Mr. Kniewasser adds:

I am using GNP deflators of 6 per cent over the next five years and 5 per cent over the following five years in making these estimates. Gross capital formation will have to rise from 22 per cent to 26 per cent of GNP, an enormous shift in financial management. We will have to produce more, consume less, save more and invest more in our country than ever before in our history. We will also probably have to persuade foreigners to divert their savings from their own countries to Canada as never before in our history.

Canada has become one of the most highly capital-intensive countries in the world. Some sources say that more than $130,000 in new business investment is needed to create the average new job in Canada. High taxes and continued inflation prevent the public from saving and investing as much as is desirable, and the situation for business savings is also difficult.

Governments and perhaps the public, including labour unions, which have a direct stake in the prosperity of business, appear to have little interest in the capital-formation problems of corporations. Two decades ago Canada was among the leaders in the industrialized world in terms of fixed capital investment as a proportion of total output. By 1973 it was estimated by at least one source that Canada had fallen to sixteenth position on this scale among 23 industrially advanced countries.

One very graphic example of how government has shown little interest in this problem appears in the undervaluation of inventories problem. In 1974 Canadian industry earned $4.3 billion in inventory profits and paid an extra $1.5 billion in taxes that would not have been payable under stable price conditions. Total taxes paid in that year were $6.4 billion, so the taxes on inventory profits added 20 per cent to the corporate tax bill. This was a welcome windfall for government, but it was a serious drain on corporate cash flow. The result is that inventories account for an increasing proportion of current assets and firms need a lot more cash in order to finance these inventories. Inflation also has the obvious effect of making new development more expensive and therefore less attractive to business.

The results of inflation on business decision-making in Canada can be summarized in four basic points. First, the risks involved in investment in new productive capacity are increased because of the wide disparity between the prices at which existing plants can be operated profitably and the prices needed to make new plants profitable. This diminishes the incentive to invest.

Second, the illusion of prosperity created by understated costs may have encouraged firms to accept higher wage settlements and to take greater risks with inventory accumulations than they otherwise would have done.

Third, the concern about the inadequacy of cash flow, in contrast, has encouraged firms to raise their prices by more than they otherwise would as a way of replacing the savings that are not being generated by depreciation and that are being drained away by taxes on inventory profits.

● (1730)

Fourth, the over-all liquidity of the corporate sector has been reduced, with the result that corporations have less resilience in confronting new challenges. The situation, simply stated, is not healthy and it is obvious something must be done.

It is not my purpose, Mr. Speaker, to conduct for the benefit of the members present a one man inquiry into Canada's economic situation and I shall simply conclude my remarks at this point with some thoughts on what I believe must be done to improve the situation.

First of all, individual savings must be encouraged by winning the attack on inflation and by reducing taxes. In order to do this all Canadians must help by reducing their demands on all levels of government. Too many people still believe that when the government does something it is free.

Secondly, corporations must be encouraged to save more. This means a better environment for the development of retained earnings within the firm, lower levels of corporate taxation, greater opportunities for true profits, and the acceptance by the tax authorities of more realistic accounting techniques for the replacement of assets.

Third, government must save, not dis-save, for if it continues to skim off the cream of the savings of individuals and business it only drives up the cost of money for business and seriously impedes new business investment.

Fourth and finally, foreign investors must be encouraged to divert a portion of their savings to Canada rather than to use them at home.

In conclusion, Mr. Speaker, I quote from Judith Maxwell's excellent study recently published by the C. D. Howe Research Institute entitled "Challenges to Complacency in our Society":

1976 will be a time of transition and of adjustment. The really wrenching adjustments will have to be made by institutions—government, business and labour—adapting to the tougher environment of the late 1970's. Now is the time to stop the confrontations and get on with the job.

Mr. D. M. Collenette (York East): Mr. Speaker, I was not sure whether I would get the opportunity to speak this afternoon, but I am sure I can fill up the next five or ten minutes with some comments about this very interesting motion.

The motion before us is a prime example of how the official opposition seeks to mislead the Canadian public. The hon. member for York-Simcoe (Mr. Stevens) really amazes me by his criticisms in view of the obviously difficult world economic climate in which Canada has been forced to operate for the past two years.

Mr. Gillies: Same old trash.

Mr. Collenette: It may be the same old trash but it got us elected two years ago. I should now like to show in the next few minutes, if hon. members opposite will permit me, how despite the general inflationary and recessionary climate experienced by all industrialized countries Canada has maintained a relatively healthy economic environment. This relative stability is due to the policies of the federal government.

The hon. member for York-Simcoe appears in many ways to profess—I do not want to be too harsh—a profound ignorance of an essential economic fact today, and that is that it is not possible to isolate the performance and work-