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The Co-operative Union of Canada:

An Interest Group

by

Margaret Anne Kipp, B.A.

A thesis submitted to the Faculty of
Graduate Studies in partial fulfilment
of the requirements for the degree of

Master of Arts

Department of Political Science

Carleton University

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THE CO-OPERATIVE UNION OF CANADA:

AN INTEREST GROUP

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ABSTRACT

The Co-operative Union of Canada was founded in 1909 to promote federal legislation favourable to the uniform development of co-operatives in Canada. A co-operative is an enterprise owned by and operated for the benefit of those using its services. Basic principles include one vote per member, and the redistribution of savings to the membership. While the founders of the CUC were inspired by the idealistic objective of building a "co-operative commonwealth", most Canadian co-operatives were formed as a pragmatic response to economic problems. The CUC has had to evolve as an organization, and adapt to the changing structure of co-operation in Canada in its continuing effort to be accepted by co-operative leaders as their voice in Ottawa. This thesis analyses the organizational development of the CUC in terms of the relationship between CUC organizational efforts and its defense of the tax status of co-operatives, an issue of paramount concern to co-operatives in Canada.

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CHAPTER 1

A Framework for Analysis

1.1 Introduction

The Co-operative Union of Canada (CUC) is an association of co-operatives in English-speaking Canada. Since it was formed in 1909, it has sought to represent the interests of the co-operative movement by promoting legislation favourable to the development of co-operatives. Co-operatives are based on the idea that people can help themselves by working together to accomplish what the individual cannot. Traditionally, the basic principles upon which co-operatives are founded include: the democratic idea of one vote per member, with everyone who makes use of the co-operative's services becoming a member; the distribution of cash surpluses, or patronage refunds, on the basis of member participation; education in co-operation; and elimination of credit wherever possible. In forming consumer co-operatives, individuals reacted to middlemen who amassed huge profits. Each co-operative member purchased a single share, on which he was paid a low fixed rate of interest. Goods which were purchased by the co-operative were sold to members at a just or market price, and any savings occasioned by bulk purchases were passed on in proportion to the purchases of each member. Producer co-operatives were organized later along similar lines, with

some adjustments in the procedures. Originally dedicated to fostering a "co-operative commonwealth", the CUC evolved and adapted to socio-political and economic changes. And emerged as the defender of the co-operative movement in Canada.

Taxation has been of vital importance to the co-operative movement, because capitalistic or profit-oriented business has long contended that co-operatives enjoy unfair advantages under the income tax laws. Profit-oriented business has attempted over the years to force government to increase the amount of income on which co-operatives pay tax. Co-operatives have countered with the argument that because they return their cash surpluses to their members in the form of patronage dividends, they do not earn a profit, or income. The co-operatives argue that when these cash surpluses are returned to members of a co-operative in proportion to the amount of business done with the co-operative, these dividends represent savings to their members, not income.

Although the leaders of the Co-operative Union of Canada were originally guided by the idealistic objective of building, through co-operation, a "co-operative commonwealth", they soon learned that the support of co-operatives could only be counted upon during those times of crisis when the CUC was cast in the role of defender of the non-profit basis of co-operative business, or when it was defending the tax status of co-operatives. This thesis will focus on the effects of external threats, such as proposed changes in laws affecting the tax liability of co-operatives, on the internal

organization of the CUC. This thesis will analyse the organizational development of the CUC in terms of the relationship between its organizational efforts and its defense of the tax status of co-operatives. It will be seen that the most effective organizational efforts of the CUC leadership took place during times of crisis, when the tax status of co-operatives was threatened. Paradoxically, although the CUC's main concern has been to preserve the status quo with regard to the taxation of co-operatives, attacks on that status quo have assisted the CUC positively in attaining its organizational goals of increased membership, increased budget, stronger support from its membership, enhanced status, and recognition from government and other groups that it was the acknowledged national voice of co-operatives.

1.2 Theoretical Approaches to the Study of Groups

Theoretical writings about interest groups tend to fall into two categories. The macro or systems level approach encompasses the universe of all groups, organized and unorganized, while the micro or subsystems level approach focuses on organized interests. Common to both levels of analysis is a concern with societal stability or equilibrium.

Group Theory at the Systems Level: The Group Basis of Society

Arthur F. Bentley's The Process of Government¹ and David B. Truman's The Governmental Process² stand out as landmarks in the literature on interest groups. Bentley has been called "The most important of the 'modern' or 'analytical' pluralists.... his book, The Process of Government.... has inspired most of the political scientists who have followed the 'group approach'," an essential feature of which is the belief that "the balance of group pressures is the existing state of society".³ Both Bentley and Truman regarded this as a legitimate and equitable method for the determination of the direction that government policy would take. "When the groups are adequately stated", wrote Bentley, "everything is stated". The interest was equated with the group and no interest was considered to exist unless it manifested itself in group action. Groups were defined "in terms of their conflict with one another".

Truman shares this benign view of the group basis of politics and its consequences for governmental policy outputs. He defines an interest group as "a shared-attitude group that

¹Arthur F. Bentley, The Process of Government, (Evanston, Ill.: Principia Press, 1949). First published in 1908.

²David B. Truman, The Governmental Process, (New York: Alfred A. Knopf, Inc., 1951).

³Mancur Olson, Jr., "Orthodox Theories of Pressure Groups", in Robert H. Salisbury, ed., Interest Group Politics in America, (New York: Harper & Row, 1970), passim.

makes certain claims upon other groups in the society. If and when it makes its claims through or upon any of the institutions of government, it becomes a political interest group".⁴

Mancur Olson Jr. notes: "Truman not only shared Bentley's belief that group pressures alone determined the final equilibrium.... He thought, in the first place, that most pressures would be weak and divided in those circumstances in which they asked too much from society, since their members also had 'overlapping memberships'".⁵ Truman makes the point that "The idea of overlapping membership stems from the conception of a group as a standardized pattern of interactions rather than as a collection of human units... No tolerably normal person is totally absorbed in any group in which he participates. The diversity of an individual's activities and his attendant interests involve him in a variety of actual and potential groups".⁶

Truman defined the "potential group" as those people sharing an attitude or characteristic but not organized to promote this attitude. While potential groups could include such identifiable minorities as people belonging to a specific religion or race, they could also encompass "majority" interests, defined as the widely-held beliefs of any society

⁴David B. Truman, "Groups and Society", in Norman R. Luttbeg, ed., Public Opinion and Public Policy, (Homewood, Ill.: The Dorsey Press, 1968), p. 125.

⁵Mancur Olson, op.cit., p. 14.

⁶Truman, "Groups and Society", p. 131.

which constitute the "rules of the game" or societal norms.

Truman states:

More important for present purposes than the potential groups representing separate minority elements are those interests or expectations that are so widely held in the society and are so reflected in the behaviour of almost all citizens that they are, so to speak, taken for granted. Such, "majority" interests are significant not only because they may become the basis for organized interest groups, but also because the "membership" of such potential groups overlaps extensively the memberships of the various organized interests.⁷

Thus, Truman also viewed countervailing group pressures as a just method of allocating scarce political resources.

Bentley and Truman share a pluralist view of American society. Robert Presthus, on the other hand, has examined Canadian society and politics from a different point of view, in Elite Accommodation in Canadian Politics.⁸ Presthus' view of society is that of an elite theorist, and in this he differs fundamentally from Bentley and Truman. Society for him is stratified, and group activity is not seen as a means of promoting greater participation, but as a vehicle for the promotion of elite aspirations. He undertakes an analysis of interest groups on two levels. On the systems level, his main theoretical tool is Arend Lijphart's theory of elite accommodation, which:

⁷Ibid., p. 133.

⁸Robert Presthus, Elite Accommodation in Canadian Politics, (Toronto: Macmillan of Canada, 1973).

attempts to explain the persistence of stable, democratic government in 'consociational' societies. Such societies are characterized by deep internal cleavages of religion and ethnicity.... In such political cultures it becomes the vital task of socio-political elites to play a nation-saving role by a sustained process of negotiation and bargaining among the leaders of major social groups".⁹

A second, equally important function of political elites is the allocation of social resources via public policy outputs.

Elite accommodation is regarded as inherent, and necessary, in democratic government. The three components of the elite are the legislators, the bureaucrats (the governmental or public elite), and the interest group leaders (the private elite). However, "while all political systems require elite leadership, accommodation theory posits a critically decisive role for such leaders".¹⁰ Presthus asserts that "half of Canadian adults belong to only a single interest group. In the present context, it is important to be aware of such limitations because they form a part of an underlying political reality which culminates in accommodation among elites, with relatively limited participation by ordinary citizens."¹¹ Potential groups, except those "majority" interests which form a part of the political culture, cannot effectively influence the political process until they have organized. Even then, "elite accommodation and the attending

⁹Ibid., pp. ix-x.

¹⁰Ibid., p. 8.

¹¹Ibid., pp. 6-7.

allocation of resources are usually confined to those who have the required substantive interest and political resources".¹²

Presthus believes that interest groups are more important than political parties in the allocation of social resources. He notes: "A major consequence of Canada's fragmented political culture and the attending necessity for the two major parties to avoid principles in favour of an economically-oriented brokerage system of politics is to ensure an especially vital role for interest groups".¹³

Both Canadas, according to Presthus, share a pragmatic appreciation of the role of government in social and economic affairs:

....government tends to play an active brokerage role vis-à-vis major social and economic interests. The governmental elite, in a word, invites such groups to organize their claims, rationalize any conflicting demands within their various constituencies, and present them as effectively as possible to a government whose definition of its own role is essentially that of allocating public largesse among them. The pragmatic elite legitimates precisely this conception of government's role.¹⁴

Presthus concludes, in contradiction to the theory of David Truman, "whereas the existence of overlapping group memberships has been assumed to be a central factor in ensuring stability, the theory of elite accommodation assumes precisely the opposite: not only do individuals tend to restrict

¹²Ibid., p. 4.

¹³Ibid., p. 18.

¹⁴Ibid., pp. 23-24.

themselves to groups that have similar values, but such exclusivity encourages political stability".¹⁵

Bentley, Truman and Presthus share a fundamental concern for the relationship between groups, and social stability and equilibrium. All three agree that groups arise as a result of disequilibrium, and that the existence of groups contributes to the stability of society. The disequilibrium reveals those attitudes or characteristics that are shared, and in this way potential or latent groups are recognized. The fundamental difference between elitist and pluralist thought in this regard lies in their evaluations of the breadth of participation in the decisions affecting the division of the scarce resources of society. Bentley and Truman believe that group activity facilitates broad participation, while Presthus sees group activity as a limiting factor in the participation of non-elites.

Group Theory at the Level of the Political Subsystem

Each society can be viewed as a systematic set of interactions of various kinds; within which one set of interactions can be designated as the political subsystem.

Theoretical treatment of the political subsystem focuses on organized groups and their interaction with the other components of the political process, i.e. the politicians, bureaucrats,

¹⁵Ibid., pp. 15-16.

and other groups. At this level the theoretical literature is not focused on providing a group basis of society as a whole, but instead seeks to explain the organization of groups, and their interaction with the other elements of the political system as they seek to influence decisions that are political. Why do groups form? What are they like and what do they do? What is the importance of interest groups?

Students of interest group activity have conceptualized the formation, growth and activity of interest groups in two main ways. Equilibrium theories view group organization as a response to instability. In this, they coincide with the theories posited by Bentley, Truman and Presthus. Economic theories view group organization as a form of exchange, and analyse group organization in terms of costs and benefits to both group leaders and group members. These theories tend to discount the equilibrium theories as inadequate.

While Arthur F. Bentley did not address himself directly to the question of "why the needs of the different groups in society would tend to be reflected in politically or economically effective pressure", David Truman posited the theory of potential groups "that would arise and organize to do battle with the special interests if the special interests got far out of line".¹⁶ This view has been criticized by Mancur Olson, Jr., who notes:

¹⁶ Mancur Olson, Jr., "Orthodox Theories of Pressure Groups", in Robert H. Salisbury, ed., Interest Group Politics in America, (New York: Harper & Row, 1970), pp. 12-13.

Professor Truman tried to develop a variant of the sociological theory of voluntary associations to show that organized and effective group pressures will emerge when necessary.... it is a basic characteristic of social life that associations emerge to satisfy the needs of society.... Truman then appears to contend that "suffering", "dislocation", and "disturbance" will almost inevitably result in organized political pressure".

Olson disagrees with this view, commenting, "the facts of recent political life do not necessarily substantiate this view". He instead offers an "economic" theory of the formation and persistence of groups. Robert H. Salisbury also uses an economic approach to explain the rise and persistence of groups.

Economic Theories

Mancur Olson Jr.'s analysis¹⁷ centres around the concepts of "selective" and "collective" incentives or inducements. Selective inducements are benefits that accrue only to the members of an organization as a result of their membership, for example, union journals sent to members. Collective benefits such as legislation benefit all those affected, not only the members of the organization.

According to Olson, "The lobbies of the large economic groups are the by-products of organizations that have the capacity to 'mobilize' a latent group with 'selective induce-

¹⁷Mancur Olson, Jr., "By-Product and Special Interest Theories", in Robert H. Salisbury, ed., Interest Group Politics in America, (New York: Harper & Row, 1970).

ments'."¹⁸ He goes on to say: "A purely political organization obviously cannot legally coerce individuals into becoming members.... The lobby is then a by-product of whatever function this organization performs that enables it to have a captive membership.... Only an organization that also sold private or non-collective products, or provided social or recreational benefits to individual members, would have a source of these positive inducements".¹⁹

Membership can be captured by legal means, such as a closed shop which requires every worker in a shop to join the union, or by offering "private benefits which can be offered to any potential supporter who will bear his share of the cost of the lobbying for the collective good".²⁰ Olson contends that "the political power of unions is a by-product of their non-political activities".²¹ A significant point is that "The role of coercion.... is, however, probably less important as a source of membership than the non-collective benefits the organization provides its membership".²² Olson's theory basically states that selective inducements cause members to join a group, which then is able to create a lobby by virtue of its membership strength. As Olson states:

¹⁸ Ibid., p. 16.

¹⁹ Ibid., p. 17.

²⁰ Ibid., p. 18.

²¹ Ibid., pp. 18-19.

²² Ibid., p. 21.

"large pressure group organizations must derive their strength as a by-product of some non-political functions".²³

Robert H. Salisbury²⁴ develops a more complete theory by arguing that "interest group origins, growth, death, and associated lobbying activity may all be better explained if we regard them as exchange relationships between entrepreneurs/organizers, who invest capital in a set of benefits, which they offer to prospective members at a price-- membership".²⁵ Salisbury states: "The theoretical posture adopted here, which deals with organized groups as generic phenomena, not simply in their politically relevant aspect, leads to the conclusion that most group activity has little to do with efforts to affect public policy decisions, but is concerned rather with the internal exchange of benefits by which the group is organized and sustained".²⁶

Salisbury rejects theories of proliferation and equilibrium, in which group proliferation results from social differentiation, because "the specific processes by which formal organizations are generated are nowhere examined and seem rather generally to be regarded as inevitable consequences of differentiation itself".²⁷ He rejects also the "homeostatic

²³Ibid., p. 30.

²⁴Robert H. Salisbury, "An Exchange Theory of Interest Groups", in Robert H. Salisbury, ed., Interest Group Politics in America, (New York: Harper & Row, 1970).

²⁵Ibid., p. 33.

²⁶Ibid., p. 53.

²⁷Ibid., pp. 33-35.

mechanism hypothesis", which places less emphasis on the process of social differentiation and which sees group formation as a result of a disturbance in the equilibrium established among social groups... "The disequilibrium will evoke a response from the disadvantaged sectors as they seek to restore a viable balance by organizing a formal association because.... this not only improves bargaining power but it also helps to stabilize and strengthen relationships.... the organization is seen as a more active agent in this approach than from the proliferation perspective".²⁸

Salisbury offers an alternative to these approaches using a framework of analysis similar to the interaction theory of George Homans. Salisbury states: "We find congenial a conceptualization of interest groups which regards them as benefit exchanges....Entrepreneurs/organizers invest capital to create a set of benefits which they offer to a market of potential customers at a price. If, and as long as, enough customers buy, i.e., join, to make a viable organization, the group is in business".²⁹

An entrepreneur initiates the enterprise, and his activities are the first visible signs of the organized group. Investment may take the form of personal investment of time, money or dedication. Sometimes money and entrepreneurs come

²⁸ Ibid., p. 36.

²⁹ Ibid., pp. 42-43..

from other older organizations. Salisbury does not assess the value of benefits but assumes that "people do or pursue those experiences and things which they value, for whatever reasons, and in this sense only may be regarded as rational. We assume that people mainly do or seek, subject to periodic evaluation and corrections, whatever brings them a positive balance of benefits over costs".³⁰

Salisbury adopts a method of conceptualizing benefits as material, solidary and expressive.³¹ Material benefits are defined as "tangible rewards of goods or services or the means, such as a job, by which goods and services may be obtained". Solidary benefits, such as satisfaction, are experienced within the self. Expressive benefits, on the other hand, consist of "suprapersonal goals, goals of the organization or group.... the benefits cannot readily be cost analyzed and they accrue to all sorts of people who took no part in the effort to secure them".

Salisbury's argument is that the group entrepreneur invests his capital to create a series of benefits which he offers at a price to a market. Group members and potential group members are "sets of markets with demand patterns or preference schedules".³² The initial exchange usually revolves around a material benefit. Salisbury cites as an example

³⁰ Ibid., p. 47.

³¹ Ibid., pp. 47-48.

³² Ibid., p. 49.

co-operatives in the United States which "were sometimes promoted by stressing their ideological virtues, but in every case they were also expected to return direct economic benefits to those who joined".³³ Salisbury feels that a group tends to diversify the benefits offered "in order to increase its stability as an organization".³⁴

Preference may be inferred from behaviour, or imputed to certain categories of people.³⁵ Preference may also be established empirically by "examining exchanges between political entrepreneurs and consumer/member/voters". The good must be offered first in order to determine the market for it. The demand schedules of consumers cannot be considered static, and "technological changes affecting the structure of economic activity may alter the preference schedule of many persons", thus altering the group membership.

"In order to sustain a group organization, it is necessary to maintain an adequate flow of benefits both to members and to organizers themselves. In short, there must be a mutually satisfactory exchange".³⁶ Salisbury goes on to say that "Entrepreneurs provide benefits to members whose membership must entail a return sufficient to pay the cost of the benefits received plus some profit to the entrepreneur".³⁷

³³Ibid., pp. 49-50.

³⁴Ibid., pp. 52-53.

³⁵Ibid., pp. 56-57.

³⁶Ibid., p. 58.

³⁷Ibid., p. 59.

Profits or benefits accruing to the organizer can include prestige, a salaried position, and perhaps even election to office within the group.

"Surplus profits" may result when an organization is successful. This surplus, which occurs when the profits accruing to the leadership "exceed by a comfortable margin the minimum requirements of sustaining the enterprise",³⁸ can be used to enlarge benefits for members, or for the personal activities of the leadership. Indeed, Salisbury contends "that a significant portion of what we observe to be lobbying activity by group leaders may result not from a mandate derived from membership demands but from the personal choices and values of the group leaders".³⁹

Finally, Salisbury focuses on group leadership: "It is....group leadership generally that we are discussing in a framework of benefit exchange....the leader is perforce an entrepreneur".⁴⁰ Salisbury concludes with this interesting hypothesis: "It was argued that much lobbying activity by group leaders may be understood as a form of personal consumption of profit derived from their intragroup exchanges. If this is correct, it would follow that when their membership declines or is threatened with decline such profit is reduced and the lobbying for policies that are non-instrumental to

³⁸Ibid., pp. 60-61.

³⁹Ibid., p. 62.

⁴⁰Ibid., pp. 64-66.

the group's exchange structure would also decline".

The economic exchange theories of Olson and Salisbury mainly describe intragroup activities, exchanges between the leadership and membership. However, the Salisbury hypothesis stated above relates the internal group organization to the external activities, or lobbying, of the group leadership. To take the possible relationship between internal and external interest group activities a step further, we turn to the work of David Kwavnick and Robert Presthus, both of whom are concerned with exchanges between public and private elites.

Exchanges Between Public and Private Elites

David Kwavnick's analysis of group politics, in Organized Labour and Pressure Politics, is "based on the assumption that the aims of interest group leaders go beyond the mere articulation of the demands of their members and obtaining some measure of satisfaction of those demands. It is based upon the assumption that a valid understanding of the activities of these leaders can only be had by considering the environment in which they work....The thesis to be examined is that among the more important determinants of the activities of organized interest groups.... are the organizational goals of the group's leadership".⁴¹

⁴¹David Kwavnick, Organized Labour and Pressure Politics, (Montreal: McGill-Queen's University Press, 1972), pp. 1-2.

This idea has been suggested by other theorists. Olson noted that: "An organization that.... has a surplus that provides selective incentives, may be able to retain its membership and political power, in certain cases, even if its leadership managed to use some of the political or economic power of the organization for objectives other than those desired by the membership".⁴²

Kwavnick explicitly points out that the organizational goals of the group's leadership may be the main determinants of group activities. His concepts of legitimacy and mandate relate to two levels of analysis, the wider systems level, and the level of the political subsystem. Legitimacy is defined as "that quality which is thought to inhere in those goals, activities, and modes of behaviour which conform to the system of values prevalent in any given society".⁴³ Legitimacy must be cultivated carefully, lest an interest be down-graded in the esteem of the public, or segments of its membership become alienated. The political culture places constraints on the organization, aims and tactics of the group. Kwavnick notes that "for interest-group leaders, therefore, the problem is not one of retention or forfeiture of legitimacy; there is the constant concern to increase the degree of legitimacy and to prevent the diminution of the

⁴²Olson, "By-Product....", p. 17, fn.

⁴³Kwavnick, Organized Labour, p. 5.

legitimacy which their interest already enjoys".⁴⁴ The fortunes of the group leader are closely connected with those of the group he leads.

When an interest is deemed legitimate within the context of a society, those who hope to represent that interest must obtain a mandate from the interest's membership. Such a mandate, indicating that the leaders do, indeed, speak for the interest, forms the foundation upon which stable relationships can be worked out between public and private elites.⁴⁵

Kwavnick views the recognition of a group's mandate by government as useful both to the group's leaders in maintaining mandate but also to government because stable relations, which pave the way for co-operation, can result from the recognition of mandate. He states: "The major aims of a group's leadership are organizational, and among the most important of these is the preservation of its mandate".⁴⁶ Organizational goals are a major factor, as is the pursuit of stable relations, in the demands that are made upon government.

Presthus and Kwavnick both regard the interaction of groups not as a struggle, but as a well-regulated set of interactions carried on by parties that are basically satisfied

⁴⁴Ibid., p. 11.

⁴⁵Ibid., p. 12.

⁴⁶Ibid., p. 22.

by the relationship. Institutionalization of group interests through appointments to governmental regulatory agencies is the goal of almost every interest group.

Presthus and Salisbury both employ interaction theory to explain why individuals remain members of groups and to explain the origin and survival of the interest group and political subsystems. Presthus reaches the same conclusion as Kwavnick with respect to the goal of systematic stability: "The function of elite accommodation is ultimately the preservation of the stability of the national social system".⁴⁷

A Theoretical Framework

The foregoing examination of the theoretical literature on organized interest groups provides a theoretical framework within which to interpret the organization, development and reorganization of the Co-operative Union of Canada. While one may accept the formation of consumer co-operatives as a grass-roots response to the hardships occasioned by the industrial revolution, or explain the organization of wheat pools as a popular reaction to transportation and marketing monopolies on the prairies, it is clear that the industrial revolution and the monopolies were motivating factors in a more complex process. However, while individual co-operatives perform economic functions and can require those who wish to benefit to become members, the CUC is an association of co-operatives

⁴⁷ Presthus, Elite Accommodation, pp. 88-89.

and has no means of capturing a membership other than by means of persuasion. The CUC has had to rely on its salesmanship to maintain itself as the defender and national voice of co-operatives.

Mancur Olson Jr. offers a theory which sees the creation of a political lobby as a by-product of those functions performed by the organization which enables it to have a captive membership. Olson's theory is unsuited to the case of the CUC, however, because the creation of a political lobby is the function which has enabled the CUC to capture membership. The other program offerings of the CUC must be interpreted as efforts to maintain the mandate of supporters won over originally by the allure of a political lobby to represent their views.

Salisbury's theory also posits an exchange of benefits, but indicates that an entrepreneur, whose efforts represent the first visible signs of group organization, can be identified. Salisbury is less restrictive in his definition of the benefits exchanged, asserting that people pursue those things that they value. In the case of the CUC, the actual organization of the group was preceded by promotional activity by a number of prominent social reformers who espoused co-operative philosophy as a means to reform society⁴⁸ and assist the working classes. Educational activities were emphasized during

⁴⁸ Ian MacPherson, The Search for the Commonwealth: The Cooperative Union of Canada 1909-1939, (Unpublished Ph.D. Thesis, University of Western Ontario, London, 1970).

the first thirty years of the CUC's history, but support for this program was weak. It soon became apparent that, in benefit exchanges between the CUC's leadership and membership, the most satisfying to the membership judged in terms of increased mandate, were those exchanges which involved the defense of the legitimacy of the co-operative non-profit method of doing business. Therefore, the activity which has elicited the most support has been the preservation of the status quo against erosion by the conflicting claims of other groups.

The CUC leaders may be viewed as salesmen whose product, protection of co-operative interests, proved most saleable in times of crisis. It can therefore be seen that it is not possible to separate completely the economic and equilibrium theories of interest group organization. Changes in the political environment affect the demand schedule of member co-operatives, altering the amount of support available. One may hypothesize that, if an environment of crisis is beneficial to the organizational goals of the group, the most significant organizational goals will be achieved at those times that the interest is under attack.

The Co-operative Union of Canada

Formed in 1909, the CUC was transformed from an association of co-operative societies into an association of provincial co-operative unions in 1945. In 1967 a further reorganization turned the CUC into an organization comprised

of large, financially strong co-operatives. These reorganizations, while increasing the distance between the co-op "grass roots" and the CUC leadership, were designed to improve the CUC's financial position and thus strengthen the organization. Both were undertaken in times of attack on co-operative enterprise.

