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DOC NO	Doc Type	Document Description	No of Pages	Doc Date	Restrictions	
1	MEMO	CLAIRE O'DONNEL TO JANE DANNENHAUER RE PAS CANDIDATE WITHDRAWALS (PARTIAL)	1	1/6/1984	B6	1240

Freedom of Information Act - [5 U.S.C. 552(b)]

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C. Closed in accordance with restrictions contained in donor's deed of gift.

THE WHITE HOUSE

WASHINGTON

December 28, 1983

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS JGR

SUBJECT: Executive Order Entitled "President's Commission on Industrial Competitiveness"

Richard Darman has asked for comments by 10:00 a.m. December 29 on the above-referenced proposed Executive Order. The Executive Order would increase the membership ceiling of the President's Commission on Industrial Competitiveness from 30 to 35 members, and extend the termination date of the Commission from September 30, 1984 to December 31, 1984. The membership limit was previously extended from the original 25 members to 30 members on September 8, 1983, by Executive Order 12440.

The proposed Executive Order has been approved by OMB and, as to form and legality, by the Office of Legal Counsel. I have reviewed the Executive Order and accompanying materials, and have no objection.

Attachment

THE WHITE HOUSE

WASHINGTON

December 28, 1983

MEMORANDUM FOR RICHARD G. DARMAN
ASSISTANT TO THE PRESIDENT
DEPUTY TO THE CHIEF OF STAFF

FROM: FRED F. FIELDING FFF/RAA
COUNSEL TO THE PRESIDENT

SUBJECT: Executive Order Entitled "President's Commission on Industrial Competitiveness"

Counsel's Office has reviewed the above-referenced proposed Executive Order, and finds no objection to it from a legal perspective.

FFF:JGR:aea 12/28/83
cc: FFFielding/JGRoberts/Subj/Chron

THE WHITE HOUSE

WASHINGTON

December 28, 1983

MEMORANDUM FOR RICHARD G. DARMAN
ASSISTANT TO THE PRESIDENT
DEPUTY TO THE CHIEF OF STAFF

FROM: FRED F. FIELDING
COUNSEL TO THE PRESIDENT

SUBJECT: Executive Order Entitled "President's Commission on Industrial Competitiveness"

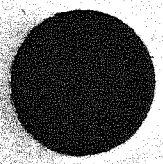
Counsel's Office has reviewed the above-referenced proposed Executive Order, and finds no objection to it from a legal perspective.

FFF:JGR:aea 12/28/83
cc: FFFielding/JGRoberts/Subj/Chron

ID # 168540 CU

WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

☐ O - OUTGOING
☐ H - INTERNAL
☐ I - INCOMING
Date Correspondence Received (YY/MM/DD) / /



Name of Correspondent: Richard G. DARMAN

☐ **MI Mail Report** **User Codes:** (A) _____ (B) _____ (C) _____

Subject: Executive Order Entitled "President's Commission on Industrial Competitiveness"

ROUTE TO:

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
CWHOLL	ORIGINATOR	83/12/28			/ /
	Referral Note:				
CWAT18	X	83/12/28		S	83/12/29
	Referral Note:				
		/ /			/ /
	Referral Note:				
		/ /			/ /
	Referral Note:				
		/ /			/ /
	Referral Note:				

ACTION CODES:
A - Appropriate Action
C - Comment/Recommendation
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I - Info Copy Only/No Action Necessary
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DISPOSITION CODES:
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C - Completed
S - Suspended

FOR OUTGOING CORRESPONDENCE:
Type of Response = Initials of Signer
Code = "A"
Completion Date = Date of Outgoing

Comments: _____

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5/81

Document No. 168540SS

WHITE HOUSE STAFFING MEMORANDUM

DATE: 12/28 ACTION/CONCURRENCE/COMMENT DUE BY: 10:00 a.m. TOMORROW 12/29

SUBJECT: EXECUTIVE ORDER ENTITLED "PRESDIENT'S COMMISSION ON INDUSTRIAL COMPETITIVENESS"

