.
2. For an overview see Globe and Mail, (Toronto), December 11, 1969.
3. Cf. John Saywell, (ed), The Canadian Annual Review for 1969, Toronto, University of Toronto Press, 1970, p 322.
4. Herald, (Calgary), December 19, 1969.
5. Chronicle-Herald, (Halifax), November 25, 1969.
6. See Financial Times, November 24, 1969, Saywell, op.cit., p 322, Globe and Mail, (Toronto), November 24, 1969.
7. Industrial Canada, January 1970, pp 53-4. This is highly ironic given the C.M.A.'s strong opposition to the "sweeping" proposals of the Carter Commission.
8. Cited in Chronicle-Herald, (Quebec), December 2, 1969.
9. Industrial Canada, January 1970, p 54.
10. November 15, 1969, p 1.
11. Ibid.; Financial Post, November 22, 1969.
12. Financial Post, November 15, 1969, p 1.
13. Financial Post, November 29, 1969, p 12.
14. See Saywell, op.cit., p 322.
15. Included in a special section of the Financial Post, November 15, 1969, pp 17-24.
16. Ibid., p 17; the column by W.A. Macdonald, whose commentary on the debates surrounding the Carter Report had been such an excellent source on business opinion and activity.
17. Ibid., p 19.
18. Ibid., p 1.
19. For example, the tax seminars sponsored by Victoria and Grey Trust Co. in Toronto and the Chartered Institute of Secretaries in Vancouver. See respectively Gazette, (Montreal), November 28, 1969 and Province, (Vancouver), November 27, 1969.
20. Financial Post, November 22, 1969. In contrast to the general trend, "prices of almost all the investor-owned gas and electric stocks have fallen since publication of the White Paper."
21. Financial Post, November 15, 1969, p 20.
22. According to Liberal M.P. Paul St. Pierre, "White Paper: success or failure?", Canadian Business, October, 1970, p 72.
23. For a general overview of the developing lines of opposition see Financial Times, December 8, 1969; Financial Post, January 10, 1970. There was also extensive coverage in the general media: cf. Star, (Toronto), January 10, 1970.
24. December 8, 1969.
25. La Presse, (Montreal), December 4, 1969.
26. Journal, (Ottawa), January 6, 1970.
27. Serialized in Chronicle-Herald, (Halifax), December 22, 1969.
28. Globe and Mail, (Toronto), January 1, 1970.
29. Chronicle-Herald, (Halifax), January 16, 1970.
30. Monetary Times, December 1969, p 23.
31. Executive, January 1970, p 18.

32. See Saywell, op.cit., p 322.
33. Toronto Board of Trade Journal, January, 1970, pp 2-3.
34. Ibid., p 4.
35. Globe and Mail, (Toronto), January 9, 1970.
36. Financial Post, February 21, 1970, p 6.
37. Ibid., p 6.
38. December 29, 1969.
39. Gazette, (Montreal), December 3, 1969.
40. Sun, (Vancouver), November 29, 1969.
41. Gazette, (Montreal), December 3, 1969.
42. Quoted in Gazette, (Montreal), December 9, 1969.
43. Financial Post, January 17, 1970, p 5.
44. Citizen, (Ottawa), December 30, 1969.
45. Chronicle-Herald, (Halifax), January 16, 1970. As always, the great economic resources of the corporate sector enable extensive use to be made of such professional expertise and advise.
46. Toronto Board of Trade Journal, February, 1970, p 5. A detailed summary of the White Paper with explanatory commentary was also published.
47. The following material is drawn from the Preface to the Board's submission; House of Commons, Standing Committee on Finance, Trade and Economic Affairs, June 9, 1970, pp 151-52.
48. Ibid., p 151.
49. Ibid., p 152.
50. Financial Times, February 16, 1970.
51. Ibid.
52. Cf. Financial Post, February 28, 1970, p 5; Financial Times, February 2, 1970. Such concerns were part of a more generalized unease with state economic intervention and unhappiness with government efforts to control inflation and fiscal policy; a column in Business Quarterly, Spring, 1970, p 83 speculated on the issue of "Has Ottawa turned anti-business?" and noted the widespread business feeling that this was so.
53. Donald R. Huggett, "Down with estate tax" Canadian Chartered Accountant, February 1970, p 121; also published in Executive, April, 1970, pp 32-35.
54. Canadian Chartered Accountant, February, 1970, p 122.
55. Ibid., p 122. Such arguments were buttressed by commonly expressed and virtually unquestioned assumptions about the nature of the Canadian social structure: "Of course, social policy might dictate that large accumulations of wealth be taxed from time to time so that the supply of capital and wealth does not become concentrated in the hands of a few. This problem does not exist in Canada"; p 122. In fact, the ownership of wealth, especially corporate, was highly concentrated during this period. In 1970, the wealthiest 10% of Canadian families owned 58% of all assets, the top 5% held 43.4% and the top 1% owned 19.6% of all assets. The ownership of financial assets was even more concentrated: the richest 10% of families owned 69.1% of such assets as deposits, cash, bonds, stocks and mortgages. This data is from the federal government's Survey of Consumer Finances as reviewed by Lars Osberg, Economic Inequality in Canada, Toronto, Butterworths, 1981, pp 36-37.

56. There was some expectation that Mr. Benson would retreat on this issue. It is interesting to note that this build-up of pressure had been predicted by senior tax officials when the White Paper was first released. Financial Post, December 6, 1969.
57. Financial Post, February 28, 1970, p 7. Mr. Smith was chairman of the Ontario Committee on Taxation from 1962 to 1967, a former chairman of the Canadian Tax Foundation and incoming president of the Canadian Institute of Chartered Accountants.
58. Ibid., p 7.
59. Financial Post, February 28, 1970, p 5.
60. Globe and Mail, (Toronto), December 19, 1969. For a polemic against the White Paper which clearly summarizes the tempo of small business opposition see I.H. Asper, The Benson Iceberg, Toronto, Clarke Irwin and Co., 1970, Ch 12. Mr. Asper was a Winnipeg lawyer, prominent figure in the Manitoba Liberal party and columnist in the Globe and Mail and other newspapers.
61. Globe and Mail, (Toronto), December 19, 1969.
62. Herald, (Calgary), December 27, 1969; a campaign which its advertisement described as "an all-out attack on the White Paper proposals".
63. Globe and Mail, (Toronto), January 1, 1970.
64. Gazette, (Montreal), January 23, 1970.
65. Telegram, (Toronto), February 13, 1970.
66. Citizen, (Ottawa), February 11, 1970; Telegram, (Toronto), February 11, 1970.
67. Telegram, (Toronto), April 28, 1970.
68. Telegram, (Toronto), April 3, 1970.
69. Star, (Toronto), February 20, 1970.
70. This development was to be of lasting significance. The ad hoc C.C.F.T. was succeeded by the Canadian Federation of Independent Business as the paramount organization of small business. This group has continued to represent the interests of small business to the state. See Rein Peterson, Small Business. Building a Balanced Economy, Erin, Porcepic, 1977, p 133.
71. According to Mr. Bullock of the C.C.F.T.: "This is a very left wing document devised by the left wing liberals now in control of the Government and the left wing civil service establishment people who wrote it." Telegram, (Toronto), April 28, 1970.
72. Financial Post, February 28, 1970, p 7.
73. January 10, 1970, Mr. John Hall of the C.C.F.T. denied that the Canadian Imperial Bank of Commerce was financing the Council; Herald, (Calgary), December 27, 1969.
74. There was some question of the genuineness of this input: an angry letter in the Globe and Mail stated that the writer's name had been forged in a newspaper clipping sent to his M.P. without his knowledge. Cited in Walter Stewart, Shrug: Trudeau in Power, Toronto, New Press, 1971, p 100.
75. M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate" in A. Paul Pross, (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975, p 98.

76. The appeal of these charges was so widespread because these institutions were central to the dominant ideology of capitalist society. Thus, government reforms that seemed to restrict them could be portrayed as threatening the cornerstone of society.
77. Leader-Post, (Regina), December 3, 1969.
78. Telegram, (Toronto), December 9, 1969.
79. Globe and Mail, (Toronto), December 13, 1969.
80. Tribune, (Winnipeg), December 13, 1969.
81. Star, (Toronto), January 23, 1970.
82. Excerpted in Financial Post, February 21, 1970, p 7.
83. Ibid., Mr. Robarts was one of several premiers who supported small business' opposition to the White Paper: "Saskatchewan's Premier Thatcher, in particular, sees errors in the proposals and hears in them the funeral march for small business, upon the success of which so much of the prairie economy is based", Asper, op.cit., p 221.
84. Financial Post, February 21, 1970, p 7. Much the same themes had earlier been expressed by Mr. MacNaughton, as discussed above, and by Mr. Robarts in an earlier speech to the annual meeting of the Conservative party; see Globe and Mail, (Toronto), December 8, 1969.
85. W.A. Macdonald in the Financial Post, December 13, 1969, p 8.
86. The pervasive and accelerating build-up of protest against the White Paper must be emphasized. In one week in February the following events, discussed separately above, occured: on Sunday 3000 hostile people attended a C.C.F.T. rally, on Monday full-page advertisements sponsored by Mr. Colin Brown appeared in major newspapers, on Tuesday Mr. Benson was heavily criticized at a Toronto citizen's forum, and the same day Premier Robarts made a key speech attacking the proposals; Financial Times, February 16, 1970.
87. In an earlier speech Mr. Robarts has explicitly claimed the White Paper had "great socialistic overtones." He objected to the basic philosophy of transferring savings from the private to public sector and argued that the proposals, which he described as "an instrument of social reform", "may change the face of Canada as we have known it." Telegram, (Toronto), February 13, 1970.
88. Financial Times, February 16, 1970.
89. Gazette, (Montreal), February 17, 1970.
90. John Saywell, (ed), The Canadian Annual Review for 1970, Toronto, University of Toronto Press, 1971, pp 172-73.
91. Gazette, (Montreal), February 17, 1970.
92. Saywell, 1971, op.cit., p 173. It was not politically possible for Mr. Stanfield to join with the various groups protesting the White Paper, but he did not regard them unfavourably: "More power to them but we won't be connected with any special private groups." Citizen, (Ottawa), February 11, 1970.
93. Star, (Toronto), March 7, 1970, cited in Saywell, 1971, op.cit., p 173.
94. Star, (Toronto), February 23, 1970.

95. Before releasing the White Paper aides to the Minister of Finance had prepared a forecast of public reaction; Star, (Toronto), February 26, 1970. In addition: "Shortly after the White Paper was tabled, Finance Minister Benson acknowledged that his proposal for the tax treatment of small, medium and intermediate-sized business would attract widespread criticism"; Asper, op.cit., p 221.
96. Star, (Toronto), January 10, 1970.
97. M.W. Bucovetsky and R.M. Bird, "Tax Reform in Canada: A Progress Report," National Tax Journal, XXV, I, March 1972, p 22.
98. Financial Times, February 16, 1970.
99. Gazette, (Montreal), January 23, 1970.
100. This possibility was recognized shortly after the publication of the White Paper. The Financial Times, November 24, 1969, reported widespread speculation that the proposed withdrawal of the lower rate for small businesses could prove to be a fatal weakness of the reform programme:

> The reasoning runs that small businessmen are the financial backbone of the Liberal Party (indeed Mr. Benson's Calgary appearance was before a $50-a-plate Liberal fund-raising dinner") and that small businessmen across the country will "get to" their local MPs by threatening to withdraw their financial support if the proposals are passed.
>
> This presumably would result in a caucus battle of the kind which blew up over Mr. Walter Gordon's foreign ownership policies. And if its gets to that state, the grass-roots MPs will be hard to beat.

101. Telegram, (Toronto), December 13, 1969.
102. Star, (Toronto), April 21, 1970.
103. Free Press, (London), February 21, 1970.
104. Cf. Gazette, (Montreal), December 6, 1969; Chronicle-Herald, (Quebec), December 18, 1969.
105. Ibid.; Globe and Mail, (Toronto), December 19, 1969.
106. Tribune, (Winnipeg), December 2, 1969.
107. Financial Times, November 24, 1969.
108. Gazette, (Montreal), January 6, 1970.
109. Star, (Toronto), February 26, 1970.
110. February 24, 1970.
111. Cf. Financial Post, January 10, 1970, editorial.
112. Financial Times, November 24, 1969, editorial.
113. In addition to the already noted speech by Lancelot J. Smith to the Society of Industrial Accountants (Financial Post, February 28, 1970, p 7-8), see lawyer Stuart Thom to a Queen's University seminar on taxation (Star, (Toronto), February 23, 1970) and former member of the Royal Commission on Taxation and then executive director of the Canadian Bankers Association, J.H. Perry (Canadian Banker, November-December, 1969, pp 12-15).
114. Canadian Labour, November, 1969, p 5.
115. Canadian Labour, December, 1969, p 4.

116. Cited in Chronicle-Herald, (Halifax), November 25, 1969. See also the party's position in the parliamentary debates on the White Paper; summarized in Leader-Post, (Regina), December 2, 1969.
117. See Financial Post, November 22, 1969. The N.D.P. supported the credit unions in this regard.

Chapter 13 Participatory Democracy: The 1970 Hearings of the Parliamentary Committees

I. Parliamentary Committee Hearings on the White Paper

In the spring of 1970 the growing opposition to the White Paper shifted its focus. In December 1969, after a heated parliamentary debate, the White Paper was referred to the House of Commons Standing Committee on Finance, Trade and Economic Affairs and the Standing Senate Committee on Banking, Trade and Commerce which would examine the reform proposals, hear the views of any interested parties and report the conclusions of their deliberations.[1] It was these hearings that became the major forum for public debate on tax reform. From March to August 1970, the Commons Committee held well over one hundred meetings in which it received 211 briefs presented by 820 individuals. Including those submissions not presented in the public hearings, the committee received a total of 524 briefs, as well as 1093 letters and other submissions.[2] The Committee's final Report stressed the unprecedented scale of this public input into the policy process: "the submissions with respect to the White Paper proposals for tax reform represent the greatest input of opinion and suggestion any Canadian Parliamentary Committee has encountered...The degree of public participation in the formulation of tax policy, as far as your Committee is aware, is unparalleled. Brief after brief, whether supporting or critical of specific proposals, commended this process."[3] What the Committee did not indicate, but was in fact highly crucial, was the highly unequal nature of this participation. The tremendous political and

economic resources of capital enabled corporate enterprises and associations to dominate the hearings.

The White Paper Hearings and the Policy Process

The government's publication of its proposals for tax reform in the form of a white paper was by no means unique. White papers on a wide range of issues had become increasingly common in the post-war period as means of presenting government policy and the relevant background information with which to evaluate it, and of preparing and testing public opinion. They had become an important technique used by governments to consult with interested groups and organizations on the direction of policy as it was being formulated. These developments were reinforced by a number of procedural changes that had increased the importance of parliamentary committees as forums for the discussion of government policy.[4] The committees examined witnesses, conducted detailed analyses of central policy questions and made recommendations to the government. Their hearings, which not only directly contributed to the committees' deliberations but were also closely followed by the government, provided an arena in which the opinions of interested organizations and outside expertise could be brought directly into the process of state policy formation.

These trends were of great significance in the process of tax reform. The White Paper on Tax Reform had been issued as a set of tentative and flexible proposals for public discussion and for subsequent revision on the basis of that discussion. The parliamentary committees, especially the House of Commons committee, were to be the main locus of this discussion. The Minister of Finance stressed the importance of these

arrangements within the formulation of state policy: "The White Paper process now permits Canadian individuals and groups to make a contribution to the modification and consolidation of related decisions at an intermediate stage."[5] Such contributions were seen to be highly significant: "Expert knowledge needed for governmental action is most likely to be be found among the affected parties, who are most anxious to offer their assistance. By holding a public debate prior to the drafting of legislation, the government was able to avail itself of this information before it undertook the implementation of its final policy."[6] The government's emphasis on public involvement and constant declarations that the committee deliberations would be of great influence in its final conclusions were to prove an important constraint on its freedom of action. The government could hardly then ignore the findings and recommendations of the committees. To do so would destroy the credibility of the reform process and of the government's commitment to public participation, a theme much proclaimed by the Trudeau administration.

The importance of these general developments was much discussed within the business community.[7] The Financial Post saw the increasing use of parliamentary committees as policy forums as a significant facet of the overall rationalization of the governmental process.[8] More specifically, business attached great importance to the committee hearings on the White Paper and took its participation in these deliberations very seriously. The large number of businessmen who strongly opposed the White Paper saw the hearings as the focus for their efforts to prevent its adoption. Other more moderate spokesmen, who recognized the need for tax

changes but who wanted alterations in the government proposals, saw the hearings, in conjunction with federal-provincial discussion, as the forum in which a consensus on moderate reforms could be built. Major corporate interests had been devoting considerable time and resources to the elaboration of their policy on tax reform and to the preparation of briefs on the White Paper virtually since its release. As this preparation continued early in 1970 business argued that tax reform was too vital an issue to be rushed and that the Commons Committee's deadline of March 1 for briefs was unrealistic.[9] The Financial Post stressed that "responsible and constructive briefs" could not be prepared so quickly because the government had not yet amplified its own proposals before the Committee, provided the promised supplemental background papers on the effects of the White Paper, or indicated the modifications it planned; and because the reform proposals, which had themselves taken years to prepare, were so complicated. The deadline had reinforced suspicions that the Minister of Finance, whatever his frequent pronouncements did not really welcome public participation: "What is at stake is not merely wise tax reform, but even more important, the credibility of the federal government as a government with whom it is possible to have effective communication."[10]

It was also frequently stressed that the large numbers of submissions being prepared by business associations and major corporations were not motivated solely by self-interest, but also by a genuine concern for the economic impact of the proposals on all members of Canadian society.[11] The thrust of such business commentary was that the government must be attentive to the opinions expressed in the parliamentary hearings

and that corporate input to these deliberations, which business well knew it would predominate, would be a "responsible and constructive" contribution to the development of an optimum tax structure. Such arguments were, in effect, attempting to define the context in which the committee hearings took place. Business sought to ensure that its many comprehensive briefs and impressive delegations would significantly influence the committee deliberations and the conclusions of their reports, conclusions which the government could not then ignore. At the same time, corporate input to the policy process was not being confined solely to the parliamentary committees; state officials also reviewed the briefs and many of the business submissions were presented directly to ministers and their advisers as well as the committees. In addition, the briefs were released with great publicity and corporate appearances before the committee were extensively discussed in the media. Business participation in these formal deliberations must be seen as part of its overall campaign of public pressure against the White Paper.

Government Appearances Before the Parliamentary Committees

The hearings of the Commons committee on the White Paper opened with the testimony of the Minister of Finance and his top advisers.[12] Mr. Benson stressed once again the government's flexibility: "We are willing to change any proposals that are in the White Paper if the government can be convinced. Largely I would think it would come through the work of this committee that proposals should be changed."[13] Mr. Benson faced criticism from committee members that the White Paper would damage small business, treat the middle classes unfairly, contribute to inflation and discourage investment and incentive.

The examination of government officials by the Senate committee was much harsher. This tougher stance was applauded by the Financial Times: "The inhabitants of 'the other place' may not have the showmanship of some of their counterparts in the Commons, but they do have a sense of what matters and what does not. What matters about the white paper is its effect on the future of the Canadian economy - and the Senators got down to the guts of the matter with alacrity."[14] The response of Robert Bryce, Former Deputy Minister of Finance and then the top adviser on tax reform to Mr. Benson, to this questioning and to the milder queries from the Commons committee, was not reassuring to business. Mr. Bryce admitted to the Senate Committee that the proposals would tend to increase saving and decrease spending, but argued vaguely that the effect could be slight.[15] He told the Commons committee that the government viewed whatever economic effects the White Paper had as acceptable in light of the benefits of the reforms.[16] Business alarm at these bland assurances must be seen in the context of the very widespread suspicion of the Department of Finance for not providing background papers on the precise economic impact of the proposals and for appearing unresponsive to public opinion on the tax changes.[17] Prevailing anxiety was highlighted by the Financial Times: "This paucity of information can only be called irresponsible considering the dimensions of the change the government is proposing...It is almost unbelievable that the government could not have anticipated a demand for as detailed a breakdown as possible on the probable economic effects of the proposals." While admitting that some opposition to the White Paper was self-interested, the Times editorial went on to argue that "it would

be difficult for the most disinterested person to judge between the degree of equity it offers and the economic results without knowing what it will cost in terms of jobs. It is not equitable to tax people less and at the same time create an economic climate which puts their jobs in jeopardy."[18] There were widespread demands that the government concretely answer such changes.

The government's performance before the parliamentary committee was hardly successful. Its representatives had been faced with major criticisms and harsh questioning, especially from the Senate committee. Official testimony had certainly done little to dispel widespread anxiety over the economic impact of the proposals and reassure the many critics of the White Paper. It was also clear that the members of the parliamentary committees, including Liberal Members of Parliament, were by no means convinced of the wisdom of the government proposals and were receptive to prevailing criticisms of the White Paper. It was in this context that the public hearings of the committees began. The policy perspectives and demands put forth in the massive business input to the Commons and Senate committees will be examined in the next section. The submissions of a range of other organizations will be analysed and the nature of the participation of these competing interests and policy alternatives in the hearings will then be compared.

III. Corporate Submissions on the White Paper

Over 140 highly impressive briefs from individual corporations and industry and trade associations were presented to the Commons committee. Even more importantly, the extensive discussion and debate within

the business community that had gone into the formulation of this response to the White Paper had resulted in the coalescence of corporate opinion around a number of consistent themes. Within variations of emphasis and sophistication, the massive corporate input to the committees presented the government with a clearly defined and consistent set of policy demands on the direction of tax reform.

Priorities of Reform

The fundamental premise of corporate policy on taxation had been quite consistent throughout the protracted debates on reform. In briefs to the Royal Commission hearings, in submissions to the government on the Carter Report and in continuing commentary and pressure, business had strongly argued that economic growth must be the primary goal of the tax system and fiscal policy. This remained the starting point for its appraisal of the White Paper. The major thrust of the business opposition that quickly developed to the White Paper was that the reforms would damage economic growth. This view was elaborated and amplified in the formal submissions. The over-riding theme of corporate input to the parliamentary committees was that the White Paper's choice of priorities was inadequate and that the implications of its overall framework and key recommendations for economic growth were unacceptable.

Most businessmen did not object to the White Paper's general goal of equitable taxation in principle. However, throughout the business briefs, there was profound disagreement with the White Paper's primary emphasis on equity and the balance it struck between the competing objectives of tax reform. None of the submissions openly rejected the import-

ance of equity or of tax relief for the low-income, but many questioned the cost of the proposed changes to achieve these ends. The Canadian Institute of Chartered Accountants, for example, was deeply concerned that the changes designed to shift the tax burden from the low-income would result "in such a reduction in incentives and savings that it causes a reduction in the rate of economic growth, with deleterious effects on all Canadians regardless of their circumstances."[19] In an individual brief, G. Arnold Hart, chairman and chief executive officer of the Bank of Montreal and one of the most powerful executives in the country, accepted "without reservation the fact that it is both necessary and desirable to find some economic means of lessening the tax burden on those of our people who are least able to bear it", but went on to argue for alternative, less costly means of providing the necessary tax relief.[20]

There was a clear consensus that the goal of greater equity must not be pursued at the expense of economic growth. As well as by such powerful groups as the Canadian Manufacturers' Association[21] and the Canadian Petroleum Association,[22] this was expressed by a specific organization formed by leading businessmen in 1968 to promote economic growth as a central policy priority. The Canadian Growth Association had presented a brief to the Minister of Finance in November 1968 "pointing out the unsatisfactory treatment of the concept of growth in the Royal Commission on Taxation Report" and had followed this up with meetings with the Minister and his top officials.[23] Appearing before the Commons Committee, the Association was still greatly concerned with "the aim of growth has been subordinated to the desire for equity in the White Paper proposals."[24]

The Toronto Stock Exchange believed that sustained economic growth was a critical prerequisite to the achievement of all other economic and social goals. It would be a "hollow victory" to attain a more equal distribution of income, if the total income to be divided was much less than it could have been.[25] The business submissions were not arguing that equity should be disregarded, but rather they emphasized that sustained economic growth was the essential precondition for improving the quality of life of all Canadians, especially the low-income.[26] Such a view, of course, leaves the attainment of social goals such as equity dependent upon private capital, who control the resources which shape the tempo of economic development.

Most significantly of all, the great majority of corporate briefs concurred with the Canadian Chamber of Commerce that the overall effect of the White Paper "would be seriously harmful to Canada's growth, prosperity and employment."[27], and with the Canadian Manufacturers' Association that the proposals, especially those that shifted the incidence of taxation, would reduce initiative and capital investment.[28] It was also widely predicted that the uncertainty engendered by such major reform proposals would have very damaging economic consequences. This view was strongly argued by the Hon. E.C. Manning, Senator, former Social Credit Premier of Alberta and director of a number of major corporations, when he appeared before the Committee on behalf of the Investment Dealers' Association.[29] Introducing the I.D.A. brief, Senator Manning identified an "economic and social climate that stimulates incentive and inspires confidence" as one of the major requirements for economic stability. On

this score, Senator Manning, like so many other corporate spokesmen, was highly critical of the White Paper:

> I am sure the Committee is also concerned about the impact uncertainty with respect to tax proposals has on confidence, incentive and the business and social climate of the nation. Since its publication, concern engendered by the White Paper has resulted in the deferment of hundreds of millions of dollars of industrial and commercial expansion. In the national interest it is of the utmost importance that this concern be removed.[30]

Thus, the verdict of the business community on the guiding priorities of the White Paper was unanimous. Brief after brief condemned the emphasis on equity at the expense of economic growth and many corporate submissions argued that the proposed changes would seriously damage economic growth. For this most fundamental of all reasons, the White Paper package could not be accepted as the basis of reform.

The Scope of Reform

Many corporate organizations also objected to the sweeping nature of the White Paper recommendations. The most forthright statement came from the Trust Companies Association of Canada: "We do not accept the apparent philosophy of the Carter Commission and of the White Paper proposals that the existing legislation be abandoned in favour of an entirely new system...It has become apparent that the White Paper does not contain proposals aimed primarily at realistic tax reform but at achieving a new social structure in Canada by means of revolutionary changes in our taxation system. A lack of realism is apparent throughout." While recognizing the need for change, the trust companies argued that "true reform can best be affected by continuing evolution of the existing legislation."[31]

It was strongly argued by many organizations, including the Canadian Bar Association, Canadian Institute of Chartered Accountants, Investment Dealers' Association and the Toronto Stock Exchange, that tax changes should be instituted in a gradual manner.[32] Reforms envisioned by business, of a far more limited nature than those recommended by the White Paper, would entail adjustments to the existing system rather than its total restructuring.

Personal Income Taxation

Just as business had publicly accepted the principles of equity and fairness, many corporate submissions had applauded the general goal of reducing the tax burden of lower income groups. However, in the same way that business had strongly opposed the White Paper's primary emphasis on equity in practice, there was also great unease about the way in which the goal of lower taxes for the less affluent was to be achieved. A large number of corporate briefs were extremely apprehensive about the effect of shifting the tax burden on to the middle and upper-income strata.[33] It was widely felt that the higher burdens of a more progressive rate structure would stifle initiative and incentive. The Toronto Board of Trade put forth a typical statement of this belief: "With higher middle income tax rates and capital gains tax, work incentive for managers will be reduced,...resulting in a reduction in the pool of managerial and entrepreneurial talent so essential to the achievement of growth."[34] More significantly, business worried that the proposed heavier taxation would fall on precisely those groups who had funds available to invest and whose willingness to invest their capital could be seriously undermined.

Capital Gains and the Taxation of Wealth

The taxation of property and income from property ownership was, not surprisingly, a major focus of business submissions to the parliamentary committees. It had been widely expected that some form of capital gains taxation would be included in the reform proposals, but the precise changes recommended were greeted with strong opposition from the corporate sector. Some organizations remained flatly opposed to any capital gains taxation. The Canadian Manufacturers' Association and the Canadian Chamber of Commerce both reiterated their long-standing argument that the current stage of economic development in Canada required large amounts of capital and that incentives for this necessary investment would be limited by such taxation.[35]

The majority of corporate briefs had either come to accept capital gains taxation in principle, or had recognized at least that its enactment in some form was inevitable. Nonetheless, these submissions, as well as those that opposed any capital gains tax at all, invariably condemned the White Paper recommendations as being excessively severe.[36] There was virtually unanimous corporate opposition to the proposed five-year periodic revaluation of unrealized gains as unworkable in practise and punitive in its effect. While many briefs accepted that short-term speculative gains could be reasonably taxed as income, it was strongly felt that long-term capital investment should be exempt or taxed at a much reduced level. Similarly, inflationary gains and those from the disposal of personal property should not be taxed.[37] A range of counter proposals were put forth to soften the impact of capital gains taxation.

The Canadian Petroleum Association argued that, if a capital gains tax was considered necessary, its maximum should be 25% and personal property must be exempted.[38] The Toronto Stock Exchange recommended that only one-third of capital gains be included in income.[39] Alcan Aluminum presented a frequent argument: "Capital gains tax should be levied on only half of all long-term gains as in the U.S.A."[40] The Canadian Chamber of Commerce also stressed the distinction between speculative and long-term gains; their solution was to tax gains on assets held for less than three years, with the exception of personal property and principal residences, at full rates, but to tax 50% of gains from assets owned longer than three years.[41]

As was the case in earlier opposition to the White Paper, the corporate submissions did not treat capital gains tax in insolation, but saw it as closely related to the taxation of wealth in general. The Toronto Stock Exchange, for example, argued: "To simply add a capital gains tax to the existing unadjusted estate tax system would be to penalize Canadian capital unconsciously, and this to the detriment of the future growth of the Canadian economy and the future standard of living of all Canadians."[42] It was recommended that as capital gains come into force, the level of estate tax should be reduced.[43] The taxation of capital gains was also related to the recommended reduction of the top marginal rates of personal income taxation. Corporate submissions naturally applauded this prospect, but insisted that the rates should be reduced at once rather than gradually over a five year period. According to the Canadian Bar Association, "the inclusion of capital gains in the tax base will result in virtually confiscatory taxation for those who make gains in the first few years of the new tax system unless the top margin-

al rates of tax are reduced immediately, rather than gradually over a five-year period as proposed in the White Paper."[44]

Other Facets of Personal Income Taxation

The business briefs commented on a further range of specific features of personal income taxation. The concept of income averaging was supported, but the White Paper provisions were seen as being too restrictive.[45] There was also general support for wider deductions for child care and employment expenses. There was much less enthusiasm for the major means the White Paper proposed by which to reduce the taxes on low income groups, higher personal exemptions. A number of corporate organizations preferred the use of tax credits rather than universal exemptions.[46] This alternative had been attracting a fair amount of public discussion and significant support from politicians, including the leaders of both the federal New Democratic and Conservative parties.[47] Most important here was the Ontario government, which argued that tax credits were more effective in reducing the tax burden of the low income at a lower cost.[48] The federal government rejected this approach and reiterated its reliance on personal exemptions in a background paper submitted to the parliamentary committees by the Department of Finance.[49]

Far more important than these specific points was the overall thrust of corporate opinion. A consistent theme throughout business briefs was opposition to the key proposals that would increase the progressivity of personal income taxation. This direction of business pressure was in no way surprising; it reflected the interests of the capitalist class and closely associated managerial and professional strata as

owners of capital and other forms of wealth and as recipients of high levels of income.

Corporate Taxation

The type of tax regime most conducive to profitable corporate activity attracted considerable attention in business input to the committees. A familiar set of themes was expressed in brief after brief. The submissions stressed how important a favourable tax climate was to the stimulation of investment and production and to the continued growth of their particular industry. It was consistently argued that such a climate was threatened by the White Paper reforms and that the sweeping changes proposed would severely restrict incentives for investment and expansion. There was some uneasiness that the overall level of corporate taxation would be increased. Alcan Aluminum, for example, "takes exception to the general high levels of tax rates suggested and specifically cautions against letting the tax reform proposals unnecessarily produce higher corporate taxes as a side effect."[50] Strong opposition to the key changes proposed in the system of business taxation tended to coalesce around a number of critical issues.

Corporations and their Shareholders[51]

Integral to the government's plans for the restructuring of business taxation were the differential treatment of closely and widely-held corporations and the integration of personal and corporate taxation of business profits. It was these key proposals that attracted the most sustained and heated corporate opposition. Briefs of major firms and associations from all sectors of the economy argued that there must be no dis-

tinction between widely and closely-held corporations in the treatment of dividend income and capital gains.[52] Such a distinction was held to be discriminatory, inequitable, unworkable and bound to produce distortions in capital markets and corporate behaviour. The effect of the distinction would be to provide more favourable tax treatment for private companies. In a sustained critique, the Canadian Bar Association argued that this would inhibit successful private companies from offering shares to the public.[53] Its members had reported that the White Paper proposals had already had a pronounced effect in this regard. Reporting on the Canadian Bar Association's strong criticism of integration, the Globe and Mail noted that it "repeated doubts about the proposals voiced by many of the witnesses before Senate and Commons committees studying the White Paper."[54] At first glance, this corporate rejection of integration appears paradoxical, since these changes would be advantageous to those earning dividends and owning stocks that would appreciate in value. However, as in earlier stages, the fundamental reason was that integration was so closely interlinked with other objectionable reforms such as capital gains tax and the distinctions between closely and widely-held and Canadian and foreign-controlled corporations. Additionally, the effect of integration was seen to be too disruptive in financial and capital markets. This was stressed by the Investment Dealers Association, who supported the principle of integration and whose members would presumably have benefited from its stimulative effect in the stock market, but who nonetheless opposed the White Paper proposals.[55] Most corporate submissions called instead for the retention of the existing system of dividend tax credits. A common proposal, from the Canadian Manufacturers' Association and the Toronto Board of Trade among others, would increase the dividend tax credit from

20% to 25%.[56] This opposition to what Toronto lawyer H.P. Crawford, appearing for the Canadian Bar Association, had termed the principal structural flaw of the White Paper was apparently having an effect. A report in the Globe and Mail stated that there was "growing doubt in Ottawa about the future of the integration proposals." The vice-chairman of the House of Commons Committee, Liberal M.P. Alastair Gillespie and leading N.D.P. member Max Saltsman had expressed serious reservations during the hearings.[57]

Taxation of Small Businesses

The recommended removal of the lower rate of tax on the first $35,000 of corporate income was also the focus of intense criticism. It was flatly opposed by a number of powerful corporate groups; the Canadian Manufacturers' Association, for example, argued that it was necessary to compensate for smaller companies' greater difficulty in obtaining growth capital.[58] This recommendation was a major focus of the harsh attack on the White Paper from the Canadian Council for Fair Taxation. A spokesman for the council told the Commons committee that it "represents the small average man in Canada who has no voice in the affairs of the country because he has no organization to help him...we do not speak for big business and we do not represent any special interest groups."[59] On behalf of small business, the Council categorically rejected the elimination of the dual rate of corporate tax. It strongly argued that the loss of this vital incentive would reduce incentives to establish new businesses and severely restrict possibilities for expansion. It further argued that a growing small business sector was essential to a healthy national economy

and that this contribution was threatened by the White Paper.[60]

A large number of corporate organizations, while accepting the general arguments for neutrality, argued that incentives for small business had to be far more substantial than the White Paper had proposed. The Canadian Bankers Association saw accelerated capital cost allowances, investment tax credits or investment reserves as substitutes for the dual rate. Until such adequate incentives were developed the existing system should be retained.[61] A number of briefs tacitly admitted that larger corporations did not need the benefits of the dual rate by proposing various concessions for only those firms with profits below a certain level.[62] These demands that there be adequate incentives for small business, whether through the existing dual rate or through various modifications, carried forward one of the most pervasive points of opposition to the White Paper since its release. This sustained opposition was also apparently having an important effect on political deliberations. John Bulloch, general secretary of the Canadian Council for Fair Taxation, noted of the House of Commons committee that "my own discussions with many of the members individually has convinced me that there is not a great divergence between our views."[63] In earlier government appearances before the committee, the members had expressed great concern, and sharply questioned officials, on the impact of the proposals on small business.[64]

The Taxation of Business Operations

The White Paper proposed a series of changes in the taxation of routine business operations. Business briefs approved of several recommendations such as the expansion of the range of deductible expenses

like goodwill known as "nothings", but general opinion on most specific recommendations was far less favourable. Significant here was the extensive corporate opposition to the White Paper's stringent restrictions on deductions for business entertainment expenses which the Canadian Chamber of Commerce termed "indefensible in principle and constitute a discrimination between business practices."[65] Firms involved in the entertainment industry also strongly objected to the restrictions. The owners of Maple Leaf Gardens and the Montreal Forum told the Senate Committee that the proposals could mean the death of hockey in Canada. This argument struck a responsive chord within at least one member of the committee. Senator Hartland Molson, whose family owned the Montreal Forum and Molson breweries and who was a director of many other prominent corporations, argued that entertainment expenses was an "unhappy phrase" and that "business promotion expenses" was a better term for deductible seats at a hockey game.[66]

General corporate organizations, specialized bodies such as the Canadian Export Association[67] and major multinational corporations such as Rio Tinto Zinc[68] argued that uncertainty surrounding the White Paper and particular proposals such as integration would have an adverse impact on international corporate activity. In addition, a very important ad hoc group of internationally active Canadian and foreign controlled corporations had been formed to press for the withdrawal of the White Paper proposals that would limit their interests. The submission of the Association of International Business Corporations was supported by Massey-Ferguson, Distillers Corporation Seagrams, Hunter Douglas, Hiram Walker,

Gooderham and Worts, Fraser Companies, Acquitaine Company of Canada Ltd. and Rio-Tinto Zinc.[69] Mr. Phillip Vineberg, Q.C., appearing as counsel for this group, explained that the White Paper recommendations would have "grave consequences" for the planning and operations of international companies: the White Paper would result in "discrimination" against investment and activity in countries with which Canada did not have a tax treaty, it would greatly complicate the recognition of corporations outside of the country, and its treatment of dividends and expenses from abroad was inadequate. In presenting the Association's argument to the Commons Committee Mr. Vineberg noted that "we thought it might be helpful for the members to have some American reaction."[70] The Association had enlisted the support of two very prominent individuals: Mr Mortimer Caplin, former Commissioner of Internal Revenue in the United States, and Mr. Stanford Ross, former Assistant Tax Legislative Counsel in the U.S. Treasury Department and White House assistant on economic affairs. Similar concerns were expressed by Mr. Caplin again and by Mr. Robert Scott, vice-president of the U.S. National Foreign Trade Council, before the Senate committee. They asserted that the White Paper would discourage foreign investment in Canada and make it very difficult to negotiate a tax treaty with the United States.[71] Mr. Scott stressed the harmful consequences for U.S. corporations of the five year revaluation of unrealized capital gains on the increased value of their Canadian investments. These potentially large tax levies would not be allowed as credits against American corporate taxes. This argument was favourably received by the Senators. The chairman of the committee, Senator Walter Hayden, noted that Union Carbide,

a major U.S. industrial corporation, estimated that the revaluation provision for capital gains tax would cost the firm $9,000,000. Senator Hayden was himself a director of Union Carbide Canada Ltd., as well as Rio Algom Mines, the Bank of Nova Scotia and over a dozen other corporations.[72]

All of this amounted to a clear message to the parliamentary committees that tax changes must not hinder foreign capital in Canada or the activity of Canadian corporations abroad. This was the view not only of these specific sectors, but of the great majority of corporate spokesmen. While commonly supporting the White Paper's general principle of encouraging Canadian ownership, they emphasized that the tax structure must not restrict the inflow of foreign capital which had made such an important contribution in the past and which was necessary for continued economic expansion.[73] The force of this argument was reinforced by the structure of the Canadian economy with its high level of foreign ownership, dependence upon international trade and close integration with the United States economy. The international implications of the White Paper were also much criticized outside of the committee hearings. After a June Ottawa meeting with top federal officials, Mr. David Rockefeller, president of the Chase Manhattan Bank and one of the most powerful individuals in international capitalist circles, was asked to comment on the implications of Quebec separation for investment. He replied that the White Paper would have a much greater effect in detering investment, "especially those provisions which call for taxes on unrealized capital gains and the effect of the new system on minerals and basic resource

industries."[74] This sustained corporate opposition did not go unnoticed in the committee deliberations. As the House of Commons committee hearings wound up with the final appearance of the Minister of Finance, the vice-chairman, Alistair Gillespie, showed a particular interest in multinational corporations: "The tax system should serve national interests, and our national interests are going to be best served if we recognize the multinational nature of corporate activity." He went on to argue that Canada will "have to sponsor and encourage its own multinational corporations."[75]

Resource Sector

As at earlier stages, the most concentrated attack on the reform proposals came from the resource industries. The tenor and thrust of this pressure varied because the particular industries would be affected by the White Paper programme in very different ways. The proposals would have a relatively limited detrimental impact on the major oil and gas producers. The key recommendation for them was that of earned depletion, but the largest corporations had been spending a sufficient amount on exploration and development to qualify for their existing level of depletion allowance. This prompted the industry's aggressive tactics in their submissions to the parliamentary committees and pressure in the government: "Having withstood the most repugnant of the Carter Commission recommendations, it was not argued that existing concessions were insufficient."[76]

For example, both the industry's major association and its largest corporation, the Canadian Petroleum Association and Imperial Oil, called for more favourable gross depletion allowances. The former specif-

ically demanded "a depletion allowance of 20 per cent of production profits before deducting exploration and development expenditures."[77] A very similar formulation had been put forth by Hudson's Bay Oil and Gas Company. The effect of this alternative would be to eliminate virtually all income tax for petroleum firms.[78]

The case for the favourable tax treatment of the resource industries was also supported by major provincial governments, especially from Western Canada. The Alberta government's submission to the Commons committee strongly opposed the White Paper recommendations on the petroleum industry and stressed the tremendous importance of the industry within the provincial economy: "It is obviously desirable to preserve the economic stability of the petroleum industry."[79] If the White Paper was implemented, the Alberta brief expected investment in the industry to decline by 10-25% between 1970 and 1980 and capital for further development of the Athabasca tar sands could be withdrawn. To prevent these eventualities, the provincial government made a number of recommendations very similar to those of the industry: replace existing depletion allowances with one calculated on a gross basis, remove proposed restrictions on exploration and development costs and royalty income, and reconsider the withdrawal of the three-year exemption for new mines "in order that development of the Athabasca Oil Sands and other mining ventures can be encouraged."[80] It must be emphasized that Alberta was dependent upon the oil industry not only for the underpinning of the provincial economy, but also for the fiscal viability of the provincial state (37 per cent of revenue came from the industry). If petroleum investments declined as expected, then the

provincial government would lose between $600 million and $1 billion of potential revenue between 1970 and 1980.[81]

The loss of tax incentives that would result from the White Paper's implementation was much more severe for the mining industry. One result of this was the sheer volume of input to the Commons committee; about 20% of all briefs were from mining interests. A second result was the far more defensive strategy adopted by the mining as compared to the oil and gas industry: "Having more to lose, the mining industry seemed prepared to concede some of its existing tax advantages if it might retain the more significant ones."[82] Mining briefs to the parliamentary committees tended to share a moderate tone and a number of consistent themes: "An effort seems to have been made to co-ordinate the protests and to make the concilitory. The federal government would have great difficulty gainsaying a campaign that was both massive and temperate."[83] Industry briefs reiterated common themes from earlier junctures on the great importance of mining to the economy, especially of the less developed regions, and of favourable tax incentives to the continued growth of the industry. Disastrous consequences were predicted if major incentives were eliminated. The president of the Mining Association of Canada argued that the White Paper proposals would increase the industry's overall rate of tax from one third to about 60 per cent and that this would virtually eliminate the incentive element of the existing provisions, reduce the value of new discoveries and discourage new investment.[84] While the stridency of earlier industry reaction to the Carter Report had been much moderated, there was still a clear implication that produc-

tion and development would be cut back and capital withdrawn if the White Paper proposals were adapted.

