

accumulation of a very large inventory and this may result in another large lay-off. This gentleman goes on to say this:

The government has introduced the inventory deduction to indicate recognition that the liquidity problem facing business is urgent and requires an immediate response. (a) The lack of constraint on purposely-inflated inventory levels at year end will lead to excessive deductions. This danger is diminished by the high carrying costs of inventories to businesses which would tend to offset any benefit derived from the deduction. In any event, firms would be hesitant to choose a year end which is at high inventory levels as this usually denotes the "busy" season, one in which firms would be unwilling to stop and count inventory.

This is not necessarily true of INCO in Sudbury. Their inventory is in the form of ingots or concentrates which would not be difficult to maintain at very high levels for the purpose of year end accounting. The accountants at INCO are very competent in income tax matters. Their experts are a hell of a lot better than the government's. It would be very interesting to find out how much income tax they pay and how much profit they appear to accumulate. I would be curious to know whether the minister or his parliamentary secretary could tell me how much INCO has been able to save as a result of this particular change.

This student goes on to say:

While this resolution is expected to provide an additional \$300 million to business, there are no guarantees that it will be used for business expansion, although this may well be felt to be irrelevant.

This is really our objection to the whole bill. A concession of \$300 million is no small indication that companies are being given an advantage. Today the "minister of unemployment" stood in the House and said that he was going to make a supreme sacrifice on behalf of the country to help the unemployed; he was going to give the unemployed a new program costing \$100 million. Under this bill the minister is giving away \$300 million. At a time when one out of every ten workers in Canada is unemployed the government gives the unemployed a concession of \$100 million. Yet corporations and business in this country receive \$300 million to do something which this young expert feels is probably irrelevant.

He continues in this way:

In addition, there is some doubt whether there is, in fact, a liquidity problem facing Canadian businessmen, rather than excess capacity and no desire for expansion.

This student must have been reading some NDP speeches. In fact, he puts it probably better than we have put it. He goes on to express doubt whether this \$300 million would ever be used for expansion purposes, or whether there is even any desire to expand. We are pretty sure, and so is every sane businessman, that when plants are operating at only 80 per cent a business would be very foolish to expand capacity to 120 per cent, having 40 per cent of the plant's capacity unproductive instead of 20 per cent. This does not seem to me to make much sense.

The last point he makes, presumably for the benefit of the minister and the civil servants advising him, is as follows:

It is likely fair to say that the most important implication in this budget resolution is that it is a step towards accepting inflation accounting for tax purposes. The budget document implies that this is only an interim measure until an accounting system is found that fully recognizes the impact of inflation.

Income Tax

However, due to the difficulties in finding a system satisfactory to all, this "temporary" measure is likely to be in effect for an extended period.

I should like to ask the minister one or two questions of concern to me which have been touched on by these experts in training at Osgoode Hall, who frankly, I think, have done a very good job. If they are able to make some sense out of the bill and all its amendments, then they are a lot more qualified than all the members of parliament put together. Certainly I have not heard too much which has impressed me either from the officials or from members of parliament.

My first question is this: do the minister and his officials disagree with the contention of this budding young citizen who says there is no guarantee that the \$300 million to be provided to businesses is going to be used for expansion purposes, even though this may be irrelevant since we already have over capacity in the business world?

Secondly, what is the calculation of the department of the amount of money that INCO, and probably Falconbridge as well, will receive from maintaining an unreasonably high inventory, and what will be the effect of the inflationary factor for inventory purposes when that inventory may be worth less today than when it was accumulated and may be worth even less a year from now?

Lastly, has the minister taken into consideration the decrease which may be involved in the establishment of this inventory allowance? If there are serious downturns in the business community and we have this inventory allowance, will consideration be made for a decrease in the inventory?

● (1742)

Mr. Chrétien: Mr. Chairman, it is very difficult to determine the impact of this measure. I think the hon. member is in fact dealing with two different problems. When he talks about inventory allowance I should point out this is not really intended for the creation of more jobs, in a sense, but to help a corporation carry its inventory because of the inflation aspect. For the benefit of the member I could give him a more precise explanation.

The effect of inflation is to produce a very serious cash flow problem for business. Businessmen must replace existing inventories with ever higher priced goods. This measure responds to this cash squeeze. It makes it easier for companies to operate in Canada in the face of inflation.

The 3 per cent inventory allowance makes it easier for companies to carry inventories. The ability to finance inventories is directly related to jobs. The relevant question, which is obviously a matter of opinion, is how many jobs would have been lost if we did not have these measures? We think the answer is probably a very great many.

The inventory allowance is particularly necessary to maintain our competitive position while our inflation rate is above that of the United States and some other countries. I, too, wish we did not have to make concessions of this kind, but it is a simple fact of life that if we do not compensate to some extent for the effects of inflation we are going to lose more jobs. I see