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	JENKINS	☐	☐
MEESE	☐	☑	McFARLANE	☐	☐
BAKER	☐	☑	McMANUS	☐	☐
DEAVER	☐	☑	MURPHY	☐	☐
STOCKMAN	☐	☐	OGLESBY	☐	☐
DARMAN	☐P	☑SS	ROGERS	☐	☐
FELDSTEIN	☐	☐	SPEAKES	☐	☑
FIELDING	☑	☐	SVAHN	☑	☐
FULLER	☑	☐	VERSTANDIG	☐	☐
GERGEN	☐	☐	WHITTLESEY	☐	☐
HERRINGTON	☑	☐	_____	☐	☐
HICKEY	☐	☐	_____	☐	☐

REMARKS:

Please provide any comments/recommendations by 10:00 a.m. tomorrow, Thursday, December 29th.

Thank you,

RESPONSE:

1983 DEC 28 PM 1:03

Richard G. Darman
Assistant to the President
Ext. 2702

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 22, 1983

MEMORANDUM FOR: THE PRESIDENT

FROM: DAVID A. STOCKMAN

SUBJECT: PROPOSED EXECUTIVE ORDER ENTITLED "PRESIDENT'S COMMISSION ON INDUSTRIAL COMPETITIVENESS"

SUMMARY. This memorandum forwards for your consideration a proposed Executive order which would increase the number of members of the President's Commission on Industrial Competitiveness and extend its life for three months.

BACKGROUND. Executive Order No. 12428 of June 28, 1983, created the President's Commission on Industrial Competitiveness, to consist of not more than twenty-five members. Executive Order No. 12440 of September 8, 1983 increased the the number of members of the Commission to thirty. This proposed order would authorize a further increase in the membership of the Commission to thirty-five persons.

The proposal also would extend the life of the Commission until December 31, 1984, to reflect the delay in appointing its additional members.

The affected agencies have no objection to the issuance of the proposed Executive order.

RECOMMENDATION. I recommend that you sign the proposed Executive order.

Enclosure

U.S. Department of Justice
Office of Legal Counsel

Office of the
Assistant Attorney General

Washington, D.C. 20530

DEC 27 1983

The President,

The White House.

My dear Mr. President:

I am herewith transmitting a proposed Executive order entitled "President's Commission on Industrial Competitiveness."

This proposed order was prepared by the Office of Management and Budget at the request of the White House Office. It has been forwarded for the consideration of this Department as to form and legality by the Office of Management and Budget with the approval of the Director.

The proposed Executive order is approved as to form and legality.

Respectfully,

Ralph W. Tarr

Ralph W. Tarr
Acting Assistant Attorney General
Office of Legal Counsel

EXECUTIVE ORDER

- - - - -

PRESIDENT'S COMMISSION ON INDUSTRIAL COMPETITIVENESS

By the authority vested in me as President by the Constitution and laws of the United States of America, including the Federal Advisory Committee Act, as amended (5 U.S.C. App. I), and in order to increase the membership and extend the life of the President's Commission on Industrial Competitiveness, it is hereby ordered that Executive Order No. 12428 of June 28, 1983, as amended, is further amended as follows:

(a) The second sentence of Section 1(a) shall read: "The Commission shall be composed of no more than thirty-five members appointed or designated by the President.".

(b) Section 4(b) shall read: "The Commission shall terminate on December 31, 1984, unless sooner extended.".

THE WHITE HOUSE,

THE WHITE HOUSE
WASHINGTON

Date 1.9.84

Suspense Date _____

MEMORANDUM FOR: Counsel's Office

FROM: **DIANNA G. HOLLAND**

ACTION

_____ Approved

_____ Please handle/review

X For your information

_____ For your recommendation

_____ For the files

_____ Please see me

_____ Please prepare response for _____ signature

_____ As we discussed

_____ Return to me for filing

COMMENT

_____

_____

_____

_____

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

January 6, 1984

MEMORANDUM FOR JANE DANNENHAUER

FROM: Claire O'Donnell

SUBJECT: PAS Candidate Withdrawals

For your permanent records please be advised that the following individuals have been wthdrawn from consideration as Presidential appointments:

PAS Candidates:

