Committee for Economic Development

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Keynote Remarks

We need an American Competitiveness agenda. We need government that enables business in addition to regulating it. We need government that recognizes they don’t create jobs (unless they spend our money) but importantly they can create an environment where jobs can be created. We need government that pulls together rather than pulls apart, reveling in their discordant pluralism. We need to recognize it’s important to train for the economic Olympics now and not just brag about how we won it twenty years ago. And we need to start now.

Twenty years ago there were only about a billion people involved in the global economy. Today there are about 4 billion
active participants in the global economy with the addition of China, India, former CIS states, and Russia, plus numerous other countries who have recognized prosperity for their citizens comes from a robust private sector.

This is a good phenomenon for the world as we now have at least 4 billion people thinking about how to make things better, how to improve productivity, and how to create a better life for their families and descendants. Standard of living comes from productivity; the ability to do more every year with less input of material and labor; the ability to innovate and invent; the ability for new ideas to flourish; and the ability to have free flow of ideas, of people, of goods, and of money.

Economics is not a zero-sum game. Both sides benefit in an economic transaction. More easily understood on a micro basis when you go to the store and buy something. You give the store money, they give you the goods purchased, and both
you and the store are happy. This point seems to get lost on a macro basis with the general feeling it’s “unfair”. Sometimes it probably is, most of the time, it’s not. It’s generally easier to see the disruption because it’s focused while the benefit (which is bigger) is diffused.

Trading nations from the Phoenicians, to the Hanseatic League, to the Dutch, the British, and the US have done well. Despite the evidence, it seems every century we get ready to have the same argument again rather than figuring out how to compete better.

As a country we need to recognize (1) that we are in a different global economy than we were twenty years ago, (2) that the global economy will move forward with us or without us, (3) that in all our political arguments there is truth on both sides and we need to pull together towards a common
objective as a team, and (4) that’s why we need an American Competitiveness agenda.

My guess is there are lots of ideas but there are six areas I’d like to see us focus on immediately. We know what needs to be done, it’s a matter of doing it.

The first is Debt Reduction. People are tired of hearing about it, but it is real ... and if we just keep doing it in trillion dollar bites we will get to see the same political circus every year for the next 7 or 8 years. I never thought I would be in a situation where I could say a trillion dollars isn’t enough ... but that’s where we are. When dealing with big numbers, it sometimes helps to put it on a micro scale. So think of it this way. If you were a family acting like our government, you would be making $21,000 a year and spending $35,000 a year. How long can that continue? In the argument of more taxes versus less spending, it is both, and Simpson-Bowles is a good place to start, including the simpler tax system advocated in the proposal. Our current entitlements programs will crush us as
the baby boomer generation retires. We are on a path to be spending a trillion dollars annually in interest in 10 years. We generally understand millions and billions so trillions just seems like the next number. So to put a trillion dollars in perspective, if you had spent a million dollars a day since Jesus Christ was born about 2011 years ago, you still would not have spent a trillion dollars. And that would be our annual interest bill. This is not how a great nation behaves. And something will happen here ... and it will be one of two ways. The first is to do it thoughtfully and proactively the way a great nation should. The second is to wait until the bond market forces us to do it, like Greece did. For those who think this is just a Wall Street problem, look at it this way. When 10 year bonds go to 7%, and as a result home mortgages go to 10% and car loans to 13%, that’s a Main Street problem. The faster we act, the less painful it will be for everyone.

Income tax reform has to be an essential part of resolving our debt crisis. We have a grossly inefficient and globally
uncompetitive system today. The rates that exist today yield about $2.3 trillion in taxes but we then give back about $1.2 trillion in the euphemistically named “tax expenditures.” Tax expenditures are just another form of spending but it’s done through the tax code. In the most recent year, there were 169 of these special credits or deductions.

The top tax rate differs if you are an individual or an incorporated company and if you earn your income as wages or as capital gains.

