

The Budget—Mr. Forrestall

industry of western Canada which contributes greatly to our exports. This industry was alarmed by the suggestions of the Carter report in respect of the incentives which have developed that industry. I hope the Minister of Finance in preparing his white paper is prepared for a decent burial of those suggestions which affect the mining industry of western Canada and western Canada as a whole. The west has some great problems but they are not problems of poverty. They are problems which involve expanding our productivity and managing it in an imaginative and profitable way.

Mr. J. M. Forrestall (Dartmouth-Halifax East): Mr. Speaker, my remarks this afternoon will be in two parts. First I shall deal with one aspect of the budget and, second, I shall deal with the impact of certain statements in recent weeks having to do with our role in NATO. In his press release accompanying the release of his budget the other night the minister stated that the deferred depreciation measure should ease inflation by reducing demand in the construction industry in the 22 centres affected and that it should help to divert funds to housing, schools and municipal works. The budget provides for the deferral of depreciation allowances—I gather essentially for tax deduction purposes—for up to two years on commercial buildings put in place up to the end, as I understand it, of 1970. The term “commercial buildings” is defined to include buildings for wholesale and retail trade and services, office structures, banks, financial institutions and other commercial facilities such as hotels, theatres and service stations. This measure is to be applied only in those cities with a population exceeding 50,000 as per the 1966 census in the provinces of Ontario, British Columbia and Alberta. This covers, as I mentioned, 22 cities, 18 of which are in the province of Ontario. This is the reason my colleague, the hon. member for Edmonton West (Mr. Lambert), dealt primarily with Ontario in regard to this matter. Two of them are in British Columbia and two in Alberta.

The capital cost allowances, or depreciation, for tax purposes are the annual deductions companies can make from income subject to tax because of loss in value of the fixed asset itself. The allowance is 5 per cent a year on the diminishing balance of a non-wood, commercial building. For example, the tax write-off for the first year on a \$1 million building would be \$50,000. It is estimated that the deferral provision will add between 6 per

cent and 7 per cent to the cost of a building for the two year period. Deferred depreciation allowances will on this basis have little, if any, effect as an anti-inflationary device. I say this because the \$850 million commercial construction expenditure, which is as near as we can come under the definition of what was set forth by the minister in his budget—this prediction for 1969 is to be found in “Private and Public Investment in Canada, Outlook 1969” represents only 8 per cent of total construction in Canada and only 5 per cent of all capital expenditures. My colleagues have said this, and I am sure that some hon. members who speak after me will say it.

● (5:30 p.m.)

My second reason for making this statement is that the three provinces whose large urban centres are affected by this measure account for 65 per cent of commercial construction, representing only about 5 per cent of total construction in Canada. The amount of construction affected is very small; therefore the impact of this anti-inflationary measure will be very small.

There are other factors which may render this deferred depreciation measure ineffective and, it has been suggested and I cannot dismiss it, even injurious to the aims that I am sure the minister holds quite sincerely. I would like to list these, Mr. Speaker. Let us recognize that income from building will be hurt for a two-year period because of the denial of this depreciation allowance. It is not for a long time; it is for just a two-year period. The developer is put into the position of being something of a gambler; he will have to determine whether costs will rise above that figure, and if he thinks they will he will bet in favour of building now. If the developer is forced to build outside urban boundaries, an injurious aspect that will come about is the furthering of uncontrolled urban sprawl. In any event, the ultimate effect will be increased cost which will be passed along to the consumer in the form of increased rent.

Commercial projects of any significance can take more than two years to build, so it is unlikely that anybody would hold up such building unless there is doubt that the provision will not be removed at the end of the first year after the completion of construction. This proposal might prove an incentive for people who feel it advantageous to move outside urban boundaries. This would have the effect of committing our municipalities and regional governments to greater expense and,