

**Renewing U.S. Competitiveness and Innovation
in a Changing Global Economy**

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**Woodrow Wilson International Center for Scholars
Washington, D.C.**

**April 22, 2010
(as delivered)**

Thanks to the Wilson Center for providing this kind of forum where we can have a healthy, constructive dialogue around tough but important issues.

And allow me to add that it is a privilege to work with Lee Hamilton. He is a rare commodity — someone who is respected on both sides of the political aisle for his intellect, his service to country, and his skill at finding meaningful, effective solutions that leave us all better off. That has a ring to it that could be useful around here. His passion for engaging diverse stakeholders is greatly valued by all of us who seek greater transparency and thoughtful deliberation in critical policy issues now facing our nation.

I want to open with a story about Boeing — but really it is an illustration of how the United States is competing in an economy that has gone global and shows no signs of retrenching from that profile.

But I promise, what I have to say here applies much more broadly than to Boeing or even the aerospace industry. This is more about the future competitiveness of the United States. It is about this country's ability to sustain innovation as the key competitive advantage that supports exports, jobs and the collective economic power that at the end of the day helps ensure our very security as a nation.

Did you know that every time a Boeing 777 lands in China (or India or anywhere else in the world, for that matter), it lands with about four million parts reflecting the workmanship of some 11,000 small, medium and large suppliers — the vast majority are from the United States?

Those suppliers helped the U.S. aerospace industry export some \$83 billion in products last year, and contribute a positive balance of nearly \$65 billion to U.S. trade in 2009 — the largest, as you would imagine, of any manufacturing sector, according to the U.S. Department of Commerce. And per the Aerospace Industries Association, those suppliers that landed with that 777 also helped aerospace and defense to directly employ 818,000 people in 2009 and supported more than 1.8 million middle-class jobs in related fields.

At Boeing, almost 96 percent of our 158,000 employees are based in the U.S. Much of that level of contribution to U.S. jobs and economic strength is a direct result of international sales. (For example, more than 80 percent of Boeing Commercial Airplanes' backlog will go to international customers. That's about a \$35 billion business. A big percentage of our future growth in Defense, Space & Security will come from international markets, too.) And nearly half of the revenues and profits of the S&P 500 now come from international markets. I'll repeat that: Nearly half of the revenues and profits of the S&P 500 come from international markets.

Bottom line: If it weren't for robust global trade, the U.S. aerospace industry's ability to support hundreds of thousands of highly skilled, well-paying U.S. jobs would be significantly diminished.

So as leader of one of the largest U.S. exporters, I view global trade and competitiveness as critically important to the United States. And I'm worried about them both — especially for the longer term.

The more I speak with government and business leaders across the country, the more I find that the aerospace experience is similar to those of many other industries. Across the board, our concerns for the future center on a relatively small number of equally thorny issues:

- First: economic trends that hinder innovation — including large U.S. deficits, regulatory burdens and tax policies
- Second: trade policy — the rise of aggressive (and sometimes government-subsidized) competitors abroad amidst a growing sentiment toward protectionism (a tough mix!) and
- Third: a shrinking U.S. industrial base fed by an even-faster shrinking pool of workers who are skilled in the problem-solving fields of science, technology, engineering and math.

I believe we have arrived at a critical intersection between U.S. competitiveness, on the one hand, and the changing global economy that isn't going to wait for us. As a nation, we must adhere to the fundamentals that created and sustained our global economic leadership and standard of living through much of the 20th Century.

And I agree with President Obama, who at the White House Jobs Summit last year said that the voice of business needs to be part of the debate on economic policy. Of course, I don't expect us to be the only voice, but we can and should be part of a healthy dialogue that includes labor leaders, economists in the academic community, think-tank scholars and others — all with a common goal of finding the best way to move the country forward.

Unless we (and by we I mean the public and private sectors working together) take certain key actions, today's successful model will be very difficult to sustain over the long term. And if we fail in this endeavor, the U.S. will lose its edge in innovation; exports and their related good jobs will decline; and we won't have enough skilled workers to fill the well-paying jobs that remain.

Now, I have deep and abiding faith in American business and in American workers. But as a nation, we have to ask ourselves whether we are doing enough to renew our global competitiveness. We seem to have become mired in partisanship and political rhetoric. So what I propose is that you — this influential group of people here today — start to build bridges across the various divides to ensure that the U.S. will be able to continue to compete and win on the global playing field.

Let's work together to help this country take positive steps in these three areas:

- First: Revitalize the U.S. economy and enable innovation-fueled growth
- Second: Level the playing field for international trade
- And third: Strengthen our industrial base, improve our educational system and prepare our future workforce for tomorrow's jobs and careers.

To the first point, I believe that among the primary threats to U.S. competitiveness are unprecedented federal deficits; a regulatory bureaucracy that paints with too broad a brushstroke (read that as a concern that Main Street will pay for Wall Street's sins); burdensome taxes that stifle essential investments in innovation, technology and productivity; and an inability to renew our aging infrastructure fast enough. These are economic factors that have contributed to America's industrial decline. And if they are not managed well, they will likely continue to distort our markets and displace current jobs.

