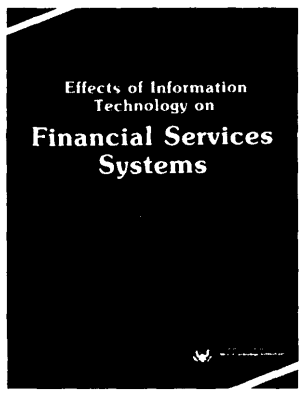
Section II.-Year in Review

The assessments carried out by OTA cover a wide spectrum of major issues that Congress and the country are facing. A brief summary of each report published by the Office during the year* is presented in this section. The reader is cautioned that these are synopses of reports. They do not cover the full range of options considered or all of the findings presented in any individual report.

Effects of Information Technology on Financial Service Systems

Information processing and communication technologies, together with consumer response and economic, legal, and regulatory factors, have dramatically-transformed the 'financial service industry in the last 10 years and challenged the premises of current Federal policies rooted in the 1930's.



Today's financial service industry and its competitive structure differs markedly from that of the 1970's, and is expected to continue changing at a significant rate at least through this decade. Reliance on advancing technologies to deliver services and products such as credit, deposit-taking, investment, and insurance, has increased rapidly. Even the smallest firms can afford the key technologies and can compete with larger firms in providing sophisticated services.

Automated teller machine networks have reduced the significance of geographic restrictions on the operations of banks, and have offered opportunities for new entrants, such as food and merchandise retailers, to the financial services industry. Systems providing access to funds from virtually any place in the Nation, regardless of where they are deposited, are now being developed and are likely to be in use in the next few years. They will be based on advanced communication technologies including satellite relays, video cable, fiber optics and cellular radio.

Banks, savings and loan associations, and credit unions probably will concentrate on processing transactions and place less emphasis on gathering deposits and providing financing. In the future, branches will

*Fiscal year 1984 (October 1983 to September 1984).

be dominated by a variety of machines, with institutional personnel serving more of an advisory role than actually handling customer transactions. Many financial services will be delivered to customers at convenient locations, possibly on their business or home terminals, with little need for visiting a provider's office.

The rapid transformation of the structure of the financial service industry raises significant questions for Congress about whether much of present public policy will be relevant and appropriate for an increasingly automated industry. Although fundamental policy objectives such as fostering institutional stability and integrity or protecting consumers may remain the same as in the past, the focus of future regulation may well have to be different.

policies that assume a specific structure of the industry or service mix seem to be particularly vulnerable to unanticipated effects when new technologies are introduced. For example, the assumption that only banks would take deposits, and thus need regulation to protect depositors, was undermined when firms other than banks used technology to offer similar services such as money market accounts.

Changes in the financial service industry will both benefit consumers and create problems for them. New delivery systems are designed to be more convenient, but consumers will have to be better informed to understand and to choose among the wider range of available options and services. Because financial service providers can now use price as an instrument for competition, more and more services will be priced explicitly. Consumers may be offered an increasing range of choice and pay only for services used.

Though consumers may not perceive differences between the offerings of various financial service providers, the existing legal/regulatory structure does not always cover the activities of nontraditional providers. These unregulated services often do not provide the same protections to consumers.

Public policy issues stemming from the changing nature of the financial services industry involve access to services, system security, privacy, and effects of fundamental changes now under way in the telecommunications industry.

Despite broader choices for most consumers, some may find their options more constrained. For example, pressures for electronically transmitting payrolls directly into deposit accounts and the increasing role of the credit card as evidence of financial responsibility are making it difficult for individuals to avoid interaction with a financial service institution. Yet, some people prefer not to deal with financial institutions altogether, and others have not been accepted as customers. Lack of access to some electronic financial services may implicitly limit or deny access to other goods and services. Over the long run, guaranteed access to some minimal level of financial services maybe essential for all people.

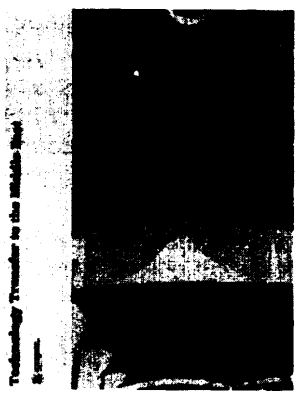
Increasing use of electronic systems for delivering financial services heightens potential threats to individual privacy. Existing law provides some protection from intrusion on financial data by the Federal Government, but virtually none from the use of this information by States and local governments or private parties and organizations. In addition, the privacy policies of some other countries are more stringent than those of the United States. Restrictions on international transmission of data could lead to problems for American financial service firms doing business overseas.

Recognition of the problems of system security and integrity is becoming more widespread. It is clear that providers of financial services have become so heavily dependent on information processing and telecommunication technologies that the failure of automated systems under some circumstances could be very serious. However, the true magnitude of security problems is not known, and additional information is needed before developing public policy alternatives.

Because telecommunications is a key component of financial service delivery, fundamental changes now under way in the telecommunications industry will directly affect the price and the mix of financial services that will be offered.

Technology Transfer to the Middle East

The report examines advanced technology transfers in five sectors (petrochemical production, commercial aircraft support systems, nuclear power, medical services, and telecommunications) to six Islamic countries in the Middle East (Algeria, Egypt, Iran, Iraq, Kuwait, and Saudi Arabia). The U.S. portion of the Middle East market for advanced technology equipment and services is more likely to shrink than expand, although U.S. companies have maintained about 20 percent of the machinery and equipment market over the past 10 years. Middle Eastern buyers have in some cases developed the capability to operate and maintain imported advanced civilian technologies, but in most cases they have not yet significantly adapted or developed these technologies.



Technology transfer: Although the experiences of the Middle Eastern countries differ widely, all of them have faced significant problems in effectively utilizing new technologies. Some success is seen in the efficient operation of commercial aircraft by local workers, but technology absorption has been much more limited in the petrochemical and nuclear sectors. Middle Eastern countries have attempted to im-

prove their ability to utilize and bargain for imported technology through policies that regulate business activities and develop local technical skills.

Technology trade: The value of machinery and equipment exported by industrial countries to the Middle East increased from $2.2 billion in 1970 to about $42 billion in 1982, an eightfold rise in dollars of constant purchasing power. Western European and Japanese firms are strong competitors with U.S. firms. Japan increased its share from 9 percent in 1970 to 23 percent in 1980, while West Germany maintained a share of approximately one-fifth of the market and France saw its share decline from 18 to 9 percent during the period.

Not only has the era of explosive growth in technology trade with the region ended, but the U.S. share is also likely to decline for several reasons. U.S. trade, which is centered on Egypt and Saudi Arabia, could be adversely affected by the end of megaprojects, decisions by recipients to diversify suppliers, expanded U.S. export restrictions, or increased export subsidization by other suppliers. The factors most strongly influencing contract awards are the strategies of the firms supplying technology, but policies of supplier governments (including financing, export controls, and economic assistance) have also been important in some cases.

Policy Options: Future prospects for U.S. technology trade depend in part on choices facing U.S. policymakers. In the United States, tension between commercial and political interests has precluded the formulation of a consistent approach to civilian technology transfer. Japan and some West European countries have emphasized economic interests in their policies, which have generally supported technology trade with the Middle East.

If U.S. policy makers decide to establish more consistent policies, a number of approaches could be considered: 1) denying and providing technology selectively in order to achieve political goals, z) decoupling commercial technology trade from political interests, and 3) promoting commercial technology transfer.

If export controls on civilian technologies are expanded, potential customers may be pushed toward other suppliers. But comprehensive promotion of technology transfers would require considerable government support. In order to establish a more consistent approach, policymakers would have to carefully balance commercial, economic assistance, and political/strategic aims.

Major findings concerning technology transfer in the five sectors follow.

1) petrochemical production—The Gulf States, with inexpensive feedstocks and state-of-the-art technology, will be major petrochemicals producers by 1990. Their exports are expected to account for ap-

proximately 20 percent of commodity chemicals traded worldwide. Western Europe and Japan will be most affected by the shifts in the worldwide market, but U.S. firms can adjust by concentrating on production of specialty and second-tier products.

2) Nuclear power—No nuclear power reactors are currently operating in the Middle East, nor are there likely to be any in operation before the 1990s. The availability of hydrocarbons for power production and the small size of electricity grids are among the factors limiting nuclear power development in the region. Most of these countries have not committed themselves to nuclear power programs.

No Islamic country in the Middle East is likely to have the capability to develop nuclear weapons on a wholly indigenous basis before 1990, and most would find it impossible to do so before the turn of the century. Proliferation of nuclear weapons would be most likely to occur through the use of research reactors and small-scale enrichment and reprocessing facilities to produce small amounts of weapons-grade materials over a long period of time. Only a few have obtained sensitive facilities which could be used to build nuclear weapons. In the decade ahead, the prospects for nuclear proliferation will increase, as indigenous capabilities are improved and as new suppliers who are not parties to the Nuclear Nonproliferation Treaty enter the market.

3) Medical services—U.S. firms have been major suppliers of hospital management in Saudi Arabia, winning a 70-percent share of the $500 million market in 1981. U.S. firms have also been important suppliers of medical equipment throughout the region. Yet, in the future, the market share of U.S. firms in medical equipment may shrink unless improvements are made in after-the-sale service. While hospital management will remain important in Saudi Arabia, the most pressing needs in the Middle East will be for preventive and less-sophisticated health care. AID health projects have contributed to improvements in Egyptian health standards; programs providing specialized training and retraining of medical personnel are needed throughout the region.

