

LEGISLATIVE ASSEMBLY OF SASKATCHEWAN
Fourth Session – Tenth Legislature
18th Day

Monday, February 24, 1947.

The Assembly met at 3:00 o'clock p.m.
On the Orders of the Day.

ADJOURNED DEBATES

RESOLUTIONS

RESOLUTION – TAXATION OF CO-OPERATIVES

The Assembly resumed the adjourned debate on the proposed Resolution by Mr. A.L.S. Brown (Bengough):

That this Assembly express the view that an economy which serves the interests of the people depends in large measure upon the activities of co-operative organizations and association; that it is desirable to promote the development of co-operatives and a widespread participation in co-operative endeavor, and that the action of the Parliament of Canada in taxing co-operative associations, constitutes a serious limitation upon the activities of people in their effort to achieve economic democracy through co-operation;

Further, that this Assembly request the Government of Saskatchewan to protest the restriction imposed by the Income War Tax Act upon the disposition by co-operatives of their earnings, and urge:

1. That sub-section (9) of section 5 of the Income War Tax Act, as enacted by 1946 Canada Statutes, Chapter 55, section 4, sub-section (13), which provides that no co-operative be allowed to distribute tax-free patronage dividends to the extent of reducing its taxable income below a level of three per cent on capital employed, be repealed;
2. That co-operatives be allowed to set aside limited reserves to guard against the impairment of capital and unexpected losses at least to the extent of the minimum required by provincial law, before taxable income is determined;
3. That paragraph (vi) of sub-section (p) to section 4 of the Income War Tax Act be amended to permit less than twenty persons to form a co-operative within the meaning of the statute; and
- 4.
4. That the allocation of patronage dividends be determined solely by the members of a co-operative on the principle of one member one vote.

Mr. G.H. Danielson (Arm River): — Mr. Speaker, I would like to speak to the motion by the Hon. Member for Bengough (Mr. Brown). I am not going to go into any great length into the discussion that took place a few days ago. I just want to point out this, that this is a topic or an issue which has come before this House at several Sessions in

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the past years. I think, also, that I am on safe ground in saying that there is no fundamental difference between this side of the House and the other side of the House, Mr. Speaker, in regard to the object that this Resolution has induced.

Looking back on some of the records we find that in 1943 a resolution was moved in this House in connection with this matter and an amendment was moved by myself at that time which was accepted by the House and became the original motion. That motion reads like this:

That this Legislative Assembly is of the opinion that savings effected as a result of co-operative enterprise should not be regarded as profits or gains, subject to Income Tax, merely because the business carried on by such co-operative association is not a type of business granted exemption from Income Tax under the provisions of Section 4(p) of The Dominion Income Tax Act.

We, therefore, urge upon the Dominion Government that, in all cases where savings are paid or credited to the members of a co-operative association by way of a refund of excess charges, such association should not be assessed for Income Tax in respect of any such savings.

That was followed up by a resolution last year. We agreed on a resolution that had to be introduced from the Government side of the House and amendments by the Opposition. A compromised resolution was agreed to which indulges, in principle, the Resolution which was passed in 1943 and it amplifies the situation a little farther because at that time we were in possession of the recommendation of the Royal Commission, which was appointed by the Dominion Government to enquire into this particular matter.

Now, back in 1930 at least one co-operative organization in the Province of Saskatchewan was assessed for income tax. The tax was paid amounting to considerably over \$100,000. That matter, of course, went to the court and the court decided against the Government. Then, at that time, the Dominion Treasurer introduced an amendment to the Act which has become known affectionately for pay of the Dominion War Tax Act. Since that time it has been recognized, I think, by the Dominion Government that at least most co-operative organizations in Canada were exempt from income tax under the provision of Section 14. However, during that time, Mr. Speaker, the co-operative movement has spread out; it has branched out, it has become engaged in business of many kinds and it has set up a whole purpose of carrying on that business through the setup of different organizations suitable for the particular purpose through which that business is carried on. It became doubtful whether this section actually covered all types of the organizations which claimed protection for pay of the Income War Tax Act of 1930. Therefore, it went so far that the Crown advised the Finance Department that all Wheat Pools or grain organizations in Canada were subject to income tax. They were notified and gave their assent and it was very doubtful that they were not liable for income tax for at least the last eight or ten years. However, the assessment covered, I think, from 1941 up to 1946.

