when he said this commission was not worthwhile. I think it is worthwhile, Madam Speaker.

From the little research I have done on the hon. member's concept I find it interesting. I am sure there is hardly a member of parliament who has not done voluntary work for some church or organization, or even for some political party or government. It seems to me that if we feel this kind of voluntary effort should be recognized through a tax exemption, we are really taking away from the individual part of the contribution that has been made.

Long before the Province of Ontario moved to do anything for retarded children I worked with people in Sarnia who devoted thousands of hours trying to help return such children to the community, have them educated, given workshops and placed in homes. I believe I would have felt it wrong if I had been compensated for the time that I donated as a lawyer compared to the taxi driver who worked beside me. He was doing the same work, and probably doing it better. I would have felt somehow that a shadow had been cast on my efforts had I been able to claim a tax exemption. Rather than encouraging people to volunteer, just the opposite might result.

I think the hon. member for Sault Ste. Marie (Mr. Symes) and the hon. member for Winnipeg North Centre (Mr. Knowles) must both be aware of the administrative nightmare that could be created if this motion went into effect. I believe it is a good idea that the bills and motions proposed in private members' hour go to committees. One of my motions went to committee and I was pleased to have the opportunity of presenting it and hearing some excellent criticism of it. But surely, Madam Speaker, before we send a motion to a committee we should be certain that it warrants the time that would be spent on it.

There are other ways that volunteers might be given credit or assistance, Madam Speaker. I think we would be wasting the time of a committee to refer the subject matter of this motion to it when we do not feel it would be feasible to administer the funds from such a complicated source.

I heard some snickers from the other side when the hon. member for Scarborough West (Mr. Martin) was speaking of volunteers A and B working on the same job, one making a financial contribution, the other a contribution of his time. That illustrated just how extremely difficult this would be to administer.

We hear many complaints about the number of documents and forms that have to be filled out in order to help the government do its work, whether it be tax collecting or gathering information. Just to take churches as an example, a frightening amount of paperwork would be required from them for their voluntary workers. The lady who cooks for the potluck supper might sit down and eat when she is through. Would she then be considered a part time volunteer or a full time volunteer? Imagine the work entailed in preparing T-4 slips for volunteers within a church alone.

The same thing can be envisaged with respect to service clubs. There is the volunteer who spends 2½ hours a week to help run the bingo game. Is he contributing more than the individual who spends 2½ hours every Saturday coaching the hockey team? Who makes the decision? Obviously it has to go to the board of directors.

I think the time of the House and the committee can be better served by dealing with matters that have some merit and some possibility of being administered for the benefit of all Canadians. It is correct that there are inequities at the present time. The man who makes a lot of money and gives cash donations is allowed credit on his income tax and the individual who gives time and effort is not, but I do not think the inequity can be corrected this way.

The Acting Speaker (Mrs. Morin): Order, please. The hour appointed for the consideration of private members' business having expired, I do now leave the chair until eight p.m.

At six o'clock the House took recess.

AFTER RECESS

The House resumed at 8 p.m.

GOVERNMENT ORDERS

THE BUDGET

FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. John N. Turner (Minister of Finance) moved:

That this House approves in general the budgetary policy of the government.

He said: Mr. Speaker, on May 6 of this year I introduced a budget. It was the first budget in our history to be defeated in this House of Commons. It was also the first budget to be reinstated by the Canadian people.

The essential purpose of the May budget was to maintain healthy economic growth and reinforce the attack against inflation. I proposed to do so by a series of measures aimed at increasing the supply of goods and services, moderating the prices of certain products of importance to Canadian family budgets, maintaining the real income of those Canadians least able to protect themselves against the rising cost of living, and aimed at helping to stem the erosion in the value of savings. These continue to be my objectives.

Two of the measures proposed in that budget have already been implemented. The average yield of outstanding Canada Savings Bonds has been increased and the sales tax on clothing and footwear has been removed. The government believes that all of the remaining proposals included in the last budget are required to deal with current economic conditions and it is my intention to reintroduce them, modified as necessary to meet the requirements of today.

