

OPENING REMARKS

>> ASSISTANT SECRETARY BARUAH

Good morning. It is a great day outside and it is going to be an even greater day inside. So thank you all for being here. Now, before we begin, I have the legal fine print for the morning. Cell phones. You know you got one. Give 'em up.

For those of you who do not turn off your cell phones and you know who you are I give the other audience members permission to give you the evil eye when you phone rings in the middle of a panel. Conversations, when you found your long lost brother or the neighbor who will not turn your lawn mower please take the conversations outside. We appreciate your courtesy of the panel.

Seating. We will not be seating folks during the panel discussions in deference to our panelist and to the recording that will be happening throughout the day so please note that and so we're going to move fairly rapidly throughout the day. Having done the legal fine print, let's get on to the fun stuff. We have an outstanding program for you today.

We have some of the leading thinkers on competitiveness, people like Lou Gerstner, Mike Porter and Deborah Wince-Smith. Companies like Intel, Caterpillar, John Deere, Boeing and others. We have accomplished entrepreneurs. We have the YouTube guy. We have some of the most influential and respected public leaders, people like Secretary Paulson, Governor Barbour, Governor Napolitano, Governor Sanford and, of course, Chicago's mayor, Mayor Daley.

The impressiveness of the people on stage will be matched by the impressiveness of the people out there in the audience, having gone through who's out there today just about any one of you could be on this stage today. I thank you for being here and we are thrilled that you are going to be able to participate in what promises to be a fantastic day. Throughout the day we're going to be hearing from these fantastic leaders on innovation competitiveness and at the end of the day, at 4:00, it will be your chance to ask them questions in our interactive town hall session led by Secretary Gutierrez. Following that, the town hall, there will be a reception generously hosted by the Illinois coalition for jobs, growth and prosperity. And while the final few folks take their seats, we have just a little bit of entertainment for you and we'll back with you in just one moment. Thanks for being here.

[APPLAUSE]

With all due respect to home, there's no place like Chicago. This is, after all, a city where people once got

together and reversed the flow of a river. A city that started rebuilding itself before the embers of the great fire had even stopped glowing and a city that thumbed its nose at the glaciers that flattened it by building towering mountains of steel and glass.

In Chicago, impossible isn't now and nothing more. This is, after all, a place of no small plans nor medium-sized ones for that matter. Here, you don't have to search for inspiration. You run into it on almost any corner. Indeed, the entire city seems to be a monument to man's potential. A place where the best and the brightest become even better and shine even brighter. Architects, musicians, business leaders, all inhale the fresh breezes off lake Michigan and breathe fresh air into their respective fields. The city of broad shoulders, it might be more accurate to call Chicago the city of broad horizons. For one could make a strong case that the things that happen here couldn't happen anywhere else. That the unique combination of spirit and beauty and people all mixed together to create an environment where anything's not only possible, it's probable.

One once said what separates America from other countries is they're just countries while America is an idea. It could also be said that nowhere is that idea better expressed than in Chicago.

Progress report.

High-performance computing.

Top secret.

Top secret? Wait a minute, boys. I don't think so. Well, boys, looks like we have a job to do. RICO.

(Coughing).

Get the message out about the importance of high-performance computing. Code name HPC. Let's show 'em the kind of HPC that's being used to enrich our lives and gives companies a competitive edge.

Skipper, I don't know the codes.

Don't give me excuses, give me results.

I did it!

From sophisticated weapons systems to homeland security to basic research across the sciences, high performance computing takes us to the frontiers of knowledge. HPC also enables ground-breaking innovation that creates high wage jobs and keeps America competitive in the 21st century.

We've got a lot to cover. From discovering solutions for disease to aerodynamic data chips. Analysis.

High-performance computing is enabling designers and engineers to answer the what-if questions that were simply impractical to answer even a short few years ago. The aircraft industry uses advance computation to model aircraft wings, cabin ventilation systems and engines for quieter, more

fuel efficient planes. In the space program high-performance computing helped to determine the root cause of the space shuttle tragedy and is helping to make future space travel safer.

HPC provides insight and answers to some of our toughest problems. Genius, pure genius. In a world of constant global market pressure, we must focus on innovation as a key component of our competitive strategy and high-performance computing is one of the best tools we have to drive the innovation process and raise our standard of living.

We've only just scratched the surface. Kowalski, more data.

In the oil and gas industry, high-end computing is required to process enormous amounts of seismic data so earth scientist can better interpret our underground geology and extract more oil for greater energy security. HPC is also critical to the development of high efficiency, low-polluting energy alternatives such as hydrogen fuel systems. In the auto industry HPC simulation are used to increase safety, reduce emissions, create more durable tires, improve fuel economy and passenger comfort and even to design faster NASCAR stock cars. High-performance computing is also driving the design and manufacturing of items we use every day. Companies are reducing the need for costly physical prototypes and bringing products to market faster while consumers are getting higher quality, more appealing and lower cost products. Lookin' good, troops.

Physicist use HPC to understand and exploit the spin of individual electrons in order to make more powerful semiconductors. Advances in spintronics could lead to consumer products like a MP3 player the size of a pack of gum recording every song ever recorded.

Skipper, pass the chips, please.

One company even used sophisticated aerodynamic modeling to investigate the airflow of a Pringle. Pringles were flying off the manufacturing line and HPC helped to solve the problem. Now, that is one high performing chick.

Let's advance.

What do we got?

We take for granted having accurate weather forecasts but did you know the extraordinary computational power that goes into creating these? Accurate forecasting of seven can mean the difference between life and death. And while they may not be right all the time.

What the heck is this?

Today high-performance computers are allowing us to predict next week's weather on a global basis more accurately than the daily local forecasts 30 years ago.

Now, this is more like it.

You've heard the expression "swim like a fish."
Researchers have modeled the dolphin kick used by champion swimmers. This new insight is optimizing the performance of top level athletes.

Can you keep a secret, my friends? Did you know that the United States Navy has used that research to enhance the performance of our elite forces? Of course not. Just not natural. Humans shouldn't swim like dolphins, they should swing like penguins. Kowalski, it's time to break out the split screen. Beneath our cute and cuddly exteriors, a kickin' computing industry.

HPC is enabling pure imagination to light up the screen like never before. From high-end visual effects to state-of-the-art visual animation HPC has made an entire industry possible. Today leading entertainment companies are using large compute clusters to empower their filmmakers. Creating high-quality CG animation can create an extraordinary bout of processing power. Madagascar used 1200 hours of programming. HPC making films today simply impossible to make a few years ago.

[APPLAUSE]

Thank you. Thank you very much.

In medicine high-performance computing is accelerating the discovery of our most serious diseases. It's been used to perfect the design of a human heart pump the size of an AA battery and develop more effective cancer radiation therapy. HPC is providing new insights into how diseases like Alzheimer's systematically spread through the brain. Ever since scientists unraveled the history of the human genome drug makers has relied on HPC to sort through the millions of substances that could give the world its next breakthrough cure. It's used to model the path of epidemics so public health officials can stop the spread of potentially life-threatening illnesses.

To make sure it's all clear. Mr. Announcer, summarize. From medicine to consumer products, from energy to aerospace, HPC is accelerating breakthroughs to improve our lives and our competitiveness. The public and private sectors continue to work together to harness the full potential of high-performance computing as an innovation enabler. High-performance computing is perhaps our most important weapon in remaining an economic superpower in the 21st century.

The country that out computes will be the one that out competes.

You're correct, sir. High-performance computing means high-performance business and high-performance lives. High-five and low five. Hello, too slow. Our work is done

boys. HPC, mission accomplished.

>MALE SPEAKER

We hope you enjoy that and we'll be with you in just one moment. Thank you very much.

>>MALE SPEAKER

Welcome to the 2008 Summit on American Competitiveness, ladies and gentlemen.

>>MALE SPEAKER

At the dawn of the 21st century, the United States is the most competitive economy in the world. Meanwhile international competition is intensifying across the globe and America must continue to adapt and innovate to maintain our leadership position. Increasing worldwide competition calls on us to respond more rapidly to customer needs, innovate faster and add more value. This is not only what is expected by American consumers but by the growing customer base overseas for goods and services provided by American companies and workers. How we respond to these challenges and opportunities brought on by an interconnected 21st century worldwide economy today will shape the prosperity of Americans for generations to come.

Meeting this challenge requires creativity and commitment from all Americans especially entrepreneurs. America's entrepreneurs are constantly reinventing what we do business, are tightly linked to our economic prosperity and provide more job opportunities for Americans than any other sector. Another key component of American competitiveness is our ability to access the growing markets of the worldwide marketplace. With a significant expansion of free trade agreements in recent years American businesses have expanded opportunities to market their products and services to new customers around the world. From Wall Street to main street. The impact of worldwide markets is enormous.

U.S. exports are at record levels up nearly 13% over last year. These exports to the world are driving the U.S. economy. That impact is already evident here at home. There are many great examples of American communities that have successfully driven economic transformations in their regions to bolster competitiveness in global markets. Some trans-- such transformations will accelerate over the next decade as strategies are built to connect regional economies with the worldwide marketplace. As America faces new challenges in the 21st century interconnected worldwide marketplace, opportunities abound if we remain fast, flexible, innovative and motivated. Smart, collaborative, forward looking competitive strategies are the key to our success and the topic for today's discussions at the 2008 national summit

>>MALE SPEAKER

Ladies and gentlemen, please welcome the Secretary of Commerce and our host for today's summit the Honorable Carlos Gutierrez.

[APPLAUSE]

>>SECRETARY GUTIERREZ

Thank you. Thank you very much and good morning to all and thank you for taking the time for being here and for your interest in competitiveness and innovation and ensuring that our country continues to lead the world when it comes to innovation and station competitive.

On behalf of President Bush and the Department of Commerce, it's my pleasure to welcome you to the National Summit on American Competitiveness. I want to thank, first of all, Ron Gidwitz, our host, Ron, are you anywhere in the audience there? Ron Gidwitz.

[APPLAUSE]

>>SECRETARY GUTIERREZ

Thank you. Thank you, Ron, for hosting this event, and I also want to thank Mayor Daley also, our co-host, for giving us this wonderful venue in which to have this meeting. They both recognize that it was important to have a forum to discuss our country's competitiveness and that we should have this discussion here in Chicago. And as we're thinking about cities and regions that have developed an environment to compete and to attract investment and to create jobs, what better example than the city of Chicago?

I also want to thank CNBC and Maria Bartiromo for being with us. Maria, of course, is one of the most recognized business journalists in television in host of "the closing bell" which will be broadcast live from the summit and Maria has taken a very intense interest in the whole subject of how do we stay competitive and how do we increase innovation as a society, as a country so we appreciate Maria's leadership and her interest in this.

We know that today every major country in the world is getting in the game, is trying to compete harder, is trying to create an environment for innovation and we are no longer sort of on our own. Whereas, you know, 20, 25 years ago we were trying to convince the world to adopt free enterprise and attract foreign capital and get into trade, I don't think we have to do any more convincing. People have gotten the message and they're in it. And now, our challenge is not so much convincing people but increasing our level of competitiveness that we can continue to lead the world so that the whole purpose of this summit is to put a spotlight on these topics, to share ideas, to ensure that this is staying at the

forefront of our agenda as a country. We have one great advantage over just about every country in the world and that is that we are free.

We are free to innovate, we are free to compete, start a business and fail and restart a business if we want to, but that is what drives us to innovate in basically every field and we excel in basically every field, whether it be arts, sciences, economics, you name it, this is where the innovation happens. Whether it be technology or whether it be the number of books that are being printed or whether it be music, this is where the innovation has started, continues to start. The question is how do we keep it going and it's going to happen through the private sector.

Government adds value through policies that encourage creativity and investment by the private sector, but frankly, innovation does not take place in Washington, D.C, nor is it going to happen by legislating it or assuming that somehow new products are going to be launched and designed in Washington. So the choices we make and the policies we promote now will determine how competitive we are for decades to come. After more than six years of a robust economy we know that we've gone into a slowdown of the economy. Our growth went down .6% in the first quarter. We know that this is a difficult time for our economy. The question now is how do we get back to growth both in the short-term and in the long-term. You know that in the short-term we are in the process of issuing stimulus checks, as we speak, we've done over 45 million, which, by the way, is the -- the largest endeavor of this type that we have ever done. And we're doing it right at a time when we're also in the middle of, you know, IRS season and everything else. So it's a tremendous undertaking. It's being executed well. And we've already deposited over 45 million checks. As you know, we'll do 130 million checks over \$100 billion to stimulate the economy and then \$50 billion to incentivize businesses to move forward on capital investments in this year. That combined with Federal

Reserve actions as well as some of the housing actions should have us have a lot better you shape in the second half of the year, most economists will agree, and there is consensus, that the first half of the year will be more difficult than the second half of the year and we're right in the middle of it now. We are concerned in this room about long-term. We're going to get through this. We're going to get through this housing correction, inventories will come down. The question is: How do we stay competitive for the long haul and what kind of policies do we need to do to keep us on track? And that's what we're going discuss today, is what will keep us on track for the long haul, what will continue to make this the best economy, the best country in which to invest to start a business, to put an R&D center, in the world. And that is really our challenge in the future.

The context for these discussions is the public-private partnership that has made this day possible. We know that government does not employ most Americans, nor should we. The innovation, the entrepreneurial engine of the U.S. takes place in the private sector. And it's amazing that we have to remind ourselves of that, but that is how our system works, that is how we make progress, that is how we create prosperity, that is how we create wealth is through the private sector. Government can be an effective partner through policies that allow the private sector to be more dynamic, efficient, competitive.

I believe it's our responsibility to create an environment that helps the private sector to succeed. So listening to your perspective on those policies is an important part of today's summit. After opening panel, three issues will frame today's events. They are encouraging entrepreneurship, lowering trade barriers, and learning from the experiences of others, especially leaders at the regional and state level. And we have wonderful examples around the country of communities that have faced the challenges of globalization, have turned them into opportunities. And they are flourishing and we're going to have a chance to talk about that with people who have made it happen. To give some additional context, let me just give you a few thoughts on some of these issues.

For our entrepreneurship panel we're very fortunate to have Carl have Schramm who leads the largest foundation for promoting entrepreneurship. He'll moderate our discussion on the critical role that entrepreneurs play, that small businesses play in our economy. Here's a statistics I heard from Carl that just put it all in context for me. Listen to this: Businesses that are less than five years old create half of all new jobs in this country.

Talk about entrepreneurship and the role of small businesses, the role of innovation in the economy. That, I found, to be an amazing fact. According to a world bank, ease of doing business study, the U.S. is one of the easiest places in the world to set up a business and employ workers, with a sound, predictable legal environment and strong investor protections.

Consequently, our economy attracts entrepreneurs. Our economy creates entrepreneurs. This is a country where entrepreneurship is valued and it is admired. Chicago is one of the nation's most dynamic locations, with tens of thousands of companies making, doing, inventing the products and services that consumers want. It's where public-private partnerships are working effectively such as the innovate now partnership that's promoting entrepreneurship and business innovation in the Chicagoland area and this has been an initiative that has had the support and priority of Mayor Daley.

These businesses and partnerships are incubators where ideas can flourish and develop into new products and business models. It is the freedom to grow as well as the free to fail that is the hallmark of our free enterprise system. The question is: What are the policies that can ensure that entrepreneurs get good ideas in the marketplace, that we continue to create an environment where entrepreneurs want to start a new business, where people can dream, where people can innovate, and then -- and continue to lead the world. Whether it be patent and trademark reform, keeping taxes low, things that we can do in Washington to ensure that small businesses continue to be created. We'll discuss these issues and others with entrepreneurs whose companies didn't exist 10 or 15 years ago. And are now changing the way we live and work.

We'll be joined by John Cotton, CEO of fast company which recently ranked Chicago as its city of the year. In terms of international markets the accessibility of international competitors and customers distinguishes today's marketplace. Policies that have lowered trade barriers are a major factor in that transformation. Free trade agreements/barriers to trade and investment and allow American exporters to compete overseas, this is an especially important time for this topic. Unfortunately, as you well know, there is a debate about whether we should be economically more isolated or whether we should engage more. And this is an important point to clarify, to get the facts out, 'cause we could very easily make a policy shift that we will regret for many, many years.

Last year we exported \$1.6 trillion. Our exports were up about 12 and a half percent. This year our exports year-to-date are already up about 18. We've had four years in a row where exports are growing at double-digit rates. So exports are creating jobs, they're creating higher paying jobs, and they're enabling us to compete with the rest of the world. When this administration began, the U.S. had free trade agreements in force with three countries. Three countries. Since then we've added 11 more free trade partners. Now, that sounds like a lot. But the E.U, outside of the E.U, has free trade agreements with 23 countries. Mexico has 48 countries. Chile has over 50. The point is everyone is negotiating agreements that countries can have preference access to other countries. We've got these 11 and we're standing still.

We have three free trade agreements pending before Congress and no one knows when they'll come up for a vote. It's Colombia, it's Panama and it's South Korea.

So while we debate whether we want to keep moving forward or whether trade is good the rest of the world is moving forward and standing still in this day and age, frankly, is going back. I've just returned from South Korea and recently visited both Colombia and Panama. While these agreements are important to U.S. exporters they're going to give us access to

a combined 100 million consumers with a GDP of over a trillion dollars. So it just adds to our ability to export, it adds to our competitiveness, it adds to our jobs, it's good for our economy, and we should be viewing these agreements with the same level of urgency as we did the stimulus package because exports are also a stimulus to our economy.

We'll be led in these discussion by John Engler, President of the National Association of Manufacturers, he'll be joined by leaders of companies who will be affected by changes in the environment that these agreements will bring and this is a critical topic and we're pleased that we have this forum to be able to highlight the importance of trade, of exports, of free trade agreements. Because our country is dynamic and diverse, there are formulas for competitiveness in communities around the country that have proven successful. There are great examples of communities that were once threatened with competition, that were threatened because they had too much of their economy in commodities and they have made tremendous transformation, attracting investment, attracting foreign investment, creating an environment for new businesses, developing partnerships with universities, with private sectors, great examples, great role models. And today we'll be able to hear from many of those leaders how they did it. And hopefully these will become examples for our communities around the country.

Treasury Secretary Hank Paulson will moderate our panel of community leaders who will discuss how they have managed to compete. And how we can learn and adapt and succeed around the country by learning from what they have done in their communities. So each of these challenges are opportunities. Our nation has thrived on overcoming obstacles and finding solutions that work. Today there is more freedom trade investment, prosperity in the world economy. The world economy is growing today at a faster pace than I can ever remember. And its growth is pretty much across the board. So this is a time when everyone in the world has embraced the idea of free trade, the idea of attracting investment, the idea of creating jobs through private capital. So this is the environment that we wanted 25 or 30 years ago and it is an environment where we can excel because this is our environment and we have been excelling for many, many years. Of course, it's a matter of continuing to stay ahead of the game.

So I want to thank all of you for your leadership. It is interesting that as all these countries open up and we all go around the world and realize that there are challenges, there's intellectual property rights challenges and there are transparency challenges, that just serves to highlight what a great place to invest this country is. But we've got to make it better. We've got to constantly move forward. So I can't thank you, enough for your leadership, for your conviction to doing real things, not just talking about staying competitive

or becoming more competitive, not just talking about innovation, but bringing to light the policies that have to be put in place in order to continue to be the best economy in the world.

And thank you to people like you, I am convinced that we'll be able to do that. So thank you for being here and we're going to have a great day. Thank you very much.

[APPLAUSE]

>>MALE SPEAKER

A big picture discussion. To set the tone for the day, addressing the steps necessary to ensure that the U.S. business climate supports our national competitiveness goals.

>>ASSISTANT SECRETARY BARUAH

What is the road map to discuss for the next decade. The moderator of our first panel is just the person to lead this discussion.

Maria Bartiromo is one of the most watched and most respected business journalists. She's the anchor of CNBC's popular "Closing Bell with Maria Bartiromo" and is both the host and manager editor of "the Wall Street Journal report," the most watched financial news program in the country. And, in fact, while Maria is here today she's still on the clock for CNBC and will be broadcasting on CNBC live throughout the day including hosting her show, "Closing Bell" live from this location. In addition to her extensive work on television Maria can be found on the radio, she can be found in newspapers, magazines, of course, she can be found on the Internet but today you can find her with us. So ladies and gentlemen, Maria Bartiromo.

[APPLAUSE]

PANEL 1

>>MARIA BARTIROMO

Thank you so much, appreciate it. Good morning, good to see you all. We are very excited to have this distinguished panel with us to talk about competitiveness. Let me bring in the panel.

Craig Barrett is Chairman of the Board at the Intel

[APPLAUSE]

Louis Gerstner is retired Chairman and CEO at IBM.

[APPLAUSE]

Jim McNerney is Chairman, President and CEO at Boeing.

[APPLAUSE]

Michael Porter is Professor at Harvard Business School.

[APPLAUSE]

Deborah Wince-Smith, President, Council on Competitiveness.

[APPLAUSE]

Please. Well, here we are every day, finding ourselves talking about a slowdown in the economy, growth of just about 1 or 1 1/2% as we watch international economies grow -- strongly. China at 12%. India at 10%. Russia, the Middle East seeing an enormous amount of money moving into those countries because of the price of oil. The question keeps arising:

America, has it lost competitiveness or worse has it lost importance relative to its neighbors around the world? That's what we're tackling and that's why we're setting the tone for this important conference today.

Jim McNerney, you run a global business, how competitive is America relative to the rest of the world today?

>>**JIM MCNERNEY**

By and large, America is, in my view, very competitive. I think the -- but the threat to that position in many industries is very obvious. And from my point of view there's a call to action even in industries like my own which doesn't have a plethora of global competitors but I know we will. But other industries are facing it much more rigorously now. And so you look at the education levels of some countries, China, India, someplace in the Middle East, you look at the infrastructure that they're investing in, it is at multiples to what we're doing here in country. So a better educated workforce, in entrepreneurial societies, take China as the obvious example, capital markets have sort it out so money flows around on a global basis now and I know we'll talk in more detail about it, but the answer to your question is, we're very competitive today. In most industries. And there is a huge threat to that position over the next -- over the next five to 10 years and we'd better respond.

>>**MARIA BARTIROMO**

A huge threat. Lou Gerstner, how do you see it, should we be worried about this growth around the world outside of the U.S.

>>**LOU GERSTNER**

I think we should be very worried, I mean, I think we need to

start with the very fundamental premise that economic strength is the heart of America's future. I mean, I don't care whether you're worrying about GDP, you're worried about standard of living, whether you're more worried about America's ideas of freedom and democracy being projected around the world, whether you're worried about our ability to defend ourselves, all of those depend on economic power. And we have had unparalleled economic power for 150 years. And what happened at the end of the cold war is the discredited socialist model was ended and countries started to develop strong market-based economies like ours. And they understand, they understand, just like we understand, what it takes to build competitive economies. And so we're entering a world, we're in it already today, where it's not a question of whether we win or they lose, it's a question of who are going to be the five or six winners that emerge in what will be a very different economy in the 21st century. A knowledge-based global economy where skills, skills are the critical ingredient for success. Not the old shibbles (ph) of land, labor and capital. Skills. And so what it's all about is who's building a country with skilled workers that will deliver economic growth and economic competitiveness and the fundamental answer to that question is we're not.

>>MARIA BARTIROMO

Craig Barrett, how do you see it?

>>DR. BARRETT

I'm right in camp with these two gentlemen to my left. 3 billion new folks entered the world economic system in the last 10 or 15 years. You've never had the entire world together since perhaps the Romans but competitiveness going forward consists of three different things and I think Lou mentioned they're education, education of your workforce, smart people, the generation of smart ideas, that's investing in research and development, that's the seed corn for the next generation of products, businesses, services, and then the right environment to get people to invest in innovation and that's -- environment is where the government comes into play, they dictate tax rates, immigration policy, intellectual property protection, those sorts of things. I think the real interesting aspect is that market shares are won and lost during transitions and we have perhaps the biggest economic transition the world has ever seen upon us and we can either take advantage of that and maintain and do OK, market share or can lose a lot of market share. Every leading indicator shows we're going in the negative direction as near as I can tell. We're in good shape but indicators are proving negative.

Look at education, federal investment in R&D, the federal immigration policy, the tax rates in the United States discouraging investment here, sending it elsewhere, all those have to change.

>>MARIA BARTIROMO

We want to get solutions today on this panel, whether it is on the policy side, on the private sector side. Michael, you've done a lot of work on competitiveness today. How do you see it?

>>DR. PORTER

It's hard to follow three of our greatest business leaders in the last 23 years and not agree so in some fundamental sense I agree however let's not forget that the United States accounted for one-third of all the world's economic growth over the last 20 years, the world's growth. We were the engine of growth in the world economy. Let's not forget that this year -- last year the United States had 80,000 patents, U.S. patents were issued in this country. You know how many were issued in China? 700. That's smaller than the country of Finland.

>>MARIA BARTIROMO

How about India?

