

*Income Tax Act*

borrowing authority portion of the bill which deals with the economic condition of the country be taken out and stricken from the bill. This afternoon we are considering only income tax amendments.

My friend has spoken eloquently with respect to inflation, the monetary causes of inflation and that type of thing, but at no time has he referred to the bill or to the Income Tax Act. I suggest, sir, that he is out of order and I ask you to correct him, please.

**The Acting Speaker (Mr. Ethier):** Order, please. Hon. members will have noted that I just arrived to replace the hon. member who was in the chair before me. If the speaker who had the floor had not confined his remarks to the bill, he would have been reminded.

**Mr. Evans:** Mr. Speaker, it is important that I try to point out the exact relevance of the remarks I am making. If you have designed an Income Tax Act and amendments thereto which will raise revenues, whether there be enough revenue for certain members or too much for others, it is important to understand the general economic context within which those revenue-generating measures are put forward. It is also important to understand the general economic context which relates to the necessity for certain tax measures to be placed within that tax bill and the necessity for not putting in others. That was the intent of my speech, and I suggest to you, with all deference, that that is a totally relevant subject to be discussing when we are talking about an income tax measure such as the one we are discussing today.

**Mr. Deans:** I don't know where.

**Mr. Evans:** I was talking about research and development. Tax measures are required to enhance research and development.

**Mr. Blenkarn:** Where are they in the bill?

**Mr. Evans:** Without growth in ideas, products and processes in Canada, Canada is sure to fall behind in the industrial world. In other words, stagnation is sure to worsen. Not only is investment in R and D stifled by rising inflation, so too are other investments in new capital equipment necessary to modernize and adapt our industry to changing circumstances.

● (1650)

One measure in the bill is the small business development bond which will certainly help small businesses to modernize their plant and equipment to make them more competitive in the world. Such investment requires stability and the prospect of fair rewards. But in an environment where we increasingly fight among ourselves over the spoils, is it logical that those who would invest can expect society to permit those rewards to be paid? I say probably not, and we see examples of that right in the House of Commons—unsubstantiated, though deeply-felt claims of corporate rip-offs and condemnation of individuals who take advantage of tax policies specifically designed to promote such investment. It is a "Catch-22" situation.

We want people to invest in small businesses or in rental housing, so we create in the bill before us tax incentives such as the small business development bonds and MURBs. But when an individual in our society invests so as to take advantage of these provisions, and as a result his taxes are reduced—and this was the intent, to reduce taxes, to increase incentive and to direct investment in a direction which is felt to be socially desirable—then we hear from certain corners of the House a great rail at those individuals, that they are ripping off the system. No wonder we face an investment problem. It is because there is a political schizophrenia. We encourage people to do it, and then we beat them over the head when they take advantage of exactly what we have asked them to do.

Similarly, we hear cries that rates of return on investment are too high, that business is taking too much, that we should increase taxes on the business community—that this bill should increase the taxes on that community—but we fail to look behind the scene to realize that reported profits have been greatly exaggerated by inflation, not only by rising prices per se, but more important by the gross underevaluation of plant and equipment used in their production. Current accounting practice requires that depreciation be charged on original cost and not replacement cost. During rapid inflation this creates a gross overstatement of net revenues and thus profits. But worse, it means that capital cost allowance, depreciation, does not come close to providing the funds necessary for reinvestment and modernization. As a result the quality of our capital stock deteriorates over time, productivity and competitiveness decline, and jobs are lost. These are the jobs we hear from the NDP are absolutely required, the jobs we agree are absolutely required. But the policies they believe should be included in this income tax bill would lead to less jobs being created in the future. Politically inspired rhetoric may be satisfying to some in the short term, but it is seriously wrong for the longer term.

We see the same myopic view in the media. On a recent airing of the program "Question Period", Don McGillivray, the national economics editor of Southam Press, asked in all seriousness why savers should expect a real rate of return when real wages have not been rising. If that is an indication of the depth of understanding of the savings and investment process of the national economics editor of our national newspaper, then it is no wonder the public is so confused. What is worse, the guest on the show, an economics critic of the opposition, who shall go unnamed in the spirit of non-partisanship, could not answer the question.

We must begin to realize that the money illusion is dead, that savers demand a real rate of return if they are to forgo current consumption in favour of future consumption. Why should we ask our citizens who wish to save for retirement, for the education of their children, or whatever, to subsidize through interest rates less than inflation those who wish to consume more than they earn today? Why is it that borrowers seem to be favoured in some parts of this House? Is it more noble to borrow than to save? I say absolutely not, and that brings me to my point. We must take steps now to alter this