[redacted] b6

PA Candidates:

[redacted] b6

cc: Holland ✓
Kennedy
Bullock

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release January 4, 1984

EXECUTIVE ORDER

- - - - -

PRESIDENT'S COMMISSION ON INDUSTRIAL COMPETITIVENESS

By the authority vested in me as President by the Constitution and laws of the United States of America, including the Federal Advisory Committee Act, as amended (5 U.S.C. App. I), and in order to increase the membership and extend the life of the President's Commission on Industrial Competitiveness, it is hereby ordered that Executive Order No. 12428 of June 28, 1983, as amended, is further amended as follows:

(a) The second sentence of Section 1(a) shall read: "The Commission shall be composed of no more than thirty-five members appointed or designated by the President.".

(b) Section 4(b) shall read: "The Commission shall terminate on December 31, 1984, unless sooner extended.".

RONALD REAGAN

THE WHITE HOUSE,

January 3, 1984.

# # # # #

THE WHITE HOUSE

WASHINGTON

March 27, 1984

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS

SUBJECT: Draft Presidential Message For Publication of Republican Agenda for U.S. Technological Leadership and Industrial Competitiveness

Richard Darman has asked for comments by March 27 on a proposed Presidential message to serve as a preface to a report to be issued by Republican Congressmen entitled "Targeting the Process of Innovation: A Republican Agenda for U.S. Technological Leadership and Industrial Competitiveness." Jay Keyworth, who drafted the proposed Presidential preface, advises that the group that will issue the Report "is a responsible group in tune with the President's philosophy," although there are disagreements with some specific proposals of the Report. Keyworth states that the preface was drafted to commend the group's initiative and approach without explicitly endorsing the legislative proposals.

In fact, the preface reads as a blanket endorsement of the Report's recommendations. I do not know how passages such as "[y]our proposals to reestablish an environment in which American ingenuity will flourish are well chosen and deserve widespread public support. I commend them to your colleagues of both parties," can be read as not endorsing the group's specific proposals. This is particularly dangerous since the Report begins (pp. 1-2) with an explicit statement of support for as yet unidentified House bills. (The bill numbers are to be added "in final versions.") In short, Keyworth would have the President sign a blank check of support for the group.

The attached memorandum for Darman objects to sending a preface without knowing what bills the Report will endorse, and notes that the language of the preface is not consistent with Keyworth's representation that it does not endorse specific proposals. Substitute language actually doing what Keyworth says the preface does -- endorsing the group's initiative and approach, but not specific proposals -- is also provided.

Attachment

THE WHITE HOUSE

WASHINGTON

March 27, 1984

MEMORANDUM FOR RICHARD G. DARMAN
ASSISTANT TO THE PRESIDENT

Orig. signed by FFF

FROM: FRED F. FIELDING
COUNSEL TO THE PRESIDENT

SUBJECT: Draft Presidential Message For Publication of Republican Agenda For U.S. Technological Leadership and Industrial Competitiveness

You have asked for our views on a proposed message from the President to be used as a preface to the report prepared by Congressmen Ed Zschau and Dan Ritter's Republican High Technology Task Force. We have no legal objections to such a message. The proposed draft, however, does not merely commend the group's initiative and approach, as stated by the author of the draft, but will doubtless be read as a blanket endorsement of the group's recommendations. This is particularly ill-advised since the report will express support for specific House bills that are as yet unidentified. The proposed preface must be revised so that it cannot be construed as a general endorsement of the group's recommendations.

We recommend changing the second sentence of the first paragraph to read: "Your effort to reestablish an environment in which American ingenuity will flourish is timely and deserves widespread public support." The third sentence should be deleted. In the fourth sentence, "These are important steps that" can be changed to "The Agenda outlines steps to." We also recommend that those involved in this area determine precisely what bills will be endorsed in the report's opening pages, and whether the Administration can support those bills. Without such information the preface would essentially constitute a "blank check" of Presidential support to those issuing the report.

