miers of Newfoundland, New Brunswick, Ontario and Alberta. The federal government, for its part, must decide whether in a period when unemployment is our principal challenge, identified by the Leader of the Opposition, acknowledged by the government and confronted in a meaningful way by the budget, forgoing revenue initially by his own estimates—almost $500 million a year in total—for a scheme that regardless of whatever else may recommend it does absolutely nothing to create or maintain employment, is the best way to utilize that kind of money.

The Leader of the Opposition has talked about the increase in OAS as a result of the escalation brought in in the budget and recently enacted by parliament, in a very disparaging way. Certainly it must be small, given the perspective he displays in the May 18 press release. It is not in it with the $30.67 per month tax reduction he wants to give the $40,000 a year man for the current year, although it is not far off the $3.33 per month reduction he has in mind for the $10,000 a year man and the $2.42 per month reduction for the $8,000 taxpayer. Then there is $2.17 a month in it for his $6,000 a year specimen and a magnificent $7 per year, or 58 cents a month, for the $5,000 a year man. One has to wonder if he will more likely be remembered as "30-buck Bob" by the $40,000 a year fellow or "58-cent Bob" by the $5,000 a year man.

The inflationary push involved in the total proposal of the Leader of the Opposition is an important ground for criticism of his plan. The first whole fiscal year in which it would be in effect would be the year 1973-74. That year would reflect the cost over a full year of the constant dollar method and the cost for nine months of the extension of the 3 per cent surtax. In contrast, 1972-73 includes only a quarter cost for these measures. Our estimates suggest that when allowance is made for this fact, the total revenue cost to the federal government of the $380 million in 1972-73 would rise to $750 million in 1973-74. It may be noted that this increase occurs despite the termination of his 2 per cent tax cut which he estimates would cost $134 million in 1972-73.

These estimates break down as follows: pension changes for the year 1973-74, $107 million; 3 per cent tax cut extension, $255 million; use of constant dollar method, $375 million. To add almost three-quarters of a billion dollars to the cash requirements of the government for 1973-74, over and above those which would emerge from the existing budgetary structure, would almost certainly be strongly inflationary. The proposal of the Leader of the Opposition would thus have the effect of increasing the rate of inflation or, alternatively, would have to be accompanied by other tax increases or by expenditure reductions in other programs.

These proposals appear to stem from the belief that the government sector of the economy has a stake in inflation in the sense that the higher revenues which result from inflation permit governments to finance new expenditure programs. This, of course, is extremely inconsistent from a man who has been complaining for the past months, indeed years, about the energy with which the government has attacked inflation. The Carter commission dealt at length and in detail with the constant dollar idea. The commission, as recorded at page 33 of volume 2 of its report, concluded as follows:

[Mr. Mahoney.]

> We are convinced that it would be a serious error to relate transfer payments and tax credits to a price index so that they increased automatically with inflation. To do so would seriously weaken, if not destroy, one of the basic defences against inflation, the automatic stabilizers that are built into the present tax-expenditure system.

Later it states:

> The corollary of this position is that the tax structure generally should not be adjusted automatically to take into account changes in the general level of prices. Taxes must be based on current dollar income, including increases in the market value of assets, and no attempt should be made to adjust automatically for changes in the purchasing power of money. To develop a tax system that taxed only increases in "real" purchasing power would irreparably damage the built-in stability of the system.

Employment is the priority and that is what the budget is all about. For 1971 as a whole, the real growth in the Canadian economy ran to 5½ per cent; for the last half it grew rapidly and probably exceeded 6 per cent. I would refer hon. members to the October, 1971, report of the Economic Council of Canada entitled "Performance in Perspective" at pages 52 and 53 where the following appears:

> We have estimated that a rate of growth of over 6 per cent per year over a three-year period from the middle of 1971 would be required to move the economy back reasonably close to potential output—that is to reduce unemployment to 3.8 per cent of the labour force.

• (1540)

Without adopting their criteria, it is obvious that the various measures taken by this government in the management of the economy has brought us within shooting distance of the objectives that the Economic Council has established.

The rapidly improving performance of our economy was largely responsible for the fact that the Minister of Finance had a lot of room, almost $1 billion worth, to move within the constraints of fiscal responsibility in bringing down his May 8 budget. He used almost all of this room to achieve two things: about $350 million went to improve the lot of those whose bargaining position in our society is weakest, the aged and the disabled, and about $500 million was committed to the creation of jobs in the private sector.

The most significant of the corporate tax changes were limited to manufacturing and processing activities although there was the important extension to the mining industry of both fast write-off and eligibility for depletion allowance of the cost of equipment acquired to refine ore up to the primary metal stage. This government has taken the position that by and large our resource industries now have available tax incentives sufficient to maintain a satisfactory level of exploration and development.

Our service industries also are performing well at present. By their very nature they are not as prone to suffer from outside competition as either the manufacturing or resource sectors. The best thing that can be done for them is to enhance the demand upon them by other sectors.

I believe there is a very positive and key advantage for western Canada in the special treatment directed by the budget to processing and manufacturing. One of the very fundamental concerns of thinking western Canadians has