to the wealth of savings created by the low taxes and greater prosperity raising the real standard of everyone's income.

The British empire ultimately waned, not by the devastation of World War I, but by a reversal of its traditional low tax and free trade policies of the 19th century. Since 1914 high taxes, socialism and protectionism have been the hallmarks of British economic policy, and the tax rates today are essentially what they were in 1914-15; that is, 83 per cent on ordinary income and 98 per cent on investment at about $40,000.

A similar experience can be traced in the economic history of France. In 1920 France imposed a steeply progressive income tax in the name of tax reform. It was so steeply progressive that it became known as the "sucker's tax", to be paid only by those who could not escape it. That sounds familiar, and I do believe I have heard that kind of talk in Canada today. As the government became more adept at enforcing the tax, the French economy contracted steady inflation, culminating in the 1924 financial crisis. Total government revenues, measured in pre-war francs, were only a bit higher between 1920 and 1925 than they had been in 1913 when there was no income tax. The crisis ended in 1926 when the left wing Herriot government fell and was replaced by the centre right Poincare government, which announced a new tax law just one week after taking power.

The highest rate of general income tax was cut from 60 per cent to 30 per cent. That is the type of income tax that is being talked about in the United States today, and it is the type of income tax cut which we should be talking about in Canada. The rates of inheritance and estate taxes were cut, and at the same time made less steeply graduated. The annual transmission tax on securities was lowered by about 40 per cent. The franc stabilized, the economy revived, and in the first year of the reform, tax revenues jumped dramatically from 5.4 billion pre-war francs to 7 billion. In the six months from July to the end of 1926, the franc soared on the foreign exchange market from two cents to four cents on the dollar. That substantial tax reduction stimulated the economy for a good number of years.

● (2052)

Germany, too, has experienced a somewhat historical background in its economy. If we look to the time when taxes were cut we find similar action. Following World War II tax rates in Germany were extremely high. The 50 per cent marginal tax rate began at only $600 of income and the highest tax rate, 95 per cent, began at $15,000. By 1948 these high tax rates, combined with massive inflation and price controls, had led to a severe economic crisis in Germany.

Into this crisis stepped Ludwig Erhard, one of the great economic leaders of all times. Not only did he abandon all wage and price controls with a single stroke, but he began a process of tax reduction that continued for a quarter of a century. He did so by steadily raising the income level at which high marginal tax rates began.

In 1948 he increased the threshold for the 50 per cent bracket from $600 to $2,000 and the threshold for the 90 per cent bracket from $15,000 to $63,000. A year later the 50 per cent bracket was pushed up another $5,000. In 1953 it was pushed up to $9,000 and the top rate of income tax was reduced to 82 per cent. By 1955, the highest rate had been reduced to 63 per cent on incomes above $250,000 and the 50 per cent bracket did not begin until earnings of $42,000.

This systematic reduction in tax rates yielded a massive economic boom which increased the revenues so much that Germany was able to establish a system of social insurance for both the unemployed and the aged which is among the most generous in the world. It was all done without inflation and in direct contrast to the Keynesian advice West Germany received from the state department of the United States.

The situation in Japan after World War II was very similar to that in Germany: high tax rates and a destroyed economy. Beginning in 1950 the Japanese began to adopt a program of tax rates reduction. Marginal tax rates on both individuals and businesses have been cut almost every year since 1950. As each of these tax cuts generated new economic activity and higher revenues to the government, they fuelled new tax cuts. The process has continued until Japan's economy has become one of the most fierce competitions in the world.

In the United States, long before the Kennedy tax cuts of the 1960s there was ample evidence from American history that tax rate reductions would lead to higher tax revenues. The most important example is from the 1920s. The republican party took control of the White House and the congress in 1920 by promising a return to normalcy. A primary aspect of this return to normalcy was a reduction in high wartime tax rates, which went as high as 63 per cent.

Thereafter the congress reduced tax rates every year from 1921 to 1925, lowering the highest tax rate from 63 to 25 per cent and the lowest tax rate from 4 to 1½ per cent. This led to an enormous economic boom in the United States, no inflation and a reduction of the national debt.

This brief survey, I believe, shows quite clearly that sound tax rate reductions have led to enormous economic growth and an accompanying increase in revenue to government without inflation. Getting people into private enterprise jobs and producing new goods and services is not inflationary and we should start a major reduction now.

The academics of the economic proposal I am supporting is explained by what is becoming known as the Laffer curve. The curve shows the relationship between tax rates and tax revenues. In the normal range, the higher tax rates bring higher revenues. But there is a maximum revenue point beyond which higher rates result in lower revenues, because the impairing of incentives severely contracts the tax base. When tax rates are in this counterproductive, prohibitive range, a general tax cut is well worth trying.

What this means is that you can tax the public at 10 per cent, receive a 10 per cent taxation revenue and people continue to work in the same way. You can tax them at 20 per cent and they will still give you full output. You can tax at 30 per cent or 40 per cent, but somewhere about 40 per cent there starts to be a resistance to taxation. We have all heard it said