

time it would produce a broader base for taxation, even at a lower rate, as Mr. Needles has said. It is not an absolute fact that a lower rate of taxation would not produce substantially the same amount, if the climate that industry is working in is improved.

Senator HUGESSEN: That would be a long-term result?

Mr. FLYNN: Oh, yes.

Senator HUGESSEN: Your first recommendation is that income and corporation taxes be reduced materially. I suppose you would have to admit that for the time being at least, until these provisional results had time to operate, the effect would be a considerable increase in the annual budgetary deficit of the Government, would it not?

Mr. FLYNN: Yes. It would take time for the benefits to be realized.

Senator HUGESSEN: I was interested in your references to inflation. I assume that the view would normally be that a larger annual deficit in the Government's budget would have a tendency towards inflation?

Mr. FLYNN: Yes, sir.

Senator HUGESSEN: I am wondering whether your organization agrees with the Canadian Labour Congress, which told us that they felt the danger of inflation has passed away; that there is a considerable slack in the economy; that it is perfectly proper and even advisable for the Government to budget definitely for a large deficit over the next few years, and to engage in a program of extensive public works. Do you agree with that?

Mr. STYLE: Senator, may I say something on that subject? I think that for a period, while we have the productive facilities and production in this country way ahead of demand, providing we can keep our costs down—in other words, while the level of wages and salaries are kept within any increase of productivity—the mere fact of deficit financing, which I do not think this association has any strong views on, need not necessarily create inflation. However, it will create inflation if advantage is taken of that situation for high demands for wages, which increase our costs so that we cannot keep our costs on an even keel. In other words, when I say "high demands for wages", I mean wages in excess of further increases in productivity.

If I may, while I am on my feet I would like to add a point to Senator Croll's previous question, which is on the subject of a suggested reduction in taxation—that is, how can we reduce Government expenditure when a third of it is in defence, a third in social services, and a third in administration? I think we have to remember this, that although that is a rough division of the Government expenditure, within each of those categories there is a great deal of what you might call administration. For instance, if you look at the services budgets over the years, I think you will find the amount for equipment has steadily declined, and that the amount for administration has steadily gone up. If we, as manufacturers, met that sort of situation there is only one thing we could do, and that is to look into the efficiency of our operations. We believe very strongly that the Government should look very carefully into the efficiency of its operations, so that the dollar spent is better spent.

Senator CROLL: Mr. Style, you are the chairman of the Commercial Intelligence Committee, and you are knowledgeable.

Mr. STYLE: But not necessarily intelligent, I would say.

Senator CROLL: I gave you both intelligence and knowledge. For years in this country we have been talking about a Hoover-type commission—you know what I am talking about?

Mr. STYLE: Yes.