Now, a Royal Commission was appointed to inquire into the whole structure and setup of these co-operative organizations who claimed exemption for income tax and that Royal Commission

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was appointed on the recommendation of the different interested organizations. The Co-operative Movement had its representatives and other organizations in Canada also had their representatives on that Commission. We held sittings all over Canada. We also visited Great Britain. United States and studied the income tax feature insofar as co-operative organization was concerned, not only in United States and Great Britain, but in some of the other countries in the world. They made a report to the Dominion Government with certain recommendations. They made a very thorough report setting out the reasons why they have come to these conclusions. They took into consideration all the different features that were presented to them during these hearings and as a report it is a very exhausting document. It deals with the phases of co-operatives. It comes to certain conclusions after all the evidence.

I said, Mr. Speaker, that the co-operative movement had representation on the Commission. I think, so far as that representative is concerned, he is one of the outstanding men in Canada, at least in regard to knowing and being familiar with the object and the aims and the fundamental principles underlying in this particular type of business activities.

The Royal Commission was appointed, I think, for the purpose of actually finding a way whereby there would be profit in view of the extent of the activities and the different types of business organizations set up under this Co-operative Associations Act in the different provinces whereby as many as possible would be protected from any undue taxation. Commission inquiries covered the different phases of the co-operative movement. They heard arguments for and against why such organizations should have exemption from taxation and so on. After considerable study they recommended certain things which should be done and I want to read, to this House, a few of the things that it recommended:

Interest on a loan to or other investment in, the association with a fixed date of maturity, should be deductible as an expense of the association, provided that it can be exacted annually at the rate fixed when the loan or investment was made. It should be treated as income of the member when he receives it. Loans or investments in the association which the member is entitled to withdraw on reasonable notice resemble notice deposits. Interest on such loans, investments or deposits should be treated as a deductible expense of the association if paid at a rate specified in advance, even though the association may from time to time change such rate. These payments should be treated as part of the income of the member when he receives them.

On the other hand, the remainder of the surplus of the association, or the remainder of the excess of deductions made to cover operating costs over the costs actually incurred, should be subject to tax as income of the association. This remainder, retained by the association, may remain on its books as undistributed surplus or be carried to unallocated reserves (not including valuation reserves) or it may be credited to the accounts of the members, but in such a way that they cannot, as individuals, withdraw the amounts in question on giving reasonable notice, even when shown on the balance sheet as "accounts payable" or "allocated reserves" or "deferred dividends."

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These patronage allotments which the members cannot withdraw on giving reasonable notice, then, should not be allowed as a deductible expense of the association when earned. However, if they are later paid or rendered available to the members, they should be deducted from the income of the association in the year when they are paid or made available and should be treated as taxable income of the member when made available to him.

Now this section particularly refers to what we have called the revolving door plan, Mr. Speaker, which simply means this, that our association operating on this basis, votes a certain amount into reserve for all of the excess earnings or profits. The recommendation of this Commission, Mr. Speaker, said simply this: that you tax what you put in from that current year's operation or you pay out – out of the revolving door.

Now then, it has been said that the Commission did not recommend taxes on profits or excess earning when the interest served an ordinary association. That means not an association that is not operating on the revolving door basis. Well now, I beg to differ with that statement. That statement was made in debate here a little while ago and I have a good abhorrence for that statement, Mr. Speaker. We have here, on page 8 of the Commission's report that commences on page 67, under "Memorandum of Comments and Reservations" by B.N. Arnason; the co-operative representative on that Commission from this province. He says this and this is a clear indication, his statement is a clear indication to me, at least, that the Commission intended – I am not defending or anything else. I think it's wrong, but that has nothing to do with what I am going to say just now. If the nation's intention was that any part of the current year's surplus which was voted into the reserve or put in the reserve, was intended to be taxed. Mr. Arnason says this:

This consideration leads to another. The report seeks to distinguish between what the co-operative association keeps for itself and what the member can effectively claim as his own – that is, what is exigible by him. The letter includes patronage payments paid in cash or applied against obligations incurred by the member to the association with respect to investment, or amounts credited to him but withdrawable on reasonable notice. This again is in accordance with British practice. Canadian co-operatives have, however, found it necessary to defer the payment of patronage dividends or deductions from gross proceeds of members' products for varying periods. This method of financing has been found necessary under conditions that prevail amongst agricultural co-operatives, where the volume of business may fluctuate sharply from year to year, and where large capital expenditures are needed in contrast to the requirements of consumers societies. The Commission takes the view that where amounts are deferred for an indefinite period at the sole discretion of the directors, such amounts should only be deductible for tax purposes when actually paid to the members.

