Warfare State, Welfare State, and the Selling of the Personal Income Tax, 1942-1945

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PRÉCIS
Cet article porte sur les protestations des Canadiens à faibles revenus relativement aux incidences fiscales pour les particuliers du financement canadien de la guerre pendant la Deuxième Guerre mondiale. Il décrit les critiques liées aux modifications de 1942 à la Loi de l’impôt de guerre sur le revenu et les moyens par lesquels les Canadiens à faibles revenus ont manifesté leur désaccord, notamment par l’absentéisme, l’organisation ouvrière et la participation au débat public, tirant profit de leurs ressources en tant qu’électeurs (par l’entremise des partis politiques) et en tant que contributeurs éventuels aux campagnes pour l’épargne de guerre. Le ministre des Finances et d’autres ministres ont jugé que ces protestations pouvaient sérieusement nuire au financement de la guerre et au programme de stabilisation. En conséquence, le ministère des Finances et le ministère du Revenu national, ainsi que la Commission d’information en temps de guerre, ont répondu vigoureusement aux protestations par diverses campagnes de relations publiques et par une série de modifications à la loi fiscale. Ces réponses aux protestations ont contribué au processus, normalement perçu comme mené par une idéologie macro-économie ou de sécurité sociale, ou les deux, qui a conduit à la Loi sur les allocations familiales du Canada, un moment charnière de l’évolution de l’État-provi

ABSTRACT
This article examines lower-income Canadians’ protests around the personal income tax aspects of Canadian war finance during the Second World War. It describes criticisms of the 1942 amendments to the Income War Tax Act and the means by which lower-income Canadians registered their concerns, through absenteeism, labour organization, and participation in public debate, drawing on their resources as voters (through political parties) and as prospective contributors to war savings campaigns. The finance minister and others took these protests seriously as a threat to war finance and the stabilization program. Consequently, the Department of Finance and the Department of National

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Revenue, together with the Wartime Information Board, responded vigorously to the protests, through various public relations campaigns and through a series of amendments to the tax statute. These responses to tax protest contributed to the process, normally seen as driven by either macroeconomics or social security ideology, or both, that led to Canada’s Family Allowance Act, a landmark in the evolution of the Canadian welfare state. By pointing to the influence of tax protest by smaller income tax payers on the decision to expand the welfare state, the story told here shows how the communitarian public opinion of the war years was also shaped in part by self-interested pocketbook politics.

**KEYWORDS:** PERSONAL INCOME TAXES • HISTORY • SOCIAL SECURITY • FAMILY • LABOUR • ANTI-INFLATION

### CONTENTS

Introduction 54  
The New Taxpayers’ Burden 57  
Tax Troubles and Resistance 60  
Responses to Resistance 71  
Educating the Taxpayers 71  
  - Ilsley’s 1943 Speech to the Trades and Labour Congress of Canada 79  
  - The Budget Speeches of 1943 and 1944 83  
Negotiated Concessions, 1942-1944 85  
Conclusion 89

### INTRODUCTION

Canada’s war finance policy during the Second World War has been a source of pride, and is still widely respected by economists and historians of politics and public finance. The federal government’s income tax was made modern and effective, the Canadian economy was successfully reorganized for war purposes, and, with all that, the damage to Canadians’ standard of living during the war was slight. The readjustment to peacetime conditions was relatively smooth, and the nation’s new fiscal capacity helped to build a more prosperous and caring society over the next 30 years. From having been a fractured and economically fragile nation in the interwar years, with an incoherent and unjust tax “system,” Canada grew into a modern and well-governed country, rightly proud of the role it had played in the Second World War. Not a small amount of the credit for these results has gone to the Department of Finance and its successful launching of a mass income tax system as part of the overall project of war finance.¹

The general competence and decency of Finance Minister J.L. Ilsley, his colleagues in National Revenue, and other officials involved in shaping the government's fiscal policy are evident in the archives and well established in the historiography. But the consensus around war finance policy and its objective soundness has been overstated.² In a recent article, Colin Campbell represents Ilsley as the hero of a process between 1939 and 1943 by which the only possible program of “equitably shared financial sacrifice” to fund the war effort was designed and deployed.³ The opposition parties’ criticisms appear as slight, and their support for the fairness of the war budgets is asserted.⁴ In Campbell’s account, the voters do not have much of an impact, and some of them (“labour groups”) object only because they do not understand Ilsley’s policy.⁵ There was “potential for opposition” to the new mass income tax with its steeply progressive structure, Campbell acknowledges, but Ilsley “defused” it.⁶ The important tensions, for Campbell, lie within government and behind closed doors: between Prime Minister King (somewhat unprincipled) and Ilsley (the man of integrity), and between reasonable Ilsley and the difficult provincial premiers. To be sure, those inter- and intra-governmental negotiations are a necessary part of the war finance story. But Campbell’s emphasis on those aspects means that many other factors that were also important are missing from his story of the early war years. Mistakes and misjudgments in 1942 prompted spirited and reasonable challenges to Ilsley’s allegedly equitable design, and that opposition caused much worry in the departments of Finance and National Revenue. Their means of dealing with those worries in the following years, between 1942 and 1945, led the federal government to implement important social security measures. Seen in this context, difficulties in the early years of war finance become an intimate part of the welfare state’s history. And amendments in 1943 and 1944 that Campbell and other historians have described as cleaning-up details or “minor alleviations”⁷ were, I argue, actually significant: in the face of tax resistance and protest, changes in the law were meant to build consent

² This is, of course, a matter of judgment and interpretation, but I find evidence of a too broadly drawn consensus in Slater’s internalist account (see, for example, his description of the building of consensus within the tax team in Finance: Slater, supra note 1, at 74) and Campbell’s summary of war finance (“equitably shared financial sacrifice could be done no other way”: Campbell, supra note 1, at 635). Perry acknowledges that there were criticisms of the war finance program, saying that “for many people” it was “the most oppressive aspect of the war.” But he leaves the summary assessment of the program to Finance Minister Ilsley—not the most objective of interpreters—with a long quotation from Ilsley’s October 1945 budget speech: Perry, supra note 1, at 337 and 338-40.

³ Campbell, supra note 1, at 635.

⁴ Ibid., at 664-67.

⁵ Ibid., at 661.

⁶ Ibid., at 664.

⁷ With respect to the 1943 budget measures, see Slater, supra note 1, at 68; with respect to the 1944 budget measures, see Perry, supra note 1, at 337. Campbell makes no mention at all of the few but important measures included in the 1943 budget that provided tax relief to low income earners: Campbell, supra note 1, at 663-64.
to the new level of personal income taxation, mainly among working-class and modestly paid middle-class Canadians.

My purpose in this article is to support these claims. To do so, I present the federal income tax policy process in 1942 in a different kind of context than Campbell chose. Most importantly, I bring into the story the voices of the new personal income taxpayers of 1942. I begin by describing the impact on lower-income Canadians of the income tax measures of the war’s early years. These measures created a huge cohort of new income taxpayers—one that was not only poorer, but also included more women, status Indians, and some racialized groups. The argument of my article is concerned with the impact of these new taxpayers on war finance and, through their tax bargaining, on the development of a more democratic Canada, one in which the material circumstances of the majority of citizens had a newly direct effect on federal policy. In the first third of the article, I explain the particular irritants that the new income taxpayers encountered, the methods of tax resistance available, and the problems that tax resistance presented to federal officials who were attempting to secure tax compliance, war savings participation, political stability, and a sense of common purpose. The rest of the article describes federal officials’ responses to these war finance worries, through various forms of persuasion and through specific statutory amendments. I argue that we can see in those responses the impact of the new income taxpayers, not only on tax policy, but also on the conceptualizing of liberalism. Keynesian macroeconomic theory had promised a new role for the state in managing things economic, modifying liberalism in a collectivist direction. It was not, however, economic theorists, but the masses of new taxpayers, pressuring wartime government into offering both tax concessions and income security measures, who moved the government toward selling tax policy in a framework of a more social liberalism.

The new taxpayers had this kind of impact only because the departments of Finance and National Revenue took consent—and resistance—to personal income taxation very seriously. Finance Minister J.L. Ilsley was tired and angry in August 1942, exhausted to the edge of breakdown on the eve of his great 1943 budget speech, and cracking at the seams in the summer of 1944 (as a distinguished visitor to Ottawa, J.M. Keynes, noticed). The criticisms made of his tax plans in the House represented serious opposition—on shop floors, in boardrooms, and in neighbourhoods.

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8 Here I state only slightly more emphatically what Perry wrote in the 1950s: Perry, supra note 1, at 333-34.

9 For evidence of Ilsley’s anger, stress, and fatigue, see memorandum, Grant Dexter to G.V. Ferguson, August 2, 1942, in Queens’ University Archives, Grant Dexter fonds, collection 2142, box 3, file 23, at 4; The Diaries of William Lyon Mackenzie King, February 5, 1943 (www.collectionscanada.gc.ca/king/index-e.html) (herein referred to as “Mackenzie King diaries”); Wardhaugh, supra note 1, at 277-78; and J.M. Keynes, quoted in Wardhaugh, supra note 1, at 261.

10 As I show in this article, Campbell seriously understates the scope and political weight of the opposition to Ilsley’s tax measures in 1941-1943. The evidence he supplies for public satisfaction is one letter from 1941 and an observation from war historian C.P. Stacey’s book on wartime policy: Campbell, supra note 1, at 664.
if all that Ilsley cared about was re-election, then this opposition would have been worrying enough. But more immediately important, opposition to his tax proposals mattered because it put in jeopardy the success of the Victory Loan campaigns and the solidity of the wage and price ceilings—the whole anti-inflation “stabilization” project. Ilsley and the others charged with war finance—Graham Towers of the Bank of Canada, Clifford Clark of Finance, and their less famous collaborators in National Revenue, Colin Gibson and C. Fraser Elliott—carried on their shoulders the burden of preventing a post-war crash or wartime inflation that would lead to privation and conflict, especially but not solely between classes. Their intellectual confidence was considerable, but there is good evidence that voices of their opponents and their worried supporters reached through that confidence and had real effects, not only on their mood, but also on their policy choices. What was deeply democratic in their responses to opposition is that, for the most part, when these government men encountered criticism of their policies, they did not dismiss it as “hostility” but took it as useful information that required a thoughtful response.\(^{11}\)

As complaints of tax-related hardship proliferated in 1943, fiscal policy makers began to see that making a connection between taxes on small incomes and the development of a newly social state would be necessary if they were to persuade working-class Canadians to be compliant taxpayers and voluntary savers.