Mining strategy was not to blindly defend their existing treatment, but rather, recognizing that there was great pressure to reduce or eliminate the incentives, to attempt to ameliorate eventual changes so that industry interests were not unduly damaged. To this end, the Mining Association of Canada emphasized that "the overriding principle must be to retain effective incentive levels comparable to those in force." For the Association, this meant that the goal of reform must be to "increase the effectiveness of the incentive provisions without increasing their cost, or to reduce their cost without material loss of incentive. In our view, this objective can be reached without upsetting the whole of the present system".[85] The M.A.C. and other industry representatives then put forth a number of alternative proposals as compromises between the existing incentives and the radical reduction recommended by the White Paper. Bucovetsky's major study of the mining industry's campaign against tax reform found that the briefs tended to focus on four major lines of compromise: they were willing to concede an upper limit to the three-year exemption for new mines, they recommended broadening the base for earned depletion to include processing beyond the milling stage, they called for an additional automatic allowance beyond earned depletion, and they urged that concurrent provincial taxes on mining profit be taken into account by the federal government[86]

The resource sector was not alone in its demands for preserving these incentives, but was strongly supported by other key elements of

Canadian capital. The leading industrial organization, the Canadian Manufacturers' Association, argued that the White Paper would reduce the growth of the extractive industries which in turn would adversely affect secondary industry and exports, and urged that the existing concessions be retained.[87] The steel industry, with its dependence on mining for raw material and its extensive ownership of iron ore mines, was vitally concerned with the resource incentives. The Algoma Steel Corporation, Dominion Foundaries and Steel, and the Steel Company of Canada, which accounted for 80 per cent of iron and steel output and mined and consumed 20 per cent of iron ore produced in Canada, presented a comprehensive joint brief.[88] They argued that the proposed changes would cut the rate of return on new iron ore mines by more than 40% and consequently reduce development. This would increase the cost of steel making in Canada, make it increasingly difficult to raise the necessary large amounts of capital, and curtail the expansion of the steel industry.[89]

Support for the mining incentives was also taken up by the powerful central provinces. One of the major reforms proposed by the Ontario government was the "introduction of positive new incentives for the natural resource industries, incentives which will keep Canadian mining competitive internationally and encourage increased mineral processing in Canada."[90] Of the major policy propositions put forth by the mining industry outlined above, the Ontario brief supported all four and a statement by the Premier of Quebec to a meeting of Ministers of Finance supported three. Bucovetsky argued further that the provincial governments played a central role in encouraging the more conciliatory attitude of

the mining industry.[91] At the least, the arguments of the major provincial governments provided powerful reinforcement and legitimacy to the struggle of the resource industries to safeguard their tax concessions.

State Fiscal Policy

There was also extensive business commentary on the wider fiscal implications of the White Paper. The higher level of revenue that the proposed tax structure would yield had already attracted a great deal of controversy in the months preceding the hearings. One of the more consistent themes of the corporate input to the parliamentary committees was strong opposition to this revenue increase. Leading the way on the point was the Canadian Bankers' Association, which opened its brief with a scathing attack on the basic priorities of the White Paper:

> Although the proposals for tax reform are put forward to achieve a better and more acceptable tax structure, it is our view that these essential objectives are being adversely affected by proposals which would collect substantial additional taxes and increase the total tax burden. This burden will be particularly onerous on the income groups whose work and investment is crucial to the overall economic well-being of Canada. In addition, the proposals appear to contemplate a substantial shift of the gross national product from the private to the public sector, It is our view that the implementation of the proposals would result in the inhibiting of incentives to work and save the curtailment of economic growth.[92]

There was considerable criticism that the difficulties of assessing the impact of the reform proposals were further complicated "by the need to assess the likely consequences of simultaneous and substantial increases in yield."[93] Such opposition was often linked to a more general suspicion of growing state economic intervention; the Trust Companies Association of Canada darkly wondered to what use the increased revenue was to

be put.[94] A number of organizations opposed the apparent shift of investment from the private sector to the government.[95] In this regard, Mr. T.J. Bell, president of Abitibi Paper Co. Ltd., referred to an issue around which a great deal of conflict had been raging: "Mr. Bryce, who I understand was one of the major authors of the document, has suggested that the capital to be redeployed would be much more usefully used in the public sector than in the private sector, and I think it is that philosophy that we disagree with. If we believe in the private enterprise system, it seems to me the private sector should be employing capital to provide economic growth."[96]

Federal-Provincial Relations

The federal-provincial implications of the White Paper also attracted much attention. Many corporate briefs were apprehensive that the potential inter-governmental conflict that could result from the proposals would create serious problems for overall political and fiscal stability. A common theme was that any tax reforms finally implemented must be acceptable to the provinces. A concern for fiscal coordination and adequate levels of revenue for the junior levels of government was also expressed in the Alberta and Ontario submissions to the Commons committee. In addition, the broad outlines of their policy closely paralleled that of the corporate sector. The perspective of the Alberta government resembled the more hard-line corporate opponents of the White Paper. Alberta argued that the White Paper and other federal policy pronouncements "have created a serious cloud of uncertainty for both domestic and foreign investors" and that this could

hinder the investment of sufficient capital, especially in the resource industries, necessary to maintain economic growth.[97] It firmly rejected the overall reform package and key proposals on capital gains, integration and the elimination of the dual rate of corporate taxation.[98] Alberta, like the great bulk of corporate opinion, endorsed the goal of tax relief for low income groups: "However, while we agree with this objective in principle, we believe that it is preferrable to achieve it through implementation of policies designed to maximize economic growth rather than to stress redistribution of the tax burden."[99] The policy of the Ontario government was much closer to the more reformist currents within the business community. The Hon. Charles MacNaughton, Ontario Treasurer, stressed that reform was "Primarily a matter of redistributing tax burdens so that every Canadian bears his fair share of taxes."[100] At the same time, Mr. MacNaughton was highly critical of the White Paper for its "inadequate consideration of the economic consequences which would flow from such a new, high-tax regime."[101] The Ontario government developed a series of reforms designed to both create a more equitable tax structure and stimulate economic growth; it stressed that "real tax reform should foster rather than inhibit savings, investment and economic growth. The key to a higher standard of living, and improved quality of life and greater opportunities for all Canadians, is a dynamic and efficient economy producing a growing national income for distribution among our citizens."[102] For corporate taxation specifically, the Ontario recommendations entailed only "modest adjustments" and would retain significant incentives for pro-

duction and development.[103] The basic thrust of the provincial briefs supported the prevailing corporate critique of the White Paper and reinforced the business emphasis on tax policy that would encourage economic growth. Given this close correspondence of provincial and corporate perspectives, it was hardly surprising that business would call for provincial agreement and participation in any tax reforms.

Conclusions: Corporate Policy on the White Paper

There was considerable variation in the corporate briefs' sophistication and scope of analysis, and in the degree of reform which the particular firm or industry could countenance. These ranged from the hard-line rejection of the White Paper and progressive reform of any substance to the more reformist view that the proposals could serve as an acceptable framework for tax changes, albeit with major modifications. This diversity was far less significant than it appeared on the surface; there was substantial agreement on fundamental issues. The White Paper's primary emphasis on equity met with consistent resistance and all corporate input emphasized that economic growth must be the primary policy goal. Following from this corporate opposition had centred upon a number of key proposals. Its basic assumption was that the tax system must provide significant incentives and a favourable climate for investment in order to stimulate economic growth. The submissions were highly critical of those recommendations that were seen to bear heavily on the affluent and property-owning strata and limit the accumulation of capital, such as harsher capital gains tax and steeply progressive personal taxation. Similarly, there was much

hostility to changes seen to restrict profit maximization and hinder business operations such as integration, the removal of the dual rate and the reduction of resource incentives. This massive corporate input to the parliamentary committees confronted the government with a solid wall of opposition to the basic thrust of the White Paper. This, of course, reflected the class interests of those groups who had a direct stake in the process and prospects of corporate expansion and capital accumulation.

III. Alternative Policy Perspectives

The government had frequently stated that it attached great importance to the briefs on the White Paper submitted to the parliamentary committees. If this input of interested parties was to be influential in the formulation of state policy, then it becomes crucial to analyze two interrelated issues: the nature of the policy perspectives put forth by the various groups and individuals, and the manner in which the competing viewpoints were presented. The first problem, the policy demands and priorities of the submissions, will be addressed here. It has been shown that the large number of business briefs had argued strongly that tax changes must not be allowed to restrict economic growth. The impact of this corporate advise would be to eliminate or sharply reduce the progressive effect of the recommended reforms. But the committees also heard from a range of other organizations, some of which favoured much more progressive changes than did business.[104]

Organized Labour

In the debates on tax reform to this point, it had been the union movement that had most consistently criticized the unequal nature of the existing structure and demanded changes that would improve its fairness and equity. This viewpoint was emphasized in the submission presented to the parliamentary committees by the Canadian Labour Congress. The C.L.C.'s brief was a great deal milder than its initial reaction to the White Paper, when it had criticized the government's major retreat from the Carter Commission. The Congress applauded the progressive intentions of the proposals: "we believe that the White Paper, in general, has also made a significant contribution in both exposing the highly inequitable tax system we now have, and in suggesting ways in which to make the tax system more equitable."[105] The C.L.C. criticized the government for postponing reform of sales taxation, whose impact the White Paper had recognized to be highly regressive. The recommended changes in the structure of personal income taxation were also questioned; the reduction for low income groups was a very small amount and the increases for middle income earners was much larger than for the high income. The Congress strongly endorsed capital gains taxation, but agreed with business in opposing any distinction between widely and closely-held corporations. It supported the elimination of the dual rate of corporate taxation, but argued that the development of new businesses should still be encouraged through other more effective tax incentives and by ensuring easier access of small business to capital. Finally, the C.L.C. objected to the charge

common in the business campaign against the White Paper that the reforms were designed to increase government revenues: "While we believe firmly that government expenditures should be efficiently planned, we see nothing wrong with rising government expenditures to meet important needs of society."[106]

Further Support for Progressive Reforms

The general principle of progressive taxation was also approved by the Canadian Welfare Council. Appearing before the two committees in June, the Council saw itself as the first organization "to speak generally on behalf of the neglected sectors of Canadian life" and strongly "called for an equitable tax system, with the interests of low-income Canadians particularly in mind."[107] The C.W.C. was highly critical of the government for failing to relate tax reform to the overall system of social security and for postponing discussion of the family as the basic unit of taxation in the White Paper. It preferred the more progressive impact of specific allowances to universal tax exemptions. The C.W.C. also defended government expenditures and called for "increased investment for social purposes" in improved benefits for low-income.[108] Thus, a very few organizations did emphasize the necessity of progressive reform of the tax system. This did provide a distinct, if limited, alternative to the overwhelming corporate emphasis on economic growth and a favourable climate for investment. The competing groups also supported a number of proposals to which business was opposed. But they did not provide a sustained overall defense of the White Paper in the face of tremendous business pressure. While

labour and welfare organizations supported the progressive principles of the White Paper, there was no endorsement of the government proposals as the definitive move in this direction.

IV. Public Participation in the White Paper Hearings

The parliamentary committees then, were presented with a range of alternative, and in some cases conflicting, judgements on how reform should proceed. Since the government had emphasized that the committee deliberations were to have a great influence on the final shape of tax reform, it is particularly important to analyze the nature of the input to the hearings: in what relative proportions were the competing policy paradigms put forth, which perspective was numerically predominant, what was the qualitative character of the submissions, and in what manner were they presented? Since the parliamentary committees were the major forum for institutionalized input on tax reform, they will be examined in detail here. Continuing debates and pressure outside of these formal channels will be returned to in the next chapter.

Participation in the Parliamentary Committee Deliberations: Quantitative

As was the case with the earlier submissions to the Royal Commission on Taxation, the input to the parliamentary committees can be categorized in terms of the nature and role of the organizations that appeared. Table 13-1 classifies the business, professional, labour, philanthropic and other groups that testified before the House of Commons Standing Committee.[109] By far the largest representation came from the business community. A total of 69 individual firms - just

Table 13-1

Groups that Presented Briefs to the

Commons Committee

Category of Group	N		%	
Business				
Individual Firms	69		32.4	
Associations	73		34.3	
		142		66.7
Professional				
Corporate Patronage	9		4.2	
Collegiate	8		3.8	
Mediative	3		1.4	
		20		9.4
Expert/Specialized		2		0.9
Agricultural		7		3.3
Co-operative		6		2.8
Labour/Employee		3		1.4
Political		7		3.3
Educational		2		0.9
Charitable		3		1.4
Cultural		3		1.4
Medical		2		0.9
Other		9		4.2
Individuals		7		3.3
		213		

Source: Categorized from Commons Report, Appendix A, "List of Witnesses Appearing before the Committee and Dates of their Appearances."

under one-third of the total - presented briefs to the committee. While a number of small businesses appeared (the Song in Your Heart Publishing Company would certainly fall in this category), the largest number were major national companies. Among them were some of the most powerful corporations in the country: TransCanada Pipelines, Imperial Oil, Royal Securities, National Trust, Canadian Pacific, Bell Canada, and MacMillan Bloedell for example. Many of these were among the small number of large integrated enterprises identified by Clement as the dominant corporations that accounted for a large share of total productive assets and sales and that shaped the tempo and direction of Canadian economic development. For example, he categorized four corporations as dominant in the metal mining sector: International Nickel, Noranda Mines, Cominco and Falconbridge. Only the latter firm, the smallest of the four, did not appear before the Commons committee. These four dominant corporations and their direct subsidiaries accounted for 54.8% of assets and 62.5% of sales in metal mining at year end 1971.[110]

In addition to individual firms, a further 73 corporations associations appeared. These included the most important general bodies, large numbers of specific industry and trade associations from all key sectors of the economy, and the major stock exchanges. The key role of these associations in the formulation and presentation of relatively cohesive policy and the general promotion of their industry's interests within state deliberations on reform has been emphasized. For the first time small business was explicitly represented at the

political level by the Canadian Council for Fair Taxation. Taken together, business associations and individual firms constituted two-thirds of all groups appearing before the Commons committee.

Twenty professional associations presented briefs (9.4% of the total). These must be further specified in terms of the control and autonomy which these occupations exercise in their professional activity. Nine of these associations represented patronage professions whose functions were largely shaped by the needs of business as their most important client group. Prominent among the business patronage profession category were the Canadian Institute of Chartered Accountants and the Canadian Bar Association.[111] Eight associations represented collegiate or mediative professions, most of these being medical. Three associations were from mediative professions, most of whom were employed by large public or private institutions, such as social workers.

While the business and professional classes were well represented before the Commons committee, this was not the case for the great majority of the pupulation. Only three labour or employee organizations presented briefs (1.4%). The most important of these was the Canadian Labour Congress. While the C.L.C. claimed to speak for the national union movement, none of the provincial labour federations or most powerful individual unions appeared. It must also be remembered that only 33.6% of non-agricultural paid workers were union members in 1970,[112] a sizeable minority of which were not affiliated to the C.L.C. The Congress' view of its constituency as organized workers rather than as workers defined more broadly in class terms meant that large

elements of the working class were not directly represented within the policy process. Although the Canadian Welfare Council was concerned with the conditions of the low-income, no organization directly represented the poorer strata of the population. Seven organizations (3.3%) submitted briefs on behalf of agricultural interests.

A further range of organizations appeared before the committee which were less closely connected to specific social interests. Two groups were specifically concerned with questions of taxation and tax policy. There were six co-operative organizations, caisse populaires or credit unions. Seven political organizations appeared, most of which represented regional or provincial interests.[113] An additional 19 educational, charitable, cultural, medical and other groups submitted briefs to the committee.

Thus, a wide range of groups took part in the Commons committee hearings on the White Paper. But as an accomplishment in participatory democracy these deliberations were highly limited. There was very little participation of institutions representing the great majority of the Canadian population, and virtually no input from the lower-income strata. The activity of corporate representatives was far more extensive than any competing interest. Organized labour was the group whose policy on tax reform and whose working class membership's concrete interests were most opposed to those of business. But two-thirds of the briefs heard by the Commons committee came from business sources, as compared to 1.4% from labour.

The quantitative predominance of business is all the more striking when organizations appearing before the committee are more specifically categorized in terms of the class and social groupings they represented. Table 13-1 delineated the type of groups that presented briefs to the Commons committee. Table 13-2 more precisely categorizes these organizations in terms of the business, professional, labour or other class interests that they spoke for. Naturally, all organizations can not be neatly classified in this way. Some, such as the medical research, educational, cultural and charitable associations, can not be closely related to underlying class interests, although such bodies tend to be financially dependent upon and closely linked to business. Others, such as the social welfare organizations, claimed their mandate to be the broad public interest rather than more narrowly conscribed class interests. Nonetheless, 177 organizations can be closely related to underlying class and group interests.[114]

To the already classified 69 firms and 73 associations can be added two further groups, the Canadian Growth Study Association and the Equitable Income Tax Foundation, whose financing and membership came from business; and two prominent individual corporate spokesmen, G. Arnold Hart, chief executive of the Bank of Montreal and director of many other corporations, and L.F. Heyding, F.C.A., a leading chartered accountant who had consulted for major corporations on tax policy. This yields a total of 146 submissions from corporate sources or 82.5% of this more specifically defined total. If those professional groups that are closely linked to business and whose functional activity is

Table 13-2

Groups that Presented Briefs to the Commons Committee:

Specifically Categorized by Class Interests

Category of Group	N		%
Business			
Individual Firms	69		
Associations	73		
Plus: Canadian Growth Study Association Equitable Income Tax Foundation G. Arnold Hart L.F. Heyding	4		
		146	82.5
Corporate Patronage Professional	9		
Plus: D.J. Kelsey	1		
	10	156	88.1
Other Professional		11	6.2
Labour/Employees		3	1.7
Agricultural		7	4.0
		177	

Source: Same as Table 13-1

is heavily influenced by the requirements of the corporate sector are included in the business category, a further 10 submissions can be added. These include the 9 briefs from the corporate patronage professional associations and one individual submission from chartered accountant, D.J. Kelsey. Adding these briefs to the totals above, 88.1% of groups appearing before the committee were from the business community broadly defined. An additional 12 professional associations presented briefs, representing occupations within the affluent middle classes. Added to the business categories, this yields just under 95% of the total from the business and professional strata.

Only labour and agricultural groups represented interests other than the capitalist and advantaged managerial and professional classes. There were seven agricultural organizations, although some of these could represent large agricultural corporations rather than smaller independent farmers. There were only three labour or employee organizations (1.7% of this total) which could claim to represent the working class majority of the population.

Thus, in terms of competing class interests and policy perspectives, public participation in the formal deliberations on tax reform was highly unequal. The predominant input was from the corporate sector and from institutions dominanted by the capitalist class. More generally, very little was heard from groups representing other than the more affluent strata within the distribution of wealth and income. It is interesting to note that the proportion of total input from corporate sources was considerably higher in the hearings on the White

Paper than had been the case in the earlier deliberations of the Royal Commission.[115] The White Paper, of course, was official government policy, however open to revision, and its proposals were much closer to final implementation.

Qualitative Nature of Corporate Participation in the Deliberations on the White Paper

The predominance of business was not merely numerical. The corporate sector was able to mobilize its immense resources to ensure that its submissions were qualitatively as well as quantitatively by far the most impressive source of input to the parliamentary hearings.

The corporate briefs tended to be highly detailed, technically sophisticated and extremely comprehensive. They generally reviewed at length the overall implications of the White Paper and then developed a point-by-point critique of its central proposals. The submissions had been prepared at great expense by highly trained managerial personnel, leading corporate lawyers and specialized consultants. An example of the impressive nature of these policy documents was the brief of Canadian Pacific Ltd. Mr. Ian Sinclair, chairman of the C.P. group, told the Commons committee that their very detailed 36 page submission had been worked out very diligently and commended it to the government on both technical, and policy and political grounds.[116] The C.P. arguments appeared to be well received by the committee and its members complimented the brief on being one of the most comprehensive and interesting they had received.[117] The submission of the Toronto Stock Exchange contained five chapters on tax reform in general and the main

provisions affecting the investment industry and ten technical appendices on the structure of Canadian investment and the impact of taxation on its operation.[118] It was very common for corporate briefs to include detailed appendices or papers, often prepared by prominent professional and academic consultants, on the effects of the White Paper on their specific industry. An equally impressive presentation was made by James Richardson and Sons of Winnipeg, one of the wealthiest family firms in the country and active in many fields of investment, to the Senate committee. Their detailed critique of the key White Paper proposals, 15,000 words in length and supported by eight separate oral presentations, was presented by Mr. George Richardson, the firm's president and brother of the Hon. James Richardson a Liberal cabinet minister.[119] The company later submitted a further brief to the Senate committee emphasizing its objections to the reform proposals. This critique was also sent to the Prime Minister, Minister of Finance, Members of Parliament and Provincial Premiers and Ministers of Finance.[120] The impressive nature of these briefs reflected both the tremendous resources corporate organizations were able to devote to their formulation and the great importance attached to these hearings by the corporate sector.

The business briefs all started with a preamble emphasizing the importance of the industrial and economic interests represented by their organization and the significance of their contribution to the national economy. The Canadian Chamber of Commerce described itself as a federation of over 800 autonomous community Boards of Trade or

Chambers of Commerce, 2700 corporation members and 25 national business and professional associations, and argued that it "therefore, is representative of the full range of business in Canada."[121] The president of the Mining Association of Canada testified that it was the "recognized national organization" of the industry, "whose member companies account for more than 95 percent of Canada's output of metals and major industrial minerals. This means an industry whose present output is of the order of $2.7 billion a year, and which therefore represents one of the leading economic sectors of this country."[122] In presenting their joint brief to both parliamentary committees, the Steel Co. of Canada, Dominion Foundaries and Steel and Algoma Steel claimed to produce 80% of national output in iron and steel.[123] Clement classified these three steel companies and the Aluminum Co. of Canada as the dominant corporations in the primary metal industry; they accounted for 54.9% of assets in this sector in 1971.[124] All four of these corporations appeared before the Commons committee. These briefs left no doubt as to the economic significance of the corporate interests appearing before the committee. The major firms and associations taking part in these deliberations represented the highly concentrated and powerful private capital that controlled the investment and production levels upon which overall economic prosperity was dependent. This message was put to the members of the parliamentary committees in session after session.

This fundamental point was presented by the corporate submissions in a relatively sophisticated manner. Briefs frequently empha-

sized that their viewpoint was not that of the narrowly-defined interests of business, but those of all Canadians, who would be best served by a dynamic and growing economy. A very clear statement of this argument came from one of the most important national corporate organizations: "The Canadian Chamber of Commerce is here today not to argue a selfish case for business profits but rather to urge that tax reform be designed to favour the maximum employment of total Canadian resources in the generation of national income...To fail in this objective would cause the greatest unemployment and suffering amongst the very group which tax reform proposals purport to assist."[125] Business was seen to be simply the group with the most experience and in the best position to understand the requirements of economic growth. Business emphasized that high economic growth must be the first priority of fiscal policy not because it contributed to corporate profits, but because it underlay all other basic social goals. Many briefs expressed sympathy with the situation of the lower-income strata, but strongly argued that sustained growth would be far more beneficial to the poor than redistribution of a stagnant or declining national income. Such reasoning served to identify the public interest in tax reform with the corporate emphasis on economic growth, a focus which, to whatever degree other groups would benefit, was certainly crucial to the process of capital accumulation.

Representing these powerful economic institutions were large numbers of individuals located at the core of the highly concentrated structure of corporate power. Appearing before the committees to ex-

plain and amplify their firm or industry's brief were large delegations of prominent and powerful businessmen. When the Canadian Manufacturers' Association testified before the Commons committee, for example, the delegation of eleven top executives outnumbered the six M.P's present at the start of the hearings.[126] Delegations from the major corporate associations tended to include their top officials, who were generally key executives of the leading companies within the particular industry, and members of their tax committee, who had drawn up the association's policy. The largest corporations were generally represented by several of their highest officers and those officials concerned with taxation and financial operations. Delegations of associations and major firms often included outside professional and academic consultants. Among the most powerful individuals to appear was Ian Sinclair, chairman and chief executive officer of Canadian Pacific Ltd.; director or officer of a further 24 corporations including the Royal Bank of Canada, Sun Life Assurance, TransCanada Pipe Lines Ltd., Union Carbide Canada Ltd., Great Lakes Paper Co.; member of the Canadian Council of the Conference Board in Canada; and governor of the Royal Victoria Hospital.[127] The extent of business representation in the deliberations of the parliamentary committees was augmented by the integrated and interlocked structure of the corporate economy. While appearing directly for the corporation with which they were primarily involved, many leading capitalists were at the same time directors of large numbers of other dominant corporations. For example, the banking industry was represented by a Canadian Bankers' Association delegation of a dozen top

executives from all eight chartered banks that testified to both committees.[128] But none of the banks presented a brief themselves. Nonetheless, all of the five largest banks that dominated the industry had a minimum of two of their directors participating in the hearings. The Royal Bank of Canada had two vice-presidents and at least six other directors before the Commons committee. The Canadian Imperial Bank of Commerce had one vice-president and at least four other directors in attendance. G. Arnold Hart, chairman of the Bank of Montreal, presented an individual brief and two of his co-directors, H.S.Wingate of International Nickel and W.D. Mulholland of Brinco, appeared for their major multinational mining corporations. In this way, many corporations that did not themselves present briefs were nevertheless indirectly represented by their directors.

Also reflecting the integrated nature of the corporate power structure, there were numerous examples of individuals appearing on behalf of more than one organization. J.M.P. Kelly appeared for Campeau Corporation, a major property developer, and for the Canadian Institute of Public Real Estate Companies. A.H. Zimmerman and F.C. Huck appeared for the Canadian Pulp and Paper Association as well as their own corporations, Noranda Mines Ltd. and Bowaters Canadian Corppration respectively. H.M. Griffith, F.H. Sherman and D.S. Holbrook were part of a powerful delegation from the Steel Industry of Canada as well as appearing for the three leading steel producers of which they were top executives.[129]

As well as top executives, a large number of corporate lawyers appeared before the Commons committee. This reflects the central role of prominent lawyers as articulate and sophisticated spokesmen for corporate interests in their representations to the state. H.H. Stikeman, Q.C., appeared for the Toronto Real Estate Board and the Professional Art Dealers Association of Canada. His firm, Stikeman, Elliot, Tamaki, Mercier and Robb, prepared the submission of Bowaters Canadian Corporation Ltd., a brief that was highly critical of the White Paper, and it was presented by Mr. Stikeman. He was one of the most influential tax experts and corporate lawyers in the country. Mr. Stikeman had been Deputy Minister of the income tax division of the Department of National Revenue during the Second World War, a governor of the Canadian Tax Foundation and a prolific author and speaker on matters of taxation. He had played a leading role in Canada Tax Foundation conferences and other forums in which the business and professional community discussed tax reform since the first appearance of the Carter Report. He was a supporter of the Conservative Party (upon retirement as Premier of Ontario John Robarts joined his law firm), member of elite private clubs and director of major corporations such as CAE Industries and Crown Trust. Another leading corporate lawyer and tax expert was Arthur Scace, partner of one of the preeminent legal firms, McCarthy and McCarthy. He was counsel to the Canadian Institute of Public Real Estate Companies, the major property industry lobby and was a member of the delegation to the Commons committee. His expertise was later utilized by the Standing Senate Committee on Banking,

Trade and Commerce to explain technical facets of the final tax legislation in 1971.[130] In summary then, corporate input to the committee deliberations was presented by large numbers of high-ranking executives, directors of dominant corporations and corporate lawyers representing the interests of the most powerful economic forces in the country. The tremendous personal prestige and influence of these individuals and power of the institutions they spoke for would not have been lost on members of the parliamentary committees.

The leading members of the capitalist class who took part in the committee hearings were not distinguished solely by their corporate positions, but also included prominent corporate figures who moved easily within the interlinked circles of economic and state policy making. Heading the deputation of Alcan Aluminum Ltd. was P.H. Lemen, who had been a member of the Royal Commission on Banking and Finance, an experience which would lend great influence to his testimony on financial matters. He was later to join the board of the Export Development Corporation, the federal agency which promotes and subsidizes the foreign activities of Canadian corporations. Another individual whose opinions would certainly be carefully listened to was Robert Fowler, president of the Canadian Pulp and Paper Association. Mr. Fowler had long been heavily involved in both public and corporate policy development. During World War II, while a member of the top Toronto legal firm of McCarthy and McCarthy, he had served as secretary and counsel of the extremely powerful Wartime Prices and Trade Board. He was subsequently chairman of the 1956-7 Royal Commission on Broadcasting,

chairman of the federal government's 1964-5 Committee on Broadcasting, and a member of the Economic Council of Canada. Mr. Fowler was also active in private policy making organizations: as a past president of the Canadian Institute of International Affairs, past chairman of the executive council of the Canadian Chamber of Commerce, and chairman of the Private Planning Association of Canada and co-chairman of its constitutent Canadian-American Committee. The great influence of the P.P.A.C. in the formation of corporate and state policy has been discussed in earlier chapters. In addition, Mr. Fowler was chairman of the board of British Petroleum Company of Canada Ltd., director of Canadian Enterprise Development Corporation, Chemcell Ltd. and other firms, governor of the Royal Victoria Hospital, and member of the St. James, Mount Royal and University clubs.

Similarly active in policy organizations was W.O. Twaits, who appeared at the head of a delegation from Imperial Oil Ltd., the largest firm in the Canadian oil industry. Mr. Twaits was chairman of Imperial Oil, vice-president and director of the Royal Bank, and active in philanthropic organizations. He directly participated in government affairs as a member of the advisory council of the Department of Industry, Trade and Commerce, the Economic Council of Canada and the national advisory committee on petroleum. He was also involved with corporate policy making organizations as a trustee of the Conference Board Inc., and member of the Canadian-American Committee. On the basis of such patterns, Mr. Twaits was described by former Liberal cabinet minister, Eric Kierans, himself once president of the

Montreal Stock Exchange, as the most powerful man in Canada.[131] As seen in earlier chapters, Mr. Twaits had long played a leading role in business commentary on taxation.

The Commons committee also heard from a number of former state officials representing corporate interests. One of the most prominent of these was the Hon. Ernest C. Manning, premier of Alberta from 1943 to 1968 and appointed to the Senate in 1970. Mr. Manning has presided over the rapid expansion of the provincial economy based upon the development of the resource industries, generously stimulated by provincial state policy.[132] Upon his retirement, Mr. Manning's services were much sought after by major corporations; by 1972 he was a director of eleven firms including the Canadian Imperial Bank of Commerce, Alberta Gas Trunk Line Co. Ltd., McIntyre Porcupine Mines Ltd., Manufacturers Life Insurance, Canadian Pacific Airlines and Stelco. In June 1970, Mr. Manning appeared before the Commons committee on behalf of the Investment Dealers Association.[133] I.D.A. president J.S. Dinnick, chairman and president of the leading Toronto firm of McLeod, Young, Weir and Co., introduced Senator Manning who was to lead off discussion of the I.D.A. submission: "The Honourable E.C. Manning, a distinguished statesman and Premier of Alberta for 25 years between 1943 and 1968, has volunteered to raise his voice with ours. We feel Mr. Manning's is a voice that should be listened to. He is neither a Liberal nor a Conservative and he is a man with no current political ambitions as far as we know."[134] In this way the I.D.A. quite explicitly sought to enlist Mr. Manning's political experience and prestige in support of

their argument. Whatever his non-partisanship between the Liberals and Conservatives, the former Premier was solidly committed to conservative politics and the existing institutional order. In opening his presentation, Mr. Manning noted that the extensive opposition to the White Paper which ran through most of the large number of briefs being received by the committee was because the proposals affected particular corporate or group interests. By contrast: "I want to make it quite clear I am not here to champion the special interests of any group, but I endorse the Investment Dealers' Association submission because it is not a mere negative criticism of the White Paper and because it assesses this important issue from the standpoint of what is good for Canada and the Canadian people as a whole."[134] Representing the Canadian Pacific group was the Hon. Duff Roblin, president of Canadian Pacific Investments Ltd., the group investment holding company; chairman of Marathon Realty, the group's large property development subsidiary; executive or director of a further dozen C.P. companies; and director of Montreal Trust. Mr. Roblin had been premier of Manitoba from 1958 to 1967 (as had been his grandfather, Sir R.P. Roblin from 1900 to 1915), and was a leading figure in the national Conservative party. During the hearings on the C.P. brief, Mr. Roblin was referred to as an expert on politics by an M.P. on the committee.[135] This presumably indicates that Mr. Roblin's argument that the tax structure should not impede economic growth would be received with respect.[136] Leading the delegation from the Canadian Chemical Producers Association was its president, Bruce F. Macdonald, a retired major-

general who had held important military posts. Appearing for MacMillan Bloedell Ltd., the huge forestry company, was Robert W. Bonner, W.C. From 1952 to 1968 he had been one of the most important figures in British Columbia politics as attorney-general and concurrent holder of other important cabinet portfolios. As well as being a member of major industry associations, he sat on the advisory council of the federal Department of Industry, Trade and Commerce. Through the early 1970's, Mr. Bonner was to play a leading role in such corporate policy-making organizations as the C.D. Howe Research Institute and the Pacific Basin Economic Council.

The political significance of corporate spokesmen in the committee hearings was not confined solely to those who had held formal positions within the state; also present were individuals who were very influential within the inner circles of the major political parties. Appearing for the Canadian Mutual Funds Association was John Godfrey, a leading Toronto corporate lawyer who was named to the Senate in 1973. During this period, Mr. Godfrey was the chief fund-raiser for the federal Liberal party, the person who made direct contact with the small number of dominant corporations upon which the party was financially dependent. At the time of his Senate appointment, he was president of United Accumulative Fund Ltd., director of Montreal Trust, Canadian Admiral Ltd. and other corporations, and was active in such philanthropic organizations as the Canadian Council on Social Development and the National Ballet Guild.[137] The Urban Development Institute, a property industry lobbying organization, was represented by

Edwin Goodman, a Toronto lawyer closely connected to the provincial Conservatives.

The Parliamentary Committees as Forums for Policy Deliberations

The Senate and Commons committees' deliberations on the White Paper provided a crucial forum for the institutionalization of corporate input to the process of state policy formation. The nature of the committees themselves was particularly conducive to the presentation and influence of corporate views on the direction and scope of tax reform.

The Senate Committee

This was especially so for the Senate committee. The constitutional origin of the Senate was to act as a means of representation for the interests of property and as a check on the universally elected House of Commons. In the modern period government appointments to the Senate have tended to be former politicians, leading businessmen, especially those who have contributed generously to party funds; important figures within the major political parties, many of whom also are businessmen; and other political notables. The result, combined with a substantial property qualification, has been that Senators have been drawn largely from the most privileged strata of the class structure. This has become a central element of the close relation between capital and the state:

> Because many senators are actually directors of corporations and have responsibility for certain aspects of their parties' financial organizations, they often act as key intermediaries between business and government. As such they provide for fellow members of the business elite a preferential access to legislative decision makers and, thus, to the process of decision making itself; they also teach their busi-

> ness associates how to live with government intervention in the marketplace.[138]

Robert Presthus has argued that these patterns reflect the institutionalization of a corporatist ethic within the Canadian political system: "the Senate provides a basis for functional representation of a select group of interests, among which the main ones are corporate and financial." His analysis of the background of Senators in 1970 reveals the nature of this representation: "Business, finance and industry is the largest category of occupational representation, and when combined with law, which is symbiotically and representationally related to it, we find that fully two-thirds of the Senators represent this general area. "[139] There was a further 16% whose primary occupation was in the political and governmental fields, some of whom would likely have also received business appointments as Senators. Nine percent came from other professions, six from agriculture and there was only one representative of labour. All but two of the Senators were from the French or English charter groups.[140] While the direct legislative function of the Senate is relatively limited, Senators, especially those who are directors or consultants for major corporations, do play an important role in the representation of business interests within the policy process. Their political prestige can lend considerable support to corporate positions and their experience and connections can facilitate corporate access to key officials within the state policy making structure. More generally, Senators act as a "lobby from within", as direct representatives of capital within the state policy

process: "They bargain and negotiate on business' behalf for amendments which are essential for a favourable financial and commercial climate."[141] Leading senators use their extensive contacts with top civil servants and ministers to press for policy changes and Senate committees conduct detailed studies and propose technical amendments of legislation. Through the 1960's and 1970's such activity was able to substantially modify key areas of state economic policy to which business objected, such as that on the regulation of banking, investment companies, hazardous products and intercorporate ownership, and, most relevant here, the 1971 Income Tax Reform Bill.[142] Much of this lobbying was centred upon key Senate standing committees, the most important of which was that on Banking, Trade and Commerce.

Senate Committee on Banking, Trade and Commerce

Corporate representation within the Senate was concentrated in the membership of the Standing SEnate Committee on Banking, Trade and Commerce. In 1973, the 94 sitting Senators held 220 corporate directorships; of these the twenty-two members of the committee held 165, or 75% of the total. Eight members of the committee held 130 directorships.[143] Among those taking part in the standing committee's deliberations on tax reform were a number of Senators with extensive business connections during the early 1970's.[144] Among the most prominent was Senator Louis Phillipe Gelinas, a Montreal stockbroker who held 24 directorates, including Canadian International Paper Co., Canada Cement Co. Ltd., John Labatt, Distillers Corporation Seagrams and Mercantile Bank of Canada, and was a member of the board of the latter's U.S.

parent, First National City Bank of New York. The president of Geoffrian, Robert and Gelinas Ltd. attributed the participation of his firm in the banking groups of 75% of major corporate stock and bond issues in large part to the contacts of Senator Gelinas, one of the firm's founders and then a consultant to it.[145] A Conservative Senator and Montreal businessman, Louis-Phillipe Beaubien held 16 directorships, including Canadair Ltd., Empire Life Assurance Ltd. and Standard Trust Co. Paul Desruisseux, a Liberal Senator, was involved in 18 companies: he was chairman of Melchers Distilleries, which his family had earlier controlled, and director of the Royal Bank, General Trust, Standard Brands Ltd. and Canadian General Electric. Head of one of the oldest established families within the Canadian capitalist class, Senator Hartland de M. Molson was chairman of Molson Industries Ltd., vice-president and director of the Bank of Montreal, and director of Canadian Industries Ltd., Stone and Webster (Canada) Ltd., Sun Life Assurance Co., and Canadian Corporate Management Co.

The committee was also well populated by the legal profession; half of the committee were lawyers, many from powerful corporate law firms. Senator Salter Hayden, who had been chairman of the committee for over sixteen years at the time of the hearings and who had played a central role in their deliberations on tax reform in this capacity, was a partner in McCarthy and McCarthy. He was also a director of 18 corporations, including the Bank of Nova Scotia and Union Carbide of Canada Ltd. Senator Hayden was widely seen to have great influence within the Senate and government circles more generally.[146] Also

greatly influential in the committee's hearings on the White Paper was its vice-chairman, Montreal corporate lawyer Lazarus Phillips. He was a senior partner in Phillips and Vineberg.[147] Senator Phillips was a director of a number of major corporations, including Trizec Corp. Ltd., Steinberg's Ltd. and Dominion Bridge Co. Ltd.; and held important positions in leading philanthropic organizations, sat on the council of the Montreal Museum of Fine Art, and was a member of the Mount Royal and other clubs. The Senator had previously been a director of the Royal Bank, a position his son, a member of the same law firm, had taken over. The leader of the Conservative party in the Senate, the Hon. Jacques Flynn, Q.C., had been counsel to the Maritime Prices and Trade Board. He was a director of eight financial and industrial corporations, including Canada Cement Lafarge Ltd. Also on the committee were individuals who had held key positions within the major political parties. An outstanding example was the Hon. John Black Aird, Toronto corporate lawyer and director of the Bank of Nova Scotia, Reed Shaw Osler, Rolland Paper Co., Consolidated-Bathurst and at least ten other corporations. Until 1968, Senator Aird had been national treasurer and chief corporate fund-raiser of the Liberal Party.

The large numbers of corporate directorships held by members of the Standing Committee became the subject of public controversy during their 1974 hearings on the proposed revisions of competition policy.[148] A potential conflict of interest was seen to exist between these corporate connections and the Senate committee's review of proposed policy which greatly affected business and to which business was

solidly opposed. The Senators defended their corporate positions by arguing that it provided invaluable experience for the examination of such issues. Stanbury's detailed analysis of the reform of competition policy in the early and mid-1970's concluded that, to whatever extent the Senators could distance themselves from the specific corporate interests with which they were involved, the committee hearings served "as a prestigeous and sympathetic forum for business interests on important legislation. Stanley Knowles, N.D.P. House Leader in the Commons, stated, 'It's the whole social attitude of people who are directors of corporations. Their basic concern is for success and profitability of business. They just don't have the viewpoint of ordinary Canadians."[149] These patterns were certainly clear in the Senate Committee's deliberations on tax reform, where it provided a particularly conducive forum for corporate pressure against the White Paper.

The Senate Committee Hearings on the White Paper

The Senate committee's deliberations on the White Paper had proceeded in parallel with those of their Commons counterpart. The Minister of Finance and the government had emphasized that the findings of the two committees would be of great influence in the formulation of final policy. In this regard, Doerr blandly noted: "On the issue of expertise the Senate committee was at a distinct advantage over the Commons committee. Most of its members were retired businessmen and lawyers who had an understanding of tax law."[150] In fact, most of the committee were still actively involved in corporate affairs and their significance went far beyond business and technical expertise. This

entailed corporate representation within the very structure of state policy making; that is, representation of those class interests which had the most stake in retaining their advantaged position within the tax structure. Not surprisingly, the Senate committee conducted its hearings within a policy framework and parameters which took these interests very favourably into account. This was very clear in the sympathetic reception with which business arguments were received.

