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A chance to fix our broken R&D model

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Tom Jenkins has one of the most important jobs in Canada.

And it's not his post as chairman and chief strategy officer at software maker Open Text Corp.

For the past year, Mr. Jenkins has led a panel of experts investigating ways Ottawa can get a lot more out of the $7-billion a year it spends on research and development outside government labs.

Mr. Jenkins delivers his final report to the Harper government Monday, marking a long-overdue shift from talking about Canada's innovation deficiencies, to actually doing something about them.

"We are at the dislocation point between an old economic order and a new one that may last for decades, if not centuries," Mr. Jenkins wrote in a recent paper for the Institute for Research on Public Policy. "Innovation is the wealth creator in this new order."

As Mr. Jenkins has certainly discovered, the only way to succeed is a much more targeted and strategic approach to spending all that money. That will likely mean favouring the few at the expense of the many, with perhaps more emphasis on grants, along with tighter controls on tax credits.

Right now, Ottawa spreads cash far and wide – across all regions, industries and institutions, companies large and small – in the faint hope that something good will come of it. It's the triumph of R&D democracy over R&D meritocracy.

And by Ottawa's own acknowledgement, the system is broken. A consultation paper prepared for the panel confirmed what countless other studies over the past decade have shown. Canada's record of turning knowledge into innovation is poor by international standards – in spite of some of the most generous R&D tax incentives in the world. The result: declining R&D spending by companies, low rates of commercializing new products and lagging productivity.

The most compelling example of the scatter-gun approach is the Scientific Research and Experimental Development program, or SR&ED. This flagship tax break is a $5-billion transfer from Canadian taxpayers to businesses ($3.5-billion from the feds plus another $1.5-billion from several provinces that piggyback their own tax breaks on Ottawa's plan).

A recent Globe and Mail investigation found widespread dubious claims, a diversion of tax credits to consultants working on contingency fees, plus inconsistent and unpredictable rulings on what qualifies as R&D.

In an interview Friday, federal Science Minister Gary Goodyear acknowledged he's looking at a major restructuring of the tax-credit regime and other programs. But he wouldn't commit to a timetable.

"We've seen reports in the past suggesting where the problems lie," he said. "I expect the panel will go into great depths on how we can actually change the way the government runs these programs."

A report Friday from the University of Toronto's Mowat Centre for Policy Innovation urged Ottawa to dramatically cut R&D tax breaks and plow the cash back into targeted grants for businesses, a model embraced by innovation leaders Germany, Sweden and South Korea.

It won't be easy. A powerful lobby is eager for more – not fewer – of the programs that aren't working, based on the 250-plus submissions to Mr. Jenkins's panel. Small businesses want government cash, but don't want to wade through red tape to get it. Larger public companies want what smaller ones get, including access to SR&ED's refundable credits. And the academic world isn't much interested in more targeted R&D, arguing that it discourages exploratory basic research.

SR&ED's most lucrative benefits – near-instant credits for R&D that companies have already done – go exclusively to Canadian-controlled private companies, often for the smallest of R&D projects. Ottawa wants to build world-beating companies, but it's giving away millions to $10,000 R&D projects. That's less than two months' salary for one engineer.

R&D requires critical mass, but SR&ED has no minimum threshold. Maybe it should. And Ottawa must do a better job of identifying real R&D.

Ottawa has shown a similar tendency for breadth over depth in its grants to university researchers. And it's often not done a good job of leveraging its own purchasing power to encourage more Canadian-based R&D.

In the current fiscal environment, the Harper government's default reaction may be to cut flawed and expensive programs, rather than reform them.

That would be a lost opportunity. With an aging population and a global economy in turmoil, getting innovation policy right is key to boosting productivity, creating jobs, generating wealth and keeping up with rival nations.

Get it wrong, and Canada will forever be a country of innovation mediocrity.