Low income individuals are eligible for the Earned Income Tax Credit and Child Care Credit. Some have estimated that the refund is an average $1,000... but that the system for receiving it is so complicated that recipients on average pay $100 to a tax preparer to collect the $1,000.
The Corporate system is globally uncompetitive. We have one of the highest rates in the world but we then have various credits and deductions resulting in a lower cash tax rate. We are also the only major economy without a territorial system for taxes on foreign earnings. This policy encourages companies with foreign earnings to keep that cash overseas rather than repatriating. Additionally, because dividends and stock repurchases legally have to be done through US based accounts; many companies find themselves in a situation where they have much of their debt, including underfunded pension plans, in the US and most of their cash outside the US. An economically silly policy. If we were actually trying to design an uncompetitive, inefficient system on every dimension and for every category of tax payer, we could not have this good a job.

**Recommendation**

So...what to do? It starts with some fundamentals of what we want the income tax system to do. **First...**We need to decide what we want Government to do and how much of it.
That should generate some intense political dialog. We all know Government is not the most efficient user of funds...but at the same time there are things we need that only Government can do. **Second**...based on current discussions we need to find the best way to extract 20-21% of GDP in taxes in the least intrusive and least noxious way possible. It needs to be the mosquito extracting blood from the host...irritating but very survivable. And not the vampire, killing the host in the process. Given the essence of political compromise, we’ll probably end up with a vampire mosquito...as long as the host can still prosper. **Third**...we should construct the system that creates the least market distortion possible. And almost all deductions and credits create distortion. **Fourth**...in the process, it needs to be recognized by politicians that Government is not just a regulator of business. Government is also an enabler of business. Regulation is important to set minimum standards and enabling is important to foster that dynamism essential to a growing economy that creates the jobs we all want. Tax policy can be an enabler.
The Fiscal Commission process for arriving at a recommendation was messy and arduous... largely because it’s a very messy and complicated system. All of us were astounded by the extent of tax expenditures and the complexity of... well... everything. The more we tried to work with the existing system, the more it became clear we would be better off to just start with a clean sheet of paper to design a simpler, more fair, less economically intrusive system. That’s how we got to the zero plan in the Simpson Bowles Proposal.

The Zero Plan is more progressive than our current system. It eliminates the complexity and market distortions caused by the 169 separate deductions most recently used and preserves those for the very poor. It has the top rate about the same for individuals, companies, and capital gains eliminating the unproductive use of time spent on how to organize to avoid taxes.
Addressing both Tax Reform and Entitlement spending will be essential to resolving our increasing debt crisis.

The second is Energy Policy. In the debate of energy generation vs. energy efficiency, the answer is to do both. There is huge opportunity for efficiency. We’ve estimated that just aggressively using existing Honeywell products could save the US 20-25% of its annual energy bill. Imagine the impact with everyone else’s stuff included. But that takes time and changes to our system of incentives and behaviors. In the meantime, we need more oil, gas, and renewables now. A thoughtful energy policy comprising both generation and efficiency will have two benefits. The first is it will provide the low cost power needed to sustain good GDP growth. The second is that with gasoline at $4 per gallon now and consumers fearful it will go to $8, we would instead have $2 gasoline. That would immediately put money into consumers’
pockets that they can spend to propel our economy rather than sending that cash out of the country like we do today.

The third is free trade and developing a more thoughtful nuanced relationship with China. Open trade relationships benefit both countries. The rest of the world is moving this way, and we’re not. While there are legitimate concerns about labor and environmental laws, helping those disrupted by trade, and adherence to agreements, this is again a case where we need to work together to achieve the best balance of both.

The same is true of our China relationship. It’s not as simple as is China “good”, or is China “bad”. I’ve been asked before if we should view China as a partner, as a competitor, as a customer, or as a supplier. The answer of course is yes ... all of those! With 4 times the people and a much lower standard of living, as long as they continue to make the right decisions and evolve as they have over the last 20-30 years, they can
continue to grow well for a long time. If US real GDP grows at 3% annually and China’s at 7% annually, China will be the biggest economy in the world in 30 years and still have a lower standard of living, meaning more opportunity to grow.

