

Income Tax Act, 1986

income whatsoever, but with an inflation rate of, say, only 3 per cent, the Government of Canada will, in fact, be reaching into the pockets of Canadians and transferring assets of private individual Canadians to the federal Government in the amount of \$4.3 billion in the year 1991. It is inflationary increases only, Mr. Speaker.

I am not sure that any of us in the course of the debate in this House have seized adequately upon that point, but this is going directly into the savings of Canadians because it is a tax, if you like, on imaginary increases because they are not real, they are brought about by inflation. Of course, that is the very reason that this provision was introduced in the first instance. It was to say to Canadian working men and women and others who receive income from property and other sources, "Your basic income will be protected, we will not tax you on imaginary, fictional income, which is the result of the play of inflationary forces only."

I come back again to that point, that \$4.3 billion is being transferred from the private sector—that this Government and its supporters pretend to hold so dear—to the public sector by virtue of this provision in Clause 65. That will be in 1990-1991. The cumulative impact over many years, of course, is inestimable at this point in time.

[Translation]

There was a second reason for bringing in indexation some twelve years ago I believe it was in 1974 and that was to put restraints on the public sector and oblige the Government to watch its own spending, while recognizing that revenue would be limited by the indexation granted taxpayers. It was to prevent the Government from doing what it is trying to do with Clause 65, in other words, from transferring \$4.3 billion and I quoted this amount for one year only, namely 1990-91 from the taxpayers of this country to the federal government.

[English]

Mr. Speaker, there were many reasons, as I said, for this kind of indexation, but one of the principal ones was to inhibit, to discourage the Government from spending inflationary dollars transferred to it by the people of Canada by virtue of the Income Tax Act. That is a very important point, Mr. Speaker, especially during this period when the Government tells us about all its spending restraints and how it is going to attack the deficit. One of the best ways of restricting Government spending is to not give Government the money to spend. The whole purpose of indexation was to leave the real purchasing power in the hands of individual Canadian men and women.

[Translation]

And now we see the exact opposite happening, namely a desire to transfer these inflationary amounts to the federal Government without putting any restrictions on Government spending.

Mr. Speaker, I would like to touch on a second aspect as well. References are often made, especially by our friends on the left, to our 6 and 5 program. It is true we put a ceiling on indexation, but we did not set our starting point at 3 per cent.

We said: if we manage to reduce the rate of inflation to 6 per cent, no one will lose, and that is exactly what happened. The following year, inflation had dropped to 5.8 per cent. So, everyone was protected under this program. The year after, it was something like 4 per cent. So in our case, we always protected the purchasing power of the individual Canadian, because the program was able to bring down the inflation rate. What we have here, however, is an entirely different approach. Here we are told we will have to sacrifice 3 per cent. It is going to cost 3 per cent. There will be no capping at 3 per cent, and only after the first 3 per cent; in other words, only if the rate of inflation becomes disastrous are they going to protect you against the impact of inflation, that is, over and above 3 per cent, but you will be automatically contributing at least 3 per cent of your inflationary income to the federal Government.

Thank you, Mr. Speaker. I await with great interest the comments of our hon. friends opposite.

• (1210)

[English]

Hon. Barbara McDougall (Minister of State (Finance)): Mr. Speaker, I am very happy to respond to the Hon. Member, on the amendments he has proposed to make to what is essentially a very responsible Bill that would change the Income Tax Act and on the unreality with which he has dealt with in respect of the two issues contained in the amendments that are under consideration.

First, the Hon. Member spoke about Clause 65 and the indexation. He mentioned the transfer of funds from individuals to the public sector by this means. From the beginning, our approach to economic responsibility has been that the kind of profligate spending that went on before has led us into a period of enormous difficulty and that we must bring some responsibility back not only to the Government side but on behalf of individual Canadians. The inflationary cycle which was created by the former Government throughout the decade of the 1970s beginning in about 1974 hurt all Canadians. It hurt interest rates and made it difficult for people to buy houses. The former Government simply thought that by indexing Government policies, it could index the issue out of sight and out of the minds of Canadians. That is not the case.

The former Government followed a policy of introducing indexation that indexed revenues down and expenditures up and in a totally irresponsible way created a great wedge that led us into the kind of deficit situation we are in today. This Government has first faced that reality and has asked Canadians to face that reality as well.

As well, the Hon. Member discussed the increase that would transfer from individuals to the public sector without restricting Government expenditures and indicated that one way to deal with Government expenditures was not to give Government the money. That is a principle that was never followed by the former Government as long as it was in office. That too led to a rising deficit because the Government did not pay any