During the early years the CUC survived inadequate financing through the personal sacrifices of the CUC leadership. From 1909 until 1944, the CUC office was situated in the home of its Honorary Secretary, George Keen, in Brantford, Ontario. Most contacts with government and other organizations were made by letter. Support for the CUC was weak.

Following the depression it became apparent that a stronger organization would be needed to represent adequately co-op interests in Ottawa. Near the end of World War II, the hearings of the Royal Commission on Co-operatives (the McDougall Commission), created as a result of anti-co-operative pressure, coincided with the CUC's first reorganization. New leadership, determined to create a strong organization based on personal contact with the membership and government, moved the headquarters to Ottawa. The move marked a new era in the CUC's relations with the federal government.

The establishment of another Royal Commission on Taxation in the autumn of 1962, was a prime motivating factor in the CUC's second reorganization. The apparent need for a strong defense of co-operative interests once again provided

the impetus to strengthen the mandate of the CUC.

The next chapter will set the historical context within which the CUC developed.

CHAPTER 2

The CUC 1909-1943: Historical Background

2.1 Introduction: Cooperation, East and West

The history of co-operation in Canada is inseparably linked with the history of Canadian farm protest movements. The latter part of the last century and the early part of this century witnessed successive attempts by the farm community to organize itself for political and economic action. Patrons of Industry, Patrons of Husbandry (the Grange) and United Farmers¹ organizations were formed in various parts of Canada, in an attempt to remedy the problems of the agricultural sector. In Western Canada, grain marketing cooperatives were formed early in this century and became increasingly popular as they demonstrated their usefulness.²

The Co-operative Union of Canada was organized in Hamilton, Ontario in 1909³ as an association of eastern, urban-

¹One of the best works on the subject of farm movements during this early period is Louis Aubrey Wood, A History of Farmers' Movements in Canada (Toronto: The Ryerson Press, 1924).

²W.C. Good, Farmer Citizen - My Fifty Years in the Canadian Farmers' Movement (Toronto: The Ryerson Press, 1958). On page 92, Good mentions unsuccessful early attempts to set up co-operatives by the Grange and the Patrons on Industry.

³George Keen, The Birth of a Movement - Reminiscences of a Co-operator (J.J. Harpell, c. 1945).

based consumer co-operatives whose intended clientèle was the urban working class. The major differences between the eastern and western co-operative "movements" were found mainly in their patterns of development and their philosophies. The eastern, industrially and urban-oriented, movement was patterned on the British model whereas the western, agriculturally oriented movement pragmatically developed its own co-operative models. The eastern founders of the CUC were concerned mostly with promoting the development of consumer co-operatives through which consumer goods could be purchased at reduced cost to the consumer. The westerners sought to market their own agricultural produce, and by circumventing the transportation monopoly, to realize most of the profit. Both groups sought to eliminate the odious "middleman".

W.C. Good, an Ontario farm leader who figured prominently in the development of the CUC, said of these early years: "practically nothing was known then by Canadian farmers about the co-operative movement in Britain which had been launched by industrial workers and had become well established by the 1870's. The idea of co-operative production and merchandising was, however, widely prevalent among Canadian farmers during the years 1870-1900, but suitable procedures, apparently, had not yet been hit upon".⁴ Following 1900, western farmers began to form their own grain marketing and elevator companies

⁴W.C. Good, Farmer Citizen, pp. 63-4.

in an effort to overcome the effects of railway monopolies on most aspects of grain marketing.

The eastern co-operative movement was less a product of economic necessity than the result of a vision of a better society shared by some trade unionists and industrialists. Like the English movement, the eastern Canadian movement was a response to the social upheaval caused by the Industrial Revolution. George Keen, who held the post of Secretary of the CUC from 1909 continuously until his retirement in 1945, was strongly influenced by the British consumer co-operative movement. The philosophy of the CUC during this period reflected this influence. A student of the co-operative movement, Ian MacPherson, has observed: "The Union's most prominent characteristic was its faith in co-operatism as a technique for combatting the evils of industrialism and the excesses of competitive individualism ... The Union stressed consumption partly because it believed that everyone should be equal as a consumer; and partly because of the practical success of British consumer co-operatives ... for much of the 1909-1939 period, it can be seen as the Canadian extension of the British movement".⁵

A letter written by Keen in 1916 illustrates the idealism of co-operative leaders in the east. He lamented: "... I am beginning to feel our materialistic environment is

⁵Ian MacPherson, Search, pp. iii-iv.

too strong for us. In all my correspondence with the societies I find very few executives taking any interest whatever in co-operative principles, their interest being confined to local profit mongering".⁶ Ian MacPherson agrees: "Few Canadian co-operators were motivated by the ethical aims of the Union's leaders; most were involved because co-operatism offered them economic advantages in selling produce, lower prices on consumer goods, a technique for organizing regional grievances, or a means of preserving a way of life".⁷

It soon became apparent that the western movement was meeting with success while the movement in the east was making little headway. During the second decade of this century, the contrast between the co-operative movements in eastern and western Canada became more pronounced. G.F. Chipman, editor of The Grain Growers' Guide, had occasion to write to Keen in 1916: "... am sorry that the co-operative movement is not progressing in the East ... The movement is developing here in the West very well indeed and we are beginning to get down to the true co-operative basis to a considerable extent. We got a fairly good co-operative bill thru (sic) the Manitoba legislature at the recent session, so that we now have co-operative legislation in all three of the prairie provinces".⁸

⁶ PAC, CUC Papers, Volume 17. Letter from George Keen (General Secretary, CUC) to W.C. Stewart of the British-Canadian Co-operative Society Limited, Sydney Mines, Nova Scotia, January 24, 1916.

⁷ MacPherson, Search, p. v.

⁸ PAC, CUC Papers, Volume 17. Letter from G.F. Chipman (editor of The Grain Growers Guide) to George Keen, May 12, 1916.

The western movement was thriving and able to obtain favourable legislation, thanks in part to the strong political position of the organized farmers on the prairies. The movement in the east, based on participation by the urban working class, was foundering and taking the CUC down with it. The CUC was losing its organizational base as, one by one, the consumer co-operatives fell victim to the economic conditions engendered by World War I and the depression that followed it.

Beginning in the 1920's, the CUC became "increasingly involved in the development of agrarian co-operation, firstly, with the United Grain Growers and secondly, with the rapidly growing Pools".⁹ Relations between the eastern CUC and western co-operatives gradually became closer and more cordial. Both sides had to overcome their prejudices, the westerners who distrusted easterners, the easterners who viewed producer (as opposed to consumer) co-operation with suspicion. This closer relationship was aided by the selection in 1922 of Ontario farm leader W.C. Good, as the second president of the CUC replacing Samuel Carter, a Guelph industrialist. Thus, a direct link between the CUC and the agricultural sector was created. A leading organizer of the United Farmers of Ontario (UFO) and its commercial arm, the United Farmers' Co-operative

⁹ MacPherson, "The Good and Keen Years", in Sixty Years of Service, CUC Congress, April 1969, (CUC), p. 15.

Company (UFCC), Good stressed the necessity of a "co-operative movement consisting both of buyers and sellers co-operatives set up to enable the farmer to compete on fair terms with huge industrial organizations of the day and with the city merchants ... the ultimate aim [was] ... the establishment of the co-operative commonwealth".¹⁰

The first thirty years of the CUC's history have been characterized as a search for the co-operative commonwealth. Despite this idealistic goal, the CUC leadership recognized the necessity of creating a strong co-operative movement comprised of viable co-operative enterprises. Deploring the greed and excessive individualism which they felt was a result of industrialization, they hoped that co-operation would offer an alternative to the state ownership of socialism, enabling individuals to form collectivities that could compete with capitalistic enterprise - "although they opposed the abuses of trusts, the men who founded the C.U.C. did not oppose the development of large economic units. Instead they tried to marshall consumers in co-operative organizations large enough to force all producers to adopt humanitarian policies and modes of behaviour".¹¹

While the western co-operative movement regarded co-operatives as an end in themselves, the founders of the

¹⁰ Richard J. Van Loon, The Political Thought of the United Farmers of Ontario (Unpublished M.A. Thesis, Political Science, Carleton University, Ottawa, 1965), pp. 62-3.

¹¹ MacPherson, Search, p. 3.

CUC viewed co-operation as a means toward an end. In their vision of a better society through co-operation, they were not unlike the advocates of temperance, or the early trade unionists. The means^{by} which they hoped to achieve their goal of a better society was by establishing co-operatives throughout the country. To facilitate and standardize the organization of co-operatives in Canada, the eastern co-operative leaders began to lobby, in the early years of this century, for federal legislation under which co-operatives could be incorporated. Although this method of seeking recognition of co-operation publicized the positive virtues of co-operation, it also alerted those who stood to lose if co-operation gained.

The decisive factor in the decision to form the CUC was the defeat, in the 1906-7 session of Parliament, of a bill to regulate the incorporation of co-operatives at the federal level. The legislation was defeated in the Senate by a single vote, and co-operative leaders attributed this to strong lobbying by the Retail Merchants Association of Canada.¹² Co-operative supporters saw that an organization to represent co-operative interests on a full-time basis was a necessity. A further stimulus to the formation of a co-operative association was the interest shown in co-operation by farm and labour leaders. MacPherson believes that "the Union's establishment can be explained, in part, as an organized

¹²Keen, p. 4.

effort to take advantage of the enthusiasm of the labour and agrarian movements".¹³

With the failure to achieve a federal co-operatives act, the onus fell on provincial governments to make provision for the incorporation of co-operatives under provincial legislation. Keen, writing in 1916, said resignedly: "we have to do the best we can with such legislation as we are able to induce the respective governments to permit to become enacted".¹⁴ The defeat of the federal co-operative legislation diluted the potential strength of the CUC because it meant that the battle would have to be fought in each of the nine provincial capitals.

The Retail Merchants, who were mainly concerned about consumer co-operatives which offered their stores direct competition, offered the major opposition to co-op legislation. In Ontario, co-operative societies were regulated under the Ontario Companies Act of 1907. A co-op bill had been introduced in Ontario but was defeated, again due to the lobbying of the Retail Merchants Association.¹⁵ An Act Respecting Agricultural Co-operative Associations successfully navigated the Ontario legislature and received assent on December 19, 1913. The Act stated that:

¹³ MacPherson, Search, p. 33.

¹⁴ PAC, CUC Papers, Volume 17. Letter from Keen to P.F. Mathers, Esq., Registrar of Joint Stock Companies, Legislative Buildings, Halifax, Nova Scotia, April 3, 1916.

¹⁵ Ibid.

Any five or more persons who desire to associate themselves together as an incorporated association for the purpose of producing, purchasing or selling live stock, farm products or supplies on the co-operative plan may in the presence of witness (sic) sign in duplicate and cause to be filed in the office of the registrar a memorandum of association.¹⁶

However, this Act did not apply to commercial co-operatives, and when the United Farmers' Co-operative Company, which intended to establish retail outlets, was incorporated on February 7, 1914 "some/makeshift provisions were taken in the By-Laws to see that no undemocratic procedures were adopted".¹⁷ The inadequacy of the laws was ameliorated somewhat by the addition of amendments to the Ontario Companies Act in 1916. To an official of the Nova Scotia government which was contemplating a bill to cover fishing co-ops, Keen related his role in amending co-op legislation in Ontario:

✓ The difficulty was notwithstanding to some extent overcome by the enactment of a one-section amendment of the Companies Act which gave the Provincial Secretary power to introduce into the charter of Incorporation of any company registered under the Act such special provisions as he might consider advisable for the protection of the public. Immediately after the passing of the amended Act, the provincial secretary drafted regulations which were submitted to me for consideration and I enclose herewith copy (sic) of the same in the form adopted. They now appear in the charter of every corporation

¹⁶ PAC, CUC Papers, Volume 17. File: A.

¹⁷ Good, p. 101.

having the word "co-operative" in its title.¹⁸

Quebec had passed a co-operative act in 1906. One of the leading proponents of co-operation there was M. Alphonse Desjardins, founder of the Caisse Populaire (People's Bank or Credit Union) movement in Quebec. His influence in Ottawa had a great deal to do with the creation of the Royal Commission on Co-operation in 1906 which had made a report favourable to the movement. He had also influenced the introduction in the House of Commons of the co-operative act which subsequently failed in the Senate. A biographical study of M. Desjardins notes that the Legislature of Quebec adopted in 1906 a co-operative act prepared in collaboration with Mr. I.W. Belleau and Mr. Desjardins.¹⁹

The Prairie Provinces all had enacted co-operative legislation of a satisfactory nature by 1916. The Maritimes too were in the process of obtaining appropriate legislation. While the CUC leadership still hoped for a federal co-op act that would standardize and safeguard the operation of co-operatives throughout Canada, it was fast becoming apparent that many individual co-operatives were doing well without federal legislation. During this period, the idealists who

¹⁸PAC, CUC Papers, Volume 17. Letter from Keen to Mathers, April 3, 1916.

¹⁹PAC, CUC Papers, Volume 111. Unsigned biography of Alphonse Desjardins dated September 12, 1943. Probably written by M.V. de Billy, CR KC, President, La Caisse Populaire de Levis, Levis, P.Q.

felt that the merits of co-operation lay in its educational role seemed to feel the need of a federal co-operative bill more strongly than did those who saw co-operation as a means of economic self-help. For those who favoured the economic role of co-operation, and who felt that provincial legislation was adequate, the CUC had little in the way of incentives to offer prospective member organizations.

2.2 The Taxation of Co-operatives

The question of the taxation of co-operatives was first raised in the session of 1916-17, with the introduction of the federal Business Profits War Tax Act 1916.²⁰ The issue of taxation was naturally of great salience to all co-operatives, whether they were members of the CUC or not. Although fears that this act was going to affect co-operatives proved to be unfounded, the following year The Income War Tax Act 1917 was enacted to come into force in 1918. After discussions with taxation officials²¹ the following general rule was applied: "Co-operatives were not mentioned specifically in this statute but mutuals were exempt and the federal taxation authorities tended in the early years after 1917 to accept this exclusion as applying to both consumer and

²⁰PAC CUC Papers, Volume 17. Letter to Keen from W.C. Stewart, of the British-Canadian Co-operative Society, Limited, Sydney Mines, Nova Scotia, July 3, 1916.

²¹PAC, CUC Papers, Volume 110. "Federal Income Taxation", from The Canadian Co-operative Official, (CUC), Feb.-March 1939.

producer co-operatives".²²

The events of 1916 and 1917 made it clear that taxation was an issue which could unite co-operatives, and the co-operative movement in Canada. George Keen of the CUC had emerged as the acknowledged defender of the co-operatives at the federal level. The significance of these two facts would not become apparent until the 1940's when the government, prompted by business interests in competition with the co-ops, decided to pursue further the issue of taxing the co-operatives.

Although the federal government attacked, and the CUC helped to defend, the exempt status of the Saskatchewan Wheat Pool in the 1920's, the next major involvement of the CUC leadership with the taxation issue did not occur until 1929, with the introduction of the "Dunning amendment" to the Income War Tax Act. In 1929 Keen was one of a delegation which met with the Federal Cabinet to discuss the taxation of co-operatives.²³ The result of this meeting was the amendment introduced by the Hon. Charles Dunning, then Minister of Finance and former Premier of Saskatchewan.²⁴ Briefly, the amendment exempted certain co-ops from paying income tax provided:

²²R.H.D. Phillips, "The Wheat Pools and the Canadian Income Tax Act 1917 to 1971", in Canadian Co-operative Digest, Volume 14, no. 2, Winter 1971-72, p. 27.

²³PAC, CUC Papers, Volume 110. Letter from Keen to W.B. Francis of Messrs. McKercher, McCool & Francis, Royal Bank Bldg., Second Ave., Saskatoon, Saskatchewan, February 20, 1943.

²⁴Phillips, pp. 28-29.

(a) they were farmer co-operatives which marketed their members produce under an obligation to pay them the full sale price less costs of marketing and reserves;

(b) they were farmer co-operatives which purchased supplies and equipment for the use of its members under an obligation to turn such supplies over to them at cost plus expenses and reserves.

(c) the business done with non-members in either of the above cases did not exceed 20 per cent of the value of the business handled for members.

The Dunning Amendment also included subsidiaries owned and controlled by such farmer co-operatives provided the subsidiary was set up to finance the co-operative. This amendment became law on May 30, 1930.

Throughout the 1930's the exemption for income taxation of farmer co-operatives went unchallenged by the federal government, but in the 1940's the taxation issue was reactivated. In 1941, the exemption of the Saskatchewan Pool Elevators Limited was challenged by the federal revenue department. Auditors examined the records of the Pool Elevators and in 1943 it was ruled that "the pool elevator company did not come under the Dunning exemption for co-operatives".²⁵ An attack was also launched at approximately the same time on the exempt status of consumer co-operatives under the Dunning Amendment. Keen felt that, had he been able to inspect the 1930 amendment before its enactment, co-operatives would not have encountered

²⁵Ibid.

these difficulties.²⁶

With reference to the attack on the exempt status of consumer co-operatives under the Dunning Amendment, Keen noted in 1943 that the Commissioner of Taxation had previously "expressed the view that urban co-operatives are entitled to exemption on the same terms as agricultural and fisherman's co-operatives". Keen went on to say:

The Solicitor of the Division has recently ruled that co-operatives which pay dividends or interest on share capital do not come within the terms of the exemption clause, and are, therefore, liable to taxation. We take the view that it is an absurd ruling as the fixed rate of dividend on shares is the equivalent of interest for the use of capital and, if the ruling is sound, the intention of Parliament is defeated.²⁷

Elsewhere, Keen stated the co-operative position on dividends more clearly. In reference to the Solicitor in the Taxation Division, he said:

Apparently this legal gentleman does not distinguish between a fixed dividend, which is virtually interest for the use of money similar to what would have to be paid to a bank or to a private individual on a loan, and the varying return, according to the profits made, on share capital investments in a joint stock company... 28

²⁶PAC, CUC Papers, Volume 110. Letter from Keen to W.B. Francis, February 20, 1943.

²⁷PAC, CUC Papers, Volume 110. Letter from Keen to D.J. MacEachern, Acting Registrar of Co-operative Societies, Department of Agriculture and Rural Reconstruction, St. John's, Newfoundland, March 13, 1943.

²⁸PAC, CUC Papers, Volume 110. Letter from Keen to S. Wilfred Keohan, Registrar of Credit Unions, Dept. of Agriculture, Fredericton, New Brunswick, March 26, 1943.

In 1941 a deputation of co-operative leaders had met with the Commissioner of Taxation on the subject of the tax liability of co-operatives and submitted a brief. No rulings on the taxation questions contained in their brief had been made by March of 1943. Keen observed: "In the meantime a big campaign has been conducted by powerful private trade interests in favour of the taxation of co-operative savings as profits, and it is rumoured some action is to be taken by the Government on the subject at the present session of Parliament".²⁹

Keen indicated in his correspondence a growing suspicion that outside pressure was forcing the Income Tax Division into taking a less sympathetic view towards the co-operative movement. He wrote in 1943: "The attitude of the Income Tax Division at Ottawa as to the taxation of co-operatives to which you call my attention provides a concrete illustration of the need of more intensive organization of the Co-operative Movement throughout Canada, the inclusion of every eligible co-operative in the national union and the importance of it being adequately financed to meet the conditions with which it will be confronted from now on".³⁰ The CUC had at last found an issue which it could use to unite the co-operative movement throughout Canada, an issue around which it could

²⁹PAC, CUC Papers, Volume 110. Letter from Keen to MacEachern, March 13, 1943.

³⁰PAC, CUC Papers, Volume 110. Letter from Keen to Keohan, November 8, 1943.

coalesce.

2.3 Reorganizing the Co-operative Union

By 1943 it was apparent that the CUC had to strengthen itself as an organization for the confrontation ahead. The opponents of the co-operatives' tax exempt position (particularly retail merchants, and line elevator companies who often found themselves in direct competition with co-ops on the prairies) seemed to have the ear of the government. Only a structurally sound and financially viable CUC could provide an adequate defense of the co-operative position. The CUC, however, had been trying to build a sound organizational and financial base since its founding. At no time between 1909 and 1943 was the CUC particularly strong.

In the 1920's, as the urban consumer co-ops failed in the post-war depression, the survival of the CUC was by no means assured. During this difficult period, the credit for the continued survival of the CUC is due to the financial and personal sacrifices of George Keen, who devoted most of his time and energy to the cause of the co-operative movement in Canada. The CUC, at this time, was comprised mainly of eastern co-operatives that directly affiliated with the CUC. The CUC was thus a union or association of co-operatives. Ontario and Nova Scotia sections of the union were formed in the 1920's but did not survive.³¹ Lack of an adequate financial

³¹PAC, CUC Papers, Volume 3. CUC Circular no. 9 of 1936, September 30, 1936.

base hindered the CUC in its educational work.

During the 1930's the CUC experienced a period of growth when co-operation expanded in the west, largely as a result of its attractiveness as a means of economic self-help. By the 1930's the CUC structure that had evolved consisted of a president (W.C. Good) and one vice-president from each province except Prince Edward Island. The position of vice-president was primarily honorary in character and carried little power.³² The United Board of the CUC (also known as the Dominion Executive) wielded the power in the organization. The president (Good) and the Secretary-treasurer (Keen) sat on the Board along with five directors, elected at the annual meeting or Congress of the Union. Invariably, all seven members of the Board came from southern Ontario. For example, in 1936, represented on the Board were the Ontario centres of Paris, Ancaster, Hamilton, Brantford, Toronto, and Freeman.³³ As the western co-operatives continued to increase in number and strength, the eastern domination of the CUC became more and more incongruous.

As early as the CUC Congress of 1936, the idea of provincial sections or divisions for the CUC was again becoming popular. At the prompting of Saskatchewan, the province in which co-operation was most developed, the 1936

³² Many of the vice-presidents (in fact, most) were not present at the Congress at which they were elected (usually by acclamation) and were informed by letter.

³³ PAC, CUC Papers, volume 3. 1936 Congress (Toronto).

Congress resolved to authorize the creation of provincial sections of the Union in Saskatchewan and Alberta. In Saskatchewan the Executive Committee of the Saskatchewan Conference of Co-operative Trading Associations was authorized to be the first executive of the section. In Alberta the Board of Directors of the Alberta Co-operative Wholesale Association Limited was to be the first executive of that section. It was further resolved that "the United Board be authorized to create a Provincial Section for Quebec as soon as evidence is placed before it justifying, in its opinion, such an action". An appeal was made to non-affiliated societies to join the CUC - "to co-operate with its members in the protection of their welfare and rights from the attacks of private business interests opposed to them". The feasibility of an Ontario section was to be investigated.³⁴ At the 1937 Congress in Montreal, a section for Nova Scotia was authorized, with the Union affiliates in Nova Scotia empowered to choose the provincial executive.³⁵

The decision to create provincial sections of the CUC proved to be premature. Although sections had been authorized for Alberta, Saskatchewan and Nova Scotia, and were ostensibly being studied in Ontario and Quebec, by the 1941 Congress in Regina,³⁶ little real progress was

³⁴PAC, CUC Papers, Volume 3. 1936 Congress (Toronto). Resolutions.

³⁵PAC, CUC Papers, Volume 3. 1937 Congress (Montreal). Resolutions.

³⁶PAC, CUC Papers, Volume 3. 1941 Congress (Regina). June 23-4, 1941.

reported. In the Report of the United Board to the Congress, only the Saskatchewan section was mentioned as being in operation.

The primary reason behind the attempt to organize provincial sections between 1936 and 1941 was financial. Early in 1943 Keen noted that "the initial purpose for organizing a section [in Saskatchewan] was to provide more funds for the national Union".³⁷ However, the Saskatchewan experience had indicated "that a much larger amount should be spent by the section in intensive educational and organizational services in the Province". Therefore, although the idea of remitting to the CUC at least one half of all dues received by the section had originated with the Saskatchewan co-operatives, by 1942 the CUC had agreed to accept a fixed yearly sum of \$1500 from the Saskatchewan section. A precedent was set for the negotiation of dues from provincial sections. The dues issue was a recurrent one, and one of the CUC's most vexing problems.

The dues problem was complicated in Saskatchewan by three large marketing co-ops not affiliated with the Saskatchewan section. While Keen felt that all co-operatives should affiliate to the Union indirectly through a provincial section, he was not inclined to pressure such co-operative

³⁷PAC, CUC Papers, Volume 112. Letter to A.S. MacIntyre, Sydney, Nova Scotia, from Keen, January 12, 1943. MacIntyre was also Field Secretary for the St. Francis Xavier Extension Department.

giants as the Saskatchewan Wheat Pool to join the Saskatchewan section if they preferred to affiliate directly with the CUC. In the case of the three co-ops in Saskatchewan, their dues were fixed at a specific sum by agreement when they were admitted to the CUC.³⁸

The Saskatchewan section assessed dues from trading co-operatives at a rate of \$1 per \$1000 sales, or 2% of annual net surplus, whichever the co-operative preferred.³⁹

The size of the co-operative movement in Saskatchewan, as well as its generosity, made it the financial mainstay of the CUC.

The dues situation in Nova Scotia also looked promising. There, co-operatives already contributed 1% of sales to the Nova Scotia Co-operative Education Council, the forerunner of the Nova Scotia Co-operative Union. Writing to the Director of the Council in April, 1943, Keen said: "My experience has taught me that the principle difficulty in getting co-operatives to realize the need of national unity and united action, is one of dollars and cents. In your case this is not likely to arise".⁴⁰

In addition to the necessity of strengthening the financial position of the CUC, another factor in the restructuring of the CUC was the desire to take advantage

³⁸ Ibid.

³⁹ PAC, CUC Papers, Volume 110. Third Directors' Report 1943, Saskatchewan Section (CUC), p. 20.

⁴⁰ PAC, CUC Papers, Volume 112. Letter from Keen to A.S. MacIntyre, Sydney, Nova Scotia, April 16, 1943.

of the growing popularity enjoyed by co-operation throughout the depression. The economic chaos led many people to co-operation as a means of self-help during the 1930's, and the expectation was that co-operation would play an important role in post-war reconstruction. It was believed that a strengthened organization was needed to prepare for the increased co-operative activity that was expected to follow the war.

At the CUC Congress in 1941, little progress could be reported in the development of provincial sections, but by the time of the next CUC Congress held in Winnipeg in 1945, the creation of a system of provincial co-operative unions was an accomplished fact. The next chapter will detail the two or three years of intensive activity that transformed the CUC between 1943 and 1945.

