

Income Tax Act

During a Commons question period last summer, opposition leader John Diefenbaker thundered that as a result of the events of July 18-21—

Which he described as the great money panic and which, incidentally, was provoked in part by the action taken by the minister himself in his budget of June 13 last year.

—the U.S. "now has a veto with regard to the expansion of Canada's economy, which is something not in keeping with the sovereignty of this nation."

He went on to say that this certainly could well be the fact. If so it has sprung in no small way from the unconsidered action of the minister in shaking the big stick.

Mr. Gordon: I wonder whether the hon. member would permit me to say something. I am sure he would not want to give an incorrect impression. He must know that the secretary of the treasury of the United States made it very clear on more than one occasion that the announcement of the proposed equalization tax had nothing to do with anything that the Canadian government might or might not have done.

Mr. Martineau: The secretary of the treasury was certainly perfectly right in saying what he wanted to say, just as we are also perfectly within our rights in interpreting events, both national and international, according to the way in which we see them.

There remains the fact that the President of the United States has the right to exempt new Canadian securities from the application of the equalization of interest act. However, the act does not say he has to do so. The health of Canadian money markets will depend greatly on how he exercises this power. Certainly, in my opinion, Mr. Chairman, this is a very disturbing situation.

Here we have the minister backing up from a provision which was considered in his judgment to be one of the major elements of his program to win back for Canada ownership of its own industry, a provision which was introduced with a great deal of fanfare last year. This is bad enough, Mr. Chairman, but the minister goes further and attempts to justify that withdrawal by stating that events in the United States, which are completely beyond his control, led him to adopt this attitude. I am asking the minister, will we have to change our fiscal policy every time the United States government adopts a certain policy? I should like the minister to come out very frankly and tell us, if such is the case, that this withholding tax has proven to be impractical and has been withdrawn for that reason.

We can understand this because, from the outset, we urged the government to abandon the policy. During the short time this tax

was in force, I should like the minister to tell us exactly how it worked, and whether the minister's officials were able to administer that tax. These are the basic factors in an examination of the clause to which we are directing our attention.

Mr. Gordon: I think my hon. friend is overlooking one or two points. In the first place, the tax to which he refers does not come into effect until January 1, 1965, which is still some time ahead, so that the department had no difficulty in administering it. I think perhaps that is the simple way to explain the difficulty my hon. friend seems to have been up against.

Mr. Martineau: Surely the officials of the department must have made some provision for the administration of the tax. They must have received inquiries from Canadian subsidiaries, and that would certainly be an administrative matter.

Mr. Gordon: The tax would have been administered very simply and very easily. Instead of deducting 15 per cent as a withholding tax, there would have been a deduction of 20 per cent.

Mr. Monteith: And we would not have had a recriminatory withholding tax of 30 per cent imposed by the United States?

Mr. Gordon: My hon. friend is thinking in terms of the treaty which, under certain circumstances, would have lapsed, and in which case we would have had a new set of circumstances. We are getting hypothetical.

Mr. Martineau: May I ask the minister if, in his negotiations at Washington to which he went in such haste when the equalization of interest act was introduced, there was any mention of this withholding tax? Was any agreement made to exempt Canada on the say so of the president, provided we took certain actions regarding the withholding tax?

Mr. Gordon: No, there was no discussion at that time at all and no conditions were made. I think it became clear to the United States authorities that they had overlooked the effect their rather startling action would have on money markets in Canada. I believe that they were probably as upset—perhaps "shocked" would not be too strong a word—as we were to learn that within 24 hours of the announcement of the proposed tax, which incidentally has not yet become law and which some people believe never will become law, there was a greater withdrawal from the Canadian foreign exchange reserve than in any similar period, even during the difficult days of the spring of 1962.