

those recommendations because he would be depriving the provinces of more revenue than he was the federal Government. Having reached that ridiculous position for a Minister of Finance I suggest, honourable senators, that, in accordance with the views Senator Hayden expressed at some length yesterday afternoon, the federal Government now withdraw from this field.

Then we come to the change in the basis of equalization. I am not going to attempt to discuss the details of that this morning. Any equalization formula will be open to criticism by some persons or some provinces. I have already said I am in accord with the principle of equalization. Otherwise, I agree with Senator Hayden that Confederation ceases to mean very much. Possibly when the bill is in committee we can obtain some more information as to the reason behind the changes in the formula, and what the effect will be on the various provinces.

Dealing with the income tax changes, Senator Hayden drew a distinction between payment and abatement.

Hon. Mr. Hayden: I called it a pay-out.

Hon. Mr. McCutcheon: Pay-out and abatement. He said as reported on page 952 of *Hansard*:

The difference between abatement of tax and the payment of money as a cost or as a contribution to the provinces is important, because the proposition I want to put to you is that where the federal authority abates there is no money paid to the province. It simply abates an amount of the tax otherwise payable by the individual, and then it is open to the province to impose a tax up to or in excess of the amount of that abatement.

Now I suggest that while the distinction is a perfectly valid one, it is a distinction without a difference when we are viewing this matter from the point of view of the federal Government. The table which Senator Hayden placed on record and which is incorporated in yesterday's debates is the same, with the elimination of a few words which would be inappropriate if included in our debates, as that tabled by the Minister of Finance in the House of Commons. It is headed "Estimated Cost to Federal Government of Proposed Change in Equalization Formula and Increased Tax Abatements for the Three Fiscal Years 1964-65 to 1966-67". Senator Hayden said he would have put a different title on the table, but I suggest this is in fact what the bill is going to cost the federal Government. That is the reason I asked the questions and made the interjections I did yesterday; we see there are some

hidden factors in here which I think should be very clearly brought out into the open.

The cost for 1964-65—and I shall refer to that in more detail later—is only \$87 million, and that is the cost which is incurred as a result of the federal-provincial conference in November 1963. It is only in 1965-66, the next fiscal year, that we find the first of the additional costs which the federal Government incurred at the meeting in April 1964, to which I shall later refer at greater length. By that time the total cost of the provisions of this bill to the federal Government has reached \$171 million; and in 1966-67, the last fiscal year to which this arrangement applies, the total comes to \$264,973,000.

It is all very well to say an abatement is just an abatement and the federal Government does not pay out any money, but the fact is that the federal Government collects less money; and following the agreement reached in Quebec City in April of this year the Minister of Finance said—and he did not sound very happy in the quotation I read—that he was losing this amount of federal revenue, an additional amount as a result of the Quebec conference, which was estimated at \$64 million for the fiscal year 1965-66 and \$139 million for the fiscal year 1966-67. These are the figures of the Minister of Finance.

He said that there were only three ways by which this can be compensated. One would be to increase taxes, at the very time when our friends to the south are having lower taxes. The second would be to cut expenditures. One need merely read the estimates for the current fiscal year to realize that that is somewhat unlikely, particularly—and I shall come to this again—as so many of the items in the estimates are completely beyond the hand of the Minister of Finance to control. He has recently referred to the position he is in in that regard. The third, of course, is to increase deficits.

Those are the three alternatives that the Minister of Finance said he had when faced with the adjustments made in Quebec in April of this year. Certainly, the first and the last are rather unpalatable, and the second is unlikely of realization. So whether Senator O'Leary (Carleton) will pay more or less, as he asked yesterday afternoon, I cannot say, any more than Senator Hayden can say, until we see what Government policy will be. I am also, as Senator Hayden said he was, in favour of moving towards a balanced budget.

Hon. Mr. Lambert: Hear, hear.

Hon. Mr. McCutcheon: I do not think I would be as strong in my statements as he was. We had some discussion the other night