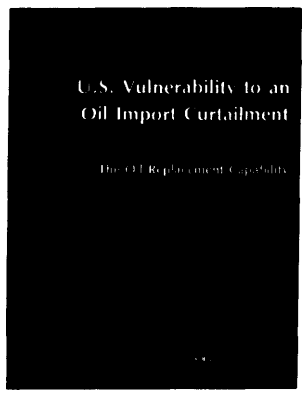
4) Commercial aircraft support systems—Technology absorption has been comparatively extensive in this sector, as shown by the operating statistics (including safety) of Middle Eastern airlines, which remain on a par with major international airlines while local personnel assume more functions. Sales of commercial aircraft and parts in the Middle East were valued at over $1.8 billion in 1982. These sales often determine the award of follow-up contracts for parts and service. Sales of U.S. aircraft in particular have been limited by U.S. foreign policy export controls.

5) Telecommunications—More than $3 billion in telecommunications equipment has been sold in the Middle East annually, and Japan became the major supplier by 1980. While U.S. firms have been major suppliers

of advanced technologies such as satellite and multiplex equipment, firms from Western Europe and Japan have provided most of the telephone and telex systems, which have been the central focus of Middle Eastern telecommunication expansion. Demand for telecommunications equipment and services will continue to grow, as seen in cooperation in Arabsat, a regional satellite telecommunications system.

U.S. Vulnerability to an Oil Import Curtailment: The Oil Replacement Capability

If a large and protracted U.S. oil supply shortfall begins within the next few years, the United States has the technical and manufacturing capability to replace up to 3.6 million barrels per day (MMB/D) of oil with other energy supply and demand technologies within 5 years after the onset of the shortfall. This conclusion is based on OTA's analysis of current manufacturing capacities and technical end-user constraints, as well as peak historical rates for installing various energy technologies; and it assumes a pre-shortfall oil demand of about 16 MMB/D. (Current U.S. oil demand is 15.8 MMB/D, of which 4.8 MMB/D are net imports.)



Currently available technologies that can replace the largest amounts of oil are those that: n ea e the effi en of, and substitute alternative fuels for, oil used for space and water heating, and steam production; and 2) increase, through replacement of existing vehicles, the average fuel efficiency of automobiles and light trucks on the road. The fuel substitution would require, annually, about 2 trillion cubic feet of natural gas and 115 million tons of solid fuels (coal and wood) at the end of the 5 years. All of the added natural gas can be made available through increased efficiency of natural gas use in buildings and industry.

A large and enduring shortfall and oil price increase would have severe economic consequences for the United States, even with full drawdown of the Strategic Petroleum Reserve and available private oil stocks. The magnitude of the economic impacts of an oil shortfall, however, would vary substantially with the rate of investment in oil replacement technologies. Analysis of a shortfall that reduces U.S. oil supplies by 3 MMB/D indicates that if all of the lost oil were replaced over the 5-year period after a shortfall begins, the decline in the gross national product would be 40 percent less than if only half of it were replaced in that time. Further, employment losses would be 30 percent less and oil price increases about half as much with the more rapid rate of replacement as compared to the slower rate. In other words, to the ex-

tent that the lost oil is not replaced through investments in replacement technologies, oil consumption must be lowered through reduced economic activity and personal consumption.

If the economy remains relatively stable and strong, rapidly rising oil prices following onset of a shortfall could provide sufficient incentive to invest in oil replacement technologies at the maximum rate. A stable, strong economy lowers the risk and increases the profitability of such investments, and faster oil replacement improves prospects for stability and growth of the economy. However, any number of factors—investor uncertainty about future oil supplies and economic conditions, capital shortages, unfamiliarity with alternative fuels technologies, price controls on natural gas, etc.—could limit these investments.

In view of the uncertainties about the market response to an oil shortfall, the importance of a stable economy and the difference in economic impacts associated with a rapid versus a slower response, it may be necessary to stimulate investments in oil replacement technologies in order to minimize the economic damage resulting from a shortfall. Although rapid deployment could be achieved without government-mandated conversion of production facilities to supply the oil replacement technologies, advanced planning by Federal and State governments is necessary. A system to monitor directly the rate of investment in oil replacement technologies and the quantity of oil replaced also would have to be established and functioning prior to the onset of a shortfall.

A variety of incentives ranging from information and technical assistance, to economic incentives and regulation could be used, as needed, to stimulate investment. Economic regulations that inhibit investment in replacement technologies (e.g., electric utility fuel adjustment clauses and certain price controls) may also have to be removed or modified. For these measures to be most effective, however, a decision would have to be made at the highest level that the Government will intervene if the market is overly cautious. Uncertainty must be removed from the investment climate, and clear signals about the need for investment would be required.

In the longer term, declining domestic oil production, accompanied by an expected shift away from oil uses for stationary direct heat, will increase the Nation's vulnerability to an oil shortfall. This will occur even if all stationary uses of fuel oil are replaced by alternative fuels and conservation because the decline in domestic oil production is expected to occur at an even greater rate. Only by relying more heavily on coal and biomass for chemical feedstocks, increasing efficiency of natural gas use and in all modes of transportation, and producing synthetic transportation fuels in addition to accelerating the replacement and conservation of stationary uses of oil, can the Nation expect to significantly reduce its vulnerability to an oil shortfall over the next few decades.

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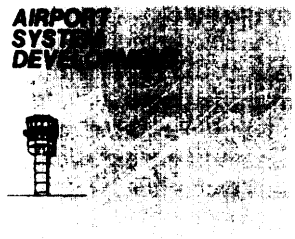
Airport System Development

Events in recent years—airline deregulation, the air traffic controllers' strike, and the growth of air travel in a resurgent economy—have focused attention on problems of airport capacity. Lack of capacity at major airports, notably during peak travel periods and adverse weather, has been cited as a significant cause of delay and rising costs in providing air service.



Airlines and other users of major airports have called on the Federal Aviation Administration and local airport authorities for relief of immediate problems and assurance that adequate facilities will be available to accommodate long-term growth in air travel. The OTA study examines technological, economic, and managerial approaches that could be taken to increase capacity and reduce delay at airports.

Technological methods to augment airport runway capacity include: 1) more accurate radar for use in terminal areas, 2) more precise guidance for landing in reduced visibility, 3) improved air traffic control systems to smooth and regulate traffic flow, and 4) methods to detect and monitor wind shear and wake turbulence.

These technologies, especially if coupled with reduced aircraft separation standards and revised rules for use of multiple runways, could increase capacity by as much as 30 percent at some airports during adverse weather, when the rate of operations is reduced from that attainable in good visibility. Benefits would vary considerably from site to site since they depend on airspace geometry, runway layout, traffic mix, and prevailing weather conditions. On average, the increase in capacity is likely to be much smaller, probably in the range of 5 to 10 percent. These increases should not be dismissed as insignificant; they would lessen delay where and when it is most likely to occur—at major airports in bad weather—and so would benefit a large number of passengers.

Another approach would be to build new airports to absorb growing demand. In most cities, however, this is impractical because of scarcity of land, high costs of development, and community concern about noise and land use. OTA found no metropolitan area actively planning to build a major new airport, and it is unlikely that more than one or two such airports will be built before the end of the century.

Building new facilities and developing new guidance and control systems are becoming increasingly difficult and yield diminishing capacity gains. Adequate future capacity cannot be assured by technology

alone, and it is important to explore approaches that make more effective use of what is already in place—selectively upgrading existing facilities and exploiting surplus capacity at other nearby airports in the region. Two promising solutions of this sort are separate short runways for small aircraft at major air carrier airports and "reliever" airports for general aviation at convenient locations elsewhere in the metropolitan area.

Much of the delay at airports stems from overscheduling of airline flights in morning and early evening hours and the tendency of general aviation to concentrate at these same times. Building new facilities to accommodate these high peaks of demand is often self-defeating since the additional capacity simply results in more peak-period demand and creates the need for more, increasingly expensive, capital investment. An alternative, less capital-intensive, approach is demand management to alter patterns of airport use so that demand can be accommodated within existing capacity.

Two basic methods can be used to manage demand: 1) setting landing fees according to the time of day or level of demand, and 2) regulatory or administrative actions to limit the number or type of flights that will be accommodated. Either approach would have the same general effect—demand would be spread more evenly throughout the day, thereby eliminating costly investments in facilities needed only at peak periods, but idle the rest of the time.

Delay on the landside—in the terminal building and on roads leading to the airport—is as common as airside delay, and equally costly and inconvenient to passengers. In general, the solution to landside problems is not new technology, but better planning and coordination among the various Federal, State, and local agencies, which often have overlapping jurisdictions and conflicting priorities.

In cooperation with the Congressional Budget Office, OTA examined the financial condition of U.S. airports and found few funding problems at the top 71 airports that collectively serve over 90 percent of airline passenger traffic. These airports are in good financial condition and enjoy sufficient, often ample, revenues to assure their creditworthiness in the municipal bond market. There has never been a default on an airport bond issue–an unblemished record that further enhances airports' reputation as soundly financed and managed enterprises. Availability of capital for improvement at major airports is not a significant obstacle, and the locations facing the greatest problems of congestion and delay appear able to finance needed capital investments with only minimal Federal support.