I liken it to how the UK probably viewed the US 100-150 years ago. Brash, big, dynamic, intellectual property concerns ... and a future force to be reckoned with if we made the right decisions ... which we did.

A prosperous, peaceful China is a good thing for the US, China, and the world.

The fourth is a focus on math and science education. We need more engineers, not more lawyers. We need that Sputnik moment that mobilizes our kids to want to be engineers. Most innovation and productivity comes from engineers and technology. In 2007, the US graduated about 450,000 US
citizens as engineers. China graduated about 950,000 and that’s with only about one-third as many college age eligible kids going on to college on a percentage basis. That means when it equalizes, China will graduate about 3 million engineers a year to our say 500,000.

We need more engineers and we need more open immigration for non-US citizen engineers who want to be here. As another example of how both sides are right and need to work together, there are over 100 funded federal STEM programs (STEM meaning Science, Technology, Engineering, and Math) with arguments that more money is needed. However, none of those 100 programs are coordinated and none are measured to ensure we’re getting the result we’re paying for. Senator Tom Coburn has some great data in this regard. Working together, we could have a much better solution.
The fifth is infrastructure development. Senator John Kerry has some great data showing developing regions spend 9% of GDP on infrastructure, Europe 5%, and the US 2%. We need better roads, bridges, and ports. We also need to upgrade our Air Traffic Management system from its current 1950’s baseline and we need to advance broadband. While we do have to cut overall spending drastically, there is such a thing as good spending. We shouldn’t throw the baby out with the bath water.

The sixth is tort reform. It sounds like an old refrain, but it is true. We have let the pendulum swing too far in an attempt to root out society’s inequities, to the point where our tort system is a mystery to the rest of the world. As other countries look to invest in the US, they frequently ask if they can be sued and lose for the things they read about. It’s a sad commentary when I have to say yes, it is possible, and it’s just one of the downsides to participating in the world’s biggest market. This is another area where working together we can achieve a
better balance providing fairness for people who have suffered inequities while also providing fairness for the companies that invest and provide jobs.

We have an important choice to make in the next few years. Do we still have that will, that ability to compete? Or have we become so enamored of our entitlements that we no longer care if we pass on a brighter future to our kids and grandkids? Do we still have that will, that ability to train hard? Or do we want to sit on the couch and watch others do what we could have?

Life and business are always about trying to do two seemingly competing things at the same time. Do you want a good work life or a good home life? Do you want good short-term results or good long term results? Do you want people empowered or do you want good controls so nothing bad happens? In every case, you want both. The same principle
holds for these six areas and we need our Government to accomplish both. That happens when they work together to accomplish the objectives of American Competitiveness.

The choice is simple ... and stark. Are we so focused on our entitlements that we’ve forgotten what made us great ... hard work, math and science education, technical skills, a dynamic economy, a sense of purpose, relying on ourselves and not blaming others, taking personal ownership of our future, and being able to individually act in our self interest while not forgetting our collective purpose.

Some people in the world, and some countries even, believe our time has past. That a once great economic and military power has taken the first steps on the path to decline. That we cannot resolve our internal differences to make the difficult choices needed as a society. That having achieved
greatness, we’ve forgotten what got us here ... and can no longer act.

One thing I do know is that Government is unlikely to act unless they truly feel the push from our citizens ... from the voters. It’s important for all of us to let our politicians know that we want to compete, that we still know how, and that we just need the tools to do it. By addressing debt and taxes, energy policy, math and science education, infrastructure, free trade, and tort reform we can have the tools we need to create a dynamic, fair economic environment where our country and our people can continue winning. It’s a question of do we still have the political will to do the hard things required in life?

We can do it. We need government to work together and enable it. We just need the tools.

Thank you.