

*Small Businesses Loans Act*

conceive an idea of a product or service for the marketplace, to obtain the resources and funds that are required to take that first step and to see the venture take hold and grow, is very creative, exciting and satisfying.

In spite of all the gloom and doom that abounds, there are more opportunities today for small businesses than at any time in the last decade. One of the dynamics of a challenge is to turn adversity into advantage. Many businesses have been severely damaged by the recession and many are victims of the times. Most are in difficulty because of the lack of depth in equity investment. I will return to that issue later.

We have entered into another industrial revolution. The advent of computers, word processors and robotics, in addition to the information and communications explosion, have given us the opportunity to adapt this technology to the small business field. The next decade will produce outstanding products that will allow us to serve wider markets more rapidly and efficiently.

Many of the problems that occupied our time in the past decade will be solved by this new technology and we will be able to devote ourselves to producing more and better products. The exciting part of this new technology is that it is available to all sizes of businesses, either by direct purchase, through rental or lease, or through the purchase of a service.

Let us use the challenge for the advertising industry as an example. That industry must adapt to the new costs facing a businessman. More businesses will depend upon catalogues to present their products because the cost of transportation and accommodation will reduce the number of salesmen who will travel across the country selling products to various customers. Order desks of the future will have video phones which will be used to try to bridge the lack of personal contact in the flesh, so to speak. The mechanics of cash flow will be a computer program. The transfer of funds will aid cash flow and keep accounts receivable and payable more current.

In order fully to explore and exploit this revolution, we need some new financial instruments. It may come to pass that the insurance industry will respond to the needs of small business and begin to supply insurance or even funding if it is not available from the banks.

We must move away from the situation where a businessman is squeezed out by a nervous banker. Banks should treat all businesses equally. Collateral must be replaced with other guarantees, or at least downgraded in importance.

Here is an example of the average small-businessman. He has a limited liability company, a line of credit at the bank and a term loan at the same bank. As security, the bank takes his accounts receivable, the personal guarantee of the officers and directors, and then takes a floating charge debenture on all other assets, including inventory, machinery, lands and buildings. The bank usually values the inventory at 30 per cent of its value, regardless of market conditions. It would be sold on a distress basis and the balance of the assets would be sold to satisfy the bank loans. That is a deplorable way to operate, but those are the facts of life today.

• (1530)

This is just madness, so we must create another instrument for financing small business that would put some competition into the equity field. The program sponsored by the Province of Ontario, the Small Business Development Corporation, is excellent. We should have a variety of these programs to cover the small business base of this country. These programs should be initiated by Governments but should use private sector funding. They would inject some good, solid competition into equity financing at competitive rates, which is exactly what is needed in this country today.

The floating charge debenture favoured by most banks is an albatross around the neck of the small business community. Canadians are great savers. We have more money on deposit per capita than any other western nation. We must devise financial equity instruments to shake loose some of that money as a basis for financing small business.

We must take some action on other fronts. Research and development needs a real shot in the arm. Provincial research foundations co-operating with the National Research Council and the federal and provincial Departments of Industry are doing excellent work. But we must go further. The Small Businesses Loans Act should be amended to allow it to be used for the acquisition of a patent, or for the registering of a patent. We could set in place a registered research and development fund that would allow small businesses to accumulate funds for research and development. Most R and D projects die because of the lack of cash. There is no shortage of ideas, no lack of inventiveness, ingenuity, or entrepreneurship. But there is a lack of available funding for R and D in most small businesses. We are holding back the future by not exploiting this fantastic resource.

Mr. Speaker, we have developed a very sophisticated service industry that depends on imported products to a great extent. Much of that industry could be rapidly converted into small manufacturing operations that could generate new products from a combination of equity funds at a reasonable price and a broad thrust into R and D financing, as I have suggested.

How urgent is this, you may ask, Mr. Speaker. I believe it is on the scale of a crisis. Consider again these facts; that Government revenues are falling; that Industry, Trade and Commerce reports our largest firms will reduce capital spending by 8 per cent for 1983, and that follows a 6 per cent reduction for 1982; that manufacturing is only at 67 per cent of its capacity; that bankruptcies are 33 per cent higher than last year; that unemployment is at 1,600,000; that the net job loss last year was 355,000; that UIC benefits for the first 11 months of 1982 are \$7.7 billion; that corporate profits are 51 per cent lower in the third quarter of 1982 than a year earlier; and that return on shareholders' equity is below 10 per cent. Last year's data and analysis of the current quarter shows that return on equity is at about 4.6 per cent. That is not a very attractive figure to potential investors.

This is the dimension of the dilemma that we face. If we are going to respond to these stark facts we must take some bold action, not by throwing wads of money at the problem, but by