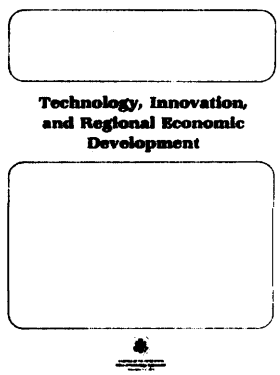
The major issues surrounding the current Federal role in airport development concern the level and purpose of capital grants to airports, the criteria of eligibility, and the administration of the program. As alternatives to present policy, OTA examines various ways to retarget Fed-

eral funds and to shift some administrative and fiscal responsibility for airport improvement programs to the State and local levels.

OTA also addresses the question of Federal, State, and local airport planning and provides background information to help evaluate the National Plan of Integrated Airport Systems, to be issued by the Federal Aviation Administration in September 1984. The major finding with regard to planning is that there is a need to look at airports from a regional and multimodal perspective, seeking ways to weld them into the overall transportation network. This entails balancing the use of regional airport facilities, reducing the cost and inconvenience of access to airports from within the metropolitan area, and promoting better connection between air and land modes of transportation.

Technology, Innovation, and Regional Economic Development

High-technology industry is so difficult to define, and so interdependent with other sectors of the economy, that to define Federal policy for regional development based on distinctions between "high technology" and other sectors would be artificial and possibly misleading. High-technology industries are expected to grow somewhat faster than overall employment over the next 10 years, but because of their relatively small employment base they will directly account for only a small fraction of total employment growth. Their largest employment impacts are likely to come through the diffusion and widespread application of their products by other industries, "smokestack" and services alike.



High-technology industries are more significant from the local perspective because of their impacts on employment and development in particular communities. Over the past **10** or 20 years a few regions, notably California's Silicon Valley and Massachusetts' Route 128, have developed strong local economies based on concentrations of microelectronics and computer firms. Today's high-technology industries seem to be spreading more widely across the Nation, and new development opportunities are being opened by advances in emerging technologies like robotics and biotechnology. Moreover, advanced manufacturing technologies are creating new opportunities for basic industries and the regions where they are concentrated.

The growing competition for high-technology industries has generated hundreds of initiatives by State and local governments, universities, and private sector organizations. These groups see their high-

technology efforts as logical extensions of traditional economic development activities. Most of the programs are designed to encourage technological innovation and local business development, by mobilizing resources or removing barriers in six general areas:

. research, development, and technology transfer;
- human capital, including education and training; entrepreneurship training and assistance;
- financial capital; physical capital; and
- information gathering and dissemination.

These initiatives are too recent and too varied to evaluate systematically, but in many regions they have resulted in new linkages between government, university, and industry. Experience suggests that these initiatives are more likely to succeed if they build on existing industries and available resources. For most communities, the greatest opportunities may lie in encouraging business development and technological innovation from within, rather than trying to attract high-technology businesses from other regions. From a national perspective, these State and local efforts may also contribute to the productivity and competitiveness of the entire U.S. economy if they can increase the national level of R&D or quicken the pace of commercialization and diffusion of new technologies.

Federal policies have contributed to State and local high-technology initiatives in the past, usually as an indirect result of attempts to achieve broader national goals and purposes. For example, innovation-oriented policies—those intended to promote R&D and technological change at the national level—often have significant impacts on economic development in particular regions. Similarly, community and economic development programs—such as block grants, business assistance, and education and training programs—have sometimes provided the resources for innovative State and local initiatives. Recent changes in Federal policy, such as the treatment of capital gains and joint venture R&D, promise to create a better climate for regional high-technology initiatives.

OTA finds no compelling evidence that an extensive new Federal effort, specifically targeted on this aspect of economic development, would be necessary to promote regional high-technology development. However, changes that have been proposed to achieve broader national objectives might provide additional indirect benefits to the extent that they increase Federal awareness of and support for State and local efforts. Better information about the regional impacts of Federal programs, the effectiveness of State and local initiatives, and the regional implications of technological change would be useful to Federal, State, and local groups alike. Improved coordination, among existing Federal programs and with State and local mechanisms, would also be effective in promoting innovation and economic growth through regional high-technology development.

Medical Technology and Costs of the Medicare Program

The use of medical technologies, such as drugs, devices, and medical and surgical procedures, has significantly affected Medicare costs. Payments for each enrollee rose **107** percent between **1977** and **1982** –an average of 19 percent per year. Although inflation is primarily responsible, nearly one-third of the increase is related to medical technology—both from expanded use of services **(25** percent) and from increases in medical prices above the general inflation rate **(3** percent).

Medical Technology and Costs of THE MEDICARE PROGRAM

An important influence on the adoption and use of medical technologies is the Medicare program itself, in part because of its size and scope and in part because other third-party payers often follow its example. Thus, changes in 'Medicare policies could restrain the growth in Medicare costs by influencing the adoption and use of medical technology.

OTA presents Medicare policy options for Congress in four areas: 1) coverage of specific technologies; 2) payment to hospitals; 3) payment to physicians; and 4) approaches to changing incentives, for the adoption and use of technologies, that do not directly involve Medicare payment (e.g., encouraging the development of alternative cost-effective health care delivery systems).

Medicare's coverage policy for specific technologies can influence hospitals' decisions about purchasing expensive medical technologies such as diagnostic imaging equipment. Costs could be contained by limiting coverage for certain technologies to selected providers or sites; considering cost as a factor in coverage decisions; providing interim coverage in exchange for data on efficacy, safety, and costs of emerging technologies; and improving the implementation by Medicare contractors of national coverage decisions.

Changing coverage policy alone is likely to be of limited value in containing Medicare costs, because of the large number of medical technologies being developed or used and the decentralized administration of the Medicare program.

Medicare's hospital and physician payment policies have more impact on the adoption and use of medical technologies than its other policies. From 1966 until 1983, Medicare operated under a retrospective, cost-based reimbursement system which provided little incentive for hospitals to limit expenditures on medical technology.

The hospital payment system was significantly changed by the Social Security Amendments of 1983 (Public Law 98-21) which established a prospective, per case hospital payment system based on Diagnosis Related Groups (DRGs). With DRG payment, hospitals receive a specific amount of money for each patient, based on diagnosis, regardless of the amount or type of services the patient receives.

Four possible changes in Medicare hospital payment, not mutual1y exclusive, include: the use of alternative prospective payment methods and modifications of the DRG system; changes in capital payment methods; contracting with selected hospitals; and increased patient cost-sharing for hospital services.

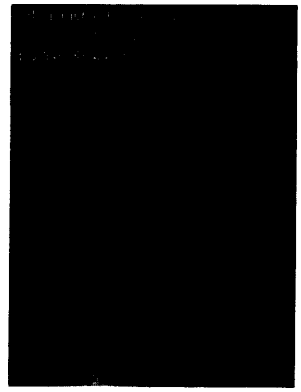
Thus far, Medicare's DRG payment system extends to inpatient operating costs alone, and capital costs continue to be reimbursed on a cost basis. Continuing this method of capital payment provides an incentive for hospitals to adopt expensive equipment that reduces operating costs even though the total cost per case may be greater.

Any cost-containment effort must acknowledge that individual physicians play a central role in determining what services are provided to patients in hospitals and other settings. Medicare payment methods can influence physicians' incentives for the use of medical technologies. Two possible changes are: adopting fee schedules or caps on physician payments; and requiring beneficiaries to assume more of their health care costs, either by increasing cost-sharing or reducing the types of benefits that Medicare will cover. Changing Medicare's assignment policy, which currently allows physicians to decide whether to accept Medicare payment as full payment, would strengthen the implementation of the other changes, although it might discourage some physicians from treating Medicare patients.

Alternative approaches to encourage the appropriate adoption and use of medical technologies, and ultimately save costs, include two general policy mechanisms: fostering competitive behavior by providers; and administrative changes in Medicare (e.g., merging Medicare's programs for hospital insurance and for supplementary medical insurance). For example, policies that encourage the use of alternative sites of health care delivery stimulate competition.

International Cooperation and Competition in Civilian Space Activities*

The space programs of Western Europe and Japan have made enormous technical and organizational advances over the last decade, but the United States has not fully adapted to these changes. In addition, the U.S. Government has not effectively involved private investment in space, except in satellite communications.



Changing conditions in the political, economic, and technical aspects of civilian international space activities raise four major concerns for Congress:

International competitiveness in space technologies: Although the United States still leads in space research and development, Western Europe and Japan are marketing space-related goods and services in direct competition with the United States. Among other items, Western Europe has developed the Ariane launch vehicle and the SPOT land remote sensing system. Japan competes in selling ground stations for satellites, and is developing an ocean remote sensing system.

Role of the U.S. private sector: High capital cost and high technological and economic risk inhibit private investment in space. If future Government policies are well-designed to foster private sector commercialization of space technology, market developments could lead to a wide array of commercial space applications by the 1990s.

Access of U.S. firms to international markets: Large parts of the international market for satellite communications equipment and virtually all of the international market for services are closed to international competition. Where open competition exists, U.S. technology continues to dominate the market.

Efficacy of U.S. participation in international cooperative space projects: U.S. cooperative space projects continue to serve important political goals of supporting global economic growth and open access to information, and increasing U.S. prestige. Such cooperation should continue to involve the developing countries, especially because they are becoming a significant market for space-related goods and services.

