

It is misleading when the Department of Finance says, "The inflationary consequence of the tax will be a one-time 1.25 per cent." All the witnesses disputed that. The Department of Finance was not prepared to show us the assumptions of how they calculated that. Also, we must not forget the extra costs to business people for setting up and for administering this tax for the government. The average extra cost is 9.3 per cent of sales. It will be passed on, and it will have an inflationary effect. If you think that the Governor of the Bank of Canada would freak out at an increase of 1.25 or 2.5 per cent, what then will he do when the increase is not 1.25 or 2.5 per cent, but is more, because the administrative costs of this tax are being passed on to the consumer?

I do not know if a reasonable finance minister or a governor of the central bank would do what Mr. Wilson and Mr. Crow are doing, and to have the Prime Minister say in those circumstances that his policies are designed to take us out of the recession faster is aberrant. You say to yourself, "What is he talking about?" There must be legions of economists, like those you heard us read from this morning, who are pinching one another and saying, "Is this for real? Are these guys—"

So let us return. To repeat:

... workers are left in the same after-tax position whether a tax is collected on their earnings or on the goods and services they consume; therefore, it is difficult to see why their work habits would change in response to such a shift. Moreover, some analysts argue that since a general consumption tax does not have an effect upon income that it saves currently, it is therefore economically equivalent to a tax on wages alone. According to this view, a revenue-neutral switch from an income tax to a consumption tax requires higher effective marginal tax rates on wages, thereby perhaps discouraging work effort.

Would senators like me to read that again? It is a fairly complex argument, but it is a good one.

**Senator Doody:** Wait for the movie. I would rather wait for the movie.

**Senator Gigantès:** Do you think I could get a government grant to do this movie? I will star you, put you right in there, in the middle.

**Senator Doody:** If you promise to do it in some other country.

**Senator Gigantès:** Front row centre, as the great tax expert. Actually you would do so much better than either the Prime Minister or the Leader of the Government in the Senate because people would trust you, which they cannot do with others. What a nice nature you have! You are all ready to start talking movie production with me. Recommend me to Telefilm, put me in the hands of Madame Louise Beaudoin, but do not tell her that I am a federalist because she would not give me a cent.

Finally, even if it could be shown that a tax mix change would cause people to work harder, it is not obvious that this would be a socially desirable result. Unless it can be shown that the level of income taxation has distorted

individuals' labour decisions, then providing incentives for them to choose to work over leisure involves the government in making social judgements that override an individual's own assessment of the welfare he or she gains from working.

You see here one of the basic contradictions of Conservatism. Conservatives scream that an individual's freedom to make his own economic decisions should prevail. However, what we are seeing here is a Conservative government restricting the economic freedom, and therefore the free will of people, and saying instead that the government will decide how the people will work and what they will do.

The next heading in the Brooks report is:

"To Improve Incentives to Save"

One of the primary arguments that the government has advanced for the goods and services tax is that as a tax on consumption instead of income it will lead to a higher level of private savings—

—and that adds a tax on consumption, instead of on income—

—and thus a higher level of capital formation, (that is, plant and equipment), and ultimately a higher standard of living for all Canadians. Unfortunately, every link in this chain of argument is open to serious question.

I am glad to say that Mr. Brooks is about to enumerate his questions.

First, there is little evidence that savings are too low in Canada.

We have this obsession that if the Japanese save 150 per cent, so should we.

Certainly by international standards Canada's savings rate is quite high.

I would recommend to senators opposite that they borrow this book from the library and they look at the tables here that show that, indeed, we are doing pretty well in terms of savings, and that, on average, we are better than the European Economic Community, and we are certainly better than the United States. Only Japan is ahead of us.

[Senator Gigantès.]