FFF:JGR:aea 3/27/84
cc: FFFielding/JGRoberts/Subj/Chron

ID # _____ CU

WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

☐ O - OUTGOING
☐ H - INTERNAL
☐ I - INCOMING
Date Correspondence Received (YY/MM/DD) / /

Name of Correspondent: Richard Darman

☐ **MI Mail Report** **User Codes:** (A) _____ (B) _____ (C) _____

Subject: Draft Presidential Message for Publication of Republican Agenda for U.S. Technological Leadership & Industrial Competitiveness.

ROUTE TO:		ACTION		DISPOSITION		
Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
CU HOL	ORIGINATOR	84 03 22			/ /
CUAT 18	Referral Note: D	84 03 22		S	84 03 27
CUAT 17	Referral Note: I	84 03 22			/ /
	Referral Note:	/ /			/ /
	Referral Note:	/ /			/ /
	Referral Note:				

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Document No. _____

WHITE HOUSE STAFFING MEMORANDUM

DATE: 3/23/84 **ACTION/CONCURRENCE/COMMENT DUE BY:** Tuesday, 3/27/84

SUBJECT: DRAFT PRESIDENTIAL MESSAGE FOR PUBLICATION OF REPUBLICAN AGENDA FOR U.S. TECHNOLOGICAL LEADERSHIP & INDUSTRIAL COMPETITIVENESS.

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	McFARLANE	☑	☐
MEESE	☐	☑	McMANUS	☐	☐
BAKER	☐	☑	MURPHY	☐	☐
DEAVER	☐	☑	OGLESBY	☐	☑
STOCKMAN	☑	☐	ROGERS	☐	☐
DARMAN	☐P	☑SS	SPEAKES	☐	☐
FELDSTEIN	☐	☐	SVAHN	☑	☐
FIELDING	☑	☐	VERSTANDIG	☐	☐
FULLER	☑	☐	WHITTLESEY	☐	☐
HERRINGTON	☐	☐	_____	☐	☐
HICKEY	☐	☐	_____	☐	☐
JENKINS	☐	☐	_____	☐	☐

REMARKS:

Please provide any comments/edits by Tuesday, March 27th.

Thank you.

RESPONSE:

Richard G. Darman
Assistant to the President
Ext. 2702

THE WHITE HOUSE

WASHINGTON

March 22, 1983

MEMORANDUM FOR DICK DARMAN

FROM: M. B. OGLESBY, JR.

SUBJECT: Presidential message for Congressmen Ed Zschau and Don Ritter's Republican High Technology Task Force regarding their report containing a Republican agenda for U.S. Technological Leadership and Industrial Competitiveness

Congressman Zschau, chairman of the above task force, requested a presidential message to serve as a preface to the soon-to-be published task force agenda. Jay Keyworth has drafted the attached to which we have no objection.

Would you staff it out for approval? We would appreciate expeditious responses.

Attached are:
1. Draft message;
2. Keyworth memo to Oglesby explaining draft message; and
3. Copy of task force agenda.

Congratulations on the publication of the Republican Agenda for U.S. Technological Leadership and Industrial Competitiveness. Your proposals to reestablish an environment in which American ingenuity will flourish are well chosen and deserve widespread public support. I commend them to your colleagues of both parties. These are important steps that can strengthen the economy and create new jobs by allowing U.S. industry to compete successfully both at home and abroad.

In particular, your focus on fostering a climate for innovation, in both established and emerging industries, emphasizes our greatst strength--the creativity of our people. Three years ago our Administration set out to reestablish a climate for innovation and entrepreneurship, and your Agenda shows that America is once again working together for a better future.

The great technological achievements that spawned new industries and made America's workers the world's most productive occurred because of a climate conducive to innovation, not because of government initiatives. Today, more than ever, we must nurture individual creativity and permit the collective genius of our free society to function unfettered by government.

I applaud your initiative and your vision in developing this Agenda. Let us work together to ensure that the challenges we face today will rekindle the spirit of competition, not the memories of isolationism.

THE WHITE HOUSE

WASHINGTON

March 19, 1984

MEMORANDUM FOR M. B. OGLESBY, JR.

