Compete.

Council on Competitiveness

Clarion Call

A Look Back and a Path Forward

Nations that fail to act will fall behind.

Catalyzing Investment and Growth in the United States

On November 16, 2012, the Council on Competitiveness issued its *Clarion Call for Competitiveness* that identified critical global economic transformations and put forth a set of recommendations for policymakers that would strengthen the United States' economic foundation and allow for long-term, sustained growth. The *Clarion Call* conveyed a sense of urgency, demanding policymakers take action both to address significant challenges, but also to embrace tremendous opportunities. The nation stood at an inflection point defined by turbulence, transition and transformation:

> *…a debt crisis…recession in much of Europe, a slowdown in the hard charging economies of China and India, instability in the Middle East, the rising threat of protectionism around the world, and new competitors emerging.*

In building the case for action, the Council highlighted systematic weaknesses and strengths—dark clouds and silver linings—of the U.S. economy.

Where We Stand

Data and statistics also can be found in the Clarion Call Infographic.

Little has changed for the better during the past year to address key weaknesses of the U.S. economy. U.S. annual productivity growth remains about 2 percent, but wages have stagnated.[1] GDP growth, while positive for several quarters, is similarly below historic norms associated with a healthy economy.[2] The debt is now more than $17 trillion[3] and while the annual deficit is back under $1 trillion, the nation's finances are hardly under control. Federal debt held by the public is now about 73 percent of GDP. That percentage is higher than at any point in U.S. history except for a brief period around WWII, and is twice the percentage at the end of 2007.[4] Any grand bargain involving Social Security, Medicare, Medicaid, and the tax system remains elusive—and the spending on these entitlement programs remains unsustainable. And, at a time when federal investments in research should be made to seed America's long term innovation enterprise, these accounts are under severe strain with projected cuts of up to 8.4 percent by 2017.[5]

The U.S. 35 percent basic corporate tax rate remains the highest of all advanced economies, and more than $1.9 trillion remains locked up overseas[6] due to the failure of the U.S. to adopt a territorial tax system or allow for reduced tax rates on repatriation of overseas revenue. The trade deficit stands at over $540 billion,[7] as reduced energy imports have been offset by higher deficits in other goods. Perhaps, most concerning, little progress has been made on the $3.6 trillion in infrastructure improvements and modernizations needed by 2020 to underpin U.S. economic growth.[8]

Many businesses say they cannot find the skilled workers they need despite an unemployment rate that remains over 7 percent.[9] Education and skills training remain challenges—including the uneven performance of America's K-12 schools, the ever escalating costs of higher education, a high school graduation rate of 78 percent[10] (though the trend is improving) and the need for better technical skills training. Instead of investing, states have reduced support for public universities by 4 percent during the past five years.[11]

And, small businesses, the growth engine of the American economy remain burdened by high tax and regulatory uncertainty. More than 800 rules are in the regulatory pipeline that would impact small business directly.[12] In fact, new business start-ups today comprise only 8 percent of all U.S. firms, down from 13 percent in the mid-80s.[13]

1 Bureau of Labor Statistics, United States Department of Labor.

2 Bureau of Economic Analysis, United States Department of Commerce.

3 United States Department of the Treasury.

4 Congressional Budget Office, *2013 Long Term Budget Outlook*, September 17, 2013.

5 Hourihan, Matt. *Federal R&D and Sequestration in the First Five Years*, American Association for the Advancement of Science. September 27, 2012.

6 Rubin, Richard. *Offshore Cash Hoard Expands by $183 Billion at Companies*, Bloomberg. March 8, 2013.

7 Scott, Robert E. *U.S. trade deficit declined in 2012, but goods trade deficits with China and in non-petroleum products rose sharply*, Economic Policy Institute. February 11, 2013.