2.4 Conclusion

The pursuit of federal legislation by those representing eastern consumer co-operatives in the first decade of this century may be interpreted as an attempt to obtain recognition, hence legitimacy, for co-operative enterprise. This attempt sparked a successful counter-lobbying effort on the part of the organized retail merchants who felt threatened, and wished to preserve the status quo by barring the entry of new forms of business which would provide competition to them. The failure to obtain federal

legislation does not appear to have had a debilitating effect on co-operatives but did create problems for those who sought to promote co-operation by the organization of the CUC. The defeat of the proposed federal legislation resulted in a diffusion of the legislative focus of the co-operative movement to the provincial capitals.

From 1909 until the 1940's, those matters in which the CUC acted with the most efficacy were those in which they were cast in the role of defender of co-operatives. In those situations where the CUC tried to advance the position of co-operatives, through demands for federal legislation for co-operatives, or when they tried to strengthen the CUC as an organization, they were largely ineffectual. Only when threatened by external forces, were co-operatives willing to unite and to lend their full support to the CUC, thus enabling the CUC to fulfill some of its organizational goals in those times of crisis.

CHAPTER 3

Reorganization: 1943-1946

3.1 Introduction

Between 1943 and 1945, the CUC underwent substantial changes. In 1943 it was a poorly financed association, comprised of individual co-operatives, being operated out of an office in George Keen's Brantford home. By 1945, the CUC's financial position had improved considerably, it had organized provincial sections, had adopted a federated structure, and its national office was located within blocks of Parliament Hill in Ottawa. Since 1909 the CUC had repeatedly attempted to revamp its structure in order to improve its financial status, carry out its educational programs and thus unite the co-operative movement in Canada. Only when the issue of the taxation of co-operatives arose, threatening co-operatives right across the country, was the CUC able to assume the leadership of a co-operative movement united by external threat. With the certain knowledge that effective political activity, not educational programs, was necessary to promote the co-operative movement came the maturing of the CUC. The taxation issue lent the sense of urgency and purpose that previous attempts at reorganization had lacked.

3.2 Reorganization: Organizing a Federation of Provincial Unions

The CUC reorganization, which began in 1943 and was almost complete by 1945, took place on two levels. At the provincial level, a system of co-operative unions was formed, while at the national level, a major leadership change took place as W.C. Good and George Keen were gradually eased into retirement and younger men with newer ideas began to shape the CUC into an effective national organization with an explicit mandate to represent the Canadian co-operative movement.

The first formal meeting to discuss reorganization took place in Regina on June 28, 1943 following an inter-provincial co-operative conference¹ convened at the Annual Conference of the Saskatchewan Section of the Union.²

Although the meeting was not an official Congress of the CUC, the decision was taken to organize:

in every province

a provincial section of the Union, each having its own office and staff for intensive provincial development. This planning is to be systematically conducted by personal effort in each province on the part of the Union. An organizer is to be appointed who will co-operate with provincial leaders in the organization of each section".³

It was also stated:

This will involve a certain amount of reorganization of the Union itself. The

¹PAC, CUC Papers, Volume 109. "Foreword" to the Annual Report of 1943 (CUC).

²PAC, CUC Papers, Volume 110. Letter to W. Halsall, Vice-President of the CUC for Alberta, Killam, Alberta, August 13, 1943.

³Ibid.

intention is that each provincial section shall decide the dues payable by the affiliates in the province and that an assessment shall be annually made on the provincial section for the support of the Union. The existing system, according to our rules, is that each affiliate pays directly to the Union its dues, which are apportioned with the provincial section.

The Saskatchewan Section may be regarded as a model. It has been very successful since it was inaugurated and has provided valuable service to the Movement in the Province.

Saskatchewan, home of some of the most powerful co-operative enterprises, had begun to push for provincial sections in the mid-1930's, and had remained in the forefront of the reorganization drive. A Saskatchewan Section had become active by 1941, and in 1943 the section's Third Directors' Report noted: "The past year was characterized by increased interest in the Cooperative Movement, not only from the standpoint of expansion under conditions which prevailed but also from the realization of its possibilities as the dominant idea in post-war reconstruction". The Saskatchewan Section had arranged with its solicitor, W.B. Francis of Saskatoon, to make available to affiliates legal advice on "taxation problems, interpretation of legislation and assistance with legal cases of general interest to the Movement". Francis became a leading expert on co-operative law, and was the CUC solicitor for many years. The Directors expressed in their Report the opinion that the submission of briefs to the government was a good way to acquaint the public with the contribution the Movement could make. In

its comments on the role and function of the CUC, the

Saskatchewan Section made the following points:

...While co-operatives have developed extensively in many provinces contacts between provinces are lacking in a number of instances and we can hardly be said to have a truly National Co-operative Movement. On the other hand, it is a fair assumption that private enterprise is making careful plans to consolidate its position...

...the way to strengthen the Co-operative Movement is to establish Provincial Sections of the Union...

One of the objects in establishing the Saskatchewan Section was to provide more support for the Co-operative Union. Your directors believe that the co-operators of this province will be prepared to increase their support still further if any general attempt is made to strengthen the Union through the establishment of other Provincial Sections...⁴

With Saskatchewan providing much of the impetus, plans were made to begin an organizational drive in 1944. The cost of organizing provincial sections or unions was expected to be around \$10,000. A preliminary tour was to be undertaken by A.B. MacDonald, then a professor at St. Francis Xavier University in Antigonish, Nova Scotia. Plenary meetings were held on July 15, 1943 and on July 30, 1943, the latter at the UFO building in Toronto. The tour was budgeted at between \$800 and \$1000, and donations of \$100 - \$200 were solicited from some of the larger co-operatives, for example, the Wheat

⁴PAC, CUC Papers, Volume 110, Third Directors' Report 1943, Saskatchewan Section (CUC).

Pools.⁵ MacDonald would tour Winnipeg, Regina, Saskatoon, Edmonton, Calgary and Vancouver⁶ (although Vancouver seems to have been omitted when the trip actually took place), in the early fall of 1943 to discuss the financing of the restructured union.

Following the western tour, a meeting of the organization committee was held in Toronto on October 19, 1943. Present were: W.C. Good, George Keen, A.B. MacDonald, Leonard Harman (of the UFCC) and H.H. Hannam (of the CFA). MacDonald reported that "this move to contact co-operative leaders in all the provinces and explain to them what was proposed, met with general favour...".⁷ MacDonald planned to do similar organizational work in the Maritimes. In Quebec he planned to work with the Québec Superior Council of Cooperation. It was hoped that as many co-op leaders as possible would attend the CFA annual meeting in Quebec City in 1944. At their next meeting, the United Farmers' Co-operative Company would be

⁵PAC, CUC Papers, Volume 112. "Special Organizing Committee", July 30, 1943. Those asked to contribute were: the United Farmers' Co-operative Company Limited; Manitoba Pool Elevators Limited; Manitoba Co-operative Wholesale; United Grain Growers Limited; Saskatchewan Co-operative Wholesale Limited; Saskatchewan Co-operative Refineries; the Saskatchewan Wheat Pool; the Alberta Wheat Pool; and the United Farmers of Alberta Central Co-operative Association. B.N. Arnason of Regina was elected treasurer of the committee.

⁶PAC, CUC Papers, Volume 112. "Tentative Itinerary for Prof. A.B. MacDonald".

⁷PAC, CUC Papers, Volume 112. "Organization meeting minutes", October 19, 1943. Toronto. Leonard Harman was associated with the UFCC and later with the United Co-operatives of Ontario (UCO), until 1974 when he became Executive Director of the CUC. H.H. Hannam was first president of the Canadian Federation of Agriculture (CFA).

requested to take the initiative in Ontario, and to convene a conference of Ontario co-operatives. The organization committee agreed that: reorganization work needed a large degree of personal contact; the year's reorganization work would cost about \$10,000; and, Prof. MacDonald should be secured as organizer.⁸

The problem of raising the \$10,000 was considered. Allocation on a provincial basis was suggested but the committee decided that "it was desirable to hold further negotiations with provincial leaders, and for the Secretary to consult with the five large member bodies in the Canadian Federation of Agriculture on the matter, before any final allocation should be agreed upon".⁹ At a meeting held in Winnipeg on December 2, 1943, representatives of the three Wheat Pools, the United Grain Growers Limited and the United Farmers' Co-operative Company (all members of the CFA), agreed to propose to their Boards that they raise \$4000 of the \$10,000 budget objective. The organization committee allocated the remaining \$6000 to the various provinces despite the fact that official assurance had been received from only one of the five companies that it could raise its allotment.¹⁰ Committees were to be established to raise the allocated amounts in the various regions. In addition to the UFCC

⁸ Ibid.

⁹ Ibid.

¹⁰ PAC, CUC Papers, Volume 3. Minutes of a Special Organizing Committee meeting, Tuesday, December 21, 1943. Toronto.

contribution, Ontario was expected to raise \$1000. The committee of ten chosen to organize an Ontario section was given the added responsibility of raising the \$1000. The Maritimes were assessed \$1000 and a committee of five was set up. Quebec was invited to join, but no allocation was made, ostensibly because "no representative of that province had been a member of the organization committee".¹¹ British Columbia was assessed \$500 and the B.C. Co-operative Wholesale Society was asked to raise the amount. A seven-man committee was named for the prairie provinces, and it was hoped that the remaining \$3500 would come from this region. Because the Wheat Pools and the United Grain Growers were expected to raise \$3200, the actual assessment on the prairies was \$6700.

In compliance with the decision of the October 19 meeting of the organization committee, on December 21, 1943 the United Farmers' Co-operative Company met with its local affiliates to discuss the proposed Ontario Section of the Union. Other co-operative societies in the province, as well as the United Board of the CUC, were invited. This Ontario Co-operative Conference, which was addressed by A.B. MacDonald, resolved that "a strong, representative, well financed and well staffed Canadian Federation of Co-operatives is much to be desired" and that, "the Co-operative Union of Canada, with the necessary changes in its structure and

¹¹Ibid.

services, can and should be used to perform the function of such a National Federation of Co-operatives".¹² The Ontario Conference appointed a committee of ten¹³ which met on February 8, 1944 with Prof. A.B. MacDonald, and constituted themselves a provisional committee for the organization of an Ontario section. Leonard Harman, Acting Secretary of the United Farmers' Co-operative Company, became Secretary-Treasurer of the committee.

The organization committee also met on December 21, 1943 following the Ontario Co-operative Conference convened by the UFCC.¹⁴ The committee dealt with the problem of raising the organization budget of \$10,000. Present at this meeting were: W.C. Good, George Keen, Leonard Harman, H.H. Hannam, R.J. Scott, and W.E. Francis (of Toronto), a member of the CUC Executive. At this meeting, the new CUC rules were approved as a guide for organization of provincial sections. It was decided to enlarge the committee by adding a member from each of British Columbia, Alberta, Saskatchewan, Manitoba, Quebec (when it became "active in the work of the

¹²PAC, CUC Papers, Volume 3. "Co-operative Union Reorganization Plans", February 29, 1944.

¹³The Committee was made up of Good and Keen representing the CUC, and two representatives each from the United Farmers' Co-operative Company, rural affiliates of the UFCC, the Ontario Credit Union League, and the Ontario Urban Co-operatives, making a total of ten..

¹⁴PAC, CUC Papers, Volume 3. Minutes of a Special Organizing Committee meeting, Tuesday, December 21, 1943. Toronto.

committee") and one from the Maritimes. Hannam resigned as secretary of the committee and B.N. Arnason became secretary as well as treasurer.¹⁵ The new committee members were to be chosen by "those who are accepting responsibility in each province for the raising of the budget".

A two day meeting was called by the organization committee in July of 1944.¹⁶ Delegates from every province except Prince Edward Island were present. Newfoundland was not represented. MacDonald laid down several demands which he expected the CUC to meet. In a letter he had clearly indicated that he wanted a full-time secretary, an executive secretary, and additional travel money until his family moved from Antigonish. Suggesting that Toronto was the logical place for the central office, he had indicated unwillingness to move further west. Tactfully, he made it clear that the work of the Brantford office would soon be absorbed by the new Toronto office. Finally, he had stipulated that a salary of \$6000 with expenses while travelling and a guarantee of job permanency were also prerequisites of his acceptance of the position.¹⁷

¹⁵ Hannam considered it unwise to be actively soliciting funds for an organization other than the CFA, of which he was President. Arnason was Co-operation and Markets Commissioner of the Saskatchewan Department of Agriculture.

¹⁶ PAC, CUC Papers, Volume 3. "Meeting of Reorganization Committee", Co-operative Union of Canada, Chateau Laurier, Ottawa, July 12 and 13, 1944, et passim.

¹⁷ Ibid. Letter from MacDonald to Good, July 9, 1944.

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At this meeting A.B. MacDonald was hired by the CUC as its full-time National Organizer at a salary of \$6000 per annum.¹⁸ He would begin his duties in September 1944, in a national reorganization office located in Ottawa, and his title would be "National Organizer". A finance committee, reporting to the organization committee, was set up to recommend a budget for reorganization, and for the annual expenses of the CUC. Preliminary plans for the reorganization were discussed. It was suggested that MacDonald might first attend the UFCC meeting in September, where some definite action toward a provincial section seemed likely to take place. Visits to Manitoba and Alberta were also suggested. It was "agreed that Mr. MacDonald... should endeavour to secure the support of labour and should give special attention to the possibility of organizing a French section of the Co-operative Union in consultation with officials of the co-operative movement in Quebec". Representatives from New Brunswick, Nova Scotia, Ontario, Manitoba and Saskatchewan all indicated that support for reorganization was forthcoming and a good start had also been made in B.C. However, no commitment was received from the Quebec delegate, who "had no specific authority to speak for the co-operatives in that province and would require more information about the work of

¹⁸In sharp contrast to MacDonald's salary demands, Keen received \$2720.67 in 1943 (PAC, CUC Papers, Volume 110. File: Income Tax) and during the depression voluntarily returned part of his salary to the CUC.

the Union and the contributions expected". The response from Alberta foreshadowed the lukewarm relationship that co-operatives in that province would have with the CUC.

"The Alberta Co-operative Wholesale Association was considering the organization of a provincial section in that province", and the opinion was expressed "that Alberta would fall into line and that some funds could be made available from that province".

At the 1945 CUC Congress held in Winnipeg on November 26, 27, 28, 1945, the proposal to reorganize the CUC into provincial sections was approved. Individual societies would be indirect members of the Union through membership in their respective provincial sections or unions, and inter-provincial co-operatives and some others, due to special circumstances, could be directly admitted to membership in the CUC by the National Board of Directors.¹⁹ The existing rules were rescinded, and the new rules adopted. The proceedings continued on under the new rules, and the delegates from the provincial unions participated for the first time.²⁰ George Keen's farewell to the 1945 Congress noted optimistically:

"Pioneer days are past. The foundations of an enduring nation-wide Movement are... now being firmly established".²¹

¹⁹PAC, CUC Papers, Volume 3. File: Congress 1945. "Special Circular to the Affiliated Societies from George Keen", October 22, 1945.

²⁰PAC, CUC Papers, Volume 3. "To the Affiliated Societies - Canadian Co-operative Congress 1945", September 25, 1945.

²¹PAC, CUC Papers, Volume 3. "The Canadian Co-operative Congress 1945. Statement by George Keen".

3.3 The Taxation of Co-operatives, the 1940's

The impetus and energy to reorganize the CUC in the 1940's came from co-operative leaders outside of the CUC executive not from within. The Saskatchewan meeting in June 1943, at which it was decided to organize provincial sections, was not an official annual Congress of the CUC. Similarly, a meeting of Ontario co-operatives held in December 1943 affirmed the need for a well-financed and well-staffed "Canadian Federation of Co-operatives", and suggested that the CUC, with necessary changes in its structure and services (emphasis mine) could perform this function. The new National Organizer, A.B. MacDonald, was a product of the Antigonish (Nova Scotia) movement.

Spurred by the accelerated growth of co-operatives during the depression, the opponents of co-operatives became more insistent in their complaints to the federal government about the alleged advantages co-operatives enjoyed under the taxation laws. Co-operators were aware early in the 1940's that opposition to them was growing in strength, and that this opposition was directed mainly at the giant wheat pools. The question of the taxation of co-operatives became a political football, as this passage from a letter by the federal Commissioner of Income Tax attests:

Recently accusations have been made in the Press and by competitive interests to the effect that co-operatives were receiving more lenient treatment than was justified under the law,

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which results in discrimination against other taxpayers.²²

The so-called Dunning Amendment of 1930 to the Income War Tax Act had provided for the exemption of the income of farmers', dairyman's, livestockmen's, fruit growers', poultrymen's, fishermen's and other like co-operative companies and associations, whether with or without share capital, organized and operated on a co-operative basis. This had previously been interpreted to include consumer as well as producer co-operatives. All co-operatives were deemed to be exempt if the amount of business done with non-members did not exceed twenty per cent of that done with members.²³ Throughout the 1930's co-operatives meeting this criterion were exempt.

Early in the 1940's the federal government served notice that it was not going to allow patronage dividends paid out by the grain exchange or by the wheat pools to be subtracted from taxable income. It was further stated, in Parliament, that "in view of the opinion given by the Department of Justice it was felt desirable that the questions of fact and law pertinent to the liability of the Pools should come before the Court".²⁴ The Commissioner of Income Tax,

²²PAC, CUC Papers, Volume 122. Letter from C.F. Elliott, Commissioner of Income Tax, to G. Keen, December 28, 1942.

²³PAC, CUC Papers, Volume 110, "Federal Income Taxation", from The Canadian Co-operative Official, February/March, 1939.

²⁴PAC, CUC Papers, Volume 118. Letter to G. Keen from R.H. Milliken, Solicitor, Regina, Saskatchewan, May 2, 1944,

Fraser Elliott, instructed the Regina Inspector to assess the Saskatchewan Wheat Pool and all its subsidiaries on a consolidated basis for the year ending July 1940. The assessment would not allow the patronage dividend but would be "made for the purpose of getting a case to Court to ascertain whether or not patronage dividends are an allowable deduction".²⁵

Early in 1943 the solicitor to the Income Tax Division "ruled that co-operatives which pay dividends or interest on share capital do not come within the terms of the exemption clause, and are, therefore liable to taxation".²⁶ Keen argued that the fixed dividend on shares was the equivalent of interest for the use of capital. Many co-operatives required members to purchase a share, returnable when they left the co-op. Some co-operatives paid interest on these shares at a fixed, nominal rate. Keen noted: "A big campaign has been conducted by powerful private trade interests in favour of taxation of co-operative savings as profits, and it is rumoured some action is to be taken by the Government on the subject at the present session of Parliament."²⁷

In June of 1943 a court battle over the exempt status of the wheat pools seemed a definite possibility, although some co-operatives were able to circumvent problems with the

²⁵Ibid.

²⁶PAC: CUC Papers, Volume 110. Letter to D.J. MacEachern, Acting Registrar of Co-operative Societies, Department of Agricultural and Rural Reconstruction, St. John's, Newfoundland, from G. Keen, March 13, 1943.

²⁷Ibid.

Tax Division by abolishing altogether the payment of interest on share capital.²⁸ In view of the federal attack on the tax status of the wheat pools and of co-operatives paying interest on shares, the decision to strengthen the national organization, taken at the Regina meeting in late June 1943, is easily understood. Thus, the decision to reorganize the CUC can be directly linked to the attack being made on the tax status of co-operatives:

The attitude of the Income Tax Division at Ottawa as to the taxation of co-operatives to which you call my attention provides a concrete illustration of the need of more intensive organization of the Co-operative Movement throughout Canada, the inclusion of every eligible co-operative in the national union and the importance of being adequately financed to meet the conditions with which it will be confronted from now on.²⁹

As the reorganization and concomitant fund-raising swung into high gear, the relationship between the fund-raising of the organizational campaign and the taxation issue was made clear. In a circular letter used for fund-raising purposes in Ontario, Keen asserted:

In view of current trends, and particularly the sustained efforts of private enterprise to entrench itself, it is imperative that co-operatives should show a united front, and be well organized and well financed to meet every possible contingency, especially in the post-war world.³⁰

²⁸ PAC, CUC Papers, Volume 4. Letter to C.F. Elliott, K.C., Commissioner of Income Tax from G. Keen, June 7, 1943.

²⁹ PAC, CUC Papers, Volume 110. Letter to W. Keohan, from G. Keen, November 8, 1943.

³⁰ PAC, CUC Papers, Volume 119. Circular letter to Ontario Co-operators, from G. Keen, February 28, 1944.

The use of war phraseology in this context was in keeping both with the external political situation and with its domestic political situation, as the CUC saw it.

In May of 1944 a meeting was held to discuss the application of the income tax to co-operatives. The ten co-operative leaders attending, including Keen and Good, decided to approach the federal government to request a satisfactory clarification or amendment of the present law. They wanted a "clear declaration that Co-ops are not taxable on business they do with members (except as to interest paid on share capital) and that co-ops are taxable on all business done with non-members".³¹

July 12, 1944 was the date the deputation met with officials of the Federal Government. The co-op leadership wished to solve the matter by departmental rulings in conformity with British case law and governmental practice.³² However, the government seemed unlikely to follow this course, given the cross-pressure it was being subjected to. The strategy used in preparing the co-op brief was to emphasize the "injustice from which we suffer If the Government is disposed favourably to entertain our case, it will be necessary for it to be in a position to justify its attitude to the powerful private trade interests opposed to us".³³

³¹PAC, CUC Papers, Volume 4. Minutes of Meeting held May 21, 1944 "For the Purpose of Considering the Application of Income Tax to Co-ops".

³²PAC, CUC Papers, Volume 119. Letter to G. Keen from B.N. Arnason, Secretary, Saskatchewan Co-operative Union, Regina, June 6, 1944.

³³PAC, CUC Papers, Volume 4. Letter to Walter Macdonald, C.A., Winnipeg, from G. Keen, July 4, 1944.

A second meeting was arranged for September 6, 1944. The CUC delegation was not in favour of a Royal Commission investigation into the taxation of co-operatives, still desiring instead clarification of the existing position. However, a memo read by a member of the Finance Department reasserted its contention that a co-op paying dividends on share capital was not exempt from taxation unless the dividends were paid out of income from other sources. Section 4(P), otherwise known as the Dunning Amendment, was said not to apply to urban consumers co-ops. The official finished off with: "Under the circumstances it seems clear that no general statement can be made regarding the tax status of patronage dividends".³⁴ At a second meeting at 10:00 p.m. that night, the co-operatives expressed their displeasure with the memorandum submitted at the morning session. Federal Finance Minister Ilsley mentioned the possibility of a Royal Commission being created.

The CUC delegation met the next day and decided that "the time had come for the Co-operative Union to place its case before the public",³⁵ although funds for such a task were lacking. On behalf of the delegation, CUC President Good wrote to Finance Minister Ilsley:

³⁴PAC, CUC Papers, Volume 4. Report on First Interview with Hon. J.L. Ilsley, the Hon. Colin Gibson, and other Officials of the Departments of Finance, Justice and Revenue, September 6, 1944.

³⁵PAC, CUC Papers, Volume 4. Meeting of Members of CUC Delegation, September 7, 1944.

.... (the committee does) not consider the appointment of a Royal Commission an appropriate method of dealing with this problem: The fundamental issue is one which must be determined by Parliament as a matter of Government policy....³⁶

In response, Ilsley stated:

I have felt throughout and still feel that your Committee has a tendency to over-simplify the problem considerably. I think that the large number of questions that we have received and the answers to those questions which we will give will indicate that the matter is a very much more complicated one than your Committee seems to think it is.³⁷

On October 14, 1944 Finance Minister Ilsley wrote to Good to inform him that he felt a Royal Commission should be appointed to make a thorough investigation of the whole field, and to make recommendations to the government. Five commissioners would be named, one of which would be selected from a panel of six nominated by the CUC, and another from a panel nominated by the Chamber of Commerce.

Keen feared and opposed a Royal Commission because, since it could not decide questions of law, it would "possibly resolve itself into a question of the propriety of income taxation of co-operatives from the point of view of the private trade interests on the one hand, and of the co-operatives on the other".³⁸ Despite Keen's opposition, nothing could be done to dissuade the Government from appointing a Royal Commission.

³⁶ PAC, CUC Papers, Volume 4. Letter to Hon. J.L. Ilsley, Minister of Finance from W.C. Good, President, CUC, Sept. 8, 1944.

³⁷ PAC, CUC Papers, Volume 4. Letter to W.C. Good, President, CUC, from Hon. J.L. Ilsley, September 18, 1944.

³⁸ PAC, CUC Papers, Volume 118. Letter to W.J. Macdonald, Winnipeg, from G. Keen, October 26, 1944.

3.4 The McDougall Royal Commission on Co-operatives

The appointment of this Royal Commission was approved on November 16, 1944 (P.C. 8725) on the recommendation of the Minister of Finance. It was stated: "doubt has arisen as to the effect of the Income War Tax Act and the Excess Profits Tax Act, 1940 in the case of co-operative corporations, associations and societies both as regards the general principles intended by Parliament to be applied and the effect, in many matters of detail, of the said taxation statutes upon these co-operative organizations and their members".³⁹ The Commissioners were directed to inquire into:

- (a) the present position of co-operatives in the matter of the application thereto of the Income War Tax Act and the Excess Profits Tax Act, 1940, and
- (b) the organization and business methods and operations of the said co-operatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and
- (c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with co-operatives."

At the first session in Ottawa, the CUC and the Chamber of Commerce agreed to file their main briefs with the Commission, and make them available to each other. It had indeed become a debate between the co-operatives and private

³⁹PAC, CUC Papers, Volume 125. P.C. 8725, November 16, 1944.

interests over the question of the taxation of co-operatives.

The five commissioners were: Hon. Errol M.W. McDougall, a Judge of the Court of King's Bench, Quebec; Mr. B.N. Arnason, Regina, Saskatchewan; Mr. G.A. Elliott, Edmonton, Alberta; Mr. J.M. Nadeau, Montreal, P.Q.; and Mr. J.J. Vaughn, Toronto, Ontario.⁴⁰ The Chamber of Commerce nominee was J.J. Vaughn. The Commission planned to move from west to east, holding public sessions. The first meeting, in Ottawa, was to be held in January of 1945.