FROM: JAY KEYWORTH

SUBJECT: Presidential Message for Ed Zschau's and Don Ritter's Republican High Technology Task Force

Attached is a draft of a suggested Presidential message to serve as a preface to the soon to be published Task Force Agenda for U.S. Technological Leadership and Industrial Competitiveness.

There is no disagreement within the Administration on the objectives of the Agenda. However, some of the specific legislative proposals made by the task force are still the subject of debate. Those proposals where the Administration is still at odds on specific details are:

- selection of the base years for the 25% tax credit for corporate funding of basic research in colleges and universities;
- to make permanent the moratorium on Treasury Regulation section 861.8 (Treasury favors a 2-year extension)
- to make the R&D tax credit permanent (Treasury favors a 3-year extension)

I believe that the Task Force's initiative and approach can be commended, without explicitly endorsing the specific legislative proposals. The Presidential message was drafted accordingly. This is a responsible group in tune with the President's philosophy, and the Republican Party's need to stake out the high ground on high technology before the Atari Democrats appropriate it. We should encourage them.

TARGETING THE PROCESS OF INNOVATION

A REPUBLICAN AGENDA FOR U.S. TECHNOLOGICAL LEADERSHIP AND INDUSTRIAL COMPETITIVENESS

TASK FORCE ON HIGH TECHNOLOGY INITIATIVES
HOUSE REPUBLICAN RESEARCH COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

DRAFT #3--JANUARY 11, 1984

SUMMARY

Congress must act decisively in 1984 if the United States is to increase its leadership in technology and industrial competitiveness. We believe this objective can be met by targeting the process of innovation. That is, government should focus on strengthening the economic environment in the United States to promote the creation of new ideas, new technologies and economic growth.

This Agenda is organized around four conditions required for an environment that promotes innovation.

1. A commitment to basic research. We support the passage of:
   H.R.
   H.R. (To be completed in final version.)
   H.R.

2. Incentives for the risk takers--investors, entrepreneurs, innovators, and corporations. We support the passage of:
   H.R.
   H.R. (To be completed in final version.)
   H.R.

3. An educational system that produces an ample supply of trained personnel. We support the passage of:
   H.R.
   H.R. (To be completed in final version.)
   H.R.

4. Expanding market opportunities, domestic and foreign. We support the passage of:

H.R.

H.R. (To be completed in final version.)

H.R.

America's Challenge: Jobs and Prosperity

America's challenge today and for the next decade is creating enough new and satisfying jobs to employ our growing workforce and to increase the standard of living for all Americans. The key to meeting this challenge is industrial competitiveness--producing products and services whose quality and prices make them attractive to consumers abroad as well as those here at home.

In recent years, many American industries have lost their competitive edge. They've been beaten out in foreign markets, and they've lost market share here at home. That's cost American's jobs.

Some suggest that this is a permanent condition. They say that America should "write off" industries that have lost ground or, in some cases, eliminate foreign competition by erecting trade barriers so our firms can "survive" in domestic markets without having to be competitive world wide.

We disagree. We believe America can become competitive again in those markets that have growth potential worldwide. But to do so, we'll have to use change rather than fight it. U.S. frims will have to operate in new and better ways. They'll have to offer new products and services and find techniques to increase worker productivity. Their production processes must become more efficient and have a greater emphasis on quality. In short, we've got to apply far more technology and innovation in American industry.

U.S. Technological Leadership Has Helped Create Jobs

Over the past several years, a variety of studies have documented the importance of technological innovation to our economic growth, productivity, job opportunities, and trade competitiveness. A study by the Massachusetts Institute of Technology estimated that 80 percent of the growth of the gross national product in the United States between 1909 and 1949 was due to technological change. Further, a recent Brookings Institution study determined that more than one-half of the productivity increases in the United States between 1948 and 1968 were the direct result of technological innovation. In recent years, while the overall export performance of the United States has been mediocre, exports of research and development-intensive products have shown excellent growth. From 1960 to 1979, these industries increased their export surplus from $5.9 billion to $29.3 billion. During the same period, the trade balance of industries without technological bases declined from near zero to a negative $16.5 billion. It's clear that our technological leadership in the past has enabled the United States to create many new jobs to employ our growing work force.

