

Statement for the Record of TechAmerica
Committee on Appropriations, United States Senate
Hearing on
FY15 Hearing: Driving Innovation through Federal Investments

April 29, 2014

Chairwoman Mikulski, Ranking Member Shelby and Members of the Committee, thank you for the opportunity to submit testimony for the record on the important topic of Driving Innovation through Federal Investments. TechAmerica, the leading voice for the U.S. technology industry, applauds the committee's focus on this critical issue.

TechAmerica has long advocated for policies that support the innovation economy, including providing incentives for innovation and research which fuel economic growth and job creation in the United States. Over the years, the U.S. has harnessed innovation to power economic growth and raise standards of living. The federal government has played a critical role in the success of this effort through innovation-friendly policies and incentives. Policies that promote innovation are critical to our overall success, including expanding and making permanent the research and development tax credit.

The importance of innovation – creating new ideas, products, services and nurturing growth – cannot be overstated. In today's competitive global marketplace, research and development, combined with entrepreneurial risk-taking, drive economic growth. As the old saying goes, many of our most successful U.S. businesses "started in a garage."

Historically, the U.S. government has paved the way for innovation with policies that encourage innovation on many levels, driving technological advancement and creating millions of high-skilled, high-paying jobs. Yet, with the changing market environment, the U.S. is no longer as dominant in innovation and entrepreneurship as it once was. To maintain our edge in an environment of rising global competition we must foster and expand our focus on innovation.

Technology remains a leading driver of both innovation and job growth. On average, each job in the technology industry supports nearly 5 jobs in other sectors of the economy. In addition, tech remains a driver of growth in the U.S. gross domestic product, of trade and accounts for nearly two-thirds of corporate capital investment. For this to continue, the government must promote pro-growth and pro-innovation policies.

TechAmerica wants to help ensure that high quality new U.S. jobs emerge in a competitive, global, technology-based economy. Unfortunately, the U.S.'s ability to adapt and compete alongside emerging workforces in China, India, Ireland, Canada and other countries is hindered by weaknesses in education, a lack of R&D funding, a visa policy that limits the number of high-skilled workers and a business climate heavy with regulatory burdens. As Congress considers the role of innovation in driving our overall economy, they should promote policies that allow the U.S. to remain the world's leader in innovation.

Investing in Education

TechAmerica wholeheartedly supports investments in science, technology, education and math (STEM) at all levels and from the earliest age. The U.S. has made strides in recent years in this area but more must be done for the U.S to regain its competitive advantage.

A Tax Code that Promotes Innovation

The research and development tax credit was enacted in 1981 as a means to encourage forward thinking U.S. businesses to invest in R&D activity. The environment has changed significantly since 1981, with increasing competition around the world for talent and resources. This changing environment requires more, not less focus on promoting research and development. According to a recent report of the TechAmerica Foundation and Grant Thornton LLP, of the 34 OECD countries, 26 use some sort of fiscal incentive to encourage investment in R&D and of the 23 countries that offer tax incentives specifically, the U.S. ranks 15th. Other countries are using the playbook we created to beat us. Where we were once number one, there are now 14 other countries that make more investment in R&D than we do. We must improve to keep pace.

Again this year, Congress failed to extend the research and development tax credit which expired on December 31, 2013 and this is already impacting U.S. businesses. According to an April 17, 2014 report in the Wall Street Journal, Google cited a higher tax rate as a result of the expiration of the R&D tax credit as a reason for slower first quarter 2014 growth and lower earnings per share. Assuming this scenario applies to other companies in technology, this is a concerning trend. Congress needs to quickly enact an extension of the R&D tax credit to prevent further erosion.

Furthermore, the uncertainty of the one-off extensions of the R&D tax credit means companies are not able to plan accordingly and is resulting in a less effective system. A clear set of expectations and a stable forecast could vastly improve the impact and effectiveness of the R&D tax credit.

The inability to forecast the credit is detrimental to business, the research sector in the U.S. and the very fiber of research and development in this country. Not to mention the numerous other jobs supported by these growing companies. The recent trend of retroactively reauthorizing the credit is especially detrimental. Because businesses cannot count on the R&D tax credit on a year-to-year basis, investment in R&D suffers.

Investing in Basic Research

The U.S. government has a critical role to play in the area of basic research. Basic research, in fields such as life sciences, information technology, and clean and green technology historically has led to many innovations. Often the seeds for these new discoveries were planted with federal funding provided to universities and government labs and then commercialized by angel and venture investors. Ongoing investment in basic research is critical.

TechAmerica supports the reauthorization of the American Competes Act, first passed into law in 2007 and reauthorized in 2010. This legislation would significantly increase funding for the National Science Foundation, the National Institute of Standards and Technology and the Department of Energy's Office of Science, while seeking to broaden participation in STEM programs and investing in innovation entrepreneurship.

Investment in R&D and basic research are significant drivers of technological progress and economic growth. U.S. industry and the U.S. federal government are the primary providers of financial support for basic R&D in the United States. Sources of these basic research funds – NIH, NIST, DOD, DARPA, NSF, DOE, ARPA – Energy and others – are keys to our success. Continuing to support federally funded research through these entities will continue to nurture the relationship between government and private investment.

Ensuring a Highly-Skilled Workforce

In addition to supporting research, the government must also support the development of the entrepreneurial talent that brings this research to life. As mentioned earlier in our testimony, TechAmerica supports government investment to improve math and science education for U.S. students, particularly in grades K-12. We also support programs to retrain workers with the vital skills to fill open U.S. technology jobs.

In addition to these investments, it is critical that we foster an environment that draws the best and brightest from around the world to the U.S. As such, we support immigration reforms that make it easier for highly-skilled foreign workers to enter and work in the United States, expanding the number of H-1B visas available each year.

Conclusion

In the United States, technology and innovation continue to drive economic growth and raise the overall standard of living for all of us. The federal government, through investments in education, R&D, basic research and other related policies that drive and incentivize innovation, has played a critical role in ensuring this growth. As countries around the world up their investment and commitment to policies that promote investment in technological innovation, the U.S. government must do so as well. To maintain our innovation advantage, we must rededicate ourselves to what has made us successful: increasing support for basic research, promoting investment in R&D through smart tax policies, improving math and science education and opening new markets through common-sense immigration reforms. TechAmerica is committed to working with you to move the innovation agenda forward.

Thank you again for the opportunity to submit this statement for the record.