

*Income Tax Act*

Mr. Speaker, I probably will not have enough time to comment on all the excellent measures contained in the last budget of the Minister of Finance (Mr. Chrétien), but I wish to give him my full support for that set of measures designed to spur a vigorous recovery of the Canadian economy in the next few months.

Mr. Speaker, before I get into the subject I must congratulate the Minister of Finance for the initiative he took by consulting his provincial counterparts during the preparation of his budget. This initiative has been underemphasized in the last two months, all the more so since it was the first time, Mr. Speaker, that a federal minister of finance invited the provinces to take part in the budgetary process. By doing so, the Minister of Finance has demonstrated the significance he sees in intergovernmental co-operation in economic matters and I hope he will not depart from that positive attitude in spite of the provincial imbroglio resulting from his budget.

Mr. Speaker, whatever anybody may think of the Quebec government and the federal government position in the sales tax dispute, one thing seems obvious to me: If the Quebec minister of finance had stated his position from the start by saying yes or no, we would have avoided a vain dispute and, as the Quebec finance minister has admitted yesterday, and I quote him, "a conflict of which we are all starting to get a bit tired." In fact the federal Minister of Finance would certainly have attempted to find another way had he been told in time that Quebec could not accept this formula.

Mr. Speaker, if the federal government has proposed a sales tax reduction it is because everyone agreed that it would contribute to increase consumer demand and encourage our economic recovery while reducing price increases. And the soundness of that policy was confirmed by the latest data published by Statistics Canada. I would like to point out to the House that the latest statistics on inflation indicate that the consumer price index last month rose by only 0.2 per cent, which means that if such a rate is maintained during the next 12 months the rate of inflation will be approximately 2.5 per cent for the next year.

Mr. Speaker, many references have been made in the press to the considerable advantages that the selective tax sales cut implemented by Quebec would bring to the economy of that province. I must say, Mr. Speaker, that I am far from being convinced that the total abolition of the sales tax on clothing, textiles, furniture and footwear maximizes the economic benefits that Quebec stands to gain from a sales tax cut. On the one hand, one may doubt the impact that step will have on production and employment when one knows that in those sectors a large number of manufactures are already operating at full capacity because of the quotas the federal government imposed at the end of 1976 on imports from some countries. On the other hand, the monetary policy of the government, particularly with respect to the value of the Canadian dollar, makes those products manufactured in Canada, more particu-

larly in Quebec, in those soft sectors, a lot more competitive on the Canadian market because of the higher cost of imported products.

Mr. Speaker, the management of the Dominion Textile plant in my riding confirmed to me recently that the employees who had been called back at the beginning of 1978 had been called back before the selective sales tax cut enacted by the Quebec government.

On the other hand, Mr. Speaker, it seems to me that a 4 or 5 per cent cut would have been enough to stimulate demand in those so-called soft sectors which would have allowed the provincial treasury, and this is important, Mr. Speaker, to recover through an increased volume of business part of the lost revenues resulting from the partial sales tax cut whereas by abolishing entirely the sales tax they are depriving themselves of any source of revenue even if the volume of business were to increase.

In any event, Mr. Speaker, whether the government of Quebec was right or wrong, it was certainly perfectly entitled to do what it did, and this without suffering any financial penalty. If the government of Quebec did not take the most appropriate action to stimulate the Quebec economy, it is up to Quebecers to voice their opinion at the next election. I believe it is essential to note, Mr. Speaker, that the economic sectors for which the tax was completely eliminated in Quebec also have a great impact on employment outside Quebec, especially in Ontario. For instance, 10,000 of the 20,000 jobs in the footwear industry are in Ontario and 9,000 in Quebec. As for the furniture industry, it provides 22,000 jobs in Ontario, 19,000 in Quebec and 6,000 elsewhere in the country. Moreover, Quebec accounts for only a little over 50 per cent of the 78,000 jobs provided by the textile industry. In fact, it is only in the clothing industry that Quebec has the lion's share of the jobs since the province accounts for approximately 70 per cent of the 120,000 jobs provided by this industry. Having said this, Mr. Speaker, it would therefore be wrong to suggest that the action taken by the Quebec government will benefit only the economy of Quebec and go against a healthy federalism.

In reality, Mr. Speaker, I am afraid that the present conflict is largely caused by the way this government sees federalism. It seems to me that federalism can survive in a diversified form and that federalism does not necessarily mean uniformity.

In other words, I believe that our federal system must be flexible enough to enable the provincial authorities to take the most appropriate economic action to meet the particular needs of each province.

In this case, I believe that the fact that Quebec has reduced its sales tax the way that it has does not seriously distort the Canadian economic system which can tolerate a sales tax of over 11 per cent in Newfoundland while Alberta has no sales tax at all, or which can accept the interventions of the Department of Regional Economic Expansion is certain disadvan-