As many of you know, even under the most optimistic current projections, we will have debt equaling 100 percent of our economy and exceeding it by 2020. The actions taken over the course of the past two or so years to stabilize our financial system included some difficult (from a free-market perspective) but necessary decisions on the part of both the Bush and Obama administrations. I applaud both presidents and the Federal Reserve for averting economic catastrophe. And there is no doubt in my mind that they did.

Most business leaders and economists will tell you, however, that the combined effect of these choices along with the stimulus package, auto-company bailout and other spending decisions has us heading down an unsustainable path.

While I'm not here to argue the relative merits of individual spending priorities, I do believe the current budget and legislative agenda are noticeably imbalanced when it comes to adequately addressing this country's overall financial course and long-term financial strength. Suffice it to say that our unsustainable levels of

spending, deficit and debt need to come under control quickly if we are to remain the world's largest economy.

To stimulate our economy and level the global playing field, we need tax policies that encourage innovation in the private sector — and, in helping businesses of all sizes to grow, likewise help to expand employment, strengthen our existing industrial base, create new industries, and replenish the Treasury with higher tax receipts. Tax relief for businesses that encourage innovation makes sense for everyone — the business community, labor and policy makers. The more we innovate, the more competitive we become, the more sales we generate, and the more people we employ. It's pretty simple.

As for regulation: Most people see financial services as ground zero among the factors that contributed to our current economic reality, and reform in this area is vitally important. But we need to focus on the things that would reduce systemic risk for all of us. Everybody has a separate list and it is being debated heavily. But separating retail banks and investment banks, better policing of insider trading and establishing sufficient capital reserves are on my list. And we need to avoid hurting companies whose true focus is on designing, developing, financing and delivering innovative products and services sought-after by the global marketplace — the broad-brush, unintended-consequences point.

Turning to trade: There's no doubt in my mind that U.S. workers and businesses can compete very effectively around the world — if the playing field is level. In many cases, it is not.

I accept that within the nation, and even potentially within this room, there's a distinct lack of consensus on this topic — which to me means there's an even greater need to build a dialogue of trust. At the very least, we should all keep an open mind and avoid the temptation to turn our nation inward.

Much to his credit, President Obama has said the United States should have an aggressive and competitive trade policy because exports are key to revitalizing the U.S. economy. He is right, especially since many international markets have recovered faster and are growing more rapidly than the U.S. market. They offer the best opportunities for accelerating our own economic recovery.

The President has acknowledged, however, that our country is stuck in a debilitating gridlock between those who are too inclined to endorse free trade and those who are too fearful of import competition. I agree, and I'd also like to point out that he is not the first president to have this problem. Every president since Franklin Roosevelt (who put together the coalition to replace the Smoot-Hawley Tariff with the reciprocal trade negotiations program) has had to overcome opposition to international economic engagement. And each rose to the challenge. I am hopeful that President Obama will use the power of his position

to break through this gridlock that is holding our exporters and their workers back from winning new customers in world markets.

There's literally a world of opportunity ahead for us ... if we can resist the temptation to preserve old or erect new barriers.

Based on Boeing's experience and those of other exporters from large to small (and there are, literally, thousands upon thousands of small- and medium-sized businesses who have discovered the benefits of exporting), we'll be better off in the long run if we are able to solidify an aggressive and competitive trade policy.

This type of policy will create jobs if it includes:

- (1) an enforcement program to make sure our trading partners live up to their existing agreements — which the Administration is doing, by the way
- (2) commercial diplomacy initiatives to help our exporters and their workers win new customers — which the Administration has started to develop — and, in fact, has exercised on behalf of Boeing in a number of cases (as a sidebar, China is outgunning us in this particular area. I see this everywhere I go around the world.)
- (3) a negotiation strategy to break down new barriers and provide fair-trade opportunities for our exporters and workers who need a level playing field. (This is the area where more work can be done to get our nation's words and music in sync.)

Another area in which the federal government has started making important steps is in streamlining the export-control system and making it more efficient. Yesterday, as many of you know, Secretary Gates laid out the Administration's plan to simplify the current system through a series of steps, including the possible creation of a single agency, with a single control list, with a single enforcement and information technology system. Behind the Administration's proposal is a recognition that a more focused and modern system will not only strengthen our national security but also enhance U.S. competitiveness.

But even with this type of progress, if we fail to address the third area — which is negotiating new trade agreements — the U.S. leaves itself at a significant disadvantage. Bilateral and multilateral agreements that expand international trade would be a powerful economic driver here at home. As I'm sure you know, we have pending free trade agreements with Korea, Panama and Colombia. They are languishing while our competitors are moving forward with their own FTAs with these countries and with new bilateral and regional negotiations to give their exporters and their workers a competitive edge. Both the EU and India now have an FTA with Korea. Canada has an FTA with Colombia and has concluded its FTA negotiations with Panama.