Commenting in the Financial Post on the later report of the Senate committee, a Toronto lawyer argued that "its chairman, Senator Salter A. Hayden and its counsel, Arthur W. Gilmour, carefully staged the hearings to provide the maximum opportunity for those who benefit most from the existing tax system to explain why this is really the best of all possible worlds and that only by providing tax concessions of every possible kind to every possible business group can our economy survive" and contended that committee members largely ignored criticisms of the unfairness of the tax structure and "seem to have assumed that anyone who sought greater equity in taxation was a wild-eyed radical."[151] It was certainly clear that the Senators' basic line of thinking closely paralleled that of the corporate witnesses before them: they frequently expressed concern over very similar issues and support for corporate objections to the White Paper. For example, the Canadian Chamber of Commerce presented its views to what was described as "sympathetic members" of the committee, one of which, vice-chairman Senator Lazarus Phillips, stated that he favoured a lower tax rate for businesses up to a certain level of profit.[152] The pre-

dicament of the mining industry also received a friendly hearing. Commenting upon the joint submission from the three major steel producers, the committee's tax adviser, A.C. Gilmour, said that the three-year exemption for new mines had been highly significant in allowing the repayment of capital investment costs.[153] Senator Lazarus Phillips had asked representatives of the mining industry, specifically Bethlehem Copper Corp. Ltd. and the Mining Association of Canada, to provide them with acceptable alternatives to the White Paper proposals. To this end, Bethlehem Copper had submitted a supplementary brief.[154] By urging them to devise reasonable and legitimate alternatives, Phillips was helping the industry to develop a more moderate and reformist stance that would have a much greater chance of political success. Such alternatives could then be used by the Senate committee in the formulation of its conclusions.

The committee was greatly concerned with the revenue implications of the White Paper; it suggested that the estimated large increase in tax revenue under the proposals could restrict credit and economic expansion. Senator Hayden asked how the government would adjust tax rates when it needed more revenue. While agreeing that higher maximum rates would be undesirable, Mr. Robert Bryce could provide no guarantees to Senator Phillips that the recommended top income tax rate of 50% would not be raised in the future.[155] Consternation about the proposed withdrawal of tax deductions for conventions, entertainment and clubs pervaded the Senators' response to a series of business and professional briefs on this issue: "Most indignant of all was Arthur

Gilmour, Montreal tax accountant serving as the committee's expert adviser. As with so much else in the white paper, he said, the government apparently regards certain business practices, such as entertainment, as sinful." He described the proposals as "vindictive" and wasteful, and stated: "I hope the committee won't take the attitude that this is something we have to submit to."[156] As chief adviser to the Senate committee, Mr. Gilmour played a leading role in its deliberations. He was responsible for the preparation of detailed and lengthy analyses of each brief presented, often nearly as long as the original submission, which were then included in the committee proceedings along with the briefs themselves. It was very clear in the hearings that Mr. Gilmour was as conservative as any of the Senators on the issue of tax reform and that he was strongly opposed to the basic thrust of the White Paper. His expert advise to the committee would be framed within such a perspective. Also opposing the expense limitations, Senator Jacques Flynn "said it was time the people of Canada were educated on just what kind of society Canada is and the way business operates."[157]

House of Commons Committee

Although not heavily populated with sitting corporate directors as was its Senate counterpart, the membership of the Commons Standing Committee on Finance, Trade and Economic Affairs was drawn largely from the business and professional community. While generally more skeptical than the Senate committee of the more unrestrained corporate arguments, the M.P.'s tended to be much concerned with the same types of

issues as business. This committee also provided a receptive milieux within which the corporate sector could press its policy demands.

In general, the social background of Members of Parliament tended to be within the relatively advantaged strata of the class structure. Presthus' analysis of the 1970 House of Commons found that the higher business and professional occupations were greatly overrepresented among M.P.'s.[158] He found that 47% of M.P.'s could be classified as having had a higher executive occupational status before entering parliament (such as high-level managers, top government bureaucrats, and other independent professions such as law and medicine), as compared to a national average of 8% in this category. A further 24% were classified as lesser executives (including business managers, engineers, accountants, salesmen), compared to a national average of 10%. An additional 26% of M.P.'s had been small business proprietors of various kinds, including farmers, compared to a national average of 9%. Thus 95% of M.P.'s were drawn from business, propertied or professional occupations, as opposed to 27% of the general population. By contrast, 5.4% of M.P.'s had been clerical, skilled or semi-skilled workers and there were no unskilled workers, as compared to 73% of the Canadian population in these groups. There was also a considerable over-representation of lawyers. Finally, M.P.'s had higher levels of education than the general public and far more frequently belonged to exclusive social clubs.

The membership of the Standing Committee on Finance, Trade and Economic Affairs reflected these general patterns. Of the twenty

members of the committee, there were seven businessmen, four lawyers, two chartered accountants, two university professors, one government official, one municipal politician and one M.P. whose background was not available. Business and the closely associated legal and accounting professions accounted for two-thirds of the members.[159] This occupational categorization does not exhaust the business connections of the committee: former Conservative minister Lt. Col. D.C. Harkness was listed as a farmer and high school teacher, but was also a member of the Calgary Petroleum Club; A. Noel, a prominent Montreal chartered accountant, had been a governor of the Canadian Tax Foundation; and A.G. Fortin, a professor, was a member of the Chamber of Commerce. In addition, several of the members belonged to elite private clubs favoured by top businessmen.

The drafting of the committee report was largely the work of three Toronto Liberal M.P.'s, Alistair Gillespie, Barnett Danson and Robert Kaplan, all of whom had strong business connections and were later to be cabinet ministers.[160] The expert advise received by the Commons committee also came from business or closely associated professional sources. Three chartered accountants from top firms presented a step-by-step technical explanation of the White Paper to the committee on behalf of the Canadian Institute of Chartered Accountants. The presentation was a modified version of a course given by the Institute to about 2000 accountants across the country.[161] The committee had a staff of sixteen lawyers, accountants and economists, nine of which had been hired at the February 1970 Canadian Tax Foundation

meeting.[162] These expert advisers drew up recommendations for the committee[163] after hearing witnesses on specific aspects of the White Paper. Committee member and N.D.P. finance critic, Max Saltsman, was later highly critical of these experts. He first of all objected to their partisan nature: "The people who were hired by the Liberal government were not going to do or say anything that would interfere with their being hired again by that government as consultants."[164] Mr. Saltsman had argued at the time that each party represented on the committee should have its own counsel. Most importantly, he argued that the experts had played a very conservative role in the committee deliberations: "The Committee advisers became messenger boys between the Committee and the government, and the MPs didn't know enough to handle them. Of course, what the counsel were trying to do was find a consensus in the committee that would be acceptable to the government: thus the whole process was one of watering down until what finally emerged was really not much in the way of tax reform.[165]

On the basis of the social background of the committee members and their close links to the business community, it could be expected that they would be sympathetic to those arguments that emphasized the central importance of economic growth and to prevailing unease about the impact of the White Paper on savings and investment, small business activity, and overall economic prosperity. It was very clear during the committee hearings that many members did share such concerns with the large number of corporate representatives they examined. As noted earlier, the vice-chairman, Alistair Gillespie, had

argued that support for multinational corporations was essential. Even before the public hearings began he had expressed serious reservations about the distinction between widely and closely held corporations, the five year revaluation of unrealized gains and the limited support for small business, and had argued that the institution of an effective capital gains tax should lead to a review of existing levels of gift and estate taxation.[166] Committee members expressed great concern that the tax changes would contribute to inflation or that the benefits of reform would be eliminated by inflation when they examined Department of Finance officials at the beginning of the hearings. Mr. Gillespie suggested that inflation would increase the rate of taxation as people moved into higher earnings brackets. For this reason, he "claimed that the less progressive the tax system is made the better."[167] A number of M.P.'s favoured tax credits rather than personal exemptions and rejected the Department of Finance's opposition to this option. Mr. Gillespie and fellow Liberal Barnett Danson criticized the more restrictive income averaging proposed in the White Paper. Conservative Gordon Ritchie asked that legitimate convention expenses be deductible.

Conclusions: Public Participation in the Parliamentary Hearings on the White Paper

In summary then, the parliamentary committees provided a sympathetic milieux for the presentation of corporate submissions. This did not preclude the appearance of divergent policy perspectives; organized labour and the Canadian Welfare Council strongly argued for progressive reform of the tax system. However, the representation of such

competing forces in the formal hearings was highly limited when compared to that of the capitalist class. Those pressing for progressive reform could not match, either in quantitative or qualitative terms, the massive business opposition to the guiding priorities and basic proposals of the White Paper. These patterns of representation certainly do not support the pluralist paradigm of widespread public participation in the policy process and free and open competition of a range of policy alternatives, a competition which is held to result in the equitable mediation and balancing of competing social interests. Nor does this juncture of the reform process accord with government pronouncements on participatory democracy.

The unequal nature of public participation in these deliberations did not go unremarked at the time. Max Saltsman, member of the Commons committee and N.D.P. financial critic, argued that the government's stated desire for a wide and general discussion of the White Paper had failed. Little had been heard from ordinary wage and salary earners and the debate on tax reform had been dominated by the views of special interests.[168] The latter was the term used by the N.D.P in reference to organized business. This pattern had been predicted in the Toronto Star at the beginning of the parliamentary hearings: "Briefs are expected to pour in from persons and industries with special interests to protect, while little will be heard from the average Canadian who may stand to gain from reform."[169]

Similar arguments were made by one of the few participants that could claim to speak for the low-income. In a major editorial high-

lighting its brief to the Senate committee, the Canadian Welfare Council stated that "the level, quality and extent of public debate in Canada leaves much to be desired. In the welter of corporate and other special interests whose pleading has enveloped the Benson proposals there has been remarkably little heard from other sectors of society, particularly the low-income group which the tax proposals are supposed to help the most. Perhaps this is to be expected. The poor are voiceless and organizations with more than special axes to grind are too often mute."[170] This argument was later substantiated in a detailed analysis of the Commons hearings published in Canadian Welfare.[171] The appearance of this juncture was illusionary: "The energies expended by politicians, the representatives of a great variety of interest groups and the attention of the mass media have created the impression that Canada has had an honest and open battle on the federal government's proposals for tax reform."[172] However, of the 287 hours of committee proceedings, 93 were spend discussing technicalities, 53 hours on the resource industries, 32 on the effect of reform on corporations, 21 on capital gains and 18 hours on small businesses. By contrast, the effect of reform on low-income taxpayers was discussed for six hours. Similarly, only six of the 211 briefs, from the C.W.C., the British Columbia Tenants Organization, Canadian Labour Congress, Canadian Association of Social Workers, Vanier Institute of the Family and Public Service Alliance of Canada, were in any way related to the interests of lower-income groups. The implications are clear: "Committee members spent only a few hours dealing with the six submissions.

Their lack of political clout, in the context of the other briefs, must have been obvious."[173] The basis of this unequal representation was also clear: "While those who benefit most from our economic system have the means and resources to protect their interests very well, lower-income Canadians have virtually no opportunity to comprehend their position or the ways to improve it, much less the resources for adequate representation of their case."[174]

The Canadian Welfare analysis of the hearings argued further that the focus of the committee deliberations worked to the disadvantage of lower-income groups. First of all, there was very little discussion, in the media generally as well as in the hearings themselves, of the social values and goals that underlay the tax system: "Of the 287 hours spent in dealing with taxation in the Committee, only 13 were used to discuss what the purpose of taxation ought to be. Most often, this time was spent in developing the very simplistic notion that the economy can be compared to a pie which must be made bigger before it can be sliced more equitably. Even following this analogy, no one dared make the heretical suggestion that the Committee define the point at which the pie could be sliced."[175] Rather than considering such political issues of taxation, approximately one-third of the hearings discussed purely technical questions. The ways in which taxation "contributed to, or alleviates, poverty" would seem to be a crucial question; however "only four-and-one-half hours of marginal discussion were devoted to the possibilities for reform in this direction."[176] While there was great concern expressed over the severe burden on the

middle-income and constant expressions of approval for relief for the low-income, "the eight-and-one-half hours which the Committee spent on this matter hardly touch on" the way in which increased exemptions were far more beneficial for the higher-income compared to the advantages of a tax credit system for the low-income.[177] The deliberations on corporate taxation were similarly limited: "This could have been a valid political debate if the White Paper proposals had made some effort to change the way corporations operate. As the proposals made no such effort the discussion of corporation taxation proceeded around the single premise of the corporations urging a reduction in their taxes."[178]

Such critics of the White Paper process, and they were very few, correctly stressed the limited participation of competing alternatives to the prevailing corporate viewpoint, but their explanation of this unequal competition was only partial. It was not caused simply by a failure of judgement on the part of committee members and other political leaders, but more importantly involved the nature of the assumptions and parameters within which the deliberations took place. It is not true that the values underlying taxation pervaded the many corporate submissions: the tax system must facilitate and encourage economic growth; while equity was certainly important, sustained growth was the basis of all other social goals and must be the primary focus of reform; the taxation of wealth, business activity and high income must not become so onerous as to reduce incentives to investment and productivity; and stability and certainty require that tax changes be moderate and limited rather than revolutionary. It was

a vital element of corporate political power that these values and assumptions constituted the unstated, but unquestioned, parameters within which the parliamentary committees conducted their deliberations. These underlying assumptions were never systematically challenged by competing groups. A political scientist explained the limited public input in the following terms: "The problems of informed public response and participation in the debate were compounded by the difficulty of the subject matter and the lack of effective machinery to conduct the debate with the unorganized and inarticulate sectors of the community. The parliamentary committees provided hearings for the articulate sector but a large proportion of the public were left to answer "yes" or "no" to an opinion survey."[179] It would appear that public understanding of the reform proposals was in fact quite restricted: a poll taken in June 1970 at the height of the committee hearings found that only 57% of the public had heard of the White Paper and that knowledge was much less among low-income earners and workers than among more advantaged strata.[180] However, it was not solely the lack of articulate understanding on the part of the majority that restricted their access to the policy process, but rather the fact that they did not command the tremendous material and political resources mobilized by capital. The pervasive corporate media and public campaign against the White Paper would also certainly have contributed to the misinformed and limited state of public opinion on the key issues of reform.[181]

The unequal nature of the White Paper debates was recognized by no less a political notable than the Prime Minister: "And I concede your point too, that it's likely we heard more from the vested interests than we did from the little taxpayer who didn't have...the high-paid lawyers to speak for him...I suppose in participatory democracy there will always be some whose voice is louder than others."[182] The point here is not simply that the various viewpoints on the direction of tax reform did not receive an equal hearing. More importantly, only a small number of organizations supported progressive tax reforms, changes that would benefit the great majority of the population. By contrast, a much larger number of powerful corporate organizations, within varying degrees of sophistication and willingness to compromise, sought to limit or prevent progressive changes and protect the existing system which was of tremendous benefit to an affluent minority. As a significant source of potential influence in the determination of the eventual tax changes, corporate predominance in the parliamentary hearings was of crucial advantage to capitalist interests and policy demands.

Completion of the Hearings

This then was the situation as the parliamentary hearings came to a close in August 1970 with the final appearance of the Minister of Finance. Mr. Benson told the Commons committee: "Since last November the White Paper has been discussed with a fervor seldom experienced in connection with any issue in Canadian history. The exercise has focused largely on this committee."[183] He stressed the importance of the

committee's task: "for the first time you are carrying the burden of assessing government proposals in the light of public discussion before the legislative stage."[184] He reiterated once again that the White Paper "represents a set of proposals for consideration and debate, not an iron-bound scheme for tax legislation" and assured the committee "that the government awaits your report with an open mind."[185] Mr. Benson summed up as follows:

> I have stressed time and again that in formulating legislation to implement tax reform, the government would be guided in an important way by this debate and particularly the recommendations of this committee.
>
> I would like to make it clear that the government is impressed by many of the arguments that have been made for changes in the White Paper proposals. Major changes will have to be made in a number of areas. But in approaching these decisions the government is anxious to have the benefit of the report of the two committees of Parliament.[186]

Within this oft-repeated flexibility, the government still insisted upon tax reform which would include a reasonable capital gains tax, shifting the burden from lower-income groups, and reducing inconsistencies and eliminating room for abuse within the system. Mr. Benson hoped that this process could be completed so as to reduce the uncertainty faced by business.[187] The committee then adjourned to prepare its conclusions and recommendations. During this period debate and pressure had been continuing outside of these formal hearings. This and the reports of the committees released in the fall of 1970 are examined in the next chapter.

Footnotes

1. House of Commons, Debates, December 19, 1969, p 2202. In these debates the Conservative M.P.'s harshly attacked the White Paper: it was referred to as a "Red manifesto" and as "confiscation by taxation"; Cf. Leader-Post, (Regina), December 2, 1969. Commenting on these debates, the Financial Times December 8, 1969, hoped that further deliberations would concentrate on issues fundamental to Canadian economic growth: "Let it not be sidetracked into all the political by-paths which have dominated the dismal debate in the House of Commons so far." For simplicity and brevity these committees will hereafter be referred to as the Commons committee and the Senate committee. References to their hearings will note Commons or Senate to identify the specific committee, the date and where relevant, page or section.
2. Standing Committee on Finance, Trade and Economic Affairs, Eighteenth Report Respecting the White Paper on Tax Reform, Ottawa, Queen's Printer, October 1970, p 5 (hereafter simply referred to as Commons Report).
3. Ibid., p 7. The central role of these parliamentary hearings on the White Paper proposals in the development of the government's reform programme meant that the large-scale input to the Commons committee provides an excellent source of documentation on the policies of all key organized interests. In the following examination of these policies and the manner in which they were presented most attention will be paid to the hearings of the Commons committee. It received a larger number of briefs and its hearings and final conclusions were seen as being more influential than those of its Senate counterpart. The latter committee received 354 briefs from groups and individuals, of which it heard 118. Nearly 3/4 of the briefs presented to the Senate committee had also been heard by the Commons committee; A.D. Doerr, "The Role of White Papers". in G. Bruce Doern & Peter Aucoin, (eds), The Structure of Policy-Making in Canada, Toronto, Macmillan, 1971, p 91. Nonetheless, whatever the limitations on the Senate's formal powers, the significance of the Standing Committee in the process of tax reform was by no means merely symbolic. It will be seen that the hearings of the Senate committee provided a particularly favourable additional forum for the presentation of corporate opinion and reinforced the predominant corporate presence before the Commons committee.
4. See Thomas A. Hockin, "The Advance of Standing Committees in Canada's House of Commons: 1965 to 1970", Canadian Public Administration, Vol XIII, No. 2 (Summer), 1970, pp 185-202 on these general patterns and of more direct relevance to this juncture, Doerr, op.cit., pp 179-203.
5. Quoted in Ibid., p 187.
6. Ibid., p 196 Doerr argued that these mechanisms of policy discussion and consultation were of lasting importance: "When the dialogue on the white paper ended in the fall of 1970 with the presentation of the committee reports, the use of the document in this role had made a significant impact on the traditional processes of government"; Ibid., p 187. As evidenced by the

continued use of public hearings of various forms generally, and, more specifically, the very similar deliberations on the revision of competition policy in the 1970's; W.T. Stanbury, Business Interests and the Reform of Canadian Competition Policy, 1971-1975, Toronto, Carswell-Methuen, 1977.

7. Cf. Canadian Business, August 1967, October 1969; Financial Post, April 1, 1967, June 24, 1967.
8. November 22, 1969.
9. January 17, 1970, p 5. Mr. Macdonald further argued that the impossibility of this deadline was recognized in Ottawa.
10. Ibid.
11. Cf. the editorial in Financial Times, February 2, 1970.
12. Commons, January 15, 1970. In the audience were large numbers of tax experts and the Ottawa representatives of major business groups, Globe and Mail, (Toronto), January 16, 1970.
13. Commons, January 15, 1970, p 9.
14. February 2, 1970, editorial.
15. Ibid.
16. Globe and Mail, (Toronto), April 8, 1970.
17. Cf. Financial Post, February 28, 1970.
18. February 2, 1970.
19. The briefs submitted to the Commons committee were published as appendices in the proceedings of the day on which the particular organizations appeared. There was considerable variation in the titles and formats of the submissions themselves. For simplicity, all references will note the organization concerned, the date on which it appeared and specific page or section where relevant. This format will be used when the references are to the formal submissions presented: when the testimony of witnesses before the committee is discussed this will be specifically noted. Thus, this reference is C.I.C.A., June 1, 1970, p 91.
20. June 11, 1970, p 133.
21. May 19, 1970, p 131.
22. June 2, 1970, p 104.
23. June 2, 1970, p 184. Members of the Association were investment councelors and brokers, and top executives of leading firms such as Acres Ltd., Consumers Glass, Southam Press, Clarkson Gordon and Co., and Wood Gundy; p 185.
24. Ibid., p 184.
25. Testimony, June 22, 1970, p 7; Brief, Ch 2; see also Journal, (Ottawa), June 23, 1970.
26. This was a far more sophisticated argument than had prevailed in earlier stages where business had most frequently emphasized economic growth without qualification.
27. Ibid., p 150. The Chamber was composed of over 800 boards of trade and chambers of commerce in communities across the country; ibid., p 127. Its basic argument was reiterated by the submissions of its most important constituent bodies: cf. Toronto Board of Trade, June 9, 1970, Economic Analysis.

28. May 19, 1970, p 131.
29. June 2, 1970.
30. Testimony, ibid., p 10.
31. June 9, 1970, p 127.
32. Respectively May 21, 1970, June 1, 1970, June 2, 1970, June 22, 1970; see also Financial Post, June 20, 1970 for a summary of this theme in corporate input.
33. Cf. among the major organizations, the Canadian Manufacturers' Association, May 19, 1970, p 132; and many individual corporations, Alcan Aluminum Ltd., June 4, 1970, p 138.
34. June 9, 1970, p 154.
35. Respectively May 19, 1970, p 132 and June 9, 1970, p 138.
36. This prevailing view was well stated by Mr. Ian Sinclair, chairman of Canadian Pacific and director of many other dominant corporations; Testimony, July 31, 1970, p 6. See also the briefs of the Canadian Institute of Chartered Accountants, June 1, 1970, Ch. C, and the leading investment firm of A.E. Ames and Co. Ltd., June 2, 1970, Ch. VI.
37. Cf. Canadian Institute of Chartered Accountants, June 1, 1970, Ch. C.
38. June 2, 1970, p 105.
39. June 22, 1970, p 8; Ch. 4.
40. June 4, 1970, p 138.
41. June 9, 1970, p 140. It must be remembered that the Chamber was opposed to any such taxation. These recommendations were presented as the maximum acceptable if the government insisted on instituting a capital gains tax.
42. June 22, 1970, p 91.
43. Ibid.; also Toronto Board of Trade, June 9, 1970, Ch. V; the Investment Dealers; Association demanded that estate taxes be eliminated if capital gains taxation was adopted, June 2, 1970; see also Financial Post, June 20, 1970, p 14.
44. May 21, 1970, pp 45-6.
45. Cf. Canadian Bankers' Association, June 18, 1970, p 158; Canadian Bar Association May 21, 1970, p 108.
46. Cf. Ibid., p 106.
47. Globe and Mail, (Toronto), May 22, 1970.
48. See the testimony of Ontario Treasurer Charles MacNaughton to the Commons committee, June 23, 1970, p 12ff.
49. See the discussion in Globe and Mail, (Toronto), March 3, 1970.
50. June 4, 1970, p 136.
51. This was very frequently the title of the chapters or sections of corporate briefs dealing with these issues.
52. Almost all corporate submissions containedthis demand. For a fully developed argument, see Canadian Institute of Chartered Accountants, Brief, June 1, 1970, Ch. D.
53. There was extensive discussion of this issue in both the C.B.A.'s brief, May 21, 1970, Ch 4 and its representative's testimony.

54. May 22, 1970. See also Financial Post, June 20, 1970, p 14 for a summary of the objections of leading financial and professional associations to integration. The resource sector also strongly opposed integration. Cf. Mining Association of Canada, May 28, 1970, p 11; Canadian Petroleum Association, June 2, 1970, p 104.
55. June 2, 1970.
56. Respectively May 19, 1970. p 133; June 9, 1970, p 157.
57. May 22, 1970.
58. May 19, 1970, p 132.
59. Testimony, June 4, 1970, p 59.
60. Ibid., Brief, Section 2.1.
61. June 18, 1970, pp 159-60.
62. Cf. Canadian Manufacturers' Association, May 19, 1970, p 133; Canadian Bankers' Association, June 18, 1970, p 160; Toronto Board of Trade, June 9, 1970, p 157.
63. Testimony, June 4, 1970, p 70.
64. Globe and Mail, (Toronto), June 16, 1970.
65. June 9, 1970, p 143; see also A. E. Ames and Co. Ltd. June 2, 1970, Ch. XI, Pt. B.
66. Gazette, (Montreal), April 16, 1970.
67. June 15, 1970, p 78.
68. June 15, 1970, p 116. R.T.Z. noted that its argument was supported by its Canadian subsidiaries Rio Algom and Brinco, themselves among the most important resource corporations in the country.
69. Testimony, June 11, 1970, p 5.
70. Ibid., pp 5-7. It will be remembered that Mr. Vineberg had played a leading role in the debates on tax reform from the beginning. He was a frequent speaker and profilic author on tax matters, former chairman of the Canadian Tax Foundation, member of the tax committee of the Canadian Bar Association, and prominent Montreal corporate lawyer.
71. Gazette, (Montreal), June 4, 1970.
72. As stated by M.P. Max Saltsman to buttress the N.D.P.'s earlier opposition to the appointment of a joint House of Commons and Senate committee to study the White Paper, House of Commons, Debates, July 18, 1969, p 11361.
73. Cf. Canadian Institute of Chartered Accountants, June 1, 1970, Ch. F; the Institute called for the free movement of dividends and no five-year revaluation of unrealized capital gains.
74. Gazette, (Montreal), June 4, 1970.
75. Testimony, August 5, 1970, p 29.
76. M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate", in A. Paul Pross, (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, 1975, p 99.
77. June 2, 1979, pp 104-5.
78. Bucovetsky, op.cit., p 99.
79. Dated June 1, 1970, but published in Issue #92 at the end of the hearings, p 49.

80. Ibid., pp 49-50.
81. Ibid., p 50.
82. Bucovetsky, op.cit., p 99.
83. Ibid., p 100.
84. Testimony, May 28, 1970, p 10; see also their Brief, Section IV.
85. Testimony, May 28, 1970, p 11.
86. Op.cit., p 99, see also the briefs of Inco, June 18, 1970, p 66 and Cominco, July 30, 1970, p 41.
87. May 19, 1970, p 133; Seconded by The Canadian Chamber of Commerce and the Canadian Institute of Chartered Accountants, respectively June 9, 1970, p 144; June 1, 1970, p 96.
88. May 7, 1970, p 126.
89. The three steel corporations also presented a joint brief to the Senate committee; see Financial Times, May 11, 1970, Globe and Mail, (Toronto), May 7, 1970.
90. Testimony of the Ontario Treasurer, June 23, 1970, p 13.
91. Bucovetsky, op.cit., p 100.
92. June 18, 1970, p 157.
93. Toronto Stock Exchange, June 22, 1970, p 92.
94. June 9, 1970, p 124.
95. Cf. Toronto Stock Exchange, June 22, 1970, p 92.
96. Testimony, May 19, 1970, p 54.
97. Issue #92, p 40.
98. Ibid., Ch 1.
99. Ibid., p 50.
100. Testimony, June 23, 1970, p 10.
101. Ibid., p 11.
102. Ibid., pp 11-12.
103. Ibid., p 11.
104. In addition to the groups to be discussed, a number of professional, philanthropic and cultural associations also appeared; none of which challenged the pervasive business perspective on reform. Their demands largely focused on specific issues related to their particular activity and roughly paralleled their earlier submissions to the Royal Commission: see Ch 6, III above.
105. As published in Canadian Labour, May 1970, p 9.
106. Ibid.
107. Canadian Welfare, May-June 1970, p 2, editorial.
108. Ibid.
109. The rationale for such a classification was developed in Ch 6 and will not be repeated here. For reasons discussed above, this analysis will focus upon the House of Commons committee. Input to the Senate committee was of a smaller scale, but was of a very similar pattern to its Commons counterpart. The Commons committee Report (Appendix A) lists 211 groups who appeared to present briefs. I have counted organizations separately that appeared together before the committee: for example, the Canadian Restaurant Association and the Hotel Association of Canada represent spearate industries even though they appeared together. This occured twice, so that my total is 213. This is the same total

listed in David Lewis' analysis of witnesses that appeared before the committee. He has adopted a different method of categorization, never clearly specified, and derives slightly different figures than I do. However, his classification yields very similar patters to my own; David Lewis, Louder Voices: The Corporate Welfare Bums, Toronto, James Lewis and Samuel, 1972, p 101.

110. Wallace Clement, The Canadian Corporate Elite. An Analysis of Economic Power, Toronto, McClelland and Stewart, 1975, p 414; Ch. 4 more generally.

111. The rationale for these classifications was also discussed in earlier chapters. This does not, of course, imply that these professions were totally dependent upon business or that this determined their policy orientation. Rather, simply that the requirements of business as a major client group, plus the close personal and career links between leading members of the profession and the corporate world, tended to shape the parameters within the professions operated. In addition, the functions of lawyers and accountants particularly was very much predicated upon the institutional order and legal structure of a capitalist economy. On the question of tax reform, it has been seen that the overall perspective of these professional organizations was very similar to that of business.

112. Robert Laxer, Canada's Unions, Toronto, James Lorimer, 1976, p 38.

113. A number of these were closely linked to business. The Nova Scotia Voluntary Planning Board was a body of business and industry advisers to the provincial government on economic affairs. See Globe and Mail, (Toronto), March 19, 1970 on their brief.

114. The qualification is the same here as for the earlier analysis of input to the Carter Commission in Ch. 6. There is no assumption that these organizations precisely corresponded to underlying class groupings, saw their role in purely class terms or were perfectly conscious of their class interests vis-a-vis tax reform. Nevertheless, their functions and policy can be closely related to the specific classes and social groups that form their constituency.

115. Compare Ch. 6, Tables 1 and 2.

116. Testimony, July 31, 1970, p 5. Mr. Sinclair emphasized that the brief was for the consideration of the government, not simply the committee. It was because of their specific focus on the White Paper that these briefs tended to be shorter than those submitted to the Carter Commission. The earlier briefs had been discussions of the overall state of the tax system and the direction of its reform, whereas the present submissions centred upon the relatively compact White Paper proposals.

117. Ibid., p 10.

118. June 22, 1970.

119. Leader-Post, (Regina), May 2, 1970.

120. Senate committee, September 15, 1970, Appendix 4.

121. June 9, 1970, p 127.

122. Testimony, May 28, 1970, p 9.
123. May 7, 1970, p 126.
124. Op.cit., p 424.
125. Testimony, June 9, 1970, p 8.
126. Globe and Mail, (Toronto), May 20, 1970.
127. This and all following biographical data on institutional positions and activity was collected from standard sources, especially the Financial Post, Directory of Directors and the Canadian Who's Who. The data is not just for 1970, when these hearings were taking place, but also includes information through 1972. This gives a better sense of the nature and scope of these prominent individuals' positions during the early 1970's period, rather than simply for the point in time when data for one year is recorded. See also Peter C. Newman, The Canadian Establishment, Toronto, McClelland and Stewart, 1975 on Sinclair and other leading figures within the Canadian capitalist class.
128. Commons, June 18, 1970; see also Canadian Banker, July-August 1970, pp 35-6 on the delegation and their reception.
129. All three were also bank directors.
130. September 29, 1971, p 5.
131. Cited in Philip Sykes, Sellout. The Giveaway of Canada's Energy Resources, Edmonton, Hurtig Publishers, 1973, p 130.
132. Cf. John Richards and Larry Pratt, Prairie Capitalism: Power and Influence in the New West, Toronto, McClelland and Stewart, 1979.
133. Testimony, June 2, 1970, p 8.
134. Ibid., p 8.
135. Testimony, July 31, 1970, p 20.
136. Ibid., p 30ff.
137. Globe and Mail, (Toronto), October 6, 1973, p 1.
138. Colin Campbell, The Canadian Senate: A Lobby From Within, Toronto, Macmillan, 1978, p 32.
139. Robert Presthus, Elite Accommodation in Canadian Politics, Toronto, MacMillan, 1973, p 27.
140. Ibid., pp 27-8, Table 2-1.
141. Campbell, op.cit., p 10.
142. Ibid., pp 11-19; Ch 2-3.
143. Globe and Mail, (Toronto), October 8, 1973, p 1.
144. The following biographical data was collected for the 1970-73 period. This gives a better sense of the scope of the Senator's corporate links than a single year. This means that a Senator may not have held a specific corporate position at the time of the hearings. Since the focus here is upon the general integration of the Senate committee and capital rather than the direct representation of particular corporations, this is not problematic.
145. Globe and Mail, (Toronto), January 31, 1974, p B2.
146. See Stanbury, op.cit., pp 145-6.
147. The leading role of Philip Vineberg in the reform debates has been noted.
148. Stanbury, op.cit., pp 145-9.
149. Ibid., p 147.

150. Doerr, op.cit., p 190.
151. October 10, 1970, p 35.
152. Globe and Mail, (Toronto), April 16, 1970.
153. Globe and Mail, (Toronto), May 7, 1970.
154. Senate committee, Appendices of Supplementary Information, September 15, 1970, pp 40-3.
155. Citizen, (Ottawa), January 29, 1970.
156. Gazette, (Montreal), April 16, 1970.
157. Ibid.
158. Op.cit., pp 278-82, Table 10-4.
159. This data was obtained from the Parliamentary Guide for all members of the committee at the beginning of the parliamentary session in which the White Paper hearings took place. There was some turnover in the committee's membership during the course of the hearings, but this did not appear to change these overall patterns. At least two M.P.'s added to the committee by the conclusion of its hearings, Danson and Kaplan, were strongly linked to the Toronto business community.
160. Globe and Mail, (Toronto), October 6, 1970.
161. Citizen, (Ottawa), March 18, 1970.
162. Globe and Mail, (Toronto), April 8, 1970.
163. Globe and Mail, (Toronto), April 25, 1970.
164. Max Saltsman, "Reflections on Tax Reform in Canada", Canadian Taxation, Winter, 1979, p 26.
165. Ibid., p 26.
166. Financial Post, February 28, 1970, p 5.
167. Globe and Mail, (Toronto), April 8, 1970.
168. Journal, (Ottawa), September 1, 1970.
169. January 10, 1970.
170. Canadian Welfare, May-June 1970, p 2.
171. November-December 1970, pp 3-6.
172. Ibid., p 3.
173. Ibid., p 3. An examination of the index (Issue #93) of the range of topics considered in the committee hearings on the White Paper reveals very similar patterns. While there were over five pages of references to deliberations on capital gains and two and one-half pages on the mining industry, there were no separate listings for welfare, poverty or low-income. Within the discussions of personal income taxation about one-tenth of the listings referred to the effect on the low-income, far less than the discussion of the middle-income.
174. Ibid., p 3. See also the speech by Reuben Baetz, executive director of the Canadian Council on Social Development (formerly the C.W.C.); Star, (Toronto), November 16, 1970.
175. November-December 1970, p 4.
176. Ibid., p 6.
177. Ibid., p 4.
178. Ibid., p 4.
179. Doerr, op.cit., p 195.
180. Ibid., p 194.

181. See Saltsman, 1979, op.cit.
182. Pierre Trudeau, speaking on the Canadian Television Network, December 28, 1971: cited in Lewis, op.cit., p IV.
183. August 5, 1970, p 5; see also excerpts in Financial Post, August 22, 1970, p 6.
184. August 5, 1970, p 5.
185. Ibid., p 6.
186. Ibid., p 7.
187. Ibid., p 8.

Chapter 14 Further Moderation: Recommendations of the Parliamentary Committees

The deliberations of the parliamentary committees on the White Paper did not take place in isolation; during the entire period that they were at work the reform proposals remained the focus of extensive public discussion and considerable controversy. The first two sections of this chapter examine this continuing pressure and three critical concessions by the government in the summer of 1970. This third stage of the reform process came to a close with the publication of the two committee's reports in September and October. Their content and implications are discussed in the third section and the overall conclusions for this stage are developed in the fourth section.

I. Continuing Debate: Spring - Fall 1970

Just as corporate representatives had been the predominant presence in the formal committee hearings, highly organized business opposition to any substantially progressive reform was the dominant political force in the wider debates on the White Paper. Business policy perspectives and demands continued to be pressed in an incessant round of speeches, articles in the business press, conferences and lobbying activity. The themes of this pervasive corporate opposition paralleled those of their formal submissions to the Commons and Senate committees. In addition, the corporate briefs were generally also presented directly to the government. Department of Finance officials reviewed the briefs as they were received and prepared initial legislative options on their basis.[1]

While there were still some who totally rejected the White Paper,[2] majority corporate opinion recognized that major changes were largely unavoidable. The major thrust of continuing business pressure was to ensure that the eventual reforms were as acceptable as possible. The fundamental objection to the White Paper remained that it would have a damaging effect on the economy.[3] More immediately, corporate spokesmen stressed that uncertainty over the impact and implementation of the White Paper proposals was affecting current business activity; a number of corporations had cancelled planned public share offerings[4] and major investment projects were being held back.[5] The clear consensus was that there would have to be important modifications to the White Paper and that the government should quickly admit this. It was frequently suggested that the government had tried to achieve too much "by attempting to introduce a theoretically perfect and symmetrical tax system all at once."[6] The consistent message from the more reformist and sophisticated elements within the business community was that the government should be flexible and willing to compromise. It must not allow intransigence or pride or authorship to prevent it from correcting the major problems of the White Paper. For the sake of workable and acceptable general reform, it must be willing to drop some of the most hotly contested proposals and proceed cautiously and gradually with overall changes. The more astute business observers argued that the Minister of Finance could use concessions on issues such as the taxation of small business and unrealized capital gains as bargaining tactics: "Their abandonment would give him good political talking points in negotiating the rest of the proposals through Parliament."[7]

Continuing Pressure from Small Business and the Political Right

While the more moderate and reformist current within business had become increasingly important, the White Paper remained under strong pressure from the right. Small business continued to oppose the direction and major recommendations of the White Paper. The harsh rhetoric of much of this campaign against the reform proposals struck a responsive chord within the far right of the Canadian political spectrum. The highly conservative magazine Canada Month argued that taxation must be judged in terms of how much it interferes with economic freedom and that "on every count Mr. Benson's new tax system is a state-interventionist system."[8] It referred back to the "socialistic doctrine of the 'redistribution of wealth' which was one of the most pathological symptoms of the Carter Report" and held that the White Paper entailed even greater "state expropriation."[9] Canada Month strongly condemned prevailing reformist interpretations of the White Paper; those who supported its general goals, but wanted changed in the actual proposals. By contrast, they rejected the basic priority of reform: "Strategic awareness demands that we start taking the field frankly in favour of inequality: the richest rewards to the most fruitful producers of the most desired valuables."[10]

It would appear that the mobilization of small business against the White Paper had reached its peak during the spring of 1970 as the focus of public attention and discussion shifted to the parliamentary committee hearings. A major rally of the Canadian Council for Fair Taxation planned for late May was cancelled because of dwindling funds and

membership.[11] Nonetheless, this strident and highly publicized opposition was a major factor for the government to consider in formulating the direction of reform. Max Saltsman, an individual much involved in the reform process, attributed the retreat from the Carter principles to the impact of this well organized campaign, especially of Colin Brown and his associates, on an ill-informed public opinion.[12]

The extremist campaign against the White Paper was condemned by more moderate members of the business community.[13] For example, in a speech to a Queen's University tax conference, leading Toronto accountant A.J. Little was highly critical of the efforts of John Bulloch, head of the Canadian Council for Fair Taxation, whom he accused of "promoting hysteria", and of the "completely dishonest" newspaper advertisements against the White Paper sponsored by Colin Brown.[14] This theme was taken up by the Globe and Mail editorially: it argued that these activities "do not impress us as calculated to produce a fair assessment of the White Paper or an equitable tax structure."[15]

As unfounded and hysterical as the most extreme attacks on the White Paper may have been, the government still had to take this reaction into account. A February Globe and Mail editorial urged the Minister of Finance to act quickly to neutralize this opposition by slowing down the pace of reform and discarding the most objectionable proposals: "He must do this because much of the White Paper is basically sound, much of what it proposes is necessary to a fair system of taxation. But if he doesn't get rid of the bad it will overwhelm the good, and sweep the whole structure down the drain."[16] Underlying this plea was the fear that extre-

mist opposition could force the government to abandon the White Paper and that this could result in an even worse system than that existing.[17]

Provincial Opposition

In very similar terms as the corporate sector, the major provincial states continued to oppose the White Paper. Comprehensive submissions from Ontario, Quebec and Alberta to the June 1970 federal-provincial finance conference argued that the federal proposals would restrict economic growth.[18] There was great concern that uncertainty over tax changes was retarding provincial economic development; Premier Bourassa, for example, stressed "the uncertainty about the possible rate of return which is inhibiting mining development in Quebec "[19] and that his government's efforts to create employment were being hampered by the White Paper.[20] Ontario remained at the forefront of provincial resistance to the White Paper.[21] In its brief to the House of Commons committee and its submissions to inter-governmental conferences, Ontario had presented a concrete set of alternative proposals for tax reform. The federal government was condemned for hampering fiscal coordination "by inposing an unacceptable tax system which forces provinces to establish independent tax systems through its piece-meal approach of reforming the federal structure in isolation from the other levels."[22] Like the White Paper, Ontario's first priority was to improve equity. Ontario Treasurer Charles MacNaughton argued that this could be achieved at far less cost; by the use of tax credits more people could be helped without raising taxes in general or increasing the burden on the middle income classes. The second priority of tax reform was to foster economic growth;

to this end, Ontario advocated milder capital gains taxation, the retention of incentives for small business and the resource industries, and a more gradual incremental approach to reform.[23] Mr. MacNaughton expressed grave concern over the apparent growing share of public investment entailed by the White Paper and the attendant implication that "the determination as to how development will take place, and where the capital comes, will be more and more placed in the hands of government - and in this case, the central government."[24] The Ontario government rejected such an orientation: "I certainly believe that the growth of our country up to this point in time which has been good and solid, has been largely the result of encouraging the use of capital by the private sector."[25] It also strenuously objected to the large increase in tax revenue that would result from the proposed new rate structure. It will be seen shortly that pressure from Ontario was to be a central factor in two key developments in the summer of 1970. More generally, the criticism of the White Paper from the most affluent and powerful province provided significant support to the more moderate business opposition, whose overall perspective the Ontario proposals closely resembled.

Pressures on the Government

The government then, was under pressure from all sides through the spring and summer of 1970. Not only was it beleaguered from the corporate sector, small business and the political right, but it was also under attack from the major provincial governments. At the same time, the White Paper had been bombarded by unrelenting criticism during the hearings of the parliamentary committees. Government strategy had been

to attempt to ride out the worst of the storm of organized protest against the White Paper. This appeared to have been at least partially successful.[26] By the summer of 1970, the most hysterical reactions to the proposals had abated somewhat and the more reformist perspectives within the business community had come to the fore. However, while the tenor of opposition may have moderated somewhat, the government was still under intense pressure to modify the priorities and central provisions of the White Paper.