A meeting of those preparing the co-operative case was held in November 1944 in Ottawa.⁴¹ The CUC leadership was concerned about the strategy to be used by the Chamber of Commerce. A meeting was planned for early January to discuss the CUC brief and to consider possible strategy. W.C. Good feared that the Chamber would present few witnesses, but would closely examine co-operative testimony, especially in Western Canada, where the co-operatives were expected to have "the whole show" to themselves.⁴²

The CUC taxation committee met on January 5 and 6, 1945, in Winnipeg. W.C. Good was elected chairman and A.B. MacDonald became Secretary of the committee. The first order of business was the preparation of a national brief. A preliminary draft,

⁴⁰ Ibid. Arnason was the CUC nominee.

⁴¹ PAC, CUC Papers, Volume 119. Letter from B.N. Arnason Secretary, CUC Reorganization Committee, to G. Keen, November 13, 1944.

⁴² PAC, CUC Papers, Volume 118. Letter from W.C. Good to R.H. Milliken, K.C., Regina, Saskatchewan, December 12, 1944.

prepared by W.C. Good had been distributed to the "key men" in the provinces. A meeting had been held in Regina on December 21, 1944 to offer constructive criticism. The suggested changes were to be incorporated into the draft brief. The person assigned to this task however, had written a new brief, "hence the meeting was confronted with the task of deciding which of the two should be selected for consideration at this meeting".⁴³ W.C. Good's brief was selected as the basis for the national presentation.

Directions to guide provincial societies in their testimony before the Commission, drafted by B.N. Arnason, were to be revised and sent to the "key men" in the provinces. The committee favoured having questions directed to witnesses through the counsel of the Commission, subject to the agreement of the Chamber of Commerce and the Royal Commission.

A budget of \$50,000 "to cover the estimated cost of financing the Co-operative Union of Canada for the year 1945 and to cover the expenses arising out of the work of the tax enquiry"⁴⁴ was presented for discussion. Half this amount would be for Royal Commission expenses. The budget was approved.

Provincial sections, or leading co-operative officials in the provinces were asked to raise the amount allocated to each province. The following budget was approved.

⁴³PAC, CUC Papers, Volume 125. Minutes of National Co-operative Meeting, held in Winnipeg, Man., Jan. 5-6, 1945, p. 2.

⁴⁴Ibid., pp. 3-4.

		Basis \$50,000.00
Manitoba	12%	6,000.00
Saskatchewan	25%	12,500.00
Alberta	18%	9,000.00
Ontario	18%	9,000.00
Quebec	9%	4,500.00
British Columbia	9%	4,500.00
Nova Scotia	6%	3,000.00
New Brunswick		
Prince Edward Island	3%	1,500.00
	<u>100%</u>	<u>\$50,000.00</u> 45

A battery of five lawyers: W.B. Francis, R.H. Milliken, E.F. Scharf, M.M. Porter, and Mr. Beauregard collaborated in directing the general case for the CUC.⁴⁶ A.B. MacDonald acted as CUC official representative at all hearings of the Commission.

Following the first public meeting in Vancouver, Walter MacDonald wrote to Good: "It would appear that the Chairman is leaning heavily on (Arnason) and that he is at least as much in the confidence of the Chairman as any other member -- if not more so".⁴⁷ The CUC representatives were encouraged by the first sitting and transmitted this to Keen, who wrote to R.A. Palmer, General Secretary of the British

⁴⁵Ibid., p. 4.

⁴⁶These five lawyers were all familiar with co-operatives and normally had as clientele some of the largest co-ops in Western Canada.

⁴⁷PAC, CUC Papers, Volume 123. Letter to W.C. Good from Walter MacDonald, January 22, 1945.

Co-operative Union Limited:

We are hoping for a satisfactory outcome but in any case the publicity given and particularly the evidence broadcast through Canada of the practical value of the Movement to the people will be very helpful. 48

The Commission's terms of reference, and the scope of the study they delineated, seemed ambiguous to some co-operative leaders. Keen contended that:

The Commission is to investigate the subject of Income Taxation of Co-operatives in relation to that of other concerns, and to recommend to the Government and to Parliament what equitably should be done, and with due regard to the public interest. In due course it is assumed that legislation will be presented, based upon the Commission's recommendations. That field of inquiry will be considerably larger than the question of taxability under the Income War Tax Act and the Excess Profits Tax Act. 49

In response to a letter from W.C. Good requesting written assurance that taxing co-operatives was not a foregone conclusion, Ilsley reiterated a verbal assurance he apparently had made earlier. He stated that the Commission was considering whether co-operatives should be taxed, not how they should be taxed. 50

Besides the Chamber of Commerce, leading opponents of the co-operatives included: the Income Taxpayers Association (ITPA); the Investment Dealers' Association of Canada; the

⁴⁸ PAC, CUC Papers, Volume 121. Letter to R.A. Palmer, General Secretary, Co-operative Union Limited, from G. Keen, January 23, 1945.

⁴⁹ PAC, CUC Papers, Volume 122. Letter to W.C. Good from G. Keen, January 29, 1945.

⁵⁰ PAC, CUC Papers, Volume 122. Letter to W.C. Good from Hon. J.L. Ilsley, Minister of Finance, February 5, 1945.

the North-West Line Elevators Association; and the Canadian Manufacturers Association (CMA). The ITPA was comprised of four lawyers, financed from an undisclosed source, according to W.C. Good.⁵¹ In its Brief the ITPA stated:

We believe that the vast majority of Canadians desire to retain this profit or competitive or free enterprise economy ... the preservation of our profit system requires the elimination of tax inequality. ⁵²

The ITPA asked in its brief who would pay tax if tax paying enterprise is replaced by exempt enterprise. The Investment Dealers emphasized competition in their brief and called into question the legitimacy of co-operation as a mode of business. They held the opinion that co-operatives enjoyed a "preferred position" and stated: "We have no protest to lodge with the objectives of voluntary co-operation -- not even an effort to displace "Capitalism" -- so long as the thing is done by competitive effort"⁵³ (emphasis theirs).

The North-West Line Elevators Association took the position that the co-operatives were evading taxes that they should rightfully be paying. The Canadian Manufacturer's

⁵¹PAC, CUC Papers, Volume 122. Letter to G. Keen from W.C. Good, February 7, 1945.

⁵²PAC, CUC Papers, Volume 4. "Memorandum to the Royal Commission appointed to inquire into the application of Income Tax and Excess Profits Tax to Co-operative Companies and Associations and Mutual Corporations", Income Tax Payers Association, January 29, 1945.

⁵³PAC, CUC Papers, Volume 4. "A Brief Submitted to the Royal Commission on Co-operatives", by the Investment Dealers' Association of Canada, February 13, 1945.

Association Brief emphasized the "gross discrimination" of the tax exemption of co-operatives.⁵⁴

Keen began to fear that the Commission was leaning to the conclusion that the tax immunity of co-operatives was a serious handicap to corporations in competition with them.⁵⁵ The CUC hoped the Commission would recommend that savings to members of producer and consumer co-operatives be immune from taxation. Keen wondered if the CUC was over-emphasizing the social value of co-operation, particularly in the face of the opponents' emphasis on the relative inequity caused by the tax immunity of the co-ops.⁵⁶

A national conference was called for April 1945 to discuss the final CUC appearance before the Commission. A meeting of the National Reorganization Committee was also scheduled to meet then.⁵⁷ The Conference had to determine the position that the CUC would take in its final appearance before the Commission. Prior to this meeting there was a great deal of discussion on this point. Good tended to the opinion that the distinction between co-operatives and private enterprises with respect to taxation might be eliminated.

⁵⁴PAC, CUC Papers, Volume 4. "Submission of the Canadian Manufacturers' Association to the Royal Commission on Taxation of Co-operatives", n.d. 1945.

⁵⁵PAC, CUC Papers, Volume 121. Letter to W.B. Francis, CUC Solicitor, from G. Keen, February 14, 1945.

⁵⁶PAC, CUC Papers, Volume 122. Letter to W.C. Good from G. Keen, February 17, 1945.

⁵⁷PAC, CUC Papers, Volume 3. Letter from A.B. MacDonald, National Organizer to the National Reorganization Committee, February 26, 1945.

The CUC legal counsel, W.B. Francis, strongly disagreed. Keen, in supporting the position that the CUC should stick to its claim of taxation immunity stated:

We have nothing to gain by claiming less. If the majority of the Commission were inclined to concede our claim and we asked for less; we shall get less ... If, too, we were to ask for less it might cause irritation and annoyance to hundreds of co-operatives throughout Canada, and impair national co-operative unity at a time when we are making every effort to promote it.⁵⁸

Although Keen had opposed the creation of a Royal Commission, he was not blind to the positive side of the inquiry: "it is manifest that the ~~campaign~~ against us has been of incalculable assistance in bringing home to all types of co-operatives the urgent need of National Co-operative Unity".⁵⁹

At the National Reorganization Committee meeting, on April 20, 1945, the main topic of discussion was how to raise the budget of \$50,000.00 for 1945. The existence of two "national" offices, one in Brantford and one in Ottawa, had confused some and slowed the progress of the fund-raising. Reports on the progress of the provincial co-operative unions were heard, and the decision was made to hold a Congress of the Union in 1945. The timing of the release of the Royal Commission Report offered some concern in this regard, because one of

⁵⁸PAC, CUC Papers, Volume 122. Letter to W.C. Good from G. Keen, April 7, 1945.

⁵⁹PAC, CUC Papers, Volume 121. Letter to R.A. Palmer, General Secretary, Co-operative Union Limited, England from G. Keen, April 9, 1945.

the main agenda items at the 1945 Congress was expected to be discussion of this report.⁶⁰

The National Conference of Co-operatives also discussed general recommendations to be offered to the Commission. It was decided unanimously to recommend that patronage dividends should not be considered income in the hands of a co-operative if paid or allocated. A great deal of discussion took place about whether the CUC should concede the taxability of all dividends (or interest) paid on share capital.

W.B. Francis suggested that the real solution would be to adjust the financial structure of co-operatives to eliminate share capital. However, it was pointed out that large organizations like the UGC would find it hard to do away quickly with share capital.⁶¹ On the question of the taxation of unallocated surpluses, the debate focussed on whether or not to make any concessions on "the taxability of anything in the hands of the co-operatives." The consensus was to concede nothing although there was some dissent. A committee of three was struck to specify what the CUC meant by "contingency reserves" so that the committee could entertain a motion to recommend taxation of

⁶⁰ PAC, CUC Papers, Volume 124, "Minutes of Meeting of the National Reorganization Committee of the Co-operative Union of Canada held on April 20, 1945."

⁶¹ PAC, CUC Papers, Volume 122, "Minutes of the National Conference of Co-operatives held in Ottawa, April 20 and 21, 1945", p. 5.

unallocated surpluses except for contingency reserves.

A.B. MacDonald stressed that the two main arguments for exemption were these:

First, that the people are entitled to carry on their own businesses on a non-profit basis. Consequently, the Income Tax Act had no bearing if there were no profits. Secondly, since co-operative business was so intimately tied up with the public interest, special consideration could logically be asked for.⁶²

Another problem was non-member business. There was little resistance to taxing non-member business which under present law was exempt if it did not exceed 20% of the total business.

The recommendations decided upon at the April Conference related to the present position of co-operatives and amendment of laws in the public interest. They recommended that co-operatives not be assessed retroactively for any tax liability, and true co-operatives (conforming to a definition submitted to the Commission) be immune from taxation. Final arguments from both sides were scheduled for July 25.

As the Commission was ending its hearings, Keen's Brantford office found itself once again in financial difficulties. Some organizations were donating directly to the Reorganization Committee, decreasing their regular contribution for the support of the National Office.

⁶² Ibid., p. 8.

MacDonald wrote to reassure Keen that the Brantford office would have adequate funding,⁶³ but Keen continued to complain of the erratic flow of funds to the Brantford office, due to the reorganization.⁶⁴ On July 12, 1945 Keen wrote to MacDonald:

It would seem that remittances to your office are slowing up the regular payment of dues according to the rules. If it had not been for the generous donation recently of \$1,000.00 by our good friend Mr. J.J. Harpell, I would again be under the necessity personally of financing the Union, something I had to do for about twenty-five years. It was necessary then as otherwise the Union would have collapsed, but there is no such reason now.⁶⁵

More than anything, this problem over financing illustrates Keen's reluctance to relinquish the organization he had nurtured for thirty-six years. MacDonald's determination won out, however, and the agenda for the 1945 Congress, normally the responsibility of the Brantford office, was organized by A.B. MacDonald "to lessen the load of the Brantford office."⁶⁶

The final arguments from both the CUC and the Chamber of Commerce were heard at the end of July 1945. Both sides

⁶³ PAC, CUC Papers, Volume 123. Letter from A.B. MacDonald, CUC National Organizer, to G. Keen, June 18, 1945.

⁶⁴ PAC, CUC Papers, Volume 123. Letter from G. Keen to A.B. MacDonald, June 20, 1945.

⁶⁵ PAC, CUC Papers, Volume 124. Letter to A.B. MacDonald from G. Keen, July 12, 1945.

⁶⁶ PAC, CUC Papers, Volume 124. Letter to G. Keen from A.B. MacDonald, July 17, 1945.

settled back to await the Report of the Commission. Keen speculated that the visit of three of the Commissioners to Britain might cause them to recommend the taxation of co-op surpluses after the deduction of patronage dividends. Apparently the Chamber of Commerce favoured such a solution.⁶⁷ The final argument, however, had seemed to go well for the co-operative side.

The CUC National Congress to launch the reorganized CUC was scheduled for November 26, 27, 28, 1945 in Winnipeg. By October the Commission's Report had been received by the Minister of Finance but there was some concern that the release of the Report would precede the introduction of legislation by only a short time, cutting down the time available for the CUC to react.⁶⁸ MacDonald assured Keen that there would be an opportunity to make suggestions to Ilsley when the Report was received.⁶⁹

As the Congress drew nearer, the CUC pressured the government to ensure that the Report would be released in time to be discussed at the National Congress. On November 16, 1945 the Report was released, but copies were not available. On November 25, MacDonald and Good met with Arnason

⁶⁷ PAC, CUC Papers, Volume 121. Letter to W.B. Francis from G. Keen, July 26, 1945.

⁶⁸ PAC, CUC Papers, Volume 123. Letter to R.H. Milliken, Regina, from G. Keen, October 27, 1945.

⁶⁹ PAC, CUC Papers, Volume 124. Letter to G. Keen from A.B. MacDonald, October 29, 1945.

to receive a summary of the recommendations. The Report was tabled in Ottawa the next day.

Good, writing to Keen who was not well enough to attend the Winnipeg Congress, exulted: "The Report is a signal victory for our Movement, providing of course, that it is implemented by legislation. It gives us all we need and probably 90% of what we asked for."⁷⁰ However, there were some problems: "It does not give it in the way our final recommendations suggested. Serious practical difficulties in the way of defining a co-operative, or what constitutes membership are avoided".

Of major concern were the recommendations about patronage dividends.⁷¹ The Royal Commission recommended that these should be taxable in the hands of the customer who had a legal claim to them, not in the hands of the association. Money allocated to customers in proportion to patronage (patronage dividends), whether by a joint stock company or by a co-operative, ought to be exempt. Similarly, non-members should receive the same treatment as members with respect to patronage dividends, and no limits were suggested for non-member business.

While reserves were not discussed in depth, it was recommended that revolving funds (the inflow of share

⁷⁰ PAC; CUC Papers, Volume 122. Letter to G. Keen from W.C. Good, November 25, 1945.

⁷¹ PAC, CUC Papers, Exerpts from Talk of Commissioner Arnason to the Canadian Co-operative Congress, Winnipeg, November 20, 1945.

capital versus paid out shares) ought not to be taxable unless the amount paid in exceeded the amount paid out. Co-operatives were not believed to make a profit as a legal entity.

Exemption for farmers' mutual insurance organizations and expenditures for educational purposes were recommended. The topic of retroactivity was considered to be beyond the scope of the Commission's concerns.

While co-operative reaction to the Report was initially favourable, the Report represented an intermediate step and the CUC was well aware that legislation would follow.

Although response to the Commission's Report was originally favourable, negative aspects soon became apparent. The insistence that non-members and members be treated alike with respect to patronage dividends had the potential to retard the growth of co-operatives. The three Wheat Pools, objecting to the co-operative movement being classed with private enterprise, stated:

Its recommendation to compel co-operatives to pay patronage dividends to non-members as well as members is not acceptable to us. What incentive would there be for anyone to join a co-operative other than for the ideology of the movement?⁷²

Keen was embarrassed by Arnason's support of the opinion that co-operative operating savings were profits.⁷³

⁷²PAC, CUC Papers, Volume 131. Letter to G. Keen from John Wesson, President, Saskatchewan Wheat Pool, February 4, 1946.

⁷³PAC, CUC Papers, Volume 127. Letter to R.A. Palmer (Lord Rusholme) from G. Keen, January 17, 1946.

Others felt that the Report favoured the producer side of the Movement over the consumer side.⁷⁴ The Report, however, was a preliminary to the introduction of government legislation. The CUC faced the task of preparing and co-ordinating official co-operative reaction. In the meantime it urged its constituent organizations to refrain from opposing the fundamental recommendations in the Report unless there was a "very substantial reason" for so doing.⁷⁵

The organizations most likely to be affected by the anticipated legislation were the Wheat Pools, because the question could mean thousands of dollars annually⁷⁶ for them, or even possible bankruptcy if taxation was applied retroactively. The CUC planned to work closely with the Pools to co-ordinate official co-operative reaction to the Report.

On June 27, 1946, Finance Minister Ilsley delivered his budget speech in the House of Commons. In an article printed the next day in The Brantford Expositor, Keen commented: "The budget proposals of the Minister of Finance as to co-operatives substantially implement the Recommendations.

⁷⁴ PAC, CUC Papers, Volume 126. Letter to G. Keen from Robert Wood, Secretary, Armstrong Co-operative Society, Armstrong, B.C., February 3, 1946.

⁷⁵ PAC, CUC Papers, Volume 125. Letter from National Organizer to various co-ops, December 21, 1945.

⁷⁶ PAC, CUC Papers, Volume 131. Letter to R.S. Staples from Keen, February 12, 1946.

of the Royal Commission on the Taxation of Co-operatives".⁷⁷

However, hidden in the Minister's speech was a thorn which would irritate co-operatives for the next twenty-five years:

...the Government has, therefore, come to the conclusion that it should accept the Commission's recommendation that patronage dividends and similar payments be treated as a deduction from income subject to one relatively minor limitation designed to avoid at least some of the discriminatory effects I have mentioned. The limitation is this: that no company or association shall be able to go so far in its distribution of tax-free patronage dividends as to reduce its taxable income below a reasonable return on capital employed in the business. This reasonable return will be defined as 3 per cent on the capital employed, including borrowed capital, less the interest paid by the company or association on borrowed capital that is allowed as an expense in the computation of the taxpayer's income.⁷⁸

The Wheat Pools, "because of their assumption in good faith that they were entitled to immunity from taxation"⁷⁹ under the Dunning Amendment, were not to be retroactively penalized. The recommendation that non-members and members be treated alike was to be implemented, as was a three-year exemption period for new co-operatives which was regarded by co-operatives as nothing more than an empty gesture. Later the Government decided not to insist on like treatment for members and non-members.⁸⁰

⁷⁷PAC, CUC Papers, Volume 128. The Brantford Expositor, June 28, 1946.

⁷⁸PAC, CUC Papers, Co-operatives and Proposed Tax Amendments, excerpt from the Budget Speech delivered by the Right Honourable J.L. Ilsley, June 27th, 1946. The excerpt is taken from pp. 32 to 37 inclusive.

⁷⁹PAC, CUC Papers, Volume 129. Letter to R.H. Milliken, Saskatoon, from G. Keen, July 8, 1946.

⁸⁰PAC, CUC Papers, Volume 127. CUC Memorandum "United We Stand - Divided We Fall", c. August 1946.

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The Dunning amendment was repealed and Bill 368, An Act To Amend The Income War Tax Act, received first reading on August 9, 1946 and was subsequently enacted. The imposition of the minimum taxable income of 3% of capital employed was condemned by co-operators everywhere. Although the Commission's Report had been more or less satisfactory, the resultant legislation was a disappointment to the CUC and to co-operatives. The CUC had failed to maintain the status quo, and although co-operatives could live with the legislation, the 3% capital employed clause would continually irritate them, because it implied that co-operatives earned income on which they must pay tax. The government had thus implicitly rejected the CUC claim that co-operatives do not earn income.

3.5 Conclusion

The transfer of the CUC head office to Ottawa on January 1, 1946 symbolized the reorientation of the CUC and its new national perspective. The CUC reorganization had been undertaken to provide a well-financed, broadly-based organization able to fulfill its mandate as the national voice of co-operatives in matters such as income taxation. Spurred on by the attacks launched by private enterprise on the tax status of co-operatives, efforts to create in the CUC a strong, unified, national organization seemed to be meeting with success.

The significance of the reorganization is

illustrated by a resolution, passed at the Ontario Co-operative Conference in December 1944, which stated that a Canadian federation of co-operatives was desired and that the CUC, with necessary changes in structure and services, could perform the function of a national federation. Implicit was the recognition on the part of those at the conference that the CUC had not, up until that time, been national in its structure or services. A reorganized CUC, with a broadened and strengthened mandate, was necessary if the CUC was to claim with any validity to be the national voice of co-operatives. The CUC had to demonstrate that its mandate to represent co-operatives was on a scale comparable to that of the Canadian Chamber of Commerce, in order to be able to express its members' views with the same assurance as the CCC displayed in speaking for business.

Although the CUC had claimed since 1909 to be the voice of the co-operative movement, it had always lacked a firm mandate. This lack of mandate resulted in a weak organization, national in name only, which could not call upon the resources necessary to truly represent co-operatives on a national basis, nor fund those programs which it believed were necessary to the promotion of their idealistic or organizational goals. Despite this, the federal government had accepted, at least partially, the legitimacy of the CUC to speak on behalf of co-operatives in the matter of taxation. This claim to legitimacy was entrenched by George Keen, whose persistence and knowledgeability in the

area of co-operative taxation, enabled the CUC was to be accepted as spokesman.

Indicative of the new national perspective was the appointment of a national organizer whose function was to implement the planned national organization drive. The CUC, after years in an organizational wilderness, had been seized by a pragmatic new generation of co-operative leaders who set about to fashion the CUC into an effective weapon with which to defend the tax position of co-operatives.

CHAPTER 4

Tuning the Organization: 1946-1968

4.1 Introduction

Following the unsatisfactory resolution of the taxation issue, and the imposition of taxation on 3% of the capital employed by a co-operative, the new CUC leadership became preoccupied almost exclusively with organizational matters. Concurrent with its orchestration of the co-operative case before the McDougall Commission, the CUC had been reorganized into a federation of provincial unions. As the enthusiasm for reorganization originally engendered by the urgency of the tax question waned, it became obvious that the provincial unions would not be able to provide the financial and organizational support hoped for. The provincial unions were unable to define and stake out meaningful functions to justify their existence. Further complicating the problems of organization, the co-operative movement was becoming increasingly dominated by large co-operatives whose operations were spread across several provinces. The 1950's and 1960's may be characterized as a period of introspection for the CUC, as its leaders debated how, and by whom, control should be exercised within the CUC. Central to the debate was the issue of centralized

versus decentralized control, and the rationalization of control and financial support.

4.2 The Executive Structure

Both George Keen and W.C. Good officially retired at the 1945 CUC National Conference. Throughout their long association with the CUC, they had been re-elected year after year to the positions of Secretary and President, respectively. The new constitution provided for an annual at-large election of a President and Vice-President, and a Board of Directors to consist of one director from each member province. The President and Vice-President became directors on election. Only Quebec was not a member. Ralph Staples was acclaimed President to succeed W.C. Good. The duties previously the responsibility of George Keen as Secretary had been taken over by the new National Organizer, A.B. MacDonald.¹

From November 1945 until March 1949 Staples was 'part-time' President, while A.B. MacDonald directed the activities of the CUC. Staples described the relationship of elected President and hired National Secretary during that period:

¹George Keen held the elective office of General Secretary of the CUC from 1909 until 1945, and when the CUC was financially able, following World War I, was hired as the only full-time staff member. He was assisted by part-time clerical help. The CUC office was located in the Keen home at 215 Nelson Street, Brantford, Ontario during this entire period. Keen resigned in 1945.

I tried to be a conscientious president and Mr. MacDonald did consult with me on occasion, but I never did feel that my contribution amounted to much. I would, for instance, arrive in Ottawa on the morning train from Toronto to preside at a two-day board meeting without possessing a great deal of background on the subjects under discussion and the decisions required. It might fall to my lot on occasion to read a brief to the government, perhaps a brief which had been prepared by staff or solicitors. I would try to understand the content of such a brief but sometimes only partially succeeded.²

Following the sudden death of A.B. MacDonald in 1952, the CUC Congress (1953) passed a resolution once again making the President a paid full time officer. In this way, R.S. Staples became the chief executive in the CUC, as well as being its elected President, a return to the practice of combining elective and administrative roles established by George Keen.

Although it can be argued that the real locus of power in the CUC lay with the chief, full-time, executive officer, the official locus of power was the Board of Directors. There were attempts to decentralize power by locating it, in fact as well as on paper, with the Board of Directors.

4.3 Centralized Versus Decentralized Control

At the 1957 Congress in Penticton, B.C., resolutions

² Confidential Memorandum to the Directors, from the CUC National Office, "The History of Proposed By-law Amendments affecting the offices of President and Vice-President", May 20, 1959. Appendix I, p. 2. The following discussion is based on this seven page CUC memorandum.

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were proposed that would have reorganized the administrative structure at the next Congress in 1958 and would have given more power to the Board of Directors. The Board, by choosing the President and Vice-president from their own number, would be reduced. The Board of Directors, not the Congress, would elect the President and Vice-president. The President would not be a full-time employee. Ralph Staples would be hired as a full-time executive in a position to be created.³

Arguing against the separation of the roles of chief officer and President, Staples described what he saw as one of the chief advantages of the fusion of the two roles:

In the CUC it makes sense to preserve a close affinity between what could be called "policy" and "operations" in a commercial co-operative. If the chief officer were not the president, either he would be subject to the inhibitions involved in increased red tape and the necessity for cross-checking with the president, or he would soon learn to go along on his own without much reference to the president except in board meetings.⁴

With this comment Staples indicated one of the problems of any organization, the problem of power and control. He continued:

The choice lies between the president as a part-time officer who can be frequently replaced but who, for the practical reasons intimated, is not really in control of the organization, or the president as a full-time officer, who if satisfactory is not likely to be replaced but who is really in a position to control.⁵

³ Ibid., Resolution No. 9.