These broad measures need, however, to be supplemented and extended because economic conditions and prospects have changed significantly both at home and abroad.

[*Translation*]

The widespread expectation six months ago that the tide of world inflation would begin to recede this year has been frustrated. Poor grain harvests in Canada, the United States and elsewhere foreshadow a resurgence of food price increases. The decline in prices of a number of industrial materials has been less than forecast. Wage and salary costs are accelerating sharply in Canada and other countries. Interest rates climbed from already high levels because of the continued surge of global inflation, the disturbance to international financial markets, and restrictive monetary policies in some key countries. The slowdown of economic growth in the major industrial nations has been more pronounced and persistent than predicted. Massive balance of payments deficits and surpluses resulting from the fourfold increase in world oil prices are imposing serious strains on the entire world system. For many developing countries the shortage and high cost of food and fertilizers and the drastically increased prices of energy have raised the spectre of disaster.

Canada has participated actively in efforts to strengthen international institutions and in the arrangements they are making to help deal with these problems. Since these issues have crucial implications for every country in the world, their ultimate solution depends heavily on international co-operation. I have had lengthy discussions on these developments during the past few months with my counterparts from every major industrial nation and from the Commonwealth.

But we have a duty as a nation to keep our own house in order. We must also try to offset the impact on our economy of adverse developments abroad to the extent that is possible without compounding the difficulties of others. Constructive discussions were held among First Ministers in Ottawa late last month and I was given an opportunity to brief them on international developments and the economic situation in Canada. Over the past several weeks, as members are aware, I have had extensive meetings and consultations with my provincial colleagues.

[*English*]

We in this country are confronted by two major economic challenges—dealing with persistent, deep-seated inflation and at the same time maintaining a good level of production and employment. This will require us to steer a narrow course if we are to avoid more inflation on the one hand and the risk of a recession on the other. And in doing so, we must also do everything we reasonably can to protect Canadians who are least able to protect themselves from the ravages of both. That is what this budget is all about.

International Developments

I should like to turn my attention first to developments on the international scene.

You will recall that strong inflationary forces had emerged even before the energy crisis of late 1973. An enormous build-up of international liquidity arising from U.S. balance of payments deficits and concurrent economic expansion among industrial countries had created demands that could not be physically satisfied. Crop failures added to the problem of inflation. Then, in December of last year, came the cutbacks in the supply of oil and the explosion in its price. The full consequences of the quadrupling of oil prices, coming on top of these underlying problems, cannot even yet be known with certainty. But it is clear that they have precipitated a combination of economic and financial difficulties without precedent. In these circumstances, it would be unwise for any of us to underestimate the threat to world economic and social stability.

● (2010)

Let me outline the nature and dimensions of this predicament. Consumer prices in the major industrial nations may average about 14 per cent higher in 1974 than in 1973, with Japan suffering a 24-per-cent increase. The view now is that in 1975 the average rate of inflation for these countries may not be much lower than 12 per cent.

At the same time, there has been a pervasive slowdown in economic activity. Last year member countries of the Organization for Economic Co-operation and Development achieved average real growth of 6.3 per cent. In 1974 they will show virtually no growth. Next year it is expected that expansion, if any, will be marginal.

Associated with these developments is the emergence of huge balance of payments deficits of oil-importing countries. OECD nations had a current account surplus of about $2 billion in 1973. In 1974 they will have a deficit of around $40 billion, and this may be repeated in 1975. When the deficits of other oil importers are taken into account, including developing countries, this figure will be upwards of $60 billion this year and could be of the same magnitude next year.

The speed with which these problems have emerged and spread to virtually all countries is a measure of their high degrees of economic and financial interdependence. It underlines the need for close and effective international consultation and joint international action. These problems demand continuing surveillance by world organizations that can take a comprehensive view and muster concerted action. Canada is playing a very active role in the development of international initiatives.

