

if the government tax rate were zero per cent, obviously government revenues are zero. The same thing is true at the other extremity. If the government tax rate is 100 per cent, revenue is zero as well. Obviously a government cannot tax at a 100 per cent rate. That is a theoretical extreme which is never achievable. If the government takes it all, there is nothing left.

In between those two extremities is a curve of some sort. It means there is an apex of some sort. There is a point beyond which increasing taxes actually result in a reduction in revenues. Where is that point? I do not know. Karl Marx said that apex was 30 per cent. He said that once governments start taking more than 30 per cent of what people earn, society starts to break down and fall apart. I do not think that Karl Marx was right in that theory, as in most other things, because we have now reached the 40 per cent level and we have not quite reached the breakdown stage. But then, who knows? Societies move at glacial speed. Maybe we are on that path and it is simply occurring because we are a part of it and we do not recognize what is happening. The anecdotal evidence to support that contention is everywhere. Former U.S. President John Kennedy, when he reduced taxes in the United States in response to a political promise, was somewhat surprised and gratified to find out that in fact revenues went up. The reduction in taxes was such a stimulus to the economy that income from that reduction more than made up for the loss of revenue due to that reduction.

The ending of slavery and the slave economy was based upon this concept as much as anything. It was not quite as moral a question as sometimes we think it was when we look back. The reality is that the British plantation owners in the early 1800s discovered they could get more work out of the slaves by paying them a salary than keeping them as slaves. As slaves they were essentially taxing their efforts at a very high percentage, probably 80 per cent, because they fed them poorly and sheltered them poorly. In essence, each slave was paying to his owner a very high marginal tax rate. When they abolished slavery and put them on salary, they found they were a lot more productive. It was the same as reducing the tax.

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Nikita Khrushchev found the same to be true in Russia. When he told the farmers on the communes that, if they wanted, they could have small patches to grow their own vegetables, either for their own use or for sale in the markets, lo and behold vegetable production shot up. That was nothing but a reduction in taxes. They were telling them they could use part of their time to generate income, that they did not have to devote 100 per cent to the communes. Being able to devote that time to their own activities was, in essence, a reduction in taxes.

Further evidence that we are now taxing people beyond their willingness to pay is the growth of the underground economy, as it is referred to. This is the barter system or cash economy which is beyond the reach of the tax man, because there are no

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records. In a study by a University of Michigan economist, he found that 27 per cent of the United States economy was an underground economy. The GNP of the United States was a lot larger than their equivalent to StatsCan had assessed it to be because of this underground economy.

Every individual knows of instances such as the lawyer saying to the carpenter, "I will make up a will for you, if you will put a new bar in my basement." They work out that little deal and the transaction does not show up in any one's income tax statement. No tax is paid. It does not show up in the GNP because it is part of the underground economy.

That kind of bartering goes on everywhere. I wonder how many families have maintenance or cleaning people who are willing to work for them at a salary less than the going rate, provided they are paid in cash. That goes on everywhere in this country, and we all know it. The reason governments and economists started to pay attention was because of the strange phenomenon that was occurring with the growth of plastic credit cards. In theory that should have resulted in less need for the folding green stuff, yellow, orange or whatever we are now using, but in fact the amount of cash in society was actually increasing. It is being used by people operating in this cash economy which is beyond the reach of the tax man.

Why are they doing that? It is because the tax man is collecting more than they are willing to pay. It is as simple as that. In a democracy you just cannot tax people more than they are willing to pay.

Something else which concerns me is that governments are collecting what I refer to as sneaky taxes. Those are tax expenditures forced on individuals and the economy which never show up in a budget, in the estimates of government spending or in any other way by which the public can become aware of them. A good example of what I mean by a sneaky tax is the PetroCan tax. Petro-Canada has today made an offer to buy out Petrofina. Where will they get the money? They will get it through a special tax of up to \$4 on a barrel of crude oil in this country.

The government says it cannot afford to negotiate a higher price with the producing provinces because of inflation and so on, but it has found a way of putting on this special PetroCan thing. It will not be a tax in the sense that it will show up in the Public Accounts or in the Blue Book, the estimates we get each year. It is going into a special account. No one will see that tax on their T-4 slip or have any measure of it. This is money the government has decided to spend instead of us as individuals.

When the press reports on government spending, that figure will not be in there. The minister will be able to say the government is holding down spending, that it has only grown by so much. That will be because it has decided not to count this other figure. It will just be put off on the side.

The crude oil import subsidy program is exactly the same. It is a special little account off on the side which never shows up. There are scores of these things.

Mr. McRae: It is part of the \$14 billion debt.