**THE NEW TAXPAYERS’ BURDEN**

By 1941, the number of Canadians who paid personal income tax at the start of the war (approximately 300,000) had more than doubled (see table 1). Many of these new income taxpayers were in a separate category, not paying the standard pre-war personal income tax (PIT), but instead paying a new tax on income, the national defence tax (NDT), introduced in the 1940 budget. The NDT was different from the PIT in four ways. First, unlike the PIT, the NDT was charged at a flat rate: 3 percent or 2 percent (with single individuals paying the higher rate and married persons the lower). In 1941, those initial low rates were raised to 7 percent and 5 percent, respectively. Second, under the NDT, an individual did not pay at all if he or she earned less than the exempt amounts ($600 or $1,200 in 1940, depending on marital status), but as soon as earnings exceeded that threshold, the specified tax rate applied to the individual’s total income. Third, instead of the PIT’s generous exemptions for dependent children, the NDT provided tax credits: each of a taxpayer’s children was worth $8 against the NDT bill. So, for example, a modestly paid wage earner who was supporting a wife and three children on $1,300 a year would owe $2 in NDT rather than the $26 (2 percent of $1,300) that he would have owed if married and childless. Finally, wage and salary earners had the NDT deducted by their employers from their pay packets, rather than being expected to save to pay an annual tax bill or pay in quarterly instalments. Through the NDT, hundreds of thousands of Canadians

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\(^{11}\) See, for example, R.B. Bryce to David Rogers, January 12, 1943, Library and Archives Canada (herein referred to as “LAC”), Department of Finance records, RG 19, vol. 4030, file 129W-3.
**TABLE 1**  Comparison of Changes in Number of Personal Income Taxpayers as a Percentage of the Labour Force, by Gender, 1941-1951 (Estimated) and 1964 (Actual)\(^a\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Personal income taxpayers (PITP)</th>
<th>Labour force (LF)(^b)</th>
<th>PITP (M, F, or T) / LF (M, F, or T)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male (M)</td>
<td>Female (F)</td>
<td>Total (T)</td>
</tr>
<tr>
<td>1941</td>
<td>na</td>
<td>na</td>
<td>871,484</td>
</tr>
<tr>
<td>1943</td>
<td>na</td>
<td>na</td>
<td>2,163,354</td>
</tr>
<tr>
<td>1951</td>
<td>na</td>
<td>na</td>
<td>2,777,950</td>
</tr>
<tr>
<td>1964</td>
<td>3,774,343</td>
<td>1,526,876</td>
<td>5,301,219</td>
</tr>
</tbody>
</table>

\(^a\) Since 1964 was the first year in which the Department of National Revenue reported numbers of personal income taxpayers (PITP) by gender, only the 1964 ratios are exact. I justify using male labour force figures as the denominator for the 1941, 1943, and 1951 estimated fractions on the grounds that women's labour force participation patterns and rates of pay made them less likely than men to be income taxpayers in those years. One estimate of the proportion of women in the population of interwar income taxpayers was 12 percent in 1929-30. The gender-specific statistics for 1964 afford a measure of the difference between the breakdown by gender of the labour force and the breakdown by gender of PITP. By 1964, men constituted 62.2 percent of the total labour force but 71.2 per cent of the total PITP. By 1964, women's labour force participation had risen, and inflation had begun its work of imposing an income tax liability on an increasing number of low-paid workers. Still, women remained a smaller percentage of PITP (28.9 percent) than they were of the total labour force (31.8 percent). If the percentage of PITP who were male and the percentage of the labour force who were male corresponded in 1951 as they did in 1964, then knowing that 76 percent of the labour force was male in 1951, we can estimate that men constituted approximately 87.36 percent of total PITP in 1951. On those assumptions, male PITP in 1951 would be 2,426,817, and thus 58.7 percent of the male labour force. Actual PITP as a percentage of the labour force in 1951 could thus be as much as 9 points lower than the estimates reported in the table, and similarly lower for 1943 and 1941.

\(^b\) Owing to the lack of labour force census data for 1943, the number shown in the table for that year is the same as that reported for 1941, and is probably low.

(Table 1 is concluded on the next page.)
became income taxpayers in a small way on their small incomes. In addition, some of these new taxpayers also acquired a liability under the PIT, which, after the 1940 budget, was assessable on income over $750 (for a single individual) or $1,500 (for a married person).

The changes in 1940 and 1941 foreshadowed the really massive increase in the number of income taxpayers that followed from the 1942 budget. The PIT exemption was lowered, making the PIT and NDT exempt amounts the same: $660 for a single individual and $1,200 for a married person. The old familiar PIT was now called “the graduated tax,” and the new NDT was to be known as “the normal tax.” Earnings above $660 or $1,200 were now liable to the graduated tax as well as to the NDT on the earner’s whole income. Put simply, for the 1942 tax year, income earners, large and small, would make one tax payment, calculated on two different bases: (1) the amount earned in a year above an exempt amount (used to calculate the graduated income tax) and (2) the whole amount earned in a year (used to calculate the normal tax). And now, for the graduated tax, instead of exempting from taxation $400 (as in 1939) of income for each child, taxpayers would get, for each child, a credit of $108 against income tax they owed.12 Though the new rules seemed complicated, there was at least one major simplification: the various municipal and provincial income taxes were all gone. Between February 1941 and early 1942, the federal government had negotiated, somewhat aggressively, “wartime taxation suspension” agreements with the provinces, ending for the duration of the conflict the crazy quilt of municipal and provincial income taxes, old and new.13

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12 Perry, supra note 1, at 361. The figure of $108 is the total of a $28 credit against the normal tax and an $80 credit against the graduated tax.

13 Slater, supra note 1, at 47–49; Wardhaugh, supra note 1, at 192–93; and Campbell, supra note 1, at 652–55 and 658–59.
many of those other income taxes had had their own distinctive definitions of income, exemptions, rates, and forms, the personal income taxpayer of 1942 might have been grateful to have fewer forms and rules to deal with.\textsuperscript{14} That benefit was not immediately noticed, however. Instead, Ilsley told his Cabinet colleagues, “[T]he budget was full of trouble. The small man is complaining bitterly for the first time.”\textsuperscript{15}

**TAX TROUBLES AND RESISTANCE**

Beginning the day after the budget speech on June 23, 1942 and continuing through to July 31, when the budget legislation was passed, Ilsley fielded near-constant complaints about the new income tax system.\textsuperscript{16} In this section, I set out the kinds of complaints prompted by the 1942 personal income tax measures from their beginning through to early 1945, the methods of resistance adopted by the new income taxpayers as the tax began to be implemented, and the larger political and morale concerns that Ilsley and others in government perceived as flowing from tax complaints.

The banner headline on the first budget story in the Toronto *Globe and Mail* highlighted taxation-as-coercion: in big type, the headline announced “Forced Saving Starts Sept. 1.”\textsuperscript{17} Under the new budget measures, not only would smaller incomes be taxed more heavily than ever before, but both the graduated and the normal tax would now be collected at each pay by employers. Some of what was taken was actually savings: it would be returned, with 2 percent interest, after the war’s end. But the dollars were deducted from the pay packet without any clear distinction between the savings (which would return) and the taxes (which would not). Employers were not required to supply a pay slip that recorded deductions, though some did.\textsuperscript{18} Ilsley promised that government certificates for the amounts saved would be issued to employees; however, the amount of savings would be calculated only after the taxpayer had filed a return and paid the tax, and the tax authority had assessed the return, made a refund, or required further payment—and then, and

\textsuperscript{14} Reference to this multiplicity as a chronic irritant since the 1920s may be found in Perry, supra note 1, at 302.

\textsuperscript{15} Memorandum, Grant Dexter to G.V. Ferguson, July 19, 1942, 2, Queen’s University Archives, Dexter fonds, collection 2142, box 3, file 23.

\textsuperscript{16} For a reference by Ilsley to the constant revising of his proposed income tax measures in response to repeated criticism, see Canada, House of Commons, *Debates*, July 31, 1942, at 5087.

\textsuperscript{17} “Forced Saving Starts Sept. 1,” *Globe and Mail*, June 24, 1942. For an example of continuing criticism in late August, see “Ilsley Denies Budget Harsh as It Seemed,” *Globe and Mail*, August 27, 1942.

\textsuperscript{18} David Petegorsky, “Report of Discussions with Government Officials and Personnel Managers in Toronto, Washington and New York on Problems of Industrial Morale,” undated, circa 1943, LAC, RG 19, vol. 4030, file 129W-3. A commercial traveller, commenting on the compulsory savings feature, which he had liked, noted that some employees feared that the employer might lose tax remittance records (in a fire, for example) and thus in effect lose their savings: A.M. Farr to Ilsley, June 30, 1944, LAC, RG 19, vol. 452, file 111-14E.
only then, would the amount of savings be determined and officially receipted. The first certificates of refundable tax amounts would not be issued until December 1943. That process left lots of time for people to worry. And the savings cut into pay packets just as the tax did.

The compulsory savings portion of the newly deducted-at-source personal income taxes affected rich, poor, and corporations (on whose income there was also a savings deduction). But several other new features of income taxation were felt particularly by small earners. Of these, the most painful was the result of a measure that had been intended to protect smaller incomes. As noted, $660 was supposed to be exempt from a single person’s personal income tax (and $1,200 from a married person’s). However, the amount of the normal and the graduated tax liabilities combined could end up leaving a taxpayer with less than $660 (or $1,200). The tax designers had anticipated this notch problem and specified that the payment of taxes would not be allowed to reduce anyone’s income below one of those two thresholds. That was a good idea. But it had an unfortunate, even perverse, consequence, creating a new notch problem. Once the taxes kicked in, because the normal tax took 7 percent of total income starting at $660 or $1,200, and then the 30 percent graduated tax rate was applied to the first $500 above the exemption, what happened was that some lower-income taxpayers with no dependants (likely those who were middle-aged, with grown children or no children) were being taxed on 100 percent of their income over the $660 or $1,200 threshold, up to gross incomes of $733 or $1,362. In other words, on the first $73 or $162 over the exemption amounts, these people paid a 100 percent tax rate. In weekly terms, that $162 over a year meant that a married man without children would see disappear from his pay every week an amount that would feed him and his wife for about five days.

Not surprisingly, then, tax complaints from lower-income men and women soon flooded into the Department of Finance. In the weeks following the June 1942

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19 One group that felt disadvantaged was holders of government annuities, who were treated less favourably under the compulsory savings provisions than were holders of commercial insurance company products. These annuity holders were characterized by various members of Parliament (MPs) as having small incomes and including disproportionately stenographers, nurses, school teachers, clergymen, and people in business “in a small way.” Another category of low income earners were people employed intermittently, who were at risk of overdeduction from very small incomes. Toronto MP T.L. Church expatiated more generally on the tax hardships of low-income men and threatened that the increase in their taxes would make them unable to help support their impoverished relatives. Canada, House of Commons, Debates, July 31, 1942, at 5090-92; July 16, 1942, at 4312-13; and July 17, 1942, at 4328-29.