Well now let us see what they do in other parts of the world in regard to income tax for co-operatives.

The task of applying income tax to co-operative organizations has always been before the tax authorities in Canada in respect of associations which have not qualified under section 4 (p) of the Income War Tax Act. Our terms

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of reference and the evidence before us suggests that no final and completely satisfactory policy has evolved. With a view to further enlightenment, we deemed it advisable to investigate the application of income tax to co-operative societies in Great Britain and to non-exempt associations in the United States. These studies are included in Appendix D and may be referred to for greater detail.

In England the tax is applied to all amounts that the co-operative associations put to reserves. Under the conditions and practices prevailing in that country, this policy has not presented serious administrative difficulties. It is well to bear in mind, however, that in Britain, no associations purport to act as agents for their members, nor do they obtain capital by withholding purchase dividends or bonuses credited to their members.

In the United States non-exempt associations are allowed to deduct patronage allotments whether paid or withheld. This method seems to be administratively feasible under the conditions prevailing in that country.

They evidently finance on an entirely different basis from what we do. So, we see in Great Britain, in Sweden for instance, there has been special provision for exemption of all profits or earnings of Co-operative Associations during the last few years.

So we see here that so far as the Commission's Report is concerned, the action of the Dominion Government in amending the lower Income Act of 1946, in the Session of 1946, is clearly along the line of the recommendation of the Commission. Then, if you read Hansard, you will find this, that when that question was put to the Minister, he didn't place the responsibility on the Commission, he took the responsibility on himself and the department which he represented and which he was head of. But reading the Commission's Report, that matter is very, very clear.

The co-operative business is something entirely different from any other type of business, in this respect, Mr. Speaker, that it is a private business. It's a private business in the very essence of free enterprise. It is so for certain reasons. There is just one difference placed between the two and that is that the profits from the co-operative business, Mr. Speaker, are paid back to the members who do the business, trade and buy the goods or sell the goods. In an organized business, the person who has invested the money there gets the earnings from that capital and from that business. That is the difference, but so far as administration and all other things connected with conducting that business, it is a private business.

Mr. Speaker, I think perhaps that it might be interesting to look back and check up and see what really has been the attitude of the Dominion Government or any government in this Province of Saskatchewan toward the co-operatives. Everybody knows, everybody in this House and outside of the House as well, I think, knows that our Wheat Pool organization, United Grain Growers, which I think also can be classed as a co-operative, had been assessed for income taxes during the last two or three years. As a result of the ruling by the Treasury Department they were liable for income tax, not only for this period, Mr. Speaker, but way back for several years. They had, in anticipation of

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the contingents of which might arise, set by or held back half their earnings – which rightfully belonged to the people of these organizations – for a certain amount of money which in the event that they would have to pay it, they could pay it. Then, we find after this thing was clarified, and it was clarified by the action of the Government, that \$6,500,000 is now being distributed by the Saskatchewan Wheat Pool to the members of that organization. \$6,500,000! I think that I am stating things that everybody knows, but if they had actually gone back and assessed the Saskatchewan Wheat Pool and any other organization operating on similar lines, back as far as they could do it, that \$6,500,000 wouldn't anywhere near have paid the amount of taxes which they might have been subjected to pay. But that wasn't done. They just forgot about it and they only made a very reasonable, and I think, a very satisfactory arrangement with these organizations for the last three years' taxes.

The United Grain Growers is now paying out \$2,500,000 as a result of an agreement which they were able to effect with the Dominion Government in regard to payment of income tax. Mr. Speaker, that has nothing to do with this assessment under this new Income War Tax Act of 1946. This was all previous to that time.

These two corporations or organizations are paying out \$9,000,000 to the people of western Canada as a result of a negotiation which had been carried out and the goodwill which is extended to these organizations by the government. I think it is creditable, it is creditable to the organization, to the government, for their attitude in this matter so we are not justified in placing any particular blame on anyone for trying to do anything that would be fatal to any co-operative organization.

Now, when we get to the recommendations of the Commission as they were implemented by the Government in the legislation of last summer, Income War Tax Act of 1946, we find that the Resolution on the Order Paper today does not altogether, Mr. Speaker, leave the right impression. It looks to me like it was framed in such a way that anyone reading it and not really having had the opportunity to look back of the picture, so to speak, to see what the meaning is, would get the wrong impression.