We assisted in the establishment of the new Interim Committee of the Board of Governors of the International Monetary Fund and the Development Committee of the Fund and World Bank. Canada sees these committees as important instruments for bringing the collective political will of the member countries to bear on solutions. I intend to give these efforts all the time I can.

When it next meets in January, the Interim Committee will address itself to the monumental problem of recycling oil money. This is urgent because not all countries in deficit will, on their own, be able to find the funds they need. There is real doubt that the private financial system will be able to transfer the huge surpluses of oil producers to oil importers without severe financial strains. We hope that the Interim Committee will be able to make positive recommendations so as to ensure that the recycling process goes forward without seriously disrupting international trade and payments.

[*Translation*]

But recycling will only tide us over the immediate problem. It will not provide a long-term solution. In time, many countries will have to reduce the rate at which they are accumulating debts. This means that they will have to bring their external payments into better balance. Many approaches will be needed—perhaps lower oil prices, conservation in the use of energy, increased exports and the sale of equities and real property to the oil producers, more aid from them to less-developed countries, and other measures. Our ability to co-operate internationally will be severely tested, but we see nothing to be gained from policies of confrontation.

There is the danger that balance of payments difficulties will lead countries to resort to restrictions on trade. Such measures cannot solve the world's difficulties. They can only make them worse. It is for this reason that the Canadian government has strongly supported international pledges against the use of trade restrictions to deal with payments problems.

I hope that we will soon be able to proceed to the active stage of the Multilateral Trade Negotiations initiated last year at the GATT Ministerial Meeting in Tokyo. We must carry forward the attack on unnecessary barriers to trade and contain the pressures of protectionism. We must also examine the international trading rules to ensure that they meet the needs of our times and that they assist the over-all process of adjustment in the world economy.

It is critically important that the United States administration get the legislative authority it needs to play its full part in these negotiations.

I am deeply troubled by the potential disaster facing many of the poor countries of the world. A number of them can no longer pay for food, fertilizer, fuel and many other essentials. All countries, including Canada, must review their foreign aid programs in the light of these tragic developments.

Canada must, at a minimum, help these countries meet the most urgent and basic need of their people—food. My colleague, the Secretary of State for External Affairs (Mr. MacEachen), announced at the World Food Conference in Rome that Canada would increase its contribution under the Food Aid Convention to provide three million tons of grain over the next three years. We intend to expand our contributions of other forms of food aid just as quickly as we can. We attach a particularly high priority to helping developing countries increase their own food production. These are moral commitments. We intend to fulfill them.

[*English*]

The Canadian Economy

I turn now to the economic picture in Canada and our own prospects for the future. I have already noted that world economic trends have shifted toward slower real growth, more protracted inflation and deeper payments imbalances. Consequently, the outlook for the Canadian economy is less bright than when I brought down my budget last May. Output, employment and income will all continue to grow in 1975, but at rates below potential. The disappointing harvests in North America and elsewhere, continuing high prices of some commodities, and cost escalation in Canada have all combined to postpone the expected relief from high rates of inflation.

The Canadian economy began 1974 with the momentum from last year which had carried it to peak of productive capacity. This momentum was maintained until the late spring. There were widespread scarcities of materials and many kinds of labour. Since early summer, however, signs of slowing down have appeared. One of the principal causes was the deteriorating economic performance of the countries to which we export. Another was the decline in new housing starts—especially in rental housing, where construction was curtailed by the increasing squeeze of costs against rental income. We also suffered from a very serious loss of production as a result of extensive work stoppages caused by industrial disputes.

Our economy, however, has firm underpinnings. The volume of consumer buying is keeping pace with the continued increase in real income of Canadians. Capital investment by business is growing strongly.

When the record is all in, the Canadian economy will probably show a real increase in Gross National Product this year of 4 to 4½ per cent.

In the May budget I forecast that employment would increase in 1974 by more than 300,000. In fact, it has increased in the last 12 months, by some 390,000 and over the last two years by some 870,000—a phenomenal achievement by any standard. The unemployment rate is now lower than it was a year ago.

