

STATEMENT OF THE HONORABLE LES AuCOIN
BEFORE THE COMMITTEE ON WAYS AND MEANS
July 31, 1980

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPEAR HERE TODAY AS CHAIRMAN OF THE TASK FORCE ON INDUSTRIAL INNOVATION TO LEND MY STRONG SUPPORT FOR INCLUDING THE RESEARCH REVITALIZATION ACT IN ANY TAX REDUCTION PROPOSAL APPROVED BY THIS COMMITTEE. BEFORE I BEGIN MY TESTIMONY, I WANT TO NOTE THAT A DISTINGUISHED MEMBER OF THIS COMMITTEE, MR. VANIK, IS THE PRIMARY SPONSOR OF THE BILL. I COMMEND HIM FOR SPONSORING THIS MEASURE AND FOR HIS DILIGENCE IN SEEKING ITS PASSAGE.

FOR NEARLY A YEAR, THE TASK FORCE HAS BEEN LOOKING AT THE ROLE INNOVATION PLAYS IN OUR ECONOMY AND AT THE IMPACT OF DECLINING PRODUCTIVITY IN OUR ECONOMY. WHILE EXPERTS DISAGREE ABOUT MANY OF THE CAUSES OF LAGGING PRODUCTIVITY, TWO THINGS ARE CERTAIN. ONE IS THAT MORE INNOVATION WILL HELP THE ECONOMY. THE SECOND IS THAT INCREASING BASIC RESEARCH AND DEVELOPMENT IS A CRITICAL FIRST STEP IN BOOSTING INNOVATION, REVIVING PRODUCTIVITY AND STEMMING THE EROSION OF OUR TECHNOLOGICAL SUPERIORITY.

ANYONE WHO DOUBTS THE IMPORTANCE OF RESEARCH AND DEVELOPMENT NEED ONLY LOOK AT THE INCREDIBLE GAINS OUR ECONOMIC COMPETITORS ARE MAKING THANKS TO SOLID RESEARCH AND DEVELOPMENT EFFORTS. LET ME ILLUSTRATE THAT POINT BY REFERRING TO A SPEECH GIVEN RECENTLY BY RICHARD ANDERSON, AN EXECUTIVE OF HEWLETT-PACKARD COMPANY. H-P IS THE WORLD'S LARGEST MANUFACTURER OF ELECTRONIC INSTRUMENTS AND, AS SUCH, A MAJOR CONSUMER OF SEMICONDUCTOR MEMORY CHIPS. H-P HAS FOUND THAT THE JAPANESE PRODUCE A SUPERIOR SEMICONDUCTOR CHIP AT PRICES COMPETITIVE WITH THOSE MADE BY AMERICAN CHIP PRODUCERS. THE QUALITY OF THE JAPANESE MEMORY CHIP IS BETTER FOR A VERY SIMPLE REASON: THE JAPANESE MANUFACTURERS HAVE DEVOTED A GREAT DEAL OF RESEARCH TO DEVELOPING RELIABLE PRODUCTS. BETTER RELIABILITY NOT ONLY GIVES THEM AN EDGE IN THE INTERNATIONAL MARKETPLACE, BUT IT MEANS HIGHER PROFITS. AS MR. ANDERSON POINTS OUT,

"IF FAILURES ARE SYSTEMATICALLY MINIMIZED, YIELDS GO UP, COSTS GO DOWN, AUTOMATION WORKS, AND INSPECTION BECOMES ALMOST REDUNDANT."

WE OFTEN THINK OF RESEARCH AND DEVELOPMENT ONLY IN TERMS OF "SPACE AGE DISCOVERIES," BUT THE TRUTH IS THAT RESEARCH AND DEVELOPMENT CAN BE MUCH MORE. IN THIS INSTANCE, JAPANESE MANUFACTURERS, TOGETHER WITH THEIR GOVERNMENT, ENGAGED IN A CONCENTRATED RESEARCH AND DEVELOPMENT EFFORT TO IMPROVE THE QUALITY OF THEIR SEMICONDUCTOR CHIPS. THE SUPERIOR QUALITY OF THE JAPANESE CHIPS GAVE THEM A LEG UP ON THEIR AMERICAN COMPETITORS—EVEN WITH AMERICAN CONSUMERS LIKE HEWLETT-PACKARD.

THIS SAME STORY CAN BE REPEATED IN OTHER RESEARCH INTENSIVE INDUSTRIES. THE U.S. SHARE OF PLASTICS EXPORTS HAS DROPPED FROM 27.8 PERCENT IN 1962 TO 13 PERCENT TODAY. A SIMILAR DECLINE HAS OCCURRED IN THE U.S. DRUG INDUSTRY WHERE THE SHARE OF WORLD EXPORTS HAS DROPPED FROM 27.6 PERCENT TO 15 PERCENT. EVEN IN THE AEROSPACE INDUSTRY—AN INDUSTRY LONG DOMINATED BY U.S. MANUFACTURERS—THIS NATION'S SHARE OF WORLD EXPORTS HAS BEEN FAILING PRECIPITOUSLY.

