

*Income Tax Act*

create technology, where does he find the mate in that marriage, namely, the capital? It was that challenge that Mr. Lalonde faced in 1983, and that is why the scientific research tax credit was introduced. It was to allow individuals and investors to go out to the community at large and attract capital for the purposes of research and development in this country by permitting a flow-through of credits to those individual investors.

Now, we have heard of abuses and, indeed, I would be the first to condemn those abuses. Perhaps the program had not been adequately developed by officials. In fact, again with the benefit of hindsight, it seems clear that it was not. There were benefits derived from that program. We have testimony to that effect. I understand that the Canadian Advanced Technology Association made a pre-budget submission to the Minister of Finance in December of 1985 and stated the following:

—it is clear, therefore, that markets are responsive to government incentives to encourage risk taking.

This can be illustrated by reference to the SRTC program. While this program was seriously abused, and we are not in any way trying to defend those abuses, the ability to flow-through R and D tax benefits to individual investors did result in considerable scientific research spending in Canada that would otherwise not have taken place. The same association recommended that some flowthrough mechanism be developed in order to encourage such research and development, of course in the absence of the abuses to which I have made reference.

*[Translation]*

I may add, Mr. Speaker, that at the time, the Conservatives supported this policy and the amendment proposed by Mr. Lalonde. And as I said before, it is easy to criticize with the benefit of hindsight. Nevertheless, the association acknowledged this measure had a beneficial impact, and now we have eliminated the abuses, and we have also eliminated the beneficial impact. We must find other ways to stimulate research and development in this sector.

● (1140)

*[English]*

I suppose the comment I have made invite the question, where do we go from here? I ask my colleagues on the Conservative benches how we solve the problem of the basement entrepreneur who finds technology, must conduct further research and development but has no capital? Where will we find the risk takers and what incentives will be offered to them? I am talking about companies in their embryonic stage which have the potential of becoming a Mitel or a Gandolf. What kind of mechanisms do our friends on the Government benches suggest would be appropriate to supply capital to those companies? Of course, Members who live in the Ottawa region are especially familiar with the successes that have been brought about by operations which began in a garage or a basement.

I talk about these garage and basement operations to underline the fact that there may not be any one approach to this problem. The capital needs of corporations, businesses and individuals who are involved in research and development vary to a great extent.

The Government must address the issue of grants versus tax credits. For years, arguments have been made that tax credits are more beneficial because they give more play to market forces and enable businesses and entrepreneurs to make their own decisions. It is also argued that tax credits do not discriminate among recipients of the taxpayers' largess, if you like, as do grants if they are delivered in a discretionary fashion.

All of those are legitimate arguments, but it seems to me that the Government must bring forward some rational approach to solve the problems of those research and development enterprises that begin in the garage or basement and move on to become slightly larger firms that can attract money from individual professionals, co-workers or other small entrepreneurs or adventure capital firms. This rational approach is needed to allow those firms to move on to become threshold-sized firms, as they are sometimes called, with established management procedures and relatively good financial connections but which are not yet in the position to tap major Canadian capital markets in the intermediate stage or, as in the case of Northern Telecom, tap world-wide markets.

There are risks in this whole area of research and development. How do those investors hedge against those risks and what kind of incentives should those investors receive? At the same time, how do we eliminate the abuses of the kind we have witnessed in the case of the scientific research tax credit? Those are the challenges facing the Minister of Finance (Mr. Wilson). We on our side of the House will be bringing forward ideas and suggestions both here and in committee as to how these objectives may be accomplished.

Make no mistake, the future of this country lies very much in the marriage of technology and capital. The Government has brought forward some provisions to monitor this process and some provisions to stop it, in the case of the SRTC, but it has yet to bring forward anything to facilitate that marriage. It has not yet shown us how it will play the role of matchmaker in this very important relationship.

**Mr. Orlikow:** Mr. Speaker, in the more than 20 years I have been here there has not been one year in which the Government of the day has not set forth in its Budget plans the notion that providing another tax break, another concession or another loophole to the private sector will somehow persuade it to put more effort into research and development. Yet, in 1986, we still have the second worst record of any country in the OECD in terms of percentage of our Gross National Product being devoted to scientific research and development.

I have several questions for the Hon. Member for Saint-Henri—Westmount (Mr. Johnston). Mr. Lalonde, who brought this proposal forward, was supposedly one of the best