

*The Budget—Mr. MacLean*

way the differential between the cost of crude oil to Canadians and the higher world price was maintained. In these circumstances, the producing provinces had to make a concession for the common good and they have been very generous in the matter of the distribution of this export tax.

In addition, the exporting provinces own the resources, under the British North America Act. Petroleum is a non-renewable resource and the provinces are concerned that they obtain a reasonable benefit from the exploitation and selling of this resource which can only be sold once. Therefore, they impose royalties. Someone has likened royalties to rent in doing business. There may be some similarity in the case of renewable resources such as stumpage on forest land, and that sort of thing, but in the case of non-renewable resources there is no relationship between rent and royalties. Royalties represent the sum of money a province receives for what it sells because one day its non-renewable resources will be gone forever.

The Minister of Finance (Mr. Turner) declared in his budget that royalties paid to a province are not legitimate deductions in computing income tax. Royalties paid to a foreign country are allowable, but if royalties are paid to a province they do not represent a legitimate deduction in computing income tax. What the government is saying, in effect, is that royalties paid to a province are illegitimate; they are not legal and should not be considered. This position is high-handed, unfair, untenable and even illegal. I implore the Minister of Finance to re-examine his position with regard to royalties. The minister has made a long and involved argument in favour of this stand, on the basis that royalties in some cases are not really royalties but are camouflaged taxes that erode the federal tax base, and that sort of thing. I am not arguing that there is not some basis for that argument and I would agree that this may be so in some cases. But that is not justification for denying what I believe to be a superior right of a province, that is, to charge royalties on resources that are owned by the provinces and exploited by companies.

Surely, a much better solution would be found if the Minister of Finance were to agree that these royalties will be accepted as legitimate deductions for income tax purposes up to some mutually agreed amount, either a percentage or a specific amount based on the quantity produced, or something else that could be worked out. I am not suggesting the technicalities here, but I think this could be done. The minister said that to find a solution of this sort would be very difficult. That is an old, old argument. I remember perhaps 20 years ago when the suggestion of making cash advances on farm-stored wheat was put forward time and time again. The government of that day said it would love to do this, but it was technically impossible and too complicated. The government gave a million reasons why this could not be done. However, the government changed, and it was done; it was not found too difficult. I think a way could be found and I implore the minister to try to find it. Surely a compromise could be reached without violating the basic right of a province to charge royalties on the exploitation of the natural resources which it owns.

At the present time, primarily Alberta is involved. However, we should not forget that presumably most of the oil

[Mr. MacLean.]

in Alberta has already been found, and if we are to find additional large quantities of oil in Canada they will be found either on land that is under the jurisdiction of the federal government or in a province or provinces other than Alberta. Therefore, every province has an interest in this principle not only in respect of petroleum products but in respect of the whole spectrum of natural resources. As far as petroleum is concerned, we in the Atlantic provinces feel that the federal government has a penchant for confiscation. It is argued that offshore resources belong to the federal government. The government now thinks that as far as the Atlantic provinces are concerned, if commercial quantities of oil are found in that area it will not matter, because the federal government says it has a prior right over natural resources discovered offshore.

Referring to page 11 of the budget speech of November 18, the minister said:

Third, the federal government should recognize the special position of the provinces with respect to the taxation and charges on resources within their boundaries.

I agree with that. The trouble is the minister says this but has not done it. This government is doing the opposite, and I suggest it should do what the minister has said it should do. I have taken more time on this matter than I intended, and I now turn for a few moments to the problem of inflation. It is my belief that high government expenditure is a considerable factor in inflation in this country. It is perhaps not the most important factor, but it is important. I am concerned about the rapidly accelerating and excessively large expenditures of governments in Canada, not only at the federal but at all levels. The federal government is not without blame, by any means, in this regard. The minister was interviewed on television the other night. I had the pleasure of watching him for a little while. He was asked the following question by Mr. Lynch:

Why don't you admit that the thing is beyond your control, as many people think?

He was speaking of inflation and the expenditures forecast for the next fiscal year. The minister replied:

I won't admit that at all. I will say that the discretionary element in those expenditures is about \$7 billion or \$8 billion out of \$35 billion because a lot of it is statutory, a lot of it is federal-provincial in medicare, hospitalization and equalization, some of it's the servicing of the public debt, and so on . . .

● (1530)

With that I agree. However, if one looks at the forecast for the next fiscal year it will be seen that it is roughly \$35 billion. If we subtract even the larger of the two figures mentioned by the minister, \$8 billion, we are left with \$27 billion. The minister, in effect, is saying that the non-controllable expenditures for next year will be about \$3½ billion more than the total expenditures for last year. In that light I think it is fair to say, unhappily, that government expenditures are out of control. The rate at which they are out of control is a question that remains, but the fact is that these trends must turn around; we cannot go on like this indefinitely without something going bust.

As a nation, we must reverse some of these trends. We must control them or level them out so that such a large amount of earnings will not be extracted from Canadians