>>DR. PORTER

India was 500. Russia was 200. So we have enormous competitive strengths. We have by far the strongest innovation system on the face of the earth, we continue to have it. We have by far the strongest entrepreneurial culture and climate. We have the most open environment to competition where you have to compete to win in any place in the world. We have enormous strength because of our decentralization, our communities, our regions, take responsibility for themselves, that's a tremendous U.S. strength. But we, as -- as the others have said, are facing some fundamental challenges and the most serious is huge resources, is education. We know that in the modern global economy education and skills means prosperity. More prosperity than ever. But we are not performing on our educational system particularly our public system and we don't have an answer. We don't have any credible solution. To deal with that problem anytime soon. We have cost of doing business that are exploding because of the years of neglect. We have not tackled our healthcare system's massive ineffectiveness and inefficiency, we waste energy in epic amounts, we have enormous friction in litigation cost in our system and we're not tackling some of those cost of doing business that didn't matter when we were so far ahead but as everybody has said we are now facing legitimate challenges, but we -- we are approaching these challenges from strength, we're not approaching them from weakness. You know, in Saudi Arabia today, they're building new economic cities. They're pouring billions of dollars into hardware. But there really are almost no Saudi citizens that are capable of working in those cities because they don't have the attitudes, the skills, and the training in order to be actually part of the entrepreneurial economy. So we have enormous strengths. We can't be afraid or fearful. We have

to be open to competition rather than close ourselves off from it. But we actually, we have to get off of the, this terrible period we've been in where we really can't tackle any of the obvious challenges. We just aren't willing to take on any of the obvious challenges.

>>MARIA BARTIROMO

Frankly, I don't feel like it is part of the national conversation enough. Even the way the environment has become. Aside from Secretary Gutierrez in this conference every year, beginning last year, I don't necessarily hear it as, you know, such an important -- an urgent challenge that we need to address.

>>DR. PORTER

I think people are very focused really on the insecurities that they feel. Our political conversations about the insecurities of, let's call it the average citizen, concerns about healthcare, concerns about higher energy costs, concerns about, you know, housing and credit, and all -- the political debate right now is about sort of these incremental fixes to these immediate small problems. But there really is nothing like a sense of strategic -- there's a moment here that we really have to confront competitiveness strategically. We had that conversation about competitiveness in America really only -- the most recently we had it was 20-plus years ago, in the '80s, in the early '80s, we had the conversation, Japan was taking over, we were all going to be, you know, working for the Japanese. There were books after books that said that our form of capitalism was a failure. And the Japanese form of capitalism would be preeminent and the country got seriously focused on the issue. A Republican administration appointed a competitiveness commission. A horrifying idea. Because that was seen as interventionist at the time. But we pragmatically, we worked and folks on the left-hand side of this panel made massive transformations in their companies and the United States economy roared ahead for 20 years. Now we need to have that conversation again and we're really not having it and really, my hat's off to the administration for having this session today.

>>MARIA BARTIROMO

Deborah, the facts are the facts, the rest of is growing, the rest of the world is getting richer. How do we figure out how to capitalize on that and actually say, look, this is reality, let's find out how to make this as an opportunity to the United States?

>>DEBORAH WINCE-SMITH

Well, you know, building on the other comments that have been made, I mean, I believe we're in one of the great transformational shifts in human history. I mean, for the first time we have real time 24/7 labor arbitrage, global corporations are creating their assets, their supply chain,

they're building capabilities all throughout the world and the emerging economies that have come forward have really looked at the circumstances, they've taken a lot of our success, they're building this into their economies as we've heard and they're growing and I don't think that's a bad thing for the United States because I don't believe in the scarcity model that someone's gain is necessarily bad for us. Now, the challenge is we can't replicate the advantages of emerging economies. We're not going to compete and we don't want to, on a low wage strategy. We don't want to compete on commodity products. We have to continually innovate and create the higher value goods and services in these transformational opportunities. I mean, one of the exciting things is we are on the cusp of one of the great scientific revolution, again, in human kind.

You know, the world is being rewritten in digital, genetic, atomic code. We can't even envision the Industries and the products that are going to come out of hat. And, of course, it all depends, will the U.S. be a place where that research and development's done? Are we going to have the scientists and the engineers to propel that? Are we going to have a middle-skilled workforce that can actually take the new nanoproducts and fabricate them and create value? On the skills issue, we talk a lot about the tremendous deficit in our research investment, we're all behind increasing that basic research. We also need to commercialize it as well. But look at middle skills. We have a huge deficit in high paying, high skilled jobs that take technical knowledge, that take math and science capability, that are going unfilled. Our immigration policies really work against us now.

So I'd like to suggest, you know, going forward that if you look at the pillars of talent, investment and infrastructure, you know, looking at them in a systemic way, I think we can really build a very dynamic 21st century for America. That also contributes to global growth. You know, one last point here -- by 2020, 80% of all the consumers in the world are outside of the United States. These are our customers, our consumers, our partners, we're going to have to work with them to solve global warming, provide water. So it's really a time of great opportunity. It's just how we marshal the assets to take advantage of this and not look back we can't go back anymore.

>>MARIA BARTIROMO

How do we do it, education, scientific revolution, how is the United States going to take the lead on all of these issues, what needs to be done? Policy or private sector?

>>DR. BARRETT

It would help if our presidential candidates were even talking about the subject. I mean, the energy solution is let's get rid of the federal gas tax for three months. How many of you

in the audience believe that's the energy solution for the United States.

[LAUGHTER]

OK, I guess I made that point. But it has to be to some degree a national dialog if you're really going to place importance on education, investment in new ideas, and make the U.S. the premier spot for investment and innovation, it has to be a national policy. You can't just say we're the biggest, we're the best, we're always going on to be the biggest and best, we don't have to do anything new. We're at the point where we do have to do something new if we want to maintain that position. We're not even talking about it on the national level. We passed the American competes act which came out of the national academy study, passed Congress almost unanimously. Did it get funded? No.

>>**JIM MCNERNEY**

Little, little bit.

>>**DR. BARRETT**

Oh, about that much. But how easy was it to give away \$180 billion in \$500 checks to make the U.S. economy strong? It took a week. That's the mentality Congress, instant gratification or nothing.

>>**MARIA BARTIROMO**

It was a more urgent issue.

>>**LOU GERSTNER**

I'd like to talk for a moment to the education issue which I think is the most important thing we have to fix. And it's the most disturbing in terms of the prospects of fixing it. We go back to Dr. Porter's comment about the early '80s and this issue of competitiveness and we had a study done in 1983 on America's education system, public school system, and it concluded with the statement that said if a foreign country had foisted upon America the school system we have today we would consider it an act of war. Now, since 1983, our progress for the most part, has been negligible. We have not solved this problem. And the statistics are grim. We can drown in statistics. I'm only going to give you one statistic. I can give you many, many more. 70% of the eighth graders in the United States cannot determine a probability with the use of a calculator. Nor can they determine the effect of -- of -- of what happens -- well, let me give another one. Approximate a fraction of an hour given minutes. I mean, we are really becoming a nation of ignorant people.

One adult American, one adult American in five thinks that the sun revolves around the earth. Fewer than a third, fewer than a third of American adults can identify DNA as key to hereditary. So, OK, so we've got this terrible problem of our

schools are failing our children. Our children are the future of our workforce. Our children are the future of the people who make the policies that Craig's talking about on energy policy as our electorate. And what have we done? Practically nothing. Maria said where are the solution. We know where the solution are in education. We know exactly where the solution is. It's in high standards and great teachers. McKinsey and company did a study back in September where we looked at all of the great school systems in the world and they came to a singular conclusion of what drives great school systems, great student outcomes. Teachers. Teachers. And yet, and yet 70% of American students in inner city schools take courses from teachers who didn't even minor in the subject they are teaching.

>>MARIA BARTIROMO

Let me say one thing on that, Lou. Because the problem here is often that principals have their hands tied.

>>LOU GERSTNER

This is.

>>MARIA BARTIROMO

You can't put the school with the best talent the way you put together companies. Because they can't hire the teachers they want.

>>LOU GERSTNER

The solution lies both in the management of the school but also lies in providing compensation for teachers providing incentives for teachers.

[APPLAUSE]

I mean, why would somebody be a teacher at the end of 20 years, average you earn \$45,000.

>>MARIA BARTIROMO

Ditto for nurses.

>>LOU GERSTNER

By the way, if you're a great teacher, you make 43, if you're a bad teacher, you make 43. And so know how to fix -- there are places in the United States, Governor Pawlenty is doing wonderful things in Minnesota, Texas is doing a lot of interesting things but we haven't created as Craig talked about the national will to say we've got to fix this problem. It's not money. God, we've been throwing money at education in this country. It's the political will to take on the status quo, the people who benefit from the status quo, to take on the requirement that we are going to say that every child in America's going to learn. And we can do this. This is not molecular biology here. You know, we're not trying to lay out a genome. But for some reason, we simply don't have

the political will. The same thing with energy policy, the same thing with social security, the same thing with healthcare. We have solutions to all these problems. We just don't seem to be able to decide that we're going to go fix them. We'd rather spend money on pork, build bridges to nowhere, give grants to colleges to study meaningless subjects and do a whole other -- a whole lot of other things that are not reflective of the priorities of this country.

[APPLAUSE]

>>**MARIA BARTIROMO**

Well said.

>>**DR. BARRETT**

You've got 50 CEOs, Chief Educational Officers, the Governors of this country, and every one of them has to stop dumbing down the graduation requirements to be socially acceptable. And if you've taken any one of these exit exams from any of our state's high schools you recognize how dumbed down they are and no one has the bravery to say kids are a lot smarter than that. They will perform to the level of expectation that you set. You can put good teachers in it as Lou suggests and you set the expectation level high and then you just make simple little things how to get away from the fact that 30% of our kids in the U.S. don't graduate from high school. We're going to be the knowledge economy of the society of the world where 30% of our workforce doesn't graduate from high school. Let's just take simple deals like, you know, you want a driver's license in the United States, how about having to have a high school education to get a driver's license? Which Governor has the bravery to do something like that?

>>**MARIA BARTIROMO**

Why isn't there the political will? I mean, that's really the question. I mean, we all know the issues. Why not?

>>**DEBORAH WINCE-SMITH**

One of the issues, too, on the education challenge is we do have a system where schools are based in communities and it's not a national one size fits all. And we see so much innovation and creativity and work and communities, you know, to build clusters of innovation and all and yet the whole K-12 school process is not really linked into that and, you know, again, if you look at some of the classic statistics on productivity, we know productivity and industry is a huge metric of success there's virtually no productivity in education or in healthcare. And I don't think until communities that are ratifying school board contracts come to the plate that you're going to see things happening. We know people come into this country, or move in this country, because of the quality of the schools in their region. And so why is it when we see the models that are working elsewhere, the leaders in communities, the mayors, the heads of school

board don't step up to the plate and say we want a change, they can do the change. We're spending more per student than any country in the world besides Switzerland and it's not a money issue.

>>MARIA BARTIROMO

At the same time, other nations are using all the best practices of the world and bringing it to their economies. Which is worrisome. Jim.

>>JIM MCNERNEY

I'm very much in concert with the conversation here. I think part of it is we're all a little afraid of centralization, No Child Left Behind, a very right-minded way to go at the other side of the education problem. You'd like to see that morph into something that speaks to excellence and competitiveness and -- but I think local communities, people that fund them, the entrenched interests that Lou alluded to that have self-interest in keeping things the way they are I think are tough obstacles. But I think it's going to take something like that, some kind of mandate that gets at a much bigger idea than keeping everybody at a subsistence level which is an important idea in and of itself, I'm not trying to argue against that but it will take some top-down something to break the logjam. And the only other comment I was going to offer, Maria, is that, as you mentioned, the competitiveness of some foreign institutions that we compete against, we have a responsibility to educate folks because they're not showing up at our companies as educated in the same quantities as they have historically relative to our competition. I don't know what the number is in Boeing but I think it approaches \$100 million that we're spending on educating our folks and a large portion of the population are finding opportunities for degrees and we sponsor it, we have to, we'd rather they showed up as a master's in aeronautical engineering or some other discipline that's important to us. But there are times when -- my guess is when you looked at the percentage of these advance technical degrees there's a lot of corporate sponsorship and we're going to have to do more. And to take up the slack. But there needs to be a national mandate despite our aversion to centralized initiatives like that.

>>MARIA BARTIROMO

So there needs to be some kind of a policy where --

>>JIM MCNERNEY

With some teeth behind it. I mean, No Child Left Behind had some penalties and some incentives and tied to federal funds and I think it just has that kind of thinking has to be attached to a much bigger idea.

>>MARIA BARTIROMO

Included, including the private sector.

>>JIM MCNERNEY

Yes.

>>MARIA BARTIROMO

You're investing in your own people. We need this on a very, very large scale where many companies are doing that.

>>JIM MCNERNEY

Well, Lou has designed the road map, Lou was chairman of the teaching commission for about five years, eight years ago, and he's got a lot of the answer. Craig has been into this issue for a long, long time. And the national academy work -- the road map is there. We're not short of knowing what to do. We are short, as you point out, of the mandate and the political will to get it done. And the road map is there ad nauseam.

>>MARIA BARTIROMO

Any thoughts on that? Let's move on to the second issue which I've heard brought up here. Immigration. We used to open the doors to the best and brightest people and have them work in our companies in the United States. That has lessened quite a bit. Biggest issue.

>>DR. BARRETT

You know, this is a law of unintended consequence. We have 12-13 million illegal aliens in the U.S. To which we absolutely have no control over. Washington, D.C.'s frustrated. The country's frustrated. So what do you do? You can't control the 13 million so you control the 100,000 legal immigrants that we allow into the U.S. and you clamp down on them. So let's let all of the poorly educated, manual labor type folks into the country and let's keep the Ph.D.s out. This is a policy that we can all be proud of, don't you think?

[LAUGHTER]

This is the most inane approach to life. You want to make the U.S. the preferred location for the smartest people in the world and instead what we do is we bring the smartest people in the world here to go to our universities, which are still the best in the world, at taxpayer expense, we educate them, and then what do we do? We tell them to go home to compete with us. And it's even worse than that because what we do, because we're international companies and we hire the best and smartest in the world, we not only send them home but we send the job with them because we're going to hire them wherever they are. There's something wrong with this someplace.

>>LOU GERSTNER

And Maria, if you think about it in the terms that you properly introduce at the beginning, this is a question of competition with others that are trying to match our economic capability. And so a lot of countries, including India,

China, Singapore, Taiwan, they are coming in a very structured way to the United States and seeking their citizens. Their citizens to come back. To come back. And one statistics I saw was 200,000 high-tech people have gone back out of the United States recently, back to their own countries where they're investing in enormous intellectual centers. I was with -- I won't name the country. But this person was a very high-level individual in this country. And he came to see me. I'd known him a number of years. I said, is "What are you doing now?" He says, "While I'm here, I've got a list of 15 high talent young people who came to the United States to study biological sciences and they're at Cal Tech, they're at Princeton, they're at Harvard, whatever, and we're building a huge biocenter in our country, and I'm here to get all these people to come back."

>>MARIA BARTIROMO

After studying here.

>>LOU GERSTNER

Not only studying here but being in our scientific laboratories. These are not students. These are 30, 35-year-old people who are -- who are contributing to innovation and science here. And I said to him "You got a list of 15, how you doing?" He said, "I've met with 10 and I've got nine coming back and I think I'll get most of the other six." So again, is that bad? No. They're entitled to do that. Just like when IBM sets up a research lab in China, we try to hire the best and brightest Chinese scientists in China, the same thing in India. We can't argue with the competitiveness. What we have to deal with is how do we compete? And we have to understand that, as Craig said, for decades we were the magnet, where all the best and brightest wanted to come and study and work. And we have now, in a period of only perhaps a decade, allowed that to turnaround with policies that are just dumb.

[APPLAUSE]

>>DEBORAH WINCE-SMITH

Well, I would just add to that that the real challenge on immigration policy is, again, it's a fundamental shift from what has been our policy almost since the inception of the country and certainly through the 19th and 20th century just based on family reunification and bringing families together verse a skill-based immigration policy. And I think we all want to gravitate to that but it's going to be very challenging politically. And the extent to which we put a lot of our effort on getting more HP 1 visas in which is important for certain sectors of our economy we still need to work on the bigger issue of as everyone has said when we train and educate the best and brightest, let's give them a green card and let them stay there and work and contribute to our economy and there have been many recommendations to do that and

hopefully the Congress might decide to act on that.

>>MARIA BARTIROMO

At the end of this I'd love to have two or three specific policies that you all believe are needed on the issue of education, immigration, and, after this, we'll get to innovation. And whatever else is on that list.

>>DR. BARRETT

On education, you never ever get beyond what Lou mentioned and several others have mentioned till you start treating teachers like professionals, giving them professional training, paying them for performance. You never get beyond the K-12 problem. And you just have to do that. And then you have to set expectations. You know, we dumb or expectation levels down to the lowest common denominator. Kids can jump over the bar almost independent of how high it is. All of you, when you went to school, you know that you studied as hard as it took to pass. You didn't do twice as much effort which you were capable of. Kids can perform at that level if you require them. We have pockets of brilliance in every state in the United States. There are great schools that do outstanding -- they have good teachers and they have high expectations. You need the 15,000 school districts, the 50 governors in this country to start focusing on those two issues. There's no credit beyond that. I mean, as Lou said it's been studied for decades. Every study comes out with the exactly the same conclusion. Every study goes on to the bookshelf and not a dam thing happens to it.

>>DR. PORTER

Well, should we stay on this issue.

>>MARIA BARTIROMO

Yes, I'd like to hear your thoughts on.

>>DR. PORTER

On this issue. Well, on education, I think that at the higher education level, it's pretty clear that the issue is access, financing, funding, how to get people with the wherewithal to actually attend college and university and, of course, we're going in the wrong direction right now with our credit problems and so forth. But I do want to come back to the K-12. I mean, why don't we have more scientists and engineers in America? Because not enough kids coming out of K-12 are going to attempt going into those fields. And so we have to ultimately deal with the problems that have been discussed. I personally believe that the local school district model has to change. I don't see how we're going to have significant reform and resources put behind education if we leave it in a, you know, highly fragmented structure that we have today, where there's hundreds of school districts in every region of America, how are they going to be effective, efficient, recruit and retain the right teachers so but that is one of

the most cherished sacred cows in America. So when are we going to be able to step up? We're the only school system in the world like ours, nobody does it, we're the one outlier. So are we right? Should we preserve this at all cost, share I should and untouchable or is it time to consider in this tremendous knowledge-based economy that we're into now where knowledge is exploding that we may have to move beyond a model that worked perfectly well when we had wagon trains and we were setting up new communities and each community set up its own little system. So I think on education, that would be my comment. On immigration, my only concern about the immigration debate, my biggest concern is that we're going to use immigration as a substitute for dealing with what we really need to do which is equip Americans to succeed. And so I think if we're -- if we really focus on highly skilled immigration I think there's an unambiguous case that can be made that that's going to be very important for our competitiveness, making it idea, in fact, welcoming the graduates of our universities to stay I think is unambiguous improvement in our competitiveness but opening immigration per se and then not having to worry so much about training our own citizens, I think that would be a mistake.

>>MARIA BARTIROMO

Go back to the sacred cow of education in this country. What specifically is so sacred that we are protecting so much that you feel needs to be changed?

>>DR. PORTER

I think we're protecting this extreme form of local control. That there's a school district, it's elected, the PTA and the school district, it's community-based, in Massachusetts we have every little town, you know, has its own school district, it's own school board, it's own principal, it's own -- its own overhead and structure, hires one or two teachers a year, no professional development system for those teachers, no professional management structure, is allocating much of the capital to the overhead, not to the actual teacher salary. So I think we -- I think we know exactly what produces excellent education. The McKinsey study was excellent because it really showed that a lot of these countries that are doing so well, tea not rocket science, it's not money, it's not some heroic fundamental change, it's really the basics. But we are not organized around the basics. And so I think like we've learned that regions, you know, having 20 -- 22 little towns is not a very effective way to govern a region I think we need to learn the same lesson about education but again, this is an emotional issue and people feel like they want to have local control over their schools so they can decide whether they want to teach about evolution or not or whatever the issue of the day is and this is something that Americans have not been able to address, even confront. I've never heard a political candidate raise this point, not a single one, ever.

>>LOU GERSTNER

Well, that's why, to your question about specific recommendations, I would take that problem and a little bit of what Jim McNerney just said, I think the President of the United States, the new President of the United States has got to make his or her primary focus all this issue, all about the issue of skills. It can be environment too. Maybe there's four priorities. But skills has got to be the fundamental domestic policy issue because we're not going to solve the other problems without an educated, successful workforce. And I would recommend that he or she, right after getting elected, call all the governors together and say, "We're going to change the education system in this country. Now, we can't do it because of basically constitutional issues, but we're going to do it through leadership. And so we're all going to agree to have a common national set of standards in this country. Why do we have a different standard for what a third year -- a third grader ought to learn in Georgia than in Oregon but we do. And so we're going to have a set of national standards. Not federal, we're not federalizing. We're all going to agree on national, secondly. We're going to get rid of, we're going to not build one more aircraft carrier or two more B-1 -- excuse me.

[LAUGHTER]

We're -- 100 more tanks or whatever.

>>JIM MCNERNEY

I was on the program right till then, Lou.

[LAUGHTER]

>>LOU GERSTNER

We're going to create a Teachers Incentive Fund. National fund to raise the compensation for teachers and thirdly we're going to hold our schools accountable for results. We're going to have measured against those standards those who do best get more compensation and that's all we need to do in January of next year.

If five governors come or 10 governors come, whatever it is, we've got to make the argument to the American people that it's no longer about whether Johnny can read. It's about whether America can succeed. And that's skills. And the fundamental thing is to let's get some national standards, let's get some money in the hands of the best teachers. Let's hold the teachers accountable for results. And I'll tell you something, if we just did that in the early part of the new presidency, I think we could change this terrible momentum we have in public school education. Do I think it's going to happen?

>>DR. BARRETT

The distinction we have between K-12 and higher education in this country is dramatic. K-12 is basically a public monopoly and it suffers from all the things Lou was just talking about. Higher education is basically a capitalist system where you compete for teachers, you pay on performance, you compete for students and the output is measured by the salary students get when they go out in the marketplace. One system works great, we have the best university system in the world. We can talk about the problems of costs and such. But the output is the best system in the world. The other is one of the worst systems in the world. We just need to take a little bit of what makes universities, college education so good which is competition and performance and do exactly what Lou says and put that back in K-12. By the way, for those of you in the audience, I mean, how many of you go to look at your state go to the U.S. -- or nationsreportcard.gov which is the national assessment of educational performance and look at your state's performance, on a nationalized test, the NATE (ph) is the closest thing we have to a nationalized test, you'll find almost independent of what state you're in 70% of your kids are not proficient in reading, math or science. Not proficient at grade level. That means one or two grade levels below at least. 70% of your kids, you can get the data today, where is the outrage? Where is the hue and cry at the local level to prove the system. The problem is the school districts are a little bit like our 335 elected -- 535 elected representatives in Washington, D.C. Everything is OK at your level it's just everybody else who has a problem. Let me guarantee, you have a problem today. Just check your state out. And you'll be just unhappy with the result.

>>JIM MCNERNEY

I think the -- I'm sorry, I want to make a brief comment because these guys are -- they're saying it all. We will implement Lou's plan 10 years from now if we don't do it before and the reason we will is because our standard of living will be down, unemployment will be high, the dollar will be twice as weak as it is today and there will be a clarion call for a new deal and education. Unfortunately in a democracy new deals tend to come after disastrous events and so the challenge is can -- is there some political leadership that can articulately raise the issue before that day happens. And, you know, you look at the -- you know, you look at Barack Obama, who is our favorite son here in Illinois, if he got behind this issue with his ability to express himself and embedded this message in the kind of overall message for change and hope for America that he has, if he ends up being the president, you can see that getting sold and you can see some of the things being done that have been talked about here on the stage. The challenge is to get it done before we have to get it done.

>>MARIA BARTIROMO

And if not, that 10-year period is a nice amount of time for nations around the world to really bulk up.

>>JIM MCNERNEY

And that's why it will happen 10 years from now, that's why.

>>LOU GERSTNER

Secondly by that time we'll have two generation of illiterate people in the United States. We do, we do. We have one already, that's the 20% that think the sun revolves around the earth. And we will have two. And we will not only have the problems that Jim raised, but we will have huge, huge issues of class conflict. The major problems, the spread between the rich and the poor will exacerbate. And we will have internal tensions in this country that we haven't seen in 100 years.