● (2020)

During the strong economic expansion in Canada since 1970, unemployment did not dip below 5.2 per cent in any quarter. Yet there was evidence of widespread tightness of labour markets, particularly in late 1973 and early 1974. There was a sharp increase in job vacancies and help-wanted advertising. Frequent complaints of scarcities of labour, particularly of skilled workers, were heard in many parts of the country. Our economy now seems to reach a condition of widespread scarcity and strain in labour markets at somewhat higher unemployment levels than in earlier postwar cycles. The explanation would appear to lie in changes in composition of the labour force, together with changes in our social policies and improvements in family incomes which enable people to take more time to search for the jobs they want.

Canada, like other countries, has had a continuing upsurge of inflation. Some commodity prices have fallen in the last several months. As I noted before, there had been hope earlier that good harvests around the world would ease the rise in food prices. This hope has faded for the present. In addition, the response to earlier international price increases has provoked domestic forces of cost-push inflation in Canada. Profits have risen strongly this year. Wage-rate increases have accelerated.

[*Translation*]

Many private forecasts of Canada's economic prospects through 1975 have been made recently. In respect of real growth they range from 1 per cent to over 4 per cent. Their views on inflation range from a little more to a little less than we are experiencing this year. Their projections for unemployment are from 6 per cent to nearly 8 per cent.

Our own view of the prospects for real growth in production and employment next year—in the absence of any policy changes—was not nearly as pessimistic as the low forecasts, but less optimistic than the high ones. Here is how the situation looked to us as we started to plan the budget. The poorer outlook for the economies of the United States and other major industrial nations indicated that Canadian exports would not be a source of strength. The prospects for Canadian housing activity in 1975 looked to be substantially poorer than this year. We expected that the volume of goods and services bought by consumers would continue to increase because of the underlying strength and stability of the real income at their disposal. But we did not expect that consumer spending would lead economic growth, as it did earlier in the business upswing. We considered that the strongest element in the picture would continue to be private capital investment in new plant, machinery and equipment. For 1975, the latest readings on investment intentions, building permits, contracts awarded, new orders and work in the hands of architects and designers indicated continued strong real expansion in business investment. But the uncertainties of the situation, particularly with respect to costs, sales and financing still raised the possibility that some projects would be postponed or cancelled.

Given the weaker outlook for exports and continued strong imports because of relatively stronger growth in Canada than in other countries, we expected some increase in the deficit of the current account of our balance of payments.

We believed that the increase in prices could be more moderate in 1975, since the easing in world non-food commodity prices already underway would work through the Canadian price structure in the next few months. We expected that the easing of interest rates then beginning would also contribute to lower costs. Energy prices would certainly not be the engine of inflation that they were during the past year. Taken over-all, however, the prospects depended heavily on food prices. If grain harvests were good and the output of other farm products rose, there would be a slower increase in food costs. But we felt that a slowing of inflation in 1975 would also depend on moderation in the setting of prices and incomes in Canada.

[*English*]

THE THRUST OF POLICY

Mr. Speaker, I turn now to the thrust of policy that I believe to be appropriate in the light of this appraisal of the pre-budget prospects. We are confronted by the twin problems of inflation and slower growth. They are very closely related, since inflation—if allowed to get out of hand—threatens the continued growth of real income, production and employment. Inflation creates major uncertainty and undermines that intangible element of confidence that is so important to the maintenance of continued healthy growth. It erodes savings and distorts and disrupts financial markets so vital to the smooth functioning of our economy. Inflation can also jeopardize our international competitive position.

We must solve these twin problems together. We cannot choose to deal with one and neglect the other.

There are some who say: "Let us live with inflation; it's not too bad as long as we ensure full employment and protect the weak." There are others who say: "Inflation is so great a menace to our economic, social and political life that it must be rooted out, even at the risk of a serious recession and massive unemployment."

I reject both extremes. The first is unrealistic; the second is inhuman. The only objective which is acceptable to me, to this government and, I believe, to this House, is good economic performance in every respect.

What does this objective call for in terms of policy? No single approach can do the whole job. A combination of policies is needed. Let me outline my broad approach before describing specific measures.

