

We are faced with a series of measures, one of which is the 10 per cent surtax. Another is an investment allowance on American capital equipment which will not be affected by this policy because there will be a double disadvantage to Canadian manufacturers of machinery for export—a 10 per cent surtax of which we can pay two-thirds but an additional 10 per cent allowance is granted by the American government for the purchase of machinery made in the United States by American companies. So, we have that both ways. We have a 20 per cent disadvantage and, as Mr. Nixon proposed today, a domestic international sales corporation—a kind of funny juxtaposition of words—which takes profit corporations and allows them to create subsidiaries responsible only to the parent company which can handle exports. All profits shall accrue to the subsidiary, and as long as it does not pass them back to the parent company there is no tax whatsoever and the parent can use the wholly owned subsidiary to expand across the world.

● (4:20 p.m.)

One wonders what kind of capitalism we are getting into when you can use this kind of corporation to avoid paying taxes on profits that are made. The special categories set up by the government are precisely for that type of thing. This is not a case of skilled lawyers skimming through laws and finding loopholes. The government has deliberately set this up. When we find these corporations that can avoid taxes, obviously avoid making any contribution in profits and, eventually, avoid dividends to the people who own the parent, we are getting further and further removed, not from the concept of capitalism, but from the concept of capitalists, from the concept that there should be capitalists within the capitalist system.

What has happened here? Why has the United States undertaken these measures? Well, since the Bretton-Woods conference, a system has developed that we might call the gold exchange standard. As this has been worked out, it means that this was a gold exchange standard linked to one key currency, and that all the currencies of the world adjusted their values to that of the American dollar. There was no other standard to be used. It was the judgment of international markets that this should be the basis of relative values. When the other currencies of the world were pursuing their own, national objectives—and Canada was one of them—as I say when the other 100 nations whose currencies were valued in terms of the American dollar were pursuing their own national objectives, the American dollar was the key currency. In other words, it was the residual currency. So it came about that every nation in the world began to emphasize exports. Germany, relieved of the responsibility of a large share in its own defence costs or bearing a very little share of its own defence burden, spent its funds in order to further its exports. Japan, relieved of or unwilling to accept a great portion of the burden of defence in the Far East and also unwilling to engage in social security measures and in measures for the improvement of its own environment, pursued a national objective of employment and exports at any cost. We in Canada, of course, were pursuing with single minded vigour the

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bogey of inflation. We were able to contain inflation better than the Americans could and we, therefore, also increased our exports into that country.

While every other country was having a very good time, the United States was the residual nation which bore the crunch and the burden of its own policies. It was unwilling to give up all the policies I have mentioned. This was compounding its problems. It was also having to accept the imports of other nations. Finally, within the last several months, nations which began to realize that the Americans could not accept the enormous burden compounded the problem by saying, "We do not want the key currency anymore; we will take gold." In other words, these countries were saying to the Americans, "You had better tighten your own economy and change your own objectives, decrease your foreign aid and decrease your expenditures for defence of the western world. You had better reduce these in order that you might be able to pay us in gold." At this point the link cracked.

I am not very optimistic that the surtax exemption will be granted. I do not think the surtax will come off for a considerable period. There is going to be a great deal of negotiation and renegotiation and wheeling and dealing before the nations of the western world come to some over-all understanding. If, for any reason, Canada should be given an exemption, after the history of 1963, 1965 and 1968, I think the people of Canada will want to know what was the price of that exemption. Did we agree that our dollar should be \$1.02 U.S., or did we agree to expand oil, energy, mineral resource and metal mining exports to the United States? And, if the surtax were to come off, what would happen?

After all, the United States has not solved its basic problem, the problem that its productivity has been lagging behind that of most of the world, and particularly that of Japan and Germany. They will not know whether they have resolved this problem until after the 90 days are up or until after some sort of permanent, stable arrangements are made between the American government, the labour movement and business generally in the United States. If these arrangements are not made, it is obvious that the Germans, the Japanese and perhaps even the Canadians could continue, without the surtax, to pile up balance of payment surpluses at the expense of the American economy. Again, we should be back where we started from.

What is the United States saying to Canada in particular by imposing the 10 per cent surtax? When they impose the surtax just on manufactured goods they are saying, "We do not want your manufactured goods but we will take all your oil and gas and all the metal mine exports that you can give us. There is no tax on those commodities and we will take them." They say we will take them because as Schultz said, "Out of every dollar we give to you we get 71 cents back." What are they saying to Canada when they say that they are going to give to American corporations in the United States an investment allowance to apply to new capital equipment that they buy, on condition that that equipment is built