8 American Society of Civil Engineers. 2013 *Report Card for America's Infrastructure*.

9 Bureau of Labor Statistics, United States Department of Labor.

10 Institute of Education Sciences, United States Department of Education.

11 State Higher Education Executive Officers Association. *State Higher Education Finance FY12*, March 6, 2013.

12 National Federation of Independent Business. *Regulatory Tidal Wave.*

13 United States Census Bureau. *Business Dynamics Statistics*, May 2, 2012.

Even the success of U.S. products and services globally comes with costs, as the theft of intellectual property and cyber-attacks remains a tremendous risk for U.S. enterprises. In 2009 alone, theft of U.S. IP from China was estimated to be in excess of $48 billion with total IP theft estimated to be as high as all U.S. exports to Asia ($320 billion).[14]

The United States must address these weaknesses to capitalize on our strengths. Our workers are creative, industrious risk-takers; and among the world's most productive. We still lead the world in advanced manufacturing, which confers a higher multiplier effect on the economy than any other sector (adding $1.48 in value across the economy for every dollar of manufacturing value).[15] U.S. export surpluses in services and agriculture remain strengths.[16] Our supply chains are agile and diverse. The U.S. market remains the world's most sophisticated, and American brands are in demand by the world's consumers—nine out of the top ten most valuable companies in the world are American[17] and U.S. corporate profits are at an all-time high.[18] The United States remains the world's top destination for foreign direct investment (FDI), as measured by the annual flow in 2012 and by the value of inward FDI stock.[19]

Despite damaging short-sighted reductions, the total U.S. research and development investment annually of roughly $500 billion is building-up a globally unparalleled stock of scientific and technology assets. Although increased investments by global competitors has reduced the U.S. overall share, America still accounts for a full third of the world's research and development dollars.[20]

The United States is home to hundreds of renowned research institutions and national laboratories and our culture of entrepreneurship fed by venture capital is unmatched around the globe. We continue to develop and attract elite thinkers and doers from around the world. Since 2000, Americans have won more Nobel Prizes by far than any other country—21 of the 37 physics prizes, 18 of the 33 medicine prizes, 22 of the 33 chemistry prizes and 27 of the 30 economics prizes.[21]

A natural gas and oil boom could deliver a 100-year supply of low cost energy to American producers and lure capital investment to fuel U.S. economic growth and turbo-charge a manufacturing renaissance.[22] U.S. imports of natural gas and crude oil have fallen 32 percent and 15 percent respectively over the past 5 years to the point where supply is not the question, rather it is where the demand will be and how efficiently these resources can be developed.[23] The United States is on a path that could lead to true energy independence. For this and other reasons, 37 percent of multinationals with annual sales above $1 billion have indicated they were planning or actively considering shifting production facilities from China to America.[24] Adding historically low interest rates and inflation to the mix should create an optimal environment for investment…if we take advantage of it.

A year ago, the *Clarion Call* laid out an agenda for policymakers, a roadmap to follow based on more than a decade of research and the insights of the nation's leading corporate executives, academic and labor leaders, and national lab directors. Most importantly, the Council declared that the time to act was now.

So, what happened, and how has the Council responded?

14 United States International Trade Commission. *China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy*, May 2011.

15 The Manufacturing Institute, the Manufacturers Alliance for Productivity and Innovation, and the National Association of Manufacturers. *Facts About Modern Manufacturing*, October 2012.

16 Bureau of Economic Analysis, US Department of Commerce.

17 The Economist. *Back on Top*, September 21, 2013.

18 Bureau of Economic Analysis. Second Quarter 2013 Data, United States Department of Commerce.

19 UNCTADStat. United Nations Conference on Trade and Development.

20 Battelle and R&D Magazine. *2013 Global R&D Forecast*, December 2012.

21 *Wall Street Journal*, Oct. 14, 2013, Brett Stephens.

22 Energy Information Administration, United States Department of Energy.

23 Gold, Russell and Gilbert, Daniel. *U.S. Is Overtaking Russia as Largest Oil-and-Gas Producer*, Wall Street Journal, October 2, 2013.

24 Boston Consulting Group. Made In America, Again Surveys, April 20, 2012.

No Action **Mixed Results** **Good Progress**

Invest in America's Future

CALL TO ACTION	RESULT
Double the federal investment in R&D, and encourage cross-sector/multi-disciplinary partnerships to commercialize research results and solve global challenges.	Budgetary gridlock, sequestration and a dysfunctional appropriations process has resulted in no effective increases in these critical investments in America's future and has created a widening "innovation gap" of lost opportunities that could have negative implications for economic growth for years.
Lead in high performance computing by committing to exascale computing, and expanding pilots that give U.S. small and medium-sized businesses access to modeling and simulation tools.	The Departments of Defense, Energy and Commerce are all moving aggressively to support efforts to expand high performance computing capability throughout the supply chain.
Expand science, technology, engineering, and math education linked to projected job opportunities of the future.	Support for and an emphasis on STEM programs remains strong, but public and private sector efforts to better link skills to jobs remains an ongoing problem.
Strengthen career and technical education (CTE) and training programs through partnerships with business or labor that prepare students and workers for good jobs that fill labor market needs.	While there are many successful examples across the country of CTE programs, they remain splintered and a perception problem persists with regard to the desirability of these careers.
Reform immigration rules to ensure that the world's best talent innovates and creates opportunities in the United States. Staple a green card to the diplomas of high skilled immigrants who acquire an advanced degree in the United States.	Optimism for congressional action on comprehensive immigration reform in 2013 has begun to fade. The broad bipartisan support for high skilled immigration reform risks once again falling victim to policymakers' unwillingness to compromise for the good of the nation.

