

Income Tax Act

pays dividends. Therefore, the members of the co-operative join that co-operative for services rendered and not for the sake of making profits. I could recite the other basic differences, namely, that the member's share in the co-operative must be redeemed by him, that it cannot be sold on the market as other shares listed on an exchange may be sold, and that there is no capital gain on the members share. All these differences and distinctions are well known to the committee. Knowing these differences, I cannot understand why the minister would take the approach he has taken.

Not long ago I read an article by John C. Satterfield, past president of the American bar association. In it he talked about co-operatives, and said that co-operatives are criticized for not paying their fair share of taxes, for being fore-runners of socialism, and so on. He raised all the well-known arguments. Nevertheless, he pointed to something that I have known for many years when he said:

In the free-enterprise economy, which is ours in the United States of America today, the co-operative is a potent factor in retarding the rapid march of this country toward socialism and a government manipulated economy.

Here, we are getting down to the crux of the argument on co-operatives. These people have pulled themselves up, as it were, by their own bootstraps. This is individual enterprise in its purest form. Now, under the guise of taxation reform, the state has started to step in and put controls on these people. One thing we must always remember about a co-operative is that it represents enterprise in its purest, elementary form.

• (3:40 p.m.)

Mr. Satterfield went on to shoot down the argument that a co-op enjoys an advantage over other conventional organizations. He said:

The fact is that the profits of the conventional business corporation belong to the corporation and not to its individual stockholders, may be retained or distributed in the discretion of the directors and are properly part of the corporation's taxable income.

Exactly the opposite is true of the margins between the amount received by a co-operative from its patrons and the cost of the goods or services furnished to its patrons or patron-stockholders—

Tax favouritism, tax advantages or tax discrimination in favour of co-operatives does not exist.

Whether or not the committee agrees with my assessment is immaterial at this point because I know there is a vast difference of opinion on the subject of how co-operatives should be taxed vis-à-vis other corporations. But I would like to go into my third criterion for a good tax system, which I think is important at this time.

The Chairman: Order. I regret to interrupt the hon. member. I do so to advise him and the committee that his time has expired.

Some hon. Members: Continue.

The Chairman: There is an indication that the committee would like the hon. member to continue. I should ask if there is unanimous consent.

Some hon. Members: Agreed.

The Chairman: It is agreed. The hon. member for Moncton.

[Mr. Thomas (Moncton).]

Mr. Thomas (Moncton): I thank hon. members for their indulgence and I will not abuse it. It is pretty widely admitted that co-operatives have performed a very useful function in this country. The Minister of Finance said so in the statement that I quoted. He said he was concerned about the fact that co-operatives had a part to play in our society, and that was why he was bringing in his amendments to the original proposal.

I would emphasize to the committee that any sections of a tax bill, or of any other bill, that are as contentious as these three sections are, should be considered very carefully before becoming law. If there is any doubt at all that this principle is bad we certainly should not aggravate the situation by making it more difficult for co-operatives to operate. If there is any danger at all, and I am firmly convinced there is, of smaller co-operatives not being able to function under these new proposals, again I say the committee should not pass these sections.

If the government will not accept any amendments, and is determined to pass this bill in its entirety, then I plead with the parliamentary secretary to at least consider passage of the bill with immediate implementation only of those sections which have met general agreement, and with deferral of sections such as this for further study, on the understanding that such sections would not become law until the House has made a further determination. By doing this we would show good faith both to those who are advocating higher taxes on co-operatives and those who claim that higher taxes will force some co-operatives out of business.

I submit that very little intelligent analysis has been made of these proposals when the Minister of Finance simply pulls a percentage out of the hat and does not attempt to justify it, other than to say the previous limit was too low. It is quite obvious that these sections were not given thorough study, and I request the parliamentary secretary to give them much close thought and study before they are passed.

Mr. Burton: Mr. Chairman, after studying the government's proposals and amendments as they affect taxation of co-operatives and credit unions, I have come to the conclusion that their effect will be to strangle the co-operative movement. The original proposals in Bill C-259 would have resulted in quick strangulation. The amendments that have since been introduced will change that to slow strangulation. I am not sure which is preferable. Of course co-operatives do have an alternative if the government's proposals are adopted. They can adjust their structure and carry on their operations like an ordinary corporation, such as paying out dividends on capital; but if they do so they will destroy themselves as co-operatives. I ask hon. members to reflect seriously on this matter.

What kind of society are we living in if we cannot devise a tax system that is capable of taking into account a form of economic organization different from the corporate structure which is characteristic of private economic endeavour? I maintain that the co-operative approach is different. I maintain that any society that cannot adjust to a different form of doing things is doomed in the long run.

It is also necessary to make reference to the token support and half-hearted, patronizing encouragement given to small co-operatives. I think that sometimes we