

*Adjournment Debate*

year, and government and university expenditures by 12 per cent of 13 per cent annually.

In August, 1978, however, the government launched an austerity drive and announced plans to reduce federal spending. Science and technology, including various research and development programs, were affected in many areas. Then on November 16, 1978, the Minister of Finance (Mr. Chrétien) in his budget speech announced new tax incentives for industries performing research and development.

The picture that emerges over the past year is rather confusing. On the one hand the government announces increased funding and tax incentives to stimulate Canadian research and development. On the other, it abruptly terminates important government research programs.

I have some recommendations I would like to make in an effort to increase our research and development impact in Canada. The existing industrial research and development tax incentive provided by the federal government should be reformulated with a view to incorporating the following features: a conversion to a 25 per cent tax credit instead of a 50 per cent additional allowance; the introduction of a base level research and development expenditure of \$1 million which would qualify for the full incentive without regard for increments; qualification of all capital expenditures for the full incentive; and all research and development must be done in Canada to qualify for the incentive.

In other words, small and medium sized firms which spend less than \$1 million per year on research and development would be able to qualify for the full 25 per cent tax credit in respect of all their expenditures on research and development. This would include 99 per cent of Canadian-owned firms. The large firms that spend over \$1 million per year on research and development would qualify for the tax credit in respect of any increased expenditure in research and development over the base level. In areas of slow growth the rate may be increased.

The Small Businesses Loans Act should be amended to facilitate low interest loans for research and development facilities and operating costs. We should provide financial assistance through DREE for buildings and specialized equipment to be used for scientific research and development in DREE designated areas of regional disparity.

● (2225)

The present federal government tax incentive program is inadequate in the following respects: the incentive is based on incremental R and D expenditures only. The consolidation of capital with current expenditures penalizes firms making substantial capital outlay for R and D purposes. The incentive discriminates severely against the smaller firms whose net cost of R and D could be 70 per cent higher than for a larger firm. The incentive is not available to firms not having a taxable income, for example, in the start up phase of new technology-based firms.

I feel also that some non-tax incentives of an industrial nature should be considered. Any review of industrial support policies should involve full participation of industry. New

[Mr. Howie.]

incentive programs should minimize elaborate administration. For example, where applicable, self-administered tax credits are preferable to grants that require lengthy and complex applications and detailed monitoring. The contracting out of government R and D projects which has been a step in the right direction should be intensified. Both the amount and the scope of contracts should be increased. Federal procurement policies should aim to stimulate promising Canadian companies. The procurement policies of provincial and local governments, as well as of publicly supported institutions, should be similarly co-ordinated. The federal government should take the lead by making this a condition of various incentive and cost-sharing programs. We have been waiting for an announcement in this regard since last June.

International trade and technological agreements should make special provisions to strengthen Canada's industrial capability. Opportunities for co-operative activities should be sought out and supported. Fragmentation and polarization of the activities of various groups, whether in industry, government or the universities, must be overcome.

I am convinced of the importance of research and development as an essential base for economic advancement, and I feel we should encourage the advancement and transfer of scientific knowledge and technology in a co-operative effort between universities, governments and industries.

Our objective should be to increase support for basic and applied research and development in Canada over a five to seven year period to 2.5 per cent of the gross national product, which is the fraction of the gross national product now spent in the United States, the United Kingdom and West Germany. We should establish a forum which will enable parliamentarians and interested Canadians to become involved and contribute in a direct way and on a regular basis to an appreciation of the wide scope and complexity of science affairs.

The bottom line is that it is not enough to have the best tax incentive system in the western world. Our ministers, deputy ministers, assistant deputy ministers, and the department heads have got to get on their bicycles and travel to the board rooms of the parent companies of Canadian subsidiaries and sell our program. We have got to give the private sector the confidence that our government understands that research is a long-term proposition, and convince them that the incentives will remain constant for at least ten years. In the past 15 years we have witnessed a number of major, unrelated programs involving tax incentives put forward and then cancelled by the government. It is small wonder that the private sector takes no confidence from this performance and is not prepared to commit its funds to a program of long-term scientific research and innovation.

**Mr. Frank Maine (Parliamentary Secretary to Minister of Employment and Immigration):** Mr. Speaker, the hon. member for York-Sunbury (Mr. Howie) covers a great deal of ground in his comments, and it will be impossible for me to address all of them in the three minutes in which I have to respond. Certainly he has mentioned some very good ideas, some with which I agree and some with which I do not agree.