>>DEBORAH WINCE-SMITH

I was just going to add to the skill issue because it relates on the next discussion on innovation that another area, of course, that we haven't talked about and the stem focus and the overall school challenge is the importance of the arts and humanities and music and how children learn and how they see the world. And one of the other kind of shocking deficiencies now is the lack of knowledge that our young people have in what we call traditionally geography but it's much more now in the different cultures in the world. I mean, apparently the statistics from the National Geographic Society are absolutely shocking of how many kids can't even place Afghanistan on a map. You know, they have no idea about, you know, the dynamics that are going in these fastest parts of the world that again are our partners and competitors. So that whole area of the arts and humanities is so important to meld with the science and technology engineering challenges and I always like to cite, you know, one place where at a higher education level it's done in I think the most advanced creative way and that's in our military academies. Because those are the only institutions right now of higher education where, by design, every student must take languages, must have history, must have leadership, must have social sciences, but guess what, they have physics, chemistry, all of that and they come out with an engineering degree. They have fused these two to give these young leaders of our country the whole integrated sense of knowledge they need to thrive. At the earlier end of the cycle, a fabulous part of our infrastructure that people all over the world are coming to look at is our community colleges. And if you look at community colleges and who goes to community colleges, a lot of the first generation immigrants, they're getting very concrete skills, their outcomes in being hired are important, yes, they're learning things that they're not getting in K-12 but we need to look at this whole skills continuum as a continuum and then the final thing on the high school dropout rate that's so serious is, in my day, and I guess I'm dating myself here, there was

something called vocational education. There were kids who were not necessarily on the college track. But they learned skills that were going to take them in to these higher skilled middle jobs. Now, we talk about energy. And whatever we're going to do on the energy challenge here and I hope we talk about that, we don't have a skilled workforce, we're losing a skilled workforce, we can't even put a nuclear plant online if we want because we've lost that whole talent base. Jim, I'm sure for you, the machinists, all the people you need, they are not getting educated up through our school system so I would like to propose as a recommendation also, maybe you call it something different than traditional vocational education, but insure that our young people also have that path for going into the middle skills that are so important and in great demand.

>>MARIA BARTIROMO

People in -

>>DEBORAH WINCE-SMITH

Can't be outsourced either, by the way.

>>MARIA BARTIROMO

What about the people in the middle of the cruise, I don't want my doctor to stop learning, I want him or her to be up on the latest advances. A mechanic, everything in our cars is technological, you know, technology-based. So how about schooling that is not just recommended but, you know, a requirement after you have worked in the workforce for 20 years?

>>LOU GERSTNER

I believe that, Maria, I don't -- for the higher-level jobs, higher intellectual content jobs, I think that's getting done in the country today. There's tremendous amount of investment in online education for doctors, for lawyers. You all even -- even though you're not -- you're educated in a certain sense, the fact that you've got 2004 capability to see what's going on in the financial world, I mean, people are being exposed in a much more natural way to do to knowledge, as long as they've got a computer and they can turn it on and they're willing to make that commitment. And I think that that's happening in the engineering profession, it's happening in almost every profession where there's a sense of commitment to excellence and a sense of accountability. Unfortunately, neither one of those exists in the teaching profession. And therefore, they're not measured on their skills five years later. But I'm reasonably comfortable that we're starting to get it on how to educate people in mid career and it's becoming less expensive and it's becoming more personalized. I mean, you can -- at IBM today, you want to do a -- take a course in mid career, you can go online, take the course, and when you show that you've got proficiency in it you get recognized for that proficiency. In the old days you had to go to a class

someplace, travel, 30 other people in a room and you had to wait for the dumbest guy in the class to get it before everybody could leave.

[LAUGHTER]

And now through what is called self-mastery, people can pick up skills in a much more effective way. I think -- I wouldn't worry about this problem.

>>MARIA BARTIROMO

So it's really K-12 is the biggest, most critical.

>>DR. BARRETT

If you don't solve K-12 nobody who gets out of K-12 has any interest to do anything beyond that or capability. There's a great math analogy here and Lou mentioned that 70% of inner city kids don't get a certified teacher. The national average is 30-40%. If you need 12 years of math in a row from a good teacher to be skill interested in math and still on the math track, the statistical question for the audience is what's the probability, if there's only a 60 or 70% chance each year to get 12 good math teachers in a row? You got the answer? It's nearly zero. It's .6 to the 12th. It's a perfect filter. K-12 system is almost a perfect filter to keep kids from ever wanting to do anything mathematical going forward.

>>MARIA BARTIROMO

Who are we most worried about around the world? Which country?

>>JIM MCNERNEY

Well, there's a lot of innovation and a lot of capability being built in a lot of places around the world but I think China is the obvious example. And they have the educational commitment. They're producing, Craig, I think I'm right, about seven times more engineering and technical scientists than we are in this country each year. They have -- they are building an infrastructure that will surpass ours and when I say "infrastructure," I'm talking about roads and airports and cities with places to work and live. They have an enterprising cult that's been for thousands of years, they have a military that's producing technology that's relevant to a lot of our industries. And if they can hold it together politically, that's the challenge of the Chinese leadership, is the middle kingdom, Beijing, sort of, Shenyang holding on to the provinces that have a lot more diversity against every measure than we really appreciate here living in this country. If they can hold it together politically, there is no doubt that they will be our rival in, pick a time frame, 20-25 years. I mean, in my industry, there's no doubt that they will be the next major producer of commercial aircraft. Along with Airbus and ourselves. And no doubt in my mind at all. Because they have all the factors that are needed. Including,

and I forgot to mention, an internal market that is as big as ours almost today. And so China I think is what you'd look at. And so, you know, the issue becomes for us how do you respond to that. And, you know, now that -- now that things like cost and hiding in geographic niches used to be acceptable ways to compete, we all can find the same costs, geographical niches are being broken down by information technology. Comes right back to I think where you're going on the panel and I'll quit giving my speech here in a minute and that is innovation. I mean, our big companies which have a lot of Brewer automatic crease associated with them a lot of reasons why you can't innovate and a lot of barriers to overcome that is our shipping and handling because that's the only fundamental -- that is really the only fundamental source of competitive advantage going forward when you've got, and it won't just be China, there will be a lot of others, and when costs and nearby and service, local service cease to be competitive advantages so when we get to that subject I'll -

>>MARIA BARTIROMO

Let's do it now. Let's talk about the barriers to innovation. Are there policies in place today that actually encourage innovation in this country?

>>JIM MCNERNEY

I think, my view, and then I'll shut up here, is the marketplace does reward innovation. I don't think -- I don't think I see any policy barrier, any political structure, regulatory environment that really gets in the way -- I mean, there's some things, but fundamentally, I am rewarded if I choose the right products at the right cost. And the challenge for guys who run big companies is not having the talent, notwithstanding our earlier discussion, just for a second, we have the talent, functionally and technically, the issue is how to create an environment where creativity is nurtured and sponsored and it overcomes sort of bureau crosswalk and hierarchical strategies, and that always gets to how do you bring the customer's voice in your company as strongly as all the day-to-day stuff that people have to live with and how do you create that, spark that innovation. And I think the market place does reward that, though.

>>MARIA BARTIROMO

Deborah, innovation?

>>DEBORAH WINCE-SMITH

Well, I think of innovation as much broader than a science and technology innovation. It's really the whole wraparound of the idea, the imagination, the ingenuity the creativity and then really creating something of great value that's a new solution. And so, you know, when you think about a lot of game-changing innovation, yes, there's improvement in an existing product but it's often, in my view, the things that upset the status quo. And certainly right now and hopefully

for the time in the future the U.S. has done a very, very good job in that. You know, we've completely changed the whole model of telecommunications, actually, coming out of the iPod technology world. And even an example like Starbuck's where they took a low value commodity, coffee, and the value is from everything else, the intangible assets. But how we stimulate this and how we encourage it, one of our, again, a great asset we have is a tremendous collaboration between our universities and companies and labs. You know, at the U.S. council on competitiveness we joke, we could spend every day receiving delegations from all over the world telling us, well, you know, what goes on at Stamford, you know, how did Google come out of Stanford, what goes on in this mix of creativity and the commercialization of these game changing ideas and, you know, the design and this gets back to the point I was making about arts and humanities and all of these things bringing together is absolutely at the heart of the innovation process. So when I look at some countries around the world, you know, I see tremendous issues with China and I support what my colleagues have said. But I find it intriguing to look at places also like Brazil, where they've always had a premium in design, they're doing a lot of incredibly innovative things in the new energy space and how they are pulling that together, again, is something that we can learn from too. So on the innovation front, it's not just the science and technology. It's a critical part.

But remember, the Soviet union had the most scientists and engineers of anyone and hardly created innovation outside of the military arena. So it's pulling together these sort of cauldrons of creativity and some of you I saw I know it was on the screens the DVD that the council on competitiveness did with DreamWorks and I always tell everyone, look at the trailers of "Shrek 2". When you see that trailer of how they created "Shrek 2" using high-performance computing that they threw in a room artists and designers, and anthropologists and musicians and scientists and just created this cauldron of creativity to come up with something that was a tremendous innovation. So I know that's a long way to say what's innovation but the U.S. still has a tremendous reservoir of assets to draw on that and work with others in the world to continue to be game-changers in innovation.

>>MARIA BARTIROMO

Michael?

>>DR. PORTER

Let me pick up on that. I think having looked at this extensively and looked at the data I think I would agree wholeheartedly with Deborah. The environment for innovation in the U.S. remains amazing. Let's just think about energy. Now, finally energy's gotten on the radar. There are billions and billions of dollars being invested, as we speak, in new companies with energy solutions and energy technologies of

every conceivable type in the United States.
It was forced, in a way.

>>DR. PORTER

Right so -

>>MARIA BARTIROMO

We've got \$130 oil.

>>DR. PORTER

All of a sudden we've said there's a market opportunity. Our system is responding now that we've kind of woken up to that son sew I think the systems, the incentives, the lick averages that Deborah talked about are all very, very strong and very hard to replicate. The other countries desperately try to create this environment, they don't know how to create the environment, they can train engineers, they can build super colliders, you know, but the creativeness environment is sort of a mystical brew that everybody sort of envies in America what we lack in innovation is the feed stock is not being reinvested in. So our scientific talent is lagging. In terms of generating scientific talent. Partly 'cause the kids coming out of high school wouldn't dream in majoring in science or engineering because they can't, they're not prepared, and I think some of our public and national investment in basic science and technology, although it's growing in certain fields, is lagging in terms of our reinvestment rate in some of the feedstock. The other thing I would say is that we're dragging down our innovation by other costs. By heavy healthcare, you know, very high healthcare costs. By very high cost of kind of regulatory, litigation, you know, transactions, complexity, you know, tax system that's, you know, impenetrable and incredibly complicated to deal with so I think it's not actually the innovation environment that's at risk, it's actually the feed stock and then all the things that are pulling, pulling companies' attentions and balance sheets and investment priorities away from the innovative activity. If I could jump in on China. I would agree China is probably the most fundamental challenge to the U.S. I think the points that were made by Jim are exactly right, on skills and talent and infrastructure and hard assets and enterprising culture. What concerns me about China, though, is actually another issue. And -- that we haven't raised yet and that is the international trading system. You know, the U.S. is now in the business of producing intellectual property. The U.S. is in the business of trading advance services. And knowledge and ideas. And the U.S. is in the business of being, you know, in the innovation game and that's what we do. And China -- and to some extent the international trading system is now potentially a threat to us because what's happening is that we're buying the goods, but people aren't buying the intellectual property. I'm on two major software company boards. We estimate in China that only about a third of the

software's actually bought. Two-thirds of our revenue that we don't earn, OK? In China there's still massive problems with the intellectual property. There's still massive problems with subsidies. I'm on the board of another large company, I won't name them. Our major competitor's Chinese and their local government in their town built their factory for them for free. Oh, I'm sure they called it a loan but it's not a loan, they don't have to pay anything, OK? So the thing that scares me about China is not that we can't compete with China in some sense, but that the international trading system now is not working for an economy like ours. It's really working -- it's still much more in the goods world, where you traded goods back-and-forth and in countries like America are having these imbalances which I think are partly our own fault but partly as a result of the biases in the system and the fact that -- and it's allowing countries like China to pile up capital. And that capital is actually what concerns me the most. You know, we have a savings crisis. We have other countries with really more capital than they know what to do with and what are they doing? They're pouring it into all kinds of assets that we are not really making. We have a relatively low investment rate in the United States in everything except we're pretty high in R&D still but in bridges and roads and fiscal infrastructure we have a low investment rate, we're kind of starved for capital, we're borrowing, we're not saving, these other countries partly because of distortion in the national trade system are piling up capital and reinvesting. That's what actually concerns me not a our fundamental built, free enterprise or mind-set but the system has kind of fallen out of alignment with the kind of economy that we have become and I think that puts us at some risk.

>>DR. BARRETT

Two quick comments about innovation. I totally agree one of the great values of the U.S. is our tier one research universities which takes idea and then investment capital takes those ideas into the market lace and you can see the value of those ideas, as a great example, Microsoft, pretty big company, huge R&D budget, 6 or \$7 billion a year, biggest three challenges to Microsoft in the last decade or two were not IBM.

>>LOU GERSTNER

We're just a little guy.

>>DR. BARRETT

But the three big challenges were Netscape, Yahoo! and Google all of which basically were single ideas out of a university taken into the marketplace. So bright idea out of a university competing with a 6 billion-dollar R&D budget. That shows you the balance of the ideas and innovation. Second comment is sometimes when we talk about China we talk about low cost manufacturing and all this. My company is the

biggest high-tech venture capital company in the world. We used to make 90% of our investments here in the United States. We now make about 50% of them in the United States. And about 50% of them in India and China. Do not think that China is not innovative. Do not think that they don't have creative ideas. Do not think they're not entrepreneurial. They are and they're copying the best that we have and that is creating universities that look like ours and then an investment environment that is just like ours to create startup companies.

>>LOU GERSTNER

Maria, I'd make a couple comments, I'm agreeing with most of what's been said so I don't want to repeat it, first of all, in answer to your question which country do I worry about the most, it's the U.S. And I would like us, I would really hope that, you know, one of the things that people take away from this conference is that we should, you know, stop all this preoccupation with these guys are bad and they're going to kill us and they're doing things that we can't do, they're going to be great, we gotta be great. And we need to focus on our greatness and not try to tear down our greatness because that will not happen. Secondly on -

[APPLAUSE]

On innovation, I think, again, I agree with the comments about we're terrific in innovation in the academic and commercial sense. I do think, though, we should understand that our government, our federal government has played a critical role in basic research in this country. Whether it was DARPA and the creation of the Internet, whether it's the genetic things that have come out of the NIH, I mean, at the very, very basic levels, the NSA, the DARPA, the NIH, have been very, very important. And unfortunately in the last few years our federal government, whoever you want to throw in this mix, has decided that that funding needs to stop. The growth of that funding needs to stop. And I think that is really a serious problem. The most important science of the 21st century is going to be biological, biological, biological technology, the cell biology, proteomics, molecular biology, this is going to be the revolutionary science of this century. Five years ago, if you were a young clinician, physician clinician in a major American university setting and you were a young doctor researcher, you had a 30% chance of getting funding from the NIH. These are our best and brightest. These are the people who will make the difference for us in this science. 30% chance of getting funding as a new investigator. Today that number's either 11 or 14. If you're a person and only have one of 10% of getting your basic research funded you're not going to be scientist very much longer because you're a very capable person you can go into pure clinical as a doctor or you can go into other forms of research. So at the margin, at the margin, that important federal funding for long-range

issues is terribly important. Is there a lot of waste in federal funding of research, yes, is there a lot of duplication? Yes. But we should not underestimate that these other countries are providing very powerful national funding to create their new laboratories and new scientific talent. Why I'm not a big believer in government solving problems I think we have evidence that our federal government's been very important to scientific discovery in the last 50 years and we better start allocating some more of this trillion dollar economy to this issue and not let it fall off like we've been doing.

>>MARIA BARTIROMO

So specific proposals to ensure that the U.S. stays ahead of competitors in terms of innovation are what?

>>DR. BARRETT

Fund the American Competes Act. I mean, you had the best and brightest minds in the U.S. kind of come up with a policy of increasing the budget, DOE energy budget, NIH, train teachers, et cetera, et cetera, unanimous passage in the House and Senate, no money. C'mon, let's just fund it. We can write \$180 billion in checks to people to stimulate the economy. We can put \$5 billion into basic research going forward.

>>MARIA BARTIROMO

Thoughts?

>>DEBORAH WINCE-SMITH

Establish a national scale strategy that cuts across the whole continuum from K-12 all the way up through our advanced universities.

>>MARIA BARTIROMO

A national skills strategy. Explain.

>>DEBORAH WINCE-SMITH

Well, of the issues we were talking about, you know, really beginning to look at the fundamental reform K-12, I mean, none of us spoke about the teachers' union, I know that's always a hard one but that has to be part of it.

>>MARIA BARTIROMO

No, we -

>>DEBORAH WINCE-SMITH

Skills, ensuring we have the workforce we need for the innovation and 21st century manufacturing in this country. People are ones who create and innovate and they have to have the skills.

>>MARIA BARTIROMO

Michael, education, innovation, immigration. What did we leave out, when it comes to keeping America the most

competitive it can be?

>>DR. PORTER

Well, I think we could certainly add that having a strong and open international trading system that's fair to us as part of that. And again, these are big bucks that we're talking about here. These are untold tens of billions of dollars that should be exports of the U.S. that are now being -- not being captured. And so I think how that system develops, how we reestablish our leadership so that we can actually guide and influence the way the rest of the world develops the international trading system, we really lost our influence, we lost our clout, we lost our moral authority, we lost our capacity to actually nudge countries into opening trade in advance service, to tackling fundamentally intellectual property protection. We've made all kinds of mistakes. I've actually worked in the country of Libya recently. A very funky place. I commend it to all of you. As an interesting place to go. Libya said we want to be part of the international economy. We want to open up. You saw the article recently in the "Times." The U.S. hasn't really supported Libya. They're the ones that have opened up. They're the ones who have renounced the weapons, they're the ones who said we want to trade with the rest of the world, we want to open our economy. The U.S. hasn't really had the strategy or the focus or the moral authority to lead in terms of the international economy and how it -- the shape it takes. And so I would put that as an issue. And then I think we have to spend some time talking about some of these huge costs that we're bearing in the U.S. that are not being borne by other countries, notably healthcare. That's the most striking. Healthcare cost as a percentage of GDP are approximately twice what they are in most other advanced economies with universal insurance. 8% in Finland, 8 or 9% in the rest of Europe, sometimes it gets us close to 10. 10% of GDP. That's the differential. And that 10% is -- you know, is pulling capital away from investing in all the other things that we've been talking about here today. And it's what holds wages back. As companies are having to fund the health benefits increase, they're holding down their wage increases. So I think we have to tackle the issue of healthcare. The debate in this country is focused almost exclusively on insurance. Getting people insured. Which is a critical fundamental priority for a variety of reasons. It's the right thing to do. It actually is important for efficiency. Because the lack of -- the number of uninsured creates all kinds of distortions and cross subsidies in the system. But the fundamental problem of healthcare is actually the way we deliver healthcare, the structure of delivery system and I have not heard any really serious political leader talking about that. They're all talking about various approaches to getting insurance coverage. On insurance coverage, I think there's some very simple things to do. We've got to equalize the tax treatment whether you buy your insurance through your employer or

whether you buy your insurance as an individual or a small business directly. What we're doing is we're driving all these individuals and small businesses out of insurance systems. And that essentially raises the cost of insurance for everybody else and so we're in kind of a downward spiral on who's actually buying insurance because we've got this asymmetry and it's too expensive for an individual to buy insurance with after-tax dollars. OK, that's one thing. Secondly, we've got to deal with some very, very tragic issues in our insurance industry where it's still possible, in many states, for an insurance company to cancel you if you get sick. And as long as insurance companies in this country can make money by cancelling people who are sick or denying payments, then we're not -- never going to have a good health insurance system that focuses on actually creating health and value for the customers. So I think there's some insurance laws that need to be changed. But in terms of delivery system, we have a -- we have a restructuring that is necessary that is like the restructuring that took place in businesses over the last 10 or 20 years that needs to be done. I won't take the time to get into what exactly that restructuring looks like. Many of our panelists here have worked on healthcare so I'd like to hear their thoughts as well.

>>MARIA BARTIROMO

Jim.

>>JIM MCNERNEY

I was going to take up on opening up trade, it's a big deal and relates directly to innovation. If you look at American history the last hundred years the times we got in most trouble economically were after we closed down and we're in danger of doing that with the current political sentiment in this country where roughly 60% of the American population feels disenfranchised by globalization. It's a tough number. It's a political reality. But whenever we close ourselves off we end up in a -- you just look at the history. And whenever we open ourselves up and take the onslaught of global composition, it's always tough in the short-term but is always followed by a burst of innovation whether it was some of the European in the infrastructure business, Europeans in the '70s, the Japanese in the '70s and '80s and then the Chinese today always followed by a burst of innovation. So it's -- I am very worried about the one outcome of the election coming up and that is a -- pandering's too strong a word but reflecting I would say this political sentiment rather than leading through it which would be -- which would be -- I mean, President Clinton, I think, gets his due back in the '90s for leading through some of that sentiment, pressure from labor unions and others. And retaining an open -- an open trading environment and personally leading it. We need that kind of leadership from whatever president we've got or there's going to be a real threat to innovation in this country.

>>MARIA BARTIROMO

And the trade policy goes hand in hand with the dollar policy or lack of.

>>JIM MCNERNEY

Yeah, yeah, yes, that's a component of it.

>>MARIA BARTIROMO

But you have.

>>DEBORAH WINCE-SMITH

You have some very important on open markets, trade liberalization and then a burst of innovation and I think that's a very important comment he had. You see it in India when they finally opened up and you have the Bangalore.

>>JIM MCNERNEY

Necessity is the mother of invention.

>>DR. BARRETT

To follow up on Michael's comment about healthcare. Healthcare costs in the U.S. appreciate over \$200 billion a year. It's compound growth. About 10% on 2 trillion-dollars. So whenever anybody tells you they're going to do something by getting the war dividend by getting out of Iraq which is \$150 billion a year just ask them what they're going to do to fund the \$200, \$220 billion-dollar a year increase in healthcare costs each year until we fix that issue. That is going to be our Achilles heel. If we get education fixed we still have to go back and fix healthcare.

>>MARIA BARTIROMO

Education, immigration, innovation, open trade, healthcare costs. Thank you, everybody on the panel, we hope that we've given you some things to think about and enjoy the rest of the conference.

[APPLAUSE]

PANEL 2

>>ASSISTANT SECRETARY BARUAH

Thank you very much, we'll be back for panel two in about 10 minutes.

[BREAK]

>>MALE SPEAKER

Ladies and gentlemen, if you would please take your seats.

Our program is about to resume.

>>MALE SPEAKER

Panelists will discuss how we can link the business environment and the importance of entrepreneurship to America's economic prosperity and innovative spirit.

>> ASSISTANT SECRETARY BARUAH

Ladies and gentlemen, ladies and gentlemen, thank you. They say that love makes the world go around. Oh, how little do they know. When it comes to our economic prosperity, our job creation, and our innovation, it is the entrepreneur that makes our world go around. Entrepreneurs and small businesses are responsible for most of the jobs and most of the job growth in America and they are critical to our economy and to our society. Ron Gidwitz is a national business leader. The former CEO of Helen Curtis. He is a pillar of the Chicago philanthropic community. He is the chairman of the 2008 National Summit on American Competitiveness and he is the moderator of our panel on entrepreneurship, ladies and gentlemen, Mr. Ron Gidwitz.

[APPLAUSE]

>>RON GIDWITZ

Thanks and good morning to all of you. Unfortunately I'm second choice.

[LAUGHTER]

But that speaks to the Chicago, it's not in this case the Chicago airport it was somebody else that couldn't get the airplane off the ground. Anyway, let me introduce our -

[LAUGHTER]

Let me introduce our panel. First, we have Steve Chen, cofounder and CTO of YouTube.

[APPLAUSE]

>>RON GIDWITZ

John Koten, Editor in Chief of "Inc." and "Fast Company" magazines.

[APPLAUSE]

>>RON GIDWITZ

Steve Odland, Chairman and CEO of Office Depot.

>>RON GIDWITZ

[APPLAUSE]

>>RON GIDWITZ

"Inc." "Fast Company".

>>RON GIDWITZ

Jim Phillips, Managing Officer, Pinnacle Investments.

>>RON GIDWITZ

[APPLAUSE]

>>RON GIDWITZ

Beth Williams, President and CEO of Roxbury Technologies.

[APPLAUSE]

>>RON GIDWITZ

Have to wait for the lady so we can all sit down. Please, let's have a seat. I suggested to the panel as we were in formation in the back that given the fact that I've been involved in school reform for about 25 years, I chaired the second largest Community College District in the nation for seven and the State Board of Education here in Illinois for four, that one of the things we're not going to talk about is education.

[LAUGHTER]

The previous panel did a sensational job and I think we ought to leave it at that. So let me start with a couple of questions for our panel and see if we can't get a great discussion going. Steve Chen, taking a cue from national politics, how can U.S. industry leverage technologies like online video to stay competitive in the global marketplace?

>>STEVE CHEN

Sure.

Well, I think YouTube as a platform is indicative of the Internet rendering video on the Internet as -- I think that -- there's a few lessons that we learned. The, probably the most valuable is the openness of the platform in that YouTube creates a way of the content, any piece of content gets uploaded or gets displayed on the site, you can actually watch it, not just on your computer, but you can watch it on your mobile device, on your television screen. So that open access to be able to watch this content anywhere you want as well as anytime you want as well as being able to share this content with anyone you want anywhere in the world that you want, I think that the other application for YouTube is the universal access for the content able to upload it all over the world and watch this content from all over the world so you're no longer limited to the geographic location where you are, you're no longer limited to that channels you actually have this on your cable, you can watch any content from anywhere around the world and I think the final point which is regarding the advertisers and marketers of using it as a

platform it's revolutionary, we started to seeing advertisers and content creators from Nike as well as other companies out there adopting a platform as a way of being able to get this content out on to the Internet and being able to get their brand name on to the Internet in a way that's convenient for them in an audio-video way that they're used to.