20 Perry, supra note 1, at 361-62.

21 Someone earning $1,362 in a 52-week year took home $26.19 a week: the 1942 taxes took $3.11 of that. The number of days over which that dollar amount would stretch (between 4.33 and 5.18 days at 30 or 36 cents per day) was calculated from the Health League of Canada’s figure of 30 cents per person per day quoted in the Globe and Mail’s “Homemaker Kitchen Library” column. The columnist’s own estimate was that 36 cents per person was the best she could manage for her own family, so the Health League may have exaggerated slightly how far one could stretch 30 cents: “Dear Neighbors,” Globe and Mail, June 8, 1942.
The minister and his staff read and replied to all of those letters, usually within a few days’ time. Material from them provided some of the content for the speeches and other public relations efforts aimed at the new income taxpayers. It was imperative that Ilsley convince Canadians that these taxes, which were causing so many of them sleepless nights, were both essential and fair. He knew that people could avoid income taxation even when the tax was deducted at source."

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22 The records of the Department of Finance contain several volumes of letters (roughly a metre’s worth) written by members of the public to either Prime Minister King or Ilsley on income tax questions between 1940 and 1943. These files are organized alphabetically. Choosing files at random, my research assistant and I read and took notes on approximately 200 letters, specifically all of those from correspondents whose last names began with D, E, F, G, I, J, K, L, or M, plus a small series of letters on the income tax treatment of cost-of-living allowances. LAC, RG 19, vol. 452, files 111-14A-0-1 to 5, 111-14M, and 111-14E; vol. 453, file 111-134M; and vol. 449, file 111-14-827. Some aspects of the labelling of the files suggest that, extensive though they are, this set of files was sampled by the accessioning archivists, rather than preserved in their entirety. These letters came from a wide range of Canadians from all over the country, including a churchmouse-poor parson in Saint John, New Brunswick; a single female barrister in Regina; a sickly pensioner in White Rock, British Columbia; a young woman in a rural Quebec factory; and, in what looked like a furious, drunken scrawl, a Toronto worker barely surviving on a small wage and supporting his dependent father. Whether these letters expressed the full range of opinions among Canadians is unknowable, but they are the letters that officials in the Department of Finance (and sometimes the minister) saw. It was not a scientifically selected sample, but it was still, in some sense, the voice of the people. That the letters were taken into consideration is suggested by the fact that their essential points were summarized for Ilsley by Robert Bryce in a list compiled in late August or early September 1942: Questions Most Commonly Asked About the Income Tax in Correspondence, circa August 29, 1942, LAC, RG 19, vol. 3543, file Taxation. And on more than one occasion, Ilsley referred to the letters he had received as a source of his knowledge about people's concerns. See, for example, J.L. Ilsley, Sharing the Cost of War: An Address Before the Trades and Labour Congress of Canada at Quebec City, September 1, 1943 (Ottawa: National Liberal Federation, n.d.), at 13; and “Income Tax Increases Are Defended by Ilsley,” Toronto Daily Star, July 18, 1942.

23 Replies in 1942 and 1943 were commonly dated as little as two to four days after the date of the writer's original letter. Most went out over Ilsley's signature; some, but not all, were initialled as having been composed by senior staff (assistants to the deputy minister) such as “AKE” (A. Kenneth Eaton), “JHP” (J. Harvey Perry), or “RBB” (Robert B. Bryce). Ilsley's private secretary, Miss A.W. Wickwire, also wrote some of the replies. One satisfied citizen, whose letter from Ilsley had been written by Bryce, wrote, “I don’t think there is very much wrong with our government when a cabinet minister will take the time to advise an un-influential woman about her financial problems. It makes me more certain than ever that the Liberals in power do care what happens to the little person.” Mrs. Gladys G. Stacey to J.L. Ilsley, July 5, 1945, LAC, RG 19, vol. 3403, file 6529-6550.

24 Wage earners’ strategies for avoiding tax featured in debates about taxation in the House: see, for example, Canada, House of Commons, Debates, July 11, 1944, at 4723. In 1948, journalist Blair Fraser commented that not reporting tips and earning income through two different jobs were common ways of hiding income, methods frequently used during the war. These sorts of dodges seem to have been common knowledge. Blair Fraser, “Who Are the Tax Dodgers?” Maclean’s Magazine, March 15, 1948, at 7.
Two mechanisms of tax avoidance that wage earners were quick to adopt following the 1942 budget were limiting their hours of work (“absenteeism”) and refusing overtime. One employer complained, for example, that “[s]ome of the girls have figured out that if they work fifty weeks at $13.00 a week they will not have to pay any taxes. . . . The result of this is that they work four or five days a week.” A shipyard worker in Port Arthur wrote to suggest that overtime work be tax-free and paid in war savings certificates. He believed that “a great many of the workers here take time off, to avoid paying taxes.” Finance officials also learned about organized labour’s views by means of the labour press surveys—monthly digests of themes in labour newspapers and magazines—compiled by the Wartime Information Board (WIB). In the spring of 1943, Finance was considering seriously advice from a payroll systems specialist about how to disguise the fact that working overtime immediately increased tax deductions. A group of civil servants convened by the WIB’s John Grierson in 1943 to address problems of “industrial morale” were told that “[m]any workers felt that deductions were so considerable on the sixth or seventh day of work that it was not worth their while to work more than five or six days a week.” J.L. Cohen, the labour member of the National War Labour Board, reported that “the problem of income tax deductions had been touched on in virtually every submission before the National War Labour Board during the course of its public inquiry” and urged those who were concerned with industrial morale not to brush aside labour’s concerns too lightly.

The most pressing of these concerns came from families where a married woman was earning more than $660. In the early days of the debate on the 1942 budget, Ilsley heard from women like Violet Flaherty:

I am a woman of 48 & working in a munition factory with hundreds of others, and I am in a position to get the reaction of the workers as they come & go. The reaction to this latest tax is that all married women or at least 90 p[er] c[ent] of them are ready to stay home by the 1st of September [when the 1942 tax rates and deduction at source would come into effect]. I will state my own position: I have 5 children, my husband is a rubber worker. Last year we started to buy our own house. So this year I had the

26 James Duncan to Ilsley, April 16, 1943, LAC, RG 19, vol. 452, file 111-14E.
28 R.B.B. (Bryce), Memorandum for the Minister re: Proposal of Mr. Maddock and Mr. Bartram, February 5, 1943, LAC, RG 19, vol. 3543, file Taxation.
30 Minutes of Meeting of the Committee on Industrial Morale, supra note 29.
opportunity to help him out by going to work at the “Sunshine” plant, 6 miles from home. I make 25 [cents per] hour, 8 hours [per] day. Now as I understand, the government will take 7 of every 15 dollars I earn yet I must pay a girl to look after the children, [and I must] come home from work to wash the linen, iron it & cook the meals. Do you think that we married women will continue to work under the terms the government will enforce. It won’t pay us to go out at all. By the time we pay car fare & the girl[’]s wages, we won’t have anything left. So I, and I can safely say hundreds more will not work under the terms set by the government for Sept 1st 1942. (Being among the women I know their reaction better than most people.)

By the time Mrs. Flaherty put the case to Ilsley so clearly, he had already heard that married women were thinking of giving up on war work in response to his tax measures. While Mrs. Flaherty’s letter was on its way to Ottawa, the government had made a change to meet her criticism. Ilsley replied to say that he had already amended the statute with cases such as hers in mind: she would be taxed as single, but her husband would keep the married man’s level of personal exemption. As a result, the married couple’s total exemption would be $1,860, a bit more than the $1,500 that had been exempt from the graduated income tax in 1941. This was a fairly small concession, and it alleviated financial pressures in working-class families only slightly. A year later, as a letter from a married woman who had returned to her pre-war job in telegraphy explained, the costs and inconveniences associated with having both partners working meant that some patriotism was still required for a married woman to take up war work. Nonetheless, the government had responded to the protests of married women workers by amending the 1942 budget proposals before the new tax legislation was enacted.

Other distinctively situated groups would also threaten to withdraw their work in protest over their new tax liabilities. The Indian superintendent in Brantford, Ontario, Major E.P. Randle, pointed out that, reasonably in his view, the Six Nations people might well give up war work if their new incomes were taxed:

Some of them will do this as a matter of principle because they consider taxing them is an injustice and unfair. Others feel that after the tax is off and their daily expenses paid there is not enough left to make the long hours and the worry of [commuting by “inferior or difficult means of transportation”] worth while.

31 Mrs. Violet Flaherty to Ilsley, July 14, 1942, LAC, RG 19, vol. 452, file 111-14E.
32 Ilsley to Mrs. Violet Flaherty, July 17, 1942, LAC, RG 19, vol. 452, file 111-14E.
33 Mrs. Margaret G. Gillespie to J.L. Ilsley, April 30, 1943, LAC, RG 19, vol. 452, file 111-14E. In a similar vein, see Mrs. Gladys Ell to J.L. Ilsley, July 23, 1942, LAC, RG 19, vol. 452, file 111-14E.
34 Major E.P. Randle to the Secretary, Indian Affairs Branch, September 22, 1942, LAC, Department of Indian Affairs and Northern Development records, RG 10, vol. 6821, file 493-1-6, part 1.
These workers would not have been alone in withdrawing their labour. At the Arvida, Quebec aluminum plant, some workers did so temporarily: tax protest played a part in the strike there in the summer of 1941. And in British Columbia in 1942-1944, Chinese-Canadian workers in the shipyards and sawmills went on strike to protest the way that new tax regulations imposed exceptional costs on men who were supporting wives and children back in China. Taxed as single men, on wages that reflected the racism of the local labour market, these workers could not always document their family support obligations in ways that met Ottawa’s standards. At first they struck on their own; then, as tax issues became more central for organized labour, the Chinese-Canadian workers’ tax protest won the support of the shipyard unions and the woodworkers’ union. The attempt to bring lower-income Canadians into the role of income taxpayer created new sorts of conflicts and alliances, making it a challenge for Finance and Revenue to secure cooperation from taxpayers and prompting new uses for existing organizations.

