

*The Budget—Mr. J. M. Macdonnell*

Who is to choose between projects which deserve depreciation and those which do not? There will be both confusion and delay.

I hope those views expressed by the *Montreal Star* may find expression in many other newspapers, and that this feeling may become widespread.

One other factor the minister referred to was that of interest rates; and of course the government policy there we find reflected in a very practical form, namely, the reduction in the prices of government bonds. Tens of thousands of people—yes, I suppose hundreds of thousands—are outraged by this situation. Having bought bonds well above par—perhaps at 103, 104 or even 105—and now finding those bonds selling at 97 or 98, they are inclined to blame the government.

I was amazed the other day to find how widespread this feeling is. I suppose it is not surprising, because every effort was made to convey the impression that government bonds could not and would not go below par. The extent of this assurance—and nothing was done to check it, so far as I can see—was astonishing. In 1948, I think it was—at any rate, two or three years ago—there was a temporary drop in the bond market, and I ran into an investment dealer—it is true he had been in Ottawa during the war, and he may have acquired some of the control complex—and said to him, "Is the bond market going to find its own level?" He said, "Well, of course, it can never go below par." Could anything show more clearly the extent of this misleading assurance? It was in the air. It was widespread. It was almost universal. Nothing was done to disabuse the public mind. Indeed, I fear that in the highest financial circles there was a feeling that they had found some new secret by which they could control the bond market. Now, of course, they are finding that one of the old principles is now showing itself, namely, the need of incentive in order to get people to save.

We on this side of the house I suppose can take some negative satisfaction from these two measures, just as we did from the government's collapse in the foreign exchange control matter; because it is the case that the government has now, in effect—although we cannot expect the minister to say so—confessed that it has been wrong and has abandoned those two policies.

I now come to the minister's last inflationary curb, that of taxation. The main taxes, of course, are the general sales tax and other commodity taxes. In the general sales tax there was an increase of 25 per cent. Other commodity taxes were increased, some 66½ per cent and some a great deal more.

[Mr. Macdonnell (Greenwood).]

Then there are the corporation tax and the personal income tax. I wish to deal first of all with the commodity taxes and their effect on the cost of living. To the extent that they curb consumer buying they are deflationary, but to the extent that they add to the cost of living they will fail to be deflationary and they may only have the effect, which is widely pointed out, of putting pressure on the taxpayers to use every means in their power to demand pay increases in order to offset the taxes. Of course, if that happens, we know the difficulties that then arise.

Now, the corporation tax: We must face the fact that a large part of that will be translated into the price, and will also add to the cost of living. Looking at the other side of the shield, we have the income tax, which will lessen our capacity to pay.

The rises in prices will be immediate and inescapable, and the measures to combat high prices are just beginning and, as the minister very candidly said, they will take time. Failing a miracle, a further rise is inevitable.

The minister made a valiant effort to minimize the effect of the sales tax on the cost of living, but I found him, and I think others found him, very unconvincing. It was an ingenious argument but it will not carry much weight. Furthermore, no one will doubt of course that among the other things included in the other excise taxes, commodity taxes, articles such as stoves, washing machines, and so forth, in the life of the modern family have become practically necessities, however hard it is for some of us who are older to realize that.

And so we have as the primary effect not the lessening of consumption but the driving up of prices. For this reason Mr. Ralston in 1940 refused to recommend an increase in sales tax. He said:

We realize that increases in indirect taxes disguise the burdens imposed by the war, but they are much more likely to distribute these burdens harshly and unfairly. While increases in such taxes may eventually be necessary, we are striving in this budget to deal with the situation . . . by direct call on our citizens graded according to their means and responsibilities.

The following year Mr. Ilesley quoted with approval what Mr. Ralston had said, and also refused to increase the sales tax. Of course we are all familiar with the pyramiding effect: where you have the manufacturer, the jobber, the wholesaler, the retailer, you get a mark-up on a mark-up on a mark-up.

Now, let us see the reaction of public opinion, as reflected in the press, to the budget and perhaps in particular to the sales tax. The *Windsor Star* of April 11 said:

The dominion government has not checked inflation—either courage was lacking or the members of