>>RON GIDWITZ

How do you differentiate yourself if you're a entrepreneur if everyone can use the technology.

>>STEVE CHEN

I think it's part of the technology itself, the beauty of YouTube is it's no longer who do you actually know in Hollywood or who do you actually know to be able to -- in the music business to get your content out there, right? I think now, it's actually the content itself, the entertainment or educational value of the content that promotes it to the top of the search list just like with Google it's no longer who pays the most amount of money for the page but the relevance of the content. In a lot of ways it's beneficial to the end consumer that there is nothing that you can do other than the actions of the users and what the users watch to get that content out.

>> RON GIDWITZ

John, are we here in this country losing our competitive edge?

>>JOHN KOTEN

No, I don't think so the two companies "Inc." and "Fast Company" pay a lot of attention to the entrepreneurial community and I think the U.S. is probably the most entrepreneurial in the world. Every year we publish in "Inc." a list of the 500 fastest growing companies, I think that that list is as dynamic and as powerful as it's ever been. There's also a tremendous interest on college campuses these days in the idea of owning and running a business and it's a really radical change from when I was in school, for me, if you had aspiration of being a entrepreneur you were looked down on as a little bit of a flake in college and people wanted to be doctors and lawyers and go to work in large corporations but today it's almost turned on its head and if you ask the several surveys of college students show that, you know, well over half of them have the aspiration that within 10 years of graduating from college they would like to own their business, own their own business. So I think that's a really great, great trend and I think many of those college students are in for a much harder time than they think. I think that while the idea of owning an entrepreneurial company is very attractive, actually putting it into practice is hard so I think there are in for some interesting times with that dream. The thing that bothers me a little bit about the United States and it's become clear to me as of I've listened to more and more global leaders talk about the subject that

entrepreneurship is not in my opinion really widely understood in this country, that most of the discussion is about large companies on the one hand and small business on the other hand. And large companies have, you know, big powerful organizations that have big advertising budgets, they have lobbyists, they have a incredible PR apparatus in Wall Street in promoting and getting the word out about what they're doing. Small business also has representation, it has the SBA and you hear politicians talk all the time about the importance of small -- the important role that small business plays in the economy in terms of contributing jobs and hear the number all the time that small business contributes 80% of the job growth in the country. That's true, but it's somewhat misleading because not all small businesses, in fact, the vast majority of small businesses do not contribute to employment. More recent research into the area has shown that it's really entrepreneurial growth companies that contribute most of the employment in the country. In fact, between 1995 and 1999, I think 11 -- there were 11 1/2 million new jobs and 10.7 of them were created by entrepreneurial growth companies. The distinction between entrepreneurial companies on the one hand and nonentrepreneurial companies on the other, whether it's a small business that's just focused on, you know, providing dry cleaning services and helping a family have an economic vehicle for earning a living and large companies on the other hand, which can get to be very bureaucratic once they cross over the threshold from being -- having kind of a have not mentality to a have mentality and we want to defend what we have, the understanding that it's really companies that are maintaining that entrepreneurial mind-set is what's important. And I think that I would like to see the public dialog and more people understand that it's not small business versus big business that what we really need to promote in this country is entrepreneurial companies and when you do that you start looking at all the laws and all the policies that we promote in a different light. And I think this is a very important issue for this country. I hear other countries talking more and more about it. But I don't think it's really come on the radar screen here. And so this is kind of a long answer to your question but I think unless we become more conscious about this rather than proceeding unconsciously forward and just living off the heritage that has made us an entrepreneurial economy, that we are in danger at some point of -- there are many other countries now that are making deliberate efforts to appropriate entrepreneurship in a big way and there's much more we can do here.

>>RON GIDWITZ

So if I understand you correctly what you're saying is that size does not necessarily indicate whether you're an entrepreneurial company or not.

>>JOHN KOTEN

It's a mind-set. It's about being in a revolutionary state of

mind that you're trying to do something new to solve a problem in the world or bring out a new service and that you're going to take this as far as you can. Which is, you know, what Steve's doing and what Beth is doing also. It's a very different way of thinking. And there are very different needs and policies that, you know, can encourage that as opposed to, you know, you're going to work to earn a living, to be part of a big organization or, you know, we have, we have a big franchise that we're just going to try to defend.

>>RON GIDWITZ

By the same token, it's your observation that perhaps we're more entrepreneurial in an absolute sense given the fact that lots and lots of young people are anxious to come out now and get involved in their own companies, but on a relative basis looking at the rest of the world, maybe on a relative basis, we're losing ground because other companies, other countries, now, are much more entrepreneurial than they used to be given the fact that basically the communists bloc -

>>JOHN KOTEN

I think other countries get it. When I -- in the public dialog in this country, I think that you hear small business referred to a lot, small business is the at issue obscuring what I think is really important and that's encouraging true entrepreneurial activity.

>>RON GIDWITZ

Steve, companies like Office Depot help entrepreneurs get started, how have the needs of entrepreneurs and small businesses changed over the years since you've been dealing with them now for quite a long time?

>>STEVE ODLAND

Well, you know, it's interesting, you wouldn't normally associate Office Depot with a panel or a discussion on entrepreneurship but, in fact, we are -- we were -- the subject of entrepreneurs ourselves. We're only a 21-year-old company but yet we are a 16 billion-dollar company today doing business in 44 countries around the world and we provide office products and services to a wide variety of companies, including some of the Fortune 500. But the core of our focus is on the small business customer. And if you think about how we do business, I think people are most aware of our stores. But retail is less than half of our company. The majority of our company is direct delivery, either the same day or next day delivery of office products and services. We also are the third largest retail Internet company in the world. I think after Amazon and Dell, according to the experts. So we have really established ourselves as the back office for small business and entrepreneurs. And we have dedicated ourselves to developing not only products for small businesses but also solutions. So if you look at our wide variety of services, we do design, print, and ship services. We do technology

services. And we're becoming the back office, if you will, of small businesses who simply can't afford, you know, an I.T. department, can't afford all of the back office. They begin to rely on companies like us to provide for that. So just as an example, we set up a holographic design service where we have networked together individual graphic designers around the country who are entrepreneurs themselves and then as companies want to design logos, they want to design cards, stationery and so forth they come through our website as a portal for that development and our network of designers do that for them. That's just one example of a service we provide for entrepreneurs. On the flip side, we are also a great company for vendors, entrepreneur, small entrepreneurs and Beth will talk about that, to come together and to sell through Office Depot as a way to access other businesses.

>>RON GIDWITZ

How, now, do you finance some of these customers?

>>STEVE ODLAND

You know, with the state of our receivables, I think we do finance most of our customers.

[LAUGHTER]

>>RON GIDWITZ

It's funny, every time I walk in there they asked for my credit card.

>>STEVE ODLAND

Yeah, we've checked twice on yours actually.

>>RON GIDWITZ

Jim, you've started a few new businesses that have revolutionized technology and you started the FedEx Institute of Technology at the University of Memphis. Can you tell us a little bit about what does it look like for promising innovations to continue at the pace that we currently have seen them?

>>JIM PHILLIPS

Well, you know, Ron, I think we're at the -- maybe the beginning, a lot of people are talking about what the with the dot-com bomb, that's if anything, the big bang that started all of this, I mean, with the invention over the last, you know, 20 years or so of the chip and software and the Internet, obviously, storage now, flash storage, it's created an accelerating effect to where, you know, probably more will be invented over the next, you know, 10 years, 20 years, maybe in the history of mankind. And this is a very exciting time for business, for startups, for entrepreneurs. You know, I've passed 50 recently and gosh, I thought I wish I was just coming out of college because there's so much going on and typically change in new businesses start when there's a new

problem. Right now if you heard in the first group about all the problems related to things like education, energy and so forth. And with what's going on digitally and as Nicholas Negroponte talked about the digital rearchitecting of energies overnight, incredible opportunities are right upon us in areas like energy solar and obviously wind and electrification of cars and so there's not going to be any shortage of new thinks to do, innovations, and I think the crop that we're seeing come out of college today are actually maybe more risk takers than they used to be. You know, I heard Lee Scott of Wal-Mart the other day talking, and he was saying, you know, at the dinner table, when he grew up, people used to, or the parents would say, you know, "clean up your meal because, clean up your plate because, you know, there's people, kids overseas that are going hungry," and, of course, that's changed today. It's, you know, to the parents to the kids are probably saying "study because there are kids overseas wanting your jobs." And so it's a lot more competitive. It's a lot more global. But at the end of the day, you know, there's probably lots more opportunity and lots of new technologies that are just rushing in right now that entrepreneurs are going to get to have the fun with and do things like Steve's done recently with video on demand so it's an exciting time, it's really a neat time to be alive.

>>RON GIDWITZ

Do you see any impact or do you see the impact of globalization on the generation of entrepreneurial ideas?

>>JIM PHILLIPS

You know, you do because, you know, this world is flat scenario it means that the opportunity's really expanded for the U.S, you know, we're not just selling inside the borders here, we're selling outside worldwide. And so companies like -- about any company you look at whether it's FedEx and what they're doing internationally to expand to what Steve Odland just talked about in his growth worldwide so there's really a bigger market and the market's more accessible through, obviously through aircraft and most importantly, the Internet and being able to reach those people. So nothing's slowing down. It's going to get faster. It's going to get a little more competitive. We're going to have to work at the university levels a lot more to create some innovation between, you know, the private and the public sectors, I mean, you mentioned the FedEx Institute, that's what, you know, certainly FedEx got in behind that, that was at the University of Memphis and we got, you know, university working with the private industry to try and put something together that was really symbiotic between both industry and school. And they worked on relative things to that region and that's important is, is that the universities that work on the research and development that they capitalize on things that are really invest to that region so it can move people into jobs in that region and they stay there so it's an exciting

time right now.

>>RON GIDWITZ

Great. Beth, what attracted you to become an entrepreneur? And why did you set your business up in the inner city?

>>BETH WILLIAMS

Well, I became an entrepreneur and I was actually titled the accidental entrepreneur several years ago in "Inc." magazine because it was my father's business and when he passed suddenly I decided to take over the business and he had always been an entrepreneur in the inner city, his belief was economic opportunities will help some of the social problems that we see and quite honestly there's talent and the inner city is often overlooked and underserved so my goal was to be able to create jobs and economic development through the business and the inner city.

>>RON GIDWITZ

If you compare the economics of doing business in the inner city versus other locations, are you advantaged or disadvantaged, would you guess.

>>BETH WILLIAMS

I would say that we're at an advantage because we have transportation, we have a huge labor pool you know, and one of the things that I notice is changing in our economy is that there are more -- there's more demand for a lot of the high-tech, high, you know, type of jobs, we have a group of people that are in the middle that sort of want jobs, need jobs that I feel that are there that are very accessible and they're there in the inner city.

>>RON GIDWITZ

That was my experience, too, when I was running Helene Curtis we manufactured and shipped from the west side of Chicago in what was considered to be one of the poorest neighborhoods in Chicago and we had a loyal workforce that was just unbelievable. We never had any problems with gangs and there were lots of gangs around but we were never defaced, we worked with the economic community and it was an enormously exciting and terrific experience for us so I'm glad to hear you've had pretty much the same kind of experience.

>>BETH WILLIAMS

Oh, yes. And you think about the other businesses that are around like some of the other small businesses, the small print shops, the small florists, the small catering, I mean, we're able to again create business for other small businesses. As well as create jobs. So I think the whole value is we're making a difference while we're making a profit and a lot of folks are starting to look at inner city business because when you think about the inner city there's a huge

revenue pool there because it's all condensed you notice the Targets and the Wal-Marts and everybody's moving back to the inner cities because they know there's a huge buying power there so, you know, there's, think you'll see some really some different changes over the next few years with what's going on there.

>>RON GIDWITZ

I don't want to get into an educational discussion but is the manpower issue, having qualified people an issue or can you solve that because the unemployment level is sufficiently high, do you have a pretty good workforce from which to choose?

>>BETH WILLIAMS

Good question. I've had some challenges recruiting at sort of the management level but as far as -- but again with the turnaround I am able to -- there are more people available that are interested and then folks, sometimes they're saying, you know, I want to leave, you know, the large corporate world and usually when you hire folks in a small business they have to have almost an entrepreneurial spirit because you have a whole different set of circumstances and a whole different world when you come over as an entrepreneur. My background was at Raytheon and Blue Cross/Blue Shield and when I first took over the business it was a tremendous shock to me so some of the things that -- but I think that, you know, there's a good labor force there and we have good retention and I think it will continue to.

>>RON GIDWITZ

Let's get.

>>BETH WILLIAMS

Oh.

>>RON GIDWITZ

Go ahead.

>>BETH WILLIAMS

I was going to talk about one thing that was talked about earlier and that's the value of some of the large corporations, my biggest customer is Staples and I've been talking to Steve anyway.

[LAUGHTER]

>>JIM PHILLIPS

Has she ever been talking to Steve?

>>STEVE ODLAND

I didn't think I was going to get out of that room alive.

>>**BETH WILLIAMS**

We manufacture printer cartridges and a lot of times it's not glamorous and you don't think about it until you run out of it and the office supplies industry is one of the top commodities that they sell and so we have had significant growth by making -- and what we're doing is unique we're manufacturing in the inner city. And so -

>>**RON GIDWITZ**

Did you get the order?

>>**BETH WILLIAMS**

Not -

>>**BETH WILLIAMS**

Not yet.

>>**RON GIDWITZ**

Maybe we can do a deal here.

>>**BETH WILLIAMS**

Real entrepreneurship at work.

>>**RON GIDWITZ**

Let's go on and get more philosophical. If we are, Steve Chen, the most entrepreneurial, if we have been the most entrepreneurial country in the world, how do we characterize or differentiate that kind of entrepreneurial expert than what we've seen in other place and how do we build on that would you guess.

>>**STEVE CHEN**

Well, I think, I mean, I grew up -- I grew up in the Chicago area, actually, and I moved out to the Bay Area in '99 and I started working at -- at Pay Pal which was later acquired by EBay and we started YouTube with a lot of the same people actually that was part of the original team that created Pay Pal. I think, you know, I went down to school in Champaign-Urbana, the -- was a Department of Engineering student studying Computer Science there and I do think that there was a big changing of in the environment, what it was like growing up in the Midwest as an engineer, people that tinkered with computers looked down upon growing up and you sort of hinted this is one of your hobbies where I think when you go out into Silicon Valley you're sort of standing on Mount Olympus as an engineer, everybody looks at engineers as the guys on the pedestal and I think that there's this big difference between -- I think that's one of the reasons why there's sort of this fertile crescent of startups where the guy standing in front of you in line and the guy standing behind you in line at Starbuck's they're all talking tech, they're all talking about startups, they're all talking about solving some problems, right? And I think that in a lot of

ways I think that -- that that environment to try to foster that creativity and create that environment where anywhere you go you can almost -- and it's not just I think the engineers but also guys that have from the finance side, from the just all across the entire, the chain, all within the groups of an organization. From the HR side, from the business side, from the finance side, all these people that actually have experience, relevant experience working for a startup, working for a -- working for a company in the first six months of it starting out I think is one of the differentiating factors of the Bay Area of Silicon Valley compared to not just the U.S. but also to I think the rest of the world in a lot of ways. I've always thought that the barrier to entry for -- to create a startup, really all you need, in terms of technology, less than almost any other industry, you just need a computer, you just need a few servers and you can create -- with YouTube that's all you needed was a very, we started all of YouTube on my own credit card for the first six months and that's all you need to actually create a company in sort of the web world. But at the same time, it's not being replicated in many parts of the world yet. And so you start asking, well, why is that? There's certainly no shortage of sort of engineering talent from all over the world but I think that a lot of that goes to say it's not just the developers and the engineers that you need but also all the other pieces that need to be combined together to create that, that environment in which you can grow these companies out of.

>>RON GIDWITZ

Does anybody have a different take or additional take?

>>JIM PHILLIPS

The only fear coming off of that is just the rules that are out there today with the immigration and so forth because, you know, the universities right now if you go to most of the American universities we're seeing 50-60% of our engineers coming from overseas and the way the policies work right now, they do a great job. We maybe even subsidized that education the next thing you know they're asked to leave. And, you know, I mean, what if we would have had that kind of policy when Albert Einstein became an American and it just doesn't work and we've got to be very, very careful about that because we are going to have a huge shortage over the next 10 to 20 years in skilled labor no matter how you slice and dice the data in the U.S. to be competitive and we're going to have to have a program where we continue to work on a global, you know, basis. And let engineers come in here and stay here, encourage them to stay here. And without it, it could be bleak for us.

>>JOHN KOTEN

One of the reasons we have such an entrepreneurial society, I think, is that our -- the reason we're here is that someone in our family immigrated to this country. I think immigration in

and -- in and of itself is an entrepreneurial act. It's a decision that I'm going to change my life and I'm going to go after a dream and I'm willing to tolerate the anxiety and the change that that will produce in order to go after it. Our university system is a tremendous asset in this country and a great magnet for entrepreneur-minded people around the world and it is very important that when we attract them here we do our best to hang on to as much of that talent. Groups, by and large, tend to start businesses at a higher rate than people who have been here for several generations.

>>STEVE ODLAND

If I could take it slightly differently, it struck me, Steve, that your comments about starting your own business based on your own credit card and I think this is a particular area of focus that we need help with entrepreneurship. The liquidity and the sources of financing are not the same for entrepreneurs as they are for larger, more well established businesses. And we've had to learn a lot at Office Depot about how small businesses finance themselves, in this housing slowdown that we've seen in the past year has been an incredible wakeup call. We found that the majority of our very small business customers are either using their own credit cards or are using home equity lines of credits or home equity withdrawals through refinances in order to fund these businesses and so when we've seen the tremendous impact on the housing market and people say, well, it's just a housing slowdown, what's the big deal, you know, it makes it more affordable, what they're discounting is the tremendous impact on the liquidity of the small businesses and entrepreneurship. And I don't think that we as a society should rely on these, you know, these secondary sources of funding sore something that is so important to our society. You know, we dish ourselves as a country by our capitalism and our level of innovation. And we've become a knowledge-based economy. In order to keep that going, we need entrepreneurship and new ideas. We need people to take risks and in order to do that they need to be funded through other sources rather than credit cards and home equity lines of credit. So I really think that public-partner -- public-private partnerships as Jim was talking about are necessary here to provide seed capital and funding for these really smart risk takers that we have.

>>RON GIDWITZ

That's a good point. Let me just follow up on that question if I might back to Steve Chen. Steve, you were educated at the University of Illinois Champaign-Urbana where quite a number of well-known entrepreneurs have gotten their engineering degrees and then moved to the west coast. Whether it was Barksdale or others for a certain set of reasons. Might you elaborate on why central Illinois or the Chicago metropolitan area was not a place that you selected in order to develop your ideas and commercialize them?

>>STEVE CHEN

I think in the particular line that I was in with computers and with technology, with the web's base, there was really no other place in the world but the sort of Silicon Valley area to be where I live or sort of the Seattle area, the west coast is where sort of I think, you know, I got off the plane and the first thing as you're driving down 101 from San Francisco you see sort of Apple on the right, you see Cisco on the left and these are sort of iconic companies that I had no idea where they were actually based until -- and I couldn't believe that every half mile there's just another one of these companies that have -- that I sort of grew up with that have been producing the products that I've been learning from, the products that I've used and I think that in a lot of ways that -- trying to recreate that is -- it's not -- again, it's -- as you mentioned, Netscape, there's a lot of companies that actually I was educated from the entrepreneurs of these companies are educated from the University of Illinois in the Midwest but they didn't start creating their companies until they got off the plane four hours later and I think part of that is it's not just the people involved but actually the congregation of everybody that's there, right? So it's not just the engineers that are behind these products but you also need the finance guys and you need the business guys. And I think that -- I think the -- wherever -- from -- wherever the -- the -- the people that are emerging with the finance background and the business backgrounds, they tend to converge in the valley, in the Silicon Valley area and I think that's why it's sort of a natural birthplace for a lot of these companies. I think that until that you can get this convergence of not just the engineers but all the people that are prerequisites for these companies it's going to be difficult to start.

>>JIM PHILLIPS

Another twist, Silicon Valley, Boston, are key areas but we've got the greatest university system in the world. There's no one that can say that that's not the case. And -- but unfortunately there is a major weakness and it is relative to the intellectual property side and, of course, you know, we're spending billions and billions of dollars, tax dollars, in the United States, we should probably be spending more on R&D through our organizations, like our NIH and NSF and through DOE and so forth and those dollars are coming down the system into the universities into great professors, great educators and a lot of this comes out, then, in the form of ideation that moves into invention and innovation in those regions. But unfortunately, in most of the areas outside of, you know, places like Georgia Tech or California, these professors aren't surrounded by people that are going to support them on securing their intellectual property. And so as you move this tech transfer and commercialization out of the universities maybe in mid America or wherever, sometimes the ability to

capture that wealth through good intellectual property, having that council close by with the research foundations and so forth, it really doesn't exist in a lot of places. And so especially in an environment where you have this -- this publish or perish in you're a professor and you start publish on the Internet and another country's got it before you've applied for your patent here in the U.S. so I think we waste a lot of tremendous intellectual firepower outside of areas like Silicon Valley. Silicon Valley is a draw, there's no doubt about it, the financing, the capture of the intellectual property, the great venture capital companies that are out there that can take someone like Steve and just organize all of that and then turn it into innovation and execution. That doesn't exist in some other places but it could, it really could, overnight.

>>RON GIDWITZ

How much of it is intellectual property, how much of it is capital, how much of it is having the human resource to support the activities of a new entrepreneur?

>>JIM PHILLIPS

Well, you know, a lot depends on capital. And certainly there's a lot of capital in those places like Silicon Valley but there's also a lot more competition in those areas for that capital. So you can have ideas that are great ideas and be in regions where there are angel capital organizations, I've raised capital that way before and, you know, it's sometimes better to be a big fish in a smaller pond so it does work. There's no doubt that what Steve talks about is real out in Silicon Valley, not only in terms of the U.S. but worldwide, the best, the brightest, the fastest way to launch, you know, ideation, invention, innovation, execution into a company but I think there's great places around the country that are loaded with capital, access to capital and you're going to see begin -- I think you're going to begin to see in the U.S. to compete more regionalization of these ideas where you're going to see more public-private partnerships to contain some of that thought, power, and thinkers and doers in their regions and we're going to have to do that to compete. It can't just happen in a couple of regions in the U.S.

>>RON GIDWITZ

When you talk about competing and you talk about entrepreneurship, we see a lot of universities building programs in entrepreneurship. What is it that they teach and is it effective? Can you make an entrepreneur or is that the kind of thing that you have to inherently be born with? I mean, Beth, what do you think?

>>BETH WILLIAMS

I -- I think it's something that, you know, it is a spirit, you have to have -- you have to be a risk taker. But I also think that you do need the knowledge and also of the

universities as well. And so I think it's sort of a combination of both. But I do feel that if you look at some of the most successful entrepreneurs, I mean, you can learn book knowledge, but actually living it and creating a business and growing it, it's different, you know, but it's essential that you do have the knowledge to be able to transfer or be able to hire the knowledge to be able to grow your business.

>>JOHN KOTEN

I think it's something that we're still trying to figure out. Most education in business schools is based on research that has been done into the rise of the corporation. And the interest that business, academia had on the corporation social security a phenomenon has really shaped a lot of what you learn when you get an MBA. Now, on college campuses, because there is so much demand for entrepreneurial education a lot of those programs are changing. But there isn't the -- there isn't the depth of academic research and understanding of what makes an entrepreneurial company work, how to teach entrepreneurship and I think this is something that's changing a lot. I mean, we do know that, you know, one -- Beth had the advantage of being raised in a entrepreneurial family and her father was an entrepreneur so she got to see it happen and it's very important to be exposed to other people who are doing it. I think there's probably another reason why Steve went to San Francisco is that this is a somewhat lonely journey that you embark on, you're trying to do new things and if you can find other people who have done it to serve as mentors and guides along the way, and in many ways I think that that's more important than capital. A lot of small companies make the mistake of raising too much money and spending too much money before they've really figured out how to be successful and what formula really works. Whereas it's the education process and figuring out really what you want to do and getting people to help you to do that is what I think supports and helps entrepreneurial companies.

>>BETH WILLIAMS

If I can echo that, I would say that the mentorship and exactly having the advisors and the right people around you is essential. That's one of the key things when my dad started the business, he met Tom Stenberg who is the Founder and Chair of Staples and they developed a relationship and then when my dad died suddenly on Thanksgiving in '02 the day after I called Tom. He was very gracious, make your decision, whatever you want to do and subsequently I've had sort of a mentorship, they've put together sort of a steering committee on growth and took what I feel is a capacity building commitment so you really -- it is essential, you know, again, to surround yourself, to have the mentorship, have the right advisors, I worked with several advisors, joined organizations like the social Internet network and folks that are really -- I'm just a sponge for whatever, support and advice and things like that that you can get 'cause that's essential.

>>RON GIDWITZ

But you're working for the competition.

>>BETH WILLIAMS

Well, well, you know, HP is in everybody's catalog.

>>RON GIDWITZ

Just kidding.