In short, the United States, which was once ahead in providing a competitive advantage to its exporters and workers through trade agreements, is now at risk

of falling behind. Enforcement programs and commercial diplomacy initiatives alone will not be enough to help American exporters and their workers overcome, for example, the advantage EU exporters will have in Korea when most will pay a zero import tax and ours will have to pay on average a 12 percent import tax. Action on these FTAs and some others coming down the line is absolutely imperative, in my view, for our nation.

Trade is a good example of a policy issue where business, labor and government leaders can and should join hands for mutual benefit. Expanded trade will mean expanded opportunities for everyone — but only if governed by a strong set of rules that are strongly enforced, and we need to pursue both goals simultaneously.

Finally, the third point: Let's look at how we can strengthen our industrial base, improve our educational system, and prepare our future workforce for tomorrow's jobs and careers.

First of all, notwithstanding the tremendous pressure we face on discretionary spending and my earlier comments about debating the merits of individual spending priorities, I believe there is an important tie between a strong economy and a strong defense, space and security industrial base. Without dwelling on this too deeply, suffice it to say that our long-term economic and national security interests cannot be preserved without sufficient investment in new-start programs that keep our design and manufacturing teams engaged; fuel our continued technological edge; provide surge capacity in the event of a crisis; and generate the inspiration and opportunity for future generations of talented youth to pursue careers in science, technology and engineering.

I'm sure it's no surprise to you that technology-based companies, academia, and government science-and-technology organizations are already starting to face an impending skills shortage that will grow significantly worse over the next 5 to 15 years and beyond. This is a global circumstance, by the way. But the problem is growing particularly acute in the United States, where many seasoned and skilled workers are close to retiring, and insufficient numbers of capable workers are being prepared to replace them. I emphasize "capable," because in the United States today we face a skills shortage, not necessarily a labor shortage.

We need a long-term strategy, and we need to start defining it now.

While countries like India and China are funneling more and more of their best and brightest into science, engineering and math programs (by some accounts doubling their production of three- and four-year graduates in these fields over the most recent three-year period), the number of U.S. students graduating with engineering degrees, in particular, has stagnated, and in some cases declined.

In 2007, to throw out a few numbers, 55 percent of engineering doctoral students in the U.S. were foreign born. In 2008, 10 of the world's 20 top Engineering/IT

universities were outside the United States. One year later, in 2009, 13 of 20 were outside the U.S. And you can see a clear trend.

While these statistics argue for immigration reform as it relates to the United States' ability to attract the world's best technical talent, the biggest part of the solution must be improving our own educational system — which I would argue is the most important thing we can do to build a strong economy for the future. We stand at the beginning of an age when brainpower trumps everything — land, commodities and other things that defined wealth for past generations. We succeed, or fail, based on what we know and how we apply it to bring value to customers and consumers.

Unfortunately, today, more and more American kids are dropping out even before they finish high school — or even in some cases grade school! These children are losing opportunities for life — and the U.S. is losing a potential source of future innovation and competitiveness — at a time when we have a growing need for workers with a broad combination of technical, social and analytic skills.

More than anything, we need greater support for the so-called STEM disciplines of science, technology, engineering and math. This will require, obviously, a public-private partnership as we've never had before. We need to get parents re-engaged, strengthen early-childhood education and excite a new generation of students. We need to produce and incentivize greater numbers of certified math and science teachers at the primary and secondary levels, strengthen retention programs at the undergraduate level, and provide stronger support to institutions that provide students with hands-on experience that is directly transferable to the workplace. Finally, we need to measure the impact of these changes, adjust in response to the data that we see, and provide lifelong learning and retraining opportunities along the way.

The unrelenting reality is that jobs in today's global economy are created and sustained only through increasing innovation and growing a highly educated workforce. And, over time, jobs will become most plentiful in those regions and countries where employment and related business conditions support rather than impede those two driving forces. Where conditions inhibit the capacity of companies to go head to head with a growing list of lean, efficient and innovative, growing global competitors, job growth will be constrained at best.

Now I'd like to close by re-stating the obvious. We face huge challenges that won't yield to quick, easy solutions. But the magnitude of a challenge is no excuse for timid inaction. Our country is going to make it through the current uncertainties; of that I have no doubt. But I'm really concerned about the longer term. We must work now toward creating the foundation for sustained innovation — so that we can retain what has long been the U.S. competitive advantage. We're not entitled to it, and we have to work for it. We must take strong,

thoughtful action today, to have any hope for addressing the needs of 5, 10 and 20 years from now.

Let's not allow our competing ideas to blind us to the larger cause. Let's enter the debate — all of us — with commitment to moving forward on a plan of action for long-term, vigorous economic growth.

I know that, together, we can find solutions that will benefit this country, its businesses and its workers.

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