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HATCH: Keeping U.S. edge sharp

Research funding and tax changes needed
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In light of the country's current economic struggles, it is important we not lose sight of what really makes us competitive globally: our entrepreneurial spirit and the ability to innovate.

For more than 50 years, America's technological leadership has been the foundation for domestic economic growth, enhanced productivity and national security, and a sustainable competitive advantage within the global economy. While recent action in Washington encourages more research, we must realize the effects of tax policy and other legislation on the U.S. high-tech sector.

Technological advancements within the semiconductor - the computational brains of every computer and electronic device - industry in particular have spurred breakthroughs in energy efficiency, national defense, communications, health care, transportation and education. Semiconductor technology is essential not only to economic growth, but also to national security. In fact, the Defense Science Board issued a report on high-performance microchip supply, noting "semiconductor technology and manufacturing leadership is a national priority that must be maintained if the U.S. military is to continue to lead in the application of electronics to support the war fighter."

We welcome efforts on both sides of the aisle to increase basic research funding in the physical sciences, allow talented foreign students to stay here after they graduate and improve K-12 science, technology, engineering and mathematics (STEM) education - all elements critical to our high-tech sector.

This spirit of bipartisanship was exemplified by broad support for the America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education and Science (America COMPETES) Act and a permanent research-and-development tax credit.

This being said, increases in basic research funding and work-force improvements are only parts of the solution. For instance, the semiconductor industry faces many macro-environmental forces, domestically and abroad, that could hinder our economic growth. Other countries continue to recognize the importance of this industry while they pursue efforts to attract and grow high-tech investment. There is a \$1 billion difference in total operating costs associated

with a chip fabrication facility over a 10-year period abroad versus the United States. This cost savings is largely attributable to tax rates and other investment policies that reflect calculated thinking by our largest competitors. In contrast, the United States has one of the highest corporate tax rates in the world.

Our high-tech sector will face even greater challenges if the administration's recent tax increases, like getting rid of deferral, are adopted for U.S. multinational firms. These proposals amount to a tax on innovation.

If we want U.S. companies to be competitive globally, we should encourage them to compete internationally as well. More than 70 percent of U.S.-owned semiconductor manufacturing capacity is in the United States, although the U.S. market represents less than 25 percent of its sales. Semiconductors are America's second-largest export. Success for this industry abroad translates into success and new jobs at home, both in manufacturing and research and development.

New innovations will boost jobs and help us out of the economic downturn. Only new innovations will create job opportunities and bolster future industries. It's time for Washington to take this into account.

As Congress debates legislation on energy, health care and education, it is fundamental to understand the impact that the semiconductor industry has on these areas. At the same time, we must focus on the sustainability of the American high-tech sector in the global economy.

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