>>JIM PHILLIPS

The hardest thing about it when you talk about entrepreneurship and what it really is there's some things that I don't think you can teach. I think you can teach basically a business side and how to read a P and L and how to organize your business and to a certain extent how to get financing and that sort of thing but you've got to have the ability to assume that risk, the stress that goes with it, I mean, whether it's a small company or you're starting with a major company a new division I know my days at the Motorola when we launched the cable modem you go in front of 2,000 or 3,000 on Wall Street and say this is what it's going to do and this is how it's going to work and it's going to work on TV wires and they'd go no way, you know, you're crazy. And so being able to just sit there and say, OK, now, we really believe in this and stay the course and thank goodness America has, you know, kids that are coming out of college today and having the past that have that kind of spirit that will, you know, almost swear to an oath of poverty in the early days of their business to grind it out but most of these big companies we hear about that are real big successes like, well, a FedEx again, I mean, started with one person. So and that's where it's gotta start but I'm still encouraged. I think that entrepreneurship is alive and well in this country and people like Beth and Steve are everywhere. Getting ready to start new businesses.

>>STEVE ODLAND

You know, I think this point of using the university as a hub for all of this is pretty important. We had an opportunity to partner with the MIT idea lab which is outside of Boston as well. And they're able to take some of these raw concepts and bring to commercialization but beyond that, they are, then, providing sources of capital and bringing people together. You know, I've talked to a lot of venture capital people. And they have the money. And they're just searching for ideas. But they say that I think the majority of new ideas, you probably know the answer to this, but the majority of new ideas come from people who are between the ages of 18-24. I think by the time you hit the age of 24 you're out of ideas. I don't know if it's -

[LAUGHTER]

I don't know if that's ideas but I think you're out of guts by that point in time but -- are you 24 still?

>>**JIM PHILLIPS**

Barometers about 78 but anyway.

>>**STEVE ODLAND**

It comes to the connection of ideas between -- I don't think it's the academic planning on let's teach you to be an entrepreneur but it's somebody who brings it all together but I think that these public-private partnerships and Jim, you've established one at the FedEx Institute are critically important. Businesses like Office Depot can also play a role too. We've established the center for minority business development, historically underutilized businesses, green businesses, and I think these kind of efforts within established traditional corporations are necessary as well. So I think all of these sources are really necessary and you say well, why, why shouldn't an established public corporation get involved with this? Well, one, of course, is to provide ideas into the company but at the same time it comes back to job creation and the source of the development of our economy and the growth of our economy on which all of us depend for our own growth. And it's an interconnected and interwoven fabric that we have to understand and cherish, don't you think, Steve.

>>**STEVE CHEN**

Yeah, I get a lot of questions from people asking me sort of I have this great idea, sort of what was the next step after formulating the great idea for what you guys did with YouTube? And same thing with different panels and discussions and talks at the sort of university level about -- I do think that one of the -- of -- of paramount importance is actually work in a, you know, getting out of college and working for a large company because I do think that it's very important to be able to see what it takes to actually launch a nine-month project or a year-long project, to work with a large group of people in different functions. And you see both, I think, the inefficiencies as well as the efficiencies of -- you think the things that you know, if I was running this I would do it differently as well as OK I see that this is why these things have to be done the way they are but I do think that after four or five years after seeing what it was to -- what it's like to actually be working in a larger company I think everybody should try to take a chance out and try to start something on their own and I do have to admit that it does seem, in hindsight that everything sorts of, all the domino pieces just fell and everything worked out with YouTube but there was a lot of, you know, sort of planning ahead about, you know, I set up two goals, which is if I ran out of either of them I would go back to the workforce. I set aside \$100,000 and I said if I ran out of this money this is the seed capital and then as well as the two-year time lapse so if

any of these ran out then I'm going to go back to the workforce. But I think that I always thought that I would permanently regret if I didn't take this -- if I had this opportunity in my late 20s, I had some seed capital money to be able to start something, I never took or seized that opportunity I would forever regret not doing that. I think that with a lot of these people with great ideas that it's -- I think that that first step is actually just taking that step, to try to create this company.

>>RON GIDWITZ

You know, you see an awful lot of public institution, whether they be universities or local governments or in some cases even state governments try to I think incubate small businesses and I guess it's my observation, I'd be curious to think what other people think, it's my observation that most of them are unsuccessful.

>>JIM PHILLIPS

Let me take a second on that one. I've had the privilege to be associated with one in Memphis called emergeMemphis we've got 25 startup companies at all times in there and it's a public-private partnerships so we've got both private and public money and it's worked. When you come in to emergeMemphis, though, there are these digital clocks and they put your name on it and the only difference in these clocks is they run backwards 'cause you've got that much time to get in and get out and be successful. But it's -- it's worked out. And, you know, not every -- and not every company succeeds which is normal, you know, but a lot of these people stay in that city and go to work for other companies and they learn not only from the successes but from the mistakes and I think what you're also referring to is -- and it's in a book out right now "innovation nation," John Kao and he talks about building clusters inside your regions and communities where you have access to incubators, you connect the universities inside the incubators and research parks and bring that all together in a public private sector, certainly all the sectors working together create an exponential chance for success. In the past they haven't done it, they weren't talking to each other as much. Seems like now more and more in all the major cities in America to compete, you're beginning to see these hubs and these clusters start to take shape. But I really believe in the incubation side because when you bring those 25 or 30 companies together, they all share the same challenges and same problems and so they have a tendency to feed off each other and learn and that convergence of ideas really lead to good things and acceleration so...

>>RON GIDWITZ

Anybody else have any observations?

>>JOHN KOTEN

I don't really think governments or public institutions can

make great investment decisions but I think they can, and I think sometimes the expectations are wrong about what the failure rate of businesses are. And also the idea that money is just the solution to the problem. I think most of these things fail because they're early and because they really haven't worked out a successful model. But I think that that's a really valuable thing that cities can do. I mean, the SBA has been a great example of an institution that's really helped support small business in this country and the launch of new businesses, every year we do a survey of the "Inc." 500 CEOs and they're, you know, 85% in favor of the SBA and just really believe it's a very strong organization and a really vital part of the country and yet the SBA has had its budget cut for quite a long time now and there's not enough public support for it.

>>BETH WILLIAMS

Most states also have, you know, a state office of, you know, small business investment or minority and women business development but I have to agree they're not -- I don't think enough attention and really how are they structured, are they effective, you know, we get certified, for example for myself, I'm a minority woman-owned business so we get certified and that kind of thing but beyond that I really don't see the value that we're getting, so that would be a really -- I mean, I think there should be more invested into that as to how to make it really work for the entrepreneur. I think businesses like what Steve just mentioned, you know, are very successful and been really critical to my business, companies that are taking a commitment to diversity, minority, women business, environmental now because that's gone from a movement to a market so I just happen to be right in that niche, I mean, I hit all three of those so but it's essential that, you know, that you have that support, and ideally it would be nice to get it public, you know, like they're kind of doing, you know, in the private side.

>>STEVE ODLAND

I lived and worked in Memphis and witnessed the emergeMemphis success as well. But I don't think it was money, I don't think it was the government, I think it was really that the community came together. And there was mentorship and, you know, mentorship is an overused term but there were a lot of people from the established business communities who would go in and work. But it also was a connectivity with the community. So there were products and services being developed with a natural customer base connected to emergeMemphis and this is something I think is important. Office Depot has sponsored for the last five years women-owned business conferences where we bring together as many women-owned businesses, 500 at a time, usually, to come together and connect and interact. And you see more business happening because of that connection.

>>BETH WILLIAMS

That's true.

>>STEVE ODLAND

I agree, it's not just about money but you need some sort of a forum and this is the reason why I don't think it's just business or businesses or venture capitalist you need forums brought together in order to make these connections with people with ideas, young people who aren't afraid to innovate and take risks but also mentorship and the capital to do it.

>>BETH WILLIAMS

Uh-huh, I would agree, I would tend to go to the women's conference that you have. Those are very helpful, those are very helpful forum. But it really is, I think, very critical because for my business I think that's what's been helpful for the growth, I mean, when I took over the business it was a small three-business organization, with the contribution, distribution and idea to move to manufacturing and economic development. But it was through the commitment to a larger organization saying OK, that's a commodity, that's a match for us, we're going to be able to sell it, it's going to be able to make a difference so it's really making a difference while you're making a profit and that's been really successful and I think our business grew in three years over 3000% from 4 million to over 14 million in three years. So, you know so those are the things and it's only through the commitment and on these types of forums and working with folks I think has made that happen.

>>RON GIDWITZ

Beth, it's your position that you didn't get that kind of nurturing and mentorship from the public sector, you really had to go to people who had experience who had been in the business so to speak in none way shape or form who really had the connections and the knowledge that could lead you and bring you and bring you along.

>>BETH WILLIAMS

Yes, I would say that, though Boston has the emerge -- I was a emerging industry for Boston but it's a matter of they give you these titles and these awards and things like that but beyond that and it could be myself, you know, because I'm mainly trying to run my business and that's another thing with entrepreneurship when you're small and so forth there may be resource that we just haven't tapped into so I don't want to say for sure but, you know, my initial gut feeling is that no, I think that they're not as effective as they could be. The universities are, actually, I mean, they do have programs now where BU has sponsored a program in Boston called the inner city entrepreneurs. Northeastern had, Harvard had. So I think now and, you know, with Michael Porter's group they're starting to pay attention to the business and I'm not just talking minority or women businesses, that are a lot of other

just inner city business that are getting support through the universities.

>>RON GIDWITZ

Terrific. We're just a couple minutes, I got a yellow sign here, so we're sort of on -- coasting to the end. But I want to ask one quick question, maybe we can get everybody to give a, you know, short answer. It seems that most of the innovation, most of the really good ideas and, John, I think you touched on it are coming from young people or Steve, you mentioned it as well. How do we -- and young people almost by definition many of them are in smaller businesses as opposed to large. How do we encourage more of that, the entrepreneurial the innovative spirit that this country has been so successful at how do we get more of that today particularly when we need it in competition with the rest of the world. Stephen, if you don't mind, we'll start with you.

>>STEVE CHEN

Well, I do think that -- I do think that I sort of my perspective, I do see, especially with the mentorship programs, working with a lot of the entrepreneurs, the venture capitalist in the valley, you know, most of the people are young people with ideas and so I think from -- but I think from my perspective, it's -- it's already sort of symbolizing that already that most of these people are people with a lot of young people are coming out with a lot of great ideas. And I think the more important thing is just to sort of I think foster that -- that -- the importance of people that have the great ideas but it's been locked inside their heads for years. And not knowing what to do with that next step and actually sort of I don't know publicizing that or getting more stories out there that, you know, getting the sort of success stories out there that there wasn't really anything special in our case or in any of these other cases that really made us successful. It's really just going out there and trying, trying to do this.

>>RON GIDWITZ

John?

>>JOHN KOTEN

The Internet has helped, you know, more young people to be aware of what's possible but I think schools could do a lot more to just show people that this is a viable alternative, that this is a thing that you can do and really make a difference. My wife was a psychologist and worked for many years in Manhattan family court evaluating kids who came to the court who got in trouble with the law. And one of the things that really struck me was how many of these kids were -- had a very, you know, entrepreneurial mind-set that was really similar to the CEOs of "Inc." 500 companies. And yet what had happened is the only entrepreneurial activity they were exposed to in their neighborhoods was drug dealing

and so they had gotten into that, got in trouble with the law and then they were going to sent into a system to try to socialize this entrepreneurship out of them. And I think the more schools can do to hold up examples of constructive ways you can use those energies and that passion and enthusiasm, the more, you know, national assets we'll create in the process.

>>RON GIDWITZ

Steve?

>>STEVE ODLAND

I think at 30,000 feet it comes down to possibility. And I think we as a society pound possibility out of our people's heads and our kids' heads. All of us who are parents, you know, remember the days when our kids would come in and they'd have this wild idea and you'd go yes, now, honey, forget about that, be practical. And we got to stop doing that as a society because I think entrepreneur -- you know, we do a great job in big business of iterative innovation but I think the really big ideas are the crazy ideas and if they're not -- if we continually say, well, that's crazy and we have pejorative terms and we pound the possibility out of our children, out of our coworkers, out of the prospects that we have within our small companies and our big companies, we won't have the same level of entrepreneurship. So I think it comes down to celebration of possibility.

[APPLAUSE]

>>RON GIDWITZ

Thank you, Steve. Jim?

>>JIM PHILLIPS

Well, you know, I'm not 25 anymore.

>>RON GIDWITZ

Then give us a short answer.

[LAUGHTER]

>>JIM PHILLIPS

You know, I think the youth, you're going to see tremendous movements and continued innovations from them but, you know, I still believe in Ray Kroc, I still believe in Sam Walton and what they did in their fifties now that I'm in my fifties and so I think you're going to see with the baby boomers retiring in their fifties a huge wave of innovation and new entrepreneurs that are not 25. And they're going to come equipped with the skills they learned in their 20-year, 25-year career, knowing how to access capital. And I think you're going to see a whole new generation of entrepreneurship over the next 10 years with a different group, not just the young, which are great and that's where I started too, like

everybody else. But I think you're going to see something magnificent in the next 10 years with baby boomers that are saying I'm not through with my career, I plan to live to be 90 and I'm just now getting started, I'm starting today.

>>**RON GIDWITZ**

Thank you. Beth?

>>**BETH WILLIAMS**

I think again I'll echo again in the schools but I am noticing that there are organizations like the national foundation for teaching entrepreneurship through some of the panels and events that I attend I've met several young people particularly over the last month with the ICIC, the Initiative for a Competitive Inner City that Michael Porter and "Inc." magazine holds they have something called growing up CEOs, young people compete for business ideas and so forth and I've met some tremendous young people, just fascinating, with ideas of, you know, under 18 years old that have a creative businesses grossing \$500,000. So you know, and then there's also the National Foundation for Teaching Entrepreneurship so I really encourage that and I just last week spoke at Black Enterprise and they have a kid conference so I brought my son and my nephew who are 13 so, I mean, it's just exposing them to that and I think that's really essential is exposing them, letting them know that that's an opportunity, real, you all have ideas, gifts, and you have the passion and the risk -- a risk taker then take a chance.

>>**RON GIDWITZ**

Thank you, Beth Williams, Jim Phillips, Steve Chen, John Koten, and Steve Odland. Give them a big round of applause.

[APPLAUSE]

>>**ASSISTANT SECRETARY BARUAH**

Thank you very much. For all of you, it's lunchtime, depart through the doors right behind you. There are staff and signs directing you to lunch. Lunch starts essentially now. Thank you.

LUNCHEON

>>**ASSISTANT SECRETARY BARUAH**

Good afternoon, everyone. Good afternoon. Thank you for attending the lunch and thank you for this fantastic turnout. Let me ask, is everyone enjoying themselves today?

[APPLAUSE]

We're going to kickoff our lunch program with a very special and unique award to a very special and unique individual. To make this award, ladies and gentleman, the Secretary of Commerce, Carlos Gutierrez.

>>SECRETARY GUTIERREZ

Thank you and good afternoon. Michael E. Porter is the leading authority on, as you well know, competitive strategy, the competitiveness and economic development of nations around the world, states, and regions, and the application of competitive principles to social problems such as health care, the environment, and corporate responsibility.

Professor Porter is generally recognized as the father of the modern strategy field. And has been identified in a variety of rankings and surveys as the world's most influential thinker on management and on competitiveness. He is the author of 17 books and over 125 articles.

He received the BSc with high honors in aerospace and mechanical engineering from Princeton in 1969 where he was elected Phi Beta Kappa and Tau Beta Pi. He received an MBA with high distinction in 1971 from the Harvard Business School where he was a George F. Baker Scholar. And PhD in business economics from Harvard University in 1973.

Dr. Porter has had the opportunity to influence policy throughout the world and contribute to economic development worldwide. He has been a valuable member and a valuable partner to the Commerce Department and to our Economic Development Agency which is focused on leading the federal economic development agenda by promoting innovation and competitiveness. EDA accomplishes this by learning from leading minds like Dr. Porter.

So to honor his contribution to the art and science of economic development, I'm very honored to present this award to Dr. Michael Porter.

It is, by the way, the first time that we will present this award. This will not be an annual award. In fact, it will only be given to an individual from outside the Government who has contributed significantly to shaping federal economic development policy.

Dr. Porter has done exactly that. And I believe that he is an excellent role model for future awardees. And for those who aspire to make the kind of contribution that Dr. Porter has made.

So I'm I'm just, I'm very honored that you're with us today. Very pleased that you would consider this a valuable forum. And I know that you have been on the subject of innovation on competitiveness before it became a buzzword.

And, so it is my honor, my distinct pleasure to present to Dr. Michael Porter of Harvard Business School, the EDA Lifetime Achievement in Economic Development Award.

[APPLAUSE]

>>DR. PORTER

Well, Mr. Secretary, thank you so much for that extraordinary, nice, generous introduction. And I can't tell you how pleased and honored I am to be the inaugural recipient of this award.

I've had the privilege of working with Secretary Gutierrez really throughout his period as secretary. And Don Evans before him. I've worked actively with Sandy Baruah at Economic Development Administration. And Dr. David Sampson before him.

And it's been a tremendous privilege for me to have a chance to try to influence and shape the way the Commerce Department and other parts of our federal government think about competitiveness and economic development. And I have been, frankly, so encouraged that the federal government and and leaders in the federal government have reached out to people like me to try to learn and to try to advance their thinking.

Until recently, I got lots of calls from governments all over the world. I know many heads of state. I got lots of calls. But I never got calls from America.

[LAUGHTER]

And it's just been such a joy for to me to actually get some calls from America. And to have the honor to participate in this dialogue.

And I want to commend the Secretary and his team for holding this summit. This is an example.

[APPLAUSE]

This is an example of America working at its best. We have some extraordinary challenges facing the country in competitiveness as we've been talking about so far today. We have got to come together and be honest about those challenges. We've got to come together and be collaborative about how we address those challenges. And this summit represents a very important step in that agenda.

Now America is at its best when we accept responsibility, all of us, for ourselves and for our problems. America is at its best when we can put aside what group we're part of, or what party we're part of, and actually work collaboratively towards the ultimate solution.

And I think this summit is is really extraordinarily positive development as we try to confront these challenges that we've been talking about toady.

My work on competitiveness really is based on a number of fundamental principles. One, competitiveness is the only way, and let me emphasize the word only, the only way to address the fundamental social problems facing our country. It's not just about economics. It's really about our society. It's about prosperity. It's about opportunity for all of our citizens.

And so competitiveness thinking is not some kind of geeky abstract thing on the side. It's actually at the core. And we got to take that thinking and apply it to everything we do.

Second, when we look at competitiveness, we have to think holistically. It's not about gas prices, or housing costs, or trade barriers. It's about all of those things. And we have to look at it holistically. We have to see that there's no silver bullet. There's no simple answer. We have to work on lots of agendas simultaneously with a common sense of purpose. With kind of a strategic sense of where we need to go.

I thought this morning we got a lot of elements of that strategy out. But but can we possibly get some political leaders now that can drive this agenda forward to take on the challenge that this administration has started and this summit has started?

Competitiveness is partly a national issue, but I've come to believe that it's even more a regional and local issue. We have national policies, and they're very, very important. But every region really controls a lot of its own destiny. And really the greatness of America, historically, is that we have, in each of our communities around the country have accepted this responsibility. We've tried to move the ball forward in our area and not wait for some higher authority to come in and tell us what to do.

We have to preserve that decentralization and that sense of community responsibility, which is so fundamental. But we also have to step up our game really at the federal level. And I think we had an excellent discussion about that today.

Finally, competitiveness, development of competitiveness is fundamentally a collaborative process. It's no longer possible that it can be a top down process driven by government. It has to be a process in which the public sector, the private sector, universities, and other institutions in society, collaborate to move the ball forward, to enhance productivity, to improve our business environment.

Again, it's this kind of a summit. It's this kind of a group of people who are taking time away to come together in a collaborative spirit that is going to be ultimately the solution to our next big, hopefully, step forward in competitiveness.

As I mentioned this morning in my remarks, we really haven't confronted this issue in America for more than 20 years. The last time we confronted it, we were slow to confront it. It wasn't, you know, it took us awhile. But once this country can confront an issue,

be honest about it, and then start to have a sense of what strategically needs to be done, I'm highly confident that we can restore, and prevail, and and and maintain our extraordinary position in the world.

Let me say again how privileged I am to be the recipient of this award. Let me say how privileged I am to have the opportunity to work with the Secretary, and Assistant Secretary, and others in the federal government. And let me hope that this, the spirit that started to come out in this summit is the spirit that we can somehow nurture, and build, and grow, and translate not only in to our competitiveness strategy, but also in to our political dialogue, and our whole way of dealing with each other as Americans.

This is a, this is a great honor. This is a great beginning. We have a great country. Now we we have to do what Americans do best when they work together, when they're honest, when they confront their challenges, and when they do it collaboratively.

Thank you very much.

[APPLAUSE]

>>ASSISTANT SECRETARY BARUAH

This is the second year we have conducted this national summit on American competitiveness. And it is a success last year. And it is a success this year through the work of many, many people.

One of the people critical to the success both this year and last year was this year's Honorary Co-Chair Mr. Ron Gidwitz. Ron's been introduced before. So I'm going to keep this brief. But to introduce our keynote speaker for the lunch, Mr. Ron Gidwitz.

[APPLAUSE]

>>RON GIDWITZ

Thank you, Sandy. Good afternoon, Mr. Secretary, ladies and gentleman.

What a wonderful thing to have some of our country's brightest stars in business, government, and academia gathered here for the 2008 National Summit on American Competitiveness. In a world rapidly transitioning from a collection of national economies in to the brave new era of globalization, the great city of Chicago has emerged a leader.

And today I'm here to introduce Chicago's leader. I've known him for a long time. Long before he became Mayor. In fact, there was an occasion where he, and his lovely wife Maggie, my wife Christina, and I, were at one of Chicago's famous late night establishments.

[LAUGHTER]

For some reason, one of the ladies suggested that we flip a coin to see who would run for mayor. Needless to say, I lost.

[APPLAUSE]

And what a lucky city Chicago is that I did. He is a true friend of the business community and working families. This Mayor has earned a renowned reputation across the globe since being elected in 1989 and reelected ever since. In fact, in 2007 Chicago has elected their Mayor with over 70 percent of the vote.

[APPLAUSE]

Whether it's launching organizations like World Business Chicago to drive competitiveness or relentlessly pursuing the 2016 Olympic Games which would contribute jobs, optimism, and international good will for our country, the Mayor's efforts have propelled Chicago to the international stage as a global destination for business.

He's a Mayor who has improved education by reforming the public education system. He's a Mayor that's extended new business opportunities to women and minorities. He's a Mayor who has worked to draw new business to Chicago, businesses that have made a difference. He is a Mayor who has enhanced Chicago's business climate by trimming business taxes, streamlining licenses, and creating business assistance programs. Our Mayor has done a lot.

It's my pleasure to introduce to all of you, and Mr. Secretary, not that he needs an introduction to you, the gentleman who has, who is according to Time magazine is considered to be quote, "Widely viewed as the nation's top urban executive." Unquote. The honorable Richard M. Daley.

>>MAYOR DALEY

Good afternoon. Thank you very much, Ron Gidwitz for those kind words. And thank you for an outstanding business -- here in the City of Chicago. It truly represents that "I will" spirit of commitment of the business and government non- for-profits working together.

I thank Secretary of Commerce Gutierrez, again, for having this wonderful summit here in the City of Chicago. I'm honored to be Co-Chair with him and to hold this wonderful conference in regards to competitiveness here in this country.

And to congratulate Michael Porter. Outstanding academic. One who truly represents a great insight, what cities and regions can do in the country in order to compete, in order to really provide what is necessary, a wonderful business climate here in Chicago and the metropolitan area.

I believe, I have the best job in America as Mayor of a city. That brings together a unique experience of the history of Chicago as immigrants. Our past, our present, our future has always been immigrants. And that is truly the strength of our city.

As you see new immigrants arrive today with the dreams and ambitions as a hundred or 200 years ago. What America is all about. Providing

a better way of life for their children. Making sure their children get to higher education. And that is the dream that every immigrant has and even today. And that's why Chicago has been a city of immigrants and the importance of immigrants in to our workforce on a constant basis.

I know you have come to talk about what, the United States will remain competitive in the 21st century. And just this week, earlier this week, Fast Company Magazine which has been reporting on innovation, leadership, and social responsibility, since 1995, named Chicago its United States City of the Year for 2008.

[APPLAUSE]

And some of the things the magazine said about Chicago fit well with the theme and topics of the summit. It said that, "Amid worldwide economic uncertainty, Chicago is vibrant, creative, and growing." It says that, "Chicago isn't easy to keep up with because it's constantly reinventing itself." And that's a phrase I often use myself when talking about our city and our success.

Over the last three decades the world has shifted from a collection of regional or national economies to a truly global economy as a result of technology, trade agreements, lower tariffs, better transportation, and communication. The future lies in international commerce in both goods and services. So Chicago has embraced globalization.

But also I believe the essential idea in which cities must base their strategies for moving forward is very simple. They must improve the quality of life for all their residents. In its story Fast Company says, "Chicago," and I quote, "Allure and beauty. Its ability to take what was and figure what could be." To me that means seeing the possibilities in things which another way of saying saying, innovation.