Beyond the worry about resistance among hourly wage earners, Ilsley also had to convince the slightly better off that a heavier income tax burden was fair and necessary. While the very poorest could only threaten to withdraw their labour, others had at their disposal a different means of tax protest: they could threaten not to buy war savings certificates or Victory Bonds, or, worse, to cash and spend those they had bought. (See figure 1.) In commenting on the new tax burdens, voices from this cohort claimed that the personal income tax took up anything that they had to spare: “They ask us to buy bonds, but with paying tax and other expenses how can we?” inquired the wife of an air force mechanic. A single woman earning a decent salary (for a woman) of $1,907.36 per annum ($27,266 in 2014 dollars) explained to Ilsley exactly what she spent her income on, and inquired of him how she could pay the new income tax: “What am I to do, drop this Insurance for my old age? Let my home people starve or go on relief? Subscribe nothing to the War Effort?” Another correspondent was incredulous that the government expected both income tax and war savings from him. In this opinion, he joined with Opposition leader R.B. Hanson, who had raised in the House the case of a clergyman who “receives in cash $1,500 out of which you intend to take $105 leaving him with the princely sum of $27 per week with which to feed, clothe, educate, pay for medical

37 For an example of the threat to sell, see Mrs. Annie Horncastle to Minister of Finance, December 10, 1941, LAC, RG 19, vol. 3404, file 7001-7050.
38 Mrs. Rexford Duckworth to Ilsley, March 15, 1943, LAC, RG 19, vol. 452, file 111-14E.
39 Miss W.E. Drummond to J.L. Ilsley, July 15, 1942, LAC, RG 19, vol. 452, file 111-14E.
Resentment of the burden of income taxes threatened the success of the war savings campaigns. The volunteer leaders of the War Finance Committee could rely on prominent businesses, such as the T. Eaton Co., themselves major holders of war loan bonds, for support in countering the combination of tax resentment and resistance to the bond sales drive. This Eaton-sponsored ad appeared in the Toronto Globe and Mail, April 18, 1944, in support of the 1944 Victory Bond campaign.

and dental care etc. etc. etc. etc. and then apparently buy some war saving certifi-
cates and bonds with the balance.41

Threats to the purchase of war savings products mattered because the revenue
that those products generated was nearly as important as tax revenue (and more
important than direct taxation) in financing war expenditure. Looking back on
1942-43 in his March 1943 budget speech, Ilsley celebrated the relatively equal
contributions to the federal budget of, on the one hand, tax revenues (of all kinds)
and, on the other, borrowing: 52 percent tax to 48 percent borrowing. He also
noted how much the contribution of direct taxation had grown, constituting now
two-thirds of total tax revenues. That amounted to direct tax revenue of approxi-
mately $1.4 billion, compared to the $2.423 billion to be raised by borrowing.42
Quite apart from its own value as a source of revenue, personal income taxation
mattered because it might threaten the new income taxpayers’ willingness to save.

The success of the borrowing program depended importantly on participation
by small buyers. To be sure, the vast majority of the Victory Loan issue was pur-
chased by financial institutions, big business, and possessors of substantial fortunes.
But the bankers who ran the National War Finance Committee (NWFC) persistently
urged wage earners to purchase war savings products, in order to reassure the big
institutional buyers. As Bank of Montreal president and NWFC head George Spinney
pointed out to a group of bankers in 1942, it was in the interest of banks, as large
holders of government of Canada bonds, that many Canadian voters should also
own such bonds:

> It is sometimes difficult to get the public at large to realize that any development
which might harm the investment portfolio of banks and insurance companies is
against their own interests. It is less difficult, however, to convince a man that his own
interests are imperilled if some move is on foot [sic] which might affect the worth of a
War Savings Certificate or Bond which he has in his own bureau drawer or safety
deposit box.43

If government was going to be committed to a program of market support that
would shore up the price of bonds, the optics of protecting the small investor would
be helpful.44 Ilsley pointed out that it was the government’s “deliberate policy” to

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41 Ibid. The quoted passage is Graham’s paraphrase of Hanson’s remarks as reported in the
Montreal Herald. Hanson’s actual remarks can be found in Canada, House of Commons,
Debates, July 20, 1942, at 4442.
42 Canada, House of Commons, Debates, March 2, 1943, at 840-42.
43 A.W. Rogers to General Manager, The Bank of Nova Scotia, December 12, 1941, confidential
enclosure entitled “The National War Finance Committee and the Chartered Banks,” dated
December 9, 1941, included with Memorandum of a Meeting in Ottawa on Thursday, December
11, 1941 at 1 a.m. in the Office of G.W. Spinney, The Bank of Nova Scotia Archives, RG018/
oi/0007/0000/0178, as quoted in Robert L. Ascah, Politics and Public Debt: The Dominion, the
Banks and Alberta’s Social Credit (Edmonton: University of Alberta Press, 1999), at 105.
44 Ascah, supra note 43, at 105.
ensure that Canadian bonds were widely held: he estimated that 60 percent of income earners would also be recipients of bond interest after the war. He did not want payouts of interest to bondholders to be seen in the future, as they had been in the past, as draining earnings from the pockets of modest earners into the coffers of the rich. As a First World War veteran, A.W. Frazer, put it, if tax revenues went largely to service a vast national debt held by the wealthy, then government would be just the same old “gang of bond collectors.”

The relationship between war savings and tax policy was also noted by CCF members of Parliament (MPs). From the outset of the war, the leader of the CCF (the Co-operative Commonwealth Federation), M.J. Coldwell, had called for the “conscription of wealth” through the taxation of capital gains. In demanding this change in tax policy, the CCF drew attention to the real difference between taxing income and taxing wealth—that income taxation bore down more heavily on small incomes. When the NDT was introduced, Coldwell distinguished it as a wages tax, rather than an income tax, and called for the taxation of capital gains, along with a further tax on capital in the form of a dominion succession duty. In their tax thinking, socialists (by no means politically marginal in 1942-43 in Canada) had begun to take into account the potential revenue that could be reached through taxing investments, especially those war loan bonds on which the wealthy had earned tax-free income.

In 1941, Coldwell made this point by sending Ilsley a letter from a veteran and Saskatchewan farmer, William Casey Teneycke, whose views, Coldwell said, exemplified those expressed in many other letters he had received. A “plain hardboiled Canadian” who wanted nothing to do with “any of the isms,” Teneycke asserted that “the common producer class” was “taxed for everything we have or can get while the monied class buy war bonds for our children of future generations to pay. . . . Why do you not tax the rich the same as you do us for all they got?” After calling for conscription more generally, he concluded, “If you took all their money by taxation there would be no war debt after the war as you would have all the money already.” That money could then be “justly divided among the people who won the war and not as after the last war be in the control of a few bloated millionaires and their useless offspring.” This was far from a sophisticated technical statement of how to tax capital, but the general drift was clear. In the Department of Finance, Robert Bryce tried to devise more subtle ways of conscripting wealth, by minimizing

45 Canada, House of Commons, Debates, June 26, 1944, at 4172.
48 Canada, House of Commons, Debates, September 9, 1939, at 55, and June 28, 1940, at 1230.
49 Richard Toye, “Keynes, the Labour Movement, and ‘How To Pay for the War’” (1999) 10:3 Twentieth Century British History 255-81, at 277.
50 Coldwell to Ilsley, June 9, 1941, with enclosure from Wm. Casey Teneycke, LAC, RG 19, vol. 2704, file 500-2.
the returns offered by the Victory Loans to big capital. His proposals were no more successful than was Coldwell’s advocacy of capital gains taxation. But it is worth noting the full range of ideas about war finance that critics expressed, and the continuing impact of dissatisfaction with the methods that had been initiated during the First World War.

The anti-capitalist currents of the interwar years had made bankers aware of the risk to capital posed by the power of the mass electorate: the February 1942 victory of a CCF candidate over a wealthy Conservative alarmed investors. Although the CCF’s motion to require interest-free war loans had been defeated in the House in February 1942, the party’s popularity (especially in the western provinces) was a matter of lively speculation. Staving off a socialist threat and thus preserving political stability was closely connected to the viability of the war loan program. In September 1943, George Spinney (still the head of the NWFC) found out that the worry about the CCF’s popularity extended to New York, where fears of growing support for the party threatened Victory Bond sales. The first question Spinney heard from his banking friends there was, “What about the threat of the C.C.F. Party?” As the fifth Victory Loan campaign approached, the New York bankers’ remarks served to “impress upon [Spinney’s] mind afresh” the importance of “confidence.” Writing to Clifford Clark, Spinney warned that “[a] good many people throughout Canada” were “fidgety and perplexed” about inflation and “worried over the infiltration of C.C.F. theories.” He and Clark discussed asking the CCF’s Coldwell to make a public statement that would quiet alarm by affirming the party’s commitment to honouring public debt (which included not reducing the return to investors by taxing their capital gains). Clark worried that Coldwell could do more harm than good to the market for Canadian bonds if he refused or elaborately hedged his support. Coldwell ended up making an almost perfectly anodyne statement about the complete safety of investing in war bonds. Only the initiated would have suspected a reference to capital gains taxation in his comment that “disagreeing

51 See Bryce, supra note 46. My assertion that the measures that Bryce proposed in this memorandum were not taken up is based on my reading of the wartime budget speeches and on Robert Ascah’s brief discussion of this document (Ascah, supra note 43, at 111). However, a close examination of the work of the Victory Loan committee would be necessary to determine whether the quite subtle methods of rationing access to Victory Loan subscriptions might have been accomplished quietly.

52 “Surprise Motion Follows Rejection of Coldwell Plan,” Globe and Mail, February 19, 1942. Raymond Blake summarizes the literature that emphasizes the CCF political threat as key in prompting King’s move to develop a social security program; Blake also disputes that view. As I argue below, I think Blake is right to emphasize the social security move as somewhat autonomous from partisan considerations, but I suggest that the CCF threat was more than just an electoral worry. Raymond B. Blake, From Rights to Needs: A History of Family Allowances in Canada, 1929-92 (Vancouver: UBC Press, 2009), at 73-74 and 297, note 79.


with the government’s war finance methods” was not a reason to boycott the Victory Loan campaign.55

One other challenge to the success of the new income tax (and the success of the Victory Loan campaigns) was something more subtle than organized protest or the complaints of individual letter writers, and its impact on tax rhetoric and even tax policy is harder to assess. That challenge was the force of rumour. Stories about tax evasion brought the fairness of income taxation into question; rumours about savings certificates or bonds discouraged voluntary savings. Most commonly, there were rumours that other taxpayers were getting away with evasion. Some of these were expressions of the usual general suspicion that the corporations and the rich were getting off lightly. Others, more specifically, alleged “the hiding of sales and income by small storekeepers; the renting of three or four rooms in home after home to bring in as much as $20 weekly with never a thought of declaring that income; an instance of ‘another source of extra income’ of $50 a week that was never likely to be traced and therefore ‘forgotten to be declared,’ and so on.”56 There were also rumours that the government might make it illegal to cash bonds and savings certificates or, conversely, that all income tax would be refunded after the war.57 And, finally, there was resentful talk of income tax money being wasted through incompetent or partisan spending. Listed as rumours number 210 and 239 by the WIB’s “Rumour Clinic,” these stories of waste were apparently common.58 They showed up in the questions raised by union leaders in Montreal, too: union members had told their leaders that “things were not being done as economically as possible” in the plants where they worked.59 Rumours such as these filled in gaps in knowledge, and gave expression to fears, anger, and mistrust. Mutterings of this sort could help people to feel justified in evasion or reduce their willingness to invest in war savings, putting self-interest before social interest. The Finance and Victory Loan people attempted to allay mistrust and calm feelings by feeding stories to the press and by supplying answers for use by the WIB’s Rumour Clinic. In this material, they emphasized collective responsibility and the social value of the work of government employees.60

56 A. Edington to W.C. Clark, July 7, 1942, LAC, RG 19, vol. 4030, file 129W-2. These and other rumours were implied in the questions summarized in R.B. Bryce, Questions About Income Tax, the Budget, and War Saving Raised During Tour of the Minister of Finance Through Ontario [sic], August 24-29, 1942, LAC, RG 19, vol. 453, file Taxation.
58 “C” (likely W.C. Clark) to R.B.B. (Bryce), April 14, 1943, and Memorandum from W.C. Clark to Reg Hardy (Ottawa Press Gallery), April 21, 1943, LAC, RG 19, vol. 4030, file 129W-2. The Rumour Clinic sent its materials, rebutting rumours, to 30 newspapers each week.
60 See, for example, the memorandum from Clark to Hardy, supra note 58.
In the next section, I will discuss other efforts by Finance and Revenue to overcome the new taxpayers’ resistance. We shall see that the sense of community that many Canadians recall from the war years was carefully cultivated, in part to serve the purposes of war finance.

