

**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SCIENCE, SPACE, AND TECHNOLOGY
SUBCOMMITTEE ON TECHNOLOGY AND INNOVATION**

HEARING CHARTER

*Fostering the U.S. Competitive Edge: Examining the Effect of Federal Policies on
Competition, Innovation, and Job Growth*

**Tuesday, March 27, 2012
10:00 a.m. – 12:00 p.m.
2318 Rayburn House Office Building**

I. Purpose

On Tuesday, March 27, 2012, the Committee on Science, Space, and Technology Subcommittee on Technology and Innovation will convene a hearing to better understand how Federal policies and regulations affect competition, innovation and job growth, and to solicit input from leaders of innovative companies on ways to improve Federal economic and regulatory policy.

II. Witnesses

Dr. Ron Cohen, President and CEO, Acorda Therapeutics.

Mr. Mick Truitt, Vice President, Ludlum Measurements, Inc.

Mr. Thomas M. Brandt, Jr., Sr. Vice President and CFO, TeleCommunications Systems, Inc.

Mr. Richard Bendis, Interim CEO, BioHealth Innovation; President and CEO, Innovation America.

III. Background

Competitiveness and innovation are crucial to ensuring economic growth and job creation in a global economy. Historically, the United States proved to be an excellent place from which to launch a new business, cultivating domestic entrepreneurship and attracting talent from around the world. The U.S. is home to a multitude of innovative companies in various high-growth sectors. U.S.-headquartered companies make up a disproportionate share on the lists of global companies by market capitalization, such as the Financial Times Global 500¹. The U.S. is also home to 14 of the top 20 universities, according to the Times Higher Education World University Rankings.²

¹ <http://media.ft.com/cms/33558890-98d4-11e0-bd66-00144feab49a.pdf>

² <http://www.timeshighereducation.co.uk/world-university-rankings/2011-2012/top-400.html>

The United States continues to have the largest economy in the world. According to the Organization for Economic Co-operation and Development (OECD), the U.S.'s 2010 Gross Domestic Product (GDP) was nearly 43 percent higher than China's, the second country on the list, in terms of purchasing power parity³.

However, recent trends suggest that other countries are catching up in terms of economic growth and competitiveness. In fact, a study by the Information Technology and Innovation Foundation, a non-partisan research and educational institute, ranks the U.S. sixth out of 40 countries in overall innovation-based competitiveness.⁴

According to The Conference Board, a global, independent business membership and research organization, U.S. GDP is estimated to grow at an average annual percentage rate of 2.3 in the years 2012-2016⁵, below the post-World War II average of 3.25 percent⁶. Unemployment currently sits at 8.3 percent, according to the February 2011 Bureau of Labor Statistics Report.⁷ Some economists predict that China's GDP will surpass that of the United States in terms of purchasing power parity in 2016 and in market exchange rate value by 2018.⁸

Policymakers from different countries recognized the success of innovative companies in the United States (including small, medium, and large companies) and implemented policies to cultivate innovation-led growth in their own countries. These policies cover a wide spectrum including tax, research, regulation, human capital, and trade policies, among many others.

Today's hearing is intended to examine how Federal policies and regulations affect competitiveness, innovation, and job growth. Witnesses will discuss the advantages and disadvantages of current Federal policies, and will make recommendations on how changes to Federal policies can improve the country's competitive profile to ensure that the U.S. remains the preeminent country in which to launch or expand a business.

IV. Federal Policy and Competitiveness

In a developed economy such as that of the United States, private sector innovation is critical to economic growth. Studies have demonstrated that innovation leads to mid-term and long-term employment and income growth.⁹ Indeed, according to the Information Technology Industry Council, an association of information and communications technology firms, innovation has

³ <http://stats.oecd.org/index.aspx?queryid=556>

⁴ R. Atkinson and S. Andes, "The Atlantic Century: Benchmarking EU & U.S. Competitiveness." Information Technology and Innovation Foundation, 2009.