The pervasiveness of this opposition seemed to be having an important impact on public opinion. A poll carried out by the Canadian Institute of Public Opinion indicated that the proportion of the public approving of the White Paper had dropped from 34% in January to 30% in June; at the same time, those disapproving had increased from 38% to 48%. On more specific issues, 53% believed that the White Paper would lead to slower development of Canada's natural resources and 62% opposed the capital gains tax proposal. The results of this poll, commissioned by London businessman Colin Brown with funds raised during his earlier advertising campaign against the White Paper, were presented to every Member of Parliament.[27] A further indication of significant public unease with the White Paper was the large volume of critical mail sent to Mr. Benson. A Department of Finance analysis of the 15,000 letters received by mid-August revealed six most frequently mentioned issues: the withdrawal of the dual rate of corporate taxation, increased taxation on initiative, periodic revaluation of unrealized capital gains, profit-sharing plans, business entertainment and convention expenses, and the taxation of gains on homes. Additional areas of

great concern were the heavier taxation of middle-income groups, capital gains tax in general and the higher government revenue that would result from these reforms.[28]

Such an apparent loss of public confidence and support, of crucial significance to the government at any time, was especially important during this period. The protracted deliberations and debates on tax reform meant that the final legislation would not likely be implemented until July 1, 1971 or January 1, 1972. The government did not want to go into the expected 1972 or early 1973 election with its reforms still a contentious and salient public issue.[29] The Monetary Times emphasized these "powerful reasons for urgency...The process of tax reform has to be completed by then if it is to be minimized as an election issue. Then to, Benson is becoming aware of the extent investment decisions which make the economy move are being deferred until tax positions are clarified. An economy on the upswing is essential to election victory."[30]

II. Major Government Concessions on Small Business, State Revenue and Mining

In response to all of this, the government continued to stress that the proposals were open to revision. In their appearances before the parliamentary committees, leading officials had admitted the significance of prevailing criticisms of the White Paper and both the Minister of Finance and the Prime Minister had stressed that there would be changes in the White Paper.[31] Mr. Benson told a May conference of the Tax Executives Institute that the final shape of tax reform would be con-

siderably influenced by the criticisms of the White Paper.[32] The Minister also assured the Canadian Tax Foundation meetings that he was well aware of the problems of uncertainty created by the protracted nature of the reform process.[33] Nonetheless, the government continued to insist that it would not comment on the White Paper or indicate the nature of any modifications to it until the reports of the two parliamentary committees had been received. In spite of this commitment, the government did make three crucial concessions to corporate pressure during the summer of 1970.

Small Business Taxation

The recommended elimination of the lower rate of tax on the first $35,000 of corporate profits had attracted an enormous amount of opposition. As Canadian Business remarked: "Of all the issues influenced by the White Paper on Tax Reform few have caused as much of an outburst as the proposal to eliminate the preferential tax rate for small business."[34] Small business was galvanized into organized action and it became one of the leading forces in the more hostile pressure against the White Paper. Large corporations and associations also demanded that significant tax incentives for small business be retained. The government had not expected such a tremendous uproar. The Minister of Finance's first defense was to argue that the lower rate had been abused to avoid taxation and had benefited corporations for whom it was not intended.[35] These arguments failed to convince his critics.

A far more substantive government response was unveiled in a May speech by Mr. Benson to a Liberal Party group. He argued that the

existing dual rate was extremely expensive, but agreed that adequate tax incentives for small business were still vitally necessary. To devise the most efficient means of accomplishing this a special task force of officials from the Department of Industry, Trade and Commerce, Finance, and National Revenue, and the Privy Council and the Industrial Development Bank was established under the chairmanship of former Deputy Minister of Finance, R.B. Bryce.[36] This group would examine and develop recommendations on the financing problems of small business, the significance of this sector within the overall economy, the priority of assisting their growth and the range of options with which to do so. The seriousness which the government attached to this issue was indicated by the high-level experts and officials named to the study and by the appointment of Mr. Bryce, long the most powerful and senior federal bureaucrat and at that time in charge of the constitutional aspects of taxation within the Prime Minister's office. The establishment of the task force was warmly applauded by the Financial Post: "There is immense significance in the news that Finance Minister Benson now has a top-level team looking at ways to soften the impact of the government's tax proposals on small business. This provides the first visible proof that Ottawa is in fact willing to make changes in its proposals for tax reform if the case for change is clear."[37] The establishment of the task force can certainly be interpreted as a way of cooling out the pressure on this issue. But there was also little doubt that the government was now firmly committed to significant fiscal support of small business.

The business community was heartened by this announcement not simply in the hope that the problems of small business would be alleviated, but as an indication that the government was willing to revise those proposals which had attracted the greatest opposition. The Financial Post clearly stated this view: "The fact that the government is now moving towards modification or amendment of its proposals on this front will go far to defuse the explosive forces building up against tax reform. It suggests that public pre-legislation discussion about tax changes can work to everybody's benefit. The re-entry of the government marks the resumption of honest-to-goodness debate."[38] The Post's editorial then went on to speculate on whether the government would also change such other hotly contested issues as the distinction between closely and widely-held companies, the periodic revaluation on unrealized gains and the taxation of capital gains from the sale of personal property.

Increased Government Revenue

The second, and even more important, government concession also spoke to a major thrust of corporate pressure against the White Paper; the pervasive demand that the reform of the tax structure not be used to concurrently increase the level of state revenue. Opposition to the large tax increase, which the White Paper said would be $630 million per year when fully in operation, an increase of six percent, had been strong from the first release of the proposals.[39] This corporate opposition was heightened when the Ontario government charged that the increase of tax revenue would in fact be $1.3 billion, a figure that was then

incorporated in most subsequent corporate objections to the White Paper. The Ontario government in fact played a leading role in the campaign against the revenue increases included in the federal proposals. This was emphasized by Liberal member of the Commons committee Robert Kaplan when the Ontario delegation appeared before them; he argued that the Ontario estimates of the revenue consequences of the White Paper, because of the stature of the province and because they were the only ones to develop a concrete analysis of this issue, had shaped the direction and scope of the public debate on tax reform.[40]

Business apprehension with the revenue increase ran through the sessions of the March Canadian Tax Foundation conference, a highly influential forum in its own right and one which highlighted the current state of corporate opinion. Among the points upon which the Financial Post had found widespread agreement within the conference was "condemnation of the government for including a sharp increase in tax revenue with tax reform."[41] The more conservative variants of this opposition were well expressed by the Hon. J.V. Clyne: "What programs has it in mind that would require the vast sums that the White Paper would produce? ...the White Paper is a revenue-producing document and its talk of equity and neutrality is, in the main, a mockery of those terms."[42] The spectre of totalitarian state control was raised: "the degree of government intervention in the economy which is envisaged is alien to Canadian aspirations...One either has a free competitive system or one has not, and at some point continued enlargement of government participation or intervention in the economy of a country will transform it to one of

total state control."[43] In addition, a number of comprehensive academic analyses of the macro-economic effect of the White Paper proposals concluded that their impact would "depend upon the nature of the policies adopted with respect to the revenue raised. Perhaps our primary conclusion in this study is therefore that no adequate assessment of a tax increase of the magnitude proposed by the White Paper - indeed no adequate evaluation of any major tax policy change is possible without information concerning the uses to which the money will be put or the nature of the proposed compensatory tax reductions."[44] A second academic study put forth a series of modifications to the White Paper - all very similar to prevailing corporate demands - which would eliminate the tax increase and make the overall economic effects of the tax changes favourable.[45] In his "summing up" of the Foundation's deliberations, Phillip Vineberg stressed that the controversy over the revenue increase had greatly complicated debate over the reform proposals and increased the opposition to the White Paper as a whole.[46] This argument was carried forward in a Financial Post editorial on the conference: "One fact emerges from Tax Foundation's sessions with great clarity. If Ottawa separated the proposals for tax reform from the proposals for specific tax rates (as put forward, the rates would produce the biggest tax increase in peacetime history), there would be more room for constructive change - and less emotion."[47] Mr. Vineberg wondered whether the government, in the light of this considerable uproar over the higher revenue, was considering the "alternative of scaling down some taxes as the bite increases during the transitional period."[48]

Opposition to the higher revenue that would result from the proposed system was also one of the preeminent themes of corporate submissions to the parliamentary committees. As noted in the preceding chapter, one of the strongest arguments on this issue was presented in the brief of the Canadian Bankers' Association to the Commons committee.[49] This powerful organization argued that the key goal of formulating a more efficient and acceptable tax structure was overshadowed by "the built-in addition to the total tax burden."[50] It emphasized the significance of the increased revenue "for it is the marginal addition to tax levies or tax rates which most influences one's judgement on the economic ramifications of proposed changes."[51] The C.B.A. understood the fiscal pressure on the government to ensure that no revenue would be lost in the first year of operation of the new system. But the increased revenue that would result from the new proposals as transitional measures took effect was too substantial. If the government did not intend such an increase, as the White Paper implied, then this situation must be corrected. The Association therefore recommended that "the government should establish a specific schedule of gradual tax reductions over the five-year transition period as a rough counter-weight to the estimated gradual build-up of new revenue flows."[52]

While the White Paper was by no means clear on this issue, the higher revenue yield of the proposed changes can be related to the fiscal pressures facing the state. The trend of rising state expenditure had been well established during this period. The opportunity to secure additional revenue automatically, and hopefully without attracting undue

attention and therefore at relatively little political cost, would certainly be attractive. To the extent that such considerations were important, government policy-makers badly miscalculated. The increased revenue attracted tremendous business opposition and quickly became as contentious as any other facet of the White Paper. There was considerable apprehension of what the government would do with the additional revenue and deep suspicion of the expansion of state social and economic intervention from the more conservative within the business community. It became very clear that evaluation of the White Paper and implementation of some degree of tax reform would be far easier if these issues could be separated from the revenue increase.

The first reaction of the government to this uproar was to declare that the White Paper proposals had not been intended to provide a mechanism of increasing revenue. In his initial appearance before the House of Commons committee, the Minister of Finance stressed that raising revenue levels was not a basic purpose of tax reform.[53] Such reassurances did not satisfy the government's critics. When Mr. Benson presented this argument to the conference of the Canadian Tax Foundation he was greeted with laughter and groans of disbelief.[54] The government's next response was to indicate that tax rates could be cut to compensate for the additional revenue yielded as the new structure came into force. In January, Mr. Benson stated that if more revenue was produced than the government required then rates could be adjusted downwards.[55] In April, Mr. R.B. Bryce told the Commons committee that tax rates could be reduced before the new proposals became finally effective.[56]

The government's final position was clarified in a letter from the Minister of Finance to the Chairman of the parliamentary committees tabled in the House of Commons June 11.[57] Mr. Benson promised that personal tax rates would be revised so that they would not yield additional revenue: "the legislation that the government proposes to the House of Commons to implement its tax reform measures will include a fixed schedule of declining income tax rates for each of the first five years of its operation. These schedules will provide for tax cuts in each of the five years designed to ensure that the revenues produced under the new system will not exceed the total that would be produced if the present system remained in effect."[58] Hoping to defuse the great hostility to the White Paper over the increased revenue, the Minister's announcement "was designed to re-focus public attention on the actual tax proposals in the white paper and to allay the fears of investors and businessmen, at a time of economic uncertainty, that the white paper will seriously reduce private savings available for business expansion."[59] Described in the press as "the Government's most significant political response since the white paper debate began,"[60] this commitment has to be seen as a major concession to corporate pressure. The formula put forth by Mr. Benson was in fact exactly what the Canadian Bankers' Association had demanded. It was also a concession that directly affected one of the most pressing institutional imperatives on the state; its need to secure adequate revenue levels.

Mining Concessions

The massive opposition of the mining industry against the recommended withdrawal of their lucrative tax concessions has been seen above. This remained one of the predominant thrusts of corporate pressure against the White Paper throughout 1970. A continuing round of speeches by top industry spokesmen decried the impact of the proposals: Sir Val Duncan, chairman of Rio Tinto-Zinc Corporation, told the Empire Club that international mining capital will be re-directed to countries where it could receive a more favourable return,[61] and A.L. Fairley, president of Hollinger Mines Ltd., told the company's annual meeting that the White Paper would jeopardize mining expansion in Canada.[62] The business press was filled with articles along the same lines: major analyses in the Financial Post emphasized the great uncertainty in the industry over the White Paper and the overall climate of state policy.[63] It was estimated that the tax incentives for the mining industry would be generally reduced by about 75% and those for producers of iron ore used in the integrated iron and steel industry by 80-85%. As was seen earlier, opposition to the removal of the mining incentives had also been one of the central themes of corporate submissions to the parliamentary committees; about 20% of groups appearing before the Commons committee were primarily interested in defeating these proposals and they were supported by large numbers of other business briefs.[64] In addition, the major provincial governments, especially those in which the mining industry was concentrated, had played a leading role in the campaign to protect the incentives. The Ontario proposals for reform argued that the

taxation of natural resources fell within provincial jurisdiction and that the federal government must leave them tax room to do so.[65]

It was clear through the spring and summer of 1970 that the government was not immune to this unrelenting pressure. In April, the Minister of Finance noted that making provincial taxes a deductible expense for the federal taxation of mining companies could be considered.[66] Finally, in an August 26 letter to the provincial finance ministers and treasurers, the Minister of Finance announced a number of crucial modifications to the White Paper proposals on mining.[67] The range of expenditures that would qualify for earned depletion would be expanded and investment in major expansions of mines would also qualify. There would be more favourable treatment of dividends paid by mining companies to Canadian shareholders. Finally, there would be key changes in the rates of taxation. The existing effective rate of federal tax on mining was 40% (the standard corporate rate of 50% less a 10% abatement for provincial taxes). The provincial abatement would be increased to 25%. This would reduce the effective federal rate from 40% to 25%. Like the original proposals for mining, it was expected that these changes would not likely come into force until 1975 at the earliest.

The changes proposed by Mr. Benson would have a considerable impact upon the industry. A preliminary analysis by a leading chartered accountant estimated that the effective tax rates of mining companies would be seven percentage points less under the new proposals than under the White Paper with no earned depletion and 4% less with maximum depletion. With maximum earned depletion, mining companies would have a lower

effective rate under the latest modifications than under the existing system.[68] The announced changes would produce a far more favourable tax opposition than under the White Paper; it was estimated that almost two-thirds of the tax increase on the extractive industries entailed by the White Paper would be removed.[69] These modifications represented a significant retreat; a major study of the reform of mining taxation concluded that "obviously, the effect of the amendments is to reverse the directional impact of the original White Paper proposals on the net returns to mining."[70] Commentary in Canadian Chartered Accountant set this retreat in its wider context: the Carter Report had recommended a large reduction in tax concessions for mining; "these drastic proposals were softened substantially in the White Paper"; and in turn, "these proposals were not satisfactory to the mining industry and in August, the Minister of Finance announced several changes further ameliorating the impact of reform upon this important industry."[71]

The basis for this significant retreat on the part of the government was also clear. The mining industry had kept up constant pressure against the elimination of their incentives and a number of large projects had been deferred or cancelled. The government decision was a clear response to this pressure and to the fear of a major slowdown in the industry.[72] Mr. Benson himself stressed the need to allay the uncertainty that industry spokesmen said was delaying new mining development and the large number of submissions received by the government opposing the mining recommendations as key factors in his decision.[73] Equally important as the pervasive corporate opposition, was the strenuous

campaign of major provincial governments against the proposals. The Minister of Finance acknowledged the great pressure from the provinces in his final testimony to the Commons committee in early August: "There have been serious representations from most of the provinces with respect to taxes on the extractive industry and the effects on them. We will have to take these into consideration along with the Committee report before we ultimately make our decision."[74] But the government did not wait for the committee reports; Mr. Benson's announcement came only three weeks later. According to a comprehensive analysis of this issue, "the main force motivating the Minister's capitulation was undoubtedly the influence of the provinces."[75] The actual changes the Minister made were similar to proposals put forward previously by the government of Ontario.[76] In the weeks leading up to the federal government's concession, this opposition was particularly acute from the Premier of Quebec. Mr. Bourassa was himself under great pressure to fulfill an election promise of creating 100,000 new jobs for his province.[77] He was very clear on why he wanted the White Paper proposals on mining moderated: "Several expansion plans, entailing in total several hundred million dollars, have been postponed or - so we are told - are likely never to materialize because of the implications of tax reform...Quebec cannot afford to lose promising investments in this fashion."[78] This pervasive corporate and provincial opposition were not unrelated; not only were the economies of key provinces vitally dependent upon mining production and investment, but the dominant mining corporations and associations had been pressing the provincial

governments to plead the industry's case. Together, this assault proved to be too much for the federal government.

The initial provincial response to the new federal proposals was favourable.[79] Industry reaction to these concessions was somewhat more ambiguous. Most mining spokesmen reacted favourably to the softening of the White Paper's impact. Representatives of such major corporations as the Steel Co. of Canada and International Nickel expressed support for the changes.[80] Far more importantly, by early September, "go-ahead decisions on multimillion dollar expansions involving several major Canadian iron ore mining projects are expected to grow out of Ottawa's new amendments to mining tax proposals."[81] A Canadian Press survey of mining and provincial government officials immediately after the Minister of Finance's announcement concluded that major projects involving over 2000 jobs and $1 billion of development that had been held up because of the White Paper were likely to proceed.[82] Indeed, to underline the pressure that had faced the Quebec government especially, Quebec Cartier Mining and the Iron Ore Co. of Canada announced major expansions within the province several weeks after Mr. Benson's letter.[83] The most frequent observation, from the president of Hudson Bay Mining and Smelting Co. and the managing director of the Mining Association of Canada among others, was that the changes were a step in the right direction. The latter official stated that "the changes did not come completely as a surprise." The White Paper proposals had been "unrealistic" and "we are grateful that some of the points we have made have registered."[84]

On the other hand, the ultimate goal of the more hard-line elements within the industry had been the retention of the existing system; officials of the British Columbia mining association, for example, claimed that the amendments did not go far enough.[85] Finally, there was apprehension within the industry over the increased abatements of mining taxation to the provinces. This meant that the provinces had much more control over the total level of taxation and there was some "fear that hard-pressed provincial treasurers will find it difficult to withstand the temptation to occupy fully the tax room now opened up to them."[86] The Ontario and Quebec governments indicated that they were not contemplating such a course and stressed that they would retain existing levels of incentive for mining.[87]

The revisions to the White Paper recommendations on mining taxation have to be seen as a significant concession to corporate and provincial pressure. The changes, which would make a very substantial difference to the tax burden of the industry, were a victory of major proportions for this pressure. But this juncture also had crucial wider implications. Bucovetsky's study of the mining industry and tax reform emphasized the government's decision as "the first visible crack in the White Paper structure...An earlier Minister of Finance had first signalled his abandonment of the Carter Report's recommendations with an announcement on mineral policy; now Mr. Benson heralded the dismemberment of the White Paper with a major revision to the proposals that applied to the mining industry."[88] Just as this concession indicated the government's sensitivity to corporate pressure and the need

to maintain a favourable climate for investment, so too was it taken as "evidence of Mr. Benson's acceptance of the seriousness of the provincial attitude toward resource industry taxation, and is some indication that the views of the provinces will have significant impact on the ultimate shape of the tax reform package."[89]

The government's establishment of a task force on small business and its clear commitment to continuing significant tax incentives for this sector, and the guarantee to reduce tax rates in such a way as to prevent the new system from increasing the level of state revenue were also key concessions to business opposition. The alterations to the treatment of mining were, however, the first retreat on a core proposals of the White Paper schema itself. As a harbinger of the direction of government policy on tax reform, all of this was an indication of a significant moderation of the White Paper. It was in this overall context of continuing pervasive pressure and the beginnings of government retreat that the reports of the parliamentary committees were eagerly awaited in the fall of 1970.

III. The Reports of the Parliamentary Committees

The hearings of the parliamentary committees on the White Paper had been completed in early August 1970[90] and the committees had been formulating their conclusions and recommendations since then. The report of the Senate committee was released at the end of September and that of the Commons committee a week later in early October. The hearings of the latter committee had been the major forum for public discussion and input on the White Paper and were seen as the

major mechanism for the distillation of this public opinion on the direction of tax reform. The government frequently reiterated, and this was also much emphasized by corporate and public commentary, that the conclusions of the Commons committee would be of major influence in the final shape of tax reform. The main lines of the Commons report will be examined first and the findings of its Senate counterpart will be discussed later.

Report of the Commons Committee

The final deliberations of the Commons committee had been complicated by partisan political considerations. The Conservative Party had made attacking the White Paper a central element of its political strategy and planned to use it as a major issue in the next election. While its members on the Commons committee were no doubt pleased to see the government proposals so thoroughly criticized and agreed with the report's modifications of the White Paper, they could not openly support the Liberal majority. Many of the Conservative members voted on amendments in clause-by-clause discussions, but they were absent for the final vote on the report as a whole.[91] The New Democratic Party had consistently had a more progressive perspective than the other parties. As the committee was beginning to draft its report in September, Max Saltsman announced that he and his N.D.P. colleague would press for a neutral tax system with respect to the various sectors of industry. He argued that the public debates on the White Paper had been a failure; ordinary wage and salary earners had not been heard, while debate had centred on the views of special interests.[92]

The two N.D.P members voted against the report and issued a minority report objecting to the central thrust of the majority conclusions.[93] Fundamentally, the report reflected the views of the Liberal majority in the committee; in fact, it was largely written by three prominent Toronto M.P.'s, Alistair Gillespie, Barnett Danson and Robert Kaplan.[94] The fact that the committee was dominated by Liberal M.P.'s was an additional reason that the government would have to pay serious attention to its recommendations.[95]

What is remarkable - although certainly not surprising, given the patterns of input to the Commons committee and the nature of its deliberations - is the striking parallel between the final report and prevailing corporate opinion on the White Paper and the future course of tax reform. This was very clear for the report's overall perspective: economic growth must be the primary concern of reform, the fiscal system must not impede accumulation and investment, and changes to the tax structure must be of a much smaller scale and implemented more gradually than envisioned by the White Paper. The committee's general evaluation of the government proposals and its identification of the priorities of reform closely echoed those of the business community and the major provincial governments. Similarly, many of the specific recommendations put forth by the Commons committee closely resembled those of the many corporate submissions it had received.

Commons Committee Report: General Priorities

Like the more sophisticated and moderate corporate representatives who appeared before it, the committee agreed with the White Paper

that the tax burden on the poor should be reduced and that capital gains should in principle be taxed. However, it was particularly concerned about the effects of tax reform on economic growth: "preservation of an economic climate favourable to growth must be a central consideration of Canadian tax policy."[96] The report contrasted its emphasis to that of the Royal Commission and White Paper, which had stressed equity as the highest priority of taxation, even if this resulted in some decline of economic growth: "Most witnesses before the Committee, however, put growth ahead of equity...It is clear from the representations received by Committee members both in formal hearings and in representations by constituents, that many Canadians fear possible reduction in economic growth as a result of this proposed improved measure of ability to pay."[97] The committee put forth a series of alternatives to the White Paper which would promote the desired equity, but "at the same time eliminate any possible bias against economic growth which some Canadians feared would be a by-product of the implementation of the White Paper proposals in their original form."[98] The committee's references to the views of "some" of "many" Canadians and its "concern for taxpayer understanding and acceptance"[99] can obscure the fact that it was largely from business interests that it heard. But it was very clear that the Commons committee had absorbed the fundamental corporate message that the White Paper reforms were a serious threat to economic growth.

Individual Taxation

The most important conclusion of the report in this area was

that capital gains should be taxed. However, the form recommended would considerably soften the impact of the White Paper proposals. In response to "the repeated representations from the private sector and provincial governments that capital gains should not suffer the same weight of tax as other income",[100] the committee argued that only one-half of capital gains should be taxed (and correspondingly one-half of losses could be deducted). This was a most important development; it will be remembered that the Royal Commission had called for the inclusion of all income from any source in the comprehensive tax base and that the White Paper had rejected this general principle but would still fully tax capital gains. The specific features of the committee recommendations also differed significantly from the White Paper: gains from the sale of residences should not be taxed, there should be less onerous treatment of those moving into and out of Canada, exemptions should be twice the level proposed, and a more generous definition of opening valuation rates should be established.[101] Finally, in light of the virtually unanimous condemnation from taxpayers before them, the committee proposed that the five-year revaluation of unrealized gains be abandoned.[102] This provision should be replaced by a deemed realization of gains at death.[103]

Like large numbers of witnesses who appeared before it, the committee saw the taxation of capital gains to be closely related to estate taxation. The report urged that the burden of estate taxes be substantially alleviated: exemptions should be higher, with no tax on estates under $150,000, and the rate brackets should be expanded,

with the maximum rate only coming into force for estates of at least $800,000 in value.[104] The income levels at which the maximum rates of personal taxation applied should be higher than those of the White Paper, but, on the other hand, the maximum rates would be raised from 51 to 60%.[105] The report also called for higher personal exemptions and for more generous averaging for occupations with fluctuating income. It would provide more favourable deductions for employment expenses, child care and moving to take a new job. Strike pay, as well as the unemployment insurance and other allowances recommended by the White Paper, should be added to the tax base.[106] The more important of these issues had attracted a considerable amount of business opposition and in each case the committee recommended modifications to the original proposals in the direction of corporate pressure. The overall impact of the committee's alternatives would be to significantly lessen the progressive effect of the tax changes.

Retreat from the White Paper was also clear on one of the most hotly contested reform proposals - the integration of personal and corporate taxation. This was an issue that had attracted the most concerted provincial and corporate hostility. The committee still wanted to reduce the double taxation of corporate income - first as business profits and then again as personal income when distributed as dividends - but rejected the White Paper's full integration. They recommended instead a system of half integration, in which Canadian shareholders would receive credit for one-half the Canadian corporation tax on profits from which dividends are paid out.[107]

Corporate Taxation

The committee presented a range of specific recommendations on aspects of business taxation that had been the focus of much discussion in its hearings. Speaking to a highly controversial issue, the report called for the removal of the distinction between widely and closely-held corporations. Capital gains taxation as it affected business operations would also be modified: closely and widely-held corporations should also be treated the same way for this purpose[108] and "tax-free reorganizations be permitted as widely as possible where there is a clear business purpose."[109] The report urged that dividends should be allowed to pass tax free among corporations and their subsidiaries and affiliates.[110] The committee wanted to encourage Canadian multinational corporations and businessmen investing abroad and therefore endorsed a tax regime that would not hinder international investment.[111]

The report called for modifications to the White Paper on a number of further issues around which sustained corporate opposition had raged. The plan to eliminate deductions for entertainment expenses was such a controversial issue: "A considerable amount of the opposition to the White Paper was generated by the sweeping proposals to eliminate so-called expense-account living by senior employees and people in business and professions."[112] Representatives of the private sector assured the committee that there was little abuse in this area and large numbers of witnesses and briefs argued that entertainment expenses were crucial to business and legitimate costs to be

deducted. The Commons committee agreed with these arguments and held that such expenses should continue to be allowed as deductions. It was not fair to punish all for the abuses of a small minority and any problems could be dealt with within the existing legislation.[113] The report noted that the Minister of Finance and the committee were agreed on the need to provide assistance for small business.[114] However, it rejected the White Paper's elimination of the lower rate of tax on the first $35,000 of corporate income and instead recommended a graduated system of incentives for smaller firms. In similar fashion, the committee agreed with the government that the tax system must provide significant incentives for the development of the resource industry; the only question was to what degree. They also concurred with the White Paper that taxes on the industry should be increased, but without removing all tax incentives. Their specific recommendations would moderate the impact of the White Paper proposals; for example, they would broaden the earned depletion allowance. They agreed that the three-year tax exemption should be dropped, but would substitute special quick write-off provisions for investment in buildings and machinery for new mines.[115] Since the government had already made major concessions in this area, the Commons report was of less significance here than it might have been. Its findings did, however, buttress industry arguments for the necessity of continued incentive.

Conclusions: Overall Thrust of Commons Report

Very much like the more sophisticated currents of opinion within the business and professional community, the report approved of the

White Paper at a general level. It was very much a reformist document; the committee had no doubt that a significant restructuring of the tax system was necessary. But it presented a sharply divergent set of priorities and proposals. The report called for a series of modifications to the White Paper that would greatly alter its central provisions and alleviate its impact. Its overall conclusions accepted the basic premise of the corporate sector and provincial governments: "the Committee regards the continuation of a high level of economic growth as a main objective of Canada's tax system in the foreseeable future."[116] The report argued that its modifications struck a better balance between the conflicting goals of tax reform:

> The Committee believes adoption of its recommendations on the taxation of capital gains, on incentives for extractive industries, for the growth of small business and for a reduction in the weight of estate taxes would remove the chief causes of concern that the White Paper proposals would adversely affect Canada's rate of economic growth. At the same time it believes its recommendations achieve the substantial improvement in equity over the present income tax system which is desired by all Canadians.[117]

Finally, the committee stressed that the proposed changes must not be retroactive because this would reduce the confidence of investors in government policy.[118]

The shift in perspective from the White Paper, with the Commons committee's much more fundamental emphasis on economic growth, and the direction of change of the report's major recommendations when compared to the government's original proposals is unmistakeable. The alternative recommendations put forth by the committee would considerably weaken the impact of the changes upon business and wealthy tax-

payers. The committee's modifications of the White Paper were consistently in the direction demanded by the large number of corporate submissions which it received. The committee often referred to the force and unanimity of this opposition to the White Paper as being highly influential in arriving at its recommendations. The report also acknowledged the significance of similar pressure from the provincial governments, of whom it heard from all but British Columbia and Prince Edward Island: "These views reflect for the most part what the Committee has found to be the general view of many Canadians from whom it has heard, namely that at this stage of Canada's development economic growth is regarded as having a higher priority than the degree of equity sought in the White Paper."[119] This general view was simply that the White Paper went too far and too fast.[120] The Commons committee's retreat from the White Paper had clearly taken this message to heart.

Senate Committee

The Standing Committee on Banking, Trade and Commerce of the Senate had tabled its report on the White Paper the week before the Commons committee.[121] Its conclusions were seen to be of less direct influence than those of its Commons counterpart, but the Senate committee's hearings had provided a parallel forum for public input and its report offered an additional set of alternatives for tax reform.[122] Like the Commons committee, the Senate report's fundamental priority was economic growth. However, it also developed a much harsher critique of the White Paper's pursuit of equity:

> It is not enough to achieve equity in taxation if it takes place at the expense of reduced economic growth. We cannot afford to put a chill on the initiative of our industry and on these people who are making such increased economic growth possible. Equity and justice do not necessarily require undue experimentation and Utopian dalliance. Perfect tax systems are the fabric of dreams - not of human endeavour.[123]

In general, the Senate committee's evaluation of the White Paper was much more critical than that of the Commons committee and its modifications to the original proposals were far more substantial. The Senate committee recommendations were much closer to the corporate policy that dominated its public hearing. Given the social background and corporate experience of the Senators themselves, this perspective is hardly surprising.

The range of specific changes recommended by the Senate committee would weaken the White Paper much more than those of the Commons committee.[124] It agreed with the goal of reducing the tax burden of the low-income, but argued strongly that this must not be done at the expense of middle-income groups. The Senate proposals on capital gains were very different from the Commons committee. While accepting the idea of a capital gains tax, the Senate committee emphasized the difference between short and long-term gains. Its specific recommendation that gains on assets held longer than one year should be taxable at a maximum rate of 25% with no deemed realization at death would effectively eliminate or sharply reduce actual tax paid.[125] In addition, unrealized capital gains should not be subject to tax. The Senate committee hoped that estate taxes would be eliminated or significantly reduced. Its strongest condemnation was centred upon the

White Paper proposals for integration. Any distinction between widely and closely-held corporations was categorically rejected. The committee also flatly rejected the White Paper's elimination of deductions for necessary and legitimate business entertainment expenses. It strongly objected to the proposed withdrawal of the lower rate of tax on the first $35,000 of corporate profit. The report would retain the existing rate, but only for small businesses that are not part of a larger corporate group and have incomes of less than $100,000 per year. The Senate committee was reluctant to change the existing structure of resource taxation and, as the Commons committee had done, called for significant moderation of the White Paper.[126] The overall thrust of the Senate report was to reject the White Paper and to propose instead alternative reforms that were essentially adjustments to the existing system.

Significance of the Committee Reports

The Senate committee's conclusions were so conservative and its recommendations would so explicitly preserve the privileges of the corporate sector and the affluent that its report was of limited potential influence. The government could never adopt such a right-wing alternative after there had been so much debate on improving the fairness and efficiency of the tax structure. This made the report of the Commons committee all the more important.[127] The report came from a bi-partisan committee of parliament and, not only was it largely the work of Liberal members, but it clearly reflected the thinking of many others within the governing party caucus. The government had consis-

tently stated that public input to the hearings and the committee's recommendations would be of great influence in the final shape of tax reform. The Trudeau government had placed too much emphasis on participatory democracy to be able to ignore the outcome of these deliberations. Moreover, the committee recommendations were couched in moderate terms and within acceptance of the general goals of reform enunciated in the White Paper. The modifications proposed by the Commons report were widely seen to be reasonable compromises on those issues upon which most concern had been expressed and to indicate the limits of politically acceptable reform.[128]

The significance of the Commons report was heightened by a number of additional features of the political context of the time. The way in which debate on the White Paper had evolved had made it very difficult for the government to compromise. However much its openness to revision was reiterated, the government had still expended a great deal of energy formulating these particular proposals[129] and Mr. Benson and his closest advisers were personally committed to significant reform. Even more importantly, the extreme hostility to the White Paper had hardened positions on both sides. The government had been forced into a defensive posture from which it was difficult for it to move without appearing to back down in the face of pressure from special interests. The Commons report let the government off this particular hook. Whatever modifications to the White Paper it made could now be portrayed as responding to public opinion as expressed in the widest debate in Canadian political history and to the will of parliament. It allowed the goverment room for compromise.

The committee reports presented the government with two alternative sets of opinion on the direction of tax reform. Whatever weight these reports were to have in subsequent government deliberations, it was very clear that their influence would be in a conservative direction. Corporate pressure against the White Paper, strongly supported by major provincial governments, had been conducted at two levels. At the most general level, there was pervasive disagreement with the White Paper's analysis of the fundamental goals and rationale of the tax system, which in turn shape the priorities and parameters of reform. Both committee reports supported the prevailing business critique of the White Paper's emphasis on equity. Their conclusions and overall orientation legitimated the overriding corporate and provincial argument that the primary goal of the tax system, and of its restructuring, must be the maximization of economic growth. At the more specific level, both reports tended to follow the main line of corporate demands on the most contentious recommendations. On some issues, such as integration and the deductibility of business expenses, the committee recommendations closely mirrored corporate opposition; on others, such as capital gains and resource taxation, the committees accepted the principle but would substantially soften the impact of the White Paper proposals. On all such issues, the Senate committee, which it could be argued reflected the more conservative currents within business which continued to reject any really fundamental reform of the tax system, was far more hard-line. Because its criticism of the White Paper was so harsh and its recommendations so clearly little

more than tinkering with the existing structure, it was seen to be very unlikely that the Senate committee report would have much direct influence on the government. As discussed above, this was not the case for the Commons report, whose general perspective closely resembled more moderate and reformist corporate thinking. If these latter alternatives were to be the basis of reform, as was widely expected in the period following their publication, then the eventual legislation would be a substantial modification of the White Paper. By adding to the chorus of provincial and corporate pressure the Commons committee report (and on this point strongly reinforced by the Senate committee) made it far more likely that the government would retreat from the White Paper. By legitimating prevailing business concerns and giving the government room to manoeuvre, the report of the Commons committee greatly facilitated such concessions.

IV. Conclusions of the Third Stage: Portents of Further Retreat

The release of the White Paper on Tax Reform in November of 1969 had touched off one of the most intense debates in Canadian political history. The government emphasized that the White Paper was a set of tentative proposals presented for the widest possible public evaluation and commentary and designed to be revised on the basis of that public discussion. The proposals were a substantial retreat from the earlier Royal Commission on Taxation, but they would still entail major reforms of the existing tax structure. The recommended higher personal exemptions, altered rate structure and capital gains tax would be reduced, while that of middle and upper-income taxpayers

would be raised. A number of proposals for business taxation, such as the elimination of the dual rate of corporate tax and the reduction of resource incentives, would limit lucrative concessions enjoyed by key industries and increase the tax level of the corporate sector as a whole.

However tentative the White Paper was and however open to revision it was supposed to be, the proposals were still a statement of official government policy and could, in whole or in part, be eventually implemented. For this reason, the White Paper was taken very seriously by the business community and it was organized business that became the predominant force in subsequent debates on its fate. Although the impact of the White Paper would never have been as severe as many of its critics maintained, it was perceived as a serious threat to their collective interests by the capitalist class. In the months following the publication of the White Paper, corporate opposition to the proposed reforms steadily mounted. While there were important differences within this increasingly pervasive business opposition in terms of the sophistication of analysis and argument, and the degree of reform that was seen to be acceptable, there was also considerable underlying agreement on a number of key themes. The White Paper's basic rationale, especially its primary emphasis upon equity and fairness, was consistently challenged. It was argued that its balance of priorities would threaten the structure of incentives that underlay economic activity and retard initiative and investment. Implementation of the White Paper would severely damage

economic growth. The reform programme as a whole was far too sweeping and disruptive, and its most important specific recommendations were too harsh. These failings were seen to be so fundamental that many businessmen rejected the White Paper outright, arguing that reforms should be made within the existing structure instead. The more moderate stream of corporate opinion, which had become increasingly influential as the debates on tax reform wore on, recognized that some degree of change was inevitable and held that the White Paper, with suitable modifications to its key elements, could be the basis of the necessary reform. All were agreed that the White Paper could not be adopted in its entirety.

This extensive corporate opposition to the guiding priorities and central proposals of the White Paper was pressed in a variety of ways.[130] Innumerable speeches by prominent and powerful executives, corporate meetings and conferences, and articles in the business press criticized key features of the reform proposals. The immense material and political resources of capital were mobilized in a massive lobbying effort in which major corporations and associations were in extensive contact with state officials. More concretely, widespread predictions of the dire economic consequences of the White Paper were increasingly backed up by large numbers of dominant corporations announcing reductions or deferrals of investment and cancellations of major projects. Since it was the investment decisions of private capital that largely shaped the tempo of economic growth this withdrawal of capital was of tremendous import to the state. A common theme through-

out public and corporate commentary during this period was that uncertainty and apprehension over the impact of tax reforms must not be allowed to shake business confidence. This problem of business uncertainty was a critical issue even though many analyses of the White Paper had concluded that its actual impact on the economy would be relatively limited. Whatever the objective consequences of the tax changes, if business felt that investment was no longer viable and acted accordingly, then in a self-fulfilling prophecy reduced economic activity would result. The state could not allow such a threat to economic prosperity to develop. These arguments took a particular focus within the specific structure of the Canadian political economy through the constant declarations from both Canadian and internationally controlled corporate interests that the economy still required large amounts of foreign capital. Canada could not therefore be allowed to become seen as a unfavourable locus for international investment through any harsher tax treatment of foreign capital or changes that were seen as retroactive or discriminatory. The federal government, then,was faced not only by a highly-organized and publicized corporate campaign against the White Paper but also by a threatened or potential withdrawal of capital. Since in a capitalist economy the state is largely dependent upon private capital to create the conditions for overall economic prosperity, this was a powerful consideration. The necessity of maintaining a favourable climate of investment and business confidence was a crucial constraint on the formulation of government reform plans. Since it was only capital that could define the

conditions required to sustain its confidence and induce its investment, its perspective and interests and more specifically, its response to the various alternatives proposed, had to constantly be taken into account in the process of state policy development.

The opposition of major corporate interests to the White Paper was reinforced by the relatively new political force of small business.[131] The elimination of the lower rate of tax on the first $35,000 of profit and other provisions were seen by small business as a threat to their very survival. This anxiety was quickly mobilized with the founding of the Canadian Council for Fair Taxation and other similar organizations and the launching of extensive advertising and lobbying campaigns against the White Paper. One reason for the great success of these campaigns, in conjunction with the efforts of the more highly concentrated corporate sectors, in shaping a climate of opinion hostile to the White Paper was their focus on issues of widespread emotional appeal. Provisions such as those on capital gains tax and the dual rate of business taxation were portrayed as sounding the death knell for small independent business, entailing the confiscation of private property, unfairly shifting the burden of supporting the growing welfare state onto the already heavily taxed middle-income groups, and destroying the individual incentives and initiative that were at the core of the free enterprise economy. Again, while there was little rational basis for such extreme charges, they did embrace profound appeals to the deep-seated ideology of the capitalist system and this partially explains the salience of the small business assault on the

White Paper.[132] This attack was also posed within a very right-wing political perspective; the reforms were viewed as one element of growing and dangerous state intervention in private and economic life. This pervasive, well-organized and often hysterical opposition of small business became a critical element in the debates on the White Paper. Not the least of its significance was that the mainstream of corporate opinion on tax reform appeared quite moderate by contrast. Prevailing corporate demands for more emphasis on economic growth and more limited changes could seem quite reasonable.

Little sustained defense of the White Paper had developed to counteract this massive business opposition. Organized labour and the New Democratic Party had long advocated progressive tax reform and had pushed for the implementation of the Royal Commission Report. The White Paper's retreat from the Carter recommendations had left these groups in an ambiguous position. They condemned the concessions to corporate pressure, but also approved the progressive proposals. albeit of a more limited nature, of the White Paper. The result was a policy perspective which was certainly different from that of business, but which was not wholeheartedly in support of the White Paper. More generally, there was little evidence of any widespread public support for the reforms. Thus, it was the opposition of organized business to the reform programme that had dominated public discussion and debate on the White Paper.

The means to correct this imbalance were at hand. The government had designated the hearings of the parliamentary committees on the White Paper as the major forum for public input to the reform process. The nature of these deliberations provided a good test case of government intentions in this regard and of the general pluralist model of open and balanced political competition. In fact, public participation in the committee proceedings was strikingly unequal. Only a few welfare, philanthropic and labour organizations could claim to speak for the less advantaged strata of the social structure and their briefs constituted a small proportion of all those received by the committees. The majority of the population, who the government claimed would benefit from the proposed changes, did not take an active part in the policy debates at all. By contrast, the interests and perspectives of the more affluent taxpayers in general, and of the business classes and the institutions they controlled more specifically, were very well represented in the formal hearings. The great majority of submissions to the committees came from individual firms, corporate organizations and associations of closely-related professions. The major corporations and business associations had devoted enormous time and expenditure to the formulation of policy demands and the preparation of comprehensive, technically detailed and sophisticated briefs. The result was a deluge of corporate submissions criticizing the basic priorities and reform programme of the White Paper and presenting alternative proposals on the direction of reform. This massive business input dominated the committee deliberations both

quantitatively and qualitatively: no other competing interest was able to call upon such resources and no other competing policy perspective was able to present such impressive argumentation.