The first essential is action to sustain demand. In the light of the present outlook for the next 12 to 18 months, this is imperative if we are to achieve a rate of growth of production and employment that more closely approaches our potential. This will be a major goal of our fiscal and monetary policies. It must be remembered that much of what we propose tonight will not bite in economic terms until well into next year. Politicians, journalists, even some economists, are often inclined to underestimate the time lags in the impact of economic policy.

Second, the fiscal stimulus should come primarily from a further cut in taxes, rather than an additional increase in expenditures. I believe that tax cuts can help to reduce prices and costs directly or indirectly and thus slow down the upward momentum of inflation. An indiscriminate or excessive increase in expenditures would exacerbate the pace of inflation.

Third, we must do all that we can in these circumstances to restrain the growth of governmental expenditures, particularly those that do not contribute directly to an increased supply of goods and services, that do not help those Canadians least able to protect themselves, or that do not directly moderate price increases. We have sought and shall continue to seek to cut out waste, to place limits on the growth of the public service and to approve only the most essential new programs. A tough line has been taken in the planning of expenditures for 1975-76. In present circumstances, we must do all we can to ensure that outlays grow no faster than the economy as a whole. For the year 1975-76, the rate of growth of our expenditures will be significantly lower than it has been in recent years.

Fourth, we should apply stimulus selectively where we can help to buttress weak points in the economy. Similarly, we should constrain governmental capital projects in those parts of the country where conditions continue to be tight. This selective approach as well as our regional development policies, is especially important when the economic situation is so mixed, with shortages continuing in many sectors and regions and surpluses developing in others.

Fifth, we must ensure that private capital investment remains strong. This is a key factor in terms of maintaining demand now, generating new productive capacity and employment, and moderating the rise of prices in the future. I have stressed consistently the importance of encouraging the growth of supply as an essential part of any effective anti-inflationary strategy. The outlook for capital investment remains good, but there are potential

[Mr. Turner (Ottawa-Carleton).]

difficulties arising from the slowdown in the demand for exports and the problems of financing. We want to make sure our efforts to modernize and expand our industry do not falter.

Sixth, continued attention must be given to mitigating the effects of inflation on the more vulnerable members of our society. I have said before that I do not intend to fight inflation on the backs of the poor, the weak, the unorganized or the unemployed.

● (2030)

The final element in our over-all approach is a comprehensive series of consultations with all sectors of the economy to seek to develop a co-operative national effort to slow down increases in costs and prices. This can make a key contribution to success in solving inflation and slow growth.

I have referred earlier in my remarks to the changing character of recent inflation. The difficulty now is to be found not in general excess demand, but in other factors. I have already spoken of the absolute and relative increases in prices of food and energy throughout the world. We must recognize that these increases reflect a fundamental change in the supply of cheap resources in the face of constantly increasing demands. Consumers cannot escape the impact of these structural price changes on their standard of living. Much higher prices for food and energy have made more difficult the task of reconciling the efforts of the various social and economic groups to maintain or increase their shares of the national income. Given the inflation which has occurred, no one group is willing to exercise restraint unless it knows that others will also exercise restraint. Rather each group feels compelled to seek protection against the highest rate of inflation which it thinks might occur.

The hard truth remains, however, that in this struggle the sum total of all the claims on the nation's resources—however justified they may seem to be—clearly exceeds what is in fact available to be shared. No group is likely to succeed is getting the full share of the real national pie to which it feels entitled. So long as each continues to attempt to enforce its claim by pushing up its price, its wage, its interest rate or tax rate, the outcome can only be further inflation. We have to find a better way of reconciling the competing interests of the various groups which make up our society. No group need lose in this search. Indeed, if we succeed, all can gain because the over-all performance of the economy will be enhanced by controlling inflation.

This is why we need a national consensus about what the various groups can safely take from the economy over the next few years. Co-operation must be the watchword. We will give leadership, but we will not try to impose solutions. The common objective must be to bring the rate of inflation down, year by year, to acceptable levels.