U.S. Technological Leadership is Being Challenged From Abroad

On January 25, 1983, President Reagan in his State of the Union message announced that "This Administration is committed to keeping America the technological leader of the world now and into the 21st

century." This commitment by the President to spur technology may have come just in the nick of time. U.S. technological leadership has eroded in recent years. It hasn't been squandered like some other resources through overuse and waste. It's been frittered away through neglect.

Over the past 20 years, research and development expenditures as a percent of gross national product have declined in the United States. During the same period our two most aggressive trading partners--Japan and West Germany--were increasing their expenditures.

With the decreasing intensity of our research efforts, it is not surprising that our leadership in contributions to engineering and scientific understanding has fallen as well. In the 1950's, the United States was credited with 80 percent of the major inventions made during that period. During the 1970's, our share of major inventions dropped to 60 percent.

Central Planning Isn't the Answer

Due to the outstanding past performance of the U.S. high technology industry plus the growing recognition that our leadership in technology is being threatened from abroad, high technology and industrial competitiveness issues have been receiving considerable attention in Congress recently.

This is good, but in its enthusiasm to help, Congress must avoid the temptation of legislating direct government involvement to pick "winners" and "losers" in American industry. Still, some Members on the House Economic Stabilization Subcommittee recently proposed forming a Council and Bank for Industrial Competitiveness. These bodies would plan a "broad industrial strategy" and target billions of dollars in federal funds to companies who have difficulty obtaining funds elsewhere.

We believe such a scheme would be doomed to failure. Bureaucrats in Washington, D.C. shouldn't be given the job of picking between opportunities and dead ends. Making such decisions is hard enough for investors or managers who are on the firing line and have much to gain or lose personally from the results. Besides, politics would undoubtedly play a major role in the decisions. The history of federal handouts indicates that the money is often given to the industries and regions who are best represented in Washington rather than on the basis of merit.

Government Should Target the Process of Innovation

Rather than "targeting" specific technologies or industries, the proper role of government is to <u>target the process</u> by which they are developed--the process of innovation. That is, our government should focus on creating an environment in this country in which innovation and new ideas are likely to flourish and mature industries can modernize. Making sure that such an environment exists is the best way to help America maintain its technological leadership and industrial competitiveness.

There are four conditions needed for an environment that promotes technological innovation:

- A strong commitment to basic research, deepening and broadening our understanding of fundamental processes that will form the basis for industries and products of the future;
- Incentives for investors, entrepreneurs, and innovators to provide the capital and take the personal risks associated with the development of new companies and new products as well as the rejuvenation of mature industries;
- A strong educational capability, particularly in the sciences, that assures an ample quantity of trained technical and managerial personnel and a broad base of technically literate citizens who can deal with the challenges of a high technology world;
- Expanding market opportunities, domestic as well as foreign, which require a healthy economic environment and aggressive trade policies.

Proper government policy for industrial competitiveness is one that focuses on these prerequisites for innovation. It consists of specific legislative and regulatory initiatives that foster these conditions and avoid government actions that would weaken them. The specific initiatives needed will vary as actions are taken and events unfold, but we can specify what can and should be done right now.

The following Agenda for U.S Technological Leadership and Industrial Competitiveness contains the specific legislative initiatives that the 98th Congress should take in 1984 to strengthen the elements that are fundamental to the process of innovation.

A Strong Commitment to Basic Research

We must renew our commitment to basic research. The federal government must increase--not decrease--its funding of research carried out in universities and research laboratories. The truly basic research--such as the study of DNA that resulted in genetic engineering technology--will not be pursued by the private sector. Funding such research is a proper role of government. Federally funded basic research performed in America's colleges and universities also helps train the scientists and engineers needed for teaching and future research.

In addition to funding basic research, we need to alter our antitrust laws to permit the establishment of multicorporate research joint ventures. Such ventures would enable U.S. companies to pool their research resources and share in the results that are produced. Congress should pass legislation that would require that R&D joint ventures be judged by their competitiveness and reduce the damage liability from triple to single (actual) damages.

