tion, it would not need to soak the taxpayer at every turn. That suggestion might be termed irresponsible by my friends across the way, therefore let me briefly outline how I think taxes would be cut in a way that would still provide enough revenue for normal government spending, although possibly not as much as this government would like.

In 1971 the economy was operating at a level approximately $3 billion below potential, according to Economic Council estimates. Given the high labour force growth and growth in productivity, it is certain that the loss of output in each of 1972 and 1973 will be at least $2 billion. A substantial stimulus to output is, therefore, required if this potential production is not to be lost.

It has been estimated that the increase in Gross National Product from every $1 cut in personal income tax will be $1.60. On the basis of that estimate, which is taken from the Carter commission, we would require a $1,250 million cut in personal income taxes because according to Carter a cut of $1 in personal taxes would increase the deficit by only 60 cents, due to the offsetting of a 40-cent increase in federal revenues which would accrue as a result of the increase in the Gross National Product. It should be noted that these figures of the Carter commission were estimated for the tax system in effect before the recent tax amendments were introduced.

It is also interesting to note that despite the many assurances we were given last year these tax amendments have resulted in federal revenues rising more quickly than the Gross National Product. If we use the Carter figure for the moment, however, a $1.25 billion personal tax cut would result in a net federal revenue loss of $750 million. According to one economist, a revenue cut of $500 million would be needed solely to eliminate fiscal drag in the coming year. "Fiscal drag" is the term for the additional revenues generated by the tax system with the growth of Gross National Product in money terms and without any change in tax rates.

This drag comes about because, according to my understanding of the system—no doubt other hon. members understand this—the tax system is geared to a progressive income basis. As the name suggests, this revenue leakage from the private sector is a drag on economic growth unless taxes are reduced or government expenditures increased. So the $500 million in drag that we shall see in the coming year will be generated primarily by an automatic increase in the level of personal income tax revenues. In other words, the tax bite automatically goes up as personal incomes increase.

It can therefore readily be seen that the $500 million in revenue forgone through the various adjustments will not be expansionary; that is to say, the $500 million that the minister estimates will be lost to the government through these tax cuts will not have an expansionary effect. This reduction in revenues will simply place us in the position we formerly occupied; it is needed to offset fiscal drag. Therefore this measure, in effect, is simply a transfer from individual taxpayers to corporations.

Let us consider the effects this budget will have on increasing the prospects of greater consumer demand in the near future. The only measure of significance in this regard is the $250 million in increased pension payments. Using the same multiplier as before, this would result in a GNP increase of approximately $600 million. A rough estimate of the likely effect of this increase would be to reduce unemployment to approximately 5.5 per cent by next May.

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There is a continuing argument about what is a desirable rate of unemployment, and no one has really put forward a satisfactory answer. However, a figure of 4 per cent has been suggested many times as one for which we should strive. But to reduce the unemployment rate to close to 4 per cent within a year would require a budget deficit in the order of $940 million, slightly more than twice as large as that of the budget brought down earlier this week. This would be achieved by means of a personal tax cut of about 8 per cent. This figure is only an approximation, however, because of the difficulties in accurate revenue forecasting. The minister, with the resources of the finance department at his disposal, was forced to admit the following:

It would be totally unrealistic to expect a revenue forecaster to forecast within 2 per cent. But 2 per cent of total revenue is some $320 million. This year we shall have particular difficulty in revenue forecasting owing to the fact that we have no experience of tax collections under the reformed tax system.

Assuming accuracy in the forecast, the 8 per cent cut in needed personal tax collections is based on uniform, across the board reductions. The size of the needed revenue cut would be reduced if the personal tax reductions were tailored to favour lower and middle-income groups. If the cuts given to these groups were increased, the over-all cut in total personal revenue collections could perhaps be reduced to 5 or 6 per cent. This is because cuts favouring lower and middle-income groups have a greater impact on stimulating consumer demand. These income groups spend higher proportions of income increases than do higher income groups; thus, the multiplier effect of tax cuts favouring them is higher.

It should be repeated that the $500 million adjustment in corporate taxes can be seen in large part as a non-expansionary redistribution of income from individual taxpayers to the corporate sector. It is difficult to argue, however, that the manufacturing sector did not merit some substantial tax relief since, as many hon. members have pointed out, the existing taxation system discriminates against this sector. The discrimination, however, has not been in favour of individual taxpayers who have in fact been bearing an increasing share of the tax burden. The lessening of the tax burden of manufacturing industries should not, therefore, have been at the expense of the individual taxpayer. What I am arguing is that despite all the assertions on the government side, when tax cuts are mentioned, that the economy cannot afford them, this is just not the case.

Mr. Bigg: Stop wasting money.

Mr. Thomas (Moncton): One of my hon. friends says, "Stop wasting money." That is one way to begin. Cut out some of the fat and waste, as I said earlier. But even without this, our tax system is so geared that increased tax cuts affecting personal income do not mean corresponding decreases in revenue for the government,