Council Response

From the 2004 National Innovation Initiative (NII) to the current American Energy and Manufacturing Competitiveness Partnership (AEMCP), the Council has stood at the vanguard of calls for federal investments in people and ideas, as the seed corn for innovation and economic growth. The Council's partnership with Lockheed Martin on the National Engineering Forum (NEF) and its CTO-led Technology Leadership and Strategy Initiative (TLSI) are catalyzing national attention on the need to train and attract the best and brightest here and around the world. And by specifically focusing on pushing the technological envelope into exascale computing and at the same time expanding access to high performance computing throughout supply chains through the National Digital Engineering Manufacturing Coalition (NDEMC), the Council is demonstrating the real world impacts and importance of its national policy agenda.

No Action　Mixed Results　Good Progress

Ensure Value from American Investments

CALL TO ACTION	RESULT
Deploy modern and resilient energy, transportation, and cyber infrastructures to encourage investment and production in the United States, and to take full advantage of domestic energy supplies sustainably.	Infrastructure modernization remains a major competitiveness Achilles heel of the U.S. economy, yet inadequate steps are being taken to address this burgeoning need.
Implement a national network of advanced manufacturing clusters and smart factory ecosystems.	The administration and governors have moved aggressively to implement this recommendation and catalyze the development of these hubs of innovation.
Re-assert U.S. leadership in global trade, expanding market liberalization, and forging strategic agreements with Brazil, China, India, Japan, the EU, and the Trans Pacific Partnership Countries.	In many cases talks have been initiated and progress towards agreements with the EU, Japan and several Asia Pacific countries is being made.
Promote best practices in the protection of intellectual property rights around the world.	While the U.S. Patent and Trademark Office has launched efforts to encourage best practices in online IP protection, global piracy remains a major problem for U.S. companies.

Council Response

The Council's U.S. Manufacturing Competitiveness Initiative (USMCI) continues to see results in its call for a domestic manufacturing renaissance by impacting policies at the federal and state level, including the development of a network of manufacturing clusters across the country. Building on the work of the USMCI, the AEMCP is taking public-private partnerships to a whole new level and exploring new ways to leverage federal investments into innovative collaborations between government and industry. Through its international collaborations with bilateral partners and multilateral networks such as the Global Federation of Competitiveness Councils (GFCC), the Council is promoting U.S. interests around the globe.

No Action Mixed Results Good Progress

Encourage Companies to Build it Here and Export it There

CALL TO ACTION	RESULT
Lower the corporate tax rate to 23 percent, in line with the upper quartile of OECD economies.	Despite the U.S. still having one of the highest corporate tax rates in the world, no action was taken to bring it in line with countries competing for corporate investments.
Reduce taxes on repatriated earnings to less than 5 percent, in line with other OECD economies.	Trillions of dollars remain locked up overseas due to tax rules that encourage companies to invest outside of the United States.
Authorize the Export-Import Bank to fund domestic infrastructure projects.	No progress to date.

Council Response

Central to the Council's core mission of enhancing U.S. competitiveness is to drive domestic investment and find ways to keep research, production and jobs here. In report after report, the Council has urged policymakers to portray the U.S. as "open for business," yet intransigent and complicated tax and regulatory policies continue to hamstring these efforts. In 2014 on the 10 year anniversary of the NII, the Council will launch a fresh look at the U.S. innovation enterprise including America's crumbling physical infrastructure and its seemingly unbreakable tax and regulatory brick walls that are holding back investment, both domestic and foreign.