RESPONSES TO RESISTANCE

In describing the forms of resistance triggered by the new income tax, I have already indicated two kinds of responses by tax and revenue authorities. One was revision of the income war tax amendments proposed in the 1942 budget; this revision was designed to fend off a tax-driven withdrawal of labour—that of married women employed in war-related jobs. The other kind of response was rhetorical or educational: the example we have already seen is the initiative taken by Finance officials in supplying responses to the fiscal rumour mill. In what follows, I examine the campaign of persuasion that was carried out in responding to citizens’ letters and crafting public relations materials, as well as in one of Ilsley’s key wartime speeches to labour and in his budget speeches of 1943 and 1944. I draw connections between that tax rhetoric and the terms in which family allowances were introduced in 1944, arguing that the government’s strategy was designed both to legitimize personal income taxation beyond the period of war finance and to secure tax compliance from the new income taxpayers during the war. I conclude with a discussion of the particular tax relief amendments of 1943 and 1944, and show how they too served these purposes, while also protecting the overall financial system and the federal government’s ability to borrow.

The democratic response was imperfect; not all publics were equally successful in having their professed needs met. But Finance and Revenue both made serious attempts to engage citizens in an intelligent discussion of war finance, and to respond in ways that balanced the collective project of war finance with the needs of individuals or particular groups. These were self-consciously democratic leaders, confident that all of the publics were intelligent and reachable by appeals to justice and an idea of the common good. They were liberals whose idea of the common good rested on mutual interests, more than on mutual responsibility, but that was, in its own way, a form of social liberalism.

EDUCATING THE TAXPAYERS

The respect that fiscal policy makers showed the public extended even to those whom they believed to be, on the one hand, in the grip of socialist or social credit error, or, on the other, in the grip of somewhat anti-statist obsessions with waste and bloated public expenditures. For example, Finance was not willing to accept the CCF and Social Credit view that no interest should be paid on Victory Bonds, but it did provide no-interest bonds as an option for those Canadians who thought that they should not be paid for the money they loaned for the war effort.61 Another sign

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61 Slater, supra note 1, at 81, table 7.1; and Ilsley to John F. Macdonald, Esq., December 30, 1940, LAC, RG 19, vol. 2704, file 500-2.
of Finance’s democratic commitment at this time was Clifford Clark’s requiring his staff to respond to letters from Canadians who proposed unorthodox fiscal or monetary schemes. This work was sometimes burdensome. But in maintaining a civilized tone and by supplying evidence, argument, and reading suggestions, the patient efforts of Harvey Perry, Robert Bryce, Kenneth Eaton, W.C. Ronson, and others to explain and justify the federal government’s war financing policy, one Canadian at a time, must impress anyone who reads these files.

For example, it might have seemed to these Finance officials that Oliver Wright of Glansworth, Ontario, was simply a cranky old Gladstonian when he wrote, “Wherever high taxes are discussed, this matter of unnecessary employees comes up, and if something is not done to rectify it, you are going to have difficulty in making collections.” No one in Finance knew who Wright was; in fact, they had to make a special effort to find his return address. However, Ilsley had his assistant deputy minister, W.C. Ronson, compose a reply. Ronson wrote a 1,000-word, information-packed response to Wright. He apologized to the department’s typist for its length, saying, “My only excuse for so long a letter is the importance I attach to a complaint of this nature.” This was the work of a man convinced of the merits of government policy and possessed of the belief that the citizen/taxpayer could be persuaded by reason and evidence to share his conviction. In the same way, a multi-letter exchange between the First World War veteran A.W. Frazer and Bryce impresses. Frazer was impassioned and somewhat CCF-leaning. He and Bryce disagreed on some basic points. But each made his case and acknowledged the merits of some aspects of the other’s perspective. The Finance officials were capable of dismissing writers they knew to be doctrinaire—for example, the authors of Toronto’s The Printed Word and Horace Brittain of the Citizen’s Research Institute of Canada, on the right, or committed opponents of capitalism, on the left. But even to those, the replies from Finance noted their differences, rather than simply ignoring the

62 Clark’s policy of requiring full and helpful responses to the department’s many incoming letters, something Bryce recalled as having been an irritating burden, was clearly of political value, however much Bryce sometimes doubted the ability of his letters to persuade the economic amateurs who wrote in to offer solutions to the Great Depression or the problems of war finance. Robert B. Bryce, Maturing in Hard Times: Canada’s Department of Finance Through the Great Depression (Montreal and Kingston, ON: McGill-Queen’s University Press, 1986), at 228.

63 Oliver Wright to Ilsley, January 20, 1941, LAC, RG 19, vol. 3543, file Taxation.

64 W.C.R. (Ronson) to Miss Wickwire, undated transmitted note (likely February 2, 1941). The letter went out over Ilsley’s signature, to Oliver Wright, February 3, 1941, LAC, RG 19, vol. 3543, file Taxation.


66 R.B. Bryce to Davidson Dunton, February 24, 1944, LAC, RG 19, vol. 4030, file 129W-3; Memorandum to Dr. Clark from R.B.B. (Bryce), pencil notation by A.K.E. (Eaton), October 27, 1942, LAC, RG 19, vol. 3543, file Taxation.
grounds of disagreement. Ilsley and his staff took seriously the democratic work of explaining and justifying policy to citizens who chose to participate in open debate.

Finance, Revenue, and the NWFC also worked with the WIB to craft a public relations campaign that would encourage tax compliance and voluntary savings. Themes for this campaign were generated in part through an interdepartmental committee on industrial morale. (“Industrial morale” was the bloodless term for the problem of “intolerable strain and worry” among people who earned less than $3,000 per year that WIB correspondents had reported in their summary of responses to the 1943 budget.) Convened in March 1943 by John Grierson of the WIB, this committee considered how to address such problems, and broader ones too: industrial morale problems also included wildcat strikes, overtime refusal, the demand for collective bargaining rights, and the expectation of other measures of respect (discussed in the hearings of the National War Labour Board between April and June 1943). The labour conflicts of 1941–42 form an essential part of the background to the tax rhetoric and policy of 1943–44.

Bryce told Clark that he hoped the committee on industrial morale would be useful to Finance in helping to put across “certain ideas with regard to taxation, and possibly with regard to borrowing, as well.” Bryce or Eaton attended the committee’s meetings between March and July, telling the group that Finance had “a considerable amount of data from letters received” on the subjects of compulsory saving and tax on overtime pay, and that the department was “seriously concerned with the relationship of income tax deductions to absenteeism and industrial morale.” In May, the WIB’s labour liaison, David Petegorsky, followed up by asking Bryce to let him know what sort of industrial morale objectives Finance wanted to see addressed. Bryce’s reply made it clear that he knew that both rational argument and emotionally compelling persuasion were necessary if “the working man and his

67 See, for example, Ilsley (“WCC”) to Phineas Pfunder Onderdonck, September 14, 1943, LAC, RG 19, vol. 3402, file 6301-6400.

68 “Public Reaction to the 1943 Budget,” report of WIB correspondents’ communications “two or three days” after the March 2 budget, LAC, RG 19, vol. 4030, file 129W-6.

69 That context is described in Canadian labour history surveys such as Bryan D. Palmer, Working-Class Experience: Rethinking the History of Canadian Labour, 1800-1991, 2d ed. (Toronto: McClelland and Stewart, 1992). An important monograph on one significant strike is Laurel Sefton MacDowell, “Remember Kirkland Lake”: The History and Effects of the Kirkland Lake Gold Miners’ Strike, 1941-42 (Toronto: University of Toronto Press, 1983). During the war labour board hearings in the spring, labour executive Aaron Mosher noted organized labour’s frustrated aspirations to be represented on wartime administrative bodies. Without giving labour a seat at the table, he pointed out, government could not expect to get the workers’ “whole-hearted support of the war effort.” Canada, National War Labour Board, Proceedings, report no. 1-13 (Ottawa: King’s Printer, 1943), at 131.


wife,” who were in his view “the bulk of Canadian citizens,” were to help make war finance work. The department, he wrote, was

interested to see that our major financial and economic policies, the reasons for them and the effects of them, are properly understood by the working man and his wife. In particular we are interested in their understanding of the taxes that affect him, the need for saving, and the whole price and wage stabilization program. We want labour to understand our tax measures and to be convinced that they are necessary and equitable, so that they will cause the least possible dissatisfaction and loss of productive effort. We very much need the cooperation of workers and their families in our savings program. Furthermore, and perhaps more difficult than all the others, we would like to see labour sufficiently well convinced of the need for avoiding inflation that they would refrain from pressing for higher wage rates which would mean higher prices.

We believe that an understanding of the real issues will help to promote these ends. . . . [W]e don’t believe that understanding or acquiescence [alone] is enough; we believe there is need for some emotional drive, particularly on such things as savings campaigns, where more is needed than mere acceptance of measures. In other words, I think it is true to say that the Finance Department would like to see an effort made to arouse some mass support and mass feeling behind the economic measures that have been devised to make it possible to fight the war without inflation. This, I realize, will take some real salesmanship.72

In short, Bryce believed that most Canadians could be persuaded to share his belief in the government’s tax policy and act enthusiastically on it. Petegorsky later sent him recent US poll data showing that most Americans did not actually believe that “higher taxes” for “everyone” could help keep prices stable: 57 percent thought that there was no connection between prices and taxation, and 19 percent thought that higher taxes would raise prices.73 If the same level of incomprehension prevailed in Canada, as it likely did, there was indeed work to be done.