⁴ Ibid., Appendix II, p. 2.

⁵ Ibid., Appendix II, p. 3.

Some factions within the CUC were not enamoured with the idea of a President "who is really in a position to control". At the 1957 Congress, the resolutions committee brought in a resolution which stated:

In the opinion of this Congress the rotation of the office of President among leaders of the co-operative movement from all parts of Canada would lead to a more cohesive grasp of national co-operative problems.⁶

Staples was strongly opposed to such a procedure; his chief opponent in this matter seems to have been the British Columbia Co-operative Union delegation, which supported the resolution. Staples pointed out to the gathering that in order for the resolution to take effect, at the next Congress (1958), the Board of Directors had to pass a number of By-Law amendments to be ratified by Congress the next day, and then submitted to the Federal Secretary of State for approval.⁷ After much discussion this resolution was rescinded and referred back to the resolutions committee which replaced it with two other resolutions, one of which was substantially the same but would not take effect until the Congress in 1959. This resolution was directed to the provincial unions for study. Staples spoke out against a revamped executive structure,

⁶Ibid., p. 1.

⁷The approval of the Secretary of State was necessary because the CUC was incorporated under Part II of the Dominion Companies Act. Such approval was necessary for the by-laws to take effect.

stating that "The President of the Co-operative Union of Canada should be the full-time chief officer responsible as directly as possible to the membership at large".⁸ The other resolution directed the Board of Directors to take the necessary steps to amend the by-laws in 1958 "with a view to having the amendments become effective before Congress adjourns".⁹

On April 13, 1957 the Board of Directors directed that copies of the resolutions and a summary of discussion at the Congress be sent out to the provincial unions. On July 4, 1957 the Executive Committee set up a special committee, the National Secretary Breen Melvin and the President Ralph Staples, to draft by-law amendments, and it approved a statement prepared by Staples to be sent to the provincial unions. The special sub-committee reported back to the Executive Committee on September 10-11, 1957 in Ottawa. At the fall Board of Directors meeting (October 10-11, 1957) the report was received. The statement prepared and circulated by Staples was criticized by some Directors as exceeding the authority of the Executive, because the statement outlined alternatives to resolutions discussed at the Congress. At the January Executive Committee meeting it was reported that the by-law amendments were ready, and that

⁸CUC Memorandum, May 20, 1959, Appendix I, p. 3.

⁹Ibid., p. 4.

if the amendments were available to the Secretary of State prior to the Congress, approval of the amendments could probably be obtained immediately from the Secretary of State after Congress had approved them.

At the Board of Directors meetings held concurrently with the 1958 Congress, the B.C. Co-operative Union charged that the CUC Executive had flouted its authority in circulating 'Staples' statement which had not been authorized by the Board. The 1958 Congress decided that in view of the CUC 50th anniversary celebrations the following year, the by-law changes would be deferred until the first Congress after the 1959 Congress.

Even though the Executive Committee took its instructions from the Board of Directors, the infrequency of the Board meetings (twice a year) prevented the Board from exercising much influence even on issues where there was membership support, such as this proposed reorganization of the executive. The executive, through contact with its constituent units, the provincial unions, and its more frequent meetings, had enough leverage to resist and even thwart measures it did not agree with.

The Board of Directors met in the fall of 1959, and again considered the amendments affecting the executive structure. Congress could only approve or reject by-law amendments approved by the Board. Several Directors felt there was a distinct lack of interest although the B.C.

director continued to support their implementation.¹⁰ The matter was placed on the agenda for the 'Spring' Board of Directors meeting. In a letter accompanying a paper entitled By-Law Amendments 1960 sent to the directors, Staples said:

"We think it best therefore for the 1960 Congress to consider only the principle involved in any proposed changes. The Board would then work out the details of the necessary by-law amendments (and staff relationships) in accordance with these decisions, pass the necessary by-law amendments, furnish the members with copies for study, and place the matter on the agenda for the 1961 Congress".¹¹

By 1961, however, the creation of the Carter Royal Commission on Taxation caused the issue of executive structure to be overshadowed by the related problems of organizational finance and the membership or control structure.

4.4 The Failure of the Provincial Unions

If some of the provincial unions were dissatisfied with the limited control they exercised over the affairs of the CUC, the CUC executive was equally unhappy about the part the provincial unions were playing in the development and financing of the co-operative movement in Canada. After a brief initial success during the 1945 reorganization the provincial co-operative unions had gone into obvious decline.

¹⁰ Minutes of the CUC Board of Directors Meeting, Ottawa, October 15-16, 1959, "By-law Amendments", pp. 10-11.

¹¹ CUC, "By-law Amendments, 1960", February 23, 1960.

Several reasons may be posited for the failure of the provincial unions.

In a short paper entitled "National Co-operative Reorganization, Duties of National Organization and Provincial Sections", written during the 1945 reorganization period, Keen said,

The relations between the national co-operative organization as a whole and its provincial sections as defined in the tentative national and sectional rules may be said to resemble those which exist between the federal and provincial governments of Canada. Questions of policy, education and action which affect the progress and welfare of the Canadian Movement generally are within the jurisdiction of the national body. As to questions which appertain exclusively to each province, they are subjects for determination by the provincial section exclusively.

The provincial sections will have the opportunity to develop closer and more intimate relations with local societies, to have their representatives attend annual meetings, and also to address public meetings for the purpose of stimulating general community interest in the philosophy and practice of Co-operation.¹²

In effect, the substantive areas of interest group concern were appropriated by the CUC, while the traditional concerns of co-operation, such as "stimulating general community interest in the philosophy and practice of Co-operation", were left to the provincial unions.

In January of 1956, CUC President Ralph Staples had circulated a paper, entitled "The Role of Provincial

¹²PAC, CUC Papers, Volume 3. "National Co-operative Reorganization, Duties of National Organization and Provincial Sections", by George Keen, c. 1945.

Co-operative Unions", in which he outlined the functions that provincial co-operative unions should perform.

Expressing the view that the "responsibility of the union is to plan a thoroughly comprehensive educational and protective program to fill any gaps which may exist and to provide the necessary co-ordination",¹³ Staples discussed the role of the provincial unions under the headings of: liaison, national and international links, legislation, member education, personnel training, technical services, new fields and public relations.

Co-ordination of the various branches of the co-operative movement in each province was described as "perhaps the most important single function" of the provincial unions. Staples noted that, without such a unifying influence, "there could be large and effective co-operatives, surely, but no co-operative movement".

The other tasks which were assigned to the provincial unions could broadly be divided into two categories: educational and legislative-protective. The educational activities of the unions included: establishing links with other (provincial) organizations; education of its members in co-operative principles and practice; development of managers and staff for co-operatives; ensuring the provision of such services as specialized auditing, management advisory

¹³R.S. Staples, "The Role of Provincial Co-operative Unions", January 1956.

services, and a provincial source for the financing of co-operatives; and, exploring new areas for co-operative enterprise. Finally, education of the public about the "true nature of the co-operative movement" was necessary because, as Staples put it, "the long run maintenance of an environment favourable to co-operative growth will depend on the attitude of Canadian citizens generally toward the movement".

Under the heading of legislative-protective activities, the unions had been charged with the task of encouraging their respective provincial governments to establish co-operative departments ("at the very least to group all administration of co-operative legislation and supervision of co-operatives in one office") and the related task of securing legislation for co-operative enterprise that was distinct from general company legislation. In addition, each union was expected to scrutinize all proposed legislation which might affect co-operatives.

In addition to their co-ordinating, educational and legislative-protective functions, the provincial unions were responsible for financing the CUC's program. Because financial resources were channelled to the CUC from individual co-operatives through the provincial unions, the financial health of the CUC was heavily dependent on the strength of the provincial unions:

In order to make the movement effective nationally each provincial union must be

an effective member of the CUC, actively supporting agreed on policies and programs and carrying a fair share of the financial responsibility. The Co-operative Union of Canada is really a federation of provincial unions and any gaps or faltering in the provincial ranks would greatly weaken the national effort. ¹⁴

Since the provincial unions were charged with 'filling the gaps' left by the provincial governments and the larger co-operatives (e.g. Wheat pools, co-operative wholesales, and credit union centrals), the legislative and educational programs of the provincial unions could be severely circumscribed by an expansion in programs of this type by either provincial governments or the large co-operatives. As the importance of the legislative and educational functions declined, the provincial unions were left without a marketable product to offer to their membership, and consequently found themselves in difficulties.

The Co-operative Union of Manitoba (CUM)

The short history of the Co-operative Union of Manitoba (CUM) illustrates that the key function performed by the provincial co-operative unions was the financing of the CUC. Such educational, legislative-protective, and co-ordination functions not performed by the provincial governments and by the individual co-operatives themselves failed to provide a sufficient basis for a program of provincial activity. The

¹⁴ Ibid., p. 2.

only raison d'être of the CUM and other provincial unions was, in the final analysis, to provide funds to the CUC.

The Co-operative Union of Manitoba began to take form in 1958 and emerged as a separate body in 1959. Prior to 1959, the co-operative movement in Manitoba was represented by the Manitoba Federation of Agriculture and Co-operation.

A complicated structure for governing the CUM was set up. Manitoba was divided into eleven geographic regions each electing a five-man board of directors. Each regional board elected one director to the provincial board. Co-operatives joined the CUM directly but representation was on an indirect basis, through the regional boards.

The CUM was financed by 1) grants from the central co-operatives; 2) an annual grant from the Co-operative Promotion Board of the provincial government; 3) a fee from the Credit Union Federation of Manitoba; and 4) special levies.¹⁵ Under its bylaws, CUM members were not required to make annual payments to CUM. CUM, however, was obligated to support the CUC financially. An often/repeated complaint was that the grants received from the central organizations bore no relationship to what those organizations "cost" the CUM in dues to the CUC.

The lack of rationalization between control and

¹⁵Minutes, CUM Executive Committee Meeting, September 9, 1963, p. 5.

finance in the CUM was described in this way:

The present board structure, whereby central co-operatives (which supply most of the financing) can only be represented "accidentally" on the board of the CUM in that a director ... may be a delegate in a region and may be elected to the regional board and may be elected chairman of the region and thus be on the provincial board of the CUM, leaves a gap between "control" and financing.¹⁶

From the money collected, in addition to the dues which were appropriated by the CUC, Manitoba had to bear the cost of a provincial office in Manitoba for CUM, pay for board and annual meetings at the regional and provincial levels, and also fund its educational and promotional programs.

At the level of the local and regional organizations, problems were caused by the fact that these levels had no real functions to perform other than electing their quota of delegates or directors. Since all local co-operatives were able to participate in CUM activities, there was no advantage in joining CUM. The locals that did join sent delegates to regional meetings where they elected a five-man Board of Directors with no staff or finances, and no real responsibility except to select a chairman to become a director of the CUM. Two other Directors in each region were named as delegates to the CUM annual meeting. The regional Boards generally never met.

The CUM Board met four times a year but because of the inconsistent relationship of control and financing in CUM, the Board was placed in the position of budgeting for

¹⁶Ibid., p. 1 et passim. Much of the discussion that follows is based on these minutes.

expenses yet having no control over the amount of money the funding organizations would contribute.

In 1963 the CUM received grants totalling about \$20,180 from Manitoba Pool Elevators, Federated Co-operatives Limited, Manitoba Dairy and Poultry Co-operative Limited, and Co-operative Vegetable Oils Limited. About \$10,500 was paid out as dues to the CUC, and to cover expenses of delegates to the annual Congress. Less than \$10,000 was left for the expenses of the CUM.

In February 1964 CUM convened a seminar to discuss the problem. R.S. Staples, who attended, reviewed the "present unsatisfactory position of most provincial co-operative unions".¹⁷ A revamped structure was proposed for the CUM, in which the Board would be reduced to five members representing the larger (funding) organizations,¹⁸ and would "make policy" decisions, provide finances, and hire the executive secretary who would be responsible directly to the board".¹⁹ The situation could be summed up in the following phrase - "It was deplored that the proposed structure of the CUM was a move

¹⁷Co-operative Union of Manitoba, "Proceedings of Special Seminar Convened by the Co-operative Union of Manitoba", February 10, 1964.

¹⁸Manitoba Pool Elevators, Federated Co-operatives Limited, Manitoba Dairy and Poultry Co-operative Limited, Co-operative Vegetable Oils Limited, and a credit union organization.

¹⁹CUM, "Proceedings", February 10, 1964.

away from the 'grass roots' but it was realized that this was probably inevitable".²⁰ The change was made.

A great deal of the time at the CUM Board meeting in July of 1964 was taken up in discussion of the CUC dues formula and related financial topics. The Board members (now representing the five central co-operatives) noted that CUM was paying more in dues to the CUC than was being received in grants from certain member organizations,²¹ due to the fact that the CUC dues formula did not differentiate between types of business volume. Related to this, the board discussed a resolution passed by the board of Federated Co-operatives Limited and directed to the co-operative unions in Manitoba and Saskatchewan (one did not exist in Alberta). The resolution asked that: "the CUS and CUM give consideration to requesting the CUC to reduce its programs - staff strength and budget".²² The CUM board in consequence of its discussions of these matters passed a resolution stating:

the CUM shall not pay to the CUC in dues more than 66 2/3% of the grant it receives from any member organization.

A floor of \$8,500 in dues to CUC from the CUM was set for 1964. The resolution went on:

²⁰ Ibid.

²¹ CUM, Board of Directors Meeting, minutes, July 6, 1964.

²² Ibid., et passim.

in accordance with the resolution submitted by the board of directors of FCL to the boards of the Co-operative Unions of Saskatchewan and Manitoba, the directors favour requesting the CUC to reduce its programs - staff strength and budget.

The rationalization of finance and control within the CUM did not solve the basic problem. The CUM was in reality an organization whose only real function was to collect dues for the CUC. By 1967, lacking a Secretary and with general disinterest being exhibited even by the Board, the CUM was in poor shape. An appeal to the CUC for help in finding a Secretary netted little more than an admonition: "I think the board of CUM will have to make up its mind on what exactly you want the provincial union to do and then go out and get the necessary funds to do the job."²³ Two days later the CUC requested that the CUM pay off the dues outstanding for the year 1966.²⁴ Complying with this request in January 1968, the CUM President notified the CUC that the CUM had been abandoned.²⁵

Canadian Co-operative Implements Limited (CCIL)

As the brief, but illusory early success of the provincial unions gave way to repeated failure, the attention

²³ Letter to Gordon Sinclair, President, CUM, from A.F. Laidlaw, General Secretary, CUC, August 23, 1967.

²⁴ Letter to Gordon Sinclair, President, CUM, from A.F. Laidlaw, General Secretary, CUC, August 25, 1967.

²⁵ Letter to A.F. Laidlaw, CUC, from Gordon Sinclair, CUM, January 11, 1968.

of the CUC executive turned to the opportunity presented by the expansion of many co-operatives. In 1954 the decision was taken to expand membership to interprovincial co-operatives doing business in five or more provinces. Thus began a series of structural adjustments which would see the membership structure of the CUC return from indirect membership through provincial unions to the direct membership of individual co-operatives in the CUC.

At the same time as the Co-operative Union of Manitoba was embarking on its ill-fated career, the CUC was already turning its attention to the larger co-operatives in an effort to draw them into direct membership. The attempts of the CUC executive to induce Canadian Co-operative Implements Limited (CCIL) to join directly illustrates the problems encountered by the CUC when it tried to supplement its weak membership structure with direct membership by large co-operatives.

CCIL received its Letters Patent in 1940, incorporating it under The Companies Act (1934) of Canada. The charter was applied for by Henry L. Fowler, Bjorn N. Arnason, and James McCaig, the first directors of the company. CCIL was interprovincial in nature, operating in the farm machinery field in the three prairie provinces.

In 1958 R.S. Staples wrote to J.B. Brown, president of CCIL, to inform him that the CUC was reviewing "its connections with a few of the large co-operatives which do business in a number of provinces. CCIL is one of

these".²⁶ At the annual meeting of Interprovincial Co-operatives Limited, in January 1959, Brown and Staples discussed the possible membership of CCIL in the CUC. In February Staples wrote to Brown, inviting CCIL to apply for membership in CUC. He said, in part:

The CUC holds generally, that co-operatives active in one province, or a small group of provinces should not be eligible for membership, but this general policy has been reconsidered and redefined from time to time. There have been several discussions in CUC meetings, the latest being the meeting of the executive committee in Toronto on February 3rd.²⁷

In anticipation of acceptance of the CCIL application, Staples suggested that CCIL should send two delegates to the 1959 Congress in Hamilton. He also suggested that their minimum membership fee for 1959 should be \$1000.

CCIL applied for membership and then reversed its decision. Brown wrote to Staples that "a mistake had been made" and "memberships should have been taken out in each of the Prairie Provincial Unions".²⁸ Brown said CCIL was withdrawing from the CUC and would apply for membership in the co-operative unions of Alberta, Saskatchewan and Manitoba. Staples accepted the CCIL decision philosophically, but added, in view of the absence of a co-operative union in Alberta:

²⁶ Letter to J.B. Brown, President, CCIL, from R.S. Staples, President, CUC, December 10, 1958.

²⁷ Letter to J.B. Brown, President, CCIL, from R.S. Staples, President, CUC, February 9, 1959.

²⁸ Letter to R.S. Staples, CUC, from J.B. Brown, CCIL, November 5, 1959.

I hope that CCIL will, pending clarification of the situation in Alberta send to the CUC the contribution which it would have made to the Co-operative Union of Alberta if such an organization were in operation.²⁹

The CCIL board, whose decision to withdraw from the CUC was unanimous, rejected the idea of sending the Alberta allotment to the CUC, and instead decided to give the money to whatever body was performing the functions normally carried out by a provincial union.³⁰ This represented a rejection of the CUC's program.

The CCIL displayed a distinct lack of enthusiasm for the CUC News Service, which provided news releases relating to co-operative activities to the daily press. Brown wrote: "Here in the West at least the co-operative journals themselves provide about all that is required, in our opinion, by way of publicity".³¹ Expressing western dissatisfaction with the eastern-based CUC, he went on: "It should be added that there were a number of factors responsible for the decision to withdraw, among them the feeling that the West is contributing at present rather more than its fair share of the C.U.C. budget".

Stung by this accusation, Staples responded that the Maritimes were paying more than their share, providing 12% of the

²⁹Letter to J.B. Brown, CCIL, from R.S. Staples, November 9, 1959.

³⁰Letter to R.S. Staples, CUC, from J.B. Brown, CCIL, November 12, 1959.

³¹Ibid.

full CUC budget while accounting for only 6% of the volume of co-operative business in Canada. He pointed out that Ontario was paying its share, according to the dues assessment formula, while British Columbia, Saskatchewan and Alberta were not. Staples concluded:

I would hope that as time goes on those co-operatives with substantial operations in a number of provinces would accept greater responsibility for the financing of the CUC thus to some extent relieving provincial unions of this burden and thus strengthening the national movement to the benefit of co-operatives everywhere in Canada.³²

In February 1960 the CCIL rescinded its decision to withdraw from the CUC because the CCIL Board recognized the necessity for strengthening the national union. Brown wrote to Staples:

I might mention for your personal information that the chief reason for this decision is that the Board is very strongly in favour of the prosecution of the effort to get a Dominion Co-operatives Act. The Board has noted the recent developments in this matter and feels that we would be neglecting our duty if we failed to give you all the support possible in your efforts to get such an act passed.³³

In March of 1961, the CUC asked the CCIL to increase its annual dues to \$1000 from \$750 for the year 1961 because the provincial unions were unable to increase their dues to the CUC.³⁴ By 1962 it had become apparent that the hoped-for federal co-operative legislation would not be enacted at the

³²Letter to J.B. Brown, CCIL, from R.S. Staples, CUC, November 16, 1959.

³³Letter to R.S. Staples, CUC, from J.B. Brown, CCIL, February 15, 1960.

³⁴Letter to J.B. Brown, CCIL, from R.S. Staples, CUC, March 21, 1961.

current session of Parliament but it was expected that the 1962 Congress would consider making a formal presentation to the Federal Cabinet after the anticipated election.³⁵ Early in 1963, the CUC received word that the CCIL considered itself a farm organization, and would rather be attached to the CFA than to the CUC.³⁶ However, the CUC was able to persuade CCIL to stay on and even gradually to raise its contributions.

4.5 The Second Reorganization: The 1960's

By 1960, it was generally accepted that the federated structure had failed to prove its usefulness and was incongruent with the shape of the co-operative movement in Canada as it had developed in the post-war years. The time had come to create a structure more in line with the co-operative movement as it existed. Throughout the 1960's, the CUC slowly adapted its structure to the development of the co-operative movement in Canada. In a memorandum accompanying By-Law Amendments 1960 sent by Staples to the directors, Staples expressed concern about the weakness of the provincial unions and the fact that the large national co-operatives were not represented on the board of directors. He suggested that, in addition to the

³⁵Letter from R.S. Staples, CUC, to M. Gillies, Secretary, CCIL, March 9, 1962.

³⁶Letter from J.B. Brown, CCIL, to R.S. Staples, CUC, February 19, 1963.

executive structure, the membership or control structure of the CUC should be considered.³⁷ This could be accomplished by expanding the Board to include members elected at large at Congress, or by the election of an additional Director to represent the national co-operatives. In this way, the question of the CUC executive set-up, as well as the problem of the control structure, became intertwined.

The Board of Directors, meeting in the spring of 1960, directed the Executive "to make a study of the structure of the Co-operative Union of Canada with a view to strengthening its connection and improving its communications with co-operatives in Canada".³⁸ The Executive decided to call a series of meetings in the provinces, and to consult individuals for the purpose. The objective of the study was "to explore a set-up for the CUC which is not inconsistent with the co-operative movement as it is taking shape in Canada". The Board memorandum set forth several basic assumptions about the functions of the provincial unions. In marked contrast to the 1956 paper "The Role of Provincial Co-operative Unions", it indicated that member education and personnel training were becoming the responsibility of the co-operatives themselves, while the rest of the educational task could be carried out nationally. Research also was a national responsibility, as

³⁷CUC, "By-law Amendments, 1960", p. 1.

³⁸CUC, "A Study of the Co-operative Union of Canada", May 4, 1960, p. 1.

were public relations activities. Three structural alternatives were offered for consideration:

1. The Federated - This would describe the structure of the CUC as at present.

The Co-operative Union of Canada is now mainly a federation of provincial co-operative unions, that is, the provincial co-operative unions are the constitutional basis of the CUC and in the main the provincial unions find the funds for both themselves and the national union.

2. The Federal - A good example of this is found in the governments of Canada.

There would be a CUC and there would be provincial unions in those provinces which see a place for them. They would have complementary functions but each would have its separate constitution and sources of income, just as the government of Canada is quite separate from the provincial governments, (but as one of those minor adjustments, this plan should not preclude the possibility of membership in the CUC on the part of provincial co-operative unions).

3. The Unitarian - The Government of Great Britain is an example of this type of structure.

The unitarian structure would envisage one co-operative union for all of English-speaking Canada with a suitably decentralized program and offices located at strategic points.³⁹

A large number of co-operative leaders and certain government officials were canvassed for their opinion on the type of control structure the CUC should have - federated, federal or unitarian. Staples admitted in an attached memorandum⁴⁰

³⁹Ibid., pp. 2-3.

⁴⁰CUC, "Memo on the CUC, May 9, 1960.

that because the co-operative movement had developed differently than expected, the control structure left "much to be desired". The provincial unions had not achieved the goals set out for them, partly because the co-operatives themselves undertook whatever educational programs they felt necessary -- "Realists can only conclude that in most provinces the maintenance of a strong, well-equipped provincial co-operative union is not given very high priority by the commercial co-operatives."

This failure to support the provincial unions financially had important consequences for the CUC, which relied on the provincial unions for its financing. The memo pointed out a major difference in the three proposals -- the way in which the CUC would be financed. Under the federated option (the status quo) the provincial organizations were the constitutional basis of the CUC and had to fund the CUC as well as their own programs. Option 2 -- the federal structure, and Option 3 -- the unitarian structure would free the CUC from its financial dependency on the provincial unions. Under the federal option, the CUC and provincial unions would finance themselves independently -- "This structure would place the CUC nationally in the happy position of being responsible to the co-operatives which are the main centres of power and influence in the co-operative movement." It was recognized that only some of the provinces would be willing to maintain a provincial union as well as a national union. The unitarian option was similar to the federal option with the implication that there would be no provincial unions. Either would have the effect

of freeing the CUC from the financial control of the provincial unions.

The discussion and responses evoked by the "Memo on the CUC" show that for many co-operative leaders, the issue was control by the big co-operatives versus regional (or provincial) control. The federal option was ultimately pursued.

One writer pointed out some advantages and disadvantages of any plan that would put control in the hands of the larger co-operatives:

Advantages of the federal plan would include direct control of the Co-operative Union of Canada by the organizations which are its members throughout Canada. There would also be direct communication with these organizations. A disadvantage might be the tendency for the program of the Co-operative Union of Canada to meet the needs only of larger co-operatives and needs of some of the smaller organizations or of new types of co-operatives may not be adequately met. There also could be the problem of competition in provinces where co-operative unions were established.⁴¹

Supporters of either the federal or unitarian options consistently mentioned the financial advantages for the CUC arising out of a change:

To do a proper job, it seems to me that C.U.C. would need a budget several times its present size. This can best be accomplished, it appears, by means of direct financing (and control) by the commercial co-operatives. One problem: would the financing of the provincial union suffer under such an arrangement?⁴²

⁴¹Letter to R.S. Staples, President, CUC, from Harold E. Chapman, Principal, Western Co-operative College, Saskatoon, Saskatchewan, August 10, 1960.

⁴²Letter to R.S. Staples, President, CUC, from Henry Cooperstock, Research Director, Federated Co-operatives Limited, Saskatoon, Saskatchewan, June 21, 1960.

