

Senator Gigantès: Senator, you are a Liberal.

Senator Turner: I knew there was a difference.

Senator Gigantès: Yes, there is.

The claim that if there are two somewhat equal tax bases—the income and consumption bases—individuals who are inclined to evade taxes will find it more difficult to evade both instead of just one has a plausible ring to it. However, even if this is the case, the revenue gains would be marginal at best. Self-employed people who evade the income tax will also presumably evade the goods and services tax. Although some sales tax will have been levied on their business inputs it will in many cases not be significant. It seems indisputable that if the government were to devote the additional resources it will use in administering the goods and services tax to increasing compliance with the income tax, much more revenue would be raised from the underground economy.

If you are trying to recover evasion on 27 per cent, you are making more money than trying to recover evasion on 7 per cent. That is simple logic. So why are the Tories doing this? They are doing it, as we said yesterday, because the GST shifts the burden from manufacturers to consumers and to poorer people. They are doing it because, having decided to shift the burden, they do not want to contemplate the alternatives such as the one Neil Brooks proposes, because those are alternatives which are anathema to the Tory philosophy.

● (0950)

To increase the export competitiveness of Canadian business. That is another item in favour of the GST as propounded by the Tories.

A shift in the tax mix from income to consumption has been advocated as a way of increasing Canada's export competitiveness. This argument is presumably premised on the observation that a consumption tax like the GST is imposed on all imports but rebated on all exports. However, this characteristic of the GST cannot encourage exports or finalize imports. Foreign goods that Canadian exports compete with obviously do not bear the Canadian GST. Further, while imports will bear the tax, so will all goods produced in Canada. The point is that, in terms of its effect on a country's trade balance, a consumption tax that is imposed on imports and not exports is equivalent to not having such a tax at all.

A slightly more sophisticated version of this argument suggests that, since an income tax is borne directly by all capital and labour in Canada, and must be reflected in prices, whereas a goods and services tax can be removed from exported goods, raising more revenue through the goods and services tax would increase Canada's export competitiveness by decreasing the income tax burden on exported goods. But if the tax is lifted from exports, the revenue must be made up, presumably by being levied on domestic goods—

Right? You no longer collect the \$1.5 billion that Mr. Brooks tells us is collected on exported goods, and you do not want to

lower the general tax take. You will, therefore, take it on domestic goods.

—and most analysts argue that any increased cost of Canadian goods would be compensated for in the exchange value of the Canadian dollar. That is to say, any improvement in Canada's export competitiveness by changing the tax mix would be offset by an appreciation in the exchange value of the Canadian dollar. This conclusion reflects a widely accepted theorem of international trade, namely, that under certain realistic conditions a general tax on consumption is equivalent to a general tax on production, the only difference being the exchange rate. The only way that a tax mix change can increase Canada's competitive position is if workers are prepared to take a drop in real wages. It has not worked in other countries.

I realize that must be very disappointing for the ladies and gentlemen opposite, for whom the secret of success is to grind the faces of the poor and make the workers take less for the work they do, but there it is. They will fight back, and I do not blame them. I will be here on this side saying, "I go along with you, give it to them."

This is another of these lovely arguments, to encourage highly-skilled Canadians to remain in Canada. If you increase the consumption tax, you will encourage them to remain in Canada.

If the tax burden is shifted from the income to the consumption tax, the argument goes, then income tax rates can be lowered and highly skilled and paid Canadians will be encouraged to remain in Canada.

Earlier in this paper, which I hope you will receive from the Clerk of the Banking, Trade and Commerce Committee, Mr. Brooks demonstrated with figures that came from the OECD, that to some extent the total tax burden in Canada is lower when compared to the average of taxes imposed in various OECD countries. It is certainly lower than in most of the countries to which our skilled workers would want to go.

There are other factors, as well. Do you really think that a skilled Canadian worker would like to go to the United States and give up medicare? He would need phrenological care, as do some members opposite, if he were prepared to go to the United States and face the vagaries of a catastrophic major illness; or, in order to avoid it, pay about \$2,000 for each family member to have medical insurance coverage equal to that here in Canada.

Gosh, they are starting early in the other house. Actually, they are lazy people. We have already been at it for an hour.

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Another reflection of this is corporate citizenship, which is what we were talking about earlier. The good people across the way who concocted this tax believe that all Canadians think as they do, and that the tax rate is the only thing that matters. I