Taking unnecessary risks out of the formation of joint R&D ventures would permit our high technology companies to compete more effectively against the consortiums that have long been encouraged in other countries. In addition, lessening the antitrust risk would enable the ailing companies in the so-called "smokestack" industries to work together to solve their common problems and become more competitive in world markets.

To accomplish these objectives in 1984, Congress should:

- increase appropriations for basic research and the share that is allocated to colleges and universities;

- pass legislation requiring that R&D joint ventures be judged by their competitive effects and reduce the damage liability to actual damages.

Incentives for the Risk Takers

In addition to basic research, we need incentives for the risk takers--the investors, entrepreneurs, inventors, and enterprises who must take the risks of pursuing new ideas. Here, tax policy and regulatory policy play a significant role.

Tax Policy

The Economic Recovery Tax Act of 1981 contained an important incentive for risk taking. It provided for a 25 percent tax credit on increases in research and development expenditures. This tax credit was an excellent idea. It appears already to have had a positive effect on research and development (R&D) expenditures. Although the R&D credit was only partially phased-in in 1981 and 1982, a recent

McGraw-Hill survey shows that despite the severe recession there was a significant increase in R&D expenditures during those years, making it the first post-war recession in which the pace of research spending increased.

Although the R&D tax credit can be an important incentive in all industries, the restrictions that were placed on it by Congress have prevented it from being as effective as it should be. It has limited applicability for startup companies and computer software, and, most importantly, the tax credit is only temporary. It expires in 1986. However, since most R&D projects are long-term in nature, a temporary R&D tax credit cannot provide the kind of incentive necessary for long range projects. Congress needs to pass legislation this year to refine the applicability of the credit and make it permanent. Also, Congress should make permanent the temporary ban limiting R&D tax incentives when the resulting products are sold abroad.

Improved mechanisms are needed to attract capital to industries who have not been profitable recently but can regain their competitiveness through retooling and modernization. Congress should permit firms with unused investment tax credits to surrender the balance to the Treasury in exchange for a cash payment after reinvestments are made. The payment plus and additional amount must be repayed.

Patents and Copyrights

In addition to tax incentives, patent and copyright laws need to be strengthened to insure that innovators--both private and corporate--receive just rewards for their ingenuity. They must be encouraged to bring their technology to the market in all of its useful applications. Improvements are badly needed in intellectual property laws, the misuse doctrine, and process patent protection. Congress should require that procompetitive effects be considered by courts in cases involving the misuse of a patent or copyright as well as intellectual property licensing. Also, a loophole in the process patent law should be closed by legislating that a process patent is infringed if the patent is used without permission overseas and the resulting products are then used or sold in the United States.

Semiconductor circuit design also deserves protection from "pirate firms"--mostly overseas--who copy "chips" designed by U.S. firms. These chips have become pervasive in a wide variety of consumer products. They have long been the building blocks of computers but are also found in products such as automobiles, home appliances, and toys. Because pirate firms can market the chips without doing expensive R&D, they can sell their copied products for much less than the companies that designed the chips. This practice reduces the incentive to risk R&D dollars in new semiconductor circuit designs. Protecting semiconductor circuit design under copyright law would allow innovative firms to receive a fair return on their investments.

Federal Regulations

A significant portion of captial expenditures by the private sector is diverted from productive investment by regulations and government-induced delays. While many of these regulations are beneficial and necessary, they can be improved to place a smaller burden on innovation and still accomplish their objectives. Congress should amend basic regulatory statutes to increase the use of cost-benefit analysis, risk analysis, incentive-based regulation, and performance standards. It is also essential to assess technology hazards with greater accuracy using a solid scientific and medical base. Regulations resulting from needless fear, ignorance, and emotion can render useful technologies impotent.