At least one correspondent felt there would be no problem in financing both a national and provincial union:

I do not think we should worry about the fact, that local co-operatives would have to pay dues to both provincial and national unions. After all, co-operatives should be just as eager to protect their rights as Capitalistic organizations are by paying dues to both local and national Chambers of Commerce.⁴³

One problem in implementing the unitarian option was pointed out:

As the co-operative movement in Canada is based on a provincial structure and the co-operatives of each province are incorporated under the respective legislation of that province, I would expect that a centralized unitary structure would be unsatisfactory in Canada.⁴⁴

The Director of the Co-operative Services Branch of Manitoba's Department of Agriculture and Immigration felt that provincial unions, "which can be kept fairly close to co-operative membership in the province" were valuable. He went on to say that although the CUC had increased in stature it had been weakened by lack of financial support. He, however, supported a federal structure:

It seems to me that the Co-operative Union of Canada should be reflecting the thoughts and wishes of the co-operative people of Canada which may be best interpreted through the commercial organizations. As it is now there is some variation between the thinking of the provincial co-operative unions and the commercial co-operatives and this could be brought together through the Co-operative Union of Canada.

⁴³Letter to R.S. Staples, President, CUC, from Martin J. Légère, President, L'Union Co-operative Acadienne, Caraquet, N.B., June 6, 1960.

⁴⁴Letter to R.S. Staples, President, CUC, from L.E. Drayton, Acting Head, Co-operatives and Credit Unions, Canada Department of Agriculture, Ottawa, June 3, 1960.

The same principle could be used in reverse where you would have a strong and well-financed C.U.C. which would have an influence in standardizing co-operative thinking across Canada on major issues.⁴⁵

H.H. Hannam of the Canadian Federation of Agriculture expressed the opinion that "Your co-operatives in the provinces are local entities; they function as a community or regional enterprise; and there is a very limited field for them to function provincially".⁴⁶

A supporter of the unitarian option foreshadowed the eventual demise of the recently-formed Co-operative Union of Manitoba when he said:

I believe that the experiment of the Co-operative Union of Manitoba during the past year or two was justified, but I feel that it will not prove over the years to be practical. The combination of district C.U.M. organizations plus provincial C.U.M. plus C.U.C. is just too much organization. It will not receive sufficient support to be virile. By support I mean substantial support with an able, full-time, paid staff.⁴⁷

The inevitability of change was mentioned -- "There will be further amalgamation of commercial co-operatives which will move further from either a federated or federal structure".⁴⁸

⁴⁵Letter to R.S. Staples, President, CUC, from R.D. Chase, Director, Co-operative Services Branch, Department of Agriculture and Immigration, Manitoba, May 31, 1960.

⁴⁶Letter to R.S. Staples, President, CUC, from H.H. Hannam, President and Managing Director, Canadian Federation of Agriculture, May 31, 1960.

⁴⁷Letter to R.S. Staples, President, CUC, from W.C. MacDonnell, Manitoba Pool Elevators, Winnipeg, Manitoba, June 6, 1960.

⁴⁸Letter to R.S. Staples, President, CUC, from J.F. Midmore, General Manager, Co-operative Life Insurance Company, Regina, Saskatchewan, June 16, 1960.

One person attributed the lack of spirit and unity in the co-operative movement to apathy: "It is perhaps too 'pat' an answer to say that lack of support is due to the fact that the Unions are not doing the things that are of real concern to the people ... It is just plain apathy."⁴⁹

The provincial unions had not achieved the objectives that the architects of the 1945 CUC reorganization had set out for them. Some of their functions had been appropriated by the larger co-operatives, while other of their functions seemed to be more appropriately performed at the national level. The debate over the structure of the CUC revealed that many felt the future of the organized co-operative movement lay with the larger co-operatives. The federated structure no longer fit the shape of the developing co-operative movement. The time had come to phase out the provincial unions.

Because the provincial unions, in general, had no practical reason for existence other than providing a financial base for the CUC, they declined. As interest groups, most of them, with the possible exception of those in Saskatchewan, played the most minor of roles in the politics of their provinces. W.B. Melvin observed: "the Co-operative Union of Canada discovered that its formal structure and financial base was crumbling. Most of the provincial co-operative unions

⁴⁹Letter to R.S. Staples, from Tony Heidt, p. 3.

that had formed its membership, since the late 1940's were either non-existent or dormant, their reason for existence having either come to an end or been lost from sight. In 1966 a new structure was established which provided for direct membership in CUC for provincial and regional central co-operatives of all types."⁵⁰ A.F. Laidlaw presented the problem in a slightly different way: "the CUC changed the structure in 1945 that had lasted from 1909 and replaced it with one based on provincial boundaries. The result was a loose federation resting on the vagueness of a provincial movement and the inequalities from province to province. In short, the Co-operative Union of Canada, plagued by sectionalism from its beginning, was bedevilled by provincialism in an exaggerated form from 1945."⁵¹

Presented in these different ways, the basic problem remained the same. Creation of provincial unions was not as lucrative as the CUC had hoped, because the provincial unions, being interest groups themselves, wanted to keep a good portion of the money collected for their own uses. The CUC set up the provincial unions in order to build up its financial base, not realizing that by so doing it was creating a rival for the

⁵⁰W.B. Melvin, "The Changing Years", in Sixty Years of Service, CUC Congress, April, 1969 (CUC), p. 20.

⁵¹A.F. Laidlaw, "A Decade with the CUC, 1958-1968", in Sixty Years of Service, CUC Congress, April 1969 (CUC), p. 24.

limited amount of money co-operatives were willing to spend on such activities. The provincial unions declined because they had little reason to persist. In the final analysis, the CUC returned in 1966 to a system similar to that of 1909-1945, that is, an association of co-operatives. The major difference between the newest system and the original system was that the regional co-operatives affiliating with the CUC under the new system were financially well-off, enabling the CUC to finally create a strong financial base without creating competition for the money available.

4.6 Widening the Organizational Base of the CUC

Direct membership in the CUC had been extended in 1954 to interprovincial co-operatives doing business in five or more provinces. These "interprovincials" were incorporated under federal legislation. When it became apparent that the federated structure with its provincial unions had failed, the CUC cleared the way for a return to direct membership in the CUC for all co-operative organizations.

A CUC memorandum appearing in February 1961, "The Study of the Structure of the CUC" stated: "The present structure of the CUC is considered satisfactory in principle and it works in those provinces where co-operative unions are strong. The board of directors believe that a more flexible plan or organization for the CUC should be undertaken to permit adjustments in its membership to the widely varied

situations in the provinces".⁵² The board proposed that membership eligibility in CUC should be extended to all co-operatives and the board should be the final authority in approving applications. A second proposed change would have had the effect of basing the number of voting delegates from each province on the number of memberships in co-operatives affiliated with the CUC. Previously, delegate representation was based on the number of co-op memberships without regard to whether or not the co-ops were members of the co-op union. The structure of dues payment would also be reviewed.

The 1961 Congress ratified the necessary by-law amendments to extend direct membership in the CUC to co-operatives in provinces where no provincial union existed.⁵³ This change affected co-operatives in Quebec (which never had a provincial union affiliated to the CUC) and Alberta (where the Union had become defunct). This contributed little to solving the organizational problem. The Executive Committee prepared a paper, "Co-operative Unions in Canada: Functions - Organization - Finance", which showed that by December 1964 only one co-operative had been added to the CUC membership under this amendment. The number and types of organizations holding direct membership in the CUC as of December 1964 were:

⁵²Memorandum to Members of the CUC, from R.S. Staples, President, The Study of the Structure of the CUC, February 13, 1961, p. 1.

⁵³Consolidated Bylaws of the Co-operative Union of Canada, including amendments made by Congress in April 1961, Article III (a), (b).

provincial co-operative unions (8); interprovincial co-operatives (6); international affiliates (3); and co-operatives where no provincial co-operative union existed (1).⁵⁴

The Board of Directors had been changed and was now drawn from the CUC member organizations. Without making great changes to the CUC's structure, the larger co-operatives could be given more representation by expanding the Board to include members elected at large at the Congress, or by the election of an additional Director to represent the national co-operatives.⁵⁵ By 1964, two Directors elected at large at the Congress had been added to the Directors elected by the provincial unions.⁵⁶ By this time the executive structure had been altered so that the Board elected the President, Vice-President, and Executive Committee.

The 1965 Congress discussed extending direct membership in the CUC to provincially-incorporated co-operatives with approval of provincial co-operative unions,⁵⁷ to be effective at the 1966 Congress. Direct membership in CUC on a functional basis was also suggested.⁵⁸ This proposal would also have had

⁵⁴CUC, "Co-operative Unions in Canada: Functions - Organization - Finances", December 1964, p. 5.

⁵⁵CUC, "By-Law Amendments, 1960", attached to memorandum to National Directors from the National Office, February 23, 1960, p. 2.

⁵⁶CUC, "Co-operative Unions in Canada", December 1964, p. 6.

⁵⁷CUC, "Structure of the Co-operative Movement in Canada", Ottawa, June 1965, p. 6.

⁵⁸B. Johnsrude and K.F. Harding, draft discussion paper, "Organizational Structure for Co-operative Unions", prepared for the British Columbia Co-operative Wholesale Society Board of Directors, 1965.

the effect of adding more delegates to Congress, expanding the Board of Directors to around 25 (from 10) and having an Executive of 8-12 members chosen from the Board. This Executive would function in the same way as the Board of Directors had been functioning. Congress would meet every two years, and the Board would meet once between Congresses. The Executive would meet 4-6 times between Congresses.

Congress in March 1966 was the date for making the structural changes. "The structure of the Co-operative Union of Canada: A paper for study and discussion"⁵⁹ was circulated. It stated, in part:

the set-up now recommended by the CUC board is that the Co-operative Union of Canada supported by and brought under the direct control mainly of the commercial co-operatives, especially the larger central ones, instead of provincial co-operative unions ...

The board is saying here that the CUC will be a more meaningful and truly representative national organization if it is controlled directly by twenty-five or so interprovincial and central co-operatives instead of a much smaller number of provincial co-operative unions.

The consolidated by-laws dated April 10, 1967, reveal that the Directors were increased to 12, two being elected⁶⁰ at large and ten elected from persons nominated from the various member co-operatives. Despite the appearance of a shift to control by the larger co-operatives, the Board met

⁵⁹CUC, "The Structure of the Co-operative Union of Canada: A Paper for Study and Discussion", March 28, 1966.

⁶⁰CUC, "Consolidated Bylaws", April 10, 1967. Article V, 1(a), 1(b).

only twice a year. In between, power was exercised by an executive committee consisting of the President, Vice-President and one other director.

More drastic changes in the constitution of the CUC were made at the 1968 Congress.⁶¹ The Board of Directors became the "Council" and the number of Councillors was expanded to a maximum of forty (there were previously 12 Directors). These Councillors represented the various sectors of the co-operative movement (functional representation had been achieved). Where previously the Board of Directors had met at least twice a year, the new Council was only required to meet once a year. The Executive Committee was expanded from three (president, vice-president, and one other director) to seven members (president, vice-president, and five other councillors), chosen by the Council. The officers would be the President, Vice-President, General Secretary and Treasurer. The General Secretary was appointed.

The CUC leadership, realizing that the direct participation of the larger co-operatives was needed, had slowly but surely cleared the way for these co-operatives to become direct members of the CUC. The CUC leadership realized that they needed the participation of the larger co-operatives, but they had to convince these co-operatives that they needed the CUC. Somehow, the CUC had to attract the interest of these co-operatives. As one writer had bluntly pointed out in 1960:

⁶¹CUC, "Consolidated Bylaws", May 1968.

Co-operative organizations have developed until they have taken on the characteristics of big business and like big business they are greatly influenced by few men ... a number of these prominent co-operative leaders are not convinced that the Co-operative Union of Canada is necessary or essential ... Under this leadership the larger co-operatives, both producer and consumer, are sufficient unto themselves.⁶²

4.6 Conclusion

The development of large co-operatives whose often-diversified operations spanned several provinces signalled the need for changes in the membership structure of the CUC. Where once the predominance of an eastern leadership was incongruent with a predominantly western membership, the incongruity was later to be found in the control exercised by small co-operatives through the provincial unions, compared to the necessity of calling upon the large co-operatives to provide financing. The necessary groundwork had been prepared for the entry of the large co-operatives into direct membership. Many of these co-operatives, however, were not convinced that there was anything that the CUC could offer them. Recognizing that its mandate was weakening, the CUC leadership tried to improve the situation by packaging a program of activities designed to entice the large co-operatives into membership.

⁶² Letter to R.S. Staples, President, CUC, from D.W. Richmond, Secretary, Canadian Co-operative Wheat Producers Limited (Canadian Wheat Pools), Winnipeg, Manitoba, June 14, 1960.

CHAPTER 5

Marketing the CUC

5.1 Introduction

The CUC had adjusted its organizational structure to allow the direct participation of the larger co-operatives, some of which proved to be very reluctant customers, and balked at the financial demands made by the CUC. The CUC tried to attract the larger central co-operatives, and interprovincials, by reorganizing the CUC Board to represent these co-operatives. This gesture was not very meaningful, because the Board met only twice a year and the real, day to day, authority was exercised by a three-man Executive Committee. Later the Board was expanded to become a 40-man "Council" which met only once a year and the Executive Committee was expanded to seven.

The chief inducement that the CUC could offer was still its legislative program. The role of the CUC had been described in 1956 as:

to interpret the needs of the movement to official Ottawa, to provide liaison with other national organizations, to facilitate interchange of information between the provinces and to provide a national rallying point for the movement as a whole.¹

¹R.S. Staples, "The Role of Provincial Co-operative Unions", January 1956, p. 2.

However, in the opinion of many co-operative leaders, the first-named function was the only one that merited their support. The overriding concern of co-operatives was the possibility of the further erosion of their tax status, but the quest for a federal co-operative act had long been a stated goal of the CUC. Although the lack of such legislation had not harmed co-operative development, it had diverted the attention of co-operatives from Ottawa to the provincial capitals and dissipated the potential support which may have accrued to the CUC, given the existence of federal legislation to provide a federal focus. The prosecution of the quest for a federal co-operatives act, and the defense of the tax position of co-operatives during the debate engendered by the appointment of the Carter Commission illustrates that the taxation question was by far the most compelling.

The Co-operative Associations Act

The enactment of a federal act ~~had~~ been proposed by the founders of the CUC, and the defeat of this proposed legislation was a prime factor in the formation of the CUC. The existence of such an act would have facilitated the promotional work of the CUC, but the lack of it had no real effect on co-operatives. By the end of the 1960's the development of interprovincial co-operatives provided a reasonable justification for such legislation and the CUC campaign to attract the large co-operatives enhanced the attractiveness of taking up this cause once again. This campaign coincided with the CUC's

efforts to orchestrate the co-operative response to attacks on the tax status of co-operatives. Some of the larger co-operatives favoured the federal co-operative legislation campaign, but indicated a preference to go it alone in preparing for the taxation hearings.

The CUC began in the late 1950's to support "the enactment of a federal Co-operative Associations Act under which commercial and non-commercial associations may be incorporated and operated on a co-operative basis",² a campaign which enjoyed the support of the larger co-operatives. As we have seen, the CCIL remained with the CUC in 1960 in order to lend support to the campaign for this Act. The shareholders of Interprovincial Co-operatives Limited (IPCO) passed a resolution in 1964 which affirmed their support of the CUC campaign. Their resolution stated in part: "we support the Co-operative Union of Canada in their intensified efforts to obtain federal legislation for a Dominion Co-operative Act".³

One zealous co-operator proposed in 1966 a march on Ottawa "to present arguments for the urgent need of a Federal Co-operatives Act".⁴ This idea, however, was rejected by the CUC on the grounds that the government was working on the legislation, and because such an issue was not, in their opinion,

² Minutes ... Congress 1958, p. 19, Resolution 3.

³ Letter to A.F. Laidlaw, CUC, from D.E. Harding, Secretary-Treasurer, IPCO, March 11, 1965.

⁴ Letter to R.S. Staples from J. Maartense, General Manager, Red River Co-operative Limited, Winnipeg, May 18, 1966.

urgent enough for such a drastic step. The CUC reply indicates the priority it attached to obtaining federal legislation, as compared to defending the co-operative movement in the matter of taxation:

The organization of a march on Ottawa is a project which can be undertaken effectively only at very rare intervals and in my view should be reserved for those occasions when co-operatives face some specific and serious threat. For example if the Report of the Royal Commission on Taxation is unfavourable to co-operatives and if the government of the day proposes to introduce crippling legislation, that might be the time for a march on Ottawa, and around such an issue would certainly build strong support.⁵

Several factors militated against the passage of federal legislation. There was a certain hesitancy in the federal government's approach to co-operative legislation which could be attributed to federal reluctance to trespass on what may be considered a provincial preserve. The government felt that the legislation might not be used by the larger co-operatives who, by using special acts of parliament and other methods of incorporation, had managed without it. The CUC, in 1966, indicated that it would be a good idea "if two or three of the main co-operatives concerned would send a message to the Prime Minister saying they are interested in federal legislation and will in all likelihood register under the new Act if the provisions are favourable".⁶

⁵Letter to J. Maartense, from R.S. Staples, CUC, May 25, 1966.

⁶Letter to D.E. Harding, IPCO, from A.F. Laidlaw, CUC, November 17, 1966.

In the fall of 1967 a joint delegation from the CUC and the Conseil Canadien de la Cooperation (CCC) met with Hon. John Turner, the Registrar General of Canada and members of his department, who promised that legislation would be introduced that session. In January 1968 they were still waiting.

However, the government appointed a committee consisting of Gordon Blair, the solicitor for the CUC; Francois Jobin, the solicitor for the CCC; and Dr. Hodson, of the Economics Division of the Department of Agriculture,⁸ to advise on the legislation. This committee went a long way toward drafting an act,⁹ but still no legislation was tabled.

John S. Burton, a New Democratic Party Member of Parliament had inquired about the legislation in the House of Commons on May 21, 1969. Breen Melvin, the CUC President, thanked Burton for raising the matter before Parliament, and complained: "We are certainly becoming very impatient about the unduly long delay in having this matter dealt with by Parliament ... I just hope we don't have to wait another 60 years".¹⁰

By November of 1969, the new General Secretary of the CUC, J.T. Phalen, was able to report that the CUC was in the

⁷Letter to John Turner, Registrar General of Canada, from A.F. Laidlaw, January 3, 1968.

⁸Letter to W.W. Warnock, Unity, Saskatchewan, from R.S. Staples, Special Assistant, CUC, February 21, 1968.

⁹Ibid.

¹⁰Letter to John Burton, MP, from Breen Melvin, May 30, 1969.

process of reviewing an outline of the act, and that the support of several cabinet ministers had been promised.¹¹ Phalen continued his discussions about the legislation with officials of the Department of Consumer and Corporate Affairs throughout the first half of 1970. In mid-1970 the last obstacle was cleared when the provinces, at a Federal-Provincial Conference held in Regina to discuss the co-operative legislation, approved it with only minor revisions.¹² The legislation was ready for introduction into the House in the fall of 1970, and was eventually passed in 1971.

The Carter Commission

In the 1960's the issue of taxation of co-operatives reappeared and the 1961 CUC Congress indicated that taxation was again a priority concern. The Executive Committee recommended to the Board of Directors that, despite limitations on financial resources and time, taxation should be given attention. The CUC planned to collaborate with the provincial unions to raise the necessary funds, and with the Quebec-based Conseil Canadien de la Coopération (CCC) to make the taxation project a joint English-French undertaking. A short-range and long-range strategy was proposed. Proposed short-run activities included: preparing for the November conference of the

¹¹Letter from J.T. Phalen, General Secretary, CUC, to R.J. Boutillier, British Columbia Co-operative Union, November 12, 1969.

¹²Letter from Blair to Dreiker re: co-op act.

Canadian Tax Foundation; beginning a basic research program; raising the necessary money from the large co-operatives; and publicizing the CUC's immediate program. The proposed long-run activities included setting up a permanent research program on co-operative taxation, and using the Co-operative Development Foundation to finance these efforts.¹³

Once again, the CUC began to marshall its defences against the charge that co-operatives were not being taxed fairly, and enjoyed tax advantages other forms of business were not afforded. In February 1962 representatives from a variety of co-operative organizations met to discuss, from a technical standpoint, questions arising out of a CUC study on income taxation and co-operative financing. They hoped to reach some general consensus to guide CUC policy makers.¹⁴ In April 1962 the CUC President sent out a memorandum "setting up a budget for the finance secretary and asking the provincial unions to consider taking responsibility for raising the necessary money on behalf of the CUC".¹⁵

The Throne speech of September 27, 1962 announced the establishment of a royal commission to review the whole field

¹³CUC, Minutes of Board of Directors meeting, April 15, 1961. Report of the Executive on Taxation.

¹⁴CUC, Memorandum from R.S. Staples, President, CUC, January 18, 1962 to various people, re: meeting on Friday, February 16, 1962.

¹⁵CUC, Minutes of the CUC Executive Meeting, June 22, 23, 1962. Item 10: Tax Study and Financial Policy Fund.

of federal taxation and its impact on the Canadian economy. The establishment of the Carter Royal Commission on Taxation by the Diefenbaker government caused both the pro- and anti-co-operative forces to prepare for a confrontation. The CUC prepared to defend co-operatives against any increase to the rate of 3% of capital employed taxable established in 1946.

In October of 1962 a conference on the taxation of co-operatives was held in Winnipeg, chaired by the CUC President, Ralph Staples. In attendance were 42 representatives of co-operatives.¹⁶ In accordance with the recommendations of the Winnipeg conference, the CUC Board of Directors established a national taxation advisory committee.¹⁷ The committee would be representative of the different sectors of the co-operative movement; the President of the CUC would have the authority to appoint committee members; the expenses of the committee members would be paid out of the taxation fund; and the chairman of the committee would be the CUC President. It was also decided that the advisory committee would be "responsible to the board of directors but that where prompt action is deemed necessary the executive on behalf of the board be empowered to make decisions".¹⁸

¹⁶CUC, Conference on Co-op Income Taxation, Winnipeg, October 24-25, 1962.

¹⁷CUC, "Notes Respecting the Royal Commission on Taxation, n.d. Resolutions arising from the Winnipeg Conference, October 24-25, 1962."

¹⁸CUC, "Minutes of the CUC Board of Directors", November 8-10, 1962.

The fund to finance the taxation project was running into problems, however, because the provincial unions were having difficulty raising the money. The Executive Committee, on February 13, 1963,¹⁹ suggested that the provincial unions be asked to forward any tax funds on hand. Alberta created a problem because no provincial union existed there and approaches would have to be made to individual co-operatives.

Following the release of the Carter Report the Taxation Advisory Committee met in Winnipeg in June 1967 to discuss a strategy for combatting the Report's assertion that the current income tax system had significant advantages for co-operatives. In order to refute this charge the co-operatives felt they had to "prove conclusively that the further taxation of co-operatives will mean hardship to many".²⁰ The issue of whether or not a co-operative earned an income was considered of little or no relevance.

The strategy decided upon was to assume that the main recommendations of the Carter Report would be implemented and to focus on the matters of particular interest to co-operatives. Although the three-year exemption for new co-operatives seemed to have little real economic or social value to the co-operative movement, there was a good deal of uncertainty about whether

¹⁹CUC, Minutes of the CUC Executive Meeting, February 13, 1963.

²⁰CUC, "Record of the Meeting of the Taxation Advisory Committee", June 22-23, 1967.

or not the Carter proposals would work real hardship on consumer co-operatives, in particular. Carter's Report suggested that 50% of patronage refunds should be paid out in cash but "cash" would have to be defined. More information on the present financial position of co-operatives was needed in order to determine the possible effects of this 50% provision. The Report mentioned the taxation of consumer dividends and fear was expressed that what the commission had in mind was taxing dividends from second or third level co-operative operations such as oil refineries or chemical plants. Taxation of dividends from consumer co-operatives would be opposed. The 15% deduction of income tax at source was unpopular, but would not be opposed. It was decided to try for a minimum below which deductions would not have to be made, for example, \$100. The principle of integration was approved. A meeting with Department of Finance officials was planned after the CUC brief had been submitted.

In August 1967 the Tax Advisory Committee studied a draft submission, prepared by Gordon Blair, to be sent to the Minister of Finance. The committee added the withholding tax to the list of items they wished to comment on. The Committee decided that there was no reason why the CUC should not express its support for the three key recommendations of the Report, that is, the establishment of a comprehensive tax base; integration of corporate and personal income tax, and the averaging provisions.²¹ The distribution of the draft brief

²¹CUC, Minutes of Tax Advisory Committee meeting, August 28-29, 1967.

was limited to the councillors of the CUC, the CCC, and the CFA.

The Secretary of the United Grain Growers (UGG) objected to a statement in the brief, that the term "patronage dividend" had become obsolete, and requested that the passage be deleted because the UGG still used the term patronage dividend in its dealings.²² This incident illustrates that some large co-operatives were still not ready to trust the CUC to adequately represent them.

The CUC brief was filed on October 30, 1967 and on November 20, 1967 a meeting was held between the CUC and some officials of the Department of Finance (DOF). Minister of Finance Sharp was unable to attend due to a special cabinet meeting. The discussion centred mainly on the 50% payout and consumer refunds. Other issues such as a 15% withholding tax, and the concept of integration, were not touched upon. CUC leaders were asked by the DOF officials what they would accept with respect to the 50% payout. Their concerns centred on correcting the inability of small and new co-ops to use the excess depreciation recommended by Carter; the forced repayment of shares by co-ops; and averaging the repayment over a period of years rather than 50% per year. The main Finance spokesman emphasized that there was a conflict between "consumer refunds

²²Letter from J.A. White, Secretary, UGG, Winnipeg, to A.F. Laidlaw, National Secretary, CUC, September 6, 1967.

and non-member income since the former suggests no return on investment whereas the latter does".²³ Behind the scenes activity continued as the CUC planned its strategy and kept up with developments in the tax issue, and waited for the government's next move, a White Paper on Taxation.

The attempts of the CUC to maintain the United Grain Growers Limited (UGG) as a member is illustrative of the difficulty that the CUC encountered in trying to build its mandate to speak for the co-operative movement. The UGG was an interprovincial operating in the three prairie provinces. The UGG had resigned from the CUC in 1930, partly as a result of opposition from the provincial Wheat Pools which disputed the UGG's status as a co-operative. Its support was now coveted by the CUC, but the UGG gave notice that it intended to prepare a taxation brief independently.