Get Our House in Order

CALL TO ACTION	RESULT
Exhort the administration and Congress to work together, across party lines, to compromise on spending and revenue measures that will bring the Nation's deficit and debt down to historical norms.	A mixed bag. While the deficit has been reduced and the ratio of debt to GDP improved, these gains may be short lived and stem more from the inability of Congress and the administration to compromise (e.g. sequestration), rather than any collaborative effort.
Enact a long-term fiscal framework to reduce debt as a share of the economy.	If there was a grade below "F" or a color more indicative of failure than red, it would go here.

Council Response

The Council's broad coalition of CEOs, university presidents, labor leaders and national lab directors strongly urges cooperation and compromise in order to reach policy consensus and put forth recommendation such as those included in the Clarion Call. The Council each year recognizes those public sector leaders that cross the aisle and seek consensus on the great structural challenges of the debt, deficit and entitlements; and on the investments in America's future in research and skills that will underpin long term economic growth.

While the response by policymakers to the Council's recommendations was clearly mixed over the past year, indicators such as unemployment, GDP growth and debt to GDP ratios show a slow but persistent economic recovery and an improved balance sheet. New housing starts are up and household net worth climbed 1.8 percent to $74.82 trillion.[25]

Overall, these numbers may seem a cause for optimism and do indicate positive trends. However, at least in the short term, they in many ways represent progress despite the actions of policymakers, rather than because of them. It is a testament to the underlying resilience and inherent strength of the U.S. economy that it will grow even weighted down by poor fiscal policy, high regulatory burdens, uncertainty, damaging debt and legislative gridlock. Policymakers, with input from the private sector, must do a better job of setting the ground rules for competition, enacting the enabling conditions for innovation and making the strategic investments necessary to unleash the inherent creativity of the American entrepreneur and truly make the United States the "go to" destination for high value economic activity.

Only by acting can we set the stage for the next great American century.

25 Board of Governors of the Federal Reserve System. *Financial Accounts of the United States, 2nd Quarter 2013*, September 25, 2013.

The Path Forward

The Council on Competitiveness has a large and commanding platform from which to impact policy. Our members stand ready to engage with policymakers of both parties in our nation's capital and across the country. Representing a broad cross section of the private sector, the Council stands united on the need to address America's competitiveness capacity.

The Council's slate of current initiatives are directly linked to the *Clarion Call* and to affecting change in the areas most likely to generate economic growth, a rising standard of living for all Americans, and to ensure the global market success of our enterprises.

In the 1980s, the Council responded to rising competition from Japan and Germany with landmark reports on critical technologies and a focus on trade.

After 9/11, the Council pioneered the idea that resiliency and security can be drivers on innovation and competitiveness.

In the mid-2000s, the Council renewed America's focus on innovation and its three pillars of talent, investment and infrastructure.

In the wake of the financial meltdown, the Council flipped conventional wisdom on its head and led the call for a renewed focus on manufacturing recognizing that "making things" still mattered and that energy security is inextricably linked to U.S. productivity.

Before crisis forces our hand once again, join the Council.

The Council's initiatives are partnerships. They are networks. They are collaborations.

At its core, the Council is a collection of leaders committed to seeing America prosper. The Council's voice is strongest when it represents all sectors of the economy, when the voices of the major research universities are joined with the community colleges, when labor finds common ground with management and when the national labs links with the American entrepreneurial spirit. The Council is committed to carrying forward this *Clarion Call* and welcomes additional voices.

Council on Competitiveness Initiatives

- U.S. Energy & Manufacturing Competitiveness Partnership
- Technology Leadership & Strategy Initiative
- High Performance Computing Advisory Committee
- National Engineering Forum
- U.S.–Brazil Innovation Initiative

About the Council

WHO WE ARE

The Council's mission is to set an action agenda to drive U.S. competitiveness, productivity and leadership in world markets to raise the standard of living of all Americans.

The Council on Competitiveness is the only group of corporate CEOs, university presidents and labor leaders committed to ensuring the future prosperity of all Americans and enhanced U.S. competitiveness in the global economy through the creation of high-value economic activity in the United States.

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HOW WE OPERATE

The key to U.S. prosperity in a global economy is to develop the most innovative workforce, educational system and businesses that will maintain the United States' position as the global economic leader.

The Council achieves its mission by:

- Identifying and understanding emerging challenges to competitiveness
- Generating new policy ideas and concepts to shape the competitiveness debate
- Forging public and private partnerships to drive consensus
- Galvanizing stakeholders to translate policy into action and change

JOIN THE CONVERSATION

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