For many co-operatives, which pay patronage dividends, this modification of the Commission's recommendations have little or no effect for they have already recognized an obligation to pay interest or dividend equal to at least three per cent on the capital employed. Consequently, don't pay any tax.

Mr. Bentley, Member for Swift Current in the Federal House, when this matter was in discussion, was up in committee, was very alert and very hostile towards the Government's proposal and he made the deductions from certain things that he, I think, honestly believed was the meaning of it, but which was incorrect. When this thing was called to his attention by the Minister that it is an organization which paid interest on its working capital if that was equal to three per cent, then they paid nothing to the Government. Then he committed the statement, that to pay interest was undemocratic. Undemocratic, that is the statement he made. Well, now, Mr. Speaker, with that coming from a gentleman who lives in Saskatchewan, who professes to be a champion of the co-operatives, then all that thing

is very, very peculiar.

First of all, I find that the principle of paying a limited interest on working capital is one of the very fundamental principles of the Rochdale movement or co-operative movement in Great Britain. I have it here and I shall take the time, Mr. Speaker, to give the House exactly what they do over there. I am just like the rest of the Members, I get some of these things mixed up, Mr. Speaker, and it will take me probably a little time to get hold of what I want, but I am going to take the time to do it. Well, Mr. Speaker, it has been admitted that even in the Commission's Report that is a fact.

The Special Committee of the International Co-operative Alliance declared the following to be the Rochdale principles of co-operatives: 1. Open membership. 2. Democratic control. 3. Dividend on purchases. 4. Limited interest on capital. There are seven full principles in all. I am not going to read the rest of it but it goes on to say "non-observance" and I have read it before:

Non-observance of any of the first four by an organization makes it non-co-operative whereas the last three was regarded by the Committee as essential part of the Rochdale system and that an organization non-observant then would be condemned as non-co-operatives.

This is one of the fundamental principles of the Rochdale method of doing business.

My statement in regard to the income taxation of the Income War Tax Act in regards to co-operatives is fully borne out, Mr. Speaker, by the Saskatchewan Wheat Pool annual report. It says this, that it was sued – they enumerate so many different points here and point four and seven deals with this particular matter very clearly – that it was sued to a binding obligation insofar as amounts of what co-operatives paid out. That means, chiefly, if we should pay 18 per cent on our working capital or if you pay it with a half then you still pay one per cent to the government, but if we pay it up to three per cent then that releases him entirely from paying any income tax.

Now Section 4, or paragraph 4 reads as follows:

That an amount equal to three per cent of the capital employed by the co-operatives provided that amount has been actually earned, must be deducted from the surplus or assessable income for tax purposes, but which for tax purposes may be reduced by the payment of interest is a contractual obligation after such deductions and the payment of taxes.

The remainder may be dealt with in the discussion of the organization. To bear out what I have said, if the tax or if the interest paid is less than the tax then you pay the difference between what you pay and what the actual tax is. If your payment is equal to the tax, you don't pay any taxes and that is something that, I think, is a very important matter in this case.

We will go on and deal with some other matter to come up in the House of Commons to show conclusively that I want to, that my contention is correct. On page 4,117, July 30, 1946,

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in some discussion which took place between Mr. Bentley and Mr. Abbott. Mr. Abbott says this:

Perhaps I should add that if by any chance the co-operative has borrowed money, if it owed money and had paid interest on it, the interest on the borrowed money would be offset against the three per cent to which I made the reference.

That again, Mr. Speaker, is clear indication that my contention is correct. Again, he says on the same page:

If my hon. friend has paid off only contractual obligations then I emphasize that there will not be any income.

Perhaps I had better prove what the Minister said on the point, on this point of his Budget Speech, answered on page 3,006 because it brings the point out fairly clearly. The first step in determining the tax by the local of a co-operative or any other company will therefore be to compute its taxable income and there are many ways. In this connection the co-operative or company will continue to decline to some extent to be in forceful obligation of the co-operative and non-co-operative distribution. Having determined its taxable income, the co-operative or company will then be able, if the proposed amendment is adopted, to deduct distributions in proportion to patronage dividend paid out with income, in that year subject to the limitations I have outlined. So that if my hon. friend's co-operative operated on the basis of paying out only contractual obligation to its members and patrons during the year and ended up the year with no income, the three per cent rule simply would not apply.

