ments and buying the necessary machinery to keep his farm in operation. During that period, he receives a much lower income than the average salary or wage earner. At the end of his working career or when he dies, the returns from a lifetime of labour are available, namely, whatever increase has taken place in the value of his land. This is what his wages really are for a lifetime of work. In the meantime, he and his family have enjoyed a far poorer standard of living then the average wage or salary earner. Under this legislation, practically all farmers will have to pay 23 per cent or more of what they have accumulated in a different way from other people after a lifetime of labour.

To see that this is the situation, one need only look at the statistics since the inception of the income tax during the first great war. These statistics show that the great majority of farmers have never had enough income to pay income tax. Their wages, and thus their standard of living, were sufficiently low that they did not get into the income tax paying bracket. The number of them who have been income tax payers, and I have forgotten the figure at the present time, is remarkably small. This alone is sufficient to demonstrate that the income secured by these farmers was very much less than that secured by their fellow Canadians from governments, corporations and the like. It is inequitable that farmers, more so than any other group of people in this country, should now be subjected to a capital gains levy on what, to a large extent, is the result of a lifetime of hardship.

Another point of view, and I wish to place particular emphasis on this, is that to a large extent the increased value of land in this country is the result of inflation. Except in exceptional cases where the land is close to a city or something along that line, it is chiefly due to inflation. Therefore the apparent gain which farmers secure is not a real gain at all. The same situation applies to most other Canadians who will be taxed on their capital gains under this legislation. To a very large extent, their gain is not a real gain because of the effects of inflation; it is just an apparent gain.

I suggest that for a capital gains tax to be equitable, allowance must be made for inflation; that has not been done in this legislation. That alone is sufficient to condemn this system of calculating capital gains as an unfair system. I strongly suggest that the government should again take this matter under advisement and include an inflationary factor which would result in the tax being calculated on the real value of the capital asset, not its apparent value because of inflation. The tax should be applied only on the increase in value in terms of real buying power, rather than the inflated value which results from the loss of buying power of our Canadian dollar.

An hon. Member: That is not a just society.

Mr. Harkness: As the hon. member said, that is not a just society. This should be one of the main considerations. The type of taxation proposed in this bill is anything but just. As I said at the beginning, it will undoubtedly produce far more inequities for many more people than the inequities which it will cure.

This leads me to the consideration of the application of this tax to personal possessions such as pictures, jewellery, stamp and coin collections and anything else along that line. Their increase in value has been largely due to inflation; it is not a real increase in value at all. The purchasing power realized when people sell these possessions would, in many instances, be no greater than it was before they bought them. To the extent that increases in value have not been due to inflation, I suggest that such increases were less than the return would have been had the money used to purchase them been invested in stocks, bonds or other investments of that kind. Once again an extremely unjust situation arises if we tax as a capital gain any increase in the value of articles of this sort. It is true there is an exemption of $1,000 with respect to any single article in this category of personal possession and this does provide a good deal of relief. However, it does not by any means cover the situation as a whole. Once more, I have a suggestion to make in this regard.

• (4:40 p.m.)

I suggest there should be a lump sum exemption for all such articles taken as a group as of valuation day, and this exemption should be at least $50,000. Thus, a person with a picture worth $1,000 which may realize $2,000 when he sells it 10 years later on the break-up of a family home, or something along that line, will not be penalized by the capital gains tax. A provision of this sort would remove a great deal of the resentment and antagonism felt toward this legislation by a great many people in Canada who have a basic objection to these personal possessions, pictures, manuscripts and so on suddenly becoming subject to tax. Actually, I know a few people of quite modest means whose entire savings are invested in pictures and things of that sort. People in this position would be harshly penalized by the provisions of this bill as they exist at the present time.

I should like, now, to consider ways in which a better form of capital gains tax could be devised which would keep capable Canadians working in this country, retain highly trained business and professional men and encourage the establishment of new enterprises. One of the more important arguments against the imposition of any capital gains tax is that such a tax would discourage development in Canada. I think there is considerable validity in this argument. However, it is possible to devise a form of capital gains tax which would not have this effect. It would run roughly along these lines.

The type of capital gains tax I prefer would be designed to tax the traders but not the legitimate investors who make risk-taking possible. If we accept that a capital gain on an investment in a Canadian corporation acquired and sold within one year would be taxable at 25 per cent, I would suggest that the capital gains tax on investments held beyond one year should slide off progressively at the rate of 2½ per cent per year to zero in 10 years. If greater investment incentive is required, the tax could slide off to zero over a five-year period.

This arrangement would apply to all capital gains on shares of all Canadian corporations, on family corporations and even on real estate. This proposal should deter short-term speculation—which does very little for the economy—and would encourage longer term investment by Canadians in their own future. Losses on investment should be deductible only from capital gains with the same percentages applied in respect to length of owner-