In the latter half of 1943, the WIB, Finance, and Revenue developed educational and promotional material aimed directly at workers, both unionized and non-unionized, to combat tax protest and to persuade wage earners that demands for increased pay were inflationary and therefore self-defeating. Revenue’s contribution to this campaign included a 14-page, pay-packet-sized pamphlet. It was produced and circulated sometime between June 1943, when the tidal wave of new income tax returns (over 2 million of them) hit the crowded desks in Revenue, and December 1943, when the department began to issue refundable tax certificates.74 The front cover of the Revenue pamphlet showed a puzzled worker, a middle-aged man, bombarded

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74 “Answers to Your Questions About Income Tax Deductions,” undated, circa 1943, City of Toronto Archives, fonds 200, series 361, subseries 1, file 42. The likely date of this document was determined from statements within the document and information about when the certificates began to be issued.
by questions such as “Is too much deducted?” and “Is overtime worth while?” The back cover gave the gist of the pamphlet’s message: “False rumours” about the unfairness of the income tax were “based on misunderstandings and half truths.” In particular, the “refundable portion . . . will be repaid to you with interest,” despite what workers may have heard to the contrary. Inside the text-heavy pamphlet, there was more detail on why the income tax was fair (the rich and businesses pay more), the advantages of payroll deduction (no tax debt to hang over the worker’s head), and why certificates for the refundable amount were slow to appear (for faster results, Revenue would have had to hire and then fire an army of temporary workers). Overdeductions were possible, if unlikely, but they would be refunded. And overtime always resulted in the worker having more income. Detailed calculations were provided for the arithmetically inclined to peruse. In December, display ads making these points in cartoon form were circulated to company newsletters and personnel managers. In what may be a first, the joy of a tax refund cheque was illustrated. And in a further emotional appeal, there was the rhetoric of solidarity in the fight against Hitler.75 (See figure 2.)

As well as the information campaign aimed at the new income taxpayers, the anti-inflation campaign targeted both wage earners and consumers. Before 1943, anti-inflation themes appeared mainly in the advertising of insurance companies, banks, and investment dealers.76 “Sound money” was a perennial concern of these large investors in public bonds. The government’s advertising campaign around inflation ramped up, however, following the labour activism of 1941-1943. Aside from the occasional notice concerning particular price controls,77 the first of the Finance-driven anti-inflation ads, a sternly official one, appeared in December 1943 (see figure 3). In 1944, over the course of the year, government of Canada ads offered an education in economics in cartoon form, presenting images of workers and warriors together as heroes, images of interconnectedness, and a message of individual responsibility.78 Though wage and price controls were central to this education

75 LAC, RG 19, vol. 4030, file 129W-3. The date of the production of these ad mats is indicated in R.B. Bryce to Davidson Dunton, February 24, 1944, LAC, RG 19, vol. 4030, file 129W-3.
77 For example, “Effective Now, Prices of Tea, Coffee and Oranges Are Reduced by Law,” advertisement (Wartime Prices and Trade Board), Globe and Mail, December 7, 1942.
Figure 2
In December 1943, the Wartime Information Board provided employee publications with advertisements designed to reassure employees that the personal income tax was fair to them. The ads were supplied in an ad mat format, allowing publishers to select the images that best addressed the concerns of their readers.

Source: Library and Archives Canada, Department of Finance records, RG 19, vol. 4030, file 129W-3.
INCOME TAX IS A FAIR TAX! It's based on your total income. Higher incomes, higher rates. BUT, you pay NO tax if you are single and earn less than $660 a year. Married and earn less than $1,200 a year.

WHY PAY-AS-I-EARN? LUMP SUM PAYMENT OF TAXES You'd have to borrow and you'd go into debt.

PAY-AS-YOU-EARN You pay in 12 monthly instalments, as you earn.

NO, AND HERE'S WHY... Because — if too much has been deducted you either pay less at the end of the year or your money is refunded after your return tax is filed.

WHY TAX OVERTIME? Because — income tax is a fair and democratic tax. The more you earn the more you pay.

WHY WORK OVERTIME? BECAUSE CANADA NEEDS YOUR TIME FOR VICTORY AND YOU CAN USE YOUR OVERTIME EARNINGS FOR VICTORY BONDS AND CERTIFICATES FOR THE FUTURE.

ISSUED BY WARTIME INFORMATION BOARD. PRODUCED BY NATIONAL FILM BOARD.
In 1943-44, the Canadian government conducted an anti-inflation advertising campaign. This advertisement (the first to appear) was published in the Globe and Mail on December 16, 1943.

campaign, at least three of the anti-inflation ads included increased taxation among
the list of measures being employed to control inflation.79 As organized labour
fought during 1943 and 1944 to raise the wages of the poorest workers to some-
thing like subsistence level, union officials had to answer these messages from the
government of Canada: it had become harder to argue that perhaps a little inflation
would not be so bad.80

**Ilsley’s 1943 Speech to the Trades and Labour Congress of Canada**

In addition to speaking to wage earners and consumers generally, Ilsley made a
special effort to recruit the assistance of organized labour in fighting the tax protest
elements of the industrial morale problem. His emblematic effort was a speech that
he made at the September 1943 annual meeting of the Trades and Labour Congress
of Canada.81 This speech, later reprinted by the National Liberal Federation, with
an approving foreword from the *Toronto Daily Star*, was also supplied by Finance
officials in the fall of 1943 when they answered letters complaining about taxation
of the cost-of-living bonus. In the speech, Ilsley attempted to address every argument
and rumour that had been raised in letters to his department from working-class
Canadians. He acknowledged that some thought that inflation was an “invented . . .
bogey.”82 He showed that he understood the doubts about the forced savings
amounts. He repeated the concerns about tax falling on incomes that were already
too low, tax on overtime, and tax on cost-of-living bonuses. Some of his answers to
these concerns spoke effectively to labour’s concerns about tax fairness, while others
would have been less convincing. He was certainly on common ground with his
labour audience when he defended the principle of progressivity and pointed out
that it underlay the taxation of overtime earnings. But in some of the other ways he
framed his messages of social solidarity and a positive role for the state, his views on
what solidarity meant would not have made sense to the socialist members of his
audience: it was not socialism but social liberalism that he was selling.

A key element in Ilsley’s argument was that taxing “even the lower brackets” was
necessary in order to get “even half as much in taxes as this war is costing us.”83 This
assertion makes sense only on a rather curious understanding of “the lower brackets.”
Ilsley seems to have been defining the term in the same way that the *Globe and Mail*
editors in 1946 defined “the small income group”: those who earned “$5,000 a year

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80 Rationing, price control, and taxing the income of better-paid workers was the package of
measures that Aaron Mosher of the Canadian Labour Congress offered as the way to prevent
81 Ilsley, *Sharing the Cost of War*, supra note 22.
82 Ibid., at 5.
83 Ibid., at 11-12.
or less” ($68,791 in 2014 dollars). While these are, literally, “lower” incomes in relation to upper incomes, even the best-paid unionized industrial workers among those Ilsley was addressing in 1943 rarely earned above $4,000. And in assessing the necessity of income tax contributions from “the lower brackets,” it is worth noting that personal income taxation in total, across all income levels, contributed only 23 percent of all tax revenue in 1943. Exactly how much the lower brackets contributed during 1943, we do not know in precise terms: the taxation statistics for that year reported tax for broad occupational groups rather than by income class. The first wartime income tax statistics reported by income brackets were the 1945 estimated income tax statistics published in 1946’s Canada Year Book. These give some broad orders of magnitude as to the scale of income tax assessments, and show how little need there was in war budgets for the many small and painful payments by low income earners.

As many in Ilsley’s labour audience would have been aware, from their experience during the Depression, taxing the poor served symbolic rather than balance sheet purposes. Those purposes had been imported into the federal tax system along with other features of special provincial income taxes such as those introduced in British Columbia and Manitoba in the 1930s. The BC and Manitoba taxes had been broad-based, charging a small flat rate on all incomes. Unlike the graduated taxes aimed at higher income earners—“soak the rich” taxes—these new provincial income taxes had been “show them the price” taxes; that is, they were intended to make lower income earners tax-conscious, so that they would understand that they shared in the obligation to finance activities of the state, especially activities such as unemployment relief that were likely to benefit them or their families directly. In arguing that every cent of low-income workers’ taxes was essential, Ilsley was also drawing on an older, elite vocabulary of tax fairness according to which, in fairness to those who paid income taxes at higher, progressive rates, the working poor had to carry a burden whose weight they would feel.

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84 “Who Pays the Piper!” Globe and Mail, May 29, 1946.
85 Perry, supra note 1, at 626-27.
86 Dominion Bureau of Statistics, Canada Year Book, 1943-44 (Ottawa: King’s Printer, 1944), at 824-25 and 858-60; and Dominion Bureau of Statistics, Canada Year Book, 1946 (Ottawa: King’s Printer, 1946), at 935-36.
87 Perry, supra note 1, at 360.
88 I discuss “show them the price” income taxation in more detail in chapter 4 of my work in progress, The Power To Govern: Taxpayers and Democracy in Canada, 1915 to 1971. In the 1939 Senate debate on the Special War Revenue Act, former prime minister Arthur Meighen argued for a dramatic lowering of income tax exemptions “so that the whole population, or nearly the whole of it, will be tax conscious.” Canada, Senate, Debates, September 12, 1939, at 37. Resistance to those taxes had been considerable, inspiring (among other angry reactions) a constitutional challenge on behalf of modestly paid civil service workers in Manitoba. James Forbes Appeal No. 92 of 1936 v. The Attorney General of Manitoba (Canada), [1936] UKPC 88. The politics of interwar taxation—sales as well as personal income taxation—are covered in chapters 3 to 6 of my work in progress, The Power To Govern, supra.
As a result of adopting this perspective, Ilsley, like other finance ministers before him, overstated the need for the nickels and dimes of income tax tribute from the less well-paid workers. In 1945, the 425,000 Canadians (17.9 percent of all personal income taxpayers) who were assessed on incomes under $1,000 ($13,758 in 2014 dollars) contributed just under 3 percent of total individual income tax revenues. That low-income group might well have wondered if the total $19,032 they contributed would have been noticed if it had been spread across the tax bills of the 2,800 Canadians who were assessed on incomes over $25,000 ($340,760 in 2014 dollars). Redistributing the tax burden in this way would have amounted to taking an additional $6.79 out of each of those high earners’ pockets, and would have helped to ease the strain on the household budgets of many low income earners: according to the Health League’s estimates, a single person could eat for about three weeks on that amount.89 So when Ilsley argued that the small contributions from the smallest taxable wages were necessary to finance the war, he was asking for considerable scrimping in return for a trivial tax contribution—1.42 percent of the total federal tax revenue (direct and indirect taxation together), based on the 1945 tax statistics I have used here.90 The rhetoric of the responsibility of the small earner was thus more about preventing the poor from being free-riders and making them see themselves as tax-conscious taxpayers than it was about buying bombers and feeding the troops.91 The same rhetoric would be summoned up again in 1946 and after to make the case that the social security state required the multitude of low-income Canadians to continue to pay income tax. Reading the same 1945 tax incidence figures that I drew on above, the Globe and Mail’s editorial writers in 1946 concluded that the data left “no doubt as to who will pay the cost of social security. It will be the small wage earner.”92 This was “show them the price” tax talk. When labour leaders charged that the wartime income taxes were too heavy on lower incomes, it was not that they misunderstood tax policy; rather, they recognized an old familiar discourse of tax fairness.

