implemented in Canada. Failure to do so will result very quickly in a sharp erosion of the Canadian tax base. If our rates remain substantially higher, some industries would relocate to the United States to benefit from lower rates. The more immediate problem is that multinationals (Canadian or foreign) would begin "shifting" income to the U.S. to reap the benefit of lower tax rates and "shifting" expenses to Canada where their deductions would produce greater tax savings. With the Government's concern for equity or fairness and its earlier commitment to generate a larger share of tax revenues from the corporate sector, this constrains the nature of corporate tax reform.

2.4 Similarly, personal taxation reforms in the U.S. have also placed constraints on the proposals for personal income taxation. Moreso than on the corporate side, Canada can probably tolerate a marginal rate structure higher than that in the U.S., largely because our network of public and social services is more comprehensive than that in the U.S. Moreover, most Canadians attach substantial positive value to these services. The existing differentials in marginal rates are nonetheless, in the view of the Committee, and obviously in the view of the White Paper, too large. As noted in one of the briefs, pre-reform there exists a tendency for young, mobile, highly-skilled Canadians to seek their fortune in the U.S. and then to return to Canada to enjoy the benefits of the health, social programs and even tax benefits accorded the elderly. The Committee takes this mobility potential seriously and agrees with the White Paper that Canadian top marginal tax rates must be reduced substantially. Some have also argued that marginal rate reduction is important to stem the growing importance of the underground economy and the tendency for an increasing amount of investment to be directed toward tax avoidance. Indeed, many of the so-called tax loopholes are a direct result of high marginal rates. Evidence from the Reagan administration's 1981 tax reform indicates that the lowering of top marginal rates in the U.S. resulted in higher, not lower, revenues being collected from upper-income people. In any event, if one accepts that upper-income Canadians are to be given a break in terms of lower marginal rates, how does one then satisfy the equity or progressivity concerns? Part of the White Paper's answer is to move from a system of exemptions to a system of credits and to increase the degree to which some of these credits are refundable. While the Committee may have different views of just what constitutes a "progressive" tax system, we have only plaudits for the White Paper in terms of the introduction of a credit-based system for personal taxation.