desperately require that revenue, they might well be forced to follow suit in order to prevent the flow of money out of their economy.

I have said that this bill would not contribute in any meaningful way to the necessary redistribution of income if we are to provide real equality of opportunity for Canadians and some measure of equality of condition. The bill perpetuates many of the means whereby corporations and the rich avoid paying their fair share of taxation, thus shifting a disproportionate share of the burden for providing government revenues onto the shoulders of low and middle income taxpayers. The bill does not use corporate and personal income taxes or the capital gains tax to produce the additional revenue needed if provinces and municipalities are to be able to reduce their dependency on the inequitable and regressive property tax for the provision of education, health and welfare services. The bill does not even go so far as to provide the alternate sources of revenue to enable provinces to eliminate or even substantially reduce property taxes paid by pensioners and others on fixed incomes, taxes which are forcing many of these people out of their homes.

I submit that had the government been serious about more equitably distributing income in this country it would have abandoned tax deductions in favour of tax credits. The effect of a tax deduction is to reduce a taxpayer's taxable income and therefore to lower the highest marginal rate of tax he will pay. One of the basic purposes of a tax deduction is to give tax relief to lower income taxpayers. However, the actual result is to give greater benefits in terms of dollars to wealthier taxpayers. Let me illustrate this phenomenon by quoting from an article by Jack R. London which appeared in the Winnipeg *Tribune*. Mr. London uses these examples which follow in comparing tax credits as against deductions:

• (3:20 p.m.)

For instance, assume John Smith is a married but childless taxpayer earning $13,850 per year. Under the new legislation he will be allowed to deduct from his earnings, a marital allowance of $2,850. His taxable income (after the deduction) therefore will be $11,000. On the first $500 of that taxable income he will pay tax at the rate of 22 per cent. On the last $2,000, he will pay at the rate of 35 per cent, with varying rates in between. If he were not allowed the marital deduction, his taxable income would be the full $13,850 and the tax rate on his income between $11,000 and $13,850 would be 40 per cent.

In terms of tax savings the $2,850 marital deduction will be worth $1,180. In other words, that deduction allows John to keep $1,180 more of his income after tax than would otherwise be the case. One can easily calculate the amount of tax saving achieved by any taxpayer merely by multiplying his marginal rate (before taking the deduction) by the amount of the deduction allowed.

No one would quarrel with that result viewed only from John's perspective.

The inherent problem comes to light only when John's situation is compared to that of other taxpayers with lower incomes. For example, consider Peter Jones whose marital circumstances are identical to John's but whose income is only $5,000. Because Peter's income is lower than John's, his highest marginal tax rate is only 27 per cent. The same $2,850 marital deduction will save Peter only $770 compared to John's saving of $1,180. The reason for the $410 differential is that a tax deduction increases a taxpayer's tax saving as his marginal rate rises.

Mr. London went on to say in the same article:

A tax credit neatly avoids that trap. Since it is a fixed dollar saving which a taxpayer may deduct from his actual tax liability, it is no more valuable to a wealthier than a poorer taxpayer. In fact, in terms of relative relief the opposite result occurs to an even greater degree than with a tax deduction.

John and Peter once again will illustrate. If the government decided that the amount of the tax credit should be, say, $300, then both John and Peter would be allowed to subtract that amount from their tax bills. Their dollar savings would be identical. However, since Peter's tax on his $5,000 income would be much lower than John's tax on his $13,580 income, Peter, in terms of percentages, would be saving more than John. In that case, the tax relief would be received where it was most needed.

By restricting the tax savings of higher income taxpayers in this way, the government then could make even larger tax concessions in the form of higher credits which would in turn be relatively more beneficial to those with lower incomes.

I apologize for reading at such length, Mr. Speaker, but I thought that article contained a concise and easily understood explanation of the reasons for tax credits and tax deductions. In reading it, I thought I might illustrate why the government could well adopt the tax credit technique in this legislation in an effort to introduce some equity into the system. That is the kind of imagination and innovation we had hoped to find in this bill. Unfortunately, it is dismally absent from it.

Finally, I have charged that this bill in no way encourages the development of economic institutions which will operate in accordance with the changing system of values and social attitudes of Canadians. Increasingly, younger Canadians especially are seeking methods of mutual self-help through co-operative endeavour to achieve individual goals; increasingly they are abandoning the ethic of cut-throat competition. One of the few economic institutions which fits into this new approach to life is the co-operative. Yet, not only does this legislation not encourage the development of the co-operative and credit union movements, it also inhibits their growth. Indeed, it actually threatens the life of many existing co-operative institutions.

Beyond their significance in relation to newly developing attitudes, the co-operatives have for many years been key institutions in the farming sector of our economy. It may very well be that without the co-operative enterprises such as the wheat pools, the western grain industry would be in the hands of American industrialists, just as is our oil industry. Until the introduction of this bill, co-operatives had been taxed at a minimum of 3 per cent on employed capital. Why this formula has been employed no one knows. One suspects that it was devised because co-ops kept only as much working capital as they required at any given moment. Earnings above their immediate capital needs were distributed to their participating patrons, usually in relation to the use they had made of the co-op facilities rather than in relation to the amount of capital the patron had invested. There was probably no other way for the Department of National Revenue to get at the co-ops except through levying a tax on the capital employed. One wonders why they felt moved to do so, since the participants pay full tax on dividends received and the co-ops pay full rates of tax on retained earnings. Nevertheless, a 3 per cent tax on capital employed was levied. Now, the government has decided to raise the tax on capital employed from a minimum of 3 per cent to a minimum of 5 per cent.

The probable effects of this move were set out very succinctly by my colleague, the hon. member for Sas-

[Mr. Rowland.]