

provides a rigorous method at all.

And, fundamentally, the proposals at hand fail entirely to address the problem of skilled labor, the biggest problem of all. For 15 years American universities have shifted away from training the scientists and engineers needed for reindustrialization, and the skilled labor pool among industrial operatives has shrunk. Industrial engineers are not available in the right quantity and often of the right quality. What we have gotten instead is a generation eaten up by "Aquarian" hedonism, and in increasing numbers unfit for the workplace.

America requires more than a policy maneuver. The economic crisis is such that any maneuver by itself must fail. The state of the population shows us that economics is at bottom a moral science, the science of enhancing the capabilities of populations to assimilate and employ scientific knowledge. Anyone who believes that a President of the quality of Carter or Reagan, once persuaded by the "right advisors," could bring off such a recovery is blind to the most important policy issue at work: the precondition of moral leadership for this country.

Legislation

Industrial policy comes to the U.S. Congress

Pieces of legislation directed in some form toward the advancement of U.S. industrial research and development and basic capital formation are now progressing toward final votes in Congress.

These bills, typified by Senator Lloyd Bentsen's (D-Texas) "Capital Cost Recovery Act" and Senator Adlai Stevenson's (D-Illinois) "Technological Innovation Act" are basic, though limited, steps toward putting together some of the needed industrial and scientific infrastructure in this country.

The legislation combined should add about \$3.5 billion to the U.S. economy in added capital formation and increased research and development in fiscal year 1981, and rise to about a contribution of \$35 to \$50 billion by fiscal year 1985, according to the sponsors of the bills. Plus, there will be several intangible benefits—new technologies—which could end up increasing U.S. productivity in a way that could be worth \$100 billion to \$150

billion in additional corporate revenues.

These bills have been advanced by policymakers linked to industry and labor who have become increasingly alarmed as the technological base of the U.S. continues to erode. Productivity, measured in Department of Labor terms at less than 1 percent per year, is insufficient to prevent the U.S. from losing its competitive edge in world markets or from collapsing as an economy.

Thus, since 1977-78, when the disastrous course of America's Malthusian policies became apparent, a thrust was initiated to steer the U.S. back toward a broad-based use and development of new technologies, and to increase capital formation for that purpose.

The Presidential review

Responding to the demands in March, 1978 that the U.S. industry not be allowed to collapse into a junk heap, the Carter administration set up a Domestic Policy Review on Technological Innovation. In preparation for the review, industry, science and foundation groups prepared study papers for the White House.

The study was centered under Carter's White House science advisor, Frank Press, and Assistant Secretary of Commerce Jordan Baruch. Among the sorts of recommendations offered were those of the New York-based Committee for Economic Development (CED), a businessmen's group. The CED recommended three basic changes:

- (1) permit a more rapid capital recovery allowance to stimulate investment in new plant and equipment;
- (2) allow R&D assets to be fully depreciated in the first year, or at the discretion of the firm;
- (3) reduce capital gains taxes to encourage inventive activity by small firms, traditionally the source of much innovation.

The CED also called for reducing or eliminating several government regulations and a change in patent laws. The CED approach was representative of most industry suggestions. The MIT Center for Policy Alternatives, centered in Cambridge, Massachusetts, also did a final study review for the President's panel, recommending ways to increase technological innovation. The MIT Center is under the direction of Herbert Holloman, a former head of General Electric's R&D department.

The reams of paper submitted to the Carter Review task force were ignored. The Commerce Department's Jordan Baruch did not adopt anything that might radically change the 15 pre-existing and mostly minor White House programs that allegedly foster technological innovations, mostly for small businesses. One industry source described Baruch as a "snake-oil salesman."

By the time the recommendations of the Commerce Department got through the President's Domestic

Council, which is under the direction of Stuart Eizenstat, they were thoroughly emasculated. One of Eizenstat's assistants, Al Stern, acknowledged that any proposals for tax changes to accelerate capital formation would represent new tax initiatives outside the scope of the report.

Rep. Charles Vanik (D-Ohio), who introduced a bill into the House to increase R&D expenditure tax write-offs, summed up the thinking of many when he pronounced, "The administration plan gives no incentives that are going to work." An official high up in the Congressional bureaucracy added, "The Carter proposals offer even less than what was proposed by the Ford, Nixon, Johnson or Kennedy administrations."

It was in late 1979, at the point the Carter White House review turned out to be a manifest disaster, that the proliferation of national bills and magazine articles touting "reindustrialization" and "technological innovation" became conspicuous.

Of the two pieces of legislation on these subjects that are most advanced in the legislative process, the "Capital Cost Recovery Act," sponsored by Senator Bentsen and Representative James R. Jones (D-Oklahoma) has 306 sponsors in the House and 60 in the Senate. It is certain to pass if it is brought to the floor in the current session of Congress, a move the bill's sponsors are confidently pushing for. The other advanced piece of legislation, the "Technological Innovation Act" sponsored by Senator Stevenson passed the House Science Technology Committee July 3 and will go to the full House soon, where it has favorable prospects. It passed the full Senate by voice vote on May 28.

