

*Estate Tax Act*

up bonds in the market today, some of the least successful bonds, at 40 per cent or less of their face value. Presumably, therefore, such bonds could be acquired at this enormous discount and could be used by a person five or six years later at face value to discharge his estate tax obligations. I do not think the hon. member in his statement faced up to the possibility of that taking place. Certainly, the language of the resolution would permit it.

However, I do not want to deal solely with the technicalities of the resolution. In general, it is a recognition of the important fact that inflation is a fact of life, and that it is an unfair factor. Second, in addition to a recognition of the evil of inflation, the objective of the proposal, apart from the technicalities, is to produce equity for a certain class of victim of inflation. The resolution has that objective, but I do not think it has that result. I would like to deal in turn with these two aspects: first, the recognition of inflation as an evil in our society, and second, the proposal to compensate one very small segment of our population for the impact of inflation.

I do not think there is any doubt that while some people benefit, and have benefited in the past from inflation in our society, by and large it is a general evil of which all of us eventually become victims. Not only that, it is a danger to society as well as to our economy. From the point of view of the evil that it represents to the individual it is apparent, when you look at it and consider the cases to which the hon. member himself referred, it is an evil which preys more on weaker members of society than on strong members. People whose savings consist of bank balances, of annuities, of pensions contributed during the working period of their lives for their retirement, are those who are hit most hard. These tend to be the assets of the less wealthy members of society, and these are the assets which are hardest hit by inflation. I think it was with this in mind that the late President John F. Kennedy referred to inflation as a cruel tax on the weak. Indeed, it is that. It is a tax which strikes those least able to pay it, those whose assets are of a fixed nature.

Viewed from the point of view of society as a whole, inflation can, and indeed should, be regarded as a transfer of wealth. It is a transfer of wealth from lenders to borrowers. It is a way in which, over a period of years, those who have lent their money transfer a part of their wealth in real terms to those who borrow it. From the point of view of the government's responsibility, it can be seen that, at least in the short run, the government is one of the greatest beneficiaries of inflation because it is the largest debtor in the country by far. So, one should regard inflation as a transfer of wealth from the private sector to the public sector. Not that it is an object which the government seeks to achieve because we have recognized that inflation is not in the interest of the government any more than it is in the long run in the interest of any particular individual.

The hon. member's resolution comes to terms with the fact that bond holders are victimized by inflation at accelerating rates. But there are other victims of inflation

[Mr. Kaplan.]

in society, and one wonders why this resolution is so narrow that only the interests of the smaller group are taken into consideration. I sat on the committee which heard representations about tax reform. One of the proposals for tax reform was the establishment of a capital gains tax, and a number of representations were made asking for mitigation on behalf of those whose position was worsened by inflation.

I would like to cite three completely different ways in which inflation can damage the individual. First, we received representations on behalf of those whose assets go up in value over a period of time because of inflation. They buy land or stocks, and inflation is taken into account in the market price. When their assets are sold, the government's white paper proposed that a tax be imposed on the full capital gain, with no recognition being given to inflation. Representatives on behalf of these interests urged us to permit inflation to be taken into account and to make adjustments so that they would not have to pay taxes on anything more than an inflationary gain.

But when you look more deeply into the matter, you consider the interests of another group which is affected just as seriously by inflation. These are people whose assets decline in real value. One could take the example of the bond holder, or the example of an annuity holder. He buys a ten year annuity for, say, \$1,000 which pays \$60 a year to him. Every year for the ten years he receives the \$60 as income and pays income tax on it. At the end of the ten years period he gets back \$1,000 when his annuity is redeemed and finds that its real value may have declined by as much as 40 per cent. This is the case of an individual who suffers from inflation just as severely as a man who realizes the capital gain, who pays a tax every year in the form of taxation of his interest or annuity income, and at the end of the period may find himself worse off. What of the equity of doing something in the way of inflation adjustment for the man with the capital gain and doing nothing for this second individual whose real assets have declined in value and who has had to pay tax every year?

● (5:20 p.m.)

A third group are people who are on fixed salaries for a fixed period, for a two or three year term. These individuals have bargained for a certain level of real income to last for a given period, and they find that over that period they are victimized by inflation as well, with no account being taken of it by the Income Tax Act. Mr. Speaker, all of these are people whose situations suffer because of inflation. But the point I want to make, by using these three examples of extremely different kinds of economic activity that suffer from inflation, is that everyone in society suffers from inflation in the long run. The solution, surely, is not to give special benefits to a small group but for the government to take whatever steps are necessary, and to obtain the co-operation of all segments of society where that has to be done, to ensure that inflation will not continue.

I would like to look again at the specific benefits that would result from the proposal of the hon. member for Wellington (Mr. Hales). Who are the people who are to