

Income Tax Act

billion in total to research and development. Half of that amount is coming from the public sector and half from the private sector. About \$2.5 billion is coming from each sector. To catch up with the other industrialized nations, we should be spending close to \$10 billion this year. We would need to spend that amount if we wanted to be spending what Japan, West Germany, Switzerland and the other major industrialized nations are investing—not spending but investing—in R and D.

I should make the point here that there is a proven multiplier effect in that every dollar we invest in research and development, even with all of the uncertainty that entails, will multiply tenfold in terms of its contribution to the Gross National Product. There are many examples of this. Canada is investing \$5 billion in research and development, and the R and D tax credits, prior to these amendments, really only granted a tax expenditure of \$200 million in relation to the total of \$5 billion. The increased tax expenditures resulting from this legislation will only increase that amount by another \$100 million.

The figure of \$100 million as compared to \$5 billion is only one-fiftieth of the total, yet we should be doubling that total. In fact, we can look at the example set by the other industrialized nations in terms of their commitment to private sector research, which is not all by way of grants, of course. There must be a snowball effect created by the government initiative. As compared to what those nations are doing, Canada should be committing one more percentage point of GNP to private sector research. At today's GNP, that would amount to about \$4 billion more to the private sector. I am saying that we must get \$4 billion more worth of investment into R and D in the private sector, and yet this Bill is only giving us \$100 million. That is where I get the ratio of one-fiftieth of what is really required in terms of the initiative by Government.

Mr. Cullen: Mr. Speaker, the Hon. Member and I obviously have different ideas about the amounts that can be described as being pitifully small. When I hear such figures as the government contribution of \$2.5 billion, they strike me as rather significant amounts. I do not think anyone on this side of the House needs to be convinced of the benefits of R and D, and that is why these changes are being made.

I know, and the Hon. Member will also know, that the Minister has been going around the country in an attempt to determine what the best avenue is for R and D. He has already indicated that grantsmanship, as he called it, is not the best method. It seems to me that the Department of Finance is not, to use his words, pooh-poohing R and D but has come up with a new scheme and a different approach so that people can invest money in R and D companies and there will be significant tax advantages to be gained. I would expect that that idea was probably not initiated by the Department of Finance but may very well have been a suggestion made by the private sector which would like to invest in R and D.

The Hon. Member has said that these amounts are not an incentive if we take out the direct increase in the tax credit. In my experience, after having done some studies of the funding

that is available, there really has not been too much reticence on the part of the companies to go out and use that as an incentive. The Hon. Member may not think that it is an incentive but officials of companies I have talked to believe that it is quite an incentive. Because of the direct increase and the new and novel approach of investing in R and D companies, it strikes me that the Department of Finance is not pooh-poohing the idea but is endeavouring to find a better way. The Hon. Member himself can see that this may be a better way than the straight grant procedure.

When the Hon. Member suggests a doubling of this amount, I am wondering if he is talking about a doubling of the tax advantages that are available to the companies, if he takes the second approach of encouraging investors, or if he has a third approach that he thinks might be more effective in encouraging R and D in Canada.

● (1630)

Mr. Siddon: Mr. Speaker, I am sure that if the former Minister would consult with most companies engaged in research and development they would tell him that these measures are very welcome but quite inadequate. In fact, the high technology firms represented by the Canadian Advanced Technology Association have pointed out that as a result of rescinding the incremental tax provision, many of the most rapidly growing companies located in the Ottawa area, Silicone Valley North, will enjoy lower tax inducements than they did previously.

The former Minister asks what I would advocate. First of all, I think we should decouple the notion of deducting eligible expenditures, whether for R and D or for anything else, from the notion of an incentive. Then we should create a simple incentive system based on an R and D tax credit which is not complicated by corresponding deductions from the basic expenditures that have to be diminished in proportion to the tax credit received to start with. We should then increase the R and D tax credit to something significant to provide an extra lever to encourage companies not yet into R and D, or only into it in a very modest way, to invest more. If we can extend a 50 per cent tax credit to individuals who invest in shares in R and D corporations, why can we not extend a corresponding tax credit to small groups of entrepreneurs or scientists, as individuals, against other income, to invest in their own R and D ventures? Why can we not give them a full tax credit on the earnings from that investment in R and D instead of 10 per cent, 20 per cent or 30 per cent? Why not give them the option of sending their money to Ottawa by way of income tax or of investing it straight into R and D? If we do less than that, we are not going anywhere.

Finally, if we do not give a special break to products which evolve from R and D and which are exported, and introduce some kind of export tax deduction to encourage Canadian companies to get out into the world and sell, then there is no point in spending all this money on R and D.

Mr. Cullen: Mr. Speaker, I have heard it said that many multinational companies in Canada that get tax advantages as