***Summary completed July 1984; full report will be published early 1985.**

OTA examined space science and several space technologies at different stages of Government operational status or commercial development:

- Space Science-Cooperation in space science continues to be a major source of cultural, economic, political, and social benefits for the United States. However, the major driving force behind cooperation is the prospect of sharing costs. Although the United States leads generally in space science, it will face increased competition in certain subfields from the European Space Agency (ESA), Japan, and the U.S.S.R. Because of limited resources, the United States must remain cooperative in space science to remain competitive.
- Space Transportation-The entry of ESA'S Ariane booster into the international launch vehicle market, and the U.S. private sector's interest in selling launch services, require the U.S. Government to reassess its traditional role as sole provider of launch services. Current pricing policy for the Shuttle discourages competition from the U.S. private sector launch industry. Yet, raising prices might discourage the private development of manufacturing or other uses of space.
- Satellite Communications—Since private investment dominates this sector, issues of economic regulation and international trade are paramount. The U.S. Government must decide whether to allow U.S. firms to own transatlantic communications satellites independent of INTELSAT; * how vigorously to support the entrance of the U.S. firms into overseas service and equipment markets; how much to spend on research and development to keep U.S. communications satellite technology competitive; and how best to further U.S. telecommunications and foreign policy objectives at the International Telecommunication Union's 1985 ORB'85 meeting on the geostationary orbit.
- Remote Sensing From Space—By 1990, Canada, ESA, France, Japan, and perhaps the Soviet Union expect to deploy ocean or land remote sensing systems. The United States may increase its competitiveness in land remote sensing by transferring Landsat to private hands. However, successful transfer will require a sizable subsidy until a sufficient data market emerges. Joint construction of an international polar orbiting meteorological satellite system with other countries may be desirable.

***International Satellite Communications Organization.**

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. Materials Processing in Space-More basic and applied research is needed to determine the economic feasibility of manufacturing commercial products in space. Until international commercial competition arises, Europe and Japan should be viewed as valuable partners for international cooperation in materials processing research.

As the U.S. private sector becomes more involved in space activities, several Government agencies in addition to the National Aeronautics and Space Administration (NASA) will have a broader role to play in the overall direction of the Nation's space policy. NASA, by itself, is not well-equipped to choose technologies for commercial exploitation or to foster the creation of new commercial technologies. Government decisions about commercial space activities must be based on information from industries about domestic and international markets. These decisions must therefore involve, in addition to NASA, agencies versed in domestic commerce and regulation, international trade, and foreign affairs.

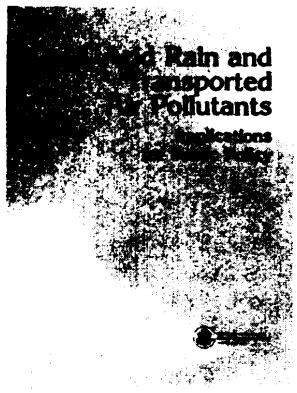
The National Commission on Space, authorized in Public Law **98-361, *** could help develop a national consensus on the long-term goals and objectives of the U.S. space program, with input from all interested Government agencies as well as from the private sector.

● **Passed by Congress on June 28, 1984, and signed by the President on July 16, 1984.**

Acid Rain and Transported Air Pollutants: Implications for Public Policy

THE PROBLEM

Acid rain, ozone, and fine particles such as airborne sulfate are endangering U.S. resources. These air pollutants have harmed lakes and streams, lowered crop yields, damaged man-made materials, decreased visibility, and may be threatening forests and even human health.



However, finding an equitable solution is a major policy challenge. Controlling these pollutants will involve substantial costs—higher electricity rates, and in some cases, fewer jobs for miners of high-sulfur coal and financial strain to utilities and industries.

Until recently air pollution was considered to be a local problem. Evidence now indicates that winds carry air pollutants hundreds of miles, often crossing State and national boundaries. For example, sulfur pollutants that are deposited over most of the Eastern United States, have typically traveled about zoo to 600 miles. These “transported” air pollutants are not directly covered by the Clean Air Act, the main Federal air quality law.

OTA has synthesized what is known about pollutant emissions, movements, and effects, and presents estimates of potential damage to resources if pollutant emissions are not curtailed. In addition, OTA focuses on the public policy implications of the acid rain problem–the geographic distribution of risks and costs, as well as the potential effectiveness of various control options.

Acid deposition, commonly called “acid rain,” occurs when sulfur dioxide and nitrogen oxides–released primarily from burning of fossil fuels—return to the earth as rain, snow, fog, dew, and as dry particles and gases.

Acid deposition is high in most of the States east of the Mississippi as far south as Tennessee and North Carolina. Enough acid pollution is deposited throughout this area to harm aquatic life in lakes and streams located in geologically sensitive watersheds. OTA estimates there are about 3,000 lakes and 20,000 miles of streams, scattered throughout the Eastern United States, that are extremely vulnerable to acid deposition or already are acidic.

Also, sulfur pollutants accelerate the deterioration of many economically important materials, including iron and steel, zinc, paint, and stone. Sulfate particles in the air are the single greatest factor in re-

ducing visibility in the Eastern United States, responsible for about half of the decrease in visibility annually and even more during the summer.

Though research on the effects of current levels of airborne sulfates and other fine particles on human health is not yet conclusive, there is a reasonable risk that these pollutants may increase mortality rates by a few percent. Some researchers believe there is a negligible effect while others find a significant association, primarily among people with cardiac and respiratory problems.

Ozone is produced when nitrogen oxides interact with hydrocarbons. High ozone concentrations extend from the mid-Great Plains States to the East Coast, overlapping much of the region exposed to high levels of acid deposition. Ozone is causing about a 6 to 7 percent loss of U.S. agricultural productivity, overall. Reducing ozone to natural background levels would increase yields of corn and wheat by a few percent, soybean yields over ten percent and peanut yields by one-fourth.

Over the past 20 to 30 years, productivity of several species of trees has decreased in parts of the Eastern United States and Europe where high levels of air pollution prevail. Acid deposition, ozone, or a combination of both, as well as other stresses, such as climate fluctuations and disease, are being investigated as possible contributors to this problem.

During 1980, about 27 million tons of sulfur dioxide and 21 million tons of nitrogen oxides were emitted in the United States. Approximately 80 percent of the sulfur dioxide and 65 percent of the nitrogen oxides came from the 31 States bordering on or east of the Mississippi River. If energy use patterns and current laws do not change, both sulfur and nitrogen pollutants will remain high for at least the next half century—long enough to be significant to natural ecosystems.

Most of the control programs proposed in recent sessions of Congress have aimed at reducing sulfur dioxide emissions by 8 million to 10 million tons per year below 1980 levels. This level of reduction is likely to protect many sensitive aquatic resources in most areas. Risk of damage to forests, agriculture, materials and health would be reduced, and visibility will improve. However, in areas receiving the highest levels of deposition, some damage may still occur.

Such programs, however, are not without cost. Electric utilities account for about three-fourths of the sulfur dioxide emitted in the Eastern United States. Therefore, electricity consumers would ultimately pay a large share of the costs of an emissions control program. Electricity rates would increase an average of 2 to 5 percent—rising as high as 10 to 15 percent in a few Midwestern States under the more stringent proposals. If restrictions are not placed on control methods, about 20,000 to 30,000 jobs could shift from Eastern high-sulfur coal producing regions to Eastern and Western regions that mine low-sulfur coal.

CONGRESSIONAL OPTIONS

Transported pollutants pose a special problem for policymakers: balancing the concerns of those who bear the risk of damage with those who will pay the costs of control. Scientific uncertainty about many aspects of the problem complicates the decision of whether or when to control. Unfortunately, additional scientific research will not provide an unambiguous answer in the near future, nor will it ever resolve value conflicts.

Four approaches for congressional action on acid deposition and other transported air pollutants are discussed in the report:

- Mandating emissions reductions to further control the sources of transported pollutants.
- Liming lakes and streams to mitigate some of the effects of acid deposition.
- Modifying the current Federal research program so it provides more timely guidance for congressional decisions.
- Modifying existing sections of the Clean Air Act to enable the Environmental Protection Agency, States, and countries to more effectively address transported air pollutants.

Legislation to address the problem of transported air pollutants could include options from any combination of the four approaches.

If Congress chooses to further control pollutant emissions, a number of interrelated choices must be made, including which pollutant emissions to reduce, from what sources and regions, by how much, and over what time period. Congress must also choose methods to implement the reductions, allocate the costs, and address any undesired secondary consequences of the emissions controls.

Sulfur dioxide would logically be included in any control program, since sulfur compounds contribute twice as much as nitrogen compounds to acidic rainfall in the Eastern United States and are more strongly implicated with adverse effects. Because most of the air pollutants are emitted and deposited within a 20- to 30-State area of the Eastern United States–with sensitive resources distributed throughout—any control program must at least encompass this area. For a nationwide control program, both sulfur dioxide and nitrogen oxides should be considered.

A modest sulfur dioxide control program—eliminating 2 million to 5 million tons per year—could be achieved for about $1 billion per year. This would offset expected emissions increases from utility and industrial growth, and might decrease emissions by a few million tons by 2000.

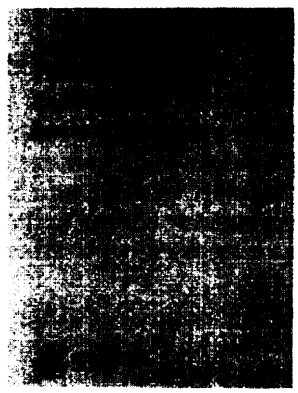
A large-scale program, reducing emissions to **8** million to **10** million tons below **1980 levels,** would cost about **$3** billion to **$6** billion a year.