To encourage risk taking in 1984, Congress should:

- make permanent the R&D tax credit and improve its applicability;

- require that courts apply the "rule of reason" test to intellectual property arrangements and lessen allowed damages to violators;

- require that courts be allowed to refuse to enforce a valid patent on the grounds of misuse only if competitive harm were found;

- permit enforcement of a domestic process patent against a product made in a foreign country by the patented process;

- make permanent the suspension of Treasury Regulation 861;

- enable companies that have earned but not used investment tax credits to surrender the balance of the credits to the Treasury in exchange for a cash payment, to be repayed later;

- improve the basis used for risk-assessment in the regulatory process;

- amend regulatory statutes to adopt performance standards in place of design or specification standards;

- amend regulatory statutes to substitute economic incentives (effluent fees) for direct regulatory control in many situations.

An Adequate Supply of Trained Technical People

We must ensure an adequate supply of trained technical people in the United States. The future demand for engineers and technicians is predicted to far outstrip the supply. This could put us at a severe competitive disadvantage in world markets. Japan, for example, has half the population of the U.S. but is training more engineers per year. The American Electronics Association (AEA) estimates we will have a shortage of about 90,000 engineers and computer scientists over the next five years in the electronics industry.

Some proposals in Congress are aimed at promoting technical education at the pre-college level. While many of these have merit, we believe the most important educational roadblock to innovation stems from a lack of capacity in our university science and engineering departments because of the high cost of educating technical people. Universities struggle to attract enought qualified professors because industrial salaries are so attractive. As a result of the more than 2000 unfilled faculty openings in U.S. engineering schools, 75 percent of the student applicants are turned away. Also, most schools can't afford to buy all the up-to-date equipment needed to train engineers and scientists.

Private industry has an important role to play in funding technical education programs. The AEA and the Massachusetts High Technology Council, for example, have already established industrial giving programs to collect money from corporations for falculty salaries and equipment.

To help increase the supply of trained technical people in the United States in 1984, Congress should:

- Extend R&D deductions and tax credits to include contributions to colleges and universities for teaching activities and equipment donations as well as research;

- Establish a program for matching grants for increasing engineering department capacities;

- Eliminate the incremental limitation on the university portion of the R&D tax credit;

- Make it possible for foreign nationals who possess skills in critical supply in the U.S. to remain and work here;

- Forgive loans to graduate students for a commitment to teach.

Expanding Market Opportunities

We need to expand our international trade opportunities to market the new products that result from innovation. The U.S. must pursue an agressive trade policy aimed at achieving free and fair trade. This will require tough negotiations to break down barriers erected by our trading partners as well as resisting the temptation of applying short-sighted protectionist measures of our own. In addition, we should maintain tax incentives (such as the Domestic International Sales Corporation that permits the deferral of taxes on profits from export sales) that encourage and help finance exports for small and large companies but do not violate the General Agreement on Tariffs and Trade (GATT).

The GATT has proven its value in assisting liberalized trade. Modifying the GATT to provide open and realistic coverage of services and investment would help improve our balance of payments and protect U.S. investors from unreasonable and economically damaging interference by foreign governments.

Above all, the process of innovation works best in a robust domestic economic climate with low interest rates and low inflation. Most firms are unwilling to make investments, to make long-term commitments, or to borrow the funds needed for expansion, productivity improvements and new jobs when interest rates and inflation are high. Federal deficits must be reduced significantly to lower interest rates and inflation, as well as to permit economic growth.

To expand domestic and foreign markets opportunities in 1984, Congress should:

- create a replacement for the Domestic international Sales Corporation that is compatible with the GATT;
- eliminate U.S. tariffs on semiconductors;
- extend the GATT to cover investment and services;
- reorganize federal trade responsibilities into a Department of Trade.

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Technology and innovation are perhaps our nation's greatest strengths. We must preserve them. However, innovation cannot be forced. It can

only be fostered. It is fostered by creating an environment that emphasizes freedom of scientific and industrial activities and that offers incentives to the innovators, entrepreneurs, and investors, who have the talent and resources to advance and apply technology. It is fostered by a thorough understanding of fundamental physical processes and by a population that is well-educated in science and its application. It is fostered in a healthy economic environment and by trade policies that provide expanding opportunties for our technology and basic manufacturing products. Promoting such an environment should be a primary policy objective of the United States.

We can take a major step forward this year by passing into law the Republican Agenda for U.S. Technological Leadership and Industrial Competitiveness.