I believe Chicago has made great progress because we have addressed the problems head on. That is pretty basic. If something doesn't work, try something new.

And we have an impressive history of fostering innovation. We reversed the Chicago River. We invented the skyscraper. We built the first portable cell phone.

Today I'm very proud that Chicago and the Mid-West Region has become a global center of intellectual capital. Our city boasts an abundance of new products and technology advancements with some the world's leading companies.

And this progress has been made possible by a business community that is fully engaged in our goal of improving the quality of life for every resident of Chicago. In fact, I don't know of any other city where the relationships between government and business is stronger or beneficial.

Let me give you an example of new cooperative effort that is underway to encourage the type of innovation that we keep our economically competitive in the future. We, Innovate Now, which is a collaboration of Chicago Chamber of Commerce, state government, world business Chicago, which is a non-for-profit economic development corporation. We establish to enhance the Chicago region's global position as a business location. The program brings together companies, economic institutions, local and state governments, to create new strategies for business success in Chicago and throughout Illinois. This effort, goal is very simple but ambitious to promote the knowledge and relationship that will produce ongoing business innovation, entrepreneurship, and creativity.

The strategy strategy is to promote innovation, leadership, build a talent pool, find new ways to measure innovation results. This is one of the ways we equip ourselves to make sure our city is competing globally.

But most important way we equip ourselves is not by seeing possibilities in things, but by seeing possibilities in its people. The single most important issue we deal with here in Chicago, and I believe in the country, is education. Our hope for a better tomorrow starts with improving all of our schools, growing all of our children, an equal chance dream, goal, and realized or potential.

More than ever, a well educated workforce is necessary to compete in the global economy. Bringing well paid jobs to our city or any other city. If we don't produce such a workforce, we can not compete. It's simple as that.

Thirteen years ago we faced, the Chicago public schools had a system that was broken down. I asked the state government to give me responsibility for fixing it. The system we inherited failed our children every day.

And if I listened to the pollsters, they would have said, "As a political leader this is the end of your career. Because you can not solve public education in the City of Chicago." But I knew, as Mayor, that the greatest gift that I could give to a child in the City of Chicago is a quality education. That is the foundation. As families give them moral values, I give them a good quality education. And that's what we're doing here in the City of Chicago.

I want to thank the business community that stepped up to the plate in regards to that. Now, we have, not only public schools, charter schools, contract schools, we have unusual powers that we can close down schools that are failing. We can replace principals and teachers. So that change is going on continually. And we see the results.

We have worked hard to lift student's expectations. We have not lowered standards which our, rest of the country has done. We have raised the standards in all of our schools. We have built new schools, renovated old ones. We returned to emphasizing the basic

inner curriculum, especially reading. And we increased accountability in a way that benefits all the taxpayers. We're opening more charter and contract schools, military academies, single sex schools. We're breaking larger schools in to smaller units because many kids need a more intimate learning environment.

Test scores and graduation rates are up and dropout rates are going down. And just last week, we proudly announced that for the high school class of 2007, 50 percent of our graduates were enrolled in college the following fall. That's an increase of 2.1 percentage points over the previous year. Much higher than the national average.

[APPLAUSE]

And it's up to a total of 6.5. That's up a total of 6.5 percent points since 2004. This is important progress for our students, our parents, our teachers, and an entire system of the public education in Chicago.

As long as the arrow continues to point up for our students, our city's competitive future will be bright. But at the same time, we are educating them for jobs of the future. We must work equally hard to provide the things that, in addition to an educated workforce, would attract business to our area.

And if I had to rely off of the federal and state governments, I would not be giving this speech.

[LAUGHTER]

Because we would not have changed the education system. You have to have the responsibility, you have to have the political courage to do this. Because there's many groups that do not want change in public education.

And I firmly believe that the future belongs to the cities that recognize two desires of modern men and women today. They want to live in metropolitan areas because they provide more opportunities, and more choices, and more people. And they want open space, nice parks, clean beaches, jogging paths, bike trails, flowers, trees, grass. They want clean and pure water. They really are concerned about global environmental issues as every public open poll shows.

We know we must provide these things if we expect to attract the people who make up the modern workforce for Chicago. So we have undertaken hundreds of initiatives aimed at making Chicago the most environmentally friendly city in the world.

And let me give you just a few examples of things we have done here over the years to improve the natural environment and make people's lives better. First of all, I organized mayors of U.S. and Canada in to the Great Lakes and Saint Lawrence Seaway Initiative which lobbies Ottawa, Canada and Washington D.C. on behalf of legislation involving such issues as invasive species, sewage overflows, toxic

contamination, water levels, and a quality of water in the Great Lakes which is an international body of water.

Secondly, the city has installed rooftop gardens on city buildings to collect rainwater, lower temperature in the summer, reduce the amount of energy needed to cool all of our buildings. It's encouraging that private owners are doing the same. We know have more than 300 gardens and green roofs, that have been constructed or underway, covering more than four million square feet on public and private buildings here in Chicago.

More than 200 acres of new parks and green space has been added throughout the city including more than 100 campus parks. The city has installed over 80 miles of landscape medians in every major street. The city has implemented new set of environmentally sensitive construction standards for public buildings that will insure healthier indoor environments, reduce operating costs, and of course, conserve energy.

Chicago has created the most aggressive program in the nation to transform brown fields in to new green spaces, affordable housing, manufacture and industrial facilities here in this city.

The point is, every day in government, we have to make difficult choices between what we want to do and what we have to do. And keep the best interest of the taxpayers foremost in the minds. And this has lead us to a very important conclusion in Chicago. Environmentalism makes economic sense. When a city exists in harmony with its environment, it simply looks better and it feels better. And we know that shows up in the financial bottom line.

So there are some of the key elements I see in the efforts of any city or country to remain competitive in the future. Innovation. Education. Environmentalism. And basically, a collaborative spirit.

If a city's actions are aimed at improving the lives of its residents, if people work hard and work together, then that city will be a vibrant place that almost by definition creates the conditions for a thriving economy.

This is one final point I would like to make about the near future. Competing globally requires vision and big dreams. And we have a big plan as Ron pointed out for 2016, to bring the Olympics and Para-Olympics to the United States. I tried to take advantage of every chance I get to engage people in this effort and to ask them for their help in bringing the games back to the United States of America.

The Olympic games presents our city, the Mid-West Region, and the entire country with a unique opportunity not only to attract hundreds of thousands of visitors, but also place ourselves, through the media, in the homes of millions of people all around the world. It's a chance for the United States through the vehicle of the Olympic and Para-Olympic games and Olympic movement to portray itself as it truly is, a place where people from different backgrounds, ethnic origins can come together to pursue their dreams only in America.

The games would generate international goodwill, help create new business and jobs for hardworking people of our city and our country.

In January, we formally submitted our applicant file to the International Olympic Committee along with six other cities. In early June this year, the IOC Executive Board will decide which cities will move on to phase two of the selection process to become candidate cities. The IOC will make its final selection in October of 2009.

Remember, this is not just a Chicago bid. It's our nation's opportunity to reach out to the world. And I hope you can give us your support as well.

I want to thank each and every one of you for coming to our great city. I firmly believe I have the best job in America because the energy that the city has, creativity, and the passion, and the feeling that all of us here in Chicago, whether you're a block club president, business leader, or in government non-for-profit that we have an "I will" spirit. We are determined to overcome many of the challenges other cities and politicians are afraid to do here in Chicago head on. Whether it's education, whether it's housing or jobs or innovation, we have the "I will" spirit.

Thank you very much.

[APPLAUSE]

ASST. SEC. BARUAH: Mr. Mayor, thank you. Thank you for your remarks. Thank you for your hospitality. But most importantly, thank you for the incredibly important leadership you provide this city and our country. Thank you, Mr. Mayor.

[APPLAUSE]

And Dr. Porter, thank you again for all that you've done for us at the U.S. Department of Commerce and the Economic Development Administration. Thank you for honoring us with your presence. Congratulations on a very, very well deserved award.

[APPLAUSE]

And to the rest of us, we now return downstairs for panel three which begins very, very shortly. Please move safely but smartly. Thank you.

Panel 3

>>ASSISTANT SECRETARY BARUAH

As I travel the country people often ask me why is trade so important? And I give them a number, that number is

95. 95% of our potential customers as American workers and businesses don't call America home. That is the power of trade. To lead us in today's discussion on how US businesses can capitalize on the business opportunities overseas and the potential of the free trade agreements that we have passed over the past several years is one of the most successful governors that this country has ever seen. John Engler was the three-term Governor of the state of Michigan, a state that knows a thing or two about manufacturing. And a state that saw both the opportunities and the challenges taking place in the transition of our economy. During his tenure in office, Governor Engler achieved record low unemployment levels, achieved fiscal discipline, and improved the educational system in his state. Today Governor Engler is President and Chief Executive Officer of the National Association of Manufacturers, the largest industry trade group in America. Governor Engler has been instrumental in promoting the free trade agreements in the Bush Administration and it's my honor to work with him on several initiatives. Ladies and gentlemen, the Honorable John Engler.

[Applause]

>>GOVERNOR ENGLER

Thank you very much. I'm delighted to be here today to moderate a panel which I have told them already is the panel with the toughest job, the hardest topic. Let's bring that panel out without further adieu. The first is CEO of the Tupperware Brands Corporation, Rick Goings. Tupperware Brands, Rick Goings.

[Applause]

>>GOVERNOR ENGLER

Next is Chairman and CEO of the Deere Company since 2000, that is Bob Lane.

[Applause]

>>ROBERT LANE

Thank you, Governor.

>>GOVERNOR ENGLER

Next is Chairman and CEO of Caterpillar, Dr. Jim Owens.

[Applause]

>>GOVERNOR ENGLER

And another -- from the academy the member of the Counsel of Economic Advisors 2005 and 2007, Matthew Slaughter, Associate Dean of International Program, Professor of the

International Economics at the School of Business at Dartmouth.

[Applause]

>>GOVERNOR ENGLER

I want to talk a moment as we start this program and just recognize that this is -- have a seat and I'll be right there. This is a panel of competitive fire power, brain power and we need that when talking about utilizing free trade agreements. The principal of free trade in a globally competitive world is under the most concentrated political attack in the United States since 1930s. Senators won election in 2006 campaigning against trade. They said things like NAFTA was a betrayal of the American worker.

Supposedly every lost job in Ohio was the result of companies moving to Mexico. In 2008 presidential candidates are not just calling for time out on trade but are actually opposing pending trade agreements like Columbia. These are agreements that have already been renegotiated to meet objections in the House, the trade promotion, I call the fast track authority, governed since the '80s and really started, had origins back in the '70s, governed congressional consideration of free trade agreement simply set aside the leadership decided they're not ready to proceed to the US Columbia Trade Agreement.

I submit that single decision severely compromises the ability of US negotiators to compete out in the international arena, to complete the round or negotiate future bilateral trade deals. So the challenge today for our panel is significant one. We have in Congress people, Representative Brown said in 2006 the Central American Free Trade Agreement that agreeing to that would mean that we would continue to hemorrhage manufacturing jobs. The reality of that one proved the opposite. The US went from providing one-way access imports from Central America to bilateral free trade agreement, the approval of CAFTA, our \$1.3 trillion deficit has changed to a surplus of \$3.7 billion. So our panel's challenge today, given the political environment in Washington and out around the country that surrounds trade is pretty negative. Yet the data is pretty positive.

So you probably ask, who gets it? And can we discover that? On the next panel we're going to have three Governors. When we look to the state level we see Governors supporting trade, recognizing the importance to their economy and the impact. South Carolina Governor Sanford made exporting expansion a priority, he sites the fact that in 2000, 16 1/2 billion dollars worth of

exports out of South Carolina going to 198 nations around the world. 21.6% increase over the prior year. Governor Napolitano said exports went will up there. Mexico, Canada and China, biggest markets.

So these are important statistics. Governor Barbour citing missions abroad but then citing locations and investments in the state of Mississippi such as the Toyota plant in north Mississippi. Our topic is utilizing free trade agreements but also, will the US Congress ever vote for another free trade agreement? Will the next President be committed to trade liberalization? And what do we as a business community do? How can the academy help? How can we make the case, how can we explain the benefits of trade?

Let me start with Rick Goings. Trade is just not about economics, it's the numbers are pretty good. But do you think the free trade agreements, do you think the trade progress has had impact on the US society? Have we failed to create a win/win situation thus leading to the conundrum we find ourselves that the data is good but consensus behind trade has evaporated? I'll sit down and let you start answering that question. We have a lot of other questions for the panelists today.

>>RICK GOINGS

Thank you, Governor. Dr. Porter said one thing, I was going to say one thing I agree with. I agreed with everything he said. But largely when he said taking a more holistic approach to this whole subject, trade and the economy, I tend to look at any of those mechanisms which could mitigate some of this gap between haves and have nots in the world are important, not only here for what's happening in our American economy but for how we spend our money elsewhere in the world. It's interesting.

I just got back Monday from Johannesburg. If you have been reading the papers you see this new level of phobia as a result of people rushing over the borders from Zimbabwe as a result of 26 years of disastrous government by Robert Mugabe but this gap we have between largely those people from the developed part of the world and the undeveloped part of the world, we have to figure out how to do it.

I think free trade is one of those mechanisms, it is interesting right now, carried around the world, go to Latin America, there's only one large city in Latin America that's generally thought of as safe and that is Santiago, Chile. Most every other large city in Latin America, senior executives or wealthy people require a large degree of security. Mexico City, the two operating

companies that we have there, we spend \$150,000 per year on each of our CEOs down there on their personal security, armored cars, et cetera. This is -- it's happening all over the world.

What's happening is that as this gap has expanded largely those who have been disaffected they are aware of what's going on. I remember when I lived in Germany, west Germans we would go across the border to DDR and see S-Class Mercedes. When I lived in Hong Kong which has the highest concentration of Rolls Royces in the world, right across the Pearl River Delta those in a different province would see how it was. So that's why I truly believe that once you get up there any kind of an altitude there's no such thing as borders. They're porous. And we have got to find ways to close this or we're going to be dealing with one of the greatest things we'll deal with in this next century is the violence that we see. A side bar, forgive the commercial Governor, but one of the ways we have looked at this at Tupperware Brands, by the way we're not just Tupperware, we own eight other direct sales beauty companies and largely people ask me on an airplane, Tupperware, do you guys still do those parties? I say yeah, one every 2.5 seconds.

[Laughter]

We have now, we're at the forefront of a way to really multi-locally change some of this that has the impact of free trade. I'll give you an example of that. We're 85% outside the US. We have half a million women in Mexico, 60,000 in Russia. Sub Sahara Africa 100,000. I can go on. But the point is regardless of what the trade barriers were, she starts with a kit. And we teach her how to take care of herself, how to become entrepreneur, we teach her we believe she has the potential to grow that business. Then she teaches others. That's why governments have largely wanted us to come in to their markets.

So as a result of that what has happened, there's greater affluence in these areas. I think we have got to find the outside in whether it's just trade agreements, we have got to find more facilitating mechanisms that create a level playing field in the world. This is what as a Governor, we spend most of our time trying to improve the economic state of the world. Free trade agreements are part of it. But that's just about the American story to it. We've got to look at what else is happening in the world.

>>GOVERNOR ENGLER

One challenge we face as a nation is explaining why

improving that life in that other country somewhere else in the world matters to somebody here. And what's going on with our neighbor's life? Bob, you said something to your shareholders back in February that extending the John Deere brand to a wider global audience remains a top priority. Sales outside the US and Canada surpassed something like \$7 million the first time, Russia, India, Brazil, very important markets, nearly doubled in sales. Did free trade agreements they don't have free trade agreements, those four in particular. But do the free trade agreements matter to Deere? How do we sell the benefits and what role do -- does trade agreements make in terms of Deere?

>>ROBERT LANE

The answer is do they matter? Yes. In John Deere's largest business agricultural equipment. If you take our customers in the United States 25% of what they produce is exported. Is that important? Vital. In our factories the UAW workers. One out of four, one out of three, I think Dr. Owens will have some higher stats to give on these products. They're shipped outside the United States. Our UAW colleagues are proud when they see a combine being built, being shipped to Russia. You asked the Governor about how is it when other people's prosperity helps us. Most of you know about a quarter of the world, one quarter of the world's population lives on between \$1 and \$2 a day.

One of the very best pieces of news about the global pie growing, this is not a zero sum game. This is the wonderful thing about trade. Is that those people as they go from \$1 to \$2 a day, that's when you start eating better. You don't tend to self-actualize at that point in the hierarchy. You're eating better and the opportunity for US farmers and the laborers who build equipment to serve those farmers to support and serve those people is a fabulous humanitarian opportunity, rarely have we had the opportunity in human history to have that many people come out of poverty and live better and richer lives.

We're seeing a lot on the television right now these pictures from China. A lot of these people barely ate. A lot of that is about the opportunity for trade. NAFTA. I want to finish on this, Governor. Since between 2002 and 2007 agriculture produce shipped to the two countries in NAFTA increase not just doubled but up 156%. Are those agreements good? They're fabulous. So vital, great results, great opportunity to serve the world.

We're 5% of the world's population. We have a world that's going to produce another 2 billion people in the lifetimes of most of us in the room. Most likely be born where they will be part of an economic engine they will

want to eat better, they will be huge opportunities and needs to feed them, to provide products for them. When you stand on the harbor and watch these large huge ships go off as I was two weeks ago in Baltimore filled with John Deere combines, tractors, Caterpillar equipment, I must say sometimes where we didn't get to sail, this is fabulous for the United States.

>>GOVERNOR ENGLER

Jim Owens, the same question. He just mentioned those Caterpillar being shipped around the world, those products. You have been a great supporter of NAFTA. Does it need to be renegotiated? What about CAFTA in the western hemisphere agreements in Peru, Columbia. You have spoken out and been eloquent and you lead over the Business Round Table effort on trade. How do we get the story told?

>>DR. OWENS

That's a mystifying thing to me. In a way trade has been demagogued in the political arena to a very disconcerting extent of late. As 5% of the world's population, if the United States takes a reversal of course in terms inward and protectionist in the next administration I think it will be one of the most tragic political mistakes in our history at least since the '30s. And for our business, we certainly last year 63% of our sales were outside North America. And by the way, Canada, another important part of NAFTA, was booming. This year probably 70 cents on the dollar will be outside North America. And again, Canada is booming. If it wasn't for a very strong export growth we were up 20% last year, 27% in the first quarter this year, we would have far fewer jobs in the state of Illinois and in the United States.

The NAFTA agreement has been spectacularly good for North America since that agreement was signed, all three countries have enjoyed dramatic GDP growth and acceleration of GDP growth, real wages in the United States, real wages for about half percent higher growth in the period since 1993 when the agreement was signed than they were in the decade prior to that. These are facts that people can get to. It's really disappointing how far our political rhetoric has deteriorated and how we're flirting with danger when we think about turning protectionist.

It's critically important to not only my company but most companies in the Business Round Table. If we're going to have leading companies that are American-based multi-nationals 20 years from now because we learned thousand compete and win in the global marketplace. I tell people if you want to protect me and help me by sheltering me from competition I can sell you a lower

grade tractor at a higher price. If you like that you ought to like protectionism.

>>GOVERNOR ENGLER

That doesn't sound very good to me.

[Laughter]

>>GOVERNOR ENGLER

Matthew Slaughter, you're in the Academy, you held high government positions, your specialty is the economics and politics of globalization. Seems like economics are good, the politics are disastrous. What is there in the Academy that can help us make the case or how do we in business engage and what's your data show?

>>DR. SLAUGHTER

Great set of questions. The irony is I'm an economist by training and the jokes about economists are largely true. Line them all up, they still can't reach a conclusion and that sort of thing there's a lot of legitimate things that economists don't agree on in terms of policy recommendations, thinking about fiscal policy, monetary policy, taxing and spending. There remain a lot of ongoing discussions and deliberations among academics. But boy, there's one issue that almost to a person every economist agrees on, that's the benefit to agree on, that's the benefit United States and other countries from having open borders and a regime of free trade and related to that investment as well.

There's an irony which is the economist to a person is great, free trade investment is great and as you point out we have this political dynamic right now that's quite different from that. The stories of the three leading companies that we've got on the stage here, there's a wealth of evidence that academics have put together to show the benefits that global engagement generates for countries like the United States. And it's not just kind of fancy models that is put together, there's a wealth of information, the companies stories are so compelling.

The United States overall for example this year our national income is going to be about a trillion dollars higher, \$1 trillion higher than otherwise if we hadn't had the trade investments over the past four years. So the average American family, the benefits related to that foreign investment are really important. It's the grade of choice in consumer variety. It's the good jobs at good wages. We know that the best companies in America are the globally engaged companies. Companies involved in exporting and related to that foreign investment. They tend to do more capital investment, more investment in people, more research and development. Bottom line is

for families supported by those companies they have higher paychecks. So we have a lot of great stories from our companies and the data are just very, very clear in total the large benefits that get generated for the US overall.

>>GOVERNOR ENGLER

We have got a lot of people in the audience that are going to have an opportunity to talk about trade. We have got some real good resources here. This is a question -- I'm turning it into a question. Fred Bergstrom used to be in the Trade Department under a previous President for a different party but entitled dangerous trade games. He makes this statement, whether we're prepared for it or not a major national debate on these issues is looming for the fall campaign and beyond. I guess my question to the panelists here, you all get to be Maria for a moment. What needs to be -- what are the questions that ought to be in that debate this fall? How would you frame it up? The presidential candidates need to tell the American people what about trade? Kind of like everybody to take a shot at that one. Because this is -- she'll ask the question if we get it framed up right.

>>RICK GOINGS

I think first it's going to -- I would hope there's some academics involved that the understanding between short term benefits and long-term benefits, you take the issue clearly becomes with any kind of protectionist isolationist politicians generally will sit there and if I need to get re-elected to protect jobs here in for example Michigan, that's a different agenda. It can even sound protectionist. All you have to do is look at what are the long term effects of that protectionism, very much what you were talking about of what it does with regard to your creativity.

Look at 50 years taking creative society like Germany, East Germany, Deutsche Democrat, Republic, it's been 16 years since reunification. It's costing them again this year \$100 billion it's costing them almost a trillion dollars because what they did was that protectionism beat every creativity out of the east German economy, the culture, no reinvestment in plant and equipment so it's short term, I think somebody has got to have the courage to be able to say a short term protectionist solution is not in our best interest, it will kill us.

>>GOVERNOR ENGLER

Bob.

>>ROBERT LANE

Who you quoted is quite articulate as many of you know

that the candidates probably, I concur, ought to say there's so much benefit that we also ought to be sure there's adjustment. There's appropriate adjustments because there are going to be individuals that in the adjustment periods that need to be taken care of. So I think the candidates can talk about the fact that yes, the country with 5% of the world's population very productive country, can dramatically improve the welfare of the United States as well as the rest of the world which then in turn comes back and improving the US again, so it's a multiplier effect. But there will be adjustment in jobs there need to be appropriate public policies to provide for that adjustment assistance.

>>DR. OWENS

If I could ask one question I would ask does anybody really think that we in the United States would be a lot better off if they were starving in Monterrey? That would be a reasonable question to ask. I think not. What's happened with NAFTA is it's been a win/win/win. Their GDP has grown rapidly, standard of living has gone up. Our exports to Mexico have grown dramatically since NAFTA was signed and to Canada. So there's been a profound win, win, win across North America as a result of these agreements. And if you get down into the facts I think this will come home.

Bob, to your point, I agree the business community needs to be more involved in helping be sure we have right solutions for people who lose as a result of capitalistic readjustments. Most by the way are not because of trade. Most job loss in the United States in manufacturing has come about because of rapid growth in productivity. It would surprise people to know Peoria is not a blue collar town any more. The majority of employees are in manufacturing and IT and engineering and legal professions and they run machines that help drive our factories. We can compete and win from a US manufacturing base. A little known secret.

>>GOVERNOR ENGLER

Matthew before you answer let me go back to a piece that was in foreign affairs you warned against protectionism and you called for a new deal for globalization. I think was -- including a, quote, significant income redistribution that's serves to share globalization's gains more widely. That may be relevant here. How does that fit into a presidential debate about trade?

>>DR. SLAUGHTER

What mix of policies they're going to propose and implement, to help the United States continue the realize through greater gains through trade and investment and how they're going to try to help share those gains as

broadly as possible. Again, these aggregate gains that I mentioned earlier, I'll be the first person in a room like this to stand up and say those gains are real. Here are the many ways they get realized. Here are the companies and communities and workers that have enjoyed those directly.

At the same time that doesn't mean every single American worker and family and community are directly benefiting from this mix of forces of trade and investment and technological change and productivity growth. That's been true for generations in the United States in every other country and there's legitimate concerns. What we need to do is not close down American borders. That probably won't work in addressing a lot of these pressures. Probably be retaliation from other countries. Those things would impose big costs on the United States. We would be getting our caterpillar material at higher cost and lower quality if we start shutting down American borders. It's that mix and link of policies that I would love to hear a candid lively discussion on.