Such emissions reductions would protect many sensitive resources, though some risk of damage would still be present. If larger reductions in emissions are desired, costs will increase markedly.

While the "polluter pays" philosophy is the traditional approach to environmental regulation, some have suggested that the costs of control be spread to a larger group through such mechanisms as a tax on electricity or emissions. This would lighten the financial burden to the heavily industrialized Midwest. To minimize shifts in coal-mining jobs, controls that allow continued use of high-sulfur coal could be subsidized or mandated. Direct control costs, however, could increase by as much as **25 to 50** percent.

Environmental Protection in the Federal Coal Leasing Program

The basic framework of the Federal coal leasing program—the legislative mandates and the concept of **a** tiered structure of land use planning, activity planning, and mine permitting—is still workable and capable of ensuring environmental protection. However, recent policy shifts which accelerated the rate at which tracts were made available for lease, and other changes in the program's regulations—while not producing any evidence of "fatal flaws" that would totally preclude mine development on recently leased tracts—have increased the risk of adverse environmental impacts if some of those tracts are developed.



An environmentally (and economically) sound leasing program is an important part of the Nation's energy future and of public land management policy. Unless reasonable public expectations about "soundness" are satisfied, however, the likelihood of an effective and predictable Federal coal leasing program will be reduced. In particular, the planning processes during which tracts are continuously evaluated for their acceptability for leasing have become too unpredictable and unsystematic to assure compliance with the environmental mandate.

Further, the high leasing rates of the past 3 years have taxed the resources of the Bureau of Land Management (BLM)—already strained by field personnel rotations that have resulted in a loss of "institutional memory" –beyond the point where they could adequately assess the suitability of the tracts proposed to be offered. As a result, data and analyses have been inadequate for making fully informed decisions about the environmental compatibility of the tracts.

Recent actions by the Department of the Interior to review the leasing program are a positive step forward. However, OTA has identified a number of measures that could help ensure environmental protection and compliance with the existing statutory mandates, maintain a predictable and stable leasing process, and restore public confidence in the leasing program. These measures are:

1. Reduce and stabilize leasing rates to make the land area to be evaluated in a given period of time more manageable, and allow all participants in leasing, including the industry and affected communities, to plan more effectively.
2. Decentralize decisionmaking authority on tracts and tonnages to be offered and their scheduling to the Regional Coal Team or BLM State Office level, and reorganize leasing regions to match State boundaries.
3. Improve the effectiveness of public participation in planning and development activities, accommodating the concerns of special groups such as Indian tribes, States and communities, and farmers and ranchers.
4. Complete adequate Resource Management Plans by BLM (and the Forest Service), coordinating more closely with other Federal agencies, and with State and local plans to ensure that coal leasing does not undermine the goals of other programs.
5. Improve data and analyses that support planning and leasing decisions.
6. Incorporate guidelines and standards for the adequacy of pre-sale data and analyses into the program regulations for all stages in the leasing process.
7. Develop a workable threshold concept for estimating cumulative impacts and include it in the regulatory requirements for evaluating tract acceptability during land use planning and tract ranking, as well as in the environmental impact statement.
8. Establish policies and procedures for effectively using lease exchanges to protect environmentally sensitive tracts.
9. Evaluate policies and procedures for leasing split estate coal lands (where the Federal Government does not own or manage the surface).
10. Evaluate procedures for environmental assessment of Preference Right Lease Applications to determine if they provide adequate environmental protection and are consistent across regions.

Computerized Manufacturing Automations: Employment, Education, and the Workplace

Increased use of computer-based automation in manufacturing will aggravate regional unemployment. It can improve manufacturing productivity, product quality, and working conditions. It might have an enormous long-term impact on the number and kinds of jobs available, but it will not generate massive nationwide unemployment over the next decade.

In the near term, automation's employment effects will be concentrated principally in the East-Northcentral and Mid-Atlantic regions and among certain occupations, such as, metalworking machine operators.

Use of automation will gradually alter the mix of occupations and skills needed by manufacturers, and may consequently limit the mobility of manufacturing employees. In addition, automation equipment producers employ proportionately fewer production workers than do traditional metal-working industries. Many production workers may not have the skills to move from jobs where automation is used to jobs where it is produced. Thus, there is an immediate need for retraining and job counseling geared to affected persons and regions.

In the long run, overall demand will rise for engineers, technicians, maintenance personnel, senior managers, and technical sales and support staff. Demand will fall for machine operators, laborers, lower and middle managers, and clerical personnel.

Use of automation is likely to improve physical working conditions, but its effect on psychological aspects of work will depend on how the technologies are implemented. For example, automation has had negative effects such as decreasing employees' degree of autonomy and creative input. On the other hand, automation could also improve jobs by increasing the variety of tasks and challenges. U.S. exploration of automation's effects on working conditions has barely started.

The new types of automation that include the use of computer and communications technologies are becoming increasingly common, but most manufacturers have only begun to explore their potential. The reasons for this include lack of standard techniques for programing and linking computerized devices, high costs of capital, lack of know-how, and, in particular, organizational resistance to change.

New approaches to education, training, and career guidance will be needed to accommodate long-term changes in skill requirements. Suc-

cessful programs have involved close cooperation between educators, industry, labor, and government,

A strong foundation of basic reading, science, and mathematics skills appears increasingly important for all occupations, but estimated levels of functional illiteracy suggest that many prospective employees will not have that foundation.

The lack of appropriate curricula, shortages of equipment and technical faculty, and other factors suggest that on the whole, the U.S. instructional system may not now be geared to accommodate potential demands for skills relevant to an age of programmable automation. In addition, few companies or institutions help workers develop the multiple skills often needed for successful use of programmable automation.

There is a wide range of policy options for Congress to consider. Congress could choose to continue current Federal roles. Alternatively, further actions could be taken to: strengthen computerized automation research and development (especially in areas of generic research, human factors, and standards); raise employment levels and facilitate mobility among occupations and jobs; assure that automation enhances working conditions or guards against downgrading of working conditions; and make the instructional system more resilient and responsive to demands arising from the spread of automation and the changing occupational mix. The overall success of automation-related policy will depend on the health of the economy and the broader context of macroeconomic policy.

Whatever the level of Federal involvement, the most effective strategy would balance actions regarding technology development, working conditions, and employment and training. The uses and impacts of automation are only beginning. It is essential that planning for the future start now.

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Wetlands: Their Use and Regulation

Although the overall rate at which the Nation's wetlands are being converted to other uses is not alarming, the continued incremental conversion of wetlands, especially in certain inland regions of the country, may have significant adverse ecological effects over the next few decades.

Over the next several years, the Federal Government could improve ongoing efforts to manage the country's remaining wetlands and avert many of these adverse effects. First, the Federal Government could continue or accelerate its ongoing mapping of wetlands, emphasizing those areas under the greatest development pressure. Next, after mapping has been completed in a given region, wetlands could be categorized according to their relative values by policymakers in cooperation with regional groups. Third, existing wetland policies and programs could be tailored or adjusted based on the values of different wetlands. For example, higher value wetlands covered by the 404 program could be more stringently regulated and lower value wetlands less so. And finally, Congress could broaden the scope of different wetland programs (e.g., regulation, acquisition, leasing, etc.) to include the full range of wetland values, rather than continuing to focus on single values, such as wildlife habitat.

In the near-term, Congress may also wish to provide additional protection for higher value wetlands that may be subject to agricultural conversion. This could be done through acquisition or easements from the Interior Department's Fish and Wildlife Service, or through leases from the Agriculture Department's Water Bank Program. Acquisition, easements, and leases can provide comparable levels of protection; but, for a given level of funding, many more wetlands can be protected with leases than with easements or acquisition. However, leases only provide temporary protection.

To improve its future policymaking capability, more federally supported research is needed for further assessment of the ecological significance of additional wetland conversions. And Federal support could be continued for ongoing efforts to determine recent wetland trends and the effect of major policies and programs on wetlands use. Finally, a coordinating mechanism, such as an interagency working group, would help to ensure that all required activities are accomplished in a timely manner.

Existing Federal policies often affect wetlands in opposing ways. Some policies encourage conversions. For example, tax deductions and

credits can significantly reduce wetland conversion costs for farmers. Others, such as regulatory and acquisition programs, discourage conversions. The U.S. Army Corps of Engineers' regulatory program, established by section 404 of the Clean Water Act, provides the major avenue of Federal involvement in controlling the use of wetlands by regulating discharges of dredged or fill material into wetlands.

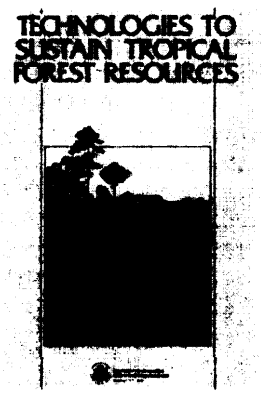
For those activities that come under regulation by the Corps, annual conversions are reduced nationwide by about 50 percent, or about 50,000 acres of wetlands per year, primarily through project modifications. Because most activities that occur in coastal wetlands are regulated by the Corps and/or State wetland programs, coastal wetlands are reasonably well-protected. However, many activities, such as excavation, clearing, and drainge for farming, are not regulated by either the Corps or most State wetland programs. These activities were responsible for the vast majority of past conversions, especially in inland areas, where 95 percent of the Nation's wetlands are located. Therefore, inland, freshwater wetlands are generally poorly protected.