⁵ <http://www.conference-board.org/data/globaloutlook.cfm>

⁶ <http://www.tradingeconomics.com/united-states/gdp-growth-annual>

⁷ <http://www.bls.gov/news.release/pdf/empsit.pdf>

⁸ http://www.economist.com/blogs/dailychart/2010/12/save_date

⁹ R. Atkinson, D. Castro, S. Andes, S. Ezell, D. Hackler, and R. Bennett, "Innovation Policy on a Budget: Driving Innovation in a Time of Fiscal Constraint." Information Technology and Innovation Foundation. September 2010

been responsible for approximately 80 percent of the growth in the U.S. economy since World War II.¹⁰

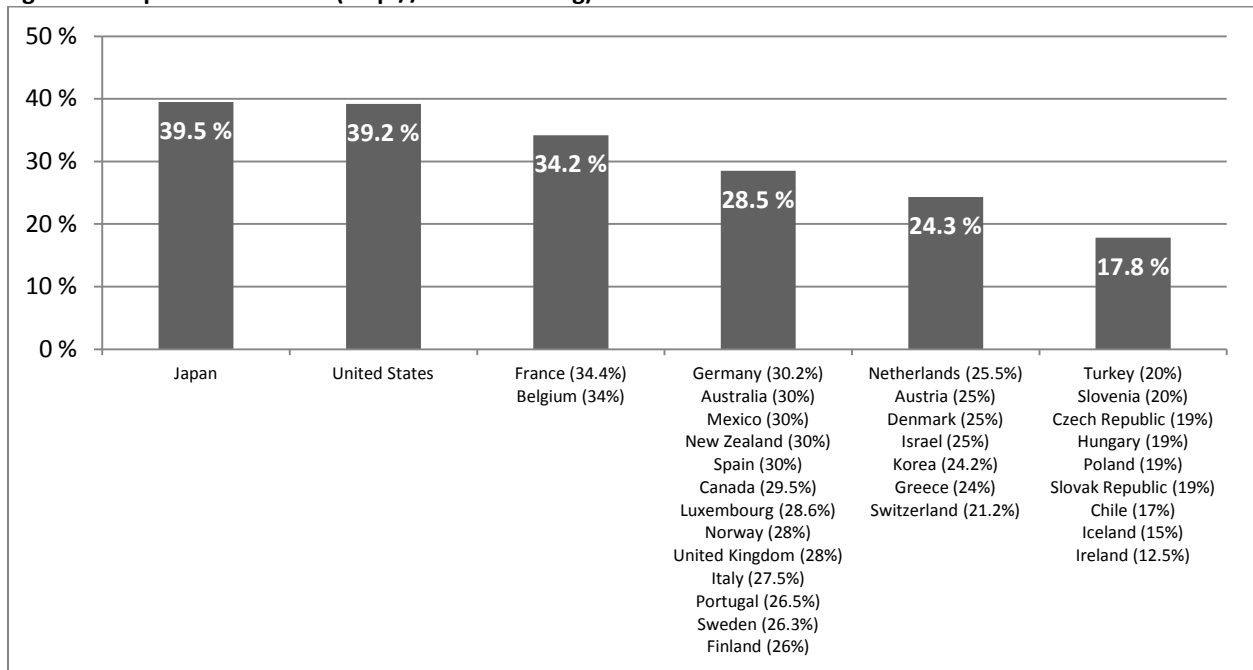
Other countries recognize the importance of promoting innovation-led growth and have adopted policies intended to increase foreign direct investment and domestic development and production.

Today’s hearing will examine the effects of the following policies (among others) on competitiveness and innovation.

Corporate Tax Policy

The U.S. currently has the second highest marginal corporate tax rate in the OECD at 35 percent (39.2 percent including state and local taxes).¹¹ Many OECD countries have lowered corporate tax rates over the last 20 years to improve their competitiveness. Indeed, if Japan changes its corporate tax rate on April 1 as expected, the U.S. will have the highest marginal corporate tax rate in the OECD (see figure 1). Even after accounting for credits and deductions, the U.S. effective tax rate is more than 5 percentage points higher than the effective tax rate for the rest of the OECD.¹²

Figure 1: Corporate Tax Rates (<http://www.oecd.org>)



Other tax policies that affect competitiveness and innovation include the tax treatment and filing status of companies, as well as different countries’ policies on taxation of foreign earnings for exporters.