As a result of the extraordinary progress made over the last several decades in developing food and energy, we came to regard them as relatively cheap and abundant. That has all changed in the space of a few short years. We have become painfully aware that our capacity to produce both these essentials is not unlimited. The growing scarcity of these resources compels us to husband them wisely.

On a world scale, it is not just an economic problem. It is a moral issue, because for many people and for many countries it is survival which is at stake. Many countries haven't enough energy to meet the basic needs of their people. Millions of people haven't enough to eat. For Canadians this is not a question of economics; it is a matter of conscience.

Should we live as high as we do?

Should we waste as much as we do?

Do we not have a duty to conserve energy? Do we not have an even greater duty to conserve food in a starving world?

These are not properly matters for a budget. But I do believe they are matters for the conscience and private conduct of 23 million Canadians.

Governments can, of course give a lead. Canada has pledged more food aid. The more we save, the more we can pledge.

As far as energy is concerned, my colleague, the Minister of Energy, Mines and Resources, will shortly be bringing forward important conservation proposals.

BUDGET MEASURES

Resource Taxation

Mr. Speaker, before I turn to new budgetary measures I wish to address myself to the taxation of our natural resource industries.

When I introduced the federal government's new proposals for resource taxation last May, I said that in developing our policy we had the following objectives in mind:

> "First, it is essential that this sector bears a burden of tax on profits that is reasonable relative to the share borne by other sectors of the economy. Second, it is essential to ensure that all the people of Canada derive a fair share of the substantially increased revenues that flow from the higher value placed by the world on these resources. Third, the federal government should recognize the special position of the provinces with respect to the taxation and charges on resources within their boundaries. Fourth, the federal government must ensure that provincial royalties, provincial mining taxes and other arrangements having similar effects do not unreasonably erode the corporate income tax base. Finally, over-all Canadian tax policy must have regard for the position of these industries in terms of international competition and in terms of the financial resources they require to bring forward the supplies needed in the years ahead."

I stand behind these objectives. And, more than ever, I recognize and respect the aspiration of our Western provinces to use the proceeds of their resources to diversify their industries and to broaden the base of their economies. Western Canada wants, and is entitled to, its place in the sun.

The May proposals have been criticized principally from two sources, industry and provinces.

The petroleum and mining industries argue that they are being overtaxed. In some parts of this country, that charge may well be true. But I believe that it is not the federal government which is overtaxing. Surely all Canadians would agree that the Canadian people as a whole are entitled to a reasonable share of the profits earned by these industries. In fact, many industry representatives to whom I have spoken agree that the federal share, as proposed in the May budget, is not excessive. Rather, they contend, it is the combined effect of federal and provincial levies that is excessive.

From my many conversations with industry representatives during the last six months, I have obtained a better understanding of their problems, and their investment needs. I think that those in industry have also obtained a good understanding of my position. Let me repeat my conviction that Canada must have strong private resource industries if we are to obtain the supplies needed in the years to come. They need a sufficient cash flow to undertake further exploration and expansion and provide a fair return to their shareholders.

Although the provinces are by no means unanimous, the core of their criticism is that the disallowance of provincial royalties, taxes and other similar payments is somehow an attack by the federal government on provincial ownership and jurisdiction over natural resources. I have talked with provincial ministers from all 10 provinces and I have tried to reassure them that this is not so. No one is questioning the provinces' ownership or jurisdiction. But it is abundantly clear that the British North America Act gives the federal Parliament the right to tax profits derived from these resources.

Obviously, only part of the solution lies within the federal domain. The other part is clearly a responsibility of the provinces. Each level of government is sovereign in its own sphere. Yet a knowledge and understanding of what the other level of government is doing and an effort to harmonize objectives should contribute to reasonable policies. I have reviewed the May 6 proposals and concluded, in a spirit of accommodation, that I should propose some changes which would be helpful to both industry and to the provinces.

Before discussing them, I would like to outline those proposals which I made last May that I believe should not be changed.

