

## National Policy - Part II

4. The relative rate of change of factor costs principally changes in wage rates, productivity, inflation, and the exchange rate.

The evidence seems to indicate that recent trends in most of these factors have been against the United States. For example, most European countries and Japan were expanding R&D expenditures as a percentage of GNP during the 1966-1971 period, while the United States percentage declined. Foreign licensing of technology to the United States licensing overseas. Also, United States export prices increased by 18 percent in 1966-1971, compared with increases of 9 percent for Japan and 12 percent for Germany. This was due primarily to the advance effects of low productivity increases coupled with rapid inflation in the United States during the period.

Policies are needed which go beyond seeking currency realignments and reduction of trade barriers, although these constitute desirable elements of a comprehensive program. Yet, if the combined effects of high price inflation and low productivity vis-à-vis our trading partners is not reversed, only a constant stream of current adjustments can maintain United States international comprehensiveness.

A dynamic long-term approach is required to a problem, which is basically evolutionary in nature. The 1974 Trade Act takes a step in that direction by recognizing that the United States can maintain domestic production of certain mature product lines only at considerable cost and protection. Thus, while favoring generalized tariff preferences for developing countries, it calls for national assistance to firms and employees in the low-technology, mature end of the product spectrum.

United States inventiveness must be rejuvenated. An increased flow of new products in frontier technology areas ( e.g., pollution control equipment ) will contribute substantially to a positive trade balance. Innovation in production processes will improve United States productivity and lengthen the cycle by increasing United States competitiveness overseas. Measures and incentives aimed at promoting a greater flow of R&D funds will contribute more than any other single factor to the long-run competitiveness of the United States in world markets.