

The Address—Mr. Diefenbaker

is concerned he remains aloof from these things, secure in the knowledge that the Prime Minister has endorsed his policies and given him security of tenure. The other day the *Globe and Mail* said in its business section:

Mr. Gordon is following a foolish policy and also a dangerous one. He is asking us to concentrate on buying up old businesses while new foreign owned ones are seizing the new growth opportunities.

Then it went on to deal with this tax as well. What is the government going to do about it? I asked yesterday whether the Minister of Finance had given any assurance, implied or explicit, that there were going to be any changes, and he said he had not. When he says that I accept it, but it is strange that he did not pass that on to the Postmaster General (Mr. Nicholson); because the Postmaster General was speaking the other day and he followed the diplomatic course for which this government is so noted. When he talked to the lumbermen he held out hope, but he had no basis for that. What the Postmaster General said was simply taffying up these people, because the Minister of Finance has made it very clear that such is not to be the case.

They talked about auto parts, the improvement in the situation in Canada and the building up of the industry here. We brought about an increase in automobile production in Canada by incentive legislation. What have they done? I can do no better than quote from the representations of the automotive parts manufacturers association of Canada of January 24. What do they say about the sales tax?

Two events have occurred during the past eight months that have upset the balance between United States and Canadian parts manufacturers very heavily indeed. United States tariff reclassification is one. It has adversely affected millions of dollars worth of actual and potential export business for Canadian automotive parts manufacturers, by rendering them non-competitive in the United States. This, of course, is an act of the United States government over which the Canadian government has no control. It is indeed difficult not to be cynical and to suggest that this is just another example of the United States government offering lip service to GATT while legislating behind the scenes to destroy concessions negotiated in good faith by other countries.

The second shock, a heavier and much deeper one, was the imposition by the Canadian government in the federal budget of June, 1963, of a sales tax of 4 per cent rising to 11 per cent on the tools of production. This was an incredible move. We know of no other industrial nation in the world that taxes the tools of production. It has pointed up more clearly than ever the competitive advantage of automotive parts manufacturers in the United States. They are not subject to this tax at all on their sales in the United States or on their sales in Canada. How can we reconcile this move with the \$400 million additional production target mentioned earlier in this brief?

[Mr. Diefenbaker.]

You remember the promises. "Give us the power and we will bring prosperity to Canada". I remember the Secretary of State for External Affairs (Mr. Martin) saying while he was still in politics, "We will fix this up". The answer of the automotive parts manufacturers association is that it is another mess and that Canada has been adversely affected. I wonder whether the United States reclassification was the retaliation promised by commerce secretary Hodges, when he said that action would be taken if these measures were carried out.

Who is there that supports this? Go across Canada. What about the Canadian Federation of Mayors and Municipalities? Listen to their words in their submission to the royal commission on January 14 last:

The dismay and disappointment expressed by the municipal governments when this added tax was imposed earlier this year has not been in any measure alleviated...The tax on building materials...will outweigh to a substantial extent the stimulant to employment which other federal measures were intended to make possible.

The Canadian Construction Association has dealt with this matter. This is what Thomas A. Somerville, president of the association, said on February 3 last:

This year the federal government applied sales tax to many construction materials, production materials and equipment previously exempted and it raised other taxes. In the sales tax field it is safe to say that at no previous time in Canada has such a large tax been applied to such a large sector of the economy in peacetime. This federal sales tax policy was completely unexpected and at variance with stated government policy objectives designed to increase the rate of economic development and is working against the efforts of some ministries endeavouring to expand trade.

Then he goes on to say that the impact of the federal sales tax is heavy and that the association is opposed to it as a disincentive to expansion. He continues:

We read that the biggest capital spending splurge in Canadian history is poised to start in 1964 if proposed increases in federal sales taxes on machinery and equipment do not cause postponement.

The Canadian Lumbermen's Association, representing 8,000 lumbermen large and small all across Canada, has this to say:

...the apparent upsurge in construction activity and in the lowering rate of unemployment is really nothing more than an indication that Canadians are trying to beat the deadline and the government before the tax is increased from 4 to 8 per cent on April 1. The association also feels that what is likely to happen is that following the first quarter of 1964 there will be such a drop in buying and building activity that the problem of unemployment which used to be evident in the winter will instead be noticeable during the spring and summer months...The tax was ill conceived and ill timed and the government has in fact perpetrated on the industry and the public in general the worst tax jungle imaginable.