

Income Tax Act

farming position will be good enough to compete with the United States in the coming competitiveness which is ahead of us.

We talk about the \$80 million involved in the process of helping manufacturers hurt by the United States surcharge, but no group will probably feel it more than the farmers. For a year or two Mr. Nixon has been telling us he intends to have United States agricultural products on the markets of the world. He has said he is not forgetting that the United States has become alarmed about the trend in world agricultural trade.

The Americans have been explaining that their farmers are highly efficient and that the United States government wants them to share in the nation's growth and in world markets. They, in effect, are calling on Japan and the European Common Market countries to develop policies which would allow for a comparative advantage in world agriculture and an increase in agricultural trade. In this way farmers of the world would be able to seek wider markets and consumers could look forward to rapid improvements.

I believe this is important, because when you consider that all Canadian farmers have to sell abroad it is obvious that we must compete with the United States and must have a capital gains structure in line with that in the United States. For instance, the United States does not produce rapeseed, but the soybean market is very competitive with rapeseed. The United States also grows flax in large quantities. They also grow barley in large quantities and, in addition, have corn which is very competitive. So we must look very carefully at the capital gains structure under which Canada will operate.

The United States has designed its farm policy to support an orderly expansion of world trade and has in general avoided rigid commodity by commodity planting restrictions. It also avoids price support loans which serve only as an umbrella for uneconomic production. It provides levels of price support to farmers which permit free movement of commodities into world markets. It includes direct payments to bring returns of farmers up to a specified goal without stimulating unneeded production. In other words, it is designed so that agricultural trade can be carried on in a reasonably unsubsidized and unfettered way.

The United States has given a great deal of thought to its agricultural program and has moved away from many programs in which they have been involved. I believe this is brought into sharp focus when we attempt to bring in a capital gains tax. We certainly are increasing the taxes which the farmers must pay to the government. The farmer either must obtain more for his product, or the money must come out of his savings or out of the capital of the farming operation. This is the reason I believe it is most important that we look at what the United States is doing and relate it to our own trade. In a general way, Ottawa's policy in respect of agriculture shows a tendency to restrict our produce, with a few exceptions into the domestic market. I do not think this is a good thing.

Turning to the matter of the basic herd, I believe we must look at this question because, after all, North America virtually is one meat market involving cattle, pigs, and so on. The price structure remains the same; as it goes up

in the United States the flow is south, and as it goes up here the flow of produce is north. This means that if our farmers are to survive they must compete on an equal basis so far as possible with United States producers. If we consider all the capital gains provisions involved in Bill C-259 I do not believe it requires any great seer to realize that compared with the Americans our producers will be at a basic disadvantage in the long term.

Everyone seemed to be happy that the estate tax was phased out and replaced by a capital gains tax. This was the proposal of the Minister of Finance, but really it did not mean much because only 25 per cent of the estate tax went to the federal government in any event. Now we are faced with the possibility of an estate tax being levied by the provinces. Many provinces feel they must levy an estate tax. They feel it would be sacrilegious not to levy it because the wealth must be divided.

• (10:30 p.m.)

I suggest that the capital gains tax as envisaged in Bill C-259, as well as the estate tax—and I am sure both of them will be enforced in nearly all the provinces of Canada—will create extreme hardship in agriculture and in the farm units as we know them today. I believe that in the matter of stocks more flexibility is available to people than in farming where an extremely rigid capital structure exists. I believe it is a good capital structure which has provided a high level of efficiency.

The western grain industry, with practically no subsidy, has been doing quite well, and our exports have provided around 10 per cent of our total exports in western grains, not to the United States where we cannot diversify our trading arrangements but to countries where we can diversify our trade. I think the farming industry has been most useful in this respect. As a matter of fact, Canada's growth would have been greatly impeded had large amounts of grain not been exported over the years.

I should now like to turn to the proposal to wipe out the breeding herd as a capital asset. By doing so the government will obviously increase taxes and take people out of the cattle breeding business. The basic herd provisions have not heretofore been codified in the statutes and there are variations from province to province, but until now it has been recognized that a breeding herd is a capital asset. This is a most serious omission in the legislation.

It may be that the tax authorities, not being familiar with the cattle industry, have assumed that the basic herd provision has been nothing more than an arbitrary concession to farmers, a concession which they firmly believe would now be discontinued. We most emphatically disagree. The problem with capital gains in farming is that, as I have said, our tax structure is on a yearly basis—whatever your cash income for that year may be, you have to pay tax on it no matter whether it is a risk dollar, a non-risk dollar or a salary dollar, and the farmer has the problem of saving money in the yearly stages of his farming life to pay for the basic capital needs of the farm.

It is obvious that the purpose of the basic herd concept has not been understood by the tax authorities, for the stated justification for phasing out the provision on the basis that the introduction of a capital gains tax reduces the need for the basic herd provision is invalid and misses the main purpose for which the basic herd provision was