

*Income Tax Act*

Finance Ministers we ever had and the Deputy Minister, Mr. Mickey Cohen, rated on a par with our "great" free trade negotiator, Mr. Reisman. When this proposal was brought forward by the Hon. Member's Government in Mr. Lalonde's Budget, they told the people of Canada and Parliament that we would lose \$100 million in revenue a year for three years. However, now we are told that it will cost the taxpayers of this country \$2.6 billion. Will the Hon. Member explain to the House how the Department headed by Mr. Lalonde and Mr. Cohen could have been so wrong?

Second, why were the tax lawyers and tax accountants of this country able to find so quickly holes in the tax system that were so wide one could drive a tank through them? They were able to advise their clients—those who had money—how to use this tax loophole to save that huge amount of \$2.6 billion. Furthermore, not only did they save that money, in the process very little of that \$2.6 billion really went to scientific research and development. Surely the Hon. Member's Government and the Department of Finance should have been able to find a system that would ensure that if people received tax advantages by putting money into such a project the money actually went into scientific research and development rather than into their own pockets.

**Mr. Johnston:** Mr. Speaker, I appreciate the intervention by my hon. friend, the Member for Winnipeg North (Mr. Orlikow). I do not think I detected tongue in cheek when he referred to the qualities of Mr. Lalonde as Minister of Finance, or the quality of Mr. Reisman, interestingly enough. The Hon. Member asked why the estimate was so wrong.

**Mr. Blaikie:** It is a good question.

**Mr. Johnston:** It is a very good question and I think we should get to the root of it. Why has the Department of Finance and the Econometric projections been so wrong in many instances? Why have we worked on misinformation in many instances? I can assure my hon. friend that Mr. Lalonde was not in a position as Minister of Finance, to sharpen his pencil and go through the Income Tax Act and all the related provisions of other laws related to it to determine what kind of abuses might take place. That is the job of officials. That job requires analysis. With the benefit of hindsight, it is perfectly clear that the projected revenue losses were wrong by a degree which is staggering to behold. I accept that and I am sorry about it.

• (1150)

With respect to why tax practitioners and others find these tax loopholes so quickly, it is an unfortunate consequence of our tax system that we have effectively given birth to a generation—succeeding generations, if you like—of experts who spend their time saving money through the arrangement and rearrangement of assets and taking advantage or provisions of the Income Tax Act. That is totally unproductive time.

**Mr. Orlikow:** Maybe we should hire some of them.

**Mr. Johnston:** We have hired some of them. That goes to the point I raised during my comments. Our tax system has to be simplified, rendered less complex and equitable. Until that happens we are going to continue to see the kind of unproductive activity which is brought about by these people, who I do not criticize. I was one myself for many years. It just seems to me when we look at the record of Japan in terms of the ratio of lawyers to engineers and scientists as compared to U.S. and Canada ratios, something is seriously wrong. I accept that as well. Why these people find the tax loopholes so quickly is because they are competent and they get at it immediately. Their job is to basically advise their clients as best they can and devise techniques to take advantage of the provisions of the law, which is a legitimate tax avoidance.

I do think the Hon. Member has been somewhat unfair in his assessment of this situation. First, approximately two thirds of the funds invested, we understand, went to valid research. Second, I would point out to the Hon. Member that during our tenure we tried to move to a research and development figure of 1.5 per cent of GNP. We had moved from 1 per cent almost to 1.5 per cent when the Government changed. If we fall off now, please do not point your finger at Liberal Governments. We have a strong commitment to research and development in our Party—

**The Acting Speaker (Mr. Paproski):** I am sorry.

**Mr. Johnston:** Can I finish?

**The Acting Speaker (Mr. Paproski):** Go ahead and finish. You still have a couple of minutes.

**Mr. Johnston:** I would just like to make one last point, namely, that we stand on that record. There are a lot arguments we can get into here, such as, wouldn't it be great to be 3 per cent of GNP, but there is the issue of how it is spent. The quality of research and development spending is more important in many respects than the quantity. There is no point in throwing money at things. The issue that the funds, which the Hon. Member argued, have been squandered in fact demonstrates that point. To a degree they have been squandered. But a very substantial portion of the funds did find their way into important research.

**The Acting Speaker (Mr. Paproski):** I believe the Hon. Member for Prince Albert (Mr. Hovdebo) still has a very short question and I am sure the Hon. Member for Saint-Henri—Westmount (Mr. Johnston) would like to rebut.

**Mr. Hovdebo:** Mr. Speaker, I would like the Hon. Member to justify the statement he just made, because in 1983, \$4.8 billion was spent in research. In 1984, \$5.5 billion was spent in research. That is an increase of \$700 million. In 1985, \$5.8 billion was spent in research, an increase of \$3 million over the year before. If we assume the research stayed the same, there was an increase of \$1 billion in research over those two years. That cost the taxpayers \$2.6 billion and a good portion of it went down the drain. The kind of research which was