

capital employed must be recognized as capital earnings, regardless of the opinion and decision of the owners of such capital.

It is true, of course, that some types of cooperatives may so conduct their affairs as to have no surplus at all at the end of the year, but the number in this category will be small. The greater bulk of cooperatives operate, as I pointed out earlier in this speech, on the practice of charging the prices prevalent in the area or type of business, and there is bound to be a surplus to be returned to the member patrons. The government has decreed by statute that this investing membership are not competent to decide whether they should or should not pay themselves interest on their own capital employed. This is one of the worst types of class legislation since section 98 of the criminal code. It is discriminatory law; it is very bad law, and this budget makes no provision for its removal.

Cooperative members have already adopted the principle of limited interest on capital, and they should be quite competent to decide to what extent within that limit they will or will not pay themselves interest on their own capital investment in their own business.

Another piece of bad law passed last year is the government decision to force cooperative associations to get from each member patron an individual authorization to retain any or all of the member's share of the patronage dividend. Heretofore, in my province at least, it had been the custom for the membership, in annual meeting or by local by-law, to make this decision by majority vote, after full and free discussion. This is democracy.

The government's ruling, just mentioned, means a plebiscite of the membership every time the board of directors and management desire to carry out what might be the expressed will of the vast majority of the members. As I have said, this is bad law, and I trust the government will take immediate steps to correct it, though there are no indications in the budget speech this year that the government is taking any interest whatever in cooperatives.

Let me point out another instance of the government's ineptitude in dealing with cooperative organizations. It has been decided, for purposes of income taxation, that patronage dividends actually paid out are an expense of operation. That is quite proper. The government has also decided that certain types of dividends become income in the hands of the receiver, and other types do not. Those which are not so taxable are described as consumer or cost of living goods, which are a saving to the family or the domestic budget.

The other kind are the cost of production goods. These the member purchases for use in his business, such as gasoline for his power machinery, lumber for his granary, coal for his bunkhouse, and so on. The dividends on these become income in the hands of the member patron when paid to him by the cooperative, and they are taxable. I am not going to quarrel with that decision by the government, but recently they passed order in council P.C. 528 instructing the managers of all cooperative enterprises to make returns to the Department of National Revenue, setting out the amounts paid to each individual member in patronage dividends; and they have placed the onus upon the manager of the cooperative to decide in each individual case how much of the patronage dividend is in the class of consumer or cost of living goods and therefore not income in the hands of the receiver, and which part is cost of production goods which does become income in the hands of the receiver. I should not like to suggest that the government had any ulterior motive in doing this, but I emphatically advise them that this will cause more trouble among members of cooperative associations than almost anything else I could think of. I ask you, Mr. Speaker, and the government, what individual will allow the manager of any business, cooperative or otherwise, to be the judge of how he has used the goods he purchased during the year? If the government is deliberately trying to create dissension between cooperative members and their management it could hardly have chosen a better method. The government must find some way of placing the onus of responsibility on the individual receiver of the patronage dividend. Difficult as this may be, it is the only fair and sensible way of doing it.

Under the law as enacted in the budget of last year, the government did exempt new cooperative associations from income taxation for a period of three years. They are to be commended for this partial recognition of the fact that cooperatives are an important part of our national economy, but I submit that three years is not a sufficiently long period. This exemption of three years applies to new cooperatives starting on or after the first day of the year, 1947, a year when prices are high, when costs of doing business are very high, and costs of capital equipment are extremely high, so that a cooperative starting this year may find itself with a heavy capital investment and, in the course of three years, may find itself in the middle of a serious recession or depression. I am not prepared to decide which of these terms, recession or depression, is the correct one to use as compared to "depression." In any event, three years is not long enough