Over the past zoo years, 30 to 50 percent of the wetlands in the lower 48 States have been converted to other uses. Between the mid-1950's and mid-1970's, wetland conversions occurred at a net rate of about 550,000 acres per year. This is equivalent to an annual loss of about one-half of 1 percent of the remaining wetlands. About 80 percent of these losses were due to agricultural conversions. Current rates of agricultural drainage suggest that national conversion rates have declined to about 300,000 acres per year.

Vegetated wetlands—marshes, bogs, swamps, and tundra—comprise about 5 percent, or 90 million acres, of the lower 48 States, and nearly 60 percent, or more than 200 million acres, of Alaska. In addition to their recreational benefits and esthetic qualities, these natural areas can provide valuable ecological services such as fish and wildlife habitat, water quality improvement, erosion control, flood control, and food chain support. On the other hand, some wetlands can be converted to other uses by development activities, including agriculture, port expansion, mining, oil/gas recovery, urbanization, and water resource projects.

Technologies to Sustain Tropical Forest Resources

Each year, an area of tropical forests the size of Pennsylvania is cleared while only one-tenth that much is replanted. The loss of these tropical forest resources affects people both in the Tropics and in other nations.



Tropical forests maintain the productivity of land that cannot support conventional agriculture. Forests provide fuel, food, fodder, medicines, and building materials to the people of the tropical nations. Forests also help maintain soil quality, limit erosion, stabilize hillsides, modulate seasonal flooding, and protect waterways and marine resources.

Where tropical forests are cleared, the soil is usually exposed to extreme erosion, high temperatures, and severe weed infestations. Agricultural productivity often declines, then the land is abandoned. Most of this abandoned land will not recover its former productivity.

Further, tropical forests contain the world's greatest diversity of plant and animal life. This diversity is a natural resource important to agriculture, commerce, and industry in all nations. It will become even more valuable as oil and other nonrenewable resources become more scarce and as modern biotechnology develops new uses for plants and animals.

As the population of tropical nations doubles to 4 billion over the next **30** years, the need for forest products and services will increase dramatically. To meet these needs, ways to use forests without degrading them must be developed and demonstrated.

OTA identifies existing and emerging technologies with the potential to sustain tropical forests' productivity. These include farming systems that combine trees with crops or livestock, improved charcoal production, better wood stoves, genetic improvement of trees, new approaches to park design and management, and a variety of forest management systems.

Changing technologies alone, however, will not be enough to sustain the tropical forests because the underlying causes of deforestation are institutional, social, and economic. Although many of the needed reforms can only come from the governments and people of the tropical nations, the United States has a role, especially in the areas of research, technology development, education, and resource planning.

OTA looks specifically at forests in the U.S. Caribbean and western Pacific island territories. These forests have benefited very little from

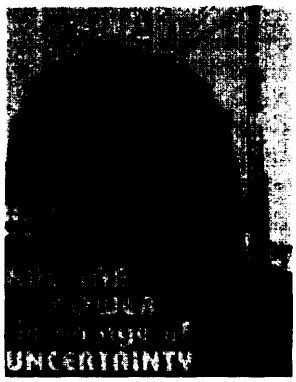
the increased international awareness of the importance of forest resources. They receive little, if any, management.

OTA identifies possible congressional actions to help conserve tropical forest resources including:

- Continue oversight hearings of the Agency for International Development and multilateral organizations to assure that U.S. development assistance supports sustainable use of forest resources as mandated by the Foreign Assistance Act.
- Strengthen the U.S. Forest Service institutes and programs in Hawaii and Puerto Rico, and through them support natural resource agencies in Puerto Rico, the U.S. Virgin Islands, and the western Pacific territories,
- Maintain low-cost availability of Landsat data and continue to support training of tropical nations' personnel in remote-sensing analysis and development planning.
- Establish U.S. tropical forestry "centers of excellence" to conduct forestry research and education.
- Promote international ad hoc committees formed to assist tropical nations in planning long-term forest development.
- Encourage tropical forestry research that is broadly interdisciplinary and relevant to both conservation and development.
- Encourage the U.S. private sector to develop and implement technologies that will sustain tropical forest resources.

Nuclear Power in an Age of Uncertainty

Without significant changes in the technology, management, and level of public acceptance, nuclear power in the United States is unlikely to be expanded in this century beyond the reactors already under construction. Currently, nuclear powerplants present too many financial risks as a result of uncertainties in electric demand growth, very high capital costs, operating problems, increasing regulatory requirements, and growing public opposition.



Despite these problems, some utilities have clearly demonstrated that the difficulties with this technology are not insurmountable. Furthermore, there are national policy reasons why it could be important to have an improved nuclear option in the future.

The present generation of reactors suffered from an immature technology and an underestimation by some utilities and their contractors of the difficulty of managing it. These problems need not recur if new reactors are ordered because new designs will incorporate many changes made to correct problems of existing reactors. In addition, only utilities with a demonstrated ability to manage nuclear construction and operation are likely to order them.

These changes are essential, but by themselves are probably not adequate to break the present impasse. Construction problems, operating mishaps, and accidents have been too serious for the confidence of the public, investors, rate and safety regulators, and the utilities themselves to be restored easily. Unless this trust is restored, nuclear power will not be a credible energy option for this country.

It appears possible, however, that a combination of additional improvements in technology and the way nuclear power is managed and regulated could restore the required confidence. Technological improvements can be very important in that effort. One approach would be to focus research and development on improving current light water reactor (LWR) designs by resolving safety issues and designing standardized reactors optimized for safety and economics.

It is possible that even greatly improved LWRS will not be viewed by the public as acceptably safe. Therefore, research and development on alternative reactors could be essential in restoring the nuclear option. Several concepts appear promising, including the high temperature gas-cooled reactor, the PIUS reactor (a concept where an LWR-type core and other critical reactor elements are submerged in a large

pool of water), and heavy water reactors. All have passive, inherent safety characteristics rather than relying on active, engineered systems to protect against accidents. Special attention should be paid to smaller reactors which have potential for factory fabrication, lower financial risk, and greater safety.

Safe and reliable operation of nuclear powerplants is an exacting task, which demands a major commitment to excellence by the utility. If a utility is unable to develop this commitment itself, the Nuclear Regulatory Commission and the Institute for Nuclear Power Operations must generate it. In extreme cases, a utility's operating license could be suspended until its nuclear operations reflect the required competence, perhaps by employing other utilities or service companies. Similarly, certification of utilities could be considered as a prerequisite for permits for new plants. These drastic steps may be warranted because public acceptance depends in part on all reactors performing well.

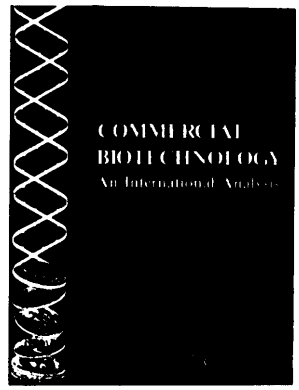
Several utilities recently have shown that it is possible to meet construction budgets and schedules even under current regulatory procedures. The regulatory process, however, is more unpredictable than necessary, and there is no assurance that safety and efficiency are being optimized. Encouraging preapproved standardized designs and developing procedures and analytical tools for evaluating proposed safety backfits would help make licensing more efficient without sacrificing safety. Legislation may not be required to effect these changes.

The improvements in technology and operations described above should produce gains in public acceptance. Additional steps may be required, however, because at present over 50 percent of the public opposes the construction of more reactors. Openly addressing the concerns of the critics and providing assurance of a controlled rate of nuclear expansion might eliminate much of the reason for public disaffection and begin to rebuild a sense of trust.

If progress can be made in all these areas, nuclear power will be much more likely to be considered when new electric generation capacity is needed. Such progress will be difficult because many divergent groups will have to work together, and substantial technical and institutional change may be necessary.

Commercial Biotechnology: An International Analysis

The United States currently leads the world in the commercialization of biotechnology, but this country's preeminence may not continue.



A well-developed life science base, the availability of financing for high-risk ventures, and an entrepreneurial spirit have established the United States as a leader in the commercialization of biotechnology. But if Federal funding for basic life science continues to decline, the science base, which supports innovation in biotechnology as well as in other fields, may be eroded.

Also, Federal funding of generic applied research and personnel training in the areas of bioprocess engineering and applied microbiology may be insufficient to support rapid commercialization. In fiscal year 1983, the United States spent significantly more on basic biotechnology research than on generic applied research in bioprocess engineering and applied microbiology.

The continued availability of financing for new biotechnology firms until they are self-supporting may be another problem. Finally, to maintain a strong competitive position, certain aspects of U.S. health, safety, and environmental regulation and intellectual property law may need to be clarified and modified.

Biotechnology, as defined in this report, is the industrial use of recombinant DNA, cell fusion, and novel bioprocessing techniques. Following the first successful directed insertion of foreign DNA into a host micro-organism in 1973, scientists in the United States and other countries recognized the potential for directing living cells to develop new and improved products and processes.