>>GOVERNOR ENGLER

Very good. When I think about the protectionist sentiment, I want to ask particularly Jim and Bob a question about because you work with organized workforces. And it strikes me that labor having been around politics a long time that there are other agendas underway here. Such as winning political power to do things like card collector do other kinds of agenda items and trade, it's hard to believe even the labor leaders truly believe that trade is bad but trade maybe simply the most convenient issue to tee up to achieve political power to do other things. I mean, if you look at the unionization of the American workforce it's declined rapidly in the private sector around maybe 8% or slightly less today. An effort to try to bring as dues revenues tie up for unions themselves they look to bring other members in. Is there anything that we could, we, being the greater bids community could be saying to labor -- at least even the labor in your respective companies to help them balance the conversation some? Are they able to do that? Can a local President speak up for the company, not for the union? I don't know who wants to -

>>DR. OWENS

Maybe I'll start. We had our share of challenges with organized labor in the union but at cat tear pillar we're absolutely focused on our employees and creating a terrific team effort. Because I think as business and sports, great teams win. We really want great teams of people building our products and bringing best ideas to the table and working together to win. So we tried to give a tremendous amount of emphasis to your point,

Governor, to our employees, places like Aurora, Decatur, East Peoria here in the state of Illinois, more than half the products you built are going outside the country. We have to take great pride in American workmanship. Innovativeness.

We build the best products in the world. We can compete and we want our employees to understand the benefits of trade. And I think it's really -- I leave it to them to challenge the organized labor leadership which is vehemently opposed to trade agreements. Which if they were to get the trade agreements blocked or turned inward would cost them their job. So I really try to appeal to our employees and really engage them. I want them to feel like they're part of a globally winning team. And position them with a lot of training and development to be sure they are part of the globally winning team.

>>ROBERT LANE

We're doing the same thing.

>>GOVERNOR ENGLER

Is part of the answer engaging the broader American public in sort of getting them excited, Jim mentioned something that I think is really central and was certainly a theme of our first panel today. The impact of trade on competitiveness and on innovation itself. It does seem to me that manufacturing uses a significant amount of new technology and it is innovation that's allowed us to compete. That's allowed us to develop unbelievable new products and more to come. How much can we credit trade at and the competition for as an innovation driver, therefore essential to where America in the 21st Century has to be?

>>ROBERT LANE

To Jim's comment about the fact he could produce a lower quality product at a higher price, when you put up the walls around a country then you're able to do that because you don't have the kind of competition. As much as it would be nice to believe that all of our engineers and all of the bright people that work at the company would be as innovative as they are, just because they're wonderful people, the best comes out of people, as I think we recognize, when there's bona fide legitimate competition. So today this dramatic productivity in agriculture where mobile information machines are driven by satellite and high quality producer doesn't touch the steering wheel, there's so much more productivity, think about this, that product is going down the field and if it overlaps there's waste. If it leaves a gap, there's waste. No human being can drive that machine for 15 hours and not have an overlap or a gap. Today the sound bite makes it perfect. All the innovation comes from

competition. And if it wasn't competition surely we would make some progress. Be much slower, much more expensive.

>>DR. OWENS

I spend \$1.6 billion a year on research and engineering. A great team in Illinois. I'm scared to death Bobby is going to develop better products than me than Hitachi and Volvo to Europe. And they're holding my feet to the fire and causing me to want to be innovative. That's what serves customers and creates spectacular good paying jobs and American innovativeness. We need it.

>>RICK GOINGS

I have been doing these Chairman's retreats with 25 people at a time in our middle and senior management for the last 3 years. I have done 50 of them. I start it off with a line that basically says every successful business model works until it doesn't. And then we go through all the companies that don't exist any more and I show them a slide of Jack Nicholson in that famous role of the wolf. We sit there and talk about the wolf is always in the yard. Sometimes he's up next to the door, you can smell his breath, you work to push him back in the yard. But that's what makes us great. You take classic Michael Porter, low cost supplier, differentiation, you better find a way to really differentiate out there and do it effectively. They always said we had a big decision to make about 15, 20 years ago in our core business. There was a company here that made garbage cans called Rubbermaid. Sales force always say you put your garbage in rubber made and food in Tupperware. But we had to sit there and Stan was doing a wonderful job running that company and we had to make a decision, are we going to stand flat foot and try to beat them low cost supplier and we said no chance. We're going up. And so we differentiated our product line because we had this 2 million sales force that can explain benefits. So I think this competition is what made us greater as a company and reason our share price was up almost 50% last year.

>>DR. SLAUGHTER

This is a good point where academics I think -- and this speaks to what Rick said earlier. A lot of 20th century not everybody believed that. There was a sense of if you close up and you protect companies and give them that domestic market they'll do better. Then you want them to be world class. And academics you can write down fancy models to show where that might be the case but the proof is in the pudding in terms of what the data show. And there's been a lot of scholarship and good work done by places like McKenzie global institute that show these examples that's what you see in the data.

This is a thing we know clearly today is it's exposure to competition in general but especially global competition through trade and investment that's a really big spur of productivity gains for companies.

At a national level what we see with growth in places like China and India and many countries in central Eastern Europe is they tried the other model in some instances didn't work. A lot of what's driving growth in those countries is their integration into the global economy and exposing their companies to that global best track at this that allows them to learn new techniques and become more innovative themselves. Wednesday witness you made the point kind of but if you take India, Brazil, the Soviet block, all of them had a protectionist we will protect our industry, grow our own policy through most of the 70s into the 80s. They created not one single great globally competitive company out of that business model. When they open to the world now you're seeing the emergence of very strong globally competitive companies and much better products for consumers in those countries. And they're emerging on the global states which much faster growth. I would think everybody would like to see. Everything Mark, because --

>>GOVERNOR ENGLER

I look around the world and see the European Union negotiating trade deals with Indian nations, Canada was in last week and one of their administrators was saying flat out we're going to have a deal with Columbia and it will be in force by the end of the year. Other Asian negotiation, some are rightfully I think looked at with some skepticism, are they truly freeing up things but the fact of the matter is I think at last count more than 100 bilateral multi-lateral negotiations are underway around the world that we're not part of.

We're at the table but that's clearly stalled out and maybe can get done but you got to be weary about dealing with the United States I suppose. But in these other negotiations across the world, even some are talking with China, what's your -- how does this have a practical effect when you look down the road a little bit in terms of location decisions, investment decisions, if you're seeing that happening and you're seeing a bit of a pull back or a time out here? I don't know if anything wants to take that.

>>DR. OWENS

I would take it maybe quickly. I worry for example we have a pending trade agreement with Korea. Which could be a very substantive free trade agreement, probably next to NAFTA would be the next big opportunity for a big economy to integrate with ours. And gives us a nation.

My concern is if we don't, the Korean, Chinese, Japanese begin to link up. It won't kill Caterpillar because we're manufactured this in that theater and develop suppliers in that theater we'll be okay. For our exports from the United States which are important know as an American citizen certainly and should be important not only to my employees in the United States and all my suppliers by the way, two or three times as many employees as I have, most of whom are against trade. Their supplying the components that go in my tractors that go to Asia today. This will impair our ability to compete there if they get free trade agreements that block us out. So that's very concerning to me as an American citizen.

>>GOVERNOR ENGLER

So the impact on the supplier base is interesting that if you have to relocate the manufacturing many suppliers aren't global themselves and they can't -- they won't come or you'll have new suppliers in those other markets which mean then they have more competitors in the future even for back here I assume.

>>RICK GOINGS

It's interesting in developing nations, NAFTA while it's been positive effects the short term effect, the fox administration didn't do a real good job of ramping up the skill base when all of a sudden the borders open and all these were created for assembly and sending back to the US, they didn't invest what they needed to in building the skill base of Mexican workers so you go down there right now? What are they complaining about?

14:24:39 Losing their jobs to China. All you have to do is follow

14:24:42 Nike's pattern over the last 25 years. Korea, China, Vietnam, you keep -- that low labor cost is -- you just keep following that dragon unless you build in these countries an infrastructure and a skill base there so they may have a short term advantage but it won't last.

>>GOVERNOR ENGLER

Bob, on the question Jim addressed.

>>ROBERT LANE

What does happen if the rest of the world -- what does that mean to Deere?

>>ROBERT LANE

I think part of what this -- the two candidates could say to the United States is the that what we have trying to share with the rest of the world that Jim referred to, to open up your borders and to start building economies is working. And the rest of the world is becoming part of the world's economic system. That means the competition has ben joined. And that is a good thing. Because it

creates potentially far more customers for us than we're going to create for them. Because we only have 5% of the world. Would you rather have 95% available to us or 5% available to them? The math is on our side. And the good news is that all these people are potential customers and suppliers of ours. I think that the candor has to be that the competition needs to be looked at as something to embrace, to have competition can be fun. That doesn't mean it's easy but I think we need to take it on. We need to take it on and with the concept that we with our educational system at the top, we have the best universities in the world, we're working hard as the major said on layers below that. We can compete and win but it will be a new age. It will not be an isolated, and the candidates need to be candid about that.

>>DR. OWENS

The Columbian free trade agreement we're considering at the moment hopefully, roughly 90% of what they sell already comes here duty free so that agreement allows us to sell American products in Columbia duty free. What difference does that make to American workers? Exports have grown faster but take specifically a mining truck that has about 15% duty, couple of hundred thousand dollars for a big mining truck. It's a big mining market. If we do not sign this free trade agreement with Columbia and Japan or Korea were to do so or the EU, that would hugely advantage my Korean Japanese or European competitors vis-à-vis the American market, American exports. So that's a very, very specific example why we are so strongly in favor of the Columbian free trade agreement. It will make a huge difference to workers right here in Illinois being able to export more product to Columbia.

>>GOVERNOR ENGLER

When I look at US manufacturing today much higher proportion of the earnings you mentioned that about how much of your growth is sales over seas so foreign earnings. And I want to go back to a point that a couple of years ago Matt you were on the council of economic advisors when the President signed law that cut the tax rate on the repatriation of foreign earnings. And I'm curious, today if we repatriate those earnings, you bring them back here and subject them to the highest corporate tax rate in the world so tendency to hold that offshore. How much does that law by itself actually mask some of the benefits of trade and globalization? Because you're really not able to make the same easy decision that you might if you can bring that capital home at a lower tax rate. Does it play any role? I'm curious if you -

>>DR. OWENS

We have roughly half our manufacturing capacity and

employment, 50/50 outside and inside the United States. Today if China gives the tax holiday for encouraging investment in a European and Japanese and US company invests there we get a duty break temporarily but when we bring the money back to the United States we top it up to the US Corp tax rate. Whereas our Japanese and European competitors, they're not taxed universally. They're taxed on where they sell and earn the profit. So that encourages all American multi-nationals who earn money abroad to keep the money abroad which means they're likely to going to do need to do more R&D abroad to spend the money, instead of bringing it back home and doing the R&D on our own shores. This is a tax that doesn't bring much revenue to the treasury and it's absolutely crazy. Why we do that is -- and Secretary Paulson's brought the subject up, he brought academic tax experts from all over the country. From all political persuasions. The tax experts all agree we'd be far better off to change the tax law. But I don't think populous sentiment is going to let it happen. So facts and data, don't seem to matter here.

>>DR. SLAUGHTER

If I could build on that. An example, it's akin to the discussion about what the rest of the world does with their policies.

>>DR. SLAUGHTER

The US corporate tax rate was kind of middle of the road compared to most other advanced countries but what's happened in the last generation not just other high income country bus middle and low income countries. They lowered the tax rate and the worldwide taxation that Jim mentioned reduce the complexity, simplified the tax code a lot so today the United States has one of the highest marginal tax rate and at least as important one of the most complicated corporate tax codes of any country on the planet. So it's a bit like the trade policy discussion which is it's not the case that the rest of the world is going to sit by and let the United States figure out some of these important trade and tax policy issues and coming back top the fact that our communities and our workers benefit so much by being able to work for these globally engaged companies we're doing a disservice to the United States overall when we're not engaged and thinking how to make the policies work better.

>>ROBERT LANE

We have had the luxury in the United States to sometimes maybe since World War II to say we want to be engaged or we won't be engaged. We're still the big kind of indispensable nation.

>>GOVERNOR ENGLER

The 800-pound gorilla, so to speak.

>>ROBERT LANE

Some of you probably read Thomas Friedman's column where he referred to the book, The Post-American World. In that book he doesn't talk so much about the decline of the US. He talks about the rise of the rest. And the concept that the rest of the world is emerging prosperous and many of those people are young. And they look on their cell phones. People in India are walking to get water three miles talking on their cell phone and seeing pictures of what the world can be like, how their lives can be improved. And they are going to move and improve their lives. Whether we choose to be in the game or not.

>>GOVERNOR ENGLER

I think that's a -- this is really an important point. I think it's at the somewhat the heart of our political problems that the attitude adjustment that yes, even now the United States must compete and that we can't sort of take it for granted, I think there's almost been this technological faith, oh, you'll figure it out. You can do it. So we can give you the most impossible set of regulations. We can impose the most expensive burdens and say you'll figure it out and that we are somehow good enough that we could do that and still compete and meanwhile to Matt's point everybody saying we want to be like them. We want to have what they have had. How do we get there? They say here is how you do it. You start cutting your rates, you start simplifying things and you start investing in things that matter. And we heard this morning the investments in research T promises made weren't promises that were kept. That now we're talking tax code, talking tax trade law. We're out of sync on all this stuff and it's not a -- it's not a shared view that we actually have to compete. We're resting on yesterday's glory and the world I think you have -- I haven't seen the book but boy, that's where we're -- I think that's what we're facing. That's our challenge.

>>DR. OWENS

It's a huge challenge. It's almost amusing. I'm sure the senators are well intended but the rated oil executives over-compensation as if that's going to solve the supply demand problem in the world. We're consuming 25% of the world's oil with 5% of the population. Secondly we don't allow oil companies to drill offshore on either coast or in Alaska. So we have to import it or either use a lot less. And somehow we've just kind of not thought about fundamental economics as to how to address our problems. It's going to get us in a lot of trouble.

>>GOVERNOR ENGLER

Agree with that. One of the senators was asking the oil companies do you understand what you've done to us? And I think the question sort of some of the witnesses I think yesterday do you understand what you're doing to us as a nation? And it's on some of the policies. Let me, one thing that is popular in Washington, anything environmentally is viewed as positive. It strikes me that's also an argument for trade. If we look at what we need to do in the world in terms of reducing emissions, reducing pollution or repairing damage, the United States has led the way on much of this technology.

Bob, you're on the GE board as well as running an important company. Seems to me that one of the arguments for trade and we have advanced this even as a sectorial agreement to have environmental goods and pollution prevention and clean up treated like we treat software, let it be globally tariff and duty free. Seems to me that's a very much of a beneficial thing, saves lives, good on the part of the social contract out there. It's part of an environmental positive thing. And even that kind of trade seems, yes weapon want to help the environment but we can't do something on trade. 's an amazing split personality.

>>ROBERT LANE

Environmental can be used as a subterfuge or not really genuinely desiring environmental improvement. But when there's genuine desires to hit higher standards, most citizens and many of the rest of the world want to hit, want the higher quality of life it's a legitimate way to compete. This creates advantage force the United States today. When I was growing up I grew up in the Washington D.C. area and I used to row on the pa toe Mack river in the nation's capital. To go down on that river I had to get the same shots the day I go to India because it was so polluted. And there was legislation, the clean water act, I think in about 1973, it set high standards and said let's clean up the water. The Mayor referred to the clean water in the Great Lakes earlier today.

There are very demanding standards that Jim and I are both working -- investing very hard to meet that if you want to clean the air in Los Angeles, when you're done you get one of Jim or my engines, it will clean the air. A diesel engine. This is about what the standards are. Well, everyone in the world is going to meet that because the society has said we want that kind of clean air. Well, most of you travel around the world, you know a lot of other people in the world want clean air too. They haven't put their standards in yet and we have different tiers of engine emissions and so forth. But eventually there's huge interest in environmental improvements in India and China, in other parts of the world that we

haven't seen fully put into legislation but it's coming in my view. Jim if you want to comment on that.

>>DR. OWENS

Wednesday there's tremendous competitive advantage. American firms have invested in environmental technologies that are exportable and will be -- as the laws, they're coming everywhere, as the standard of living goes up, clean air I like to say is a luxury good, if you're hungry, it's far down on your list of needs but when you're well Fed and your family is taken care of and getting a good education it starts to go up and we have technology to address the problems.

>>GOVERNOR ENGLER

We're nearing the end of this period but let's wrap up with kind of go around the panel a little bit in terms of this audience and motivating our audience today and taking it outside the room and outside the summit. What do we need, we talked about the campaign, it's not just the presidential campaign but sort of in the American conversation what is it that just to summarize most effectively we can do from the academies perspective or the corporate perspectives and community perspective in terms of making the argument? I think the data is compelling, the case can be proven with statistics and data. You told a story earlier Jim, I'll start with you maybe on this one, about conversations with Congressmen how they view this. The emotion here. And how do we get back on offense?

>>DR. OWENS

I think we had at a Business Round Table meeting earlier this week three democrats who had in fact voted to kind of keep the Columbian free trade agreement on the table because they think it's very important against their own party's wishes. And there was some political pain to be had there but they felt very strongly and they said what you corporate executives don't realize is that at least certain segments of American society have declared war on trade. And you're still trying to win the argument on the basis of logic, statistics, economics, facts. And it ain't working very well. And it's clearly not working very well when you look at the poles in the country and we see that the vast majority of the American public thinks that we're worse off because of trade and clearly all the statistics won't support that. So I think we've got to do a better job. Part of it is how do we deal with economic adjustment? Clearly the wage differentials that have occurred due to high productivity growth even in our own country create ad bigger chasm.

We don't want to throw the baby out with the bath water. We need social readjustment. The Business Round Table which move

think is arch conservative is recognized we need to do things to be sure American workers have the opportunity to be retrained and employable. But I would strongly emphasize protectionist solution is the worst possible way to go. I think as American companies we have to get out and do a better job of helping the American public understand that we can compete and win in the global marketplace and it's vitally important to our country. We will not be a great country in 20 years if we go the protectionist route. We certainly can be if we go to win and compete and prepare with good policies our companies an employees to win in the global marketplace.

>>GOVERNOR ENGLER

Okay. Bob.

>>ROBERT LANE

That message that we will not be a great country, we don't have any guarantee that that's -- that that will be the future. That message -- but we can be. And one of the ways is the rest of the world prospers. When the rest of the world prospers it creates enormous opportunity for the United States to take advantage of and if they're fluid -- if there's fluid movement back and forth with trade. So the fact is we can be but it means allowing the rest of the world to prosper and then with rest of the 95% of the world prospering we will be able to take advantage of that. By the way, if the rest of the world doesn't prosper, that many people out there, I think we could turn to the negative side but we don't have to. We think about what the positive is if they develop well but if you have that many people in the world who aren't allowed to develop well and they can't trade with this country there are also other more sinister scenarios. Let's go for the positive one. Prosperity globally which the United States will participate and as Dr. Owens said, I think let's be sure there's appropriate adjustments for people in the United States from technology or not so often from trade but from just advancement in technology that people can be retrained and compete the way this country is capable of doing.

>>RICK GOINGS

I take it a point further that I think we need to tremendous adjustment from to -- from stopping look at companies that are global companies as American companies or companies that have a nationality based on where they're headquarters are. I think we need to all companies really are CLECs of people. My management team, most of my executive committee are from all over the world. We through our passports on the table, we even forget the original nationality of them. But when you transcend that nationalism to what is this just, doesn't mean we don't have facilities here and we care

about this piece of it but all the pieces.

We've got this global environment right now. It's got to work and be as you said Jim, win, win, win for everyone out there. Leveling the playing field with regard to have and have notes because we're largely viewed here as arrogant, depraved and often not respecting tradition elsewhere in the world because of our style. That's swaggering style. It impacts pollution in the world. It's interesting right now we can say we close these borders but you heard them in Hawaii this year, complaining about the air coming in from China this year and China says hey, you had your industrial revolution and -- in the 19th century, don't deprive us of ours. We have to be sensitive to those issues out there. So I view it very holistically as we are people different religions, different culture, we have to find a way that everybody can win in this. And you said it so well, let me tell you what, 95% of the population out there is our market out there, if they don't do well, we don't have anybody to sell to.

>>GOVERNOR ENGLER

Let me go Matt, the last comments. I do think that one of the challenges we have, we didn't spend a lot of time on leveling the playing field but a lot of people think trade is vulnerable but the reality is is that in the whole history of trade we do have people who have done well, others have not done as well. And I want to extend what Jim Owens said in terms of dealing with impacts of trade we have to be prepared to understand who isn't doing well or isn't competing and can they be helped to compete. And certainly things that I think goes without saying without spending a lot of time on this, protecting intellectual property. Those are rules of the game. That's never been negotiated and probably should have stipulated at the beginning. You assume that stuff has to be fought for and defended. To me that's a different fight than whether or not there are trade agreements. That's about enforcement.

>>DR. OWENS

We need our government to help get good trade agreements and intellectual protection that's part of it. But what we can't do is we can't have the whole Congress negotiate. We have to empower the President of the United States and his staff to negotiate and then get an up or down vote. Otherwise we'll have no trade agreements.

>>GOVERNOR ENGLER

That's right.

>>DR. OWENS

And get no protections.

>>GOVERNOR ENGLER

Last word matt

>>DR. SLAUGHTER

One is academic a lot of times when we have these discussions, what do you know about global competition and trade? You sit in your Ivory tower and it's lovely setting. But I face global competition every day through a different channel we haven't talked about but which is immigration. My colleagues, almost a third in my school are foreign born. Part of what makes higher education so dynamic is make it is stories we hear from these companies in terms of it's that optimistic sense of growth and engagement and vitality, that's part of what makes hire Ed in the United States a great industry and part of the strength is our global engagement. And what I think would be great is if we could find a way, I think these distinguished companies point out, not everybody directly benefits but boy that's fine. We can roll up our sleeves in the United States, there's been problems an challenges we faced over many generation where is we had a robust discussion, we moved forward. And I think we're at a point in the United States where I hope that's the direction we go but all of us in this room play an important role in making sure the conference goes in that direction.

>>GOVERNOR ENGLER

Thank you very much. Ladies and gentlemen, let's give the panel a nice round of applause.

[Applause]

Panel 4

>>ASSISTANT SECRETARY BARUAH

Governor thank you very much. Obviously we're running a little bit late because lunch ran late but time well spent. Here is the program going forward. We're going to take a ten minute break. Just ten minutes. We're going to try to make up a little bit of time. Secretary Paulson is next so please be back in ten minutes. At your break by the coffee in the break area is a our question cards for the town hall session. So please pick up a question card so you can write a question for the town hall panel. Thank you very much. See you back in ten minutes. Actual 10 minute break occurs in video

>>MALE SPEAKER

Ladies and gentlemen, please take your seats as our program is about to begin. Not in actual video
Ladies and gentlemen, please take your seats. Our program is about to resume. Not in actual video

>>MALE SPEAKER

This panel will discuss strategies that have successfully positioned state and regional economies to succeed in the 21st Century global marketplace.

>>ASSISTANT SECRETARY BARUAH

Welcome back, everybody. There is an old television advertisement that said when EF Hutton talks, people listen. No one embodies that more than our Treasury Secretary Henry Paulson. Ladies and gentlemen, a man who truly needs no introduction, the Secretary of the Treasury, Secretary Hank Paulson.

[Applause]

>>SECRETARY PAULSON

Thank you. Thank you very much. And it's great to be back in Chicago. And it's now my great pleasure to introduce our panel today for the -- for our panel discussion. And all of the panel members are real experts on competitiveness and put it in place in their Daley lives. So we first have Mayor Richard Daley, the Mayor of Chicago.

[Applause]

Dr. Mark Drabenstott, Director of the National Center for Regional Competitiveness at University of Missouri.

[Applause]

Governor Jane Napolitano, Governor of Arizona
[Applause]

And Governor Mark Sanford from South Carolina.

[Applause]

First of all, I very much thank Carlos Gutierrez for putting this conference together. Because I don't think there's anything that's more important.

[Applause]

I spend a lot of time outside of this country and people tend to focus on the problems we have. We have some real problems we're dealing with today in our economy. But I can assure you that I can find no major country that

doesn't have more problems, serious problems to deal with than the United States. Our workers are the most productive in the world, if -- an industry after industry you give them a chance, they will win. But it really comes down to giving them policies they need to be successful. And there's -- what I have seen since being in my position is there's a huge focus on competitiveness right now, both political parties at the Federal level, the state level, cities, the regions.

And when people think in terms of competitiveness, they -- to some it's the tax system, legal, regulatory system, others it's -- many people it's all of these research and development, investment and infrastructure, education, K-12, job training for workers. With me my big focus, what I'm going to emphasize today is keeping this country open to foreign investment and to trade. Because we've always welcomed foreign investment, always welcomed trade. Welcome competition. Because it creates jobs, leads to higher wages, leads to higher standard of living, it's -- really very much benefits this country. The competition leads to a more innovative dynamic capitalism, helps us to ploy investment that drives productivity which ultimately drives the standard of living.