United Grain Growers Limited (UGG)

The United Grain Growers Limited (UGG) was an interprovincial co-operative that operated in the three western prairie provinces. It was organized in 1906 under the Manitoba Companies Act and in 1911 was incorporated under a Special Act of the Parliament of Canada. Its relationship with the CUC in the 1960's illustrates some of the problems that the

²³Letter from W. Berger, Federated Co-operatives Limited, to A.F. Laidlaw, National Secretary, CUC, December 5, 1967 summarizes the November 20, 1967 meeting with Department of Finance officials,

CUC encountered in trying to build its mandate to speak for the co-operative movement.

In 1962 the CUC invited the UGG to name a representative to the Taxation Advisory Committee. H.L. Griffin replied that he would be the UGG representative, but he also would be working on the UGG brief to be submitted separately. He felt that the CUC leadership might not be completely conversant with the UGG's mode of operation and indicated a desire for discussion on "certain points of difference between our own organization and others with which you may be more familiar. Statements which might be quite sound with respect to one co-operative may not always fit others".²⁴ Griffin made it quite clear that UGG would not co-operate in the preparation of the CUC brief and emphasized that the UGG presentation was to be at a different time and on another facet of tax problems.²⁵ The facet of tax that UGG was concerned with related to its capital stock set-up which was substantially different from that of most other co-operatives,²⁶ and the UGG leadership did not feel that the CUC was capable of making representations on its behalf.

In 1963 when the CUC requested the UGG to increase its

²⁴CUC, Letter from H.L. Griffin, President, UGG, to R.S. Staples, President, CUC, November 23, 1962.

²⁵CUC, Letter from H.L. Griffin, President, UGG, to R.S. Staples, President, CUC, April 10, 1963.

²⁶CUC, Letter from D.G. Miller, Secretary, UGG, to R.S. Staples, President, CUC, April 22, 1963.

dues to \$3000 from \$2500 the UGG refused for two main reasons.²⁷ The first reason related to the amount of contributions it already made to similar organizations. The Secretary of UGG pointed out:

As you no doubt realize we contribute generously to the Canadian Federation of Agriculture and three Provincial Federations of Agriculture. Also, many of our members belong to other organizations that contribute to the Co-operative Union of Canada either directly or through Provincial Co-operative Unions ... we note that the Alberta Wheat Pool makes only a token grant as does another strong Alberta Co-operative, the United Farmers' of Alberta Co-op Ltd....

The second reason related to the fact that UGG intended to make its own presentation to the Carter Commission, and therefore would not be an active participant in the CUC presentation:

We would point out that, due to our capital stock set-up which, while based strictly on Rochdale principles, differs from many Canadian Co-operatives, we usually find it necessary to make representations in respect to our co-operative position, direct to any Inquiry or Commission which is holding hearings. We are thus unable to have the Co-operative Union of Canada make presentations on our behalf.

Despite the refusal of the UGG to pay more in dues, the CUC continued to court the UGG leadership. In 1963, the UGG President, A.M. Runciman, was invited to serve on a Special Committee chaired by Breen Melvin, CUC National Secretary, which would make a special study of the positions held by the President and National Secretary of the CUC, and recommend

²⁷ Ibid.

salary levels for 1964 and after.²⁸

The UGG consented to contribute \$5000 to the Taxation Fund, which was less than the \$7500 that the CUC had assessed the UGG for.²⁹ The CUC sent to Runciman the most recent figures available for the CUC Taxation Fund. The UGG decided to consider future donations in the light of further information on the total cost of the Brief.³⁰ When the CUC had raised the dues of the UGG at the 1963 Congress, the UGG had refused the increase and said no further dues would be forthcoming.³¹

In a long letter written later that year to Runciman, Staples described the recurrent financial problem faced by the CUC:

My letter of November 7th and yours of November 26th are an indication of an unsatisfactory situation in connection with the financial affairs of the Co-operative Union of Canada. It is a situation which recurs annually....

Procedures with respect to the CUC budget of income deriving from the provincial co-operative unions are now, after much change and experimentation, well established. A decision is reached on the amount of money the CUC requires from this source and a formula is automatically applied for the calculation of the membership fee to be paid by each organization.

²⁸ CUC, Letter from A.M. Runciman, President, UGG, to R.S. Staples, President, CUC, August 7, 1963.

²⁹ CUC, Letter from R.S. Staples, President, CUC, to A.M. Runciman, President, UGG, September 24, 1963.

³⁰ CUC, Letter from A.M. Runciman, President, UGG, to R.S. Staples, October 11, 1963.

³¹ CUC, Letter from A.M. Runciman, President, UGG to R.S. Staples, President, CUC, November 26, 1963.

But so far no such method has been developed in the case of the direct members. The problem arises because of the diversity of the organizations involved. It is difficult to find a common basis for calculating dues in the affairs of such a range of organizations as Co-operative Life Insurance Company, Interprovincial Co-operatives Limited and United Grain Growers, for examples.

The method followed has been understandable but on the whole not too satisfactory. Roughly speaking, the plan has been to increase the proposed assessment on the direct members at about the same rate or even a somewhat greater rate than on the provincial unions, based I suppose on considerations of ability to pay. This budget is approved by the CUC Congress in the knowledge that in the case of some members the resulting figure is no more than an indication of what it is hoped will be paid. Some organizations accept the increased assessment and some do not. It would appear that the closer the attachment between the organization and the CUC, the better informed it is on the CUC program, the more likely it is to accept the increased assessment.

With 1964 in mind, is it possible that we might have a short period for discussion with the board of the UGG to review a few of our major activities before the affiliation fee for that year is decided upon? The CUC Congress will not be held in 1964 until mid-July and anytime before then would be quite satisfactory from our standpoint.³²

Staples attended the January 1964 meeting of the UGG Board of Directors in an effort to convince them of the value of increasing their contribution to the CUC. The financial difficulty arose as a result of the inability of the provincial unions to bear the burden on the increases in the CUC budget.³³ Staples tried to persuade the UGG "to accept the principle of the

³²CUC, Letter from A.M. Runciman, President, UGG, to R.S. Staples, President, CUC, December 3, 1963.

³³CUC, Letter from R.S. Staples, President, CUC, to A.M. Runciman, President, UGG, December 31, 1963.

going rate, suggesting they increase payments annually until they reach it and informing them that the rate for 1964 hasn't been struck yet".³⁴ The going rate for 1964 was expected to be \$8.00 per \$100,000 volume, a rate which probably fell somewhere in between that applied by the provincial unions to marketing and purchasing co-operatives, with marketing co-operatives at a lower rate and purchasing co-operatives at a higher rate.³⁵

Staples proposed a meeting with other co-operatives in the same position as UGG with respect to the CUC, to take place at the 1964 Congress. The question of dues from direct members was expected to have a bearing on the negotiations for direct membership with co-operatives in Alberta.³⁶ At the end of 1964, UGG once again resisted the CUC's efforts to increase its dues.³⁷

The reorganized structure of the CUC became effective at the beginning of 1967³⁸ and with it a new dues formula, which was rejected by the Board of UGG. The UGG remitted its usual

³⁴CUC, Memorandum to Executive Committee, from R.S. Staples, January 14, 1964, regarding affiliation fees.

³⁵Ibid.

³⁶CUC, Memorandum to National Directors, from R.S. Staples, January 16, 1964.

³⁷CUC, Letter from D.G. Miller, Secretary, UGG, to R.S. Staples, President, CUC, October 14, 1964.

³⁸CUC, Letter to J.A. White, Secretary, UGG, from A.F. Laidlaw, General Secretary, CUC, February 1, 1967.

\$2500 to aid the reorganization. The UGG indicated that under the circumstances it did not expect to remain a full-fledged member of the CUC³⁹ but the CUC preferred to discuss the situation further.⁴⁰

A.F. Laidlaw, CUC General Secretary, asked to meet the UGG Board, to give the Directors an opportunity to question him on CUC activities and to discuss some of the general problems facing the co-operative movement in Canada.⁴¹ The CUC was stressing its active involvement in the taxation issue, and in October sent the UGG a draft of the brief it planned to present to Finance Minister Sharp.⁴² Despite the obvious recalcitrance of the UGG, the CUC pressed on with its effort to win their support.

Late in 1967 the CCC informed the UGG that only \$2500 of their \$6200 assessment had been received.⁴³ Runciman responded that the final decision on the future of the relationship between the UGG and the CUC would be deferred until the January Board of Directors' meeting.⁴⁴ Early in 1968 the UGG informed the

³⁹CUC, Letter from J.A. White, Secretary, UGG, to A.F. Laidlaw, General Secretary, CUC, May 17, 1967.

⁴⁰CUC, Letter from A.F. Laidlaw, General Secretary, CUC, to J.A. White, Secretary, UGG, June 8, 1967.

⁴¹CUC, Letter from A.F. Laidlaw, General Secretary, CUC, to A.M. Runciman, President, UGG, September 5, 1967.

⁴²CUC, Letter from A.F. Laidlaw, General Secretary, CUC, to A.M. Runciman, President, UGG, October 2, 1967.

⁴³CUC, Letter from A.F. Laidlaw, General Secretary, CUC, to A.M. Runciman, President, UGG, December 8, 1967.

⁴⁴CUC, Letter from A.M. Runciman, President, UGG, to A.F. Laidlaw, General Secretary, CUC, December 19, 1967.

CUC that it was unable to accept the proposed structure of membership dues but they requested an associate membership in order to keep in touch with CUC.⁴⁵ The CUC informed the UGG that since there was no provision for associate member status the UGG membership would have to be terminated.⁴⁶ This, however, was a hollow threat. The CUC continued to try to win the support of the large co-operatives, suggesting a meeting in Winnipeg that fall, to discuss future CUC financing and support. The CUC asked the UGG to consider its membership held in abeyance until this meeting had taken place.⁴⁷

Fortuitously, the CUC's attempts to attract the active support of the larger co-operatives coincided with the reactivation of the issue of the taxation of co-operatives. The reappearance of the taxation issue in the form of the White Paper on Taxation issued in November 1969 proved to be a boon to the CUC executive who were experiencing difficulty in maintaining the interest and support of the large co-operatives. The next chapter documents the debate over the issue of the taxation of co-operatives arising from the Report of the Carter Commission on Taxation, released in 1967.

⁴⁵ CUC, Letter from J.A. White, Secretary, UGG, to A.F. Laidlaw, General Secretary, CUC, February 13, 1968.

⁴⁶ CUC, Letter from A.F. Laidlaw, General Secretary, CUC, to J.A. White, Secretary, UGG, February 23, 1968.

⁴⁷ CUC, Letter from A.F. Laidlaw, General Secretary, CUC, to J.A. White, Secretary, UGG, June 7, 1968.

Despite the difficulty the CUC was experiencing in maintaining its mandate, and its unenviable record of defending the tax position of co-operatives in 1946, due to a fortuitous combination of factors and events, the minimum of 3% of capital employed taxable in a co-operative was removed in 1971. Whether or not the CUC role in this victory was more apparent than real is documented in the next chapter.

CHAPTER 6

The Taxation of Co-operatives: A Case Study

6.1 Introduction

Because Parliament does not operate in a vacuum, Government decisions and policies are affected by numerous factors that, individually, may not seem important, but in combination can greatly modify the original intent of government legislation. This chapter will examine the issue of the taxation of co-operatives, a key area of contention during the passage of tax reform legislation¹ through Parliament in the fall of 1971. The introduction of this legislation in June of 1971, just prior to the summer recess, revealed that the government had decided that the rate at which the income of co-operatives was taxed should be raised from 3% to 5% of the capital employed in each co-operative. Scarcely five months later, on 6 December 1971, Liberal House Leader Allan MacEachen announced in the House of Commons that the capital employed concept as a basis for taxing co-operatives would be abandoned entirely,² a concession that represented a complete reversal of government policy and a

¹Canada, Parliament, House of Commons, An Act to Amend the Income Tax Act, Bill C-259, 28th Parliament.

²Canada, Parliament, House of Commons, Hansard, 28th Parliament, pp. 10173-4.

tremendous victory for the co-operatives. On Friday 17 December 1971, the Bill received the approval of the House of Commons, and on 23 December 1971, the Bill received Royal Assent, in time for it to take effect on 1 January 1972. The task of this chapter will be to illustrate how this reversal in government policy was brought about, in order to evaluate the relative importance of the role of the CUC and other factors in altering the intent of the legislation as originally drafted by the government.

6.2 The White Paper Stage

In March of 1969, it became apparent that the Minister of Finance, the Hon. E.J. Benson, intended to proceed by way of a "white paper" rather than the presentation of a draft Act. One reason he gave was that many people would feel, whether rightly or wrongly, that the Government was more committed to a draft Act than to statements of principle in a "white paper".³ On Friday, November 7, 1969, "Proposals for Tax Reform", a white paper, was tabled in the House of Commons by Finance Minister Benson.⁴ Contained in it were several items which, if approved and implemented through

³CUC Files, Memorandum to Council Members from Breen Melwin, President of the CUC, re: Income Taxation of Co-operatives, March 21, 1969. Melvin was quoting a letter that he had received from Gordon Blair.

⁴Hon. E.J. Benson, Proposals for Tax Reform, (Ottawa: Queen's Printer for Canada, 1969), referred to usually as the White Paper on Taxation.

legislation, would prove to be a severe financial burden on co-operatives and credit unions. These items provided for: 1) the removal of the three-year tax exemption for new co-operatives; 2) a limitation on patronage dividends deductible from the taxable income of co-operatives; and 3) an increase in the minimum taxable income of co-operatives. The current rate of 3% of capital employed was described as being "too low in current circumstances".⁵ It was further proposed that credit unions and caisses populaires would be treated as other co-operatives and would no longer be tax exempt.⁶

The White Paper stage was intended to stimulate discussion of the proposed taxation policies of the government. Audrey Doerr states that: "procedures must exist which allow for consultation with any party likely to be affected by policy. The white paper is one of the techniques presently being used by the Government of Canada to meet these needs".⁷ She notes: "the government's first serious attempt to use the white paper as a tool of participatory democracy at a pre-decision stage in the legislative process was the issuing of the White Paper on Tax Reform".⁸

Following the publication of the White Paper, the

⁵Ibid., p. 57.

⁶Ibid., p. 58.

⁷A.D. Doerr, "The Role of White Papers", in G. Bruce Doern & Peter Aucoin, The Structures of Policy-Making in Canada, (Macmillan of Canada, 1971), p. 180.

⁸Ibid., p. 185.

Tax Advisory Committee of the CUC met to evaluate the implications of the White Paper for co-operatives and to plan its strategy. They decided that the 3-year exemption was not important, and focussed on the possibility of an increase in the percentage of taxable capital employed and on the withholding tax. In a memorandum to the Tax Advisory Committee, J.T. Phalen, General Secretary of the CUC, said, "The 3-year exemption is one that most people have agreed is not too important ... The proposal to increase the 3% of employed capital requires consideration both in terms of the principle involved and its effect on co-operative organizations ... There are implications in other sections pertaining to the taxing of corporations that could be important to co-operatives".⁹

The CUC began to mobilize. On November 21, Phalen advised the CUC's affiliated member organizations that several procedures had been planned to deal with the White Paper. A meeting was arranged with the Finance Department, to take place in Ottawa. The Tax Advisory Committee would be called together at an early date. A joint meeting would be arranged with Le Conseil Canadien de la Cooperation (CCC), the peak association for French language co-operatives. Briefs and public statements would be prepared as necessary.¹⁰

In the meantime, the White Paper had been sent to the

⁹CUC Files, Memorandum, November 12, 1969.

¹⁰CUC Files, Memorandum, November 21, 1969.

appropriate House of Commons and Senate Committees for consideration and for the hearing of submissions from the public. The House of Commons Committee on Finance, Trade and Economic Affairs, under its chairman, Gaston Clermont (L-Gatineau), prepared to commence study of the White Paper on Thursday, January 15, 1970. A deadline of March 1, 1970, was set for the receipt of briefs. Since not all interested parties could be scheduled before the committee, the CUC-CCC joint delegation bent their efforts to ensure that they were heard in person, for maximum effect. The Standing Senate Committee on Banking, Trade and Commerce was able to get its hearings underway before the Commons Committee. The CUC asked for, and received, an extension of the deadline for the submission of its brief. By April 1, 1970, the CUC had filed its brief with both committees.¹¹ On May 20, the CUC and CCC delegation appeared before the Senate committee,¹² and on June 18 the CUC appeared before the Commons Finance Committee.

The two committees did not report until the fall. The Senate committee, reporting in September 1970, concluded that paragraphs of the White Paper dealing with "co-operatives, caisses populaires and credit unions, contain matters which

¹¹CUC Files, Memorandum from J.T. Phalen to CUC Tax Advisory Committee, April 1, 1970.

¹²CUC Files, A Submission Respecting "Proposals for Tax Reform", jointly submitted by the Co-operative Union of Canada, and Le Conseil Canadien de la Coopération.

go far beyond simple tax analysis".¹³ The Commons Committee, reporting in October of 1970, was not as favourably impressed with the arguments presented by the CUC on behalf of co-operatives, and approved both the withdrawal of the three-year tax exemption, and "the proposal to increase the percentage of capital employed on which corporate tax is payable".¹⁴ The two NDP members of the committee issued a minority report, to see what effect such a tactic would have.¹⁵

If the Report of the Commons Finance Committee didn't give the co-operatives and credit unions reason enough to be pessimistic, their own research into co-operative business revealed that a much higher percentage of non-member business than had previously been supposed was being done by consumer co-operatives. As Phalen noted, "A suggestion that this should not be considered as corporate earnings for tax purposes would be difficult to substantiate".¹⁶ In addition, there had been a "statement from the Government's finance administration section that a request for the refunding of withheld consumer taxes would mean that they would revert to

¹³Canada, Parliament, The Senate, The Standing Senate Committee on Banking, Trade and Commerce Report on the White Paper, (September, 1970), p. 68.

¹⁴Canada, Parliament, House of Commons, 18th Report of the Commons Committee on Finance, Trade and Economic Affairs, (October, 1970), 28th Parliament, p. 60.

¹⁵Max Saltsman, M.P. and John Burton, M.P., Minority Report of the New Democratic Party on the House of Commons Standing Committee on Finance, Trade, and Economic Affairs, released October 5, 1970 concurrent with the Report of the Finance Committee.

¹⁶CUC Files, Memorandum from J.T. Phalen to the CUC Executive, January 8, 1971.

the White Paper proposals in making recommendations to the Minister".¹⁷ Phalen observed: "We may not like the position in which we now find ourselves but at least the implications of the choices open to us are clearer than they were when we last met".¹⁸ The co-operatives were in favour of a withholding tax on patronage refunds which would be creditable for taxation purposes (a tax credit), but the Finance Department official that they were dealing with felt that such a demand would be "politically unacceptable to Mr. Benson and in addition administratively he (the official) would not be prepared to recommend it and in fact would recommend that the White Paper proposal apply to co-operatives if this position were taken".¹⁹ Alternatively, the CUC was told that if it accepted the basic taxation proposal enunciated by the Finance Department in early November, the official would be "prepared to recommend this taxation procedure to Mr. Benson",²⁰ and support the CUC position at the meeting. Confronted with this tough bargaining on the part of the Finance Department, the CUC had little choice but to wait until the government brought down its taxation legislation. The major battle loomed ahead.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid., Memorandum attached to the Phalen Memorandum of January 8, 1971, from J.J. Dierker (CUC Solicitor) to the members of the Tax Committee.

²⁰ Ibid.

Rather than enabling the government to draft acceptable legislation, the white paper stage tended to obscure the public sentiment which later made itself felt during the debate on the Tax Act. (Reasons for this include the forum in which the White Paper was examined and the witnesses who presented briefs. Doerr points out that the submissions represented, "by and large, the articulate and financially well-endowed sectors of the community who have an enhanced capacity to participate and who perceive a sense of efficacy in participation".²¹ The NDP Minority Report pointed out that "It must be obvious that those that stand to lose as a result of the White Paper proposals have a far greater incentive to spend the time, energy and money to present briefs and appear in person before the committee than those that stand to gain".²² A breakdown of witnesses appearing before the committee reveals that 67% were "from corporations, industrial, commercial and financial associations", representing a total of 144 briefs.²³

Further biasing committee consideration of the taxation of co-operatives, was the predominance on the committee of men to whom the appellation "corporate animals", indicating their close association with corporate business,

²¹Ibid., p. 194.

²²Minority Report of the New Democratic Party, pp. 2-3, Table I.

²³Ibid., p. 3.

might apply. On the Committee were such critics of the tax position of the co-operatives as Marcel Lambert (PC-Edmonton West), Pat Mahoney (L-Calgary South), and Max Saltsman (NDP-Waterloo). Saltsman, while not aligned with the corporate structure, blames co-operatives for the maintenance of high prices on the prairies.²⁴ Identifiable supporters of co-operatives on the committee were scarce. Gordon Blair (L-Grenville-Carleton) had removed himself from the Finance Committee prior to its consideration of the White Paper,²⁵ to avoid any suspicion of conflict of interest due to his past professional association with the CUC. John Burton (NDP-Regina East) was perhaps the only co-op supporter on the committee, and had to express his support of the co-op position through the medium of the NDP Minority Report. Several Maritime members of the Conservative party were in support of the co-op position but they too, were absent from the Finance Committee. The Members of Parliament from rural ridings who were most likely to support the co-op position were usually to be found on committees dealing with topics such as agriculture, rather than finance. It would not be incorrect to say that the critics of co-operation, especially those from the West, had firm opinions on the matter of the taxation of co-operatives, long before the matter was raised in the White Paper. Given the composition

²⁴ Interview with Gordon Blair, March 19, 1974.

²⁵ Ibid.

of the committee and the witnesses it heard, it is not surprising that blanket approval was given to the White Paper recommendations on co-operatives and credit unions.

It soon became apparent that there was a developing pro- and anti-co-operative cleavage in all parties, except perhaps the Quebec-based Creditistes who gave to the co-operatives, and particularly to the caisses populaires, relatively unwavering support.

Partisanship was also a factor in the Finance Committee's Report. C.E.S. Franks has expressed the dilemma of the standing committees of the House of Commons in the following terms: "On the one hand they have been expected to be non-partisan and develop a corporate identity of their own, while on the other most of their work has been on the government's program, which is a natural focus for partisan controversy".²⁶ Partisanship caused the Liberal members of the Committee to support the Committee Report, and caused the Conservatives to abstain from voting on the Report in order not to compromise their support for some parts of the Report. The NDP released a minority report jointly authored by Saltsman and Burton. Thus, in addition to the usual partisan cleavage, the co-op taxation issue was complicated by a cleavage which tended to cut across party lines. This latter cleavage, which we may characterize as a "co-operative/

²⁶ C.E.S. Franks, "The Dilemma of the Standing Committees of the Canadian House of Commons", Canadian Journal of Political Science, IV, no. 4, p. 464.

corporate" cleavage, later became a factor in the struggle to amend the taxation legislation in the House.

6.3. The Legislative Stage: Bill C-259

6.3.1 First Reading

Although the White Paper had been studied by a committee of the House of Commons, it was not until the Tax Bill was brought down in the Commons that Parliament as a whole really became involved in the issues underlying the taxation of co-operatives. Because the Tax Bill involved finances, it was referred to the Committee of the Whole House at the committee stage following second reading. This circumstance, as the CUC and the business interests opposed to the co-operative tax position widened the focus of their activities, tended to draw most Members into the debate, if only in an indirect way. As originally drafted, and presented in the House on 30 June 1971 the Income Tax Act contained the provisions that the co-operatives and credit unions had feared. According to the CCH View from Ottawa²⁷ the Budget message of June 18 indicated that the following changes for co-operative taxation would be contained in the Act: "Present exemption for the first three years of a co-operative is withdrawn. Co-operatives may continue to

²⁷CCH, View From Ottawa, June 21, 1971, p. 144.

deduct patronage dividends but the deduction must not reduce taxable income below 5% of capital employed. Beginning January 1, 1972, credit unions and caisses populaires will be taxed on a basis similar to co-operatives but will be allowed to claim reserves for doubtful debts and market liquidity".²⁸ Following a six day budget debate, the Tax Act received first reading and both chambers adjourned for the summer on Wednesday, 30 June 1971. Parliament would reconvene on 7 September 1971 leaving the co-operatives two months to marshall their forces for the crucial confrontation.

During the Parliamentary recess, on 11 August 1971, the CUC met with Edgar Benson. "It was established that the Federal Cabinet had rejected the taxation proposal for co-operatives put forward by the CUC and the CCC,²⁹ and approved the proposals as presented in Bill C-259".³⁰ The next step would be government amendments introduced at second reading.

6.3.2 Second Reading

The CUC began to prepare for the second reading stage of Bill C-259. "It was clear at this stage that the primary

²⁸ Ibid.

²⁹ CUC, Submission to the Minister of Finance in the Matter of Co-operatives and in the Matter of Sections 135 and 136 of Bill C-259, (Ottawa: August 1971).

³⁰ CUC, Report on Taxation Activities to September 2, 1971.

task for co-operatives was to place before individual Cabinet Ministers the problems created for co-operatives by Bill C-259 and in particular to request that the capital employed formula for the taxation of co-operatives be discarded. In this activity, it was recognized that delegations meeting Cabinet Ministers should be made up of people who were clear on the issues and could state and defend the position adopted by co-operatives".³¹ J.J. Dierker of Saskatoon, who had taken over from Gordon Blair as the CUC solicitor, was very active in this regard.

"The second task for co-operatives was the need to contact and inform all members of Parliament and the Senate of the problem. This activity was to be organized by central co-operatives and would involve co-operative people, at all levels, talking to their M.P., supported by facts of how the legislation would adversely affect their particular co-operatives and the co-operative movement generally".³² Perhaps more important than the volume of mail received on this subject was the type of mail received. Instead of a "mail-in" campaign using coupons or postcards, which often tends to be counter-productive, or the use of petitions (Marcel Lambert's sarcastic phrase was "the blessed petition"),³³ co-op members

³¹Ibid.

³²Ibid.