¹⁰ Information Technology Industry Council (www.itic.org)

¹¹ http://www.oecd.org/document/60/0,3746,en_2649_34533_1942460_1_1_1_1,00.html#C_CorporateCapital

¹² http://businessroundtable.org/uploads/studies-reports/downloads/Effective_Tax_Rate_Study.pdf

Regulation

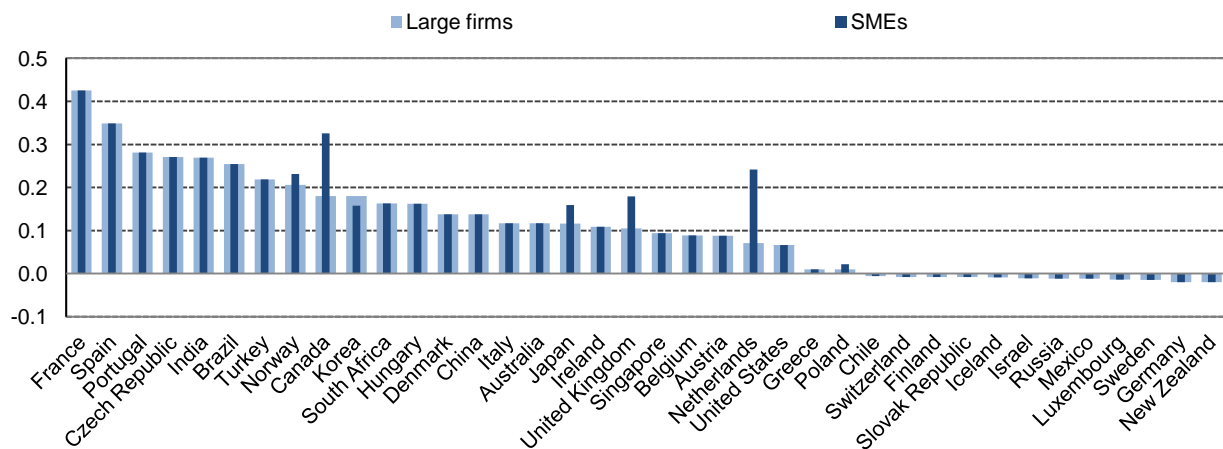
Federal regulations affect the cost of doing business for companies and therefore affect competitiveness. Regulations can have different effects on different sized businesses. A 2008 study commissioned by the Small Business Administration determined that small businesses faced an annual regulatory cost of \$10,585 per employee, which was 36 percent higher than the regulatory costs facing large firms.¹³ The Committee will examine the effects of regulatory policy on U.S. competitiveness for small, medium, and large firms.

Research

R&D Tax Credit

The U.S. was the first industrialized country to adopt a comprehensive research and development tax credit in 1981. This credit provided incentives to businesses for conducting research which might lead to potential new products and services, even though the benefits of this research could accrue beyond the company conducting the research. Many countries followed suit and now offer more robust credits to fund research activities at private companies. France has enacted an R&D tax credit six times more generous than that of the U.S.'s (see figure 2)¹⁴.

Figure 2: R&D Tax Credit (OECD Science, Technology and Industry Scoreboard 2009 - OECD © 2009)



Industry/Federal Funding for Research

According to Batelle, a major research and development organization focused on scientific discovery and application, U.S. funding of research and development totaled \$427.2 billion in 2011, of which \$270 billion came from industry, \$128 billion from the Federal Government, and \$30 billion from academic and other sources.¹⁵ The Committee will examine prioritization of

¹³ <http://archive.sba.gov/advo/research/rs371tot.pdf>

¹⁴ www.oecdilibrary.org/content/book/sti_scoreboard-2009-en

¹⁵ 2012 Global R&D Funding Forecast

Federal funding for basic and applied research programs within the context of the challenging budget environment.

Human Capital

Innovative companies in knowledge-based economies depend on a talented workforce to develop new products and services or to improve existing products and services. Science, Technology, Engineering, and Math (STEM) education and immigration policies have an effect on competitiveness and innovation and the Committee will seek input from witnesses on these issues.

Trade

Innovative companies that export products and services depend on access to foreign markets. Trade policies affect the cost of doing business for companies in global markets. The Committee will examine Federal trade policies, including existing and potential trade agreements.

V. Questions for Witnesses

Witnesses have been asked to: provide recommendations on policies the Congress should enact to improve American competitiveness and to promote innovation; describe whether current Federal policies inhibit their companies' ability to innovate and, if so, recommend steps that Federal policy-makers can take to alleviate this burden; describe how Federal policy or regulatory uncertainty affects their companies' ability to make business decisions; and describe how individual country's economic policies influence their companies' decisions to establish or expand business operations.