Mr. Speaker, I think I have made clear the full meaning of the provision in the Income War Tax Act. No doubt under the present setup among the co-operative organizations in the Province of Saskatchewan, a number of them will be subject to income tax. I say there is not a co-operative organization in the Province of Saskatchewan that cannot put its house in order to escape any tax under the provisions of the Income War Tax Act of 1946. All they have to do, Mr. Speaker, is put themselves in the position to return to the persons or individuals or members, who today are supplying the working capital of these organizations by bylaw, make provision that they are obligated to pay 50 per cent of interest on the capital, whether it is share capital or loan capital, up to three per cent and there is no organization in the Province of Saskatchewan that can't put their business in order to function on that basis. As a matter of fact I think, perhaps, from the last few years the danger has been by the many different types of setup in co-operative organizations that we have got away from the close direct contact between the organization itself and its membership. I think it would be all to the good if we could go back to the system whereby we would have that direct contact between the organization and the management of the organization and the members who are the ones who really own the business. That is one of the things.

I am sure that this Commission's Report was not so bad after all because I remember in the fall of 1945, in November I think it was, soon after the Commission came out and made public, co-operatives of western Canada had a meeting in Winnipeg. One of the outstanding co-operative men of this province got up and moved a resolution approving of the Report of the Commission.

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There was one gentleman, also, very prominent in the co-operative movement in this province, I can't remember his name, he got up and suggested that in view of the fact that they had not had a very long time to study the report that the Resolution should be tabled. It was tabled, but it indicated this, that the co-operative organization probably saw, in that report, a good deal more sympathy in things that were favorable to them than what they probably expected in the first place.

That, however, Mr. Speaker, does not by any means detract from the fact that personally I don't think that the co-operatives should pay any income tax on any earnings that they had in their business with their membership. I don't think they should, because after all the fact that some of the earnings from my business during the last year may be set aside or held back to add to the working capital or for some particular purpose, to extend the business, put up more buildings or anything else, that is still my property and it is still my money and by the fact that if it is held back should not make it taxable as an income in the hands of the co-operative. However, there is nothing in that section that cannot be overcome, Mr. Speaker, it is just as simple as A B C. If I get \$200 on the basis of nine per cent, which our organization, our association is declaring as a purchase dividend for 1946, in addition to paying four per cent on all the capital employed which is in loan capital accounts. If they want to keep \$100 of that, Mr. Speaker, all I have to do is this, just take and endorse that cheque on the back and hand it back to them. It adds that much to the working capital. There is no reason in the world why that can't be done. It has been paid; I just endorsed it back and said add that to my loan capital or to my share capital if you were working on that basis or operating on a share capital basis. Nothing in the world can stop any co-operative from expanding if those who constitute the membership for that organization are co-operative minded. If they are there just for getting money out of it, well, it is a different proposition.

I will say this to you, Mr. Speaker, that some time ago, not so many months ago, a situation arose here whereby a certain organization had to start to pay out the revolving door payments and it cost that association a certain amount in its fiscal year when the capital employed and used was very extensive, and this, of course, was the trouble without any notice. The members that owned that capital or which it was payable to, had the full right to ask for it in cash. I know what happened that time. What happened was this, that they said, "We like to keep this capital, we'd like to keep this money, but if you have got to have it you can get it." What happened? There was hardly anything taken out. They left it there because they were getting interest on it just as much as any place else and more probably than in the other investments in this province. Well, that was fine, it was a trust in the people that owned the capital; also in the men and women who owned the business, which was their business. I say, today, that there is not a co-operative organization that needs to suffer on account of this income tax.

So on that account, Mr. Speaker, there is no fear that this is a threatening action of legislation so far as the co-operative organization is concerned. It can be overcome, it is being overcome.

Mr. Speaker, I think I have dealt with this now for some time and that the Resolution stands at the present time, but it isn't supported in the way, in the manner I think it should be

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supported. I am not going to amend it, I think there should be an addition to that resolution and because I think this Resolution overlooks one of the most fundamental things and one of the things that did happen to the co-operative movement during the management of the Income War Tax Act of 1946, that it is far, far more important than any tax that was imposed on the co-operative organization.

I mentioned in this House and I am sure the Minister of Co-operation will see this, I am sure he does, when the Section 4 that was in the old co-operative Act was recognized by statutes during the wartime in Canada, it was a distinct and different type of business. We had a status, so to speak in Canada. That was removed from this Act and today we have no status, Mr. Speaker, it is a distinct and separate type of organization doing business for our members. Today, we are thrown into the same jackpot, so to speak, as ordinary profit business. That, I think, is the greatest loss that we sustained and it is one of the very important consequence of our movement in Canada or in the Province of Saskatchewan in particular.