Over 100 new firms have been started in the United States in the last several years to commercialize innovations in biotechnology. Additionally, in the United States and abroad, established companies from a broad range of industries are investing in biotechnology. Potential industrial uses of these new techniques include production of new and improved pharmaceutical and animal health products, improvement of commercially important plants, production of chemicals, pollution control, and degradation of toxic wastes.

Japan is likely to be the leading competitor of the United States, followed by the Federal Republic of Germany, the United Kingdom, Switzerland, and France. A broad range of Japanese companies have extensive experience in traditional bioprocess technology, and Japan

has more bioprocessing plants and bioprocess engineers than the United States. Furthermore, the Japanese Government has targeted biotechnology as a key technology of the future and is financing cooperative interindustry biotechnology projects.

The European countries are not commercializing biotechnology as rapidly as either the United States or Japan, However, several large pharmaceutical and chemical companies in the United Kingdom, the Federal Republic of Germany, Switzerland, and France will be competitors in selected product areas.

OTA analyzes the level of activity in the competitor countries in the commercialization of biotechnology from three perspectives:

- the number and kinds of companies;
- . the markets targeted by industrial R&D; and
- the interrelationships among companies and the overall organization of the commercial effort.

OTA also evaluates the following 10 factors potentially important to the commercialization of biotechnology in the competitor countries. These factors are listed roughly in order of their current importance:

- financing and tax incentives for firms;
- government funding of basic and applied research;
- personnel availability and training;
- health, safety, and environmental regulation;
- intellectual property law;
- university/industry relationships;
- antitrust law;
- international technology transfer, investment, and trade;
- government targeting policies in biotechnology; and
- public perception.

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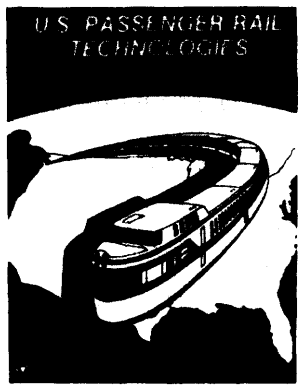
U.S. Passenger Rail Technologies



Foreign experience and current U.S. market factors indicate that any U.S. corridor with totally new high-speed (125 mph and above] rail systerns would have difficulty generating enough revenue to cover operating and capital costs. Thus, introduction of high-speed rail service in the United States will probably depend on whether the public benefits are judged sufficient to justify likely public assistance. The technologies for high-speed rail are well understood and, in themselves, present no serious obstacles.

OTA examined the experience of foreign countries to assess the outlook for high-speed passenger rail in the United States, but no specific proposals for rail corridors in the United States were evaluated. All foreign high-speed lines have been built with government assistance. The systems generally report favorable financial results with regard to operating costs, though independent audits to confirm this are not available.

Analysis of the factors that influence a passenger's choice of travel mode suggests that a potential high-speed passenger rail corridor should have some or all of the following characteristics:

- cities along a route generating major passenger travel flows in the 100- to 300-mile-trip range;
- cities with high population and high population densities;
- cities with well-developed local transit systems to feed the high-speed line; and
- a strong reason to travel between cities, generally because one city is a dominant center of commercial, cultural, or governmental activity.

High-speed systems require high ridership to meet operating costs. European and Japanese systems are located in corridors with higher population densities than any corridors being considered in the United States—except for the Washington, New York, and Boston Corridor (Northeast Corridor). Both Japan and France had reached capacity on sections of their conventional lines before implementing high-speed service.

The lowest cost option for a high-speed rail system, typically used for lower volume operations, is conventional diesel-powered equipment on existing track—the system operating in Britain. The most expensive option is to build new track and new equipment, as the Japanese have done. This cost, although always higher than that for upgrading track,

varies widely depending on terrain, land use, and population density, For example, although the new French high-speed line cost $4 million per mile, the most recently completed links of the Japanese system cost about $35 million to $40 million per mile, The earliest Japanese routes cost about $20 million per mile (in 1979 dollars).

OTA also looked into the prospects of magnetic levitation (maglev) technologies—ultra-high-speed ground transportation that relies on magnetic suspension instead of conventional steel wheels on the rail—and the status of railcar manufacturing industries.

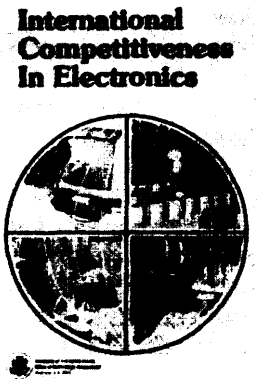
Different types of maglev systems for intercity passenger service are being developed independently by the Federal Republic of Germany and by Japan. Although neither system appears to have insurmountable technical obstacles, both require further development and testing to substantiate technical feasibility and to determine capital and operating costs under conditions that fairly reflect those of actual revenue service. Not until 1985 will sufficient information be available from the West German tests to determine how the system will meet cost and performance standards. Japan is seeking to build a new test track and testing advanced technologies, including the superconducting magnets used in their system.

All U.S.-owned passenger railcar manufacturers have abandoned the field, and foreign owners are filling U.S. sales. U.S. manufacturers (other than the German-owned Budd Co.) are not likely to reenter the field unless the United States follows the example of Europe and Japan, which sustain their passenger railcar manufacturing industries by ensuring a stable, predictable, and planned market for rail equipment.

The U.S. market for railcars is small and uncertain. Most railcar orders for the rest of the 1980's already have been placed, and the market for the 1990's and beyond is not likely to be large enough to support more than a few small U.S. manufacturers.

International Competitiveness in Electronics

Electronics remains a leader among American industries, but U.S. manufacturers face a future in which foreign competitors maybe their technological equals. Without positive action by the Federal Government, the Nation's technical superiority will continue to erode, contributing to the decline of U.S. international competitiveness in this and other industries.



Today, high-technology U.S. manufacturers of thumbnail-size integrated circuits as well as computers and communication systems remain second to none in both technology and most measures of commercial success. On the other hand, U.S. competitiveness in consumer electronics has declined precipitously. Technical and structural change in electronics will continue to be rapid, creating risks as well as opportunities for both American and foreign firms.

By any criterion, electronics is vital to the future of the U.S. economy and for national security. Even so, the Federal Government has done little to help electronics manufacturers. The contrast with industrial policies in countries like Japan is striking.

International competitiveness is closely linked to policies with domestic objectives, that is to industrial policy—which OTA uses as a neutral term to denote the collection of regulations, laws, and other policy instruments that affect business and industry. In this sense, the United States has had an industrial policy since its founding. The lesson of electronics, along with sectors like steel and automobiles that OTA has examined previously, is straightforward: future U.S. competitiveness will depend on a mole coherent and consistent approach to matters of industrial policy.

In developing a more coherent industrial policy, Congress could choose from among five alternatives. While they overlap, each represents a distinct thrust. The five alternatives are:

1. a strategy that would aim broadly at preserving domestic markets and domestic jobs;
2. protection and/or support for a limited number of industries that the Government judges critical for the U.S. economy or for national security;
3. support for the technological base and infrastructure that underlie American industries;
4. promotion of the global competitiveness of U.S. firms and industries; and

5. deferral in all possible instances to the private sector when decisions concerning industrial development are to be made.

Plainly, a more coherent industrial policy offers no quick fixes for the dilemmas of the U.S. consumer electronics industry, nor any guarantees for the future competitiveness of our microelectronics or computer sectors. Just as plainly, industrial policy is a continuing activity of governments everywhere. In the United States, we can continue to leave industrial policy to the random play of events, or begin to improve the system.

The first requisite for more effective policymaking is greater agreement on the role of high-technology sectors like electronics as a driving force for future economic growth. This, in turn, depends on a greater degree of consensus on where the U.S. economy is heading and where it should head. The second requisite is better understanding of how particular Federal laws, regulations, and administrative procedures affect the competitiveness of American industry. This will require a better capability within the Federal Government for analyzing the sources of competitive strength.

If a more coherent industrial policy is far from a panacea, it nonetheless offers the best prospects for enhancing U.S. competitiveness—in electronics and in other industries, old and new. Making our industrial policies work better—evaluating, linking, and coordinating the many Government measures that make up U.S. industrial policy—could pay vast dividends throughout our economy.

An Assessment of Maritime Trade and Technology

The value of world trade to the U.S. economy has increased dramatically in the past two decades, nearly doubling during the 1970's.

Although the U.S. ratio of exports to gross national product is still below that of most other industrial countries, it rose from 4.4 percent in 1970 to 8.5 percent in 1980, and could reach 15 percent by 1990.

A variety of rapid changes over the past few decades have transformed the maritime industries that are essential to world trade. But U.S. maritime policies have not kept pace with changes in world trade or the maritime industry. They remain aimed at conditions that prevailed in decades past. The U.S. maritime policy framework that exists today is outdated and appears inadequate to address critical maritime problems of national concern.

Major new or revised Federal policies are needed if the U.S. maritime industries are to remain healthy in the decades to come. Without policy changes, most segments of the U.S. maritime industry will continue to decline in size and influence.

In the past 25 years, the U.S.-flag merchant fleet has changed from the largest and most diverse in the world to a specialized fleet of modest size that is prominent only in the scheduled container-carrying segment of U.S. international trade. Practically all of U.S. petroleum imports and sizable proportions of our exports of coal, grain, and other key commodities are carried by huge foreign-flag fleets owned by U.S. maritime business interests. U.S. shipyards have maintained leadership in complex warship construction but now rarely build large merchant ships. These changes have been accompanied by international political and technological changes that have a significant impact on the economics of shipping and shipbuilding. In recent years, there has been more governmental control of trade and access to cargo than at any time in the past several decades. The changing nature of international marine transportation itself is evidenced by the concentration of businesses in fewer, larger firms; by rapid worldwide transfer of technologies; and by many ship-operating firms offering intermodal rates and services.