First, I proposed that the national rate of tax on resource production profits should be set at 50 per cent.

Second, I proposed that the special abatement of 15 points of federal Tax in respect of mining production profits, which had been scheduled to come into effect in 1977, be applied immediately. The result of this special abatement was to reduce the federal rate of tax on mineral production profits to 25 per cent.

Third, I proposed that automatic depletion be terminated immediately and be replaced by the new system whereby depletion had to be earned. Furthermore, I proposed that depletion be permitted only up to 25 per cent of production profits as a deduction from taxable income; the previous limit was 33⅓ per cent.

Fourth, I proposed that royalties, taxes and other like payments to governments should no longer be recognized as a deduction in computing income for tax purposes. My reasons for this action were described in the May 6 budget and I have elaborated upon them since. I am satisfied that this is a necessary step in order to avoid the erosion of the federal tax base.

I have considered carefully permitting deductibility of royalties and I have concluded that this approach does not offer a practical solution.

I acknowledge that royalties in respect of property rights have traditionally been deductible as a business expense. However, in tax reform, we began the process of disallowing certain income royalties in the mineral field and substituting federal tax abatements. Today, it is evident that a royalty is no longer a royalty in the traditional meaning of the word. There have emerged various provincial charges which are thinly disguised income taxes.

Today provincial charges take many forms. They are no longer limited to flat charges against a unit of production. Now there are provincial charges that are determined by price, profit and volume. In addition, there are provincial claims exercised through joint ventures and marketing boards. In fact, there are so many kinds of provincial charges and claims that it would be virtually impossible to draft workable legislation which could distinguish between bona fide royalties, traditionally deductible, and other taxes and charges.

● (2040)

That being so, we have chosen to disallow the deduction of all these levies and to make room for the provinces by giving additional tax abatement. In this way, the provincial taxes and charges and the federal taxes will each be discrete, and visible decisions, which each can take in the light of what they know the other is doing, giving full recognition to the needs of the industries.

Surely the goal is to find a compromise which gives reasonable results in financial terms to the provinces, to the industries and to the federal government. This is what my proposals aim to do.

I would like now to take up the May proposals in which I am making major changes.

First, in respect of oil and gas production profits, I proposed in May a new abatement of 10 points of federal tax, resulting in a federal rate of 30 per cent. I believe that a 30 per-cent rate of federal tax is reasonable for the year 1974, given the current strong profitability and the healthy cash flow of the petroleum industry.

I have tried, however, to look ahead and the picture is changing. Our demand for energy is rising and our known reserves are declining. New sources of supply, given their nature and location, will be expensive to find, develop and bring on stream. Our reading of the situation is that the industry's need for funds as they carry out this program will build up over the next two or three years. Clearly, if industry is to do the job that must be done, it will need adequate financial resources and a prospect of a reasonable return on its investment. For these compelling reasons, I propose that the federal rate of tax on petroleum production profits be reduced from 30 per cent in 1974 to 28 per cent in 1975 and to 25 per cent in 1976 and subsequent years. By 1976, the federal rate on oil and gas production profits will be 25 per cent, the same as on mineral production profits.

[Mr. Turner (Ottawa-Carleton).]

Second, Mr. Speaker, in the May 6 budget, I proposed that the rate of write-off for expenditures on exploration and development for both petroleum and minerals be reduced from 100 per cent to 30 per cent. At that time, I felt that such a lower rate was more appropriate in the light of the existing circumstances of the natural resource industries. However, I have been persuaded by the arguments presented to me over the past several months by both large and small companies that exploration in Canada is becoming ever more expensive and risky. It is difficult, particularly for smaller companies, to borrow exploration capital and, therefore, there is a heavy reliance on internally-generated funds. On the other hand, expenditures on development are more similar to the capital expenditures incurred by other industries. Hence, for both petroleum and minerals, I am proposing to restore the 100 per cent write-off for exploration expenditures, but to retain the proposed 30 per cent rate of write-off for development outlays.