As discussed above, the elite view of tax fairness emphasized that all should contribute to the goods that tax dollars bought. Oliver Wendell Holmes famously said that in paying our taxes, the good we buy is civilization. During the war, Holmes’s assertion seemed literally true: at stake was the preservation of a democratic society. As a benefit argument for income taxation (if you benefit, you should pay), that notion of fairness could work both for and against a positive role for the state. On the

89 See supra note 21 for the basis for this calculation, which assumes a food budget of 30 cents per day.
90 Perry, supra note 1, at 626-27; Canada Year Book, 1946, supra note 86, at 935-36, table 5, “Individual Income Tax Estimates, Taxation Year, 1945.”
one hand, taxes were simply the tools of a democratic people’s common purpose. On the other hand, by taxing low incomes beyond what wage earners could bear, those who opposed a more active state could deliver an anti-statist lesson of tax consciousness—don’t expect much from the state because it will cost you—along with the rhetoric of social solidarity.

The other message of social liberalism in Ilsley’s 1943 Trades and Labour Congress speech was his emphasis on individual Canadians’ role as income taxpayers in maintaining price stability. In making his pitch to labour to accept his income tax measures in the name of fighting inflation, Ilsley urged them to consider the “financial and business economy,” a system in which their individual choices about working overtime would have systemic effects. It was not only a sense of togetherness or mutual responsibility, but also an impersonal system—the economy—that bound all together in a web of choices and consequences. “Stabilization,” a condition of that system, was eminently a social good created collaboratively by the choices of governments and individual citizens.

In addition to associating the new income taxes with paying for the war and with inflation prevention, Ilsley invoked social goods in the form of social security. He argued that the “financial capacity” that the nation had developed during the war must be applied to “the improvement of the Canadian standard of living.” “Financial capacity” meant borrowing methods as well as tax methods, of course. Indeed, the two were always intertwined. Like the mass income tax, widespread sales of dominion bonds to small investors would continue, as Canada Savings Bonds, after the war. But Ilsley’s 1943 use of “financial capacity” in his speech to some of Canada’s most influential labour leaders also referred to tax capacity, and in particular to the income tax that the labour movement’s members were being asked to pay. In a year when income tax protest was one of a cluster of sore points in labour relations, it made sense that Ilsley would say that, after the war, the income tax designed for war finance would be put to use for those social security purposes that the labour movement had long advocated. It was not only good politics to do so, but also a sign of the emerging social liberalism: the justifications for the stabilization policy, the war finance methods, and the social security measures were all shot through with a social liberal vocabulary of “togetherness”—an ideal of connectedness in which individuals’ self-interested actions were linked by macroeconomic mechanisms to social goods.


94 Ilsley, Sharing the Cost of War, supra note 22, at 15.
The Budget Speeches of 1943 and 1944

Ilsley’s budget speeches were substantial statements of this social liberalism. Having read floods of mail and torrents of questions about the new mass income tax of 1942, Ilsley in 1943 made one of his most memorable defences of the citizenship of contribution in the budget speech delivered on March 2, 1943:

> Taxes and loans are not exactions from the people by a government. They are weapons which the people through their elected representatives and the free methods of democracy have fashioned for their own use and their common purpose.95

In the same speech, he also gave a fine short lesson on what kinds of borrowing are inflationary and what kinds are not. He defended the 1942 tax measures, showing that Canadians were paying a larger percentage of their personal income in income taxes than were Americans or the British. He insisted that wage and price controls would continue, along with restrictions on corporate profits. He maintained that the democratic methods of war finance were those that inhibited inflation, and he stood by those methods on principle. And he appealed for help, especially in support of the Victory Loan campaigns. It was not until 1944, however, that his budget speech brought together social spending, tax relief, and the good of the economy in a discussion of measures aimed at low-income taxpayers.

The rhetoric of that speech was shaped by Prime Minister King. Three days before the budget was to be presented, King had Ilsley read out the budget speech in Cabinet. King had been thinking hard about how to play up the linkages between inflation prevention, social security, and working-class tax protest. Without wanting to absolve King of all his faults, I read his advice to Ilsley on how to present the 1944 budget speech as showing, not mere vote-counting, but an appreciation of the connections between household budgets, public budgets, and stabilization.96 King was urging that the budget speech show that the government knew that the taxation of personal incomes was causing “real hardship.” He wanted Ilsley to emphasize that the government had chosen a means of tax relief that would not only put money in the hands of “persons of low income” (social support) but also prevent “men quitting their work because of additional earnings which bring them into higher [tax] brackets” (response to tax protest). Ilsley should also emphasize the government’s effective “battle against inflation” and its decision to bring in a system of family allowances. All of this would show that “there was real relief in taxation though without yielding any principles.”97

95 Canada, Department of Finance, 1943 Budget, Budget Speech, March 2, 1943, at 1.

96 King’s point was not to change any of the agreed-upon measures, but to ensure that the rhetoric was right. The decisions had been made in Cabinet 10 days earlier: Mackenzie King diaries, supra note 9, June 13, 1944.

97 Mackenzie King diaries, supra note 9, June 23, 1944.
Ilsley’s speech on June 26, 1944 did all of these things. He even managed to respond to the Victory Loan campaigners’ worries that ending the compulsory savings part of the personal income tax would make their job harder. The elimination of compulsory savings (the refundable tax) was the budget’s core measure of tax relief, and Ilsley defended this relief explicitly as a means to prevent absenteeism and “special difficulty and hardship.”

His other recommendations, he explained, were thoroughly in keeping with the greater emphasis that we shall be placing on family welfare after the war. With the introduction of family allowances we are taking a great stride forward in improving the position of those with low incomes and family responsibilities.

None of these tax measures had a single cause; all of them were presented within a framework that linked macroeconomics, greater income security of poorer families, and tax relief in response to tax protest.

In this framework, none of the three elements can be discounted because they were all of a piece. Here, a perspective that includes tax policy makes the connections clear. For example, I both agree and disagree with the historian Raymond Blake, who suggests that some scholars have overemphasized the part played by wage control in the creation of the family allowance. He bases this position on a dichotomy between humanitarian social security projects and “cold-blooded” macroeconomics, a binary opposition that the social worker and prominent federal civil servant George Davidson used in the 1940s. If we accept this dichotomy, however, we miss seeing the moment in 1942, as most earners were becoming income taxpayers, when the tax system began to appear as a tax-transfer system, linking taxation and income assistance. When Robert Bryce made the case for family allowances to W.A. Mackintosh in January 1943, when Bank of Canada Governor Graham Towers made the case to the Canadian Manufacturers’ Association in June 1943, when Clifford Clark made the case to Cabinet in January 1944, and when King made the case in the House that June, each man pointed out the tax dimension of the family allowance program. The program was not as costly or unprecedented as it might seem, they emphasized, because there was already, in effect, “spending” on child welfare in the form of tax provisions—tax-exempt income before the war and deductions from tax payable during the war. The only difference with family allowances was that benefits delivered through the tax system would be replaced with transfer payments that would extend that amount of income support to low-income parents. Tax fairness and social welfare were thus tightly tied together in a policy that had the additional welfare effect of preserving the price ceiling.

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98 Canada, Department of Finance, 1944 Budget, Budget Speech, June 26, 1944, at 10.
99 Ibid., at 11.
100 Blake, supra note 52, at 42.
101 Ibid., at 63–64, 73, 82, and 91-92; Canada, House of Commons, Debates, July 25, 1944, at 5329; and Perry, supra note 1, at 396.
Tax measures had both macroeconomic and welfare effects. Stabilization measures not only protected capital; they also meant, for low-income people, a measure of protection from the dangers both of inflation in the prices of necessities and of job cuts driven by deflation. There are reasons to distinguish among methods of delivering social assistance, but in 1942-1945, when these tax and welfare measures were being designed and first delivered, the tax dimension of the story shows us that personal income tax relief, inflation control, and social spending had common origins—the new ideology of social security. In this sense, Blake is right to point out the thick context of social security discourse that surrounded the birth of the family allowance. But for King and Ilsley, social security included stabilization; an unstable dollar threatened both the poor and the rich. Their tax program connected social security and stabilization policy; their response to lower-income Canadians’ tax resistance became an occasion to explain those connections.

NEGOTIATED CONCESSIONS, 1942-1944

While the rhetorical reorientation and signs of respect for workers as “the bulk of Canadian citizens” were important, the impact of public opinion also appears concretely in the actual changes made to the tax law in 1942, 1943, and 1944. The “minor alleviations” of those budgets were not trivial. As measures taken in response to lower-income Canadians’ expressions of distress, they should be seen in the same frame as collective bargaining law and the family allowance, as part of wartime democracy’s slow working toward a recognition that the material conditions of the majority of Canadians had to have more of an impact on public policy. Or, to put it differently, the personal income tax, along with, more obviously, conscription and wage and price controls, made the national state so much more intimately involved in daily life that a responsiveness to popular opinion was newly important as a means of legitimating state power. On an array of tax matters, from those affecting the poor to those affecting taxpayers in “special” circumstances, Finance and Revenue listened to the concerns raised by taxpayers and took steps to address those concerns. Most of these steps were related to variations in family obligations and the relation between savings and taxation. In this respect, it is easy to see how modifications of personal income taxation would come to be connected to the child welfare and old age security dimensions of the nascent welfare state.

As we have already seen, the first modification to the mass-based personal income tax was the concession granted in response to the immediate threat of married women’s refusal to work. The other protest-inspired change in July 1942 was also family-related. In class terms, the protesters were mostly wealthy or at least middle-class, but the concession was limited by Ilsley’s concern to avoid undermining the progressivity of income taxation (its claim to class fairness). The protesters were divorced men who paid part of their income out to their former wives, as alimony. The alimony payers tended to be relatively well off because lower-income couples

102 Blake, supra note 52, at chapter 2.
settled the terms of their separation in family court, rather than paying the higher costs of a parliamentary divorce. The complaint of the divorced men was that the tax law forced them to pay income tax on the money that the courts required them to give to their ex-wives, as though the alimony were part of the ex-husband’s income. Ilsley agreed with the protesters that the divorced wives should pay tax on the alimony payments that they received: the tax authority would permit the alimony payers to subtract from their tax bill the amount of income tax now paid by their ex-wives. The men would still be paying more tax than they would have if the full alimony amount had been subtracted from their gross income; for Ilsley, however, that richer exemption would have been contrary to the spirit of taxing on ability to pay and the legitimating class fairness of that spirit.