Because of these changes, a comprehensive and coordinated approach toward new maritime policies is necessary to clarify the national interest, define national objectives, bring effectiveness to Federal programs, and ensure consistency within industry promotion efforts.

There is no generally accepted U.S. cargo policy because national interests are not defined and strategies for international negotiation have not been developed. Federal policies and practices could have a profound influence on whether U.S.-flag ship operators are treated fairly by other countries and given equal and competitive rights to carry cargo. Lacking policies and strategies, the United States has remained on the sidelines while the rest of the world defines the rules of cargo access.

There is widespread agreement that U.S. maritime subsidy programs of the past have been counterproductive to the goal of stimulating a competitive commercial U.S. maritime industry. The present administration eliminated funding for ship construction subsidies and has sought to phase out ship-operating subsidies.

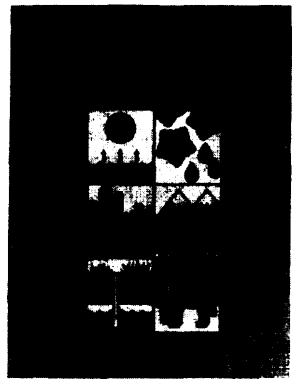
However, new policies are needed to substitute for these programs because, without Federal intervention, U.S. maritime industries cannot meet international competition, which benefits from many forms of government support. Before new programs can receive broad support in the United States, the level of Federal promotion needs to be clearly justified by specific national benefits such as the requirement to maintain an adequate defense mobilization base. Such requirements have not been defined.

It has been and remains difficult to develop a comprehensive policy that integrates the important aspects of trade promotion, cargo access, maritime, regulation, industry incentives, and maritime research. Federal agencies, lacking a coordinated approach, have often sought conflicting goals. Congress could seek to resolve some of the major conflicts through comprehensive legislation or through combined consideration of a range of legislative proposals. At a minimum, there should be Federal coordination of trade and shipping policies which are often considered separately, both within the U.S. Government and international organizations where the United States has a major role. Those policies can have a direct impact on future international trade and the participation of the United States and its shipping industry in that trade.

OTA has found that, although there are both healthy and troubled segments of the U.S. maritime industries, all sectors are becoming increasingly dependent on Federal policy decisions. And, with increasing competition in world trade as well as shipping services to carry that trade, intervention by all governments is more and more prevalent.

Water-Related Technologies for Sustainable Agriculture in U.S. Arid/Semiarid Lands

Agriculture in the arid / semiarid United States (generally the 17 Western States) is being increasingly threatened by water-related problems that-are likely to intensify in the future. Western agriculture constitutes a large share of the total income derived from farming and ranching in the United States—in 1980 the Western contribution was $59 billion or 43 percent of the U.S. farm income—making Western agricultural problems of national significance.



An estimated one-half of the Western United States already is experiencing local and seasonal water-supply problems. Growing water demands from nonagricultural users plus increased problems of ground water depletion, salt buildup in soils, and water-quality deterioration are causing heightened concern about the sustainability of Western agriculture in its present form. In some areas, improved water management in irrigation may compensate for decreasing availability of affordable water. In other areas, irrigation agriculture may gradually decline and in some cases is likely to cease altogether due to water-related problems. Simultaneously, those agricultural systems based on natural precipitation (dryland and rangeland agriculture) are likely to increase in importance.

Existing and emerging technologies have potential for sustaining the long-term productivity of arid / semiarid agriculture. Successful application is site-specific, however, and depends on understanding the hydrologic cycle and other natural processes involved. Complex and changing legal, institutional, and economic issues also affect water use and technology adoption. Incompatible, incomplete, and unsynthesized data make it especially difficult to identify and verify water-related potentials and impacts of particular technologies.

An expanded and committed Federal role is fundamental to help sustain long-term agricultural productivity for the Western United States. Some current Federal activities are not effectively advancing this goal. The mountain snowpack has received inadequate Federal attention for its water-producing properties even though that water-source is primarily under Federal management and supplies the principal surface runoff for much of the Western United States. Federal agricultural programs have for the most part focused on production that is largely based on costly inputs including the use of commercial fertilizers and pesticides, frequent tillage, and the use of few, very specialized, annual crops. Already, some Western farmers, ranchers, and researchers are

questioning the suitability of these activities for arid/semiarid lands and are experimenting on their own with other technologies to reduce economic risk and maintain productivity.

OTA identified a number of congressional actions to promote long-term productivity of Western arid/semiarid agriculture including the following:

- Establish a National Center for Water Resources Research to unite university, private sector, and government water-related research activities and identify solutions to national water problems, particularly those of Western agriculture.
- Establish a small specialized analytical unit—e.g., an office of resource analysis—to provide Congress with long-range and quantitative evaluations of existing data on renewable natural resources.
- Tailor and adjust Federal programs to reflect the importance of the Western mountain snowpack for arid/semiarid lands water production.
- Develop and promote technologies for dryland and rangeland agriculture that regenerate degraded lands and sustain long-term productivity to provide new economic opportunities where traditional irrigation is threatened,
- Sustain the Federal commitment to water-quality programs including control of nonpoint agricultural pollution and public health research.
- Establish mechanisms to increase the involvement of Western agricultural water users in research and development of water-related technologies,
- Carry out Federal responsibilities to ensure that the interests of disadvantaged farmers and American Indians are equitably and fairly represented in public and private sector decisions affecting water availability and use.
- Assist States in developing computerized water-resources data bases to improve, capacity for local and regional water planning and management for agricultural and other uses.

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TECHNICAL MEMORANDA

Scientific Validity of Polygraph Testing: A Research Review and Evaluation

The technical memorandum is limited to a critical review and evaluation of prior research. The memorandum does not consider, in detail, other polygraph issues **such as utility, ethics, impact on employee morale and productivity, privacy, and constitutional rights. The technical memorandum, instead, focuses on the nature and application of polygraph tests, scientific controversy over polygraph testing, data from field and simulation studies, and factors that affect test validity.**

Salyut: Soviet Steps Toward Permanent Human Presence in Space

The study examines the range of capabilities that the Soviets have already achieved in using men and women aboard the Salyut stations and the directions their program may take in the future.

The technical memorandum is part of a larger, continuing OTA assessment of Civilian Space Stations. It includes the result of a workshop held at OTA in December 1982.

Remote Sensing and the Private Sector: Issues for Discussion

The memorandum summarizes the requirements and conditions that Congress might want to impose if the Landsat system is transferred to the private sector. The memorandum also summarizes the social, economic, and political benefits of the U.S. remote sensing programs. It is part of a larger assessment of International Cooperation and Competition in Civilian Space Activities.

Update of Federal Activities Regarding the Use of Pneumococcal Vaccine

Describes Federal activities that have taken place since 1979; reevaluates the 1979 cost-effectiveness analysis of vaccination against pneumococcal pneumonia, including new information on vaccine efficacy; and discusses policy implications.

Review of Postal Automation Strategy: A Technical and Decision Analysis

The memorandum contains a review of the United States Postal Service (USPS) decision to utilize single-line optical character readers (OCRs) instead of multi-line OCRs, and includes a comparative technical

and economic analysis of the two technologies in the context of the overall postal automation program.

BACKGROUND PAPERS

Encouraging High-Technology Development-Background Paper #2

Addresses the factors that influence the creation and location of high-technology firms and the roles that high-technology industries play in the growth and revitalization of the U.S. economy.

Impacts of Neuroscience

Neuroscience, research on the nervous system, is already playing a critical role in preventing and treating the diseases of older Americans. The background paper is part of a larger study on "Technology and Aging in America,"

Directed Energy Missile Defense in Space

Introduces the new technologies that form the basis of President Reagan's proposal to study the possibilities of developing a defense against Soviet nuclear ballistic missiles. It focuses on the so-called "Star Wars" technologies which propose the interception of missiles in their boost phase by directed energy weapons. It also summarizes the possible roles of these technologies as part of defensive systems, as well as the Soviet countermeasures and other problems which must be overcome.

Technology, Renewable Resources, and American Crafts

Summarizes technology's effects on crafts—traditional and contemporary—that use renewable resources as raw materials. The paper is part of OTA's ongoing monitoring of renewable resource/technology issues for Congress.

CASE STUDIES

The Emergence of Nuclear Magnetic Resonance Imaging Technology: A Clinical, Industrial, and Policy Analysis

Nuclear Magnetic Resonance (NMR) is an exciting new diagnostic technology that uses radiowaves and magnetic fields, rather than X-rays, to produce images of the interior of the human body, NMR provides excellent distinctions between different structures and tissues without requiring the injection of potentially toxic contrasting agents

and it is not affected by bone. This technique offers the possibility of earlier detection and more accurate diagnosis of many ailments.

WORKSHOP PROCEEDINGS

Arms Control in Space

Summary of findings and proceedings, of six workshop sessions held by OTA in Washington, DC, on January 30 and 31, 1984, to explore and examine antisatellite (ASAT) weapons as one aspect of space arms control.

The proceedings report the viewpoints and ideas discussed during the conference and identify areas of controversy and general agreement.