ship. Furthermore, in order to discourage Canadians from investing in foreign corporations and to channel their investment funds instead into Canadian enterprises, I would suggest that investments by Canadians in non-Canadian corporations should be subject to the full capital gains tax without any sliding scale reduction.

Great concern has been expressed in recent years over the extent to which the Canadian economy has been dominated by foreign companies. All the questions and to-do we have heard in the last two days over the so-called Gray Report release and so on have been related to this subject. It is one which very much affects Canadians as a whole. But the application of a capital gains tax of the kind I have suggested would go a long way to correcting this situation in the future. I am surprised that this opportunity has been neglected by the government in its tax proposals now before us. They set up a task force to look into ways of keeping Canadian investment inside Canada to a great extent, and to consider means of preventing a further take-over of our natural and manufacturing resources by foreigners, then they completely neglect the possible opportunity to achieve those very ends through the careful application of a capital gains tax.

I might add that this idea as to the form of a capital gains tax is not original with me. Others have put it forward. I happen to know it was put directly to the Minister of Finance, and I am surprised he has not taken action to introduce provisions along these lines in the legislation. It is still not too late for him to do so, and I still hope the government will bring in amendments giving effect to the suggestions I have made so that capital gains tax legislation in this country will be more equitable than it would be as presently proposed and so that it might also serve the purpose of channelling Canadian enterprise and money into new Canadian businesses and thus stimulate an increase in the growth of the economy generally.

Mr. Ritchie: Mr. Chairman, it seems to me that the introduction of a capital gains tax is probably the most significant part of the tax bill before us. I think it can still be said that the economic and investment consequences of adopting a capital gains tax are still debatable. Economists differ in their opinions, and the discussions which took place in committee when considering the white paper were most interesting in this regard. There is no doubt that any tax which reduces returns to investors after taxation must result in a lessening of incentive. It is generally conceded that the burden of the capital gains tax will fall on savings to some extent. On the other hand, there are those who point to the fact that in the United States, where a capital gains tax has been in existence for a long time, investment has not been adversely affected.

But in applying such a tax in Canada, if we hope to avoid unfortunate consequences, two assumptions must be made. The first is that despite higher taxation the economy will remain as buoyant as it was before, and, second, that the Canadian proposals will result in a system comparable to that in operation in the United States. We have to accept that probably the first assumption is highly dubious, particularly at a time when everyone tells us about the enormous number of jobs that need to be created. Speaking of the United States, for nearly 30 years U.S. taxpayers in the higher income brackets have enjoyed a very significant differential as between short and long-term rates. The 25 per cent long-term rate is highly preferential and of considerable benefit to those in the higher income brackets in the United States.

• (4:50 p.m.)

The adverse effect of the tax in the United States has been the exemption from capital gains tax of assets held until death, when revaluation to the benefit of the legatee takes place. This has been called a major loophole and has been used highly successfully. Since wealth and age tend to go together, families have been able to pass on closely held corporations at death without liability for tax. There has been some argument whether this has a locked-in effect, and it is not clear whether it has or not. According to the legislation before us, presumably this loophole would be blocked. In the United Kingdom, after five years or so of a capital gains tax, some psychological effect of being locked in is still evident.

When speaking of capital gains tax, we have to remember that this is the linchpin of our new income tax base. It constitutes a fundamental redefinition of our personal and corporate tax base, and also compromises a significant element in the estimated revenue resulting from the proposed changes. Third, these proposals, in effect, will change the ownership of wealth and, in the long run, will have significant redistributive effects so far as income is concerned.

During the white paper hearings, the government relied heavily on the United States estimate of the amount of taxation brought in by a capital gains tax. It is likely that there will be a considerable difference between what the United States derives from a capital gains tax and what will be derived from the proposed tax in Canada. There is implicit in many people's minds the belief that the implementation of a capital gains tax will have no great effect on taxpayers generally in view of their manner of working and their investment behaviour. Such a belief depends heavily upon economic theorizing and has really been misplaced in the real world. As the hon. member for Edmonton West has said, people do not necessarily react the way they are expected to react.

One of the great problems with a capital gains tax is its impact on inflation. While the term "equity" means one thing to the academic, it may mean something else to the taxpayer who will be highly conscious of any impact the tax has on inflation and on his own affairs. It is for this reason that most governments which tax capital gains adopt either a low preferential rate or they ignore gains realized after a given holding period; for example, in Germany it is after two years, in Italy after six years and in Sweden after ten years. Other countries use the inflation index to adjust capital gains, as in Belgium, France and Brazil. So, it is most important that these matters be looked at.

Ignoring for the moment these economic weaknesses, it might be argued that the inclusion of the capital gains tax would increase equity. In the long run, a capital gains tax is often the reverse of equity and may be impracticable. In consequence, therefore, changes in the treatment of capital gains will inevitably be introduced on an ad hoc basis and will no longer be designed to fit the integrated package contained in the tax bill.