

MEMORANDUM FOR:

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The attached memo describes the Cabinet Council high technology study. It was prepared in early November and is now being revamped in preparation for a meeting next week of the Cabinet Council on Commerce and Trade.



Date 9 Dec 1981

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CCCT High Technology Study

Subject: Outline of the background, objectives, scope, and organization of the proposed CCCT high technology study.

I. BACKGROUND

U.S. high technology industries contribute significantly and disproportionately to U.S. export performance and to growth in productivity and the domestic economy. It is conservatively estimated that 23 percent of the domestic production of high technology industries was exported in 1980. Moreover, high technology industries provide critical support to our national defense.

Many foreign governments recognize the importance of high technology industries to their plans for economic growth and to their national security. Accordingly, they have sought to foster development of such industries by interfering with the operation of normal market forces to ensure special treatment of high technology industries through preferential tax policies and intervention in capital markets. Foreign trade and investment policies have also been adjusted to accommodate these efforts.

There is growing concern that U.S. high technology industries will be at an unfair competitive disadvantage as a result of these policies and that they may suffer substantial injury and loss of international markets over the next several years.

To better understand the competitive position and probable future course of these industries we propose that the CCCT direct a study on the outlook for U.S. high technology industries in the world economy.

The following outlines the objectives, scope, and organization of the study.

II. OBJECTIVES

To determine the capability of U.S. high technology industries to maintain a leading position in the face of increasingly strong foreign competition.

To identify the probable economic and national security consequences from any projected loss of preeminence in the high technology area.

To evaluate possible U.S. Government policy responses if the study results in conclusions that one or more high technology industries faces a significant threat.

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III. SCOPE

The study will be an assessment of the ability of key U.S. high technology industries to maintain competitive viability in the current and projected international economic environment. The core of the analysis will be a comparison of the technological state of the art between U.S. industries and their foreign competitors, an assessment of the importance of high technology industries to overall U.S. economic performance, and the effect of macroeconomic and technological factors and government policies on the future competitive viability of the U.S. high technology industries.

The industries studied would be chosen on the basis of their significance to the economy as a whole, the advanced state of the technology involved, and their importance to our national security. These industries will include semiconductors, aerospace, computers, telecommunications, industrial control systems, robotics, and other appropriate industry segments.

The technological origin of the industries will be studied, with particular emphasis on the role of government intervention. The government/high technology sector relationship will be analyzed both generally and as it applies to specific industries in Japan, Germany, the United States and other key countries. Factors to be studied will include government financial support, including R&D funding, the effect of regulation and tax policies on performance, the influence of antitrust policies, and the government role in regulating market access. The study will also compare formal and informal trade barriers, implementation of the MTN codes, the effect of foreign subsidization on third market penetration, and U.S. export disincentives.

The study will also cover industry structures and trends, including capital formation, costs, strengths, and profitability, the degree of integration and concentration of industries, and R&D programs. The U.S. labor situation in high technology industries will be compared to those abroad. The study will look at future influence of key skills in the labor force, labor force motivation, comparative productivity, and management techniques.

The study will draw conclusions on the consequences to our national security and to the U.S. economy as a whole from any projected loss of competitiveness in key high technology areas. The extent to which U.S. military procurement may become dependent upon foreign sources for critical supplies and technology is an area of particular concern. Surge capacity of U.S. industry, industrial mobilization, and diversion of technology will also be covered.

If the study determines that one or more segments of our high technology sector face a significant threat, possible U.S. policy responses, both domestic and international, will be evaluated.

IV. STUDY ORGANIZATION

The study will be organized to ensure quality results, speed of completion, and ease of gaining acceptance by the CCCT. These criteria can best be met by assembling a small working group (3 to 5 persons) of the highest caliber experts on high technology industries and the economy chosen from among the various agencies within the U.S. Government. The staff of the working group will be detailed from their agencies to work full time on the project.

The working group will take its mandate from the CCCT and report directly to it. Central staff direction will be provided by a single person designated by the CCCT, with proven expertise in the area and the ability to devote almost full time to the project.

Agencies with interest and responsibility in the areas covered by the study will be asked to participate by making available to the working group, as needed, their data, resources, analyses of issues and full cooperation. These agencies will be requested to appoint a contact person who can coordinate assistance from the agency to the working group. The staff director may convene interagency groups to provide guidance on policy issues affecting the study. The report will be circulated in draft form to each member of the CCCT for comment prior to its formal presentation to the CCCT. The study will be completed within 120 days after its commencement.