³³Interviews with Hon. Eugene Whelan, March 8, 1974 and Hon. Marcel Lambert, March 7, 1974.

wrote personal letters to their M.P.s. This type of correspondence made a very strong impression, and M.P.s who were unaware of the co-op issue sought information about it as a result of mail received from their constituents. The co-ops decided to refrain from an "all out effort for public support"³⁴ until the introduction of the government amendments at second reading.

Actual Parliamentary consideration of the tax legislation commenced in September, when Parliament reconvened. Bill C-259 was given top priority, and Finance Minister Benson had been quoted as stating in August: "We've got to get it passed in order to have regulations drawn up and new tax forms ready if it is to go into effect on January 1, 1972" ... He (Benson) was not sure how long the Commons debate would last. He had originally thought it might take two months. But Opposition parties have been quiet about their intentions and debate may be mild, he suggested".³⁵ However, it began to be apparent that the co-op taxation issue was of interest and might provide one of the focal points of debate.

The issue of co-op taxation appears to have become a topic at the House Leaders meetings in the first half of October. Present at these meetings were the House Leader of each party,³⁶ the Government House Leader's Parliamentary

³⁴CUC, Report on Taxation Activities to September 2, 1971.

³⁵CCH, View From Ottawa, August 16, 1971.

³⁶The House Leaders were Allan MacEachen (L), Gerald Baldwin (PC), Stanley Knowles (NDP), and Andre Fortin (SC).

Secretary, a Parliamentary assistant from each party, and in addition, Marcel Lambert, who was the Tory finance critic, and Marshall "Mickey" Cohen, an Assistant Deputy Minister from the Finance Department's Tax Policy Branch. Pat Mahoney, Edgar Benson's Parliamentary Secretary, and the man responsible for steering the Bill through Parliament, did not attend these meetings. Detailed consideration of the Bill was due to begin at the end of October in Committee of the Whole, and discussions were undertaken to break the Bill down in a suitable manner to facilitate discussion. Marcel Lambert suggested the use of the CCH grouping of clauses, and this appears to have been followed.³⁷ By mid-October it was clear that there was an issue in co-op taxation.³⁸ The Social Credit party ranked co-ops as one of the most important things for detailed consideration and the NDP also were emphasizing co-ops. The Conservatives were not. Co-ops and credit unions became one of about six or eight basic areas for discussion³⁹ in the Committee of the Whole.

The co-ops had hoped that the expected amendments would be presented when Bill C-259 was introduced for second reading on September 14,⁴⁰ but it was not until October 12,

³⁷ Interview with Hon. Marcel Lambert.

³⁸ Interview with Jerry Yanover, February 8, 1974.

³⁹ Ibid.

⁴⁰ CUC, Report on Taxation Activities #2 to September 22, 1971.

when the Bill received second reading and moved into Committee of the Whole stage, that the amendments were made public.

6.3.3 Committee of the Whole House

Finance Minister Benson presented the Commons with an initial package of 95 amendments to the Bill. The tax position of co-operatives was to be ameliorated by an amended system which allowed the co-ops their choice of taxation on 5% of capital employed, or "a new alternative which would allow taxable income to be as little as one-third of the actual income left after any interest rebates to members, but before deducting patronage dividends paid out to customers".⁴¹ The co-ops felt that this imputed an income to co-operatives, and this was not in keeping with the philosophy they were promoting. The co-operatives were far from satisfied with this pronouncement and made this clear almost immediately in a submission to the Senate hearing on Bill C-259, stating that: "the capital employed formula was not acceptable as a taxation device and that the bit of easing contained in the amendments did not make the method any more acceptable to co-operatives".⁴² The proposed amendments did have the effect of hindering CUC lobbying efforts, because many members of Parliament were

⁴¹CCH, View from Ottawa, October 18, 1971, p. 256.

⁴²CUC, Report on Taxation Activities #4 to October 19, 1971.

left with the impression that the co-operatives had been satisfied.⁴³

By the end of October Benson was placed in the position of having to introduce yet a second package of amendments. "Some of the first changes which were brought in on October 13 are altered by the latest amendments. In both cases, the major changes offered deal with co-operatives and credit unions, whose treatment under the original Bill was met with dissatisfaction from all parties, including the government".⁴⁴ The second set of amendments was not satisfactory to the co-ops. As the month of November began, the co-ops were still without any firm commitment from the government on their demand for removal of the capital employed concept, and Finance Minister Benson was in the unenviable position of having backed down twice on the co-op issue without having achieved a satisfactory conclusion, in the view of the co-operatives. That the exercise might conclude in an unsatisfactory manner from the co-op point of view was a distinct possibility.

Having failed to influence the cabinet, the CUC began to look to other sources of support. Within each party caucus an interest in co-op taxation had developed, sparked by the activities of M.P.s already familiar with the co-operative

⁴³Interview with J.T. Phalen, April 2, 1974, and *ibid.*, p. 2.

⁴⁴CUC, Report on Taxation Activities #5 to October 30, 1971.

movement, and fanned by the obviously wide public interest in the question. Co-operators across the country contacted their local M.P.s and sought from them commitments of support "to have the inequitable aspects of Bill C-259 deleted or satisfactorily amended".⁴⁵ In its second report the CUC stated: "Our activities on the "Hill" last week indicated that all parties are clearly aware of the concern of co-operative people across the country and are themselves concerned about the concern of their constituents. This is fairly reliable evidence that the contact program in the country has been effective".⁴⁶

CUC contact with party caucuses began in September when CUC was approached by the Progressive Conservatives to attend a caucus meeting to explain the co-op position. Since the co-ops had friends within the Conservative caucus, (notably Maritime members), as well as opponents, the Tories were in some difficulty as to what position to adopt. Marcel Lambert, reasoning that corporate and co-operative business had learned to live together, and that the co-ops were not unduly hurt by taxation on 3% of capital employed, suggested that the "status quo" be restored as far as co-op and credit union taxation was concerned. The NDP caucus also held a meeting with CUC sometime in the latter half of September.

⁴⁵CUC, Report on Taxation Activities to September 2, 1971, p. 2.

⁴⁶CUC, Report on Taxation Activities #2 to September 22, 1971.

Arrangements were also going forward for a CCC meeting with Quebec cabinet ministers.⁴⁷ "Partly through the initiative of Liberal M.P.'s"⁴⁸ a meeting was held with the Economic and Consumer Affairs committee of the Liberal caucus.⁴⁹ They later met the Liberal Agriculture Committee at a breakfast meeting, where the co-op position was explained to an unusually large gathering of Liberal M.P.'s.⁵⁰ Although his involvement in the progress of negotiations between the Government and CUC is unclear and may be minimal, it would appear that Eugene Whelan did take a hand in bringing the CUC into the Liberal caucus meeting.⁵¹ In a tally of speeches in the House favourable to co-ops, seven were given by Conservatives, four by Social Crediters, four by Liberals, and three by NDP members.⁵²

As has already been indicated, the co-op question had been designated as one of the basic areas for discussion in the House Leaders meeting. It is interesting to note that

⁴⁷Ibid., p. 2.

⁴⁸Ibid.

⁴⁹CUC, Report on Taxation Activities #3 to October 1, 1971.

⁵⁰Interview with the Hon. Eugene Whelan.

⁵¹Whelan Files, letter from W.B. Melvin, President of CUC, re: arranging a meeting of M.P.'s which "facilitated the negotiations and the dissemination of information about co-operative enterprise".

⁵²CUC, Report on Taxation Activities #3, attached.

all the House Leaders, with the exception of Gerald Baldwin of the Conservatives, were identifiable co-operative supporters. Allan MacEachen especially had been associated with St. Francis Xavier University in Antigonish, Nova Scotia. Two days were set aside in the second half of November for consideration of the co-op question, and attention focussed on the debate that would take place on those two days. However, the Government was also occupied with the problem of bringing the debate to a satisfactory conclusion in order to implement the taxation legislation before 1972. In Allan MacEachen's mind, the two issues became inextricably linked.⁵³

Throughout the month of November the CUC had stepped up their efforts with the Cabinet, M.P.'s and the Finance Department. J.J. Dierker was careful to seek the support of the Finance Department, thus removing administrative objections which might complicate negotiations with the Cabinet.⁵⁴ November 18 and 19 were set aside for detailed consideration of the co-op sections. The debate was described by one observer as 'heating up and boiling over' on those two days.⁵⁵ By prior agreement of the House Leaders no votes were to be taken on those two days.⁵⁶ At this time

⁵³ Interview with Yanover.

⁵⁴ Interview with J.D. Phalen.

⁵⁵ Interview with Yanover.

⁵⁶ CUC, Report on Taxation Activities #8 to November 20, 1971.

MacEachen was able to bargain in a limited fashion at the House Leaders meetings, but he had to refer either to Benson or to Cabinet about proposed changes. The debate in the House underlined the importance attached to the co-op issue by members of all parties, and at a Cabinet meeting following the debate, MacEachen is said to have been given a mandate to negotiate. Through Gordon Blair, MacEachen made contact with the co-ops directly and worked out what would be acceptable.⁵⁷ Throughout this stage of the negotiations Blair appears to have been scrupulous in avoiding publicity as the co-op go-between, but his name is consistently mentioned in this regard by all parties involved. After MacEachen was given the responsibility for concluding the debate, he was the recipient of a crash course on co-op taxation by a member of the Finance Department. Thus armed, he set out to negotiate with the co-ops and to end the tax debate with the least possible press and public resistance. If the need to end the debate was a lucky circumstance for the co-op cause, the co-op issue is claimed by some to have been a fortuitous thing for the government.⁵⁸ It served to focus the opposition guns on an issue that the government could gracefully give in on. The indignation of such Liberal backbenchers as Eugene Whelan in the November debate also

⁵⁷ Interview with Yanover.

⁵⁸ Interview with Mahoney.

tended to reserve the co-op issue as a victory for the Liberal backbench. Pat Mahoney, who was responsible for steering Bill C-259 through the House, felt the co-op issue simplified his task immensely. "Parliamentary tactics dictated that we encourage them to focus on an issue that we were prepared to concede on and perhaps save them getting on and making an issue on something we could not make such a concession".⁵⁹ The longer the opposition talked the better.

The NDP position and determination to dig their heels in on the co-op issue is a factor not yet considered. Apart from Max Saltzman, NDP members were strongly in support of co-ops. In the debate on November 18 and 19, John Burton proposed "a motion early in the discussion which would amend the taxation bill to cover the CUC, CCC proposal".⁶⁰ Yanover noted that the NDP made it clear at the end of November that they wanted changes in the co-op tax position, and Gordon Blair also indicated that bargaining by the NDP was an important factor. Marcel Lambert believed that a deal⁶¹ had taken place between the NDP and the government, and while the

⁵⁹ Interview with Mahoney.

⁶⁰ CUC, Report on Taxation Activities #8.

⁶¹ It has been suggested to me that the government may have been in danger of losing control of the House at this point in time. One informant noted that three-party agreement was necessary on time allocation, and the rule did not state that the government need be one of the parties. Therefore, for a time it appeared that the opposition might coalesce on this issue, and start allocating the House's time. However, the necessity of three-party agreement would also make NDP agreement necessary.

NDP apparently won concessions for the co-ops, it was not readily apparent to him what the government had gained. Pat Mahoney felt that despite the NDP determination to fight, closure was always a possibility. Thus it appears that the extent of the concessions on the co-op issue may have been a result of NDP pressure, since the Conservative caucus was agreeable to reinstating the status quo. After Burton withdrew his amendments, the amendments introduced by MacEachen had to go considerably beyond those proposed by Burton. Under the CUC amendments, which Burton had proposed, the withholding tax on consumer co-ops could not be used as a tax credit, whereas MacEachen made this withholding tax creditable. This obviously was of financial import to members of consumer co-ops.

In their final Report on Taxation Activities the CUC announced the successful conclusion to their endeavours, reporting the climactic statement by Allan MacEachen, that the capital employed concept would be completely removed in favour of a withholding tax of 15% on patronage refunds over \$100 which would be creditable on the co-op member's personal taxation. Provisions applying to caisses populaires and credit unions would be satisfactory to them as well.⁶² Full details were given in the House on December 6. MacEachen.

⁶² GUC, Report on Taxation Activities #9 to December 3, 1971.

who had all along hoped the debate would not end with closure,⁶³ used this concession to smooth the way for acceptance of time allocation by the press and the public.⁶⁴ The CUC recognized that their success was not due to hard work alone, but involved a large measure of good luck:

To detail all of the activities, many of which were going on simultaneously, that were carried out since the last report would take much too long and may not be of much concern after the fact. It is perhaps sufficient to say that the careful work carried on over a long period of time involving many people paid off in the final stages. The situation that resulted in further amendments after we were told further amendments would not be made was a matter of good fortune from our point of view but if the stage had not been carefully and well set the events would not likely have unfolded as they did this week.⁶⁵

6.4 Conclusion

Detailing the events that influenced the modification of those parts of Bill C-259 that dealt with the taxation of co-operatives has demonstrated that many things contributed to the outcome of the debate. The only group that clearly lost was the Equitable Income Tax Foundation, whose sole *raison d'être* is to ensure that co-ops are taxed in the same way as corporations.

⁶³Interview with Benson.

⁶⁴Interview with Yanover.

⁶⁵CUC, Report #9.

Several factors appear to have been of paramount importance. One of these is the "co-operative/corporate" cleavage which cut across party lines and made the co-op issue one on which the government was able to give way. The apparent extent and strength of public opinion also made it politically necessary to concede on the issue, much as some caucus members disliked to. Another factor may have been the predilections of the House Leaders with respect to co-operatives. The presence of Allan MacEachen as Liberal House Leader certainly was of great importance from the co-op point of view. That the other House Leaders were predisposed to make the co-ops an issue is also important.

Timing was also an important factor, to both sides. The co-op issue coincided nicely with the need to bring the tax debate to an end by closure. The co-op concessions drew attention away from the imposition of closure. Indeed, the speeches by Liberal backbenchers in support of co-ops in November had the result of making the concessions seem to be a victory for the Liberal backbench. Although the pressure of concluding the debate in time for Bill C-259 to become law on January 1, 1972 was a factor, its importance is lessened by the possibility of the use of closure. The extent of the Liberal concessions stems from the political necessity to surpass the NDP amendments proposed by John Burton in November. Burton's amendments called for the acceptance of the CUC demands. MacEachen's amendments granted even more. Each of these factors by itself may seem relatively

unimportant, but together, they contributed to causing a major change in the government's tax legislation. Although the revenue in question was not substantial, the principle was one on which many of the key people were prepared to stand firm. The co-ops, having failed to win their case in the bureaucracy and in Cabinet, succeeded because, to use a cliché, they were in the right place at the right time. This circumstance enabled their friends in Parliament to help them, which may not have been the case at another time.

CHAPTER 7

Conclusion

Mostly by good fortune, the CUC was able to claim a victory when the Liberal government conceded on the issue of the taxation of co-operatives in the 1971 debate. As had been the case in the 1940's, the CUC leadership had taken advantage of the period of preparation prior to the hearings and debates, to achieve some of their organizational goals. Once again, following the resolution of the tax question, the organizational momentum built up in anticipation of the clash of opposing interests quickly dissipated.

The organizational goals pursued in some measure and attained in the 1940's and again in the 1960's, included increased membership, increased budget, stronger support from its membership (mandate), enhanced legitimacy or status, and recognition from government and other groups that the CUC was the acknowledged voice of co-operatives at the national level in Canada. Each time the issue of taxation arose, profit business attacked the co-operative way of operating a business as unfair to competitors, because co-operatives could avoid taxation by returning surplus funds to their memberships. Private business was attacking the legitimacy of non-profit business. These attacks on the basis of co-operative enterprise

began chains of events that can be characterized:

We may also interpret this chain of events in the following manner. An external attack on the legitimacy of co-operative enterprise creates the disequilibrium in the political environment necessary for affected co-operatives to seek protection. The CUC stands ready to exchange their expertise in protecting co-operatives for a strengthened mandate. This mandate, in turn, strengthens the CUC claim to be the national voice of co-operatives and assists in creating stable group interactions. Any surplus resources may be used by the group leadership to further secondary goals which may or may not be directly related to membership concerns. In the case of the CUC, surplus resources have generally been used for projects, the objective of which was to maintain and stabilize the organization between crises. As was noted earlier, the most successful exchanges were those involving the defense of the legitimacy and associated tax exempt position of co-operatives. If it were accepted that co-operatives were non-profit organizations

it followed that they did not earn a profit on which they could be taxed. These exchanges invariably took place when the legitimacy of co-operation was under attack.

Mancur Olson Jr. believed that only organizations that sold private or selective benefits, as do individual co-operatives, would have the means to hold a captive membership. This theory, while it could explain how individual co-operatives might have the means to create a political lobby, fails to explain how the CUC was created as a political lobby. For this, Robert H. Salisbury's theory of exchange is useful. If we regard individual co-operatives as prospective clientele, the CUC leadership as entrepreneur, the benefits as protection, and the price as membership, it becomes obvious that there is a two step process at work. The initial exchange occurs with each co-operative, where membership is exchanged for selective benefits. In times of stress, the leaders of local co-operatives may contract out the protection of the legitimacy of their mode of operation, in exchange for support of the CUC. The protection offered by the CUC is a collective benefit which is augmented during less stressful times by a variety of selective benefits. However, as several of the case studies revealed, some co-operatives preferred not to contract out the protection of their interest.

The theoretical literature on organized groups seeks to explain why groups organize, their interaction with other elements of the political system, and how groups develop. This thesis has revealed the CUC as an essentially conservative

group, seeking to preserve the legitimacy of non-profit co-operative business and hence its tax exempt status. The formation of the CUC in 1909 may be interpreted as an attempt to establish the legitimacy of co-operatives on a national level in Canada, through federal legislation. The formation of the CUC in 1909 contributed to a disequilibrium in group life which was probably a factor in the seeking of a federal charter by the Retail Merchants Association in 1910. Both reformations/reorganizations of the CUC were the result of entrepreneurs capitalizing on external disequilibrium to pursue organizational goals. In general, interest groups are a stabilizing force in society because they are most often to be found trying to seek equilibrium and restore the status quo.

The usefulness of adversity to the organization of the CUC was not lost upon co-operative leaders. In the early 1960's one leader wrote:

The pioneering spirit may be gone and hence a key to some of the apathy. No one has been attacking the movement and hence no urge to muster the strength of unity. Since these conditions to "drive" do not exist, perhaps the CUC should create such an atmosphere. It is difficult to create pioneers but not impossible. However, everyone believes in self-preservation. Perhaps, part of the program should make people aware that they should not be so cosy with what they have -- they may not have it very long. It has long been said that trade unionists create the demand for their being - or - that they create as much unhappiness in their memberships as they do happiness - in this lies their organizational strength. This not bad - in fact - the basis of strength to maintain such and similar organizations during "lulls" before a "storm".¹

¹CUC, "Study of Organizational Structure", possibly written by Tony Heidt, c. 1961.

In 1973, less than two years after taxation on a minimum of 3% of capital employed in a co-operative had been removed, the CUC Executive Director noted:

Executive and staff of CUC are very impressed with the long-term importance of the taxation subject co-operatives should be on guard against efforts to have Government increase the present 15 per cent holding tax on patronage returns. A letter should be sent to members of the Taxation Committee expressing the importance of remaining 'alert if at present relatively inactive'.²

Legitimacy

This study of the development of the Co-operative Union of Canada reveals a constant bartering going on within the organization, with the CUC executive offering various programs and services in exchange for a mandate to represent the interest. As a result of this exchange, the CUC was viewed as the legitimate representative of the co-operative movement by government and was consulted as such. This "entree" to government circles could in turn be used to advantage in dealing with the constituent members of the group.

In the 1940's the CUC's right to speak for co-operatives was recognized by the McDougall Royal Commission when the CUC and the Chamber of Commerce each were asked to submit lists of names of proposed Commissioners. One name from each

² CUC, Memorandum to CUC Tax Committee from Leonard Harman, CUC Executive Director, September 5, 1973.

list was selected.

The CUC also gained recognition from government in the areas of rural development and overseas aid. The CUC was invited to join in setting up an advisory council which later became the Canadian Council on Rural Development. As the CUC General Secretary, J.P. Phalen pointed out: "The principle involved in setting up an advisory council is that people should be kept as close as possible to the policies and program of government".³ The External Aid Office (EAO), and later the Canadian International Development Agency (CIDA), relied upon the CUC to provide advice and people to help form co-operatives in developing countries.

R.S. Staples welcomed the recognition of the CUC:

This may be the most challenging opportunity the co-operative movement has ever had to influence rural development nationally. If we cannot, through a spokesman, persuade a group like the proposed Council to give co-operative organization its proper place in rural development, we have not much hope of convincing less interested people."⁴

At the same time that the CUC was being recognized as the national voice of co-operatives, the protection of the legitimacy of co-operation continued to be of concern. On January 29, 1965 a meeting was held to consider how to improve the co-op image, particularly with respect to taxation.

³ CUC, letter to R.W. Siemens, Altona, Manitoba, from J.P. Phalen, CUC, December 21, 1967.

⁴ CUC, Memorandum to National Directors from R.S. Staples, re. National Advisory Council on Rural Development, October 7, 1965.

The strategy question to be decided was "should the attempt be to answer the attacks on co-operatives from an income tax standpoint or rather should the CUC expend its energies in convincing Canadians that co-operatives are a desirable part of the Canadian scene?"⁵ This protection of legitimacy is, as Kwavnick noted, a never-ending process.

Mandate

The strength in the mandate of the CUC may be best measured in terms of its annual budget, a reflection of the dollar value member co-operative placed on the services of the CUC. Illustrative of the importance of the tax issue was the existence of "tax funds" distinct from the CUC's operating budget. It was not unusual for co-operatives to make donations earmarked for the tax fund.

The CUC's financial goal for 1912 was \$800.⁶ The CUC operation cost about \$50 per month, and was always in debt. A dues formula was established which proved to be of little use. In 1918 George Keen became a full-time employee and the CUC budget was set at \$1800 per annum. In the mid-1930's the total budget for the CUC was usually between \$7000 and \$8000.⁷

⁵CUC, "Meeting to consider how to improve the co-op image, with particular reference to income taxation", January 29, 1945.

⁶MacPherson, Search, p. 151.

⁷PAC, CUC Papers, Volume 3. 1937 CUC Congress (Montreal).

In 1943, a special fund was set up to finance the western organizational tour of A.B. MacDonald. Donations of \$100-\$200 were solicited from the largest co-operative companies and \$1025 was collected. Broken down provincially, the response from the four provinces concerned was:

	\$	
Ontario	150	14.6
Manitoba	300	29.3
Saskatchewan	300	29.3
Alberta	275	26.8
	<u>\$1025</u>	<u>100%</u>

In 1944 money was needed for reorganization as well as for the usual expenses of the CUC. Contributions received for the reorganization amounted to \$7475,⁹ broken down provincially as follows:

<u>Province</u>	<u>Amount (\$)</u>	<u>Groups Contributing</u>
Prince Edward Island	100	1
Nova Scotia	500	3
New Brunswick	350	3
Quebec	1000	All from J.J. Harpell
Ontario	750	25
Manitoba	1525	7
Saskatchewan	3000	3
British Columbia	250	?
	<u>\$7475</u>	<u>42 (approx.)</u>

Alberta made no contribution. The unspent balance from A.B. MacDonald's 1943 western tour (\$242.62) was added to the 1944

⁸ PAC, CUC Papers, Volume 112. "Special Organizing Committee meeting, July 30, 1943", for organizations solicited. Volume 3 for donations received.

⁹ PAO, CUC Papers, Volume 3. "Statements of Receipts and Disbursements for Reorganizational Purposes, 1944", et passim.

fund.

By 1945 the CUC budget, with the added expense of the presentations to the Royal Commission, had risen to \$50,000. The interim balance at April of 1945 showed that \$11,278.70 had already been received. The assessments due totalled \$38,721.30.¹⁰ Half of the budget was for the Royal Commission, the other half (\$25,000) was for the CUC's operating expenses. Between 1935 and 1945 the CUC operating budget had more than tripled, mainly as a result of the events of 1943-1945.

The CUC budget continued its gradual rise. In 1961 the budget was \$70,570.00,¹¹ and in 1963 it was \$79,190.00.¹² A separate Taxation Fund contained \$57,000 in 1963.¹³ The cost of the two year tax battle was in excess of \$50,000 over the years 1970-71. Following 1971, the CUC budget approached and passed the \$100,000 mark. The largest budget increase between 1945 and 1973 coincided with the tax debate, when from 1971 to 1972 the CUC budget jumped from \$96,200 to \$117,767. There is little doubt that mandate, as expressed in dollar terms or membership, is strongly related to attacks on the legitimacy of co-operative enterprise.

¹⁰PAC, CUC Papers, Volume 3. "Interim balance at April 17, 1945".

¹¹CUC, "Proposed 1962 Budget with Comparison 1961 Budget and Expenditure".

¹²CUC, "Comparison of 1963 Budget and Expenditures as at September 30, 1963".

¹³Ibid., p. 5.

The CUC Comes Full Circle

Scarcely a year had passed after the co-operatives success with the taxation bill in 1971, when the old question of structure and finances began to reappear. In March 1972 the CUC Executive Committee recommended that the CUC not initiate structural changes at that time. The proposal under consideration involved some type of union between the CUC, the Western Co-operative College, and the National Association of Canadian Credit Unions (NACCU). NACCU was not interested in joint ownership of the college with CUC and the co-operatives themselves lacked enthusiasm for such an ambitious project.

The General Secretary noted:

My feeling is that the central co-operatives that make up most of our budget would not increase their dues sufficiently to allow the CUC to staff for a national and a regional operation regardless of how desirable we think this would be.

The problem is the same as it has been for some time. No one will come out and oppose a proposal until it is all set up and perhaps even operating and then everyone will agree that it isn't what they want and look for someone to blame for the error.

... we have gone full circle on this question ...¹⁴

Further reinforcing the conviction that the CUC had gone full circle, in November, 1974 the Executive Director offered the assistance of the CUC to associations of represent-

¹⁴ CUC, Letter to C.A. Robson, Saskatoon from J.T. Phalen, CUC General Secretary, March 22, 1972.

atives of co-ops and credit societies active in the provinces. The chain of events described earlier, beginning with an attack on the interest, the subsequent defense of the legitimacy of the interest with a resultant increase in mandate, a surplus of profits which the leadership uses to expand its activities, is actually a cycle of events fueled by disequilibrium in society.

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