In addition to this extensive opposition from the private sector, the White Paper was under attack from the major provincial governments. The provinces echoed the prevailing corporate charge that the proposals would seriously harm economic growth. The western provinces had long opposed the recommendations of the Carter Report and they were now joined by the powerful governments of Ontario and Quebec in challenging the White Paper. The cumulative opposition of the corporate sector and these key institutions within the Canadian political system constituted an extremely potent force facing the federal government. In addition, the stance of the major provincial governments added significant legitimacy to corporate criticisms of the White Paper. It made it very difficult for corporate opposition to be dismissed as merely the pleas of special interests. The coalescence of major corporate interests and provincial governments was a particularly crucial factor in the opposition to the proposed reduction of tax incentives for the resource sector. The extractive industries had been very successful in identifying themselves as regional rather than private interests. Any threat to their development and expansion was therefore a threat to regional economic development.

The federal government's efforts to refute the extensive criticism of the White Paper and mobilize public support for the reform proposals met with little success. Its second line of defense had

been to admit that there were serious problems in the White Paper recommendations, reiterate its willingness to change the proposals, but argue that no decisions could be taken until the parliamentary committees had reported. But the pressure the government was under from all sides was to prove irresistible. During the summer of 1970 it made crucial concessions on tax support for small business, rate reductions to offset any revenue increase built into the new system and mining incentives.

The White Paper process itself had attracted a great deal of public commentary. One theme of this was that if the government did not heed the extensive opposition to the reform proposals, then the whole process and by implication the government itself would lose credibility. This would especially be the case if the reports of the parliamentary committees called for significant changes in the White Paper. And this, of course, is exactly what they did. The reports argued that the fundamental priority of the tax system must be economic growth and recommended a series of alterations to the White Paper that would significantly curtail its progressive impact and weaken its effect on the corporate sector and the affluent. While the conclusions of the Commons committee were far more moderate and reformist than its Senate counterpart, both reports presented the government with the same fundamental message. The parliamentary committees joined the chorus of business and provincial governments in urging that there must be substantial modifications to the White Paper if it was to serve as the basis of reform. As well as increasing the pressure on the govern-

ment, the reports, especially that of the Commons committee, also provided it with room for compromise. The Commons report provided a convenient and legitimate mechanism whereby the government could justifiably retreat from the White Paper without appearing to cravenly surrender to the interests of the wealthy and powerful.

Footnotes

1. Globe and Mail, (Toronto), April 25, 1970.
2. For example, the Hon. J.V. Clyne, chairman of MacMillan Bloedell and former prominent British Columbian politician, saw the White Paper "not so much as a proposal for tax reform but as a document designed to create revenue for a broad undefined scheme of social change in Canada." C.T.F., 1970 Conference, p 403.
3. This theme pervaded discussions at business meetings such as the Conference on Economic Growth sponsored by the Toronto Stock Exchange and the annual Canadian Manufacturers' Association sessions; see respectively Financial Post, June 6, 1970, pp 13-14, and Industrial Canada, June 1970, pp 59-64. See also the extensive Financial Post interview with J. Douglas Gibson; September 5, 1970, p 7. Mr. Gibson had acted as a consultant to the mining and steel industries in preparing briefs on the Carter Report and the White Paper. He had formerly been deputy chairman of the Bank of Nova Scotia and a member of the Royal Commission on Banking and Finance. In 1968, he had conducted a study on export credit and insurance for the federal Department of Trade and Commerce which was followed by the establishment of the Export Development Corporation. At the time of the interview he was a member of the Ontario Economic Council and a director of seven companies.
4. Cf. Monetary Times, May 1970; Star, (Toronto), February 20, 1970.
5. For example, William P. Mulholland, president of Brinco, stated in the company's annual report that uncertainty about the proposed tax changes constituted a "formidable obstacle" to the development of the Churchill River hydroelectric project; Citizen, (Ottawa), April 16, 1970.
6. Canadian Chartered Accountant, July 1970, p 57; this also was a common theme at the C.T.F., 1970 Conference.
7. Monetary Times, September 1970, p 23.
8. Vol. 9, no. 12, p 5. This journal was variously sub-titled as the Underground Magazine of the Non-Revolting or a Magazine for Freedom.
9. Ibid.

10. Vol. n0, No. 6, 1970, p 14; their emphasis.
11. Telegram, (Toronto), May 9, 1970.
12. "Reflections on Tax Reform in Canada", Canadian Taxation, Winter 1979, p 25.
13. This was frequently expressed at the C.T.F., 1970 Conference on the White Paper.
14. Star, (Toronto), February 20, 1970.
15. February 24, 1970.
16. Ibid.
17. Financial Post, September 26, 1970; Financial Times, February 6, 1970.
18. Leader-Post, (Regina), June 5, 1970.
19. Citizen, (Ottawa), August 4, 1970.
20. In a speech to the Montreal Chamber of Commerce; Globe and Mail, (Toronto), March 24, 1970.
21. See John Saywell, (ed), The Canadian Annual Review for 1970, Toronto, University of Toronto Press, 1971, p 203.
22. Executive, September 1970, p 20.
23. Ibid., pp 19-21; these proposals had been supported by various conference submissions of the Quebec government; Leader-Post, (Regina), June 5, 1970.
24. Executive, September 1970, p 21.
25. Ibid., p 21.
26. See Financial Times, March 16, 1970; Canadian Chartered Accountant, July 1970, p 57.
27. Herald, (Calgary), June 12, 1970.
28. Financial Post, August 22, 1970, p 3.
29. Globe and Mail, (Toronto), May 22, 1970.
30. September 1970, p 24. This is a very succinct statement of the structural imperatives facing a democratically elected government in an economy dominated by private capital.
31. Financial Times, March 16, 1970.
32. Financial Post, May 30, 1970, p 20; Globe and Mail, (Toronto), May 29, 1970.
33. C.T.F., 1970 Conference, p 253.
34. June 1970, p 8.
35. Ibid., p 8.
36. Ibid.; Globe and Mail, (Toronto), May 21, 1971; Financial Post, May 9, 1970.
37. May 9, 1970.
38. Ibid.
39. See Canadian Chartered Accountant, May 1970, p 339.
40. Commons committee, June 23, 1970, pp 14-15.
41. March 28, 1970, p 9.
42. C.T.F., 1970 Conference, p 403, p 406.
43. Ibid., p 404-5.
44. Ibid., p 250; pp 232-250 more generally.
45. Ibid., pp 26-59.
46. Ibid., p 421.

47. March 28, 1970, p 1.
48. C.T.F., 1970 Conference, p 421.
49. June 18, 1970.
50. Ibid., p 162.
51. Ibid., pp 162-163.
52. Ibid., p 163; their specific suggestions are detailed in Pt. 2 of their brief.
53. January 15, 1970, p 8.
54. As reported by the Globe and Mail, (Toronto), March 27, 1970, editorial and Citizen, (Ottawa), March 25, 1970 respectively.
55. Tribune, (Winnipeg), January 16, 1970.
56. Citizen, (Ottawa,), April 8, 1970.
57. Debates, June 11, 1970; see also Canadian Chartered Accountant, August 1970, pp 128-131.
58. Quoted in ibid., p 128.
59. Globe and Mail, (Toronto), June 12, 1970.
60. Ibid.
61. Financial Post, March 7, 1970, p 6.
62. Globe and Mail, (Toronto), May 18, 1970.
63. March 28, 1970, pp M1-M2; this was a special section on mining.
64. M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate", in A. Paul Pross, (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, p 98.
65. Cited in ibid, pp 98-99.
66. Citizen, (Ottawa), April 28, 1970.
67. For useful discussions of the details and significance of these changes see Bucovetsky, 1975, op.cit., pp 100-1 and R.D. Brown, "Round Three for the Taxation of Mining Income", Canadian Tax Journal, September-October 1970, pp 367-79.
68. Ibid., p 369.
69. Bucovetsky, 1975, op.cit., p 100.
70. M.W. Bucovetsky, Tax Reform in Canada: A Case Study of the Mining Industry, Unpublished Ph.D. Dissertation, University of Toronto, pp 49-50.
71. January, 1971, p 64.
72. Cf. Brown, op.cit., p 371; a Liberal M.P. writing in Canadian Business, October 1970, p 64.
73. Citizen, (Ottawa), August 27, 1970.
74. August 5, 1970, p 16.
75. Bucovetsky, 1975, op.cit., p 101.
76. Brown, op.cit., pp 372-2.
77. Bucovetsky, 1975, op.cit., p 101.
78. "Statement of the Premier of Quebec to the Federal-Provincial Conference of Ministers of Finance, Winnipeg, June 5-6, 1970", printed in Commons committee, August 4, 1970, p 137.
79. Brown, op.cit., p 372.
80. Financial Post, September 5, 1970, p 19.
81. Ibid.
82. Herald, (Calgary), August 28, 1970.
83. Bucovetsky, 1975, op.cit., p 101.

84. Financial Post, September 5, 1970, p 19.
85. Ibid.
86. Bucovetsky, 1971, op.cit., pp 50-1. This concern was later expressed by managing director of the Mining Association of Canada at its 1971 meetings; Globe and Mail, (Toronto), February 25, 1971.
87. Brown, op.cit., p 372.
88. Bucovetsky, 1975, op.cit., p 100.
89. Brown, op.cit., p 371.
90. From which point there was a great deal of speculation in the media and business community on the conclusions and recommendations which the reports would contain, much of it quite well informed.
91. Citizen, (Ottawa), October 6, 1970.
92. Journal, (Ottawa), September 1, 1970.
93. Citizen, (Ottawa), October 6, 1970. The minority report will be discussed below.
94. Globe and Mail, (Toronto), October 6, 1970.
95. See Telegram, (Toronto), September 11, 1970 on this point.
96. Commons Report, p 9.
97. Ibid., p 9.
98. Ibid., p 10.
99. Ibid., p 10.
100. Ibid., p 26.
101. Ibid., Ch 3. This was designed to avoid situations where fluctuating values of shares or land were pegged at a low level which would unduly inflate subsequent gains.
102. Ibid., p 31.
103. There was some suggestion that this recommendation was the result of successful government strategy. It would never have received support for deemed realization at death if this had been put forth in the first place. But by proposing the five-year revaluation on unrealized gains, which was bound to attract great opposition, the committee was induced to recommend realization at death. See Canadian Chartered Account, December 1970, p 385.
104. Commons, Report, p 34ff.
105. Ibid., pp 20-1.
106. Ibid., Ch 2.
107. Ibid., Ch 4; for a good summary see also Canadian Chartered Accountant, December 1970, pp 384-7.
108. Commons, Report, p 26 and p 30.
109. Ibid., p 32.
110. Ibid., p 47.
111. Ibid., p 84.
112. Ibid., p 15.
113. Ibid., pp 66-8.
114. Ibid., p 52.
115. Ibid., pp 70-6; see also Bucovetsky, 1975, op.cit., p 102.

116. It was this overriding emphasis on economic growth that spurred the two N.D.P. members to issue a minority report charging the committee with acquiescence to corporate pressure. They called for full capital gains taxation, removal of all tax benefits like depletion allowances, retention of the existing top rates of personal income tax, withdrawal of the 20% dividend rebate plan, and the use of tax credits rather than personal exemptions. Citizen, (Ottawa), October 6, 1970.
117. Commons, Report, p 98.
118. Ibid., p 98.
119. Ibid., p 95.
120. Ibid., p 95.
121. Standing Senate Committee on Banking, Trade and Commerce, Report on the White Paper Proposals for Tax Reform, Ottawa, September, 1970.
122. Cf. A.D. Doerr, "The Role of White Papers", in G. Bruce Doern and Peter Aucoin, (eds), The Structure of Policy-Making in Canada, Toronto, Macmillan, 1971, p 191.
123. Cited in Canadian Chartered Accountant, December 1970, p 384.
124. For useful summaries see Ibid., pp 384-7; Financial Post, October 10, 1970, p 35; Star, (Toronto), October 1, 1970.
125. Financial Post, October 10, 1970, p 35.
126. See Bucovetsky, 1975, op.cit., p 102.
127. Cf. Financial Post, October 10, 1970, p 15.
128. The response to the committee reports will be discussed in the next chapter; but for a clear example of such an interpretation see Financial Post, October 10, 1970, p 15.
129. Cf. Canadian Chartered Accountant, July 1970, p 57, which argued that the resulting pride of authorship could inhibit government flexibility.
130. In a slightly wider context, there had been virtually unrelenting corporate opposition to the wider taxation of property income and wealth, the elimination of special business tax incentives and a range of other progressive changes since the publication of the Carter Report in February 1967. That this pressure had won a significant victory with the far milder recommendations of the White Paper may have moderated the tone and content of subsequent corporate demands, but did not alter their fundamental thrust.
131. The political organization of small business in its campaign against the White Paper was to have lasting significance. The ad hoc bodies created during this battle were later transformed into the Canadian Federation of Independent Business. This ensured a permanent presence for small business within the Canadian political system and continuing means of representation within state policy deliberations. See Rein Peterson, Small Business. Building a Balanced Economy, Erin, Porcepic, 1977, pp 133-40.
132. Such ideological appeals had also pervaded business' successful campaign against the 1968 changes in gift and estate taxation.

Stage Four: Equity Compromised: The Triumph of Capitalist Realism

Chapter 15 Finale: The Reform Legislation of 1971

When released in late September and early October of 1970, the reports of the Senate and House of Commons Standing Committees inaugurated the final stage of the long and complicated process of tax reform. Their recommendations became the focal point of continuing corporate and provincial pressure on the federal government to modify the reforms it eventually instituted. This opposition to the basic direction and key recommendations of the White Paper was in fact maintained right up until the legislation enacting the new tax system was incorporated in the June 1971 budget. The content and implications of the reform bill and the way in which it differed from earlier policy junctures is examined in the second section of this chapter. Given the controversy that had raged over tax reform since the early 1960's, it was not surprising that the release of the legislation touched off a final round of pressure from the major contending forces and public and parliamentary debate. This last gasp of political conflict over reform is examined in the third section. This concluding stage was finally brought to a close when the Tax Reform Bill was passed in December and the new system came into effect January 1, 1972.

I The Final Round of Opposition to the White Paper

Corporate Response to the Parliamentary Committee Reports

Not surprisingly, the reports of the parliamentary committees were favourably received by the business community.[1] There was a clear

recognition of how much the reports' recommendations would alter the scope of the White Paper proposals and modify their concrete impact. Business also realized how closely the committees' conclusions paralleled the demands and analyses contained in the many corporate submissions presented to them. Finally, the reports were seen as a crucial juncture in the overall policy process. The Prime Minister and Minister of Finance had long emphasized that the committee reports would strongly influence the final reform legislation[2] and Mr. Benson said just after their release that the Senate and Commons reports would be "useful" in drafting the new legislation.[3] Given the overall perspective and general direction of change recommended by the Reports, business fervently hoped that this would be the case. Business Quarterly optimistically expected that with the tabling of the reports, "the Canadian business community is entitled to anticipate an early end to the disturbing uncertainty which has cast a shadow on our country's economy ever since the publication of the Carter Royal Commission report in 1967."[4] The preeminent theme within business discussions of the committee reports was that they put the government under tremendous pressure to modify the White Paper.

It was generally argued that the report of the Commons committee would be of greatest significance in the reformulation of the White Paper. A Financial Post editorial concluded that the report provided a strong indication of the eventual shape of reform legislation.[5] The Commons committee recommendations were seen to be highly influential for both political and policy reasons. Arising as they did from the lengthy deliberations of a very important bi-partisan parliamentary committee and

the much heralded public participation in these hearings, the proposed alterations to the White Paper could not be ignored by the government.[6] In policy terms, the changes called for by the Commons committee were seen to be particularly crucial because they "would adapt the White Paper so as to reflect most of the important concerns which have been expressed in both public reactions and private briefs."[7] Given that it was the concerns of organized business that had been the predominant force in the debate on the White Paper, the basic focus of the Commons report was welcomed by the corporate sector. Since the report also would retain, albeit in much modified form, the core proposals of the White Paper, it would be very difficult for the government to find it unacceptable. For these reasons the Committee recommendations "thus necessarily became the starting point of any future discussion of tax reform."[8]

Corporate reaction to the Senate report was much more mixed. The pro-business perspective of the Senate committee's analysis was clearly recognized: "It voted, in essence, for the modification of the existing tax system and the addition of a capital gains tax, U.S.-style. In so doing, the Senators put on record the concern of many responsible people that any shaking apart of the present tax structure might adversely affect the creation of investment capital and Canada's potential for economic growth."[9] Some prominent spokesmen praised this direction. W.E. Goodlet, chairman of the taxation committee of the Canadian Institute of Chartered Accountants, said that the general reaction of the accounting profession was to "welcome the

more gradual approach" of the Senate committee.[10] While agreeing with the committee on the necessity of tax relief for the low-income, the Institute also strongly endorsed the report's recommendation that the lower rate of corporate tax be retained to encourage small business. The Canadian Chartered Accountant noted that "opponents of tax reform will find much to their liking" in the Senate report.[11] Other business commentary made no distinction between the two committee reports, seeing them as two alternative sets of recommendations on tax reform that the government would choose from.

More sophisticated analysts argued that the government would be under far less pressure to accept the conclusions of a non-elected body which was so closely connected to big business than those of its House of Commons counterpart.[12] This consideration was reinforced by the highly conservative nature of the Senate committee's recommendations. A Financial Post editorial noted that if eight years of debate had not already taken place on tax reform then "the Senators' plans would have had much merit."[13] But since the government was committed to reform and there had been such intense political controversy, the Senate report's limited adjustments to the existing system could have little influence. The Senate committee's perspective was strongly criticized elsewhere in this leading business newspaper by Toronto lawyer Wolfe D. Goodman, Q.C.. He argued that members of the committee appeared to have largely ignored criticism of the tax structure from the Carter Commission and other sources and "to have approached their review of the tax system with the self-satisfied air of those who have benefited most

from the existing tax system." More significantly, Mr. Goodman further argued that the Senators' lack of attention to considerations of equity seriously misjudged the ideological significance of taxation: "in an era of emphatic claims for social justice for all, one of the major guarantees of domestic stability is the feeling on the part of the vast majority of citizens that our laws, including our tax laws, are basically fair and reasonable." While Mr. Goodman's portent of violence in the streets if these expectations were not met may have been somewhat hyperbolic, the pursuit of economic growth at the expense of equitable taxation could certainly create problems for the state's overall concern for political legitimation. He offered some advice to the privileged and powerful: "If those of us who have done well under the present economic system in this country wish to retain it, a policy of enlightened conservatism is required which responds rapidly to changing conditions and satisfies the aspirations of the vast majority. Blind reaction, of the sort displayed by the Senate Committee, is not enough."[14] Such analyses are a good indication of how the more sophisticated currents of business opinion were well aware of the politics of taxation. By so totally rejecting the White Paper and proposing changes that were so explicitly favourable to corporate interests "the Senate committee has taken a position that is too far to the political right of government policy to be very relevant."[15] This could only increase the influence of the moderately reformist Commons report by contrast. In fact, Professor John Bossons, economist and tax expert, argued that the effect of the Senate report would be limited to counterbalancing the minority report of the N.D.P. members of the Commons committee.[16]

Whatever the disagreement on the comparative influence of the two reports, business as a whole was convinced that the reports irrevocably shifted the terrain upon which subsequent debate on tax reform would take place. While there was still considerable uncertainty as to how the government would choose between the conflicting alternatives of the Commons and Senate committees, there was no doubt that the eventual tax changes could not be based upon the White Paper. A Financial Times editorial summarized the prevailing corporate evaluation:

> Anxious as we may be about the details of the final legislative proposals, the parliamentary committee reports have transformed the original philosophical bias of the white paper.
>
> The Commons, more unexpectedly but no less emphatically than the Senate, has reversed the white paper's preference for equity over growth. Both committees have given more weight to the practical effect of tax changes than to the theoretical conceptions of righteousness which permeated the white paper. It is not remotely conceivable that Mr. Benson should now try to bull through the original concept as though the parliamentary committees had never sat.[17]

The Financial Times saw the overall conclusions of the reports both as a vindication of the arguments made with such strength against the White Paper and as a direct result of the immense mobilization of business on this issue: "Whatever next year's tax reform bill contains, it is bound to be far better than it would have been last November. Something has been gained by all the effort which was put into the briefs for Parliament."[18]

Resurgence of Corporate Pressure

The general recommendations and conclusions of the committee reports were subsequently incorporated into the revitalized corporate

pressure on the government to moderate the White Paper proposals in the early months of 1971.[19] The Financial Times welcomed this development: "The revival of public debate about tax reform is propitious and timely, though the federal government may not think so. Mr. Benson and his colleagues are at pains to insist that the period of public hearings on the white paper is over and that the free-for-all will not be repeated. The government has heard enough." It reiterated the argument that if the government ignored the massive public debate and intensive expert examination of the White Paper, "then the whole process of public discussion would be ridiculed: the government's good faith would be suspect."[20]

Familiar themes prevailed within this corporate pressure, but they now had an added legitimacy and immediacy. The overall thrust of the reports was used to buttress the fundamental business emphasis upon economic growth as the preeminent priority of the tax system. The reports were also used to support specific business objections to key White Paper proposals. This was clear for the integration of personal and corporate income taxes, which continued to attract the most heated opposition from the corporate sector and from the major provinces, especially the governments of Quebec, Ontario and Alberta.[21] The Financial Times argued that the cabinet must be reminded of the "public's judgement" on integration as it formulated the final legislation. The proposals had received only limited support from the Commons committee's recommendations for partial integration and "the more knowledgeable members of the Senate committee supported the Ontario government and

most of the business community in rejecting integration lock, stock and barrell." The fate of integration was seen to be crucial for the overall reform process: "If the federal government will now accept the overwhelming judgement against this cherished part of its white paper, then the way will be open to clear up most of the other contentious proposals. If not, the government cannot expect to avoid a serious clash both with the provinces and with most of the business community."[22] It was also expected that the treatment of business expenses would be far less stringent in the final bill than in the White Paper and that the recommendations of the parliamentary committees to that effect would be a major influence. It was further speculated that this was exactly what the Minister of Finance had planned all along: "He had felt that rather than try to spell out what expenses should not be allowed, it made more sense to propose disallowing them all, then invite the business community to argue for those that should be permitted. It was always intended that most would be reinstated."[23] The key limitation on this government strategy was political; it could not appear to allow practices that benefited only a privileged few.

Major corporate lobbying organizations continued their direct efforts to persuade the government to modify the White Paper. A month after the tabling of the parliamentary committee reports, a delegation from the Canadian Manufacturers' Association met with the Minister of Finance. The association reiterated its opposition to capital gains taxation, integration and any heavier burden on middle-income taxpayers; and stressed that if such changes were to be enacted then they must be less severe than proposed and introduced gradually.[24] In the spring of

1971, the Canadian Bar Association and the Canadian Institute of Chartered Accountants presented their first joint brief to the Ministers of Finance and National Revenue in four years. Their annual submission on the detailed operation of tax law had been suspended while the overall system was under review.[25] In anticipation of the upcoming budget, the Canadian Manufacturers' Association submitted a further brief to the Minister of Finance and Cabinet on March 9. One of its central recommendations was the reduction of corporation tax rates and the elimination of the surtax on personal and corporate income tax. The C.M.A. argued that tax cuts were vitally necessary to stimulate the stagnant economy.[26] Mr. John Bulloch, of the Canadian Council for Fair Taxation, was planning a new series of cross-country rallies in which the ammunition for his attacks on the White Paper would be drawn from the committee reports.[27]

Canadian Economic Policy Committee

An important addition to the more sophisticated corporate commentary was a series of studies sponsored by the Canadian Economic Policy Committee. The significance of this body, a sub-committee of the Private Planning Association of Canada, has been noted in earlier chapters. It played a central role in the overall process of policy formation as a highly influential forum in which institutional leaders, among which were some of the most powerful corporate executives, could meet to discuss and formulate strategy on the key issues of the day. Its deliberations and conclusions were regarded as highly influential within state policy circles. Given the crucial importance of the tax structure to the economy as a whole and the intense controversy surrounding

its reform, it was not surprising that the C.E.P.C. should become active in these debates. It sponsored six studies by leading experts, both theoreticians and tax practitioners, on the implications of the White Paper for the role of the government in the economy, incentives for economic growth, patterns of saving and the composition of institutional investment portfolios.[28] The committee's stated goal in organizing this research was not to make value judgements on the best possible tax system, but to provide an objective analysis of the effects and implications of the proposals so as to allow more informed choices to be made. It modestly hoped that these studies would be "of some assistance to the policy-maker."[29]

The Canadian Economic Policy Committee was composed of some "seventy business, labour, agricultural and professional leaders broadly representative of different elements in the economy and regions of the country."[30] Of more immediate interest here, many committee members represented the same powerful corporate institutions that had been in extensive contact with the state policy-making apparatus throughout the debates on tax reform.[31] A substantial number had appeared before the parliamentary committees: G. Arnold Hart, chairman of the Bank of Montreal and director of many other dominant corporations, had made submissions to both the Senate and Commons hearings; Messrs. Bovey of Northern and Central Gas Co., Holbrook of Algoma Steel, Powis of Noranda Mines and Twaits of Imperial Oil were among the powerful corporate members of the committee who appeared before the Commons committee for their firms; Robert Fowler, president of the Canadian Pulp and Paper Association (and also chairman of the Private Planning Association), and

J.A. McAvity, president of the Canadian Export Association, represented their organizations before the Commons committee; and, in addition, a further number of C.E.P.C. members who had not themselves made submissions to the parliamentary committees were active in corporations that had. Reflecting the wider integration of the higher levels of economic and political power, several C.E.P.C. members had had extensive political experience: Senator Allister Grosart, a leading figure in the Conservative Party, was a member of the Senate Committee on Banking, Trade and Commerce; and the Hon. Duff Roblin, former Conservative premier of Manitoba, had appeared before the Commons committee on behalf of Canadian Pacific. In addition to this corporate representation, committee members Russell Bell and William Dodge took part in the Commons hearings for the Canadian Labour Congress. The work of the C.E.P.C. was normally highly regarded within the state; this influence would be reinforced by the extensive activity of many of its most prominent members in the debates on the White Paper.

The committee's studies were extremely detailed and rigorous, and included a comprehensive analysis of the social and economic environment in which the new tax system would operate. The overview study identified the key issue of the tax reform debates as that of who pays, but stressed that improved equity could not be achieved at the expense of the structure of incentives that underlay "a well-functioning free enterprise economy."[32] The research concluded that the potential of the Canadian economy for sustained growth and rising income over the next decade was very high. However, the achievement of this impressive potential was by no means certain, it "will be fulfilled only if the rate of capital

accumulation and productivity improvement comes up to expectations."[33] A number of demographic, sociological and economic factors were likely to exert downward pressure on the rate of savings. It was in this overall context that the reform proposals had to be evaluated.

While endorsing the White Paper's goal of increasing equity, the C.E.P.C. studies were uneasy about certain key recommendations. Unless more adequate incentives for small business could be devised, the White Paper "would adversely affect that substantial source of innovation and growth."[34] They were doubtful of the limitations on business expenses and rejected the distinction between closely and widely-held corporations. They found no evidence that tax incentives to the resource industry were excessive and agreed with the chorus of corporate opposition that the integration proposals were unworkable. However, they emphasized that some form of dividend tax credit in their place was essential: "Since it appears that a capital gains tax is now desired by enough people to be beyond discussion, some offset reducing the burden on corporate-source income is a virtual necessity if the heavy capital needs of the corporate sector in the future are to be met."[35] More important than such specific criticisms, was the overall evaluation that the White Paper "would seem likely to purchase at least part of any gain in equity at some cost in levels of savings."[36] Given their analysis of the overall economic environment, this would be especially serious: "Since we expect the level of savings within the economy to be under downward pressure in the years ahead and since adequate savings will be required to achieve both the high rates of capital accumulation and the technological progress upon which the maximal performance of the Canadian

economy will depend, it appears that such a cost would be hard to bear in the 1970's."[37] They hoped that the proposals could be modified to reduce their negative economic impact: "Clearly, a tax system that could deliver improved equity, along with those gains that the White Paper undeniably offers, at less cost in terms of savings and potential growth would be much preferable."[38]

In this way, a sophisticated and influential voice was added to the prevailing business argument that any restructured tax system must continue to facilitate and stimulate a favourable overall economic environment and that the adverse consequences of the White Paper proposals for economic growth were unsatisfactory. The conclusions of such a prominent organization added powerful support to this pervasive theme.[39] Most significantly, the C.E.P.C. did not perceive any simple opposition between equity and growth, but saw them as being highly interdependent:

> Continued growth is dependent on a continued orderly functioning of our society, and this in turn is finally dependent upon the existence of a felt social contract among its members. Such a social contract can be kept in existence in an open and democratic community only if its population generally feels that social arrangements overall, among which the tax system is an important element, are equitable to all concerned. Likewise, equity in taxation and in other matters depends on the returns that society provides - economic as well as more broadly social - to its citizens. It depends too on the incentives made available to assist in intergrating the body politic and hence rendering possible the equitable treatment of all its members. In a very real sense, equity cannot be achieved in the absence of growth.[40]

Such a perspective represented the most sophisticated level of corporate analysis and was well aware of the crucial importance of equitable taxa-

tion within overall political legitimation. The pressing imperatives on the government to address the issue of equity were fully understood. The C.E.P.C. simply stressed that the process of capital accumulation, upon which the stability and reproduction of the entire institutional order was dependent, must not be endangered. The salience of such a perspective was strongly reinforced by the very similar general conclusions of the Commons committee report. The government would have no fundamental difficulty in entertaining such a reasonably posed and seemingly moderate balance of priorities.

Provincial Opposition

The major provincial governments remained uneasy about the prospects of reform. In a late February 1971 speech, Ontario Treasurer Charles MacNaughton emphasized the significant disagreement between his and the federal governments on the basic objectives of tax reform and strongly complained that the federal government was not open to provincial attempts to influence the final bill.[41] This fear that the federal government was not receptive to criticisms of the White Paper also ran through a seminar of prominent experts organized by the Ontario Economic Council.[42] The Ontario government's reform proposals continued to be much supported by business commentators as attractive alternatives to the White Paper.[43] By the spring of 1971, the provinces had begun to take an increasingly hard-line in their opposition to the federal government. Speaking to a Chamber of Commerce dinner, Quebec Premier Robert Bourassa sharply attacked the adverse impact of federal policy on the economy. He reiterated his province's fundamental

objections to the White Paper goals, arguing that the tax system must not merely interfere with economic growth, but must actively contribute to it. More specifically, Mr. Bourassa stressed Quebec's strong opposition to integration.[44] Ontario released a number of studies on taxation that constituted thorough critiques of the federal position and its spring budget was emphatic that Ontario would not submit to reforms with which it could not agree.[45] There was increasing speculation that the provinces, especially Ontario and Quebec, would opt out of the restructured federal system and carry out their own tax reform.[46]

Spring 1971: The Context for the Final Legislation

Last minute opposition to the White Paper took place within considerable general business unease over state economic policy and intervention. There was much concern over the poor state of the economy (uneven and limited growth, high unemployment and persistent inflation) and the inability of federal policy to correct these problems.[47] The result had been a steady loss of business confidence in the overall prospects of the Canadian economy.[48] The depth of business hostility to what was perceived to be growing and unwarranted government interference in the private sector and the failures of state economic policy was remarkable: "Business leaders in all parts of the country are openly admitting their disillusionment with government, and the skirmishes of recent years between the two groups are fast giving way to major battles."[49] This hostility was very clear at the annual meetings of the Canadian Manufacturers' Association and at a conference of top executives at the University of Western Ontario in June.[50]

It was within this great uncertainty over the health of the economy and the direction of state economic policy that business awaited the unveiling of the final legislation in June. A Financial Post editorial summarized this apprehension: "Finding just the right moment for a federal budget coupled with massive tax reform could be difficult at the best of times. The timing Ottawa has stumbled into now is proving to be plain awful. Traditional tools for the management of the Canadian economy have not been working well, and have not been worked well. Economic activity is hesitant. The prospect of comprehensive tax change can only heighten present uncertainties over where the Canadian economy is, in fact, going."[51] It hoped for a careful gradualist policy from the government and argued more specifically that tax reductions were necessary to restore business confidence. One week later, when signs of an economic downturn had become clearer, the Financial Post renewed its call for tax cuts.[52] Such demands had not only come from the corporate sector. The preceding November, the Toronto Star had editorially supported a Financial Times plea for immediate and substantial cuts in personal and corporate income taxes.[53] Just prior to the June budget, the Canadian Labour Congress called for reduced taxes for the lower income brackets and the termination of the 3% personal income surtax to stimulate the economy. C.L.C. president Donald Macdonald argued that "a full employment budget must be announced by the federal Government to bring an end to the present intolerable unemployment crisis," and strongly condemned the government's restrictive

anti-inflation policy. Affiliated unions and labour organizations were urged to press political leaders for a shift to an expansionary fiscal policy.[54]

This pressure from all quarters over the government's economic policy in general and its intentions on tax reform in particular took on a heightened significance in the early summer of 1971. The government had to prepare itself for an election in the immediate future, very likely in 1972. It needed to finalize tax reform quickly in the hope that this contentious issue would fade from public interest before the campaign began. More importantly, the upcoming election put the Minister of Finance under great pressure to moderate the more unpopular proposals. By the time of the vote the government had to be able to demonstrate that it had successfully stimulated economic growth and brought unemployment down. This entailed further pressure not to make any tax changes that would deter the business investment necessary to accomplish these objectives.[55]

In terms of its electoral fortunes, the government could not afford to give the Progressive Conservatives - who had made opposition to the White Paper a central element of their strategy since its release - a good issue to fight on. It was clear that Conservative leader Robert Stanfield would contest tax changes "if their effect is to dampen the investment climate, reduce the incentive to save and invest or to raise new tax revenues."[56] Mr. Stanfield had stressed that his party would strongly oppose the new tax legislation if it did not depart substantially from the White Paper in an earlier speech.[57]

He reiterated Conservative opposition to the proposed capital gains tax and the elimination of the dual rate of corporate tax, and joined the many voices criticizing the government's failure to stimulate the economy. He argued pointedly that "real tax reform" would do this and called for the removal of the personal income surtax and other tax reductions.[58]

Government Deliberations

As soon as the reports of the parliamentary committees were published the government stressed that they would strongly influence the final form of tax reform.[59] It also sought to reassure business that changes would be made to the White Paper; Energy Minister J. J. Greene told the Alberta Association of Petroleum Landmen that the revised legislation will be "in a form which will better meet the needs of industry and Canada as a whole."[60] But the government steadily refused to indicate the specific changes planned. The December 1970 budget did not contain any significant alterations to the structure of taxation. Its failure to remove temporary income surtaxes and reduce the overall level of taxation disappointed spokesmen for the Canadian Chamber of Commerce and the Canadian Manufacturers' Association.[61] The final bill, originally scheduled for March, continued to be delayed through the spring of 1971.[62] The legislation was being prepared by three top officials under the direction of a cabinet committee.[63] There was some indication that the immense pressure against the White Paper was being felt within the government and that the Minister of Finance was having difficulty getting the reform legislation through cabinet.[64] Just before the reforms were unveiled in June, the government again tried

to reassure the business community. The Prime Minister told a Canadian Manufacturers' Association banquet: "The legislation is not something to fear. The Canadian dream of a socially-conscious, developed economy cannot be attained without the presence of a healthy manufacturing industry."[65]

II. The June 1971 Budget: Legislation for Tax Reform

The legislation enacting the restructured tax system was tabled in parliament as part of the June 18, 1971 budget. The priorities and content of the reform bill are examined here in terms of the recurring questions that have guided this analysis throughout. First of all, the implications of the new structure for the objective interests of the major class and social groupings are outlined. At the same time, in order to evaluate the direction and significance of policy changes, the final bill is compared to earlier junctures in the reform process and to the perspectives and demands of the range of organizations representing key social and economic interests.

The Minister of Finance saw these final reforms as being the result of a long and fruitful public debate and as providing "the framework for our income tax system for many years to come."[66] Mr. Benson emphasized that "the White Paper process was an important step in the evolution of participatory democracy in Canada."[67] Changes in tax policy had traditionally been introduced directly into the House of Commons, but the government had chosen not to follow this practice because of the fundamental nature of the required reforms and its belief "that all Canadians should participate in the development of

this reform."[68] The government had carefully considered "the hundreds of submissions from organized groups in our society and the thousands of thoughtful letters from individual taxpayers" and the Minister stressed that "the work of the two parliamentary committees was extremely important to the White Paper process."[69] In addition, there had been extensive discussion with the provincial governments and "many of the provincial representations are reflected in the bill."[70]

The Goals of Reform

The Minister of Finance argued that the proposals he was introducing could only be understood if "we have a clear view of what a good tax system ought to be".[71] Mr. Benson outlined the first essential feature of such an optional system:

> A tax system must be sensitive to the economic and social needs of this country. It must not stand in the way of steady and continuous growth and economic prosperity. In some cases, it must do more - it must stimulate sectors of our economy which need incentive.[72]

This was a very clear signal - a signal which was confirmed by the content of the reform programme - that economic growth was to be the fundamental priority of the new tax structure. As the parliamentary committees had strongly recommended and as the weight of corporate pressure had persistently demanded, this constituted a crucial modification of the White Paper's primary emphasis upon equity. The guiding rationale of the new legislation went well beyond the White Paper view that the tax system should not interfere with economic growth to a clear commitment to the use of taxation to encourage and stimulate economic activity.

The government could not discard the principle of equity. Its most frequently stated goals of reform had been to improve the overall fairness of the system to the benefit of the majority of taxpayers and to reduce the tax burden of low-income groups. The government could not appear to abandon these objectives, especially in a period leading up to a general election. The second characteristic of a good tax system identified by Mr. Benson was that it "must distribute the tax burden in an equitable manner, based upon ability to pay. Furthermore, it must not only be fair; it must be seen to be fair."[73] The Minister further argued that the tax system must have as few loopholes as possible. The system would not be widely accepted "if it is apparent that special groups of taxpayers are able to avoid paying their fair share of the burden."[74] While many businessmen remained uneasy about the concept of ability to pay, it had become widely accepted as an integral feature of a progressive tax system. A commitment to progressive taxation was in turn a key element of the general ideology of the modern welfare state and an important component of overall political legitimation.[75] The Minister's statement that the tax structure must be generally seen to be fair recognizes the political and ideological importance of equitable taxation.

In spite of this continuing commitment, there had been a considerable shift in the balance of priorities adopted by the final bill in comparison to earlier junctures. The Royal Commission had recommended sweeping changes designed primarily to improve the equity of the tax structure. This emphasis had been moderated in the White Paper,

but it still defined equity as the highest priority of reform. The two parliamentary committees to varying degrees recognized the importance of equity, but strongly argued that economic growth must be the fundamental goal of taxation. The committee reports had agreed with the prevailing corporate and provincial view that improved equity must not be achieved at the expense of economic growth. It was this latter general perspective that the reform legislation most closely resembled.

The Minister of Finance delineated two further attributes of a good tax system. It must "lend itself to efficient, economical and objective administration. It must be straight-forward in both purpose and method, so that taxpayers know where they stand with a minimum of administrative discretion and litigation."[76] No quarrel had been expressed with this general goal of administrative rationalization at any stage of the reform process. Secondly, the federal tax structure had to be harmonized with those of the provinces. Within these goals of reform, it was the primacy accorded to economic growth in the final bill and the lower priority of equity when compared to the earlier Carter Commission and White Paper that was of greatest importance.[77] The nature of the specific proposals reflected this shift in the guiding rationale of reform.

Personal Income Taxation

In outlining the general thrust of the proposed changes, the Minister of Finance stated: "First and foremost, by a combination of increased exemptions, changes in the rate schedule and other measures, we propose to reduce significantly the tax burden borne by lower-

income Canadians."[78] Personal exemptions were raised and a wider range of child care, moving and employment expenses were allowed as deductions.[79] These changes were very similar to those proposed by the White Paper and recommended by both parliamentary committees.[80] The limit for the deduction of charitable donations was raised to 20% of net income from 10%.[81] While universally available, such a change would be of greatest benefit to the more affluent strata able to afford such donations. The various philanthropic organizations dependent upon such financial support had been arguing for increased deductability for some time. The new bill provided a much improved system of income averaging. It was far more generous than the White Paper, with which the Commons committee had largely agreed, and was closest in form to the recommendations of the Senate committee.[82]

The new bill also included a simplified and much revised rate structure. Compared to the existing system, the highest marginal rates had been reduced and the overall rate schedule had been narrowed. The proposed structure was very similar to that recommended by the Commons committee.[83] The Minister of Finance reiterated the government's guarantee that the gradual and offsetting implementation of key provisions would not result in any increase in tax revenue. To this purpose, there would be successive reductions in individual tax rates from 1972 to 1976 as the new system came fully into force.[84]

The effect of these changes was that all taxpayers with the married exemption and whose income was solely from wages and salaries would pay less tax than under the old law. For single taxpayers with

employment income only, all earning less than $8000 would pay less taxes and those earning more than this amount would pay more.[85] Mr. Benson stated that the overall result was that "1,000,000 taxpayers who would otherwise pay tax next year will be removed from the tax rolls. We estimate the taxes will be reduced for 4,700,000 taxpayers, and will be changed by less than 1 per cent for another 2,000,000 taxpayers."[86] The differential impact of the new system upon those at various income levels was illustrated for married wage and salary earners with two dependent children under the age of sixteen.[87] For the lower categories of under $6000 annual income, the reduction from the existing system was approximately the same for the White Paper and the new bill. For the middle income categories, the new bill was more beneficial than the White Paper: from $6-10,000 the reduction was larger under the new legislation than the White Paper, and from $10-30,000 there would be reductions where the White Paper would have entailed increased taxes. For the highest categories over $50,000, their total burden would be less than under the old structure, although it would have been even less under the White Paper. This particular example illustrates an important general point. The White Paper regime was generally harsh on the middle-income earners in the $8-25,000 range compared to the existing system.[88] This had been the focus of a great deal of criticism. The proposed new rate schedule would ease the burden on the middle-income category, as the Senate committee in particular had strongly recommended.

