and then brought in a capital gains tax of 50 per cent. This meant that 50 per cent of the increase, rather than 100 per cent, was brought into income. The only exception was that the family home, whether rural or urban, was exempted.

● (1630)

We tried to get the family farm, in fact all agricultural property which was going to continue to be used for agricultural purposes, exempted from capital gains tax. Amendments were offered but the then Liberal majority voted against them. Whether a sale from a father to a son or daughter was involved, or a sale to his brothers and sisters, all within close family, and whether by life transfer or testamentary gift did not matter; those properties were subject to capital gains tax.

When the Hon. John Turner was minister of finance he exempted farm property that passed within a family once in a lifetime. That did not include the incorporated farm, however. For those people from western Canada where incorporated farms are very common, there was no relief whatsoever.

I know that the income tax department worked hard on this matter. If a father sold his farm to his son, and the father had used it as a general purpose farm but the son turned it into a livestock feeding operation, that was not deemed the same category of farming and so the sale was liable to capital gains tax. If a dairy farm in Ontario was converted into a sheep farm, or the reverse, that too attracted capital gains tax. After some awkward shuffling, however, that was changed as well.

I say to you, Mr. Speaker, that this House should not be satisfied until all capital gains tax is removed from all agricultural land that is to continue to be used for agricultural purposes.

Some hon. Members: Hear, hear!

Mr. Lambert: There has been talk about North-South relations, Mr. Speaker. Yesterday I saw some advertising in which Cardinal Leger, formerly of Montreal, spoke about the necessity for the North to feed the South or else in ten to 20 years it might not exist. The capital gains tax in this country discourages and certainly inflates the cost of raising food not only for ourselves but in order to meet the obligations that the Prime Minister hopes we will undertake.

The situation is compounded by the fact that in 1971, when this House was considering the Income Tax Act, $1 purchased $1 worth of goods, but today it purchases only 45 cents worth of goods. An acre of land worth $1,000 at that time is now worth about $1,100 on the average when the index is applied. A young farmer who is asked to buy land at that price and finance it at today's interest rates will respond not only with a loud raspberry but with some rather shocking language which would be deserved.

Since the year the act was passed I would say that capital gains tax, on the basis of inflation, has increased the value of farm land by at least one-third, because the vendor always says that the purchaser shall pay and holds himself out to be exempt from the tax as much as possible.

The government is the chief beneficiary of inflation under the Income Tax Act, with the exception of the control that was put on personal income tax by the indexation provisions. Corporate income tax just goes up; it feeds; it is a cancer. On capital gains it is nothing much more than that.

I see that I have exhausted my time, Mr. Speaker, but I shall come back to this. I have enjoyed speaking to a House that I think has listened, and I hope I shall be able to deal with this in detail at another time. I wish to attempt to convince my hon. friends in this House and people in the country that one of the chief difficulties we have in Canada today is an income tax act which penalizes progress and rewards government as a result of inflation.

Some hon. Members: Hear, hear!

Mr. John Evans (Parliamentary Secretary to Deputy Prime Minister and Minister of Finance): Mr. Speaker, today I should like to undertake to discuss a number of issues in the time allotted to me. In the speech that I am about to give, I should like to try to describe the economic realities facing Canada and the western world which have provided the underpinnings of Bill C-54. I should like to try to evaluate the current economic policy of the government in this light and to provide the rationale for the measures included in Bill C-54.

Finally, Mr. Speaker, I should like to comment on the criticisms put forward during this debate and prior debates regarding those particular policies and the inclusion, or lack thereof, of certain tax measures such as those mentioned by the hon. member for Edmonton West (Mr. Lambert).

The most serious and pressing problem facing Canada today is the problem of inflation in its current manifestation, which we call stagflation. According to Dr. Haberler, a noted world economist, we can define stagflation as follows:

> Coexistence of sharply rising prices and wages and large unemployment and excess capacity both in the aggregate and in particular industries.

I think this describes the situation that we face in Canada today relatively well. That is our problem.

Before a solution can be found, I believe there must be a clear understanding of the cause of the problem. To understand the cause, it seems to me that one has to accept a very simple and irrefutable fact. Again I quote Dr. Haberler who said:

> Every inflation, including stagflation, is a monetary phenomenon in the sense that there has never been a significant inflation that has not been caused or accommodated by excessive monetary growth—and no inflation or stagflation can be stopped without monetary restraint ... The longer inflation lasts the more intractable it becomes because money illusion—

Money illusion is, effectively, inflationary expectations or the basing of decisions on nominal variables rather than real after-inflation variables.

> —is eroded and inflationary expectations are sensitized.

● (1640)

Without money illusion, decision making on the basis of nominal rather than real variables, Keynesian economics does