Now, therefore, I say this, that we should concentrate, we should try to get that particular section into the Act, which would define and set out and give us a status, or a place in the tax structure of this country, a distinct and separate type of business. We need it, we should have it. You know something it is rather comical, Mr. Speaker, when you look the whole situation over. We have here in the House and many places, people who condemn the Government for taxing co-operatives and on the other hand we have the same Act where the corporations and all grain companies alike are asked to pay off their profits without being taxed to their customers. Now that is actually the fact. These companies, of course, particularly the grain companies, are now paying out and have been paying out for months dividends or purchase or patronage dividends to the people who have done business with them the last several years.

I was in an office not long ago. As a matter of fact the manager there looks after a lot of land for some people and the company which he represents has a lot of land, too. Then as a matter of fact, he had a stack of these cheques on his desk and said, "I get two cents a bushel and here's two cents a bushel on my wheat and some of them even paid as much as three cents going back a couple of years." Now that is a fact. Now whose money is that, Mr. Speaker? That is the money, that is the Dominion Government's money; that is the money that otherwise would have been paid into the Treasury of Canada. That's what it is. That if it wasn't paid in there and they could keep it then it goes into the pockets of these fellows that have got the money in the business. They would just as soon give it back to the customers, of course. It doesn't cost them anymore and that is money that otherwise would go into the pockets of the man who got the money in the business.

Again, I would like to see the Act amended in such a way that a distinct section would be put into the Act, which would set the co-operative organization a method of doing business, doing business of distinct and separate entity whereby we would be recognized for the business set apart from ordinary profit business. That, I think, is the biggest loss we sustained by the removal of Section 4 (a) of the Income War Tax Act.

Mr. Speaker, I shall support the Resolution.

Mr. W. Burgess (Qu'Appelle-Wolseley): — Mr. Speaker, I want to speak very briefly on this question. The first thing I want to mention is the one point in the remarks of the Hon. Member who has just sat down, in which I am in hearty agreement with. If I talk very long it will probably be necessary for me to differ with him on one or two points, but in the remarks he made just as he took his seat, I am in hearty agreement with him. That is that perhaps the greatest loss sustained in the Income War Tax Act was in, as it were, throwing the co-operatives and the co-operative movement in the same trough as the rest of the business corporations and so on doing business. I was glad particularly to hear him say that because he has so often maintained, in this House and did in the speech he has just delivered, that co-operation was 'simon pure' private enterprise.

I have always maintained that co-operation and co-operative enterprise was something just a little different than the ordinary run of the mill business as it is done. I admit that it was not exactly socialism, but I would also admit that it wasn't ordinary business either and I am glad to see that the Member for Arm River has got around to that way of thinking too, because he does not want the co-operative enterprise put in the same trough as the rest of them. I hope I am not misquoting him. As a matter of fact I have sometimes said that co-operation was socialism made sensible. I have also maintained that if we are to ever develop in Canada, in Saskatchewan, that most desirable state of affairs, democratic socialism, it will have to be done through co-operation. It is the only training school that I know of whereby socialistic enterprises could possibly be kept completely democratic.

Now just in making one or two brief references to the Member's remarks, it seemed to me, and I may be misrepresenting him, if I am he will not hesitate to correct me, but it seemed to me that he was attempting to argue that in placing this three per cent clause in the Income War Tax Act, it was not really doing us any particular harm in the co-operative movement. Now, if that is true, I would like to ask him why the Liberal Leader, Mr. Tucker, found it necessary to object so strongly as he did, I think it was page 5,172 in Hansard, object so strenuously in the House of Commons to the putting in of that particular clause. I am not going to quote the gentleman but it seems to me that his words meant this – if they meant anything – but he found it difficult even to vote for it with that particular clause in the Income War Tax Act. He was so much opposed to it, so he said, that he was tempted to do that unheard of thing, a Liberal Member vote against the Liberal Government. He was tempted, he didn't yield to the temptation, he didn't go so far as to vote against it, but he was tempted and that he would yield to temptation under such conditions. But as a matter of fact, Mr. Speaker, anyone who knows anything about the co-operative movement – and the Member for Arm River certainly does – knows that the people who join a co-operative and who put up a little money to make it possible for the co-operative to get started, almost never put that money in with any idea of the dividends that they will earn from the business of such. They put the money in in order that the business may possibly function and in order that they may have savings, savings as the result of their co-operation in doing business.