For all of the government's emphasis on improved fairness, the reductions for individual taxpayers were of a small scale and the relief for the low income was extremely modest. The progressive impact of the changes in personal income taxation was highly limited. A comprehensive analysis of the effect of federal fiscal policy on the distribution of income concluded as follows: "The reform legislation of the early 1970's did surprisingly little to improve the distribution of income in favour of the poor. Especially significant is the result that tax reform provided virtually no benefits for the poorest families and did not redistribute income from the highest-income families to the poor."[89] This lack of improvement in the vertical equity of the tax system was essentially due to the basic methods adopted by the final bill of higher personal exemptions and improved deductions: "Such exemptions and deductions provide relatively larger tax benefits for those with higher incomes who are paying higher marginal tax rates; they provide no tax benefits for those with incomes too low to be taxable - the poor and the needy."[90]

Capital Gains

The Minister argued that one of the central thrusts of the new bill was "a major reform of the definition of income so that our tax system will be more fair and equitable between taxpayers."[91] The most important means to do so was to be the taxation of capital gains. But the final legislation was a very pale imitation of earlier proposals to broaden the tax base. It will be recalled that the Carter Report had recommended a comprehensive tax base in which all income from

whatever source would be fully taxed. This concept attracted immediate and intense opposition from business interests and was abandoned by the government in 1968. The White Paper was a major retreat from the Royal Commission on this issue, but would still fully tax capital gains. This inclusiveness and several of its specific recommendations on capital gains in turn came under strong corporate pressure. The provisions of the final bill constituted a further retreat.[92] One-half of capital gains would be included in income for taxation at normal rates. One-half of capital losses would be deductible against gains, up to $1000 of capital losses could also be deducted against other income, and these deductions could be made in the preceding, current or any number of subsequent years until losses were fully absorbed.[93] The White Paper proposals for the five year revaluation of unrealized gains, which had been rejected by even the most moderate professional and corporate spokesmen, was dropped. There were similar concessions on other controversial issues: any gains from the sale of residences would be totally exempt and gains from the sale of personal property would only be taxed if the price was over $1000. To prevent any higher taxation due to fluctuations in share values, gains would be measured against the greater or original cost of Valuation Day value.

For those who derived large amounts of income from property ownership, the treatment of capital gains under the new legislation was a considerable improvement over earlier proposals. The final provisions were in fact very similar to those recommended by the Commons committee.[94] In addition to when an asset was sold, capital gains

would be taxable (and losses deductible) when a gift was made of an asset or upon death. Taxation would be deferred on gifts or bequests between spouses. With these changes, federal gift and estate taxes would be eliminated. The White Paper would have retained these taxes, the Commons committee would also have done so but with better exemptions, and the Senate committee would abandon this field to the provinces. The final result was closest to the view of the latter body.[95] This change was of great benefit to the more substantial property owning strata: "The elimination of federal estate taxes almost offset the effect of capital-gains taxation on high-income families."[96]

Corporate Taxation

Mr. Benson argued that the most important aspect of the bill in this area was the rate of taxation. As noted earlier, the government had guaranteed that it would counterbalance the tendency of the new system to yield additional revenue as it matured. To this end, the basic rate of corporation tax of 50% would be reduced by one percentage point annually so that it would be 46% in 1976 when the reformed structure was fully in force.[97] The Minister stressed that this would bring the general rate to a lower level than in the United States, Canada's most important trading partner and business competitor. He also clearly stated the fundamental rationale of corporate taxation:

> Despite the many changes in our social and economic structure we must continue to look to the private sector and to business corporations to provide the jobs for our rapidly growing labour force and to produce the income required to finance our growing appetite for goods and services. I am confident that this major move to reduce substantially the general corporate tax rate will contribute in an important way to making Canada a most attractive place in which to invest, grow and prosper.[98]

Not only did this rate reduction fulfill the government's commitment to not increase its revenue through tax reform, but it also spoke to the increasing demands that had emerged for tax cuts to stimulate the sluggish economy. The corporate reductions were not essentially short term measures, but they did clearly reveal an acceptance of the general premise that reduced taxation can be used to stimulate the economy. The provisions for corporate taxation in the 1971 legislation were a major departure from the White Paper on a number of issues that had been the focus of great controversy and hostility. The changes introduced consistently moderated the impact of the original proposals and moved in the direction of corporate pressure.

Small Business

Mr. Benson stressed that the new system would "give due recognition to the problems and contributions of small business - a subject to which many Canadians attach a high importance."[99] This considerably understated the immense uproar that the White Paper's plan to eliminate the lower rate on the first $35,000 of corporate income had caused. The Minister further elaborated the guiding assumptions of state fiscal policy: "This government supports the view that entrepreneurial initiative should be encouraged through the tax system. The Canadian economy depends upon the creative business activity of small, growing businesses."[100] The government, however, believed that the existing dual rate of corporate tax was an inefficient mechanism; it was available to all corporations regardless of size, form of control and growth. Accordingly, a lower rate for small business would be retained, but with a number of

restrictions.[101] There would be a 25% rate on the first $50,000 of business income of Canadian-controlled private corporations. This would apply until a corporation accumulated $400,000 of taxable income under the new system and would not be available to public or foreign-owned corporations. This new rate structure was portrayed as a significant improvement over the old system. Equally importantly, it abandoned the White Paper's goal of a uniform corporate rate and heeded the insistence of the parliamentary committees that more adequate incentives for small business be developed.

Integration

Mr. Benson identified the double taxation of corporate income as a serious problem of the existing system. The White Paper had proposed the integration of personal and corporation taxes, in which shareholders would receive credit against their personal taxes for corporate tax paid on the dividends they received. The Minister blandly noted: "This proposal became the subject of widespread controversy. Whatever its merits, the business community and a number of the provinces, including the two largest, found it unacceptable."[102] As was widely predicted, the government could not withstand the immense pressure on this issue: "It is for this reason that the government has decided to modify the existing system rather than to adopt the integrated system outlined in the White Paper."[103]

The dividend tax credit would be increased from 20% to 33 1/3% and included in income before tax is calculated. This would reduce the tax payable for all shareholders whose marginal personal rate was lower

than 40%, and increase it for those above that level. The government saw these changes as an important incentive for low-income shareholders to invest in Canadian corporations.[104] Overall, the restructured dividend tax credit would "offset in the hands of shareholders 25 points of corporate tax paid by Canadian corporations."[105] Since this credit was for business income only, a further measure was introduced in which one-half of the tax on the investment income of private corporations would be refunded when dividends are paid to shareholders. In addition, private corporations would be able to distribute one-half of their capital gains tax free. Mr. Benson argued that these changes would virtually eliminate the double taxation of small private corporations.[106] The final result here was closest in outline to the report of the Senate committee, which had urged that the existing system be modified; the Commons committee had recommended half integration.[107]

Resource Taxation

The starting point for the new system that "substantial tax incentives are maintained to recognize the risks involved in exploration and development, the international competition for capital and the levels of incentives available in other countries "[108] had of course been a central theme in innumerable industry submissions to the government. The final bill basically followed the August 1970 modifications of the White Paper: "The legislation incorporates these changes, which together will ensure sustained exploration and development, while making really profitable projects subject to a reasonable level of taxation."[109] The technical details of the new provisions in fact weakened the impact

of the original White Paper proposals even further. The three year exemption for new mines had been replaced by accelerated depreciation in the 1970 concessions. This fast write-off was extended to include all assets related to a new mine, including townsite and refinery facilities, and assets related to the expansion of an existing mine where capacity is increased by at least 25%.[110] A new system of earned depletion had been introduced and the range of expenditures eligible to earn depletion was now extended. In order to allow mining and petroleum corporations "a reasonable time period to adjust to the new system" the existing automatic depletion would continue until 1976.[111] This meant that any mining property would enjoy depletion until that point automatically. At the same time, eligible expenditures made from the time of the White Paper through the end of 1976 could build up a bank of earned depletion that could be claimed in subsequent years. This meant that the necessity of earning depletion would not be significantly restrictive for many years.[112] In addition, foreign exploration and development expenses could now be claimed.

The tax incentives for the resource industries were more limited under the new system than they had previously been. But they were a far cry from the first Royal Commission proposals to eliminate such special concessions.[113] In the face of massive corporate pressure (strongly reinforced by key provincial governments), the federal government had been forced to retreat from such a radical position: it was on mining that the first official concession over the Carter recommendations occured in May of 1967, the White Paper was a considerable

modification of the Royal Commission, and the 1970 changes and finally the 1971 bill significantly moderated the White Paper. The resource sector had been able to ensure that it would continue to receive very substantial tax concessions. This also was in keeping with the general recommendations of the parliamentary committees.

Other Changes in the Taxation of Business and Property Income

The final bill modified the White Paper on an additional issue that had been the subject of much debate. The White Paper's wholesale elimination of eligible deductions for business entertainment expenses had been vehemently opposed. In his usual understatement, the Minister noted that "the consensus was that the present rules of the income tax system should be maintained and that there should be no sweeping changes in this area."[114] Accordingly, the existing deductions for entertainment and related expenses were continued with a number of restrictions for expenses that were clearly personal.[115] For example, membership fees in recreational or social clubs and expenses on yachts and golf courses would not be deductible; and the costs of attending two conventions per year were still allowable but they had to be within the geographical area in which the organization was normally active. This was more restrictive than the existing structure, but far more generous than the White Paper would have been. The new treatment was very similar to the Commons committee's recommendation to retain the old system with tighter enforcement and some restrictions. The Senate committee had essentially called for the maintenance of the old system without qualification.[116]

A number of further more specific changes were designed to facilitate the movement and accumulation of capital. Canadian corporations had not been able to deduct interest on funds borrowed to acquire shares in other corporations. This put them at a disadvantage when competing with foreign corporations in takeover bids and there had been considerable criticism over this issue. Responding to this pressure, the bill would allow Canadian corporations to deduct such interest: "Assuming the full rate of corporate tax, this deduction means that the cost of borrowing money for this purpose will be cut in half."[117] The legislation would continue to allow individuals to deduct interest on money borrowed to buy shares. There would be improved deductions for the category of intangible assets known as "nothings".[118] The bill included a number of changes in the taxation of international income intended to ensure that Canadians would not be discouraged from investing abroad. They would, for example, generally exempt dividends received by Canadians or Canadian corporations from subsidiary or affiliated corporations abroad.[119] One final issue that had attracted much commentary had been the taxation of co-operatives, which had long been regarded by many businessmen as unfairly generous. Their three-year tax holiday was removed and the deductibility of patronage dividends was restricted.[120]

Economic Effects of Tax Reform

The Minister of Finance concluded his address to parliament on the tax legislation by discussing its economic implications. He argued that the first factor to consider in assessing the impact of the reforms was that they would not be the basis of any increased state revenue:

"There will be no adverse effects of the kind that would occur if there were an increase in the over-all tax burden."[121] The effect of the new structure was rather to redistribute the existing tax burden so as to improve equity and neutrality. Mr. Benson emphasized that those improvements were not achieved at the expense of economic growth. Most wage and salary earners would pay lower taxes under the new system. Their increased disposable income would raise the demand for goods and the level of personal saving. The cuts in the rate of corporate taxation would contribute to higher corporate savings and investment. Capital gains taxation and reduced incentives for the resource sector could reduce savings.

> We have, however, provided substantial offsets to those adverse effects. This had been done by removing the federal estate and gift taxes, by granting more generous treatment of contributions to pension and retirement savings plans, by reducing the taxes of many persons, by removing more than 20 percentage points from the highest personal tax rate, by lowering the general corporate rate progressively to 46 per cent and by offering improved provisions for averaging of income for tax purposes. I am confident that the combined effect of these measures will cause the net impact of the new tax system upon savings to be minimal.[122]

To close, the Minister emphasized that "in achieving greater equity it has not been necessary to sacrifice economic growth. Our potential and prospects for economic expansion are undiminished."[123]

Mr. Benson's concluding remarks amounted to a sustained argument that improvements in the new tax system had not been made at the expense of economic growth and that the overall reforms would encourage growth. This, of course, had been the overriding thrust of corporate pressure on the government. From within the state system, the major provincial

governments and the two parliamentary committees had also emphasized that economic growth must be the fundamental priority of reform. As as been seen, this general orientation was reflected in the central proposals of the 1971 legislation. They had consistently moderated the White Paper in the direction of the Senate and Commons committees' reports and of the demands of the corporate sector.

III. Debate on the Final Bill: June-December 1971

The Minister of Finance introduced the seven hundred page tax reform bill for first reading at the end of his budget address on June 18, 1971. The legislation would not be considered in detail by parliament until the fall: "It is the government's intention that debate on second reading of the bill begin when the House reconvenes early in September. This will provide time for public study and for the government to consider representations for technical changes."[124] Mr. Benson would also be meeting with his provincial counterparts. The government intended that the new system would come into effect on January 1, 1972. From the time of its release in June to its final passage in December the bill remained the centre of considerable public commentary and debate.

First Response

Initial reaction to the legislation in the press was mixed.[125] Many leading newspapers saw the tax reforms and the specific provisions of the June budget as being heavily geared to the coming election. The Toronto Globe and Mail argued that "what the Minister of Finance has given us in an election package the likes of which the country hasn't

seen since the Second World War."[126] Media commentary also recognized the significant retreat from the original reform proposals to the final legislation. The Globe editorial, which largely supported the budget, noted this shift:

> Describing it as tax reform could be put down as verbal overkill. Real reform, the kind that significantly redistributes income, redirects the economy or substantially re-orients priorities - that kind of reform you will not find. Reform that would produce the kind of equity that Kenneth Carter sought with missionary zeal has not been proposed. Nor has the jungle been cleared away as Mr. Carter hoped it would be. The world this morning remains a safe and plush place for tax lawyers.[127]

The Montreal Star was much more uneasy about this policy outcome:

> The key concept of the Carter report was equity and that concern was echoed in Mr. Benson's White Paper. In the new budget, primacy has been given to economic growth, with the added implication that some degree of fairness should be sacrificed in its interest...It signals the government's capitulation to powerful interest groups which have kept a relentless pressure for special tax concessions ever since the publication of the White Paper. It marks the abandonment of the theory of a neutral tax system and opens the door to new pressures from any segment of the economy which feels a need for special treatment.[128]

The major protagonists in the battles over tax reform were initially cautious. Many provincial treasurers expressed satisfaction with the general philosophy of the tax bill; it met the major provincial objections to the White Paper. They withheld detailed comment while their officials were at work studying the massive legislation and preparing position papers for the July finance ministers' conference.[129] The bill was also being intensively analyzed within the business community. A primary focus of this analysis was emminently practical; there

was a flood of advice and interpretations from investment houses and brokerage firms on the implications of the tax changes for investment.[130]

Resurgence of Corporate Pressure

The corporate sector quickly found its voice and began to comment on the content of the bill. There was some recognition of the concessions business pressure had won. A tax consultant writing in the magazine of the Chamber of Commerce emphasized this:

> The Tax Reform Bill clearly shows the results of the massive opposition to the White Paper on Taxation. It is obvious that the briefs submitted by many Canadians, including the Canadian Chamber of Commerce, have had a strong influence on those who drafted the new law. With few exceptions, those parts of the White Paper which met strong opposition have been severely modified. Where the White Paper proposals met only modest resistance, they have been changed only moderately.[131]

He argued that the bill was much less harsh on small business, still provided incentive for investment even with a capital gains tax, the latter was far more moderate than originally proposed, and the overall effect on the business community would be far less serious than the White Paper. The result of the many modifications was that "the new tax proposals will be only slightly more costly for business than the present Income Tax Act", and that "most people in the business world think this law is a great improvement over the White Paper."[132] However, the great majority of corporate opinion was not nearly so frank. What quickly developed was substantial business opposition to the final bill. These corporate criticisms coalesced around a number of distinct themes.

The first was a widespread feeling that the enormous tax bill was too complicated. The practical workability of the new system was naturally of great concern to the professions most involved in taxation.

The Canadian Bar Association submitted a 76 page brief to the Minister of Finance strongly criticizing the reform bill: it argued that it was "virtually unintelligible" in its wording and complex provisions, that its underlying assumptions were so obscure and without precedent that they were extremely difficult to interpret, and that it was filled with loopholes and technical problems.[133] Dissatisfaction over the complexity of the bill, especially as it affected smaller businesses, professionals and investors, pervaded the annual meeting of the Canadian Institute of Chartered Accountants. The concensus was that even though many businesses would benefit from the changes, the increasing difficulties of record-keeping and interpretation would hardly justify the tax savings for most.[134] By early fall, a growing number of tax professionals and experts felt that more time was required to fully analyze the legislation and that its implementation should be slowed down.[135] The complaint that the bill was badly worded and unwieldy became increasingly common from corporate sources as well. It was emphasized in the September submission of the Canadian Chamber of Commerce to the government.[136]

Business unease over the practicability and concrete impact of the reform bill was heightened by growing apprehension over the general state of the economy.[137] Recent changes in United States government economic policy - the devaluation of the dollar, subsidization of American exports and a surcharge on imports - were seen to have severe consequences for the Canadian economy.[138] The Canadian Manufacturers' Association stressed this adverse economic climate in its brief to the

government: "In this radically changed business situation, a re-appraisal of Canadian tax and trade policy is essential. We urge the Government to reconsider those tax reform proposals, particularly in the international field, which add to the costs borne by Canadian business."[139] The Association argued that the level of capital gains taxation was too high, resource incentives were inadequate to attract needed capital and the overall impact of the changes depended upon provincial actions. A major concern expressed in the C.M.A. brief had become increasingly prevalent; the new regulations were seen to inhibit Canadian multinational corporations. This possibility had been much discussed at an August seminar of 200 lawyers and accountants[140] and had been emphasized in a later Ottawa speech by C.M.A. president Gerard Filion.[141] Small business leaders were also less than pleased with the reform bill; Mr. John Bulloch, president of the Canadian Council for Fair Taxation, was highly critical of the legislation in general and argued specifically that the incentives for small companies were still not enough.[142] There was also concern over the future level of wealth taxation; with the vacation of estate taxation by the federal government, there was great uncertainty over what the provinces would do in this area.[143] Finally, specific sectors complained about their tax position. Executives of the pulp and paper industry, for example, argued that their tax load would be higher than their international competitors.[144]

A growing current within business and media commentary called for delay in the implementation of tax reform. Some argued that it should be brought in in stages, with the non-controversial sections

passed at once and more contentious issues held back for further study and amendment.[145] A Montreal Gazette editorial put this demand in the context of the wider economic and policy climate:

> Reform by stages would have the additional advantage of relieving business of the burden of grappling with the new measures at a time when all its energies should be directed towards recovery. The same point can be made of such other legislation as the competition act. Tax reform and competition act together more than justify the charge of the president of the Chamber of Commerce that business is being smothered by government.[146]

A report for the Private Planning Association of Canada by a leading economist argued that the whole reform process, from the Royal Commission on, should have been conducted in a far more limited and gradual manner.[147] More corporate spokesmen began to call for the postponement of the entire bill. The Vancouver Board of Trade told the Minister of Finance and the B.C. Liberal caucus that it should be delayed for one year.[148] Prominent lawyer W.A. Macdonald spoke to the Ontario Economic Council on the wisdom of deferring the tax bill. He reiterated the charge that the bill was too complicated, but emphasized above all that the existing period of economic uncertainty was not the time for such massive changes.[149] Finally, a Globe and Mail editorial condemned the government for proceeding with a new tax system that would do nothing to increase the competitiveness of Canadian business at a time when it faced strong international pressure. It called on Mr. Benson to "withdraw that tax bill and concentrate all his efforts on our real problems."[150]

Provincial Governments

Quebec, Alberta and Ontario had joined the chorus demanding delay in implementing the reforms.[151] In conferences and policy statements

the provincial governments had expressed concern on a number of issues. They had asked the Minister of Finance to defer for one year the repeal of federal gift and estate taxation because most provinces received 75% of the amount collected. They were worried over the loss of revenue and wanted time to consider establishing their own estate taxation.[152] Discussions between federal and provincial officials also centred on tax collecting arrangements.[153] In early November Mr. Benson made a number of specific concessions to the provinces, the most important of which was a guarantee that they would receive no less revenue in the first five years of the new system than under the old.[154]

Parliamentary Deliberations

The reform bill received little detailed attention for the first weeks of the fall session but came under intense debate from October on. The Conservatives were critical of the capital gains and other provisions that they argued would inhibit business investment. Mr. Stanfield echoed the common view that it was irrelevant to consider tax reform when the overall economic environment was the real problem. The New Democratic Party argued that the proposed changes were not nearly progressive enough.[155]

The Senate had referred the bill to its Standing Committee on Banking, Trade and Commerce. Two tax experts from the top Toronto legal firm of McCarthy and McCarthy, of which committee chairman Salter Hayden was a partner, instructed the Senators on the details of the legislation.[156] The committee members complained frequently of the bill's great complexity.[157] It also heard 129 submissions from such

groups as the Canadian Chamber of Commerce, Canadian Bar Association, Canadian Institute of Chartered Accountants, insurance industry organizations, major associations from the resource sector and powerful industrial and mining corporations.[158] The Senate committee issued three reports stressing its deep concern that the treatment of Canadian corporations' income earned abroad would adversely affect their international competitiveness and recommending a more generally favourable treatment of gifts, capital gains, foreign-source income and non-resident investors. Although the bill was passed without considering these recommendations, the committee was ultimately to prove highly influential: "Indeed, by April 1973, a new Minister of Finance, John Turner, appeared before the Banking Committee with a package of amendments which responded to all of the key recommendations of the commmittee. Parliament enacted all of these retroactively to January 1, 1972."[159]

Government Strategy

The government responded to pressure against the bill in two ways. It was receptive to the many complaints that the bill was too complicated and criticisms of specific details. The Department of Finance had been highly impressed by the view of professional groups and had prepared between 100 and 150 amendments to the legislation.[160] By early November the Minister had introduced over one hundred of these.[161] The government, however, rejected corporate and provincial demands for further delay or piece-meal implementation. This intransigence must be seen in the context of the imminent election. Tax

reform had been one of the main planks of the Trudeau administration and had been at the centre of political debate for some years. As the Financial Times aptly noted: "Unless tax relief is granted to low-income groups, the government will look foolish in the eyes of the electorate."[162] The danger for the government was that any further retreat on tax reform would look like capitulation.[163]

The government did react to the growing concern over the deteriorating condition of the economy and the persistent pleas for action. On October 14, the Minister of Finance announced a 3% cut in corporate taxes to extend from July 1, 1971 to December 31, 1972, and a range of job creation programmes. The goal of these fiscal measures was to stimulate economic expansion and reduce high unemployment levels. The opposition parties strongly criticized the government for delaying so long with such changes.[164] The reaction from the private sector was more favourable. Top officials from organizations such as the Chamber of Commerce and the Canadian Manufacturers' Association, and from major corporations such as Stelco, Imperial Oil and the Bank of Montreal, welcomed the tax reductions, but were also critical of the government for acting too late. The stock market also responded positively.[165] A Financial Times survey of fifty top executives two weeks later found general relief at the government action; it was believed that the tax reductions would help profits for many large corporations and sustain consumer spending.[166]

The government remained determined to have the new tax system in effect for January 1, 1972 and pressed the bill through parliament.

The opposition parties were put in the awkward position of potentially appearing to hold up popular tax reductions if they opposed the overall legislation: "In effect, the minister is able to use the tax reductions he announced June 18 and October 14 to bring pressure on the Opposition for acceptance of his more fundamental and controversial changes."[167] In December the government invoked a controversial measure restricting further debate on the bill; the Liberal House Leader argued that "public opinion, particularly the business community wants to end the uncertainty."

Conclusion

The lengthy and protracted process of tax reform finally came to an end when the bill was approved by the House of Commons on December 17, 1971. The Prime Minister summed up: "For the first time in Canada, a government has invited the population as a whole to participate with it in the formulation of a major policy."[169] However, although the restructuring of the tax system had been the focus of intense conflict right until the end, the public at large had been involved to only a limited extent. It had been the political mobilization and power of capital that had dominated the debate over reform throughout and that remained the decisive factor in this latter period as well. The reform legislation was a substantial modification of the White Paper and bore very little resemblance to the sweeping reforms originally proposed by the Royal Commission on Taxation less than five years earlier. The balance of political forces and complex of institutional factors that produced this result and shaped the dynamics of state policy formation are explored in the concluding chapter.

1. Cf. Business Quarterly, Spring, 1971, pp 92-5; Financial Post, October 10, 1970, p 15.
2. Globe and Mail, (Toronto), October 6, 1970.
3. Citizen, (Ottawa), October 6, 1970.
4. Spring 1971, p 92.
5. October 10, 1970, p 1.
6. As noted in the previous chapter, these issues were much discussed in the media; for good summaries see Globe and Mail, (Toronto), October 6, 1970 and Citizen, (Ottawa), October 10, 1970.
7. Financial Post, October 10, 1970, p 15.
8. Ibid., p 15.
9. Ibid., p 1, editorial.
10. Star, (Toronto), October 2, 1970.
11. December 1970, p 384.
12. Cf. Citizen, (Ottawa), October 10, 1970.
13. October 10, 1970, p 1.
14. Ibid., p 35.
15. Ibid., p 15.
16. Ibid., p 16.
17. October 5, 1970.
18. Ibid.
19. Cf. Canadian Business, April, 1971, pp 10-11.
20. February 15, 1971, editorial.
21. Executive, April, 1971, pp 26-7.
22. Financial Times, February 15, 1971.
23. Financial Post, December 31, 1970.
24. Star, (Toronto), November 13, 1970.
25. The thrust of this brief was that the discretionary power of the Revenue Department must not become so wide that it was in effect formulating tax law. Globe and Mail, (Toronto), March 25, 1971.
26. Industrial Canada, April, 1971, p 5, editorial.
27. Citizen, (Ottawa), October 7, 1970.
28. Nathan Bossen, The Prescription for Tax Reform in Canada - An Appraisal, Montreal, sponsored by The Canadian Economic Policy Committee, 1971. This is the summary work of the analyses and conclusions of the other five volumes in the series. Members of the committee are heavily involved in all stages of the preparation of such research studies: they identify the issues to be studied, meet frequently with the researchers to discuss the work in progress, read drafts and manuscripts, and sign a covering statement when the report is completed recognizing the value of the research without necessarily endorsing all specific findings. The support of a majority of members is necessary before publication is considered. Because of these patterns, the research studies, although independently carried out, do represent the general thinking of the committee as a whole.
29. Ibid., policy statement by the committee, p VIII.
30. Ibid., inside front cover.
31. See ibid., pp III-V for a list of members.

32. Ibid., p 1.
33. Ibid., p 45.
34. Ibid., p 46.
35. Ibid., p 46.
36. Ibid., p 46.
37. Ibid., p 47.
38. Ibid., p 47.
39. Not surprisingly, this overall thrust of the studies was endorsed by all corporate members of the committee. Equally predictably, labour leaders on the committee rejected this perspective. In a qualification to the overall committee statement on the series, five prominent union officials agreed that the studies should be published, but argued that "the subject of taxation should be examined more closely from the standpoint of devising a much more equitable tax system in Canada. The studies have tended, in our opinion, to place too little emphasis on the matter of tax equity, which we believe should be the most important principle underlying a modern progressive tax system." Ibid., p VIII.
40. Ibid., pp 47-8.
41. Globe and Mail, (Toronto), February 23, 1971.
42. Ibid.
43. Cf. Canadian Chartered Accountant, April, 1971, p 256; May, 1971 pp 365-7. See also the address of corporate lawyer and tax authority W.A. Macdonald to the Canadian Club in Toronto, Globe and Mail, (Toronto), February 23, 1971.
44. Citizen, (Ottawa), March 8, 1971.
45. See Gazette, (Montreal), May 5, 1971; for a more general history of Ontario - federal fiscal conflict see Joe Martin, The Role and Place of Ontario in the Canadian Confederation, Ontario Economic Council, 1974.
46. Cf. Canadian Chartered Accountant, May, 1971, pp 365-7.
47. Cf. Executive April, 1971, p 17.
48. Financial Times, June 14, 1971.
49. Financial Post, June 12, 1971, p 1. For a useful discussion of the strained relations between business and the federal government and the "consistent mood of beleagured indignation" of corporate leaders see A. Rotstein, The Precarious Homestead. Essays on Economics, Technology and Nationalism, Toronto, New Press, 1973, pp 88-99. During the early years of the Trudeau administration, the government had been forced to retreat from a number of major policy initiatives because of intense corporate opposition. Rotstein referred to the "eternal no" of the Canadian capitalist class to any policy that they saw as increased government interference in corporate affairs.
50. Financial Post, June 12, 1971, pp 1-2.
51. June 5, 1971.
52. June 12, 1971, p 1.
53. November 13, 1970.

54. Globe and Mail, (Toronto), June 1, 1971.
55. See Canadian Business, April, 1971, p 10 and Gazette, (Montreal), March 4, 1971.
56. Canadian Business, April, 1971, p 10.
57. Gazette, (Montreal), February 19, 1971.
58. The primary basis of Conservative opposition to the White Paper was of course partisan electoral competition. But its effect was also to reinforce prevailing business arguments. Such political considerations were linked to corporate pressure in another way. The Liberal government could not risk any permanent estrangement of the business community and transfer of their support and financial contributions to the Conservatives over tax reform. It will be recalled that just such a shift over corporate opposition to the nationalistic policies of the then Minister of Finance Walter Gordon occurred in 1963.
59. Globe and Mail, (Toronto), October 6, 1970.
60. Citizen, (Ottawa), November 17, 1970.
61. Star, (Toronto), December 4, 1970.
62. Gazette, (Montreal), April 22, 1971.
63. Gazette, (Montreal), February 16, 1971.
64. See Eric Kierans, "Problems of Tax Reform", Canadian Taxation, Winter, 1979, pp 22-4 (Mr. Kierans was a member of the cabinet committee on tax reform); Gazette, (Montreal), May 5, 1971.
65. Sun, (Vancouver), June 9, 1971; also Financial Times, June 14, 1971.
66. House of Commons, Debates, June 18, 1971, p 6892. This was the Financial Statement of the Minister of Finance. The other major source I will rely on here is the Honourable E.J. Benson, Summary of 1971 Tax Reform Legislation, Ottawa, Department of Finance, 1971. These two documents will hereafter be referred to simply as Statement and Summary respectively.
67. Statement, p 6893.
68. Ibid., p 6893.
69. Ibid., p 6892.
70. Ibid., p 6893.
71. Ibid., p 6893.
72. Ibid., p 6893.
73. Ibid., p 6893.
74. Ibid., p 6893.
75. On these general issues see James O'Connor, The Fiscal Crisis of the State, New York, St. Martin's Press, 1973, pp 203-5; Ian Gough, The Political Economy of the Welfare State, London and Basingstoke, Macmillan, 1979; and Elizabeth Wilson, Women and the Welfare State, London, Tavistock, 1977.
76. Statement, p 6893.
77. For a useful general evaluation of the 1971 legislation and comparison of its key features to earlier junctures see Meyer Bucovetsky and Richard M. Bird, "Tax Reform in Canada: A Progress Report", National Tax Journal, XXV (1) March, 1972, pp 15-41.

78. Statement, p 6893.
79. Summary, Ch 1.
80. Summary, pp 66-7. One of the more useful facets of the summary was its lengthy Tax Reform Synopsis which compared the old law, new bill, the Commons committee report, that of the Senate committee, and the White Paper on the major proposals; pp 65-93. For a similar comparison of the old and new legislation see J.C. Strick, Canadian Public Finance, Toronto, Holt, Rinehart and Winston, 1973, pp 60-77.
81. Summary, p 7.
82. Ibid., Ch 1; pp 70-1.
83. Ibid., Ch 1; pp 70-1.
84. Statement, pp 6894-6.
85. Summary, p 7.
86. Statement, p 6895.
87. Summary, Table 5, p 20.
88. Bucovetsky and Bird, op.cit., p 22.
89. W. Irwin Gillespie, In Search of Robin Hood. The Effect of Federal Budgeting Policies During the 1970's on the Distribution of Income in Canada, Montreal, sponsored by the Canadian Economic Policy Committee, C.D. Howe Research Institute, 1978, p 18.
90. Ibid., p 18, his emphasis.
91. Statement, p 6893.
92. Summary, Ch 2.
93. Such provisions could be of significant benefit to the wealthy and those making speculative investments.
94. Ibid., pp 72-73.
95. Ibid., pp 74-75.
96. Gillespie, op.cit., p 18.
97. Summary, Ch 3.
98. Statement, p 6897.
99. Ibid., p 6894.
100. Ibid., p 6897.
101. Summary, Ch 3.
102. Statement, p 6898.
103. Statement, p 6898. For a detailed analysis of the fate of integration and the government's consistent retreat on this issue from the first Royal Commission recommendations on, see Bucovetsky and Bird, op.cit.
104. Summary, p 35; see also Strick, op.cit., pp 67-8.
105. Statement, p 6898.
106. Ibid., p 6898.
107. Statement, pp 76-7. For a body that was expected to have limited influence, a large number of specific features of the legislation seemed to have followed relatively closely Senate committee recommendations. Campbell notes the success of the committee in this regard: "The government bill incorporated forty-four of the Senate's original proposals for improvement of the White Paper"; op.cit., p 16.

108. Ibid., p 45.
109. Ibid., p 46.
110. M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate", in A. Paul Pross, (ed), Pressure Group Behaviour in Canadian Politics, Toronto, McGraw-Hill Ryerson, pp 102-3.
111. Statement, p 6899.
112. Bucovetsky, op.cit., p 103.
113. See Summary, pp 78-81 for the proposals on resource incentives at the various junctures.
114. Statement, p 6898.
115. Summary, Ch 5.
116. Ibid., pp 68-9.
117. Statement, p 6898.
118. Summary, Ch 5.
119. Ibid., Ch 6.
120. Ibid., p 49.
121. Statement, p 6901.
122. Ibid., p 6901.
123. Ibid., p 6901. This speaks closely to concerns expressed by such organizations as the Canadian Economic Policy Committee earlier.
124. Statement, p 6894.
125. See John Saywell, (ed), The Canadian Annual Review of Politics and Public Affairs for 1971, Toronto, University of Toronto Press, 1972, pp 10-11.
126. June 19, 1971; quoted in ibid, p 10.
127. Quoted in Walter Stewart, Shrug: Trudeau in Power, Toronto, New Press, 1971, p 102.
128. Quoted in Saywell, op.cit., p 11.
129. Gazette, (Montreal), June 30, 1971; from the Financial Times.
130. Financial Post, September 25, 1971; Globe and Mail, (Toronto), July 22, 1971.
131. Canadian Business, August, 1971, p 12.
132. Ibid., p 12, p 14. This was also the conclusion of a number of experts taking part in a seminar on the bill organized by a leading firm of chartered accountants; Citizen, (Ottawa), October 14, 1971.
133. Globe and Mail, (Toronto), August 24, 1971.
134. Globe and Mail, (Toronto), September 13, 1971; see Financial Post, September 18, 1971 for a speech along these lines by Lancelot Smith to the meetings.
135. Ibid.
136. Financial Times, September 13, 1971.
137. See Financial Times, October 4, 1971.
138. Cf. Globe and Mail, (Toronto), September 9, 1971.
139. Telegram, (Toronto), August 30, 1971.
140. Financial Times, August 23, 1971.
141. Star, (Montreal), October 13, 1971.

142. Financial Post, July 31, 1971.
143. Financial Post, September 18, 1971.
144. Ibid.
145. Gazette, (Montreal), October 14, 1971.
146. September 29, 1971.
147. Star, (Montreal), October 1, 1971.
148. Sun, (Vancouver), September 10, 1971.
149. Globe and Mail, (Toronto), October 15, 1971.
150. Ibid.
151. Globe and Mail, (Toronto), November 2, 1971; Star, (Montreal), November 1, 1971.
152. Journal, (Ottawa), September 2, 1971.
153. Gazette, (Montreal), October 20, 1971.
154. Globe and Mail, (Toronto), November 3, 1971.
155. See Saywell, op.cit., pp 16-17; Financial Times, October 11, 1971.
156. Senate Committee, September 29, 1971, p 5ff.
157. Telegram, (Toronto), October 1, 1971.
158. Senate Committee, December 13, 1971, p 7.
159. Campbell, op.cit., p 16.
160. Financial Times, September 27, 1971.
161. Star, (Montreal), November 1, 1971.
162. October 11, 1971.
163. Mr. John Bulloch recognized that, having retreated so far already, the government could hardly change the bill further; Financial Post, July 31, 1971.
164. Saywell, op.cit., p 15.
165. Star, (Montreal), October 16, 1971.
166. Globe and Mail, (Toronto), October 27, 1971.
167. Globe and Mail, (Toronto), October 26, 1971, editorial.
168. Saywell, op.cit., p 17.
169. Ibid., p 18.

Chapter 16 Conclusions

I. Summary and Overview of Policy Development

The final legislation was the culmination of a long and consistent process of government retreat. At each stage, the reform proposals had been moderated in the face of intense pressure from small business, major provincial governments and the capitalist class especially. The Report of the Royal Commission on Taxation, released in February 1967, recommended a thorough restructuring of the Canadian tax system which would have significantly increased its overall progressiveness. Facing a storm of opposition, the government had made major concessions to the mining industry and had rejected the Carter Report as the basic framework for tax reform by the end of 1967. Changes in gift and estate taxation in 1968 signalled the government's abandonment of the Commission's central principle of the comprehensive tax base. The 1969 White Paper was much milder than the original reform schema of the Royal Commission. However, it still contained recommendations to which business was solidly hostile and which would have a more limited, but still important, progressive impact, and it in turn quickly became the focus of concerted opposition. Government concessions on mining, small business and the level of state revenue in the summer of 1970 continued the pattern of retreat. The fall reports of the two parliamentary committees on the White Paper called for further modifications along the lines of the massive number of corporate submissions they had received.

The final legislation was much weaker than the White Paper and dropped many of its most controversial recommendations.[1] What survived this period of intense conflict and debate was a very pale reflection of the original Royal Commission reform package. The fundamental restructuring of the existing system and the government's continually stated intention of improving its progressiveness were not achieved to any signigicant degree.[2] The tax structure remained highly beneficial to the capitalist class and the more affluent strata.

The decisive factor in this steady stage-by-stage moderation was the dominant political power of the capitalist class. One of the most significant manifestations of this power, or that of any other class force, is the ability to prevent the enactment of state policy to which it is opposed. Shifts in official policy through the various junctures had consistently been in the direction of corporate demands. The tremendous capacity of the capitalist class to protest its interests in this regard can best be seen by specifying the focus of its political activity. Throughout the debates on tax reform corporate pressure had always been posed at two levels: that of the fundamental priorities and guiding rationale of taxation and that of specific recommendations. It was in defeating the basic priorities and principles of the various reform programmes to which it objected that the capitalist class was preeminently successful.

The Priorities and Scope of Reform

Business was able to prevent a fundamental transformation of the crucial assumptions and goals of the tax system. There is inherent

tension within fiscal policy between the basic objectives of equity and economic growth: tax provisions designed to enhance one may frequently have an adverse impact on the other. Finding the existing system to be highly inequitable, the Royal Commission proposed a radical shift in the central purposes of taxation. In the Carter Report, and to a much lesser extent in the White Paper, fairness was the central objective of reform, even if at the expense of growth to some degree. Among the most pervasive and cohesive themes of corporate pressure were predictions that this emphasis would have dire consequences on the health of the economy and corresponding demands that the highest priority be accorded to growth. The order of priority was in fact reversed in the reports of the parliamentary committees and in the thrust of the final bill. Lip service was paid to equity, but the overriding goal was economic growth. It was solidly established that the fundamental priority of taxation must be to facilitate and stimulate economic expansion and capital accumulation.

An additional closely related and equally contentious issue had been the scope of reform. The Royal Commission had called for a comprehensive revamping of the entire tax structure in order to develop a well-coordinated and well-integrated fiscal system which could accomplish the goals it had set. Opposition to such sweeping and revolutionary changes became a cornerstone of corporate pressure. It was argued that a perfect tax system could not be instantly invented and that an evolutionary process of incremental amendment was far more constructive. Government acceptance of a more gradual approach to

reform and its enactment in the 1971 legislation was a significant victory for business. So too was the restriction of reform to relatively limited changes within the existing system, a system which was highly conducive to the interests of capital.

Taxation of Personal Income and Wealth

One of the most important elements of the Royal Commission schema was the comprehensive tax base, in which all income from whatever source would be taxed at full rates. This fundamental principle, which would have had a highly progressive impact but which would also have constituted a major shift in the underlying assumptions of taxation, was an early casualty of corporate and provincial pressure in the 1968 revisions of gift and estate taxation. Its rejection indicated government acceptance of the business argument that the taxation of wealth must not become so onerous as to weaken incentives for investment and initiative. This also recognized that income from property and employment are of a very different nature within capitalism, the former is a central mechanism in the allocation of economic resources, and that their different significance must be reflected in the fiscal policy. The question then became what expansion of the taxation of wealth and property income there would be. Some form of capital gains tax had come to be widely accepted and politically unavoidable. Organized business, buttressed by major provincial governments, small business and the parliamentary committees, successfully ensured that it would be of only a partial and limited form. Its impact was further moderated by the elimination of federal gift and estate taxation.

Personal income taxation was the most progressive component of the existing structure and the area where the potential for improved progressiveness of the overall system was greatest. However, the reforms eventually instituted, such as wider personal deductions and altered rates, entailed a relatively limited shift of tax burden. There was only modest relief for low-income taxpayers and very little increase in the incidence of high-income strata. The combination of the higher priority given to economic growth over equity, the rejection of the wider tax base and the limited changes in personal income taxation ensured that the basic distributional principles of a capitalist economy were not significantly challenged.[3] The large and highly concentrated amounts of income derived from property ownership and the accumulation and transmission of wealth would not be unduly restricted.[4] The structure of incentives and rewards based upon the extremely unequal distribution of employment and property income would not be constrained by the highly limited progressive impact of the final reforms. The result was that the new tax regime would not significantly limit the continued reproduction of the structured inequality of condition that pervaded Canadian society.

Corporate Taxation

In order to facilitate the accumulation of capital and to take account of the specific conditions of particular industries, the final policy acknowledged that a wide range of special programmes and incentives were an essential component of the tax system. This, of course,

was a reversal of the concept of neutrality so central to the Royal Commission. The Commission had argued that extensive concessions to specific industries were extremely expensive, were an inefficient and often unnecessary means of stimulating production and investment, and interfered with the allocation of resources through market forces. The recommended elimination of lucrative provisions enjoyed by powerful sectors of the economy produced an intense reaction. Within general corporate opposition to substantial reform, the mining industry, for example, mounted a concerted and successful campaign against those proposals that affected its specific interests. The principle of neutrality had been weakened early on in the reform process; the concessions to the mining industry in May 1967 were the first visible retreat from the Royal Commission. The White Paper, which was much weaker than the Carter Report, would still limit resource incentives compared to the existing system. Further concessions in the summer of 1970 heralded the government's retreat in turn from the White Paper and the final bill was milder again. Although unable to prevent some reduction, mining was able to protect the great bulk of its generous incentives. In the name of neutrality, the Royal Commission would also have abolished the dual rate of corporate taxation, but would have retained significant concessions for small business. The White Paper was strongly criticized for its ambiguity on this point; it would eliminate the dual rate, but was not clear on how well small business would be supported. This became the focus of pervasive and highly organized opposition, and the final legislation restored a special lower rate for small business.