For the year 1974, I estimate that the changes I am proposing tonight will improve the position of the oil and gas companies by about $100 million and of mining companies by about $15 million as compared with my May proposals. This saving for the resource companies affected is a full 25 per cent improvement over the May position. It is more difficult to estimate the value to the companies of the tax reductions I am proposing tonight for subsequent years because of the many uncertainties about price, volume and other factors. Nonetheless, I can say that the saving will be at least $185 million for these companies in 1975 on any reasonable assumptions as compared to the May proposals. For the petroleum companies, the benefit in 1976 will be even greater because of the further reduction in the federal tax rate.

Mr. Speaker, both for the current period and for the decade ahead, I believe that this modified series of measures represents fair and reasonable federal taxation of these natural resource industries. Moreover, the effect of the modifications to the original May proposals will be to improve significantly the financial position of these industries both in the short and long term.

We have pulled back from our original proposals. We want resource industries adequately taxed; but we want to see their financial position sufficiently strong to enable them to develop and to deliver the supplies needed in the years ahead. We have done our part. I now appeal to the provinces, which also have a responsibility to these industries and to the Canadian people, to do their part. I have no doubt that if the provinces respond to the needs of the industries and the nation as I have tonight, the problem for those industries will be resolved.

[*Translation*]

Equalization Payments

Closely related to taxation and other developments in oil and gas is the matter of federal equalization payments to the provinces. Hon. members know that the rapid escalation in oil and natural gas prices has caused the revenues of the oil and gas producing provinces to grow enormously. If all of the new revenues were to be equalized, the additional cost to the Canadian taxpayer within the next few years could approach $2 billion annually—and that is on top of current payments of about $1.7 billion. Under certain circumstances, even the province of Ontario could be receiving equalization. This would not make sense.

In the face of the extraordinary situation brought on by the world oil crisis, we have sought three things. First, to protect the basic equalization formula. Second, to ensure that total provincial revenues from this program continue to meet the needs of the provinces receiving equalization. Third, to ensure that the Canadian taxpayer is not heavily over-burdened. In short, I believe in the principle of equalization and I want to preserve the viability and credibility of that system.

When this problem emerged last winter, I expressed my great concern about the threat posed to the equalization program. During the First Ministers' meeting last January I said we would prefer to find some way to shield this program from the consequences of the oil crisis, without attempting a fundamental restructuring of the entire system.

When First Ministers met for a second time in March, a solution was sought under which producing provinces would set aside a portion of their increased revenues from oil for energy development rather than use these funds for general purpose spending. The revenues so set aside would not be equalized. The remaining oil revenues would be, however, adding at least $100 million to the equalization program on account of oil.

We have been making payments to the provinces on the basis of our understanding of the amounts that would be set aside by the producing provinces. As a result, payments are currently some $163 million higher than our original estimates for this year, of which oil royalties account for $126 million. The necessary legislative changes to give effect to this understanding have awaited the establishment of the capital funds by the provinces. All of these funds, however, have not yet been set up. Alberta is enjoying an increase in its revenues from oil and gas of a magnitude unprecedented for any government in Canada. It is not surprising that Alberta has experienced difficulty in deciding how its new revenues should be allocated. Nonetheless, in the absence of such a fund all Alberta oil and gas revenues would, technically, be subject to equalization. And the amount of equalization payments for which the federal government would be liable could be drastically affected, by the unilateral decision of one or two provinces. For all the reasons I have stated, we simply could not put this enormous additional burden on the Canadian taxpayer. Rather than restructure the entire equalization program now, I have chosen to protect the basic formula and give effect to the intent of the understanding reached last March in a simple way.

This new proposal will relate both to oil and natural gas revenues. When the international oil situation was discussed by First Ministers last March, the crisis had not yet reflected itself in significantly higher natural gas prices. Consequently, natural gas did not figure in the discussions at that time. We now know that natural gas prices are also rising sharply. It is possible that within the next few years increased provincial revenues from natural gas could add another $1 billion annually to the burden the Canadian taxpayer would have to bear if these revenues were to be equalized in full. We would then be faced with