Our trouble has been, I think, Mr. Speaker, largely that we are learning, we are learning by trial and error, how to operate

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co-operative business and our difficulty is mostly due to the difficulty of forgetting the things that we learn about joint stock companies. In our laws – and I am not criticizing the Government that sat in this House previously, I am not even criticizing the Dominion Government, when I say that these men have attempted to pass Co-operative Acts and did pass Co-operative Acts which were beneficial, were almost all the time under the difficulty of trying to align their joint stock company minds with co-operative ideals. That was too much to expect that anyone could get over it.

As a matter of fact the Member for Arm River and myself sometimes get mixed up in our thinking as between capitalistic ideas and co-operative ideas, but I think that most co-operators who have thought about the matter seriously have, in the last few years, come to the idea that the ideal system of co-operative financing is in the revolving door idea. It is not in the loan capital or share capital or interest on money invested at all. The ideal way to make a co-operative is to put as little money as possible in it to start with, give the thing your support and your interest and let it grow. That is the way to build it, that is the way to build it safe and sane, and with the capital being made up from the savings.

This is to me the damaging thing about our income tax legislation as we have it. It makes it more difficult for that growing to be encouraged, because it says, if I understand it, that unless the money be made absolutely available for the member it must pay income tax. Now to my mind the best way that a co-operative could be possibly financed would be solely, if that were possible, on the revolving door principle, where you would put in, shall I say \$1 or \$5 to start with, put in the thing that is much more valuable, your interest and your support and let the savings grow, leave them there and don't expect to get the profits back right away.

If I may be permitted, Mr. Speaker, to use an example dealing with the Wheat Pool without any desire to mix the Wheat Pool into what might be a political argument – let's suggest for a moment, here is an organization, a co-operative organization with some \$20 million invested. A young man is starting his operation as a farmer. He can immediately start to use the facilities that have been built up in the past years. Some sort of a charge must be set. The thing that I think he should do, is permit the savings that he makes on his business in the Wheat Pool, permit them to accumulate in that organization and the money from those savings should be used to repay the old man who made that investment 20 years ago and give him back his money. Never mind about interest. Who cares about interest, as long as you get your money back, you've got the facilities all the time you are farming, you get your money back. The young man, as it were, by using the organization and paying his regular charges, the young man purchases the ownership of the co-operative organization of which he is a part. And if he does that in a period of 20 or 25 years, I don't like the revolving doors that turn around in three or four years, as the Hon. Member for Arm River was talking about, I call those things spinning doors. I like a revolving door, one that moves slower. I like things to grow and grow sound and solid and take a little time about it because they are likely to be better trees that way. Well then, as I say here he does that for 20 or 25 years. Other young men are coming along, they are taking up farming, they are using the facilities and they pay it back.

Mr. Speaker, through the co-operative movements built on that principle and through doing all our business in it and without having someone take it away in the form of income tax, we could build, not only an economy that could be controlled by and for the people in their own interest, but we could solve the problem of superannuation for the farmers. He would actually through his business, become the owner of the facilities of all of those things he needs in his business – become the owner of them in the more productive years of his life and he could receive them back in his older years as the door revolves.

But some politician or some income tax payers' association say, "Oh, that's not the way you run a joint stock company, that is profits, that is not savings, that is profits, and you have to pay income tax on it; that is not fair competition," and all the rest of it. Now, I am not one particle concerned about whether those birds think that is fair competition or not. They don't pay any income tax on the business they get from me, as far as wheat handling is concerned. And why shouldn't we be permitted to build a co-operative commonwealth without somebody saying it ought to be taxed for income tax. Now, the Member for Arm River mentions, very often in his remarks, or he laid considerable stress on the fact that income tax doesn't have to be paid on borrowed money. Of course, income tax doesn't have to be paid on borrowed money. He also suggested that . . .

Mr. Danielson: — I said . . .

Mr. Burgess: — Quite right, and that is what I meant, too, when I say that borrowed money, money that has to be borrowed in order to carry on the business and the interest that has to be paid on that money is deductible as an expense. Of course, it is and no one making this Resolution doesn't refer to that kind of money at all, as far as I can see.

