

proposed schedule. The highest rate would be about what it was in 1984 when the present government took office. It is more than 10 percentage points lower than the rate in 1981. It is more than 30 percentage points lower than it was throughout the 1960s when Canada experienced its highest rates for growth and lowest unemployment rates—that's the secret, lowest unemployment rates—and is much lower than the average top marginal rate in European countries. This is not something that was written many years ago. This is February, 1990. The shift in the tax burden on particular consumption goods and services resulting from an income tax alternative reform. If the MST were abolished and the revenue loss collected through the income tax, the consumer price index would decrease by 2.27 percentage points as a consequence.

You only have an hour and 20 minutes to put up with me.

Senator Frith: Less than that. Just an hour and a very few minutes.

Senator Gigantès: Don't we break at 6?

Senator Frith: The motion can be made at a quarter to 6.

Senator Gigantès: At a quarter to 6 we are going to break?

Senator Frith: A motion can be made.

Senator Murray: We are so enthralled.

Senator Gigantès: I am most grateful. Senator Lowell Murray, that is an act of kindness on your part, to actually express interest in what I have to say. I mean, he will deny that that is what he was doing, but I will live with this happy thought that secretly he is interested in the Neil Brooks presentation. I will write to Mr. Brooks and tell him. He will be gratified.

We were saying that if the MST were abolished and the revenue loss collected through the income tax, the consumer price index would decrease by 2.7 per cent as a consequence. This assumes, of course, that manufacturers who pay their MST would pass the tax savings on to consumers if it were abolished. This is the one error I find, so far, in Neil Brooks, the assumption, that the manufacturers would pass on the tax savings. Since this is the assumption that the government is making in proposing the GST reforms, it seems reasonable to make the same assumption for the income-tax-alternative reform.

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Then he has a Table 6, which uses these same expenditure categories as Table 3 and it illustrates the price decline for various goods and services. Through his income tax techniques for gathering the revenue lost through not applying the GST, Brooks finds that food would decline in price by 1.6 per cent. Home furnishings would decline in price by around 8 per cent. Motor vehicles would decline in price by over 8 per cent. Jewellery and cosmetics would decline in price by over 6 per cent, and, perhaps more significantly, new housing would decline in price by 2.8 per cent.

In Part III, he compares the alternatives:

The main purpose of this paper is to compare the distributional consequences of the GST reforms and an income tax alternative. However, in spite of, or aside from, the distributional consequences, a number of arguments have been put forward to justify shifting more of the tax burden from income to consumption. To place the distributional consequences of the two alternatives in a wider context, the arguments for or against a tax-mix change will be reviewed briefly. The purpose of this review is not to resolve definitively the various issues at stake in this tax-mix change, but simply to review the various arguments and to expose their empirical and value assumptions. Obviously there is an enormous literature testing these empirical assumptions and elaborating on these value premises, but none of it is reviewed here. The arguments are reviewed only in enough detail to make the point that there is no compelling *a priori* reason for shifting more of the tax burden from income to consumption that would make the distributional consequences irrelevant. Indeed, on the contrary, there are good reasons, even aside from increased fairness, for shifting more of the tax burden from consumption to income.

Section 1 of this part sets out the arguments for and against a tax-mix change from income to consumption: Section 2 compares in detail the distributional effects of the GST reforms and the income tax alternative.

Arguments For and Against a Tax Mix Change from Income and Consumption

(a) Main arguments for Greater Reliance on Consumption Taxes: Arguments for Replacing the MST with the GST

(i) To Rebalance the Government's Revenue Sources

From 1965 to 1984, the revenue from the manufacturers' sales tax made up a decreasing percentage of total federal government revenues. An argument that is sometimes made for increasing the weight of consumption taxes in the mix of personal taxes is to restore balance in the government's revenue sources. The precise logic of this argument is difficult to discern. Presumably the argument rests on the premise that in 1965, or at some earlier time, the federal government tax mix was "correct"—

This is part, incidentally, of what I call the Conservative illusion and what the book by Mr. Allerback calls a Conservative illusion. There is always some earlier better time. It was all very nice in the past. I have a theory which I hesitate to express and which is that basically this belief in the "good old days" is based on the deterioration of the human body. You will see this very clearly if you read Plato. As he ages, his dialogues change in tone and his belief in a past more glorious, more gentle increases. The older and weaker he gets, the better the good old days look. A more realistic man, Epicurus, said, in the good old days we were all small, brutish, frightened and living in caves. But there it is. Balance the government's tax sources and have them in this mythical past correct balance.