

*Income Tax Act*

Yet there is a notion that somehow the development this very important sector will bring is going to do more harm than good to the Canadian people. Therefore, there is a tendency on the part of government planners, particularly the experts in the Department of Finance, to pooh-pooh and downplay the very important role that a much greater commitment to research and development by this country can make in terms of challenge and providing meaningful and permanent careers for our young people. So they have presented this facade of generous R and D tax credits.

In a couple of respects, as I said earlier, it is more of a facade than a reality. For example, they pretend that the ability to deduct research and development expenses by a Canadian corporation is in some way an incentive to carry out research and development. It is not. The ability to deduct research and development costs is no more of an incentive than the ability to deduct the costs of a word processor, a new truck or a plant addition. It is not an incentive to do additional research and development. Any company that invests in research and development in preference to some other investment is merely incurring a deductible expense. There is no special reason to make a higher priority of that than of something else.

We have to build into the tax system real incentives which make it more attractive to invest in legitimate research and development. That is where this Bill falls far short of the expectations that it creates. The level of R and D tax credits proposed here are pitifully small in relation to what is required. If we study the complexities of the Bill, as we will later on, we find that a company that claims these modest deductions, these R and D tax credits of 20, 25 and 30 per cent, must then reduce its basic deduction for those R and D expenses by a corresponding amount. In other words, what you see is not what you get. You think you are getting a 20 per cent R and D tax credit, but when you work out the numbers, you are only getting 10 per cent. You have to subtract the amount of the basic deduction that you claim for that same investment in R and D. That is what I mean by suggesting that it is the same old boys with the same old ploys. It is not what it appears to be.

I would like to make an important case that has to be made for a much greater national commitment to research and development initiative in our country. In recent months, various Ministers have been talking about an unprecedented resurgence of the Government's commitment to R and D. I have here a graph published by the Ministry of State for Science and Technology headlined "GERD reaches all-time high". In other words, our expenditure in research and development reached an unprecedented level. In fact, in 1982-83 it reached a level of about 1.3 per cent of our Gross National Product. That is only slightly higher than the level being invested in research and development in 1968, before the beginning of the Trudeau era.

If we look at the intervening years, we find that during the seventies, Canada's commitment to research and development fell to appallingly low levels while every other major industri-

alized nation was going ahead rapidly in terms of commitment to research and development. The most prosperous nations of the OECD and western industrialized nations reinvest something approaching 2.5 per cent of their Gross National Product in research and development. Canada is doing only half of that. That has tremendous implications for our young people and the long-range future that we provide for them as meaningful citizens in this country.

Our children are anxious to have jobs in the disciplines for which they are very well trained. They are going to school and learning about exotic concepts. They are much more acquainted with everything that is going on in the world. They know how to program computers at the age of eight, nine and ten. That is where they want to see their future evolve. They want a government which does not bad-mouth technology, which suggests technology will be harmful, will displace people and so on. They want to be persuaded of the opportunities that technology offers. They want the Government to make major and specific commitments to invest in new technology. The products that evolve from that technology and the income that will accrue to all Canadians by the re-investment of capital will provide new jobs and expand educational and business opportunities for our young people. Instead, we are doing about half as well as most of the prosperous industrialized nations of the world, in terms of support for R and D.

Another telling fact is that most industrialized nations are doing between two and three times as much research and development in the private sector as we are in Canada. That is not all done with private money. It is because of some very creative tax, tariff and export-oriented policies that countries like Japan, West Germany, Great Britain and the United States are pursuing.

I will cite a few statistics for the sake of comparison. In West Germany, expenditures by the private sector on R and D are 1.6 per cent of Gross National Product while in 1981 in Canada, the expenditure was only .48 per cent, or about one-third. In the United States it was 1.6 per cent of GNP, 1.41 per cent in the United Kingdom, and 1.2 per cent in Japan. All of these countries are putting much more emphasis on the role of research and development in the private sector than Canada.

There are only two ways to encourage the private sector to do more R and D. First, the federal Government must help to create a climate through the tax system in which the rewards may be enjoyed by those who invest and pursue the expansion of knowledge and the development of products, and then enjoy the assistance of Government in marketing those products around the world. The other approach government can take is to hand money to specially qualified groups and individuals by way of grants.

Under the Liberal Government for the past 15 years, the grant system has not worked effectively. The minute you adopt the grants approach, you have to be able to distinguish between the winners and losers. We have put all of our eggs in a few large baskets. We have poured millions, indeed billions, of dollars into major enterprises and technology such as the