Business pressure was able to force important modifications in other major recommendations on corporate taxation. The Commission's concept of integration paradoxically addressed one of the major business concerns that had led to the initiation of the reform process, the double taxation of corporate surplus. However, the recommendations were so central to the reform package as a whole and so closely linked to contentious proposals such as the comprehensive tax base that they quickly became a major focus of corporate hostility.[5] As a result, integration was largely abandoned in favour of adjustments to the prevailing system of dividend credits. Other recommendations met a similar fate. The stringent restrictions on the deductability of business expenses contained in the White Paper were considerably eased. The government had been forced to guarantee that the reforms would not yield higher levels of revenue by including yearly reductions in the basic rate of corporate taxation as the new system came into force. These changes and the more general commitment that fiscal policy should facilitate economic development ensured that the structure of corporate taxation remained highly conducive to capital accumulation.

Tax Reform and Capitalist Class Interests

In summary, the massive political organization of the capitalist class, supplemented by the efforts of small business and provincial governments, had been able to ensure that the highest priority of the tax system remained economic growth, severely limit the scope of reform, and prevent any fundamental challenge to the basic institutional structure and principles governing the distribution of income and

wealth. The fate of specific recommendations was far less important once the battle over the fundamental parameters and guiding assumptions of fiscal policy had been won. However, even at this level, government retreats in areas such as integration and small business, must be seen as victories for business pressure. On other issues, such as capital gains and resource taxation, corporate pressure was able to force significant modifications of much harsher original recommendations. None of the eventual changes can be interpreted as a clear-cut defeat for business. The restructured tax system certainly did not restrict or threaten the fundamental interests of capital in extended accumulation and the maintenance and reproduction of the capitalist institutional order.

This conclusion has been underscored by the subsequent development of the Canadian fiscal system. The government's emphasis on supporting economic growth and its repudiation of neutrality set the stage for a continuing round of improvements in corporate taxation throughout the 1970's. Less than six months after the new legislation came into effect, the May 1972 budget of Minister of Finance John Turner reduced the tax rate on manufacturing and processing profits from 49% to 40% and introduced a two-year depreciation of new machinery for these industries.[6] These changes were of great immediate benefit to the corporate sector; it was estimated that "the combined effect of the 1972 tax reduction and the accelerated capital cost allowance scheme alone was equivalent to a reduction in the tax rate from 52 percent to 28.6 per cent".[7] These tax cuts in turn played a key

role in improving profit levels through the mid-1970's.[8] Adjustments in corporate taxation remained an important element of short-term state budgetary policy designed to direct and stimulate the economy.[9] Improved capital cost allowances and wider deductions for exploration and development designed to stimulate investment resulted in over $3.4 billion in increased tax relief for the manufacturing and mining industries from 1970 to 1979.[10] In similar fashion, the treatment of income from property ownership and personal wealth remained generous; in 1980, for example, the exclusion of one-half of capital gains from taxation and the dividend tax credit entailed federal tax expenditures of approximately $2 billion.[11] These continuing changes were the direct legacy of the government's failure to institute the type of progressive reforms recommended by the Carter Commission and to a lesser extent by the White Paper. These developments highlight the wider implications of the capitalist class' ability to prevent policy to which it was opposed during the reform deliberations. This ensured the maintenance of an overall framework which was conducive to capital accumulation and the material interests of the wealthy and powerful.[12]

To return to the reform process itself: the steady moderation of the various proposals in the face of corporate pressure indicated that the capitalist class was well able to protest its interests throughout the conflict and debate over reform. This had not been the case for competing class interests. The great majority of the population would have benefited from the progressive recommendations of the Carter Commission and even from the milder White Paper proposals.

That they did not, and that the tax changes eventually instituted had no significant effect on the redistribution of income[13], is a telling manifestation of the power of capital.

II. The Power of Capital and the Limits of Reform

The goal of this section is to explain the retreat from the promise of progressive reform held out by the Royal Commission and the dynamics and outcome of what became one of the most contentious issues of modern Canadian political history. Such a case study cannot be understood in isolation. More general relations of power and the nature and functions of the state provide the context within which debate and conflict over particular issues such as tax reform take place and set the overall parameters within which such specific policies are developed. The significance of this general framework for the reform process is briefly explored next. At the same time, however, detailed case studes such as this can concretely illustrate the general nature and operation of state power. The implications of this study for wider questions in the theory and analysis of the state will also be discussed below.

The Political Domination of Capital and the Limits of Reform

The vital role of the modern state in the overall reproduction of capitalist society was emphasized in earlier chapters. In addition to the general forces and relations of production, the state serves to reproduce the system of class relations in which the capitalist class is dominant. It is in this sense that the state is a class state; to the extent that its activity maintains and reproduces the dominant

power of the capitalist class the state broadly supports the fundamental interests of capital.[14] The significance of these general relations here is that the nature and basis of the political domination of capital shape the framework within which state policy and intervention operate.

It has been emphasized throughout that the role of the state is shaped by crucial institutional imperatives and requirements arising out of the basic structure of a capitalist economy. The reproduction of the system as a whole is contingent upon the continued accumulation of capital and economic expansion, and an essential function of the state is to maintain favourable overall conditions for this extended accumulation to take place. This responsibility falls to the state because individual capitalist firms and industries, whose perspective and freedom of action is necessarily limited by immediate competitive pressures and considerations of cost and profit, cannot secure the general conditions necessary for reproduction.[15]

Sustained economic growth is required not only for the reproduction of the forces of production, but because both the maintenance of political order and consensus central to the state function of legitimation and the electoral fortunes of the governing party depend upon satisfactory levels of prosperity and employment.[16] But while the state must ensure adequate levels of economic activity, it cannot directly do so itself; private capital controls investment and manages the economy.[17] This leaves the state fundamentally dependent upon the capitalist class to supply the necessary resources to foster economic

growth and this in turn sets major constraints on the role of the state. On the one hand, state policy and intervention must seek to maintain a favourable overall environment for investment and business operations. On the other, state action which restricted or threatened the potential for investment could have adverse economic consequences if investment were reduced. Since only the capitalist class can define the conditions under which it will allocate the resources it controls, state policy-makers must be extremely sensitive to capitalist interests and responses.

The capitalist class was also the predominant force in the routine patterns of political representation within the state. This involved extensive corporate participation in state policy formation and administration and close links between top state and corporate officials. The corporate sector was able to mobilize its immense organizational and economic resources to influence the development of state policy and intervention. In the same fashion, business could exert intense pressure against policy to which it was opposed; during the period under study here, the government was forced to significantly modify major initiatives on foreign ownership and competition policy because of such opposition.[18] Beyond the state apparatus itself, the major political parties were financially dependent upon corporate sources and their leadership was closely tied to business. Both the Liberal and Conservative parties tended to operate within general perspectives which were solidly committed to the institutional structure of capitalist society and were broadly favourable to capitalist

interests. The significance of this financial dependence was graphically illustrated just after the reform process was completed. The intense personal hostility to Minister of Finance Edgar Benson within the business community has been discussed above.[19] This opposition was to make Mr. Benson a distinct political liability for the Liberal government. Party officials admitted that the shift of Mr. Benson from the Finance portfolio prior to the 1972 election was necessitated by the tremendous animosity towards him from the corporate supporters who provided the party's funds.[20]

Tax Reform and the Power of the Capitalist Class

Taken together, the structural demands and requirements of a capitalist economy and the political representation and organization of the capitalist class shape the parameters and assumptions within which state policy develops. This established policy framework and the routine patterns of representation also provide the context within which conflict over particular issues like tax reform takes place. The following discussion reviews how these factors shaped the dynamics of reform.

This section has two interrelated goals. It first of all explains the actual dynamics of the reform process: the basis of the consistent government retreat in the face of massive opposition and the manner in which the capitalist class was the dominant political force in these debates and deliberations. At the same time, it outlines the key lessons of this particular case study: the way in which the detailed patterns and conclusions revealed here can be illustrated and amplify the wider analysis and theory of the capitalist state.

The Political Mobilization of the Capitalist Class

The release of the Royal Commission Report in 1967 unleashed one of the most massive campaigns of corporate pressure upon the state in modern Canadian political history. Taxation was a key issue for capital accumulation and the material interests of the capitalist class. Business was extremely apprehensive over the Carter and White Paper reform proposals in precisely those terms. This extensive opposition to a very central element of state policy constitutes an excellent case study of the political mobilization of the capitalist class, of business political power in action.[21] The protracted deliberations and conflict over tax reform also concretely demonstrate the mechanisms and processes of the political representation of class interests.

The tightly integrated institutional structure of the Canadian political economy[22] and the enormous economic and organizational resources under its command facilitated the mobilization of business on this issue. There was extensive discussion of reform within many industry and trade associations, specialized conferences and seminars, the business press and journals, and policy-making bodies such as those of the Private Planning Association of Canada. All of these settings and organizations provided extremely useful forums for analyzing the concrete implications of the various reform schema for the interests of the corporate economy as a whole and of particular industries and sectors. On the basis of this analysis relatively cohesive corporate policy was then articulated. This involved the development of comprehensive critiques of the Royal Commission and White Paper and the for-

mulation of counter-proposals on the scope and direction of reform. All of this activity concretely illustrates the means by which the interests of the capitalist class are articulated and organized politically.

These corporate policy demands were then pressed on the state in a variety of ways. The extensive routine consultation and contact between corporate and state officials was an important context for business lobbying on taxation. Representatives of corporate associations and major firms constantly urged their views on state policy-makers. A constant round of speeches and articles by leading corporate spokesmen decried the impact of major tax reforms on the economy. These widely reported business pronouncements, the specific advertising campaigns against the White Paper, and the overall favourable treatment of corporate policy and the more general capitalist control of the mass media were central factors in shaping a climate of public opinion of apprehension, if not hostility, over the implications of reform.[23] The government had requested public input on tax reform at various stages and organized business became the predominant presence in these formal deliberations. The large number of corporate briefs far outnumbered those of any other source. These submissions were also far more detailed, comprehensive and impressive than those of any other group and they were presented by the most powerful interests in the Canadian economy. Not only was this corporate pressure against progressive reform unrelenting and extremely pervasive, but it was also cumulative. Business opposition did not cease when the main

Carter recommendations were abandoned or substantially modified, but continued against subsequent proposals which it found unacceptable. The result was that the government had been facing almost five years of intense pressure to limit the scope of reform and its impact upon corporate interests when the reform legislation was finally passed.

This massive business campaign was by no means monolithic. There were, for example, various levels of sophistication and analysis from the hard-line rejection of any reform (the more hysterical variants of which certainly kept taxation a hot political issue) to more reformist acceptance of the need for suitably modified tax changes (this perspective was far more directly influential within the state and appeared quite moderate by contrast to the more reactionary currents). However, corporate policy had coalesced around a number of common themes: economic growth must be the highest priority of taxation, the overall thrust and scope of the Carter Commission and the White Paper and core proposals such as the comprehensive tax base and neutrality must be solidly rejected on this score, and a wide range of key recommendations must be dropped or altered because of their adverse effect on business activity and economic development. This fundamental unity on the basic priorities of taxation and central proposals that affected all sectors was a crucial facet of the political mobilization of the capitalist class. It was on just these key issues of the underlying rationale of fiscal policy and the central principles of reform that corporate pressure had been most successful in influencing the course of state deliberations.

Interwoven with and superimposed upon general corporate opposition were the campaigns of particular sectors against those recommendations that most affected their specific operations and interests. Preeminent were those of small business, to be discussed below, and mining. The mining industry proved well able to protect its interests by forcing the government to retreat from the elimination of special concessions called for by the Royal Commission. This was not simply the result of the enormous direct pressure of the major mining association and companies. The central position of the industry within the Canadian economy meant that cut-backs in its investment and threatened withdrawal of capital were a severe problem for the state. This dependence was especially significant in those regions where mining production was heavily concentrated. Given the regional implications of reduced mining activity, major provincial governments came to support industry opposition to restriction of its incentives. More generally, the strength of the mining opposition to the Carter Report and White Paper must be seen as a major element of overall corporate pressure on the state, beyond the specific policy shifts it was able to force. These particular campaigns showed how structural divisions within capital and the Canadian economy shape the dynamics of political action, in this case the focus and direction of opposition to key reform proposals. As important as this pursuit of specific interests was in the conflict over tax reform, it remained within bounds that did not contradict the overall thrust of corporate opposition or the general interests of the capitalist class as a whole.[24]

This study of the political mobilization and organization of Canadian capital demonstrates that class interests and the impact of state policy upon class interests certainly do shape political activity.[25] The capitalist class quickly developed a clear analysis of the implications of the various reform possibilities for its concrete interests, at least at an immediate level. This understanding was then translated into a relatively cohesive set of policy demands that would protect and promote corporate interests. These demands and opposition to proposed changes that were seen to threaten profit and accumulation were then actively pursued at the political level. Although, as was seen in the above discussion of structural divisions within business, the interrelationship is never simple or direct, the salience of class and class interests for political activity was clearly demonstrated in the conflict over tax reform. The capitalist class at least displayed a highly developed political consciousness of its interests vis-a-vis tax reform.

Further Opposition to Reform

The capitalist class was not the only significant political force to oppose the objectives and central recommendations of the Carter Report and subsequent reform proposals. Small businessmen came to see the proposed changes as a threat to their stability and growth and, in the view of many, to their very survival. While they could not mobilize such immense material resources as the monopoly corporate sector or exert such consistent and pervasive pressure, small business groups and spokesmen were a highly visible presence in the debates

over reform. Their heated, and at times vehement, campaign against the White Paper especially contributed to the overall climate of opinion on reform.[26] The major lines of this opposition supported and reinforced that of the dominant corporations and associations. The activity of small business in this juncture has two wider implications. Firstly, as discussed in earlier chapters, this period had an important lasting effect because the ad hoc groups formed to combat the White Paper were to evolve into the Canadian Federation of Independent Businessmen, which developed into a far more stable and permanent mechanism for the political representation of small business. Secondly, it showed how alliances of different class forces can play a critical role in the dynamics of political conflict. The exact nature and balance of such alliances can vary a great deal, but the complimentary opposition of small and large business was very important in this issue. The activity of the former added a significant further layer to the pervasive corporate pressure on the state.

It has been emphasized throughout that the state is a complicated and far from totally unified system of institutions, and that more particularly, federal-provincial conflict, especially in the fiscal field, has long been important in Canada. Provincial objections to the overall emphasis of the Carter Report and White Paper and to recommendations that were seen to restrict economic development closely paralleled the major themes of corporate pressure. This strong opposition of the key provincial governments provided powerful reinforcement to prevailing corporate opinion. This was especially the case for

the western provinces' hostility to any significant reduction of resource incentives. In addition, coming as they did from major public institutions, provincial demands legitimated corporate opposition; it became that much harder for the latter to be dismissed as merely the pleas of "special interests". Although the fiscal system was routinely fraught with intergovernmental tension, it would have been extremely difficult to implement a federal tax system to which the provincial states were irrevocably antagonistic. This constituted crucial further pressure on the federal government to moderate its proposals.

Structural Limitations on Reform

Direct pressure on the state provides only a partial explanation of the steady retreat from progressive reform. Also of great importance were constraints and pressures imposed by the fundamental institutional structure of a capitalist economy, especially by the requirements of capital accumulation.[27] A key question then becomes how these wider structural imperatives are actually translated into state policy formation, a process which is by no means automatic or inevitable.[28] This study addresses this question at two levels. Most generally, the demands and requirements of capital accumulation as the driving force of economic activity shape the parameters and assumptions within which state fiscal policy operates. Thus, none of the official reform alternatives, from the Royal Commission on, disputed that the tax system must facilitate economic growth. There certainly was debate over how best to carry out this objective and how to balance it with other priorities, but there was fundamental agreement on this

basic goal. Secondly, and more concretely, it has been seen above that the state is fundamentally dependent upon private capital to allocate the resources and manage the enterprises under its control in such a way as to create adequate levels of production, employment and aggregate income. For business to make the necessary investments and economic decisions it must be assured of a stable and attractive return on investment. State policy must therefore seek to guarantee the resources essential to economic prosperity. Since only business can identify the conditions necessary to maintain its confidence and define the nature of a beneficial climate for investment, the state must be highly responsive to the advice, interests and demands of organized business.[29] It is in this fashion that the general requirements of capital accumulation - as defined by the capitalist class - impose harsh constraints on state fiscal and economic policy. Policy that is unacceptable to business, that is seen to create an unfavourable climate for investment, could lead to a withdrawal of capital and this in turn could lead to reduced economic growth. Such an eventuality is incompatible with the state's basic function of supporting overall reproduction and responsibility for maintaining a healthy economy.

The necessity of maintaining business confidence is one of the most crucial concrete manifestations of the wider structural imperatives and requirements of a capitalist economy. The constraints imposed by this obligation were a constant and crucial factor throughout this period. Because taxation impinges so directly on corporate pro-

fitability and capital accumulation, a favourable system is seen to be a crucial element of the overall climate for investment.[30] The Royal Commission and later reform schema left Canadian business distinctly uneasy on this score. Uncertainty over the course of reform and anxiety over the detrimental effect of the various proposals on future economic prospects were frequently invoked by business as creating a poor investment environment. This was concretely backed up by continuous announcements of cancelled or deferred projects and incessant dire predictions of reduced investment, withdrawn capital and consequent economic decline. The international context of these constraints must be emphasized: "any single nation state cannot entirely ignore the requirements of capital accumulation and reproduction. To do so would invite the flight of capital to other, more promising, centres of accumulation."[31] The central position of foreign capital in the Canadian economy[32] made the consequences of such a "capital strike" all the more significant. The severe impact of a major withdrawal of foreign or domestic capital upon economic development, especially in those regions dependent upon particular sectors of production such as the resource industries, could have a disastrous effect on state legitimation efforts and also, of course, on the electoral fortunes of the governing party. This meant that threats and predictions of reduced investment could not be ignored by state policy-makers. In this sense the dependence of the state upon capital constitutes the lever for corporate pressure, not simply an abstract systemic constraint or requirement.

Structuralist and Instrumentalist Interpretations of State Power[33]

This discussion has emphasized the importance of both the fundamental structural imperatives of a capitalist economy and the organized political action of the capitalist class. However, neither of these factors in isolation can provide a full explanation of the general political domination of capital or of particular issues such as tax reform. The interdependence and interrelation of structural and instrumental factors in the dynamics of state power will now be examined. As outlined above, structural imperatives and demands are of great significance in broadly determining the key assumptions and basic framework within which state policy develops.[34] First of all, the general requirements of the economy and the state function of accumulation are decisive in shaping fiscal policy designed to facilitate economic growth. Thus, governments in all the advanced capitalist countries develop tax policies that encourage business activity in order to maintain employment and economic growth.[35] Secondly, these structural considerations set the limits or parameters within which fiscal policy operates. The tax system, for example, cannot fundamentally restrict or disrupt the process of capital accumulation; to do so would threaten the basis of the continued reproduction of the overall system. Similarly, tax policy cannot be allowed to threaten the basic principles governing the distribution of employment and property income and the incentives of pay and profit that regulate and order economic activity.[36] This also sets the limits of possible reform: tax changes that hindered accumulation or weakened incentives for invest-

ment and productivity would be ultimately incompatible with the role of the state in supporting economic reproduction. These limits were very clear in the Carter Report and subsequent reform proposals. There was never a hint that the basic institutions of property, profit and market relations or the underlying structure of incentives and reward that is based upon them should be transformed. The parameters within which the debates on tax reform ranged took for granted established capitalist institutional order. In this sense, victory or defeat for capitalist and other competing interests is a false juxtaposition. The terrain over which the policy battles were fought assumed the maintenance of the capitalist system and thus favoured the fundamental interests of capital. The key question simply was what mix of policies would best ensure the continued development of the system as a whole.[37]

These structural factors can be seen as the ultimate basis of the nature and role of the contemporary capitalist state. However, the general pressures and limits they impose upon state policy and intervention are only given concrete expression through the political action of organized groups and class interests. For example, the limits of policy compatible with accumulation and overall reproduction are not precisely defined. Whatever the objective effect of proposed tax changes, the point at which they cause business confidence to be lost and capital to be withheld is a subjective and political question. Similarly, when progressive taxation comes to be seen as "punitive" and/or "confiscatory" has far less to do with its objective

impact on tax incidence than with such political and ideological factors as prevailing business perceptions of the proper role of the state and the pervasive mythology of profit and wealth as just rewards for sacrifice and initiative. The point at which policy on issues such as tax reform becomes irreconcilable with continued accumulation is defined by those groups that control capital, not by any immanent laws of the economic system.

In the same fashion, the structural limitations on state policy are relatively broad and the precise combination of policy options chosen within them is by no means predetermined. Within structurally prescribed constraints and parameters, the outcome of the policy process is greatly shaped by instrumental factors, by the political organization and conflict of competing class forces.[38] While tax policy must facilitate economic growth and must not interfere with accumulation in a capitalist economy, the actual evolution of tax reform from the Carter Report through the White Paper to the final legislation was greatly shaped by the massive mobilization of capitalist opposition to those changes seen to restrict its immediate interests. For example, while tax policy must not inhibit business willingness to invest, the fate of particular key recommendations, such as the dropping of the comprehensive tax base and the consistent moderation of other proposals to increase the taxation of property, was largely the result of sustained pressure.

Tax Reform and the Political Power of the Capitalist Class

In summary, it was the constraints imposed by the fundamental imperatives and requirements of a capitalist economy and the enormous direct pressure of the corporate sector, complemented by small business and provincial opposition, that explain the federal government's retreat from progressive reform. One of the central advantages of this case study is that it allows the representation of competing groups and perspectives and the major lines of influence within the policy process to be delineated.[39] Tax reform proceeded by means of distinct junctures between which policy shifts can be easily charted and compared to the well-documented demands of the various contending groups. As outlined in the first section of this chapter, several clear patterns emerged in the overall development of reform policy. From the Royal Commission on, the key objectives and central proposals for reform were consistently moderated in the direction of corporate demands. Equally consistently, the steady retreat from the sweeping recommendations and progressive potential of the Carter Report was beneficial to capitalist interests. The ability to protect its concrete interests through the protracted deliberations and conflict over tax reform was a clear demonstration of the political power of the capitalist class.

III. The Politics of Reform: The State, Liberal Democracy and the Balance of Political Forces

While the power of the capitalist class may have been the decisive force in the stage-by-stage retreat from progressive reform, its ability to determine state policy was clearly not absolute. Had this

been the case, the Royal Commission would simply have been abandoned by the government in 1967. Corporate pressure had not been able to prevent reform from proceeding. While highly limited, the final reforms still contained changes to which business objected. Given the dominant representation of capital within the deliberations on tax reform, how could this be? The answer lies in the complex politics of a liberal democratic system. This section explores the role and significance of a number of organizations and perspectives other than business, the key political and ideological features of a liberal democratic political system that shape the processes of policy formation and reform, and the way in which these factors are mediated by the structure and complexities of state policy development. This discussion further delineates the interplay and balance of political forces and institutional factors that shaped the dynamics and outcome of tax reform.

Political Competition over Reform

Since the structure and incidence of taxation vitally affected the interests of all groups within Canadian society and since the federal government had encouraged public participation in the debate on reform, a variety of organizations other than business took part. The most important contending forces with perspectives sharply divergent from that of the corporate sector were organized labour, which was the major means of political representation of large numbers of workers, and the New Democratic Party.[40] Both the Canadian Labour Congress and the N.D.P. had consistently supported the Carter Commis-

sion's basic rationale and key proposals and argued for the implementation of progressive changes. Such reforms would benefit the interests of the working class and the less affluent strata of the population more generally.[41]

However, the participation of these competing forces in the debates on tax reform was highly unequal. No other group could match the immense material and organizational resources mobilized by business in its campaign against substantial progressive reform. Organized labour, the New Democratic Party and other supporters of progressive reform could not mount a comparable defense of the Royal Commission or subsequent proposals or present a systematic challenge to the pervasive corporate opposition. In the formal hearings and input to the state at the various junctures, submissions from labour formed only a tiny proportion of the total as compared to the great majority of briefs from the corporate sector. The participation of the union movement in these deliberations also suffered in comparison to business qualitatively: they did not command the means to produce such impressive and comprehensive submissions or represent such strategic power within the wider political economy.[42] More generally, just as the dominant presence of the capitalist class within these debates was part of its extensive routine integration in state policy making and administration, so too was the role of labour and other groups here related to their limited overall political representation within the state. All of this occurred in a context where the conditions for the widest possible public participation were most favourable. Tax reform affected all members

of society. In the name of participatory democracy, the government had encouraged input from any interested groups and individuals and had established public hearings to facilitate this participation. Yet, contrary to the conventional pluralist assumptions of free and open competition as the determining factor in state politics, public participation in the deliberations on tax reform was extremely limited. To whatever extent competing class interests were balanced and reconciled, it was not due to any equal political representation within state policy formation.

Just as the preceding section outlined the correlation between the demands and action of organized business and shifts in policy, the striking lack of any such comparable influence on the part of competing political forces can also be demonstrated. The significance of other forces in the development of reform policy can be evaluated in the same ways as that of the capitalist class. Labour, the N.D.P. and the few participating social welfare organizations could not defend the fundamental principles and priorities of the Royal Commission against concerted business opposition. Equity continued to be officially acknowledged as a central feature of an optimum tax structure, but in practice economic growth was to be the highest priority of the reformulated system. Similarly, a comprehensive restructuring of taxation was abandoned in favour of relatively limited adjustments to the existing system, a system that the Carter Report had condemned as inequitable. The impact of competing forces on core reform proposals was equally limited. With some minor qualifications, both the unions and the

N.D.P. supported the comprehensive tax base in terms of its progressive effect and its redressing a situation where the limited taxation of wealth and property income was of overwhelming benefit to a small affluent minority. Nonetheless, the key principle of widening the tax base was quickly dropped. The N.D.P. and labour also endorsed the principle of neutrality, arguing that if a "fair share" of taxation was paid by powerful industries such as oil and mining then this would allow room for progressive reform elsewhere. This argument was never accepted by the government and the principle of neutrality was also defeated. Strong condemnation of government concessions to "special interests" by the N.D.P. especially could not prevent the steady moderation of proposed restrictions on resource tax incentives. Even where competing forces were apparently more successful, the eventual reforms were far more limited than they had demanded or had originally been recommended. For example, labour and the N.D.P. had long favoured the full taxation of capital gains in principle and as part of the comprehensive tax base, but only a partial tax was finally implemented.

The relationship between the direction of change through the various stages of the policy process and the role and perspective of contending groups was as clear as it had been for business. Policy shifts were consistently contrary to the demands of labour and the N.D.P.. Although both strongly championed the Royal Commission, they could not prevent its fundamental dismemberment, the rejection of its central priorities and principles, and the steady moderation of its most important recommendations. Their protests against the govern-

ment's retreat from the Carter Report and consistent concessions to corporate pressure were to no avail. The implications of this limited power of competing political forces were of great importance. The promise of progressive reform held out by the Royal Commission - which would have been of direct material benefit to low-income strata specifically and to the working class majority of the population more generally - was never significantly realized. The changes finally implemented had a very limited impact on the interests of these groups, provided only slight improvement in the tax position of the low-income and did not ameliorate the unequal distribution of income.

Competing Political Forces Within Liberal Democracy

The importance of groups such as organized labour and the N.D.P. went beyond their limited direct participation and influence in the reform deliberations. This wider significance arose out of the structure of a democratic political system. First of all, the political domination of capital entails not simply the capacity of the capitalist class to secure state power, but also the political incorporation of subordinate class forces. This includes their attachment to, or at least acceptance of, the overall political and economic order and the articulation of working class demands, by means of such institutions as labour unions and political parties, within the existing parliamentary framework.[43] The significance of this incorporation can only be understood in the context of an inherently unequal and antagonistic class structure which can be the basis of considerable class struggle, including at the political level.[44] Working class conflict consequently

represents a potential challenge to the maintenance and reproduction of capitalist social relations. Accommodating this challenge and potential conflict within bounds that do not threaten or disrupt overall reproduction is by no means automatic or inevitable, but is problematic and contingent.[45] In fact, a great deal of modern state policy and intervention is concerned precisely with ensuring this political incorporation.

A wide range of state policy and programmes related to its basic function of legitimation are directed towards maintaining political consensus and stability and controlling potential conflict. It is this general function of legitimation that allows the possibility of social and economic reform geared to these ends. In fact, patterns of political representation and state policy development that provide opportunities for subordinate classes to struggle for their interests and for working class reformism to be contained within the existing institutional framework are conducive to reproducing the political domination of capital.[46] In much the same way as the function of accumulation, that of legitimation shapes the parameters and framework within which state economic policy develops. This encourages policy, such as the maintenance of full employment, that contributes to political consensus and legitimacy. It also limits the range of acceptable state policy and activity; that which exacerbates conflict or weakens popular allegiance to the existing order is incompatible with the stability and reproduction of capitalist social relations.

It is within the framework of the modern welfare state that the general requirements and imperatives of legitimation take concrete form. As discussed in earlier chapters, the general politics and ideology of the welfare state pledge it to alleviate pressing social problems, underwrite a minimum standard of living and promote greater social equality. Fair and equitable taxation has become widely accepted as an important component of this overall commitment, and progressive taxation is seen to be a key mechanism in the reduction of structured inequality of condition and opportunity. State reform, such as that designed to improve the fairness of the tax system, can contribute to legitimation by portraying the state as an institution which protects the general interests of society as a whole and is responsive to the needs and demands of the population, and by demonstrating that the wider social and economic system is based upon fundamental principles of democratic equality and capable of judicious reform. At the same time, a tax system that was seen to be demonstrably unfair could be a serious problem for legitimation. This meant that once the unequal nature of the tax system had been so fully documented and the potential of reform broached by the Royal Commission, there was great pressure on the government to proceed with some degree of reform.

This general commitment of the welfare state to fair taxation was reinforced by the exigencies of electoral competition. The need to appeal to the concerns and interests of the majority of voters who would benefit from a more equitable system compelled all parties to support the general principle of progressive taxation. By the same

token, the government could not appear to blatantly reject this principle and endorse the existing inequitable system by repudiating reform. This would risk losing electoral support, especially to the N.D.P. who had long been demanding implementation of major changes. Given that the government knew that an election would have to be called less than a year after the reform legislation was passed, this was an important consideration. The significance of this constraint was, in fact, demonstrated after the fact in the N.D.P.'s highly successful campaign in the 1972 fall election. It stressed the inequity of massive corporate tax concessions and condemned the government for its failure to implement progressive reforms. The N.D.P. gained nine seats and held the balance of power over the barely re-elected Liberal minority government.[47]

However, in this particular juncture, these electoral imperatives never became that pressing on the government. Public debate and the extensive media discussion of tax reform came to focus on its economic implications rather than on questions of equity and fairness. Given that these debates had been dominated by business and provincial opposition to the various reform proposals, largely on the gounds that they would harm economic development, this emphasis was hardly surprising.[48] That progressive taxation did not become a more important issue of party competition was also due to the role of the Conservative party. As closely linked to business as the Liberals, the Conservatives did not endorse the progressive recommendations of the Carter

Report or White Paper, but in fact joined the chorus of business criticism that the latter proposals would disrupt the economy. When the Progressive Conservatives failed to support the Royal Commission, this was one less source of pressure on the government to adopt it; when they opposed the White Paper, this added to the pressure on the Liberal government to moderate its proposals. The main lines of debate between the two major parties were confined to attacks on the economic consequences of each other's polity; neither party could afford to be seen as promoting reforms that would lead to a decline in prosperity and both were solidly committed to economic growth as the highest priority of taxation.

This section has outlined how the maintenance of political legitimacy and electoral competition within a liberal democratic political system and their relation to the general reproduction of capitalist social relations shaped the parameters within which the debate on tax reform took place. However, just as for capital accumulation discussed earlier, the way in which these general political and ideological limits are translated into more concrete constraints and pressures on the state depends greatly on the political organization and conflict of particular groups.

It is in this regard that the activity of groups such as unions, welfare organizations and the N.D.P. who supported progressive taxation was particularly significant. Their demands kept this issue at the centre of political debate; thus ensuring that, at the very least, the government could not quietly abandon reform. More emphatically, the

N.D.P., seconded by labour, continually accused the government of catering to the interests of a wealthy minority who were not contributing their "fair share" of taxation and condemned it for granting wholesale concessions to the pressure of "special interests". This explicitly politicized the issue of tax reform and gave concrete expression to the limits set out above. The government could not retreat too far or too fast without appearing to renounce its dedication to fairness or to give in too blatantly to the highly visible business lobby. The government could not allow unfair taxation and its apparent failure to correct this inequity to become the focus of widespread public resentment. This could weaken the legitimacy of the overall political system and harm its own electoral prospects.

How strongly these constraints and pressures were felt by the state depended again on the balance of political forces and the nature of conflict over tax reform. The supporters of progressive reform, such as the labour movement, welfare groups and the N.D.P., never constituted a really potent political force. They were a relatively limited presence in formal deliberations on reform and they were unable to mobilize significant public pressure on the government. The government never had to be greatly concerned about a significant threat to political order or a serious loss of electoral support to its social-democratic left. The result was that while the government certainly had to reaffirm its general commitment to fair taxation and could not entirely abandon reform, the pressures it faced for progressive reform were never sufficient to necessitate any major implementation of such changes.

The Complexities of State Policy Formation

It has been emphasized throughout that the competing forces of business and the groups that supported progressive reform, and the structural imperatives of capital accumulation and political legitimation were mediated through the structure of the state and the framework of established state policy.[49] State deliberations on reform were further complicated and overlaid by key institutional requirements and demands arising from within the state apparatus itself.

The preeminent of these institutional pressures was, of course, fiscal. The expenditures of the federal government had been steadily increasing through this period and this required growing levels of tax revenue. This long-term trend had overtaken the deliberations on tax reform; the necessity of securing larger and larger amounts of revenue had become a crucial consideration which limited the range of possible reforms. This altered fiscal situation had been cited by the government to justify its rejection of the Royal Commission as the basic framework for reform. A number of changes in the period leading up to the White Paper and the latter proposals themselves came under heavy criticism as being essentially means of obtaining more revenue without raising the basic rates of taxation. The government was, in fact, forced to guarantee that the restructured system would not yield higher revenue levels. More generally, any changes, such as a lighter tax burden on particular groups or concessions for particular industries, that reduced revenue would have to be counter-balanced by

higher taxation on other sectors. For example, the oft-stated goal of reducing the burden on low-income strata could only be achieved without a loss of revenue at the expense of increased tax incidence for more affluent categories.[50] This made the conflict of interests within tax reform particularly clear. Pressure from the wealthy and powerful groups who would be adversely affected greatly limited the possibility of any such redistribution of the overall tax burden. But it was the need for revenue that placed the state in this particular bind and underlay these limitations on potential reform.

There was a second crucial aspect of state finances that impinged upon reform. Satisfactory levels of economic activity and employment were required to yield the necessary personal and business taxation. This reinforced the structural dependence of the state upon private capital. The capitalist class controlled the investment resources whose allocation governed not only the overall economic growth and prosperity which the state had to ensure, but also adequate levels of tax revenue to finance state activity.[51] This constituted a further concrete manifestation of general structural pressures and further restricted the possibilities of reform. The state could not adopt policy or changes that would hinder the processes of investment and accumulation because any consequent reduction of economic growth would adversely affect state revenue.

The Balance of Political Forces and the Outcome of Tax Reform

The overall result of the balance of contending political forces and range of structural imperatives and political and ideological

factors during this juncture was a complicated series of uneasy compromises. On the one hand, the tremendous political mobilization of the capitalist class in opposition to the Carter Report and White Paper, reinforced by other important forces, and the constraints imposed by the institutional requirements of capital accumulation were decisive in forcing a consistent government retreat from the most contentious recommendations and a steady moderation of the scope and objectives of reform. On the other hand, the support of competing forces for the principle of progressive reform and the demands of political legitimation and party competition ensured that the state's general commitment to fair taxation could not be explicitly abandoned. Once the inequitable nature of the existing system had become a major issue and the potential of its restructuring revealed, tax reform had to be carried through to some form of conclusion. While this conclusion was a far cry from the Carter proposals that had begun the process, it nonetheless contained some changes to which business had objected. This result pleased neither the business community, many of whom resented the uncertainty and aggravation of the overall reform process and any limitation of their immediate interests, however slight; nor those who pressed for progressive reform, who had not been able to prevent the virtual dismemberment of the Royal Commission proposals and the much milder White Paper.

It must be emphasized that whatever compromises there may have been, the capitalist class clearly remained the dominant force in the dynamics of tax reform. The power of capital was sufficient to compel

shifts in the reform proposals through their various stages that were consistently in the direction of its demands and to the benefit of its concrete interests, and to prevent the significant implementation of policy to which it was strongly opposed. As a result, the promise of progressive reform, which would have been to the direct advantage of the majority of the population, was not significantly realized. The generous treatment which the capitalist class and the affluent strata had enjoyed under the existing system remained largely intact. All of this ensured that the final tax reforms never threatened the fundamental interests of the capitalist class in continued accumulation and the reproduction of the overall system.

IV. Final Observations

This last section amplifies some of the key implications of the dynamics of tax reform for the more general analysis of the state in capitalist society. It first of all explores the apparent paradox of the radical recommendations of the Royal Commission on Taxation. The significance of the subsequent pattern of business pressure and government retreat for the wider role of the state and the complexities of state policy formation and reform are then discussed.

The Paradox of the Royal Commission

The capitalist class was the predominant presence in the Commission's deliberations, yet its reform proposals dramatically departed from the stated demands and preferences of business. The first lesson of this juncture is that instrumental relations do not determine policy outcome; this provides an important caution against any simplistic

equation of formal input and ultimate influence. How and why the Royal Commission could have arrived at such judgements was discussed in detail in the conclusions of the first stage.[52] For one thing, the Commission responded to a number of factors widely recognized to be important within state policy - such as the long-term needs of economic development, the ideology of progressive taxation, majority interests in a democratic system and the relation of all of this to political legitimation - and simply carried them through to their logical conclusion. It has also been emphasized that the internal structure of the state apparatus is itself a major factor in policy formation.[53] The semi-independent status of the Commission left it more insulated from the direct pressures and considerations faced by state economic departments or the government and enabled it to approach the arbitration of conflicting priorities more freely and follow its own internal momentum more fully.[54]

However, the Royal Commission was in no sense anti-capitalist; even though greater emphasis was placed on the politics of fair taxation, accumulation remained a central goal. The Report's general objectives were perfectly compatible with the basic functions of the state and the fundamental interests of capital. This certainly shows that the limits or parameters within which policy is developed can be very broad and that they provide considerable room for debate over the precise policy options and balance of priorities. As stressed earlier, it is within such general limits that political mobilization and conflict become crucial. What happened simply was that the Commission's

pursuit of its guiding rationale bacame too extreme and extensive; its concrete recommendations and sweeping scope were outside the bounds of established state policy and well beyond what the capitalist class would accept.

Such "extreme" positions can play a central role in the evolution of policy. Reports and enquiries such as this can be part of the mechanisms whereby the long-term requirements of capitalist reproduction are articulated and mediated by the state. Whatever their unlikely hopes that the total package would be accepted, the commissioners' view of the proposals as goals to be working towards was congruent with this possibility. The state policy process proceeds by means of the development and extensive discussion of a range of policy options and series of compromises and adjustments through which a consensus on the most effective and viable alternatives is established. The Royal Commission could have hoped that some of its elements would be adopted in this way. In fact, it badly miscalculated the hostile reception its recommendations would receive. Nonetheless, the Report was not without some lasting impact. Its goal of rationalizing a chaotic tax structure, although never realized in the comprehensive form proposed, did result in the final legislation's more limited attempt to bring order and predictability to the overall system. The fact that reform was actually carried through, as limited in substance as the eventual changes were, could contribute to political legitimation and reaffirm the progressive ideology of the welfare state.[55] The optimistic goals and eventual fate of the Royal Commission on Taxation were not unique

during this period: broadly similar independent studies and initiatives on foreign ownership and competition policy were also extensively moderated in response to intense corporate pressure.[56] These developments graphically illustrate the uneven and contradictory nature of policy formation; the Carter Report's contribution to the evolution of modern fiscal policy must be seen as one of the most contentious but least directly influential.

Constraints on State Policy Formation

It has been argued above that the central objectives of the Royal Commission, such as the systematic rationalization of the tax system to more effectively facilitate long-term economic development and progressive reform to enhance public acceptance of the state and general political legitimation, were compatible with the fundamental interests of capital. However, at this particular juncture, there was no conclusive evidence that the uncoordinated nature of the fiscal system was causing insurmountable problems for accumulation or that inequitable taxation was threatening political consensus. Thus, while the Carter reform schema may have been generally compatible with the fundamental interests of capital, it was not essential to them.

Nonetheless, the fate of the Report is still highly instructive. The Commission made a crucial miscalculation; it did not adequately anticipate the enormous opposition its proposals would arouse from those wealthy and powerful groups most affected in terms of their immediate and specific class interests. For example, higher taxation on wealth and property income would harm the material interests of

major property-owners and the elimination of lucrative tax concessions would reduce the profitability of key industries. The resulting massive pressure from business forced a virtually total government retreat. Does this indicate important qualifications to the theory of the state? Does the inability of the state to institute tax reforms to which the capitalist class strongly objected reveal that the relative autonomy of the state from the direct domination of particular class groupings is restricted? Is the role of the state in securing the fundamental interests of capital curcumscribed by pressure based upon more immediate and/or sectional interests? The answer is equivocal. On the one hand, this was not the case because the Carter reforms were not indispensable to the fundamental interests of capital. On the other hand, these developments do indicate important constraints and limitations on these key facets of the role of the state. These issues will be briefly clarified.

Given that the fundamental interests of capital were not threatened by the existing tax system and that Carter-type reforms were not essential, there was no compelling structural pressure on the state to implement such sweeping changes. But what would have been the response of the state had such reforms been essential? It could be speculated that had this been the case then the state would have pushed much more strongly to impose the necessary changes. There have certainly been many instances when the state has carried through reform vital to the overall reproduction of the forces and relations of production even against strong business opposition. This can be the case in situations

where political stability is endangered; a clear example was the implementation of unemployment insurance in Canada in the context of the economic crisis and social dislocation of the depression and pronounced pressure from labour and left-wing political forces.[57] Major state-initiated reforms can also be necessary to ensure overall reproduction when no consensus on required policy or institutional changes has emerged within the capitalist class; the general development of the welfare state within capitalist societies has been shaped by such considerations.[58] However, it must also be remembered that when the state is forced to act in this way the ensuing conflict and sustained opposition from capitalist interests can greatly modify the precise content of the eventual policy.

