

Another reason why we support the income tax is because it is a direct tax. We believe that direct taxation is far better than indirect taxation. We believe that if we had more direct taxation the people of Canada would take more interest in public affairs in this country, would watch more closely the expenditures of their various legislative bodies, and consequently we believe that this tax has a beneficial effect all round. I wish to call the attention of the Prime Minister and his colleagues to the following paragraph in this pamphlet:

In presenting our claims to the government a large and influential delegation waited upon the members of the cabinet on March 12, 1926, and presented a memorial setting forth our reasons for the necessity of abolishing the Dominion income tax, and we are more than pleased that the government recognized the injustice of the application of this tax and saw fit to substantially reduce it.

What I would like to ask the government is this: Is that a fair interpretation of the attitude of the government on that occasion? We realize, of course, that it is quite possible for delegations such as this to read something into the attitude of the government which the government never intended, but we would like to know from the government very definitely whether that is their attitude and whether it is their intention to gradually abolish this tax. We quite recognize the possibility of there being some inequalities in this tax, and so far as possible these inequalities should be removed. As far as the tax itself is concerned we contend the present percentage schedule should be maintained, because it is in the best interests of all concerned. In reading this particular pamphlet, I find that they stress very strongly the fact that in their opinion this income tax prevents more capital from coming into Canada. I am not satisfied for one moment that that is the case. For instance, I believe you will find that the protective tariff is more instrumental in preventing new capital coming to this country than the income tax, because the protective tariff is a tax upon new capital coming to this country. In order to demonstrate that, we must examine how capital comes into this country. In the first instance, of course, it comes in by way of a bank credit, but in the final analysis the bank credit must be followed by goods. In the final analysis the goods that are required for the purposes of production are capital and every high tariff placed on goods coming into this country is just so much of a tax on new capital coming in. I would like to refer hon. members back to the time when we had that great era of prosperity that is often spoken about,

say from 1900 to 1912. That has been looked upon as the time when we had the greatest prosperity in this country, but how was that prosperity arrived at? It was arrived at because new capital was coming into Canada in the form of mortgages which were being placed upon lands which were being abandoned by the settlers.

Mr. BENNETT: And railway construction.

Mr. GARDINER: Yes, we had railway construction it is true. But if you look up the trade returns of that period you will find our imports were always greater than our exports and that substantiates the argument I advance, that when new capital comes into the country it must come in the form of goods. Therefore, I trust the government will not under any consideration think that by reducing the income tax they are going to get more new capital into the country. If the government on the other hand would reduce the tariff, more particularly on those articles which bear high protective duties, they would do more in that way to bring new capital into the country than by tampering with the income tax.

There is another circumstance I would like to draw to the attention of the House in this regard. Last year provision was made for a tariff advisory board. Many applications have come before this board, more particularly for higher protective tariffs. Judging from some reports that have appeared in the press, I understand that the board, when hearing these applications, have gone fully into the question of capitalization, and the overhead that that capitalization means to the particular business concerned. It has been reported that when the business of these particular concerns has been investigated they have invariably stated that their plants were too large for the business available, and the size of their plants has necessitated a larger overhead than otherwise would be necessary. This merely shows that in so far as the manufacturing industries are concerned, we are not very much in need of new capital, but in so far as other industries are concerned, more particularly in regard to those industries which develop our natural resources, there is a possibility that we could do with a good deal of new capital in this country. But after all that may be said about this particular question, I trust hon. members will remember that our protective tariff is a greater barrier to the inflow of new capital to the natural industries than the incidence of the income tax.

During the last session of parliament a motion was placed on the order paper dealing