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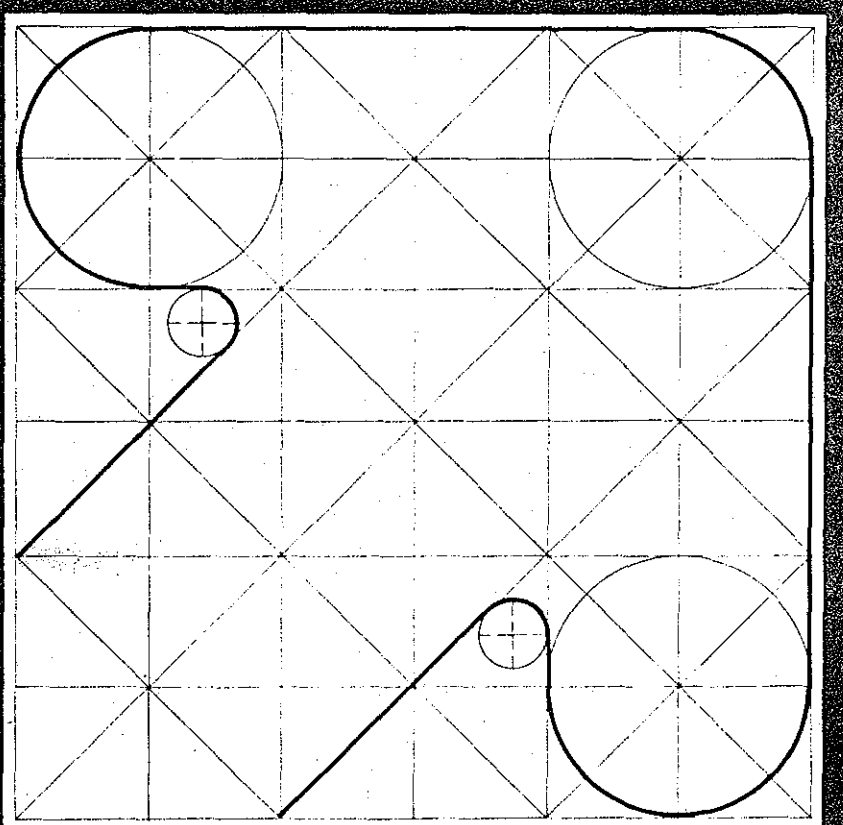
EXECUTIVE SUMMARY

STIMULATING TECHNOLOGICAL PROGRESS

A STATEMENT ON NATIONAL POLICY
BY THE RESEARCH AND
POLICY COMMITTEE OF THE
COMMITTEE FOR ECONOMIC DEVELOPMENT
JANUARY 1980

CED



ECONOMIC PROBLEMS AND TECHNOLOGICAL PROGRESS

- *Control of inflation, employment growth, and improving real living standards are among the most important economic issues facing the nation.*
  — The achievement of these goals requires the economy to have an innovative industrial base with the capacity to meet the demands of society and compete technologically with our international competitors.

- *United States productivity growth rate is declining and has been consistently lower than other industrial countries. Technologically, the United States is beginning to fall behind some other industrial countries.*

- *Inadequate capital investment has held back the innovation rate in the United States.*
  — As a proportion of output, U.S. capital investment in manufacturing has for two decades been about one-third the rate for Japan, about one-half the rate for Germany, and lower than all major industrial nations.
  — Inflation has caused grave discrepancies between depreciation based on past costs and the actual current replacement cost of plant and equipment.
  — Current tax policies with outmoded capital-recovery allowances and failure to control inflation have lowered the real rate of return on investment in innovative plant and equipment.

- *Excessive and uncertain government regulatory activities have increased the risks to would-be investors and innovators and reduced the return on innovative investments.*
  — Industry has been directed to divert resources to meet specific compliance methods rather than being allowed to achieve regulatory goals in the most efficient way.
  — The return on innovative investments has been reduced through regulatory delays in approving new processes and products.
  — Costs have been raised through unreasonable and frequent changes in regulatory standards.

- *The patent system only partially encourages innovation.*
  — The patent system is unnecessarily complicated and unreliable.
  — It also imposes substantial costs on business and the public without adequately providing significant discoveries with the protection required to encourage innovation.

RECOMMENDED REMEDIES

Increasing Innovation Through the Market Economy

- Innovation in the market economy is essential for productivity improvement and the long-run control of inflation.
- Public policy should focus on creating an environment in which all sectors of the economy have the incentive to innovate.
- The government should avoid trying to determine which specific types of innovation and industrial sectors should be stimulated.

Raising Investment in New Plant and Equipment Through Tax Policy Changes (Chapter 4, page 29)

Tax changes to encourage innovation should be a top priority. These would stimulate commercialization of existing knowledge and diffusion of innovation throughout all sectors of the economy. Priority and consideration should be given to:

- *A more rapid capital recovery allowance by replacing the* traditional method of depreciation over the useful life of assets. Write-offs would be more in line with replacement costs.
- *"Flexible depreciation" of fixed R&D assets.* Assets could be fully depreciated in the first year or by any other method desired with the benefit of allowable tax credits being retained.

Reducing Regulatory Uncertainties and Constraints (Chapter 5, page 43)

The Administration and Congress should increase their efforts to achieve regulatory reform.

- Regulatory goals should be achieved through *performance standards* rather than design standards since this will encourage business to develop least cost regulatory techniques.
- The government should achieve regulatory goals through a system of *economic incentives and penalties* whenever possible.
- The potential adverse *impact on future innovation* should be taken into account when preparing regulations.

Improving the Effectiveness of the Patent System (Chapter 6, page 51)

Several major reforms are necessary to make the patent system more efficient and effective.

- *Voluntary arbitration* to speed up the settlement of patent disputes.
- *A single court of appeals* for patent disputes to enhance uniformity in patent law.
- *A first-to-file patent system* to reduce the cost of acquiring and defending patents.

Directing Federal R&D Support Towards Basic Research (Chapter 7, page 58)

Increased public support for *basic* research in universities should be made. Federal involvement in *applied* research aimed at commercial application should only be undertaken under *extremely limited* circumstances which might include applied research to meet direct government needs (i.e., defense, space) and research to meet national priorities (i.e., energy).