The conflict over tax reform does in fact illustrate the significant constraints and limitations within which the restructuring of state policy and intervention operates. This was very clear in the fate of neutrality, a principle which the Royal Commission held to be beneficial to the corporate economy as a whole. This principle was never adopted because it damaged the specific interests of key sectors, such as small business and the powerful resource industries, whose particular concessions would be eliminated. Paradoxically, a further constraint on this principle came from within the state. Systematic neutrality would have limited the flexibility and adaptability of fiscal and budgetary policy and the use of tax incentives to respond to specific cyclical trends or the demands of particular sectors of production.[59]

This shows how the inherent tension between the interests of capital-in-general and of individual competing capitals limits state policy development.[60] In the case of neutrality, the spirited defense of their specific and immediate interests by the latter prevented policy which was held to be in the general interests of the former. This also reflects an important limitation of the political representation of capital; it is very difficult for representatives of particular fractions or elements of capital to see beyond their immediate and specific interests to those of the class as a whole.[61] It is interesting to speculate on what would happen if sectional interests imperilled the overall accumulation process and the reproduction of capital. For example, had extensive resource tax incentives really entailed such high rates for other sectors of industry that their expansion was prevented, then state corrective action would almost certainly be necessitated. Even if this was the case, the resource sector would still oppose the loss of provisions that it had come to depend on. This pressure would be a limiting factor on the state's ability to pursue policy required by general interests of capital; to what extent would depend on the balance of forces. But it would be by no means certain that the policy eventually implemented would be the most effective for capital-in-general; there are no guarantees that these general interests are inevitably and in all cases secured by state action.[62]

Similarly, progressive taxation was held by the Carter Commission especially to be important to political legitimation, a process which was in turn critical to the general reproduction of capitalist

social relations. However, such reforms were never significantly adopted because they clashed with the immediate interests of the capitalist class and other affluent strata. Although this did not occur during this period, in the case of a serious crisis of political legitimacy and ideological hegemony, initiatives such as progressive tax reform can serve to contain social conflict and buttress political consensus and this could be to the fundamental interests of capital. Novertheless, such efforts would still face some degree of opposition from those whose tax burden would increase and their final success would remain problematic.

The crucial point here is that there is no easy or direct transition from fundamental to immediate class interests in relation to state politics. The state does not automatically or inevitably guarantee the interests of capital-in-general. Central areas of state policy and intervention which contribute to the continued reproduction of the capitalist system can be constrained and limited by corporate opposition based upon immediate or specific interests. In such fashion, the overall rationalization of state policy, such as the development of fiscal policy best suited to the requirements of capital accumulation, can be disrupted and distorted by conflicts of interest within the capitalist class and their representation within the state. All of this is further complicated by the fact that issues such as accumulation and the most effective policy instruments to facilitate it are imperfectly understood.[63] This was very clear in the wide-ranging debates on optimum tax policy.

Final Conclusions

This final section has explored the complex ways in which the balance of political forces and structural imperatives at work in this juncture were mediated by the state and the implications of these patterns for the wider theory and analysis of the state. However, the primary lesson of this case study is much more straight-forward: the political power of the capitalist class was the dominant force in the dynamics and outcome of tax reform. Although constrained by competing political forces and by the institutional imperatives of a liberal democratic political system, this power was the decisive factor in the steady government retreat on the scope and priorities of reform. The failure of progressive reform was a clear demonstration of the ability of the capitalist class to prevent the enactment of policy to which it was opposed and to protect its interests within state politics.

Footnotes

1. For a useful overview of the entire process see M.W. Bucovetsky and R.M. Bird, "Tax Reform in Canada: A Progress Report", National Tax Journal, XXV, 1, March 1972, pp 15-41.
2. W. Irwin Gillespie, In Search of Robin Hood. The Effect of Federal Budgetary Policies During the 1970's on the Distribution of Income in Canada, Montreal. Sponsored by the Canadian Economic Policy Committee, C.D. Howe Research Institute, 1978.
3. For an excellent analysis of these principles see John Westergaard, "Social Policy and Class Inequality: Some Notes on Welfare State Limits", in Ralph Miliband and John Saville, (eds), The Socialist Register 1978, London, Merlin Press, 1978, pp 71-99. See also Ch 2 above.
4. See Ch 2 for data on inequality of condition. Lars Osberg, Economic Inequality in Canada, Toronto, Butterworths, 1981, pp 162-67 stresses the importance of the inheritance of wealth to the reproduction of the unequal distribution of income and the favourable effect of the elimination of gift and estate taxation on this process.
5. Bucovetsky and Bird, op.cit.
6. Gillespie, op.cit.
7. Bert Young, "Taxation and the Capitalist State", in Allan Moscovitch and Glenn Drover, (eds), Inequality: Essays on the Political Economy of Social Welfare, Toronto, University of Toronto Press, 1981, p 234.
8. Ibid., pp 235-6.
9. Gillespie, op.cit.
10. Young, op.cit., p 233, also Table 3.
11. Neil Brooks, "Making Rich People Richer", Saturday Night, July 1981, p 34.
12. Within this, the precise tax changes were of course shaped by the particular balance of political forces and economic conditions during the specific junctures. See Ian Gough, The Political Economy of the Welfare State, London, Macmillan, 1979, on this general issue.
13. Gillespie, op.cit.
14. Ralph Miliband, Marxism and Politics, Oxford, Oxford University Press, 1977. While these are the general imperatives facing a capitalist state, there are no guarantees that its policy and action will successfully and inevitably create the necessary conditions for reproduction; Bob Jessop, "Corporatism, Parliamentarism and Social Democracy", in P. Schmitter and G. Lehmbruch, (eds) Trends Towards Corporatist Intermediation, London and Beverly Hills, 1979.
15. See Bob Jessop, "Recent Theories of the Capitalist State", Cambridge Journal of Economics, 1, 4, 1977, pp 353-73 on the capital logic school.
16. Colin Crouch, "The State, Capital and Liberal Democracy", in Crouch, (ed), State and Economy in Contemporary Capitalism,

London, Croom Helm, 1979, pp 13-54.

17. Claus Offe, "The Theory of the Capitalist State and the Problem of Policy Formation", in Leon N. Lindberg et al, (eds), Stress and Contradiction in Modern Capitalism, Lexington, Massachusetts, Lexington Books, 1975, p 126. This must not be carried too far. The state is in fact increasingly engaged directly in the circuit of production; see Bob Jessop, "The Transformation of the State in Post-war Britain", in Richard Scase, (ed), The State in Western Europe, London, Croom Helm, 1980, pp 43-5.
18. W.T. Stanbury, Business Interests and the Reform of Canadian Competition Policy, 1971-1975, Toronto, Carswell/Methuen; John Fayerweather, Foreign Investment in Canada. Prospects for National Policy, Toronto, Oxford University Press, 1974; and the general discussion in Ch 3 above.
19. See Saturday Night, July, 1971, p 9. The Financial Times had earlier noted: "There have been times in the last 11 months when detestation of Mr. Benson and of everything to do with his white paper has become almost irrational", October 5, 1970. Much the same sort of personal attack had been borne by Mr. Kenneth Carter in earlier stages.
20. Walter Stewart, Divide and Con. Canadian Politics at Work. Toronto, New Press, 1974, pp 192-3.
21. This discussion of the capitalist class as a political force speaks to the conventional pluralist criticism of class analysis that it does not demonstrate how business power actually works. The advantage of a case study such as this is that it can do exactly that.
22. See Ch 2 above.
23. This was stressed by Max Saltsman, "Reflections on Tax Reform in Canada", Canadian Taxation, Winter 1979, pp 25-6; see also Crouch, op.cit. on the ability of the superior resources of the capitalist class to shape the tenor of public debate.
24. See Simon Clarke, "Capital, Fractions of Capital and the State: Neo-Marxist Analysis of the South African State", Capital and Class, 5, Summer 1978 on the relationship between capital in general and the interests and action of specific elements of the capitalist class: "The concept of capital-in-general does not dissolve the independence of particular capitals, but rather describes the limits within which the independence of particular capital exists", p 54. More generallly, he provides an interesting discussion of the political representation of specific fractions of capital. See also Jessop, 1980, op.cit. on Britain.
25. This section summarizes the implications of this study for the key questions on the political representation of class interests outlined in the first chapters.
26. This was emphasized by Saltsman, op.cit.
27. See Gough, op.cit., Ch 4-6 on the way in which such structural factors have shaped the development of state finances.
28. The precise mechanisms involved are seldom indicated by structuralist interpretations of the state. The work of Poulantzas discussed in earlier chapters, for example, is highly abstract

and deterministic on this point; Political Power and Social Classes, London, New Left Books, 1973. See Jessop, 1977, op.cit. for a critical review of this general school.

29. Crouch, op.cit.; Charles Lindblom, Politics and Markets, New York, Basic Books, 1977, p 172ff. More specifically on the constraints imposed on state policy by the need to maintain business confidence see the work of Fred Block, "The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State," Socialist Revolution, 33, May-June 1977, pp 6-28 and "Beyond Relative Autonomy: State Managers as Historial Subjects," in Ralph Miliband and John Saville, (eds), The Socialist Register 1980, London, Merlin Press, 1980, pp 227-42.
30. The nature of taxation policy is often regarded by businessmen as a barometer of the overall attitude of state policy to business; Jessop, 1980, op.cit.
31. Gough, op.cit., p 43.
32. See the chapters in the analytical framework above.
33. See Jessop, 1977, op.cit. on the main lines of debate between these schools.
34. On the complex issue of structural determination see Erik Olin Wright, Class, Crisis and the State, London, New Left Books, 1978, Ch 1 and Raymond Williams, Marxism and Literature, Oxford, Oxford University Press, 1977, pp 83-9. The latter in particular argues that the economic level of society both exerts pressure upon, and sets limits for, the development of the political and other levels.
35. Lindblom, op.cit., pp 172-3.
36. See Westergaard, op.cit. on the constraints this imposes on the state.
37. As stressed in earlier chapters, the Royal Commission simply offered a more radical mix of priorities than business was prepared to accept.
38. This relationship is clearly captured by Frank Longstreth, "The City, Industry and the State," in Colin Crouch, (ed), State and Economy in Contemporary Capitalism, London, Croom Helm, 1979, p 158:

> If the formal analysis of the process of accumulation can indicate the necessary inputs into the economic system for the continued reproduction of capitalist relations and in this sense indicate the locus of class conflict, it nonetheless remains the case that the implementation of these requirements via the mediation of the state can only be accomplished politically, i.e. through the mobilization and institution of the power resources of any particular class or group...The mobilization and organization of such political forces and resources remains the key to understanding politics and policy inputs.

39. This analysis has of course stressed that anynomous institutional pressures as well as influence attributable to the activity of particular groups shape policy formation. A key difficulty in estimating sources of influence is the confidential nature of internal deliberations within the state and consultation between state and corporate officials. Contemporary political analysis does not have access to data on such issues as does historical research relying upon archival material. Nonetheless, the links between competing demands, class interests and policy development can be clearly drawn in the case of tax reform.
40. The nature of this political representation must be qualified again: neither labour nor the N.D.P. defined their constituency in class terms and both operated solidly within existing parliamenatry and institutional bounds.
41. This agains shows the political salience of class interests.
42. See Crouch, op.cit., especially pp 40-5, on the material and structural basis of unequal political competition in the political economy as a whole.
43. Jessop provides the clearest discussion of this issue: "Capitalism and Democracy: The Best Possible Shell?" in Gary Littlejohn et al, (eds), Power and the State, London, Croom Helm, 1978, pp 26-40.
44. See Ch 2 of this study on the Canadian class system.
45. E. Esping-Anderson et al, "Modes of Class Struggle and the Capitalist State", Kapitalistate, 4/5, 1976, pp 186-92.
46. Jessop, 1978, op.cit., pp 33-4.
47. While taxation proved to be a popular issue for the N.D.P., it was by no means the only factor leading to the Liberal reverses. See Stewart, op.cit. on the 1972 campaign generally and David Lewis, Louder Voices: The Corporate Welfare Bums, Toronto, James Lewis and Samuel, 1972 for documentation of the N.D.P. arguments.
48. The ability to shape public opinion and the limits of debate and consensus on key policy issues is an important facet of capitalist power; see Crouch, op.cit.
49. See Gough, op.cit., Ch4 on the interrelation of these factors in the development of state social expenditure and the welfare state as a whole.
50. This result could also be achieved by increasing the state deficit or cutting expenditures, both of which would arouse considerable opposition. This again shows that the political viability of polity options is always important; see Suzanne de Brunhoff, The State, Capital and Economic Policy, London, Pluto Press, 1978.
51. Offe, op.cit.
52. See Ch 7 above.
53. See Jessop, 1980, op.cit., p 57 and de Brunhoff, op.cit.
54. After the Report appeared there was a qualitative transformation in the context for reform. The government did not enjoy the Commission's freedom of action and all of its deliberations were

conducted under immense pressure. The factors the Commission addressed remained important - and served to ensure that reform could not be abandoned - but massive corporate opposition forced the government to retreat from the Carter schema.

55. In this regard, the mere appearance of progressive reform could be sufficient in the absence of powerful and sustained pressure to actually implement such changes.
56. Stanbury, op.cit.; Fayerweather, op.cit.
57. Carl Cuneo, "State Mediations of Class Contradictions in Canadian Unemployment Insurance 1930-35,". Studies in Political Economy, 3, Spring 1980, pp 37-65.
58. See Gough, op.cit.
59. See R. Boddy and J. Crotty, "Class Conflict and Macro-Policy: The Political Business Cycle,". Review of Radical Political Economics, Spring 1975, pp 1-19.
60. See Jessop, 1980, op.cit., p 41.
61. Clarke, op.cit., p 60ff.
62. Jessop, 1979, op.cit.
63. See de Brunhoff, op.cit., Ch 3-4.

BIBLIOGRAPHY

Primary Sources (1955-1975)

Business Quarterly.

Canada Month.

Canada and World.

Canadian Banker.

Canadian Business.

Canadian Chartered Accountant.

Canadian Dimension.

Canadian Forum.

Canadian Journal of Economics.

Canadian Labour.

Canadian Public Administration.

Canadian Tax Foundation. Annual Conferences.

--------. Research Library. Collection of Submission's to the Minister of Finance on the Report of the Royal Commission on Taxation. August-November 1967.

Canadian Tax Journal.

Canadian Taxation.

Canadian Welfare.

Canadian Who's Who.

Executive.

Financial Post.

--------. Directory of Directors.

Industrial Canada.

Labour Gazette.

Macleans Magazine.

Monetary Times.

Queen's Quarterly.

Saturday Night.

Saywell, John T. ed. Canadian Annual Review. Toronto: University of Toronto Press.

Western Business and Industry.

Government Sources

Benson, Hon. E.J. Proposals for Tax Reform. Ottawa: Queen's Printer, November 7, 1969.

--------. Summary of Tax Reform Legislation. Ottawa: Department of Finance, 1971.

Gillespie, W. Irwin. The Incidence of Taxes and Public Expenditures in the Canadian Economy. Studies of the Royal Commission on Taxation, Number 2. Ottawa: Queen's Printer, 1964.

Glassco, J. Grant. Certain Aspects of Taxation Relating to Investment in Canada by Non-Residents. A Study published for the Royal Commission on Canada's Economic Prospects. Ottawa: Queen's Printer, 1956.

House of Commons. Debates.

Parliamentary Guide.

Royal Commission on Canada's Economic Prospects. Final Report. Ottawa: Queen's Printer, 1957.

Royal Commission on Taxation. Report. Ottawa: Queen's Printer, 1966.

--------. Public Hearings. 1963-1964.

Special Committee of the Senate on Manpower and Employment. Report. Ottawa: Queen's Printer, January 14, 1961.

Standing Committee on Finance, Trade and Economic Affairs, House of Commons. Eighteenth Report. Respecting the White Paper on Tax Reform. Ottawa: Queen's Printer, 1970.

--------. Proceedings. 1970.

Standing Senate Committee on Banking, Trade and Commerce. Report on the White Paper. Proposals for Tax Reform. Ottawa: Queen's Printer, 1970.

--------. Proceedings. 1970-1971.

Taxation Division, Department of National Revenue. Press Clips.

Secondary Sources

Acton, Janice, Penny Goldsmith and Bonnie Shepard. Women at Work. Ontario. 1850-1930. Toronto: Canadian Women's Educational Press, 1974.

Alford, Robert R. "Paradigms of Relations Between State and Society", in Leon N. Lindberg et al, eds., Stress and Contradiction in Modern Capitalism. Lexington, Massachusetts: Lexington Books, 1975.

Armstrong, Pat and Hugh Armstrong. The Double Ghetto. Canadian Women and their Segregated Work. Toronto: McClelland and Stewart, 1978.

Ashley, C.A. "Concentration of Economic Power", Canadian Journal of Economics and Political Science, 23(1), 1957, 105-108.

Asper, I.H. The Benson Iceberg. Toronto: Clarke Irwin and Co., 1970.

Bachrach, Peter and Morton S. Baratz. "Two Faces of Power", in Charles A. McCoy and John Playford, eds., Apolitical Politics. A Critique of Behaviouralism. New York: Thomas Y. Crowell, 1967.

--------. "Decisions and Nondecisions: An Analytical Framework" in Roderick Bell et al, eds., Political Power: A Reader in Theory and Research. New York: The Free Press, 1969.

Banting, Keith G. The Welfare State and Canadian Federalism. Kingston and Montreal: McGill-Queen's University Press, 1982.

Barrett, Michele. Women's Oppression Today. Problems in Marxist Feminist Analysis. London: Verso Editions, 1980.

Berry, G.R. "The Oil Lobby and the Energy Crisis", in K.J. Rea and J.T. McLeod, eds., Business and Government in Canada. Toronto: Methuen, 1976.

Beynon, Huw. Working for Ford. Harmondsworth: Penguin, 1973.

Bird, Richard M. The Growth of Government Spending in Canada. Toronto: Canadian Tax Foundation, 1970.

Block, F. "The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State", Socialist Revolution, 33, May-June 1977, 6-28.

--------. "Beyond Relative Autonomy: State Managers as Historical Subjects", in Ralph Miliband and John Saville, eds., The Socialist Register 1980. London: Merlin Press, 1980.

Boddy, R. and J. Crotty. "Class Conflict and Macro-policy: the Political Business Cycle", Review of Radical Political Economics, VII, No. 1, Spring 1975, 1-19.

Bossen, Nathan. The Prescription for Tax Reform In Canada - An Appraisal. Montreal: Sponsored by The Canadian Economic Policy Committee, Private Planning Association of Canada, 1971.

Bossons, John. "The Objectives of Taxation and the Carter Commission Proposals", Canadian Public Administration, Summer 1969, 137-65.

Braverman, Harry. Labor and Monopoly Capital. New York: Monthly Review Press, 1974.

Brown, Patrick, Robert Chodos and Rae Murphy. Winners, Losers. The 1976 Tory Leadership Convention. Toronto: James Lorimer and Company, 1976.

Bucovetsky, M.W. Tax Reform in Canada: A Case Study of The Mining Industry. Unpublished Ph.D. dissertation, University of Toronto, 1971.

--------. "The Mining Industry and the Great Tax Reform Debate", in A. Paul Pross, ed., Pressure Group Behaviour in Canadian Politics. Toronto: McGraw-Hill Ryerson, 1975.

Bucovetsky, M.W. and R.M. Bird. "Tax Reform in Canada: A Progress Report", National Tax Journal, XXV(1), March 1972, 15-41.

CCH Canadian Ltd. Royal Commission on Taxation Summary of Public Hearings, 1963-64. Don Mills, Ont., 1964.

--------Recommendations of the Royal Commission on Taxation. Don Mills, Ont., 1967.

Campbell, Colin. The Canadian Senate: A Lobby From Within. Toronto: Macmillan, 1978.

Canadian Tax Foundation. The National Finances, 1976-77. Toronto, 1977.

Canadian Trade Committee. Canadian Economic Policy Since the War. Montreal: Private Planning Association of Canada, 1966.

Chodos, Robert. "The Great Canadian DREE Machine", in M. Starowicz and R. Murphy, eds., Corporate Canada. Toronto: James Lewis and Samuel, 1972.

--------. The CPR. A Century of Corporate Welfare. Toronto: James Lewis and Samuel, 1973.

Chorney, Harold and Phillip Hansen. "The Falling Rate of Legitimation: The Problem of the Contemporary Capitalist State in Canada", Studies in Political Economy, 4, Autumn, 1980, 65-98.

Christian, William and Colin Campbell. Political Parties and Ideologies in Canada: Liberals, Conservatives, Socialists, Nationalists. Toronto: McGraw-Hill Ryerson, 1974.

Clarke, Simon. "Capital, Fractions of Capital and the State: Neo-Marxist Analysis of the South African State", Capital and Class, 5, Summer, 1978.

Clement, Wallace. The Canadian Corporate Elite. An Analysis of Economic Power. Toronto: McClelland and Stewart, 1975.

--------. Continental Corporate Power. Economic Elite Linkages between Canada and the United States. Toronto: McClelland and Stewart, 1977.

--------. "The Corporate Elite, the Capitalist Class and the Canadian State", in Leo Panitch, ed., The Canadian State. Toronto: University of Toronto Press, 1977.

Cockburn, Cynthia. The Local State: Management of Cities and People. London: Pluto Press, Ltd., 1978.

Connelly, M. Patricia. Last Hired, First Fired: Women and the Canadian Labour Force. Toronto: Women's Press, 1979.

Craven, Paul. 'An Impartial Umpire', Industrial Relations and the Canadian State, 1900-1911. Toronto: University of Toronto Press, 1980.

Crouch, Colin, ed. State and Economy in Contemporary Capitalism. London: Croom Helm, 1979.

--------. "The State, Capital and Liberal Democracy", in Colin Crouch, ed., State and Economy in Contemporary Capitalism. London: Croom Helm, 1979.

Cubberly, David and John Keyes. "The Weston Conglomerate", Last Post, 5(1), October 1975, 18-29.

Cuneo, Carl. "Class Exploitation in Canada", Canadian Review of Sociology and Anthropology, 15(3), 1978.

--------. "Class Contradictions in Canada's International Setting", Canadian Review of Sociology and Anthropology, 16(1), 1979.

--------. "State Mediations of Class Contradictions in Canadian Unemployment Insurance 1930-1935, Studies in Political Economy, 3, Spring 1980, 37-65.

Cutt, James. Equity and Growth. Toronto: Faculty of Administrative Studies, York University, December 1967.

Dawson, R. MacGregor. "The Impact of War on Canadian Political Institutions", The Canadian Journal of Economics and Political Science, VII, 1941, 170-188.

de Brunhoff, Suzanne. The State, Capital and Economic Policy. London: Pluto Press, 1978.

Deaton, Rick. "The Fiscal Crisis of the State in Canada", in Dimitrios I. Roussopoulos, ed., The Political Economy of the State. Montreal: Black Rose, 1973.

Department of Consumer and Corporate Affairs. Concentration in the Manufacturing Industries of Canada. Ottawa: Information Canada, 1971.

Dobell, A.R. and T.A. Wilson. Overall Effects of the Proposed Tax Reforms: Savings, Investment and the Balance of Payments. Toronto: Institute for the Quantitative Analysis of Social and Economic Policy, University of Toronto, 1968.

Doern, G. Bruce. "The Role of Royal Commissions in the General Policy Process and in Federal Provincial Relations", Canadian Public Administration, X, 1967, 417-433.

Doerr, A.D. "The Role of White Papers", in G. Bruce Doern and Peter Aucoin, eds., The Structures of Policy-Making in Canada. Toronto: Macmillan, 1971.

Domhoff, G. William. The Higher Circles: The Governing Class in America. New York: Vintage Books, 1971.

Drover, Glenn. "Income Redistribution" in Allan Moscovitch and Glenn Drover, eds., Inequality: Essays on the Political Economy of Social Welfare. Toronto: University of Toronto Press, 1981.

Esping-Andersen, E.,et al. "Modes of Class Struggle and the Capitalist State", Kapitalistate, 4/5, 1976.

Fayerweather, John. Foreign Investment in Canada. Prospects for National Policy. Toronto: Oxford University Press, 1974.

Fine, Ben and Laurence Harris. Rereading Capital. New York: Columbia University Press, 1979.

Finkel, Alvin. Business and Social Reform in the Thirties. Toronto: Lorimer, 1979.

Fournier, Pierre. The Quebec Establishment. The Ruling Class and the State. Montreal: Black Rose, 1976.

French, Richard. How Ottawa Decides. Planning and Industrial Policy-Making 1968-1980. Toronto: Lorimer, 1980.

Gibbons, Kenneth M. and Donald C. Rowat, eds. Political Corruption in Canada. Cases, Causes and Cures. Toronto: McClelland and Stewart, 1976.

Giddens, Anthony. The Class Structure of the Advanced Societies. London: Hutchison and Company, 1973.

Gillespie, W. Irwin. In Search of Robin Hood. The Effect of Federal Budgetary Policies During the 1970s on the Distribution of Income in Canada. Montreal: Sponsored by the Canadian Economic Policy Committee, C.D. Howe Research Institute, 1978.

Ginsburg, Norman. Capital, Class and Social Policy. London: Macmillan, 1979.

Goffman, Irving Jay. The Burden of Canadian Taxation. Allocation of Federal, Provincial and Local Taxes among Income Classes. Canadian Tax Papers, No. 29. Toronto: Canadian Tax Foundation, 1962.

Gough, Ian. "State Expenditure in Advanced Capitalism", New Left Review, 92, July-August 1975, 53-92.

--------. The Political Economy of the Welfare State. London: Macmillan, 1979.

Granatstein, J.L. "Conservative Party Finances, 1939-1945", in Committee on Election Expenses, Studies in Canadian Party Finance. Ottawa: Queen's Printer, 1966, 257-316.

Gwyn, Richard. Smallwood. The Unlikely Revolutionary. Toronto: McClelland and Stewart, 1968.

Harrill, Ernest E. The Structure of Organization and Power in Canadian Political Parties: A Study in Party Financing. Unpublished Ph.D. Dissertation: University of North Carolina, 1958.

Harris, Laurence. "The State and the Economy: Some Theoretical Problems", in Ralph Miliband and John Saville, eds., The Socialist Register 1980. London: Merlin Press, 1980.

Hartle, Douglas G. The Six Studies of the Carter Report Prepared by the Institute of Policy Analysis for the Department of Finance. Remarks made to the Financial Markets Conference, School of Business, University of Toronto, February 29, 1968, Toronto: Institute for the Quantitative Analysis of Social and Economic Policy, University of Toronto, 1968.

Hindess, Barry. "Classes and Politics in Marxist Theory", in G. Littlejohn et al, eds., Power and the State. London: Croom Helm, 1978.

Hirst, Paul. "Economic Classes and Politics", in Alan Hunt, ed., Class and Class Structure. London: Lawrence and Wishart, 1977.

Hockin, Thomas A. "The Advance of Standing Committees in Canada's House of Commons: 1965 to 1970", Canadian Public Administration, XIII, No. 2, Summer 1970, 185-202.

Hodgetts, J.E. "Should Canada be De-Commissioned? A Commoner's View of Royal Commissions", Queen's Quarterly, 70, Winter 1964, 475-90.

--------. "Public Power and Ivory Power", in T. Lloyd and J. McLeod, eds., Agenda 1970: Proposals for a Creative Politics. Toronto: University of Toronto Press, 1968.

Holloway, John and Sol Picciotto, eds. State and Capital. A Marxist Debate. London: Edward Arnold, 1978.

Horowitz, Gad. Canadian Labour in Politics. Toronto: University of Toronto Press, 1968.

Hunter, Alfred. Class Tells. On Social Inequality in Canada. Toronto: Butterworths, 1981.

Hyman, Richard. Industrial Relations. A Marxist Introduction. London: Macmillan, 1975.

Jacoby, Neil J. Canada's Tax Structure and Economic Goals. A Critique of the Royal Commission on Taxation. Toronto: Faculty of Administrative Studies, York University, 1967.

Jamieson, Stuart M. Times of Trouble: Labour Unrest and Industrial Conflict in Canada 1900-66. Task Force on Labour Relations Study #22. Ottawa: Privy Council Office, 1968.

Jessop, Bob. "Recent Theories of the Capitalist State", Cambridge Journal of Economics, 1, 4, 1977, 353-373.

--------. "Corporatism, Parliamentarism and Social Democracy", in P. Schmitter and G. Lehmbrach, eds. Trends Towards Corporatist Intermediation. London: 1979.

--------. "Capitalism and Democracy: The Best Possible Shell?", in Gary Littlejohn et al, eds., Power and the State. London: Croom Helm, 1978.

--------. "The Transformation of the State in Post-War Britain", in Richard Scase, ed., The State in Western Europe. London: Croom Helm, 1980.

Johnson, Leo A. "The Development of Class in Canada in the Twentieth Century", in Gary Teeple, ed., Capitalism and the National Question in Canada. Toronto, University of Toronto Press, 1972.

--------. "The Capitalist Labour Market and Income Inequality in Canada", in John A. Fry, ed., Economy, Class and Social Reality. Toronto: Butterworths, 1979.

Johnson, Terence J. Professions and Power. London: Macmillan, 1972.

Kierans, E. "The Structure of the Canadian Corporate Economy", in K.J. Rea and J.T. McLeod, eds., Business and Government in Canada. Toronto: Methuen, 1976.

--------. "Problems of Tax Reform", Canadian Taxation, Winter 1979, 22-4.

Kwavnick, David. Organized Labour and Pressure Politics. Canadian Labour Congress 1956-1968. Montreal: McGill-Queen's University Press, 1972.

Labour Canada. Wage Rates, Salaries and Hours of Labour. Ottawa Information Canada, 1976.

Labour Canada, Women's Bureau. Women in the Labour Force. Facts and Figures. Ottawa: Information Canada, 1975.

Last Post News Service. "What's Happening on High...", Guerilla, Vol 2 No. 34, February 1972.

Lax, Gary. "The Development of Canadian Entrepreneurship", in Abraham Rotstein and Gary Lax, eds., Getting It Back. Toronto: Clarke, Irwin and Company, 1974.

Laxer, James. The Energy Poker Game: The Politics of the Continental Resources Deal. Toronto: New Press, 1970.

--------. Canada's Energy Crisis. Toronto: James Lewis and Samuel, 1974.

--------. "Always look to Imperial for the best. Imperial Oil and Canadian Energy Policy", in James Laxer and Anne Martin, eds., The Big Tough Expensive Job. Imperial Oil and the Canadian Economy. Erin: Press Porcepic, 1976.

--------. Canada's Economic Strategy. Toronto: McClelland and Stewart, 1981.

Laxer, James and Anne Martin, eds. The Big Tough Expensive Job. Imperial Oil and the Canadian Economy. Erin: Press Porcepic, 1976.

Laxer, Robert. Canada's Unions. Toronto: James Lorimer, 1976.

Lewis, David. Louder Voices: The Corporate Welfare Bums. Toronto: James Lewis and Samuel, 1972.

Lindblom, C.E. Politics and Markets. New York: Basic Books, 1977.

Lockwood, D. "The Distribution of Power in Industrial Society - a comment", in J. Urry and J. Wakeford, eds., Power in Britain. London: Heinemann, 1973.

London Edinburgh Weekend Return Group. A Working Group of the Conference of Socialist Economists. In and Against the State. London: Pluto Press, 1980.

Longstreth, Frank. "The City, Industry and the State", in Colin Crouch, ed., State and Economy in Contemporary Capitalism. London: Croom Helm, 1979.

Lukes, Steven. Power: A Radical View. London: Macmillan, 1974.

McEachern, D. "Party Government and the Class Interests of Capital: Conflict Over the Steel Industry, 1945-1970", Capital and Class, Summer 1979, 125-143.

McIntosh, Mary. "The State and the Oppression of Women", in Annette Kuhn and Ann Marie Wolpe, eds., Feminism and Materialism. London: Routledge and Kegan Paul, 1978.

Mahon, Rianne. "Canadian Public Policy: The Unequal Structure of Representation", in Leo Panitch, ed., The Canadian State. Toronto: University of Toronto Press, 1977.

Mandell, Ernest. Late Capitalism. London: New Left Books, 1975.

Maslove, Allan M. The Pattern of Taxation in Canada. A Study for the Economic Council of Canada. Ottawa: Information Canada, 1973.

Mathias, Philip. Forced Growth: Five Studies of Government Involvement in the Development of Canada. Toronto: James Lewis and Samuel, 1971.

Miliband, Ralph. The State in Capitalist Society. London: Weidenfeld and Nicolson, 1969.

--------. Marxism and Politics. Oxford: Oxford University Press, 1977.

Mills, C. Wright. White Collar: The American Middle Classes. New York: Oxford University Press, 1951.

Mitchell, Don. The Politics of Food. Toronto: James Lorimer and Company, 1975.

Moore, A. Milton, J. Harvey Perry and Donald I. Beach. The Financing of Canadian Federation. The First Hundred Years. Toronto: Canadian Tax Foundation, 1966.

Morgan, Phyliss and Michael Fox, eds. The Financial Post 300. Toronto: The Financial Post, Summer 1976.

Moscovitch, Allan and Glenn Drover, eds. Inequality: Essays on the Political Economy of Social Welfare. Toronto: University of Toronto Press, 1981.

Mosley, Hugh. "Is There a Fiscal Crisis of the State", Monthly Review, May 1978.

Newman, Peter C. Renegade In Power: The Diefenbaker Years. Toronto: McClelland and Stewart, 1963.

--------. The Distemper of Our Times. Winnipeg: Greywood Publishing Ltd., 1968.

--------. The Canadian Establishment. Volume One. Toronto: McClelland and Stewart, 1975.

Nicols, Theo and Huw Beynon. Living with Capitalism. Class Relations and the Modern Factory. London: Routledge and Kegan Paul, 1977.

Niosi, Jorge. The Economy of Canada: A Study of Ownership and Control. Montreal: Black Rose, 1979.

--------. Canadian Capitalism. A Study of Power in the Canadian Business Establishment. Toronto: Lorimer, 1980.

O'Connor, James. The Fiscal Crisis of the State. New York: St. Martin's Press, 1973.

Offe, Claus. "The Theory of the Capitalist State and the Problem of Policy Formation", in Leon N. Lindberg et al, eds., Stress and Contradiction in Modern Capitalism. Lexington, Mass: Lexington Books, 1975.

--------. "Political Authority and Class Structures", in Paul Connerton, ed., Critical Sociology: Selected Readings. Harmondsworth, England: Penguin Books, 1976.

Olsen, Dennis. The State Elite. Toronto: McClelland and Stewart, 1980.

Osberg, Lars. Economic Inequality in Canada. Toronto: Butterworths, 1981.

Pahl, R.E. and J.T. Winkler. "The Economic Elite: Theory and Practice", in Philip Stanworth and Anthony Giddens, eds., Elites and Power in British Society. Cambridge: Cambridge University Press, 1974.

Paltiel, K.Z. Political Party Financing in Canada. Toronto: McGraw-Hill, 1970.

Paltiel, K.Z. and J.B. Van Loon. "Financing the Liberal Party, 1867-1965", Committee on Election Expenses, Studies in Canadian Party Finances. Ottawa: Queen's Printer, 1966.

Panitch, Leo, ed. The Canadian State. Political Economy and Political Power. Toronto: University of Toronto Press, 1977.

--------. "The Role and Nature of the Canadian State", in Leo Panitch, ed., The Canadian State. Toronto: University of Toronto Press, 1977.

--------. "Trade Unions and the Capitalist State", New Left Review, 125, Jan-Feb 1981, 21-43.

Park, Libbie and Frank Park. Anatomy of Big Business. Toronto: James Lewis and Samuel, 1973.

Parkin, Frank. Class Inequality and Political Order. London: Paladin, 1972.

Peitchinis, Stephen. The Canadian Labour Market. Toronto: Oxford University Press, 1975.

Penner, Norman. The Canadian Left. A Critical Appraisal. Toronto: Prentice-Hall, 1977.

Perry, J. Harvey. Taxes, Tariffs and Subsidies. A History of Canadian Fiscal Development. Toronto: University of Toronto Press, 1955.

--------. Taxation in Canada. Third Edition. Toronto: University of Toronto Press, 1961.

Petersen, Rein. Small Business. Building a Balanced Economy. Erin: Porcepic, 1977.

Petrie, J.R. A Review of Some Critical Issues in the Report of the Royal Commission on Taxation. Prepared for the Carter Commission Committee of the Canadian Chamber of Commerce, July 1967.

Phidd, Richard W. and G. Bruce Doern. The Politics and Management of Canadian Economic Policy. Toronto: Macmillan, 1978.

Pineo, Peter C., John Porter and Hugh A. McRoberts. "The 1971 Census and the Socioeconomic Classification of Occupation", Canadian Review of Sociology and Anthropology, 14(1), Feb. 1977, 91-102.

Porter, John. The Vertical Mosaic. An Analysis of Social Class and Power in Canada. Toronto: University of Toronto Press, 1965.

Poulantzas, Nicos. Political Power and Social Classes. London: New Left Books, 1973.

--------. Classes in Contemporary Capitalism. London: New Left Books, 1975.

--------. State, Power, Socialism. London: Verso Editions, 1980.

Pratt, Larry. The Tar Sands. Syncrude and the Politics of Oil. Edmonton: Hurtig Publishers, 1976.

Presthus, Robert. Elite Accommodation in Canadian Politics. Toronto: Macmillan, 1973.

Pross, A. Paul. ed., Pressure Group Behaviour in Canadian Politics. Toronto: McGraw-Hill Ryerson, 1975.

Quirin, G.D. Economic Consequences on the Primary Mineral Industries of the Adoption of the Recommendations of the Royal Commission on Taxation. Toronto: Institute for the Quantitative Analysis of Social and Economic Policy, University of Toronto, Number 6804, February 1968.

Rea, K. J. and J. T. McLeod, eds., Business and Government in Canada: Selected Readings, Second Edition. Toronto: Methuen, 1976.

Research Branch, Library of Parliament. "Pressure Groups in Canada", The Parliamentarian, Vol Ll, 1970, 11-20.

Resnick, Phillip. The Land of Cain. Class and Nationalism in English Canada 1945-1975. Vancouver: New Star Books, 1977.

Richards, John and Larry Pratt. Prairie Capitalism: Power and Influence in the New West. Toronto: McClelland and Stewart, 1979.

Rinehart, James W. The Tyranny of Work. Toronto: Longmans Canada Ltd., 1975.

Ritchie, Ronald S. An Institute for Research on Public Policy. A Study Prepared for the Government of Canada. Ottawa: Information Canada, 1971.

Robertson, Ronald. Tax Aspects of Canada's International Competitive Position. Sponsored by The Canadian Trade Committee, Private Planning Association of Canada, Montreal, 1963.

Robinson, Albert J. The Concept of Equity in the Carter Report. Toronto: Faculty of Administrative Studies, York University, December 1967.

Rotstein, Abraham. The Precarious Homestead. Essays on Economics, Technology and Nationalism. Toronto: New Press, 1973.

Saltsman, Max. "Reflections on Tax Reform in Canada", Canadian Taxation, Winter 1979, 25-26.

Scase, Richard, ed. The State in Western Europe. London: Croom Helm, 1980.

Smith, Denis. Gentle Patriot. A Political Biography of Walter Gordon. Edmonton: Hurtig Publishers, 1973.

Special Senate Committee on Poverty: Poverty in Canada. Ottawa: Information Canada, 1971.

Stanbury, W.T. Business Interests and the Reform of Canadian Competition Policy, 1971-1975. Toronto: Carswell/Methuen, 1977.

Starks, Richard. Industry in Decline. Toronto: James Lorimer and Company, 1978.

Stevenson, Garth. Unfulfilled Union. Canadian Federalism and National Unity. Toronto: Gage, 1979.

Stewart, Walter. Shrug: Trudeau in Power. Toronto: New Press, 1971.

--------. Divide and Con. Canadian Politics at Work. Toronto: New Press, 1973.

Strick, J.C. Canadian Public Finance. Toronto: Holt, Rinehart and Winston, 1973.

Strinati, Dominic. "Capitalism, the State and Industrial Relations", in Colin Crouch, ed., State and Economy in Contemporary Capitalism. London: Croom Helm, 1979.

Surich, Jo. "Keeping them honest: Election Reform in Ontario", in Donald C. MacDonald, ed., Government and Politics of Ontario. Toronto: Macmillan, 1975.

Sweezy, Paul M. The Theory of Capitalist Development. New York: Monthly Review Press, 1968.

Sykes, Philip. Sellout. The Giveaway of Canada's Energy Resources. Edmonton: Hurtig Publishers, 1973.

Teeple, Gary. "Liberals in a hurry: Socialism and the CCF-NDP", in G. Teeple, ed., Capitalism and the National Question in Canada. Toronto: University of Toronto Press, 1972.

Thorburn, H.G. "Pressure Groups in Canadian Politics: Recent Revisions of the Anti-Combines Legislation", Canadian Journal of Economics and Political Science, Vol. XXX, No. 2, May 1964, 157-174.

Traves, Tom. The State and Enterprise: Canadian Manufacturers and the Federal Government, 1917-1931. Toronto: University of Toronto Press, 1979.

Trebilcock, Michael. "Winners and Losers in the Modern Regulatory State", in K.J. Rea and J.T. McLeod, eds., Business and Government in Canada. Toronto: Methuen, 1976.

Walker, Pat, ed. Between Labour and Capital. Montreal: Black Rose, 1978.

Weber, Max. The Theory of Social and Economic Organization. Edited by Talcott Parsons. New York: Free Press, 1947.

Westergaard, John. "Class, Inequality and 'Corporatism'", in Alan Hunt, ed., Class and Class Structure. London: Lawrence and Wishart, 1977.

--------. "Social Policy and Class Inequality: Some Notes on Welfare State Limits", in Ralph Miliband and John Saville, eds., The Socialist Register 1978. London: Merlin Press, 1978.

Westergaard, John and Henrietta Resler. Class in a Capitalist Society. A Study of Contemporary Britain. London: Heinemann Educational Books, 1975.

Williams, Raymond. Marxism and Literature. Oxford: Oxford University Press, 1977.

Whitaker, Reginald. The Government Party. Organizing and Financing the National Liberal Party of Canada 1930-1958. Toronto: University of Toronto Press, 1977.

Wolfe, David. "The State and Economic Policy in Canada, 1968-1975" in Leo Panitch, ed., The Canadian State. Toronto: University of Toronto Press, 1977.

Wright, Erik Olin. Class, Crisis and the State. London: New Left Books, 1978.

Wright, Gerald. "Persuasive Influence: The Case of the Interest Equalization Tax", in Andrew Axline et al, eds., Continental Community? Independence and Integration in North America. Toronto: McClelland and Stewart, 1974.

Young, Bert. "Corporate Interests and the State. Anti-Combine Activity in Canada - 1900 to 1970", Our Generation, Vol 10, No 1, Winter-Spring 1974, 70-83.

--------. "Taxation and the Capitalist State" in Allan Moscovitch and Glenn Drover, eds., Inequality: Essays on The Political Economy of Social Welfare. Toronto: University of Toronto Press, 1981.

Zeitlin, Maurice. "Corporate Ownership and Control: The Large Corporation and The Capitalist Class", American Journal of Sociology, 79, No 5, March 1974, 1073-1119.