

tions, thereby increasing production and increasing employment. Why has this lack of confidence developed? The reason is exactly the same as that which caused the hon. member for Trinity (Mr. Hellyer) and the hon. member for Duvernay (Mr. Kierans) to resign. Incidentally, they are the only two members of the government who ever owned and successfully operated their own businesses and thus have an idea of the practical realities of practical economics. What caused them to resign is exactly the same reason that is causing this lack of confidence in the minds of businessmen across Canada today. I refer to the increasing conviction that the ministers of this government responsible for economic policy have no idea what policies are needed to enable business to expand, to increase sales, to increase production and thereby increase employment.

Businessmen in the business community generally have become disenchanted in several fields and the first is the determination of this government to continue to fight unemployment by increasing public expenditures instead of lowering taxes, thereby putting more money in the pockets of the people to enable them to buy more of the things they need and in this way stimulating sales, production and jobs. We have been urging the government not to follow this policy for a very good reason: that we had some experience with this policy several years ago when we were the government. In June, 1957, when we took office we inherited an economy that had been running downhill for a full six months—

Mr. Olson: Tell us about 1963.

Mr. Hees:—and already had considerable unemployment which was rising at a sharp rate. We tackled this problem by the accepted method of the day, Mr. Speaker, the same method the government is using today to try to fight unemployment.

Mr. Lang: In four years you hit a new low.

Mr. Hees: We found out, and they will find out, that although this method of trying to combat unemployment by increasing public expenditures is a satisfactory one for creating jobs in the short run, it is completely unsatisfactory in the long run for two very good reasons. The first is, as we found and they will find, that the capital cost of creating a single job is so high that it is impossible to employ more than a relatively few people for any long period of time; the second is that once the public works which are sponsored in this way are completed, you are right back where you started with the unemployed people still on your hands.

We found, Mr. Speaker, that the only practical way to combat unemployment was to stimulate the economy. The simplest way to do that, Mr. Speaker, of course is by lowering income taxes, putting more money into the hands of the Canadian people to buy the goods that they need and thereby increasing sales, increasing production and increasing jobs on a permanent and growing basis at no cost whatever to the treasury of the country. To make such a program of tax reduction effective, I believe that the Minister of Finance, in the budget that he will present on the 18th of this month, should be prepared to

Employment Programs

bring in a deficit of up to \$1 billion. He ought to bring in a worth-while tax reduction so that the economy may be stimulated in an effective, important and worth-while way.

• (4:50 p.m.)

These tax cuts, Mr. Speaker, will pay for themselves many times over in the years ahead in three ways. First of all, considerably more people will be working and paying income tax instead of drawing unemployment insurance or direct relief. Secondly, there will be considerably greater amounts of products sold, thereby making possible a far higher intake of commodity taxes. Thirdly, increased production which will result from lowering these taxes will reduce overhead per unit of production. This will make possible more profits to tax and also make possible higher corporation taxes.

Another reason for this lack of confidence that is holding back the economy today is the fear of the implementation of two proposals in particular contained in the white paper on tax reform. The first of these is the proposal to cancel the 21 per cent tax rate on the first \$35,000 of profits and to replace that with a flat 50 per cent rate. This measure was introduced a number of years ago and has been maintained by all governments since, and for the very good reason that it is extremely useful to small businesses from two points of view. The first of these, Mr. Speaker, is that it makes it possible for small businesses to obtain the capital they need for expansion out of profits. If they have to pay 50 per cent or 50 cents on each dollar from the first dollar that they earn and are not able to accumulate capital as they did, the only alternative will be for the businesses to go to the marketplace and borrow money at a very high rate of interest. The rates of interest will be high because those businessmen will not have been in business long enough to have acquired a good credit rating. As a result, they will be charged very high rates of interest in the money market. People in small businesses today fear that the Minister of Finance will implement this proposal in his budget. That has been their understanding for quite some time and that has had a very marked effect on the production of jobs in the country.

The other reason that the 21 per cent tax rate is important to small businesses is that the rate is very helpful in persuading young men to take the important step of leaving the comparative shelter and security they enjoy in working for an established firm and going into business for themselves. Our country, or any country for that matter, needs many new businesses to be created each year by young and aggressive men with drive, determination and perseverance. If those young men who are considering going into business for themselves, and leaving the shelter and security of the firm for which they have worked, realize they will have to pay in tax 50 cents on every dollar from the first dollar they take in, they will be far less interested in making this very risky move. They may not make a success of the venture, they may have to go through a number of years of lean picking and they will have to go through the usual trials and tribulations connected with a business establishing