Then he went on to suggest that possibly this undertaking, or this arrangement that has been made with the Federal Government and the co-operatives was partly the reason why some \$6,600,000 was being made available to the farmers at the present time from the Wheat Pool. Now frankly, Mr. Speaker, I think he is way off the track from that. It may be a matter of opinion, but he was right when he said that the Wheat Pools were placed in a position where they didn't know what they would be able to do until they would get this business more or less settled out. And it is true. But to suggest the fact that the Government has, as he says, made a very reasonable settlement; make \$6 million available that would otherwise have been available – I, frankly, can't agree with him and if he will permit me I will tell him why.

Mr. Danielson: — Mr. Speaker, on a Point of Privilege . . .

Mr. Burgess: — Now, the Point of Privilege as far as the Hon. Member. I wasn't, I don't think, misquoting you, was I? It is my understanding that this agreement has made it possible that monies in the hands of the Pools which they had held to one side in case they might have to use it to pay income tax or other reasons, was now being made available. Now that is what I was trying to say, Mr. Speaker. I am sorry I didn't make it clearer. But the

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Member, I think it has got him a little mixed after all, because the Wheat Pool is in the position today where it must make this payment, all this money or pay income tax on it again. This law says it must be paid out in this year in which the business is done. It is not going to be permitted to grow up into a big organization capable of really fighting the farmer's battle or part of his battle. They must pay out all their earnings. If they don't pay them out, they will pay income tax on them and so they have, as I understand it, had permission from the Government to lump up two years and get out a big payment. But the result will be that next year they will have to borrow a whole lot more money from the bank than they would have had to borrow if they would have been permitted to keep a decent sized working capital, which would have pleased the members of the Wheat Pool, at least some of them, a whole lot better than to see the Pool back, again, in the position where they've got to borrow their working capital and pay interest on it. I would far rather, if our co-operatives would be permitted, to develop a fund capable of carrying on their business.

This law, the law that we are objecting to, is a law which is designed to make that impossible – the Member objects very much when he says that someone said that the Government had designed it for that purpose. I don't know what the purpose of designing it was, but if it wasn't designed to keep the co-operatives from growing up into big useful organization, it is my opinion that it is going to have that result whether it was designed for that or not. And that, together with the thing that the Hon. Member for Arm River suggested, throwing the two positive businesses in the same pot, are my two chief objections to the Income War Tax Act. The first most important one though, is that it seems to me that the Income War Tax Act that we have today is preventing co-operatives growing up by way of savings and will make it necessary that they grow more in line with joint stock company ideas where you put the money in first – invest it in the form of capital and everyone knows that the co-operatives have grown best where they have been permitted to grow by savings.

The Member suggested that one of the fundamentals of co-operative development was the paying of a limited dividend. He listed a report from the Rochdale pioneers, he has the paper, but I have only my memory of what he says, and his lists were correct. But the interpretation or the lesson he drew from it was different than what I got. For instance, one Member, one vote. Sure, that is the fundamental of co-operatives, but he read last a limited interest payment. He listed as one of the last things that a limited interest payment be made on capital, and he suggested to this House that the Rochdale pioneers meant by that, that it was fundamentally necessary to pay interest on capital. My interpretation of it was that the Rochdale pioneers meant a limited interest as an opposition to an unlimited earnings or unlimited profits. That is what they were taking about.

In the days of the Rochdale pioneers, if my memory serves me – I didn't live then, but I was reading about it – interest was 12 or 15 per cent. It was common interest in those days. But they said all those interests are crazy. We are not going to pay interest like that. We are going to pay a limited interest. They hadn't got completely away from the joint stock company idea either. People's minds hadn't developed to the point where they realized that money was only useful as a servant

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of mankind not as a master of mankind. And talk about the Rochdale pioneers when they said that a limited dividend be paid, or that a limited interest be paid on capital. They were trying to get away from unlimited interest. They weren't defending the principle of interest at all. They were on the road to emancipation. Some day we will realize, Mr. Speaker, that interest on money is immoral, but that is a subject for another debate on another resolution.

Motion agreed to on the following Recorded Division:

YEAS – 39

Messieurs

Douglas (Weyburn)	Boyle	Howell
Wellbelove	Daniels	Brown
Benson	Stone	Swallow
Valleau (Melfort)	Harris	Van Eaton
Fines	Gibbs	Connon
Corman	Howe	Arthurs
Buchanan	Willis	Dewhurst
Hansen	Aitken	Gibson
Nollet	Thair	Danielson
McIntosh	Murray	Hooge
Lloyd	Lee	Embury
Sturdy	Houze	Valleau (A.S.V.R.)
Williams	Burgess	Dobie

The Assembly adjourned at 6:05 o'clock p.m.