Washington's major bills

Research and Development Act

S.2906.

Sponsored by Sen. Jack Danforth

According to the executive summary of the Act written by the sponsor, "The proposal provides a credit equal to 25 percent of the increase in research and development expenditures during the current year over the average of the preceding years. Therefore, in order to get any credit, a taxpayer must increase his spending for R&D over the average of the three preceding taxable years.

Technological Innovation Act

S.1250.

sponsored by Sen. Adlai Stevenson

Sec. 2. Findings

Congress finds and declares that:

(1) Technology and industrial innovation are central to the economic, environmental, and social well-being of citizens of the United States;

(2) Technology and industrial innovation offer an improved standard of living, increased public and private sector productivity, creation of new industries, and employment opportunities, improved public services and enhanced competitiveness of United States products in world markets;

(3) Many new discoveries and advances in science occur in universities and Government laboratories, while the application of this new knowledge to commercial and useful public purposes depends largely upon actions by business and labor;

(8) No national policy exists to enhance technological innovation for commercial and public purposes;

Sec. 5. Commerce and Technological Innovation

(a) The Secretary shall establish and maintain an Office of Industrial Technology in accordance with the provisions, findings and purposes of this Act.

(b) The President shall appoint, by and with the advice of the Senate, a Director of the Office.

Sec. 6. Centers for Industrial Technology

(a) Establishment—the director shall provide assistance for the establishment of Centers for Industrial Technology. Such centers shall be affiliated with any university, or other nonprofit institutions or group thereof that applies for or is awarded a grant. . . .

(1) [The centers shall have] the participation of individuals from industry and universities in cooperative and innovation activities.

Sec. 7. Activities

(1) Research supportive of technological and industrial innovation including cooperative industry-university basic and applied research.

Sec. 10. Authorization of Funds

(a) There is authorized to be appropriated to the Secretary [of Commerce] for purposes of carrying out

Section 6 not to exceed \$19 million for fiscal year ending September 30, 1981, \$40 million for the fiscal year ending September 30, 1982, \$50 million for the fiscal year ending September 30, 1983, and \$60 million for each of the fiscal years ending September 30, 1984 and 1985.

Capital Cost Recovery Act

S.1425, H.R.4646.

Sponsored by Sen. Lloyd Bentsen and Rep. James H. Jones

The purpose of the Act in its summary is "A bill to amend the Internal Revenue Code of 1954 to provide a system of capital recovery for investment in plant and equipment, and to encourage economic growth and modernization through increased capital investment and expanded employment opportunities."

Sec. 168. Capital Cost Recovery Deduction

(a) Allowance of deduction—In the case of recovery property, there shall be allowed the recovery provided by this section.

(b) Amount of deduction

(1) In general—the recovery deduction for the taxable year shall be the aggregate amount determined by applying to the capital cost of recovery property the applicable percentage determined in accordance with the following table:

Capital Cost Recovery Table

If the recovery year is:	The applicable percentage for the class of property is:		
	Class 1	Class 2	Class 3
1	10	20	33
2	18	32	45
3	16	24	22
4	14	16	
5	12	8	
6	10		
7	8		
8	6		
9	4		
10	2		

(a) Classification table—the classification of recovery property shall be determined in accordance with the following table:

Classification of Recovery Property

Class 1	Class 2	Class 3
Buildings, and structural components of buildings	Recovery property not taken into account under Class 1 or Class 3 (i.e., machinery equipment)	Automobiles, taxis, and light-duty trucks

The purpose of the Act, according to its executive summary, is "achieved by replacing the current complex array of depreciation lifetime schedules with a standardized set of depreciation lifetimes for most capital assets."

Thus the basic thrust of the Act is to reduce the depreciation lifetimes of plant structures from 20 to 30 years down to 10 years; to reduce the depreciation lifetime schedule of equipment from 20 down to 10 years; and to reduce the depreciation lifetime schedule of light motor vehicles from 5 to 3 years.

According to a spokesman for Rep. Jones the bill will reduce corporate taxes by \$3 billion the first year, and by \$35 billion by the fifth year.

Research Revitalization Act

S.2353, H.R.6632.

Sponsored by Sen. Paul Tsongas and Rep. Charles Vanik

According to its sponsor, Mr. Vanik, "The Research Revitalization Act provides a nonrefundable credit to business for 25 percent of the amount contributed in cash to a research reserve. However, the maximum credit is limited to 5 percent of the taxpayer's business income. A deduction is allowed for payment to the reserve if it is used for basic or exploratory research by colleges and universities. A research reserve is a reserve amount which is exempt from income tax."

The Act, intended to foster basic R&D, gives a 25 percent tax write-off for basic R&D, performed at a college or university. Each corporation that wants to qualify for the Act will maintain a research fund (called a research reserve).

According to its sponsor, Rep. Vanik, "This program would provide a substitute for military adventures or the space program in providing powerful, energizing forces for the creation of new technology."