During the summer and fall of 1942, income taxpayers, mostly the new ones, continued to tell Ilsley about the problems that they faced as a result of the new tax measures. In the March 1943 budget, Finance responded to some of these complaints, making few changes, but significant ones. The nasty notch problem with the 100 percent tax rate was partially remedied. In the income ranges where there was a risk of 100 percent marginal tax rates, there would be new regulations to limit the rate to 66 percent, of which half would be refundable savings. In two other measures, Finance responded to complaints that were both class- and region-based. Both were about the kinds of savings that could reduce the refundable tax. After March 1943, Ilsley conceded, payments on dominion government annuities—mainly held by people with modest incomes—would be allowed for that purpose. The other concession concerning savings was that payments on mortgage principal for a home “owned” by a taxpayer’s wife would be allowed as a reduction of the refundable tax. Home-owning families of all classes often kept their family home in the wife’s name, for municipal tax reduction. They had not liked it when federal taxation counteracted that benefit. But Quebecers had particularly disliked not being able to claim payments made from a husband’s income to a wife’s asset, because Quebec’s marital property regime left them unable to shift ownership back to the husband to secure the federal tax break. In the March 1943 budget, Ilsley gave in on these points, even while continuing, as I suggested above, to hold a hard line.

In the June 1944 budget, as I noted in the discussion above of Ilsley’s budget speech rhetoric, the main material concession was the elimination of the refundable part of the personal income tax. Ilsley acknowledged that, even with the capping at


104 1943 Budget Speech, supra note 95, at 17-18.
66 percent of the tax imposed within the lower income strata, the effective rate was still very high. He also admitted that refundable tax certificates could not be provided quickly. And though he refused to state publicly what he had vigorously argued in Cabinet, that income taxation was motivating absenteeism and refusal of overtime, he acknowledged that morale might have been adversely affected. And so, while insisting that war savings were more important than ever, he terminated the savings portion of the personal income tax. This measure would cost the war chest between $110 million and $115 million, amounts that would have to be made up by voluntary contributions. As a bit of face-saving, Ilsley argued that the campaigns for voluntary savings were now more effective than they had been in the summer of 1942 and so the argument for compulsory savings was less compelling. Moreover—and this was the message that lower-income Canadians had succeeded in communicating—he appreciated that voluntary savings provided some flexibility in personal budgets. The tide of letters that had landed on the Finance desks in 1942-43 had made vividly clear that, even with careful budgeting, the wartime income tax had left people on modest incomes without anything to spare, and often with less than they needed to eat and pay their bills.

Members of the other parties in the House had called, and would continue to call, for higher exempt amounts for both the normal and graduated tax. As King had urged, Ilsley rejected this strategy: higher exemptions overall would produce relief for the rich as well as the poor, unlike the targeted relief measures that the opposition were proposing. And, in a theme that echoed Ilsley’s September 1943 Trades and Labour Congress speech, and that would be repeated by others in post-war tax planning, he reiterated that the contributions of the many small taxpayers were an essential part of the revenue. The forms of tax relief that Ilsley offered were therefore aimed at cases of “special hardship” that had emerged in the first two years of the “pay-as-you-earn” regime. Several of these dealt with medical expenses or the expenses of people with disabilities. The majority had something to do with family. One measure that had been frequently requested since 1917 was that an income earner who supported in-laws could have tax relief by means of an equivalent-to-a-child exemption or credit. That measure was introduced in the 1944 budget.

105 King wrote in his diary that Ilsley “claims that working men just won’t work when they are at the point that increased wages means getting into a higher category of taxation”: Mackenzie King diaries, supra note 9, June 13, 1944. In Parliament, Ilsley said he was “not in position to judge how far this [tax avoidance causing absenteeism and refusal to work overtime] is true.” But he acknowledged it might be a “contributing factor.” 1944 Budget Speech, supra note 98, at 9.

106 1944 Budget Speech, supra note 98, at 10.

107 Canada, House of Commons, Debates, June 26, 1944, at 4531-32.


109 1944 Budget Speech, supra note 98, at 11.
Another of the family measures was that any children dependent on the taxpayer, regardless of biological relationship, could be claimed for tax purposes. That concession removed the glaring injustice of an unmarried mother being unable to claim a tax credit for her “illegitimate child” unless she legally adopted the child. Earlier protests on the disqualification of “illegitimate” children in British Columbia had emphasized the expense of adopting even if there were two parents; this issue only worsened the irritation in BC coastal communities where the ordinary practice of common-law marriages among aboriginal people meant that the tax inspectors did not recognize many children when calculating taxes owed in common-law households.110 Ilsley also introduced a measure that would provide relief for elderly couples where the wife’s small investment income risked creating a tax bill that the couple could not afford. This measure helped people who had been able to save—by definition, those who had had middle-class or better incomes during their earning years. But the letters that Ilsley had received from such couples made it clear that at least some of the beneficiaries of this provision would be low-income taxpayers. The beneficiaries of the other family measure were in a different category: in 1944, the alimony payers got the more generous exemption they had demanded in 1942—complete elimination of any tax liability on the amount that they paid to their ex-wives.111 Still, overall, these “special hardship” measures were aimed at making the new income tax less punishing for the poor by easing the conflict between tax paying and the demands of family support on a breadwinner’s income.

Some problems remained.112 But the tax relief that Ilsley’s budget had provided meant immediately reduced deductions at source for many of the new income taxpayers, and politically this was useful to the Liberals. As Prime Minister King had speculated, compared with other measures, the ones they offered in 1944 meant that a much larger number of people will be helped in a way that will give them more money at once, albeit their own money, and that in relieving burdens on those of the lower class and making for a better feeling over a larger number, the yielding up of income [tax] may prove to be a preferable course.113

In justifying his approach, King had impressed on Clifford Clark that holding on to every legitimate cent of tax revenue risked giving the CCF victory in the next election, and if that happened, “the whole financial position” including the work of the

110 Canada, House of Commons, Debates, April 20, 1943, at 2368; James Coleman for D.M. MacKay (British Columbia Indian commissioner) to Indian Affairs Branch, January 11, 1944 and enclosure, F. Earl Anfield, Indian agent to D.M. MacKay, British Columbia Indian commissioner, January 6, 1944, LAC, RG 10, vol. 6821, file 493-1-6, part 2.

111 1944 Budget Speech, supra note 98, at 11.

112 Canada, House of Commons, Debates, July 12, 1944, at 4781.

113 Mackenzie King diaries, supra note 9, June 13, 1944.
Victory Loan people would be seriously harmed.\footnote{Ibid., June 23, 1944. King’s key sentence is, “They would deal with the financial situation in a way which would make all efforts at saving etc. pretty much at naught.” “Make . . . pretty much at naught” in this context certainly indicates something harmful: “render pretty much futile” might be synonymous and a more recognizable idiom.} Here, King’s worry about the CCF threat was not merely mindless vote-counting: he felt “it was necessary to emphasise this [threat to the financial system from the CCF] strongly.”\footnote{Ibid.} Tax policy that was too hard on lower-income Canadians put too much at risk. Forgoing some income tax revenue from small incomes was necessary in order to protect Canada’s ability to borrow and to protect Canadians’ investments in government bonds, both of which King deemed would be imperilled if the mass of voters were to turn sharply leftward.

**CONCLUSION**

Wars create a sense of community, but not without some help. Whether in enlistment, or grocery shopping, or tax paying, Canadians did not easily let go of their pre-war differences and grievances. In organizing war finance, Ilsley, Towers, Gibson, and their officials had to deal with legacies of bitterness and conflict that fed suspicion and tax resistance. First World War veterans had reason to believe that bondholders’ rights to interest payments had been put ahead of their needs for unemployment relief. The Victory Loan campaigners were selling bonds to a public that was no longer quite so innocent about the risks and rewards that awaited the small investor compared to those available to big capital. Nor were all segments of the public now easily convinced that Canada’s shortage of high income earners was a “stubborn fact”\footnote{Canada, House of Commons, *Debates*, June 24, 1940, at 1024. Campbell quotes this same phrase from J.L. Ralston’s 1940 budget speech as though it was simply a point of fact: Campbell, supra note 1, at 645.} that justified taxing lower and lower incomes. People on the left had started to think about broadening the income tax base in another way—by redefining taxable income to include income previously sheltered as capital gains.

In response to these and other threats to capital, the Liberals marketed government bonds to small investors, so as to make as many Canadians as possible, in their own interest, into supporters of protections to investment capital. In addition, they vastly broadened the income tax base by taxing smaller incomes, rather than broadening the taxable base in ways that targeted capital. They also actively sold “sound money” policies, using public education to engage broad participation in making those policies work. All of these steps were justified by a commitment to preserving and protecting the “financial and business system.” And all required mass consent and participation. The Finance Department’s spirited and genuine attempts to enlist Canadians in the government’s war finance policy, to listen to criticism, and to respond with reasoned argument show how the need to win taxpayers’ consent was
contributing toward a democratic style of public administration and a more social form of liberalism. The Finance rhetoric established links between public borrowing, currency stability, social security, and taxation that, though Keynesian in complexion, were conceived in support of the immediate projects of selling bonds, collecting taxes, preventing labour strife, and disarming the CCF. In this rhetoric, the new income taxpayers were being told that they were interconnected in multiple ways, whether caring and mutualistic ones or through impersonal systems operating in markets for credit and consumer goods. This was a social liberalism that also relied importantly on recognizing the self-interest of individuals as a necessary consideration in designing public policy.

This powerful, but potentially unstable, mix of appeals was addressed to people who, collectively, had come into a position of real power. The labour of the new income taxpayers, their tax compliance, and their savings were all essential to the war effort. The labour movement harnessed some of that power for the project of collective bargaining, but the impact of the new taxpayers’ power was also delivered in less organized and less class-specific ways, such as individuals’ letters, references to those letters in the House by MPs, and the reporting of those references in newspapers. To make the war finance scheme work, Ilsley (and sometimes Clark) had to bring the voice of the ordinary tax grumbler and not just the well-soaked rich into the privy council chamber. In doing so, they shifted the income taxpayer from the elite position that he (or less often she) had occupied in municipal income taxation and in federal income taxation before the war. Paying direct taxes to the federal government was now a feature of daily, working-class life; for many more Canadians, the categories of citizen and taxpayer now increasingly overlapped. The legacy of war finance was a more socially active state, but the new income taxpayers of that new state were addressed in a quasi-collectivist discourse that blended social responsibility and individual self-interest. Complaints about the burden of income taxes on household budgets were present at the birth of the new taxpayer, and individualist pocketbook politics would continue to play a part in post-war citizen engagement. For better or for worse, the new taxpayer would also become a new breed of citizen—socially minded, to be sure, but always also tax-conscious.