WHY HAVE WE BEEN LOSING GROUND TO OUR ECONOMIC COMPETITORS IN SUCH HIGH TECHNOLOGY INDUSTRIES? IN NO SMALL WAY IT'S BECAUSE OUR NATIONAL COMMITMENT TO RESEARCH AND DEVELOPMENT HAS BEEN SLIPPING. THE DANGER SIGNALS ARE CLEAR:

SINCE 1964 THE PROPORTION OF OUR GROSS NATIONAL PRODUCT DEVOTED TO RESEARCH AND DEVELOPMENT HAS FALLEN 26 PERCENT.

IN THE SAME PERIOD OUR CHIEF ECONOMIC RIVALS—JAPAN, GERMANY, FRANCE, EVEN RUSSIA—HAVE BEEN INCREASING THEIR NATIONAL RESEARCH AND DEVELOPMENT EFFORTS.

MEANWHILE, THERE HAS BEEN A DANGEROUS SHIFT AWAY FROM BASIC RESEARCH—RESEARCH DIRECTED AT ORIGINAL INVESTIGATION—TOWARDS APPLIED RESEARCH WHICH SIMPLY BUILDS ON EXISTING INNOVATIONS AND DISCOVERIES. THIS CONCENTRATION ON SHORT TERM, INCREMENTAL RESEARCH IS BOUND TO RESULT IN FEWER LONG RANGE ECONOMIC AND SOCIAL BENEFITS.

THE POINT I AM MAKING, MR. CHAIRMAN, IS THAT OUR ECONOMIC COMPETITORS ARE BEATING OUR SOCKS OFF, IN LARGE PART BECAUSE THE NATIONAL RESEARCH AND DEVELOPMENT EFFORT IS LAGGING. WE DESPERATELY NEED A RENEWED NATIONAL COMMITMENT TO RESEARCH AND DEVELOPMENT.

I STRONGLY SUPPORT THE RESEARCH REVITALIZATION ACT BECAUSE I AM CONVINCED IT WILL PUMP NEW LIFE INTO THE RESEARCH AND DEVELOPMENT EFFORTS IN THIS COUNTRY.

ONE OF THE STRONGEST POINTS OF THE LEGISLATION IS THAT IT PROVIDES A SIGNIFICANT INCENTIVE TO BUSINESSES TO FUND RESEARCH AND DEVELOPMENT WITHOUT DIRECTING WHAT RESEARCH MUST BE UNDERTAKEN. ONE OF THE WEAKNESSES WITH DIRECT GOVERNMENT FUNDING OF RESEARCH AND DEVELOPMENT IS THAT THE PRODUCTS OF GOVERNMENT FUNDED RESEARCH GENERALLY HAVE LIMITED APPLICABILITY TO EITHER CONSUMER OR INDUSTRIAL NEEDS. THE RESEARCH REVITALIZATION ACT OVERCOMES THAT PROBLEM BY ALLOWING INDIVIDUAL BUSINESSES TO DETERMINE WHAT TYPE OF RESEARCH THEY NEED. IN THIS WAY THE BILL ENSURES THAT RESEARCH IS RELATED TO AN ESSENTIAL PRODUCT OR SERVICE FOR WHICH THERE IS AN ECONOMIC DEMAND FOR DOMESTIC USE OR EXPORT.

THE BILL ALSO PROVIDES A KEY ROLE FOR UNIVERSITIES, AN IMPORTANT POINT. AN INCREASE IN THE RESEARCH AND DEVELOPMENT EFFORTS BY THE NATION'S BUSINESSES WILL, IN TURN, TAP THE VAST UNDERUTILIZED RESOURCES OF OUR NATION'S COLLEGES AND UNIVERSITIES AND INCREASE THEIR CAPACITY TO TRAIN THE SCIENTISTS AND ENGINEERS SO DESPERATELY NEEDED TODAY.

THE RESEARCH REVITALIZATION ACT WILL HELP ADVANCE A NATURAL PARTNERSHIP, AND A FRUITFUL ONE, BETWEEN BUSINESS, GOVERNMENT AND ACADEMIA. BY CREATING THIS PARTNERSHIP, WE CAN NOT ONLY IMPROVE THE PRODUCTIVITY OF THE DOLLARS SPENT ON RESEARCH AND DEVELOPMENT BUT ALSO FOSTER THE KIND OF TEAMWORK THAT WILL HELP STEM THE EROSION OF OUR COMPETITIVE POSITION IN THE WORLD MARKET PLACE.

MR. CHAIRMAN, IT'S MY HOPE THAT YOUR COMMITTEE WILL APPROVE THE RESEARCH REVITALIZATION ACT AS PART OF A TAX REDUCTION PACKAGE WHICH ALSO INCLUDES CHANGES TO ALLOW FASTER AND SIMPLER DEPRECIATION OF ASSETS. THESE SELECTIVE TAX REDUCTIONS WILL GO A LONG WAY TOWARDS INCREASING INNOVATION AND BOOSTING PRODUCTIVITY. BY THE SAME TOKEN, I HOPE THE COMMITTEE WILL STEER CLEAR OF A MEAT AXE APPROACH TO TAX CUTS. BY CAREFULLY TARGETING TAX REDUCTION EFFORTS, WE CAN AVOID A DANGEROUS RESURGENCE OF INFLATION AND A DAMAGING INCREASE IN DEFICIT SPENDING.

MR. CHAIRMAN, THANK YOU AGAIN FOR THE OPPORTUNITY TO APPEAR HERE TODAY AND LEND MY SUPPORT TO THE RESEARCH REVITALIZATION ACT.