

**Senator Grosart:** Your two main suggestions, it seems to me, are, one, the negative one that industrial research should not be subject to prior Government approval, that is, in respect of any Government assistance, and, two, that Government assistance should be in the form of tax rebates or tax incentives. You also discuss the definition of research. I wonder if you would suggest how, without prior approval, it will be possible for a Government to decide what is industrial research in the sense that you use the term. I am thinking of the very large amount of industrial research that has really no direct social values but is merely concerned with product switches. That is, it is not concerned with product innovation but with product switching. Is this not so? A great deal of research money does go into switching the product from "Duz" to "Zam" or "Zim" or whatever. How would you make a distinction? If your industrial firm said that this was research and therefore wanted a tax incentive in respect of it, how would the Government know what was what if it was not subject to some kind of prior checking?

**Mr. Mackenzie:** Until this new approach came in a few years ago, we did rely on definitions in the Income Tax Act and regulations and in the Dominion Bureau of Statistics—definitions as to what was meant and what was covered and what sort of research would be eligible for these programs which were tax incentive programs. Those definitions were not perfect. They could have been improved. But I do not think it is beyond the scope of a good draftsman to define what the Government means by research. At the moment there is an exclusion of anything in the nature of market research.

Following that, perhaps your soap illustration is market research as distinct from research to improve the product. But if a large soap company were to undertake a project which would make a material contribution to the pollution aspect of synthetic detergents as distinct from soap, that would certainly be worth-while. I have been told that detergents are a major factor in the problem of pollution. If there were some basic research that could change the chemical nature of detergents so that they would not have the present deleterious effect, clearly that would be a type of research that should be covered by an incentive program. However that is a very different matter from the question of market research in which you

research to see whether you can persuade a housewife that one product is superior to another.

**Senator Grosart:** It goes a little further than that, Mr. Mackenzie. It is not just a question of mere market research, because market research very easily becomes product research and product innovation, which is what you are talking about. To take another example, perhaps an automobile firm decides to spend a lot of money in research to obtain a better chrome for its cars. Their only purpose is to make the car prettier. The better chrome adds nothing to safety; there is no sociological value. In the view of the manufacturer, all it does is make the car more saleable. Let us say the manufacturer came up with a lighter kind of chrome for his car; would you give any tax exemption for that kind of research?

**Mr. Mackenzie:** I would be inclined to err on the side of giving those incentives rather than not giving them, because I think the main function of a general industrial research assistance program—and by that I mean a deliberate program by the Government—is to try to encourage research and to improve the "climate" so that there can be a lively kind of research atmosphere at all times. I would be very liberal in the interpretation of that. I would not be too concerned about smaller details, because I think the chances of doing purely frivolous research are fairly small. The amount that would be wasted would be very little, I would think.

**Senator Grosart:** It depends, of course, on what you mean by frivolous.

**Mr. Mackenzie:** I believe most of the manufacturers who embark on programs to spend a substantial amount of money do try to improve their products, whether merely for the purpose of making their products more desirable to the customers or in order to make them serve better and last longer. Most of that research is pretty serious minded.

**Senator Grosart:** Whether it is true or not, we also from time to time hear of deliberate obsolescence research. What would you do with this type of research in respect of tax incentives?

**Mr. Mackenzie:** Well, I do not know. This is a subject that I hear talked about, but I really have no concrete examples that I can point to.