Now, the foreign direct investment is I found even though there's -- tends to be sometimes a backlash of public sentiment against it, it's an easier argument even to make than trade because foreign direct investment creates jobs, we have about 5 million jobs in this country associated with foreign-owned companies that those jobs have a higher wages, 25 to 30% higher than the average. Those companies have a disproportionate share of just about everything good. Output, investment in R&D, so it's -- it is an important story to tell. I don't think it's a difficult story to tell but it's sometimes, again, there's more of a backlash than I would like to see. Trade is to my great concern is becoming more difficult to sell to the public to sell to our Congress. There's some people that would like to argue that despite the fact that this country is benefited so much through trade and it's just really helping keep our economy strong that somehow or other, that these economic laws repealed by globalization. And again, I think the evidence is pretty clear that trade leads to more productivity, better jobs, and a higher standard of living.

But when you're dealing with trade people can see the dislocations. They see the hardships, they see the job losses, they're obvious. And the benefits. And the additional jobs and the higher standard of living is less visible. So it's much more important I think to -- that we make the case for trade. One of the things that I've

noticed is that some of those jobs that are being lost aren't being lost. Many of them aren't being lost to trade, they're being lost to technology and automation but no one says let's turn back technology or automation let's shut off the Internet. The example I use is manufacturing. And that in -- if you go back to 1950 we had roughly 14 million manufacturing jobs in this country which were roughly 30% of the total jobs. Today we have got roughly the same number of jobs and they are now about 12 or 13% of the total jobs. When I ask people I will often say to people who is the biggest manufacturer in the world? And you can say well, because we are far and away the biggest manufacturer. We're twice as big as Germany, bigger than Japan, 2 1/2 times bigger than -- than China.

What we find is these jobs which is 14 million jobs have now got seven times the output that they had in 1950. I saw it real time, as a matter of fact when I was working in Chicago running the Investment Banking business for Goldman Sachs here I used to go through manufacturing plants all the time. And in the early days of my career I had seen a lot of workers. Later I saw fewer workers and a lot of robotics and a lot of automation. So again, it is but this being open to trade is really benefited. I'll just tell you, right now the biggest contributor by far to our economy is trade. And over the last four quarters real exports have been up 9 1/2% and imports have been up a little bit less than 1%.

So trade is important and isolationism is going to do nothing but cut off US workers from opportunities around the world and lead to lower wages and fewer jobs. But with that what we're going to do with the panel is I'm going to ask each our panelists who have a lot of experience in this area one question to get it going then we're going to kind of have a discussion. As a good Chicagoan I'm going to start with the great Mayor Richard Daley. I will say one thing I really admire about this Mayor is he has a global mind set. I wish there were more people in Washington D.C. that had that same global mind set. He travels around the world, he represents this city so well and creates opportunities for the citizens of Chicago in hits efforts. So Mr. Mayor, I would like to ask you what has been the -- what approach do you use in -- as you go around the world and as you come back to Chicago, what approach do you use to having Chicago think globally?

>>MAYOR DALEY

One of the things that in traveling first you need the good international airport. With the modernization of our airport, that is the key, I think everybody realizes

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[Applause]

That alone communicates with the rest of the world in order to travel in and out of a country or a state or a city you need a good airport that's where the modernization is so important to Chicago. New run way we built the first one in 20 some years but it's difficult to build run ways in the United States with all the Federal state laws, it's very complicated. So we're fortunate that we're not only going to build a number of run ways, we're going to expand some run ways. But it takes a long time. That's number one, number two rate on freight. We're basically the center of the country so you have to rebuild rail lines and of course freight lines and trucking lines. Recently I was out in Los Angeles. We get 50% of the products when they land in the port of LA come to Chicago. 80% in Vancouver. 75% from Nova Scotia so rail lines are very, very important for us dealing with globalization.

At the same time, we hosted a conference two weeks ago, it's the first time in history of America that Mayors from north Africa in the Middle East, this is in 2008, have ever been invited to America. As a group. So we had them from north Africa and every country in the Middle East coming here in regards to their cities and regards to our city. So what you have to have, you have to have an open mind. I supported one of the few democrats I ever supported free trade with Columbia. I feel sorry for Columbia because they have been one of our strongest allies. And as you point out there's a feeling now that we're going to be isolationists and all of our friends who have been there with us constantly in this fight especially in South America we're looking the other way and to me I firmly believe the business community has to do a better job in selling how important trade agreements are. To the United States by jobs and economic development.

So what you have to do is we have Mayors from the hemisphere in, we have Mayors in China in, and I travel throughout the world talking about Chicago, of course our great country. And there has to be a much different approach to the rest of the world. One of the things I have found out that the difficulty of Chicago companies is to get quality people. Coming in the country on visas. I mean, if we're looking for people in math and science we have to go outside this country. How do we get them in and that's becoming and a major problem. Companies said it's easier to relocate my foreign workers into Toronto. Think of that one. It's easier there. So that of course as Mayor of city of Chicago I have to deal with that issue. Instead of

hiring 2, 300 people, maybe 75% do come from around the world, 25% from America, they want to be able to go to Canada instead of here because we can't get workers in here that's becoming a real issue, specialized workers, especially math, science and technology field. But getting back to it, how you really make Chicago globalization bring business leaders and government have to realize this is not a small economy any more.

It's not just Chicago, not just United States. You see the growth factor of the financial -- the money interest that the Arab world hasn't next 10, 15 years, will change the finance, markets of the world. Everything points towards that way because the price of oil going up. So that concerns us. So we have a great outreach from our city into the Arab world because we have an Arab council with Arab citizens here in the city of Chicago so we try to build the relationship off. We have about 27 sister cities very active, sister cities relationship. At the same time our companies become our spokesperson. They're the ones who can speak on behalf of my city with our interests throughout the world. At the same time getting them involved in our, which is really important -- our city which is really important.

>>SECRETARY PAULSON

Thank you very much. I'm now going to go to Dr. Mark Drabenstott. This is an Olympic year and Mark has used an Olympic analogy because he's compared globalization to the Olympics and has talked about economic competition and with an emphasis on regional economic competition. Mark, I thought it would be good if you expanded on that analogy and talked a bit about the importance of regional economic competition to keep this whole country competitive.

>>DR. DRABENSTOTT

I believe that regions have become the athletes in the global economic Olympics. Regions are part of the impacts of globalization are coming home. Both in terms of the pain (off mic) one quick fact makes the case. If you look at all the industrialized countries around the world over the last five years the range in GDP growth from strongest to weakest across all industrialized economies was 5%. If you go below the national level to the regional level the range of performance is more than 17%, almost three times as wide. So I think it's really at a regional level where much of the focus on economic development is moving, it's really where the action is in an ever quickening tempo of global markets. This begs is question of course what's a region? And the answer of course to this is yes. The wrong answer is regions form best from the bottom up, not from the top down, and that they represent the natural economic geographies bound

together by workforce, by transportation, by business clusters, unique cultural and landscape features. But one thing we do know is that they are no respecter of jurisdictional lines drawn from earlier economic era.

In the US this means most regions are multi-county. In many cases spill across state lines. The Chicagoland region is a great point. Many counties stretching across three states. I think regions have become a critical framework for competitiveness for three important reasons. First, critical mass matters a lot if you want to win the gold in the global economic Olympics. To use the case of Chicago, it's competition is not Indianapolis or Milwaukee. Instead it's London, Madrid, Paris and Tokyo. And Chicago has enormous assets in this competition bit's going to take all of them to take on the best of the world. Second, finding your competitive edge or competitive advantage in economics is really essential to success. This may just sound like plain old common sense but it's amazing how many cities and counties across America still pursue a 20th century economic development strategy. Using whatever financial incentives it takes to recruit a business to their community. There are many events in the global economic Olympics and it takes the concentrated effort of an entire region to master the field in just a handful.

The third reason I think regions have become an essential framework for thinking about competitiveness is that the field of play in the field of economics is shifting in favor of innovation. And more and more innovation happens within the crucible of a region. This means every US region has to find better things to do instead of just doing old things better. In some regions like San Diego research triangle to give a couple of examples do this really well. Many others still have a long way to go to build effective regional innovation systems and I think this is an important frontier to explore and conquer. But a few -- little bit more on that in a moment. What does it take to win? If you're a region competing in the global economic Olympics? At its very heart I think the concept of competitiveness holds a powerful core American value. That's winning. So what does it take for US regions to take gold? In the global economic Olympics? There's growing consensus among experts. That there are five essential building blocks.

The first is a strategy. Identifying a region's edge in global markets. Forging a strategy to exploit that edge and prioritizing public investments to sustain that edge. The second is partnership. The best evidence also shows regions who think and act as one region move to the top of the field. Creating region wide partnerships that cut across public private sectors is not a natural act

however. Especially when a region -- especially when a region cuts across county lines and in some cases state lines. Innovation, third key building block. Deliberate investments in innovation tied to the region's economic edge will pay huge dividends. While that seems obvious the how to do this is far more complex. Every region has its own distinct economic niches and every region also has its unique landscape of public private research institutions and to bring all of these together in a regional innovation system is really a difficult complex task and represents I think a very important frontier.

Fourth key building block, entrepreneurship. We talked about a lot of this earlier today so I won't belabor the point but I think it is the case increasingly that regions must grow more of their future in their own backyard because business recruitment is facing diminishing returns in a globalizing economy. And lastly synergies. The last building block. Every region has to exploit critical links with neighboring regions. That add to the economic upside. No region is an island unto itself but has powerful ties with other regions that can leverage its own competitive advantage. Rural urban linkages are good example of this. Chicago is going to compete with Paris and London, but its ties to the agricultural power house just beyond the metro complex can make Chicago's bid even stronger. For instance Chicago has powerful research institutions that may discover medical therapeutics that could be grown in Illinois fields. London simply can't do that.

Finally just a couple of words on the importance of regional innovation. One of the nation's leading authorities on innovation, Professor Michael Piori at MIT suggests that innovation is the result of two powerful but competing forces. One force he calls it creative dimension and think of what we're going to enjoy in about an hour, a cocktail party. The other dimension is the one he calls the analytical dimension, think of engineers and NBAs. These two dimensions used to be housed within single corporations. AT&T for instance had Bell Labs, the cocktail party, and Western Electric the engineers and NBAs. Globalization, however, is forcing corporate America to cut back on the creative side of the house in many cases. Thus a fascinating question is whether region consist supply the framework in which innovation happens in the place of corporations. Places like Research Triangle and San Diego offer reason to believe the answer is yes and helping all US regions do this really -- helping all regions do this really well is an important frontier.

>>SECRETARY PAULSON

Mark, thank you very much. Before coming out here today

Governor Napolitano and I were talking about the fact that you can have the best policy ideas but unless you can get the funding, get them through your legislature, get them enacted, it's -- they're not going to be very useful. And it's something that I have seen real time at the Federal level. So Governor, I would like to ask you, as you've -- you've had some innovative education programs, you have had some programs to attract business, you have had to fight off what was resistance to foreign investment, how do you prioritize, how do you make these tough decisions and how do you get things done?

>>GOVERNOR NAPOLITANO

Let me -- that's an easy question to answer in three minutes. Let me start last year I was the chair of the national Governor's association which is the group of all the Governors of the nation. And we chose as our focus the topic of innovation. And what do you do at the gubernatorial state level to foster innovation, the theory being that that is something that the American worker, the American economy has historically produced that always gives us a competitive advantage vis-à-vis the rest of the world. And we divide it into three segments. What do you do at the K-12 level to produce students who can be innovators, the second leg was how do you link in universities, particularly public universities, state colleges and community colleges which very often have been left off in their own world and not really linked directly into these strategies. Then thirdly, how do you develop regional economic development strategies that foster innovation? Now, at our level the K-12 step was pretty straight forward.

It's more what they call the stem subjects in school with increasing rigor in the class room, science technology engineering and math then you get into how to train the teachers, the methodology you use and all the rest. But now I would say virtually every state in the country has some sort of intensive program underway in that regard. By the way Mayor, that addresses your point about why is it that we have to have H 1B visas to get workers who can do math science and technology jobs? Why are we not also focusing on growing more of our own? On the linkage with the colleges and universities. That was probably our area of greatest productivity where we could see these can be helpful parts of innovation economic engine. We have powerful tools across the United States that too often have been in their own kind of islands and not linked into being an integral part of state economic strategies.

The idea going from a concept in a lab to a prototype to manufacturer and the growth of a business in your own state and lastly, the weakest part of this thing was whole idea of regional economic development. The reason

was to your question, Mr. Secretary, is because politics is not conducted at the regional level. You're not elected at the regional level. You do not campaign on the number of jobs you produced at the regional level. You do not go out and say we increase per capita income across a regional level. So we have to do a better job of making the translation from economic policies into things that voters on the street understand, appreciate, how it's going to improve the quality of their lives.

So when you take a trade agreement and put it in the Congress and you don't pair it with an economic development strategy that is going to help workers who feel their towns are being abandoned, store fronts boarded up, pair those together and force trade on its own way, I'm a big free trade, I think trade is essential to the global economy and I support it but if you don't pair it politically with something that helps those who feel they're being left behind it makes the political case more difficult. If you don't translate from a regional theory task force, whatever it is you want to call it into something that a local elected official, a legislator, city council person, Mayor or Governor can talk about when they're up for election, it's not going to be very effective. So one of the things that I would ask us to think about is how we translate from these concerns into how we actually conduct our politics on a good policy basis.

>>SECRETARY PAULSON

I thank you. I think it's very important at winning. That's why when we set up the free trade agreements up to Congress, we indicated a real willingness to be receptive to forming and expanding the trade adjustment by the assistance programs. I think it's very important to twin the two. Let me now go to Governor Mark Sanford, who has done just a great job at attracting foreign investment to South Carolina. His success there has been legendary. Governor, I would like to ask you, what have you found has been the single most important factor in getting foreign investors to come to South Carolina?

>>GOVERNOR SANFORD

I'd say it's a mull Tuesday of different things. Our Secretary of Commerce is here with us he's an able salesman for the State so part is having a strong and able sales force. I think part of it is having a tradition of receptivity with regard to foreign investment. South Carolina ranks number one in the entire continental United States of America in foreign direct investment. We're second only to Hawaii. And we're there in large part because there's been a long tradition of in essence making lemonades out of lemon. You go back to the civil war, we were capitalist all over

the place as is much of the south.

So one of the things the fathers of many years ago began to do is say how about coming to our neck of the Woods? So with Charleston and the port we have been connected to the rest of the world for quite some time. In essence we were globalization or connected before the country was cool in the world of globalization. So I would say there's a tradition on that front, I would say we've as a strategy gone after foreign direct investment. I would say it also just plays down to what are your ingredients, what are your sole cons as one State offer one region relative to another? And at the end of the day you can have the greatest sales force in the world, you can tell a good story, have a tradition on that front. But if you don't have sole conditions that are as conducive as the next place, you lose. So we have been very thorough and somewhat diligent about saying where are we on worker's comps rates relative to other states? What is our legal climate like relative to other states? Where do we stack on taxes relative to other states? Add to that infrastructure, port capacity, other things like that. But I think you got to go back to real basics because capital goes to where it's loved. And going back to the equation you were getting at a moment ago Mr. Secretary which is savings drives investment which drives productivity gain which drives standard of living.

I think what you have also got to do before the people going back to Janet's point is make the case back home for why foreign direct investment is important to their lives. So for instance we have taken a number of recruiting trips to China and our point has been look, you won't have a problem much greater than ours. We have lost textile jobs in our part of the world but at the end of the day American exports to China represent about 3% of our flows and we represent about 30% of y our flows. And you have got a growing political problem with regard to protectionism. And if you don't do something to pop that bubble you're going to have a very significant problem. Therefore, if you want to make a difference go to the epicenter where jobs have been lost and so in fact there's a higher manufacturing plant in Camden, South Carolina with about a thousand people in it. And for the folks working in Camden, South Carolina, this notion of globalization is not such a bad thing.

>>SECRETARY PAULSON

Governor, when I say to the Chinese when I'm talking with them, because I say your growth benefits us, our growth benefits you, I'm all for fighting to keep our markets open for you but you'll make my job a lot easier fighting to keep our markets open for you if you keep opening your

markets to us. And their exports are growing. Our exports to China are growing quickly but we need them to grow quicker. So I very much agree with you. Let me -- because you -- maybe some others, maybe someone else would like to comment. When you're looking at foreign global companies, a major foreign companies looking to invest in the US, what have you all found to be their biggest concerns? What are the biggest obstacles you face when you're trying to attract foreign investment? Do you have any -

>>MAYOR DALEY

One of the issues has been the perception whether Chinese or Arab investment. Maybe they receive the United States as not a welcoming place to do business. And I think that's prevailed seems like throughout the world. Are they perceived that we want their investment. We recently at least a public asset first to do this in the United States.

>>MAYOR DALEY

And we've had basically foreign investment from Australia, and of course Spanish firms, the consortium get together in leasing our sky way. And what it is is we had a public asset and we said if we can't get infrastructure money from the Federal or state government how am I going to improve the quality of life here? So we leased it. And we took \$1.5 billion and invested it right back in infrastructure of the city. Again, we welcome the competition. Throughout the world. To me that's what you have to do but there is a perception that many feel they're unwelcome here.

>>SECRETARY PAULSON

Was there -- Mr. Mayor, was there a political backlash that the public -- public concerned when that happened here?

>>MAYOR DALEY

I don't think so because we took the public asset and made infrastructure investments, at the same time we took long term and short-term investment funds on it and took the interest off that and did some human infrastructure like homeless program and others. Also right after 9/11 JC Cole was a bidder on our French company. A French company well received. It went over because this city has been founded by immigrants. Our past, present and future. So we kind of welcome immigrants in this city. We welcome foreign investments.

>>SECRETARY PAULSON

Makes logical sense but I can think of instances I remember back when Japanese institutions bought the Rockefeller Center. And I was trying to explain to

people that they weren't going to be able to take the Rockefeller Center and put it on an aircraft carrier and take it back to Japan. I know that in Indiana there was political backlash when the Governor raised money with a toll road to invest in infrastructure. What have you found many in your states about foreign investment?

>>GOVERNOR NAPOLITANO

From my standpoint one key thing I have been focused on is educating the world about Arizona. Around the world, they think of Arizona, it's the desert, cowboys and Indians, western movies, that sort of thing. When they realize Phoenix is the fifty largest city in the United States, there's a large growing bioscience industry there, optics, silicone valley of optics, solar is a growth area for us for obvious reasons. And there's the kind of institutions and workforce underlying that that will support these businesses. Key challenge is just educating people to assets Arizona has contrary to the stereotype. We have that issue sometimes with people in the United States themselves about what is out there in the Southwest.

>>GOVERNOR SANFORD

I think she hits on an interesting point which is there is so much noise out there

>>GOVERNOR SANFORD

It is very difficult to in essence differentiate your product, your region, your state for someplace else. And I think one of the -- to give you a compliment Mr. Mayor, one thing that stands out about for me, Chicago is you go anywhere in the world, folks will know about Chicago. They may not know about South Carolina, I suspect they would know about Arizona. So this whole point of differentiating from a marketing standpoint, your product, your state is probably our biggest challenge.

>>SECRETARY PAULSON

That raises another question because -- and I want to talk some more about innovation and some of the other issues that are the issues of this century. And Mark had mentioned earlier that competing just with taxes and tax incentives was the 20th century way of doing it. But there's still a lot of focus taxes. And I've had -- we had a conference in treasury competitiveness and I remember having the Intel people go through the tax arguments and the kinds of deals they're able to get in other places around the world. And I'd be interested Governor Sanford, you've talked about taxes, you've proposed a flat tax in Arizona. South Carolina. Excuse me. You wouldn't think of trying to give you that advantage in Arizona. And tort reform and so on. Then I would be interested to go to Arizona and talk a little

bit about where taxes fit into the equation when a company is getting ready to make a big investment.

>>GOVERNOR SANFORD

I think you have to describe taxes. For many large corporations when they think of taxes they think of tax rebates or tax incentives. Testify interesting the last panel the Chairman of Tupperware talked about how when Rubbermaid went up against them from the standpoint of product the question was do we go down market and try and compete with them on price or do we try and distinguish our product and go up market. They chose to do the second. So what we have said in South Carolina is with all due respect to business is they become very Detroit at wagering one state off the other and you can't bid high enough from the standpoint of tax incentives, there's an ultimate number but oftentimes it's a number that loses for the taxpayers of your state. So we have chosen to not try to compete on the ultimate dollar on that front but where we do think it's important to compete on taxes is that the individual -- at the individual or corporate level so you don't have folks in politics picking winners and losers in commercial marketplace. But you try and lower as much as possible the total rate for all businesses whether you're an entrepreneur with a dream and parents' basement or garage starting your business or whether you're a big business. And to look at business tax rates and individual tax rates which is a very reason we propose that alternative flat tax. That's the place you want to go lower on taxes because you're competing with a lot of little places around the globe.

>>GOVERNOR NAPOLITANO

One of the things on tax policy that I have learned is that as Mark said, it is so easy to pick state against state, region against region, who will give you the best benefit, the incentive and so forth. In the end that is not the most productive way to do it. So a lot of different tax strategies to be involved. One we employed successfully in Arizona was to link a tax break on -- called sales factor which is a tax break on goods that you sell out of state that brings out of state money into the state. It's not just move-in money around within your state. And it was tied to the amount of money that the taxpayer was investing also in Arizona, didn't even get triggered until a certain amount was invested in our state. So we made a clear -- in that case, in this case the major taxpayer involved a major taxpayer involved was Intel as they were looking where to locate a fab in the United States. So in that instance what we were doing is expressly tying tax policy with investment in our state and new money coming into the state to increase the overall amount of economic wealth.

>>SECRETARY PAULSON

Good. I would like to now go to a point that Mayor Daley made. And ask about that a bit. First of all, the major said that the Chinese or other investors around the world are concerned about going somewhere where they're unwelcome. And I know from my previous job working with companies looking to make investment or an acquisition that no one needs to make a acquisition so badly that they're willing to take very few CEOs are willing to put themselves in a political turmoil, get negative publicity, whatever, you want to go where you're welcome. Now, I have the responsibility of chairing the committee on foreign investment in the US which looks at foreign investment with the idea toward preserving our national security. That comes first but other than that we're open. And we need to be open for investment.

Now, there is a feeling and I would say the vast majority of investment made in the US and the vast majority of what's reviewed by SIFUIS is done without controversy but there's a growing concern around the world because there's no doubt that investments from certain places in the world meet with more public apprehension and scrutiny in the political process. So as I look at what some of you have done, Chicago opening up the office in Shanghai. I look at Governor Sanford at what you have dub with offices at various -- done with offices around various places in the world. I know some of the things you have done. Talk a little bit about that and what you do to counter act that to let companies know they're welcome and how active are you and how successful are those programs? Are they just things that seem like the right thing to do or can you trace jobs and growth and investment from those activities?

>>MAYOR DALEY

We didn't need the rest of world and now with innovation and technology we need it. We're one of the few public school systems we teach second language, Chinese, 7,000 young people learning Chinese in our public school system so when Chinese visitor come here we bring them to all types of schools. We're taking Arabic unheard of. Who wanted to teach that in a public school system in America? We're teaching it. When Mayors came we brought them to a south side school to meet students learning Arabic. Next year we teach Russia. You have to open the eye to citizens to say these are job opportunities for your children.

If they learn a second language it gives them great opportunities. When you bring the rest of the world here you show them not own their community but others, African Americans Hispanics learning second

languages. When we had the Chinese delegation here we brought them to a Hispanic school learning not only Spanish in their home, English and Chinese. In kindergarten. So what we think we have to do is we have to realign ourselves especially in our education system, understanding that our competition is not within, I'm not competing against Arizona, I'm not really not competing against South Carolina. I'm competing against countries and cities around the world. I think we have to truly educate our public about this.

>>GOVERNOR SANFORD

I would say this, I was just jotting down a note as to what the major just said. His quote just a moment ago was open eyes of your citizens. So what we have done is yeah we have foreign offices around the globe and that's helpful in making people maybe feel welcome. And we've have DMV licensing and foreign languages so if you're here from Germany you feel welcome in taking your license test. But at the end of the day what really makes somebody feel welcome is they're contemplating an investment in your state, your region, your city is when they go out to drink a beer after dinner with that local Chamber of Commerce crowd do, in fact, they feel welcome? If they don't, they can see through people's eyes, if they don't feel welcome at that very local level, more often than not it will scare them off. So my simple theory is in opening the eyes of citizens, one we have the responsibility to do that as civic leaders but two fear sells.

I don't know if you remember Thomas Friedman's book. The latest is Friedman 3.0. His is the greatest of competitions is not between you and some guy on the opposite side of the world, it is between you and your imagination and we're in this incredibly competitive area in world history based on globalization. In one book, I can't remember which, there was this little vignette of the parable of the lion and the Gazelle. That was at every morning there on the plains of the Serengeti The lion says if I don't outrun the slowest one I'll die. The Gazelle gets up saying if I cannot outrun the fastest lion I'll die. He likens that to competition and way of life. You want to talk about people getting real, about welcoming somebody into to their local neighborhood or community? Fear sells. If they really understand at a gut level if I don't get this right and attracting capital to my part of the world versus some other place my kids and my grand kids begin to lose, I think you begin to get the essence of a true welcome at that point. So I would say fear sells.

>>DR. DRABENSTOTT

Let me suggest there's another way of looking at the

other side of the coin that we're looking for. That is while there's a lot of focus on attracting foreign direct investment, if we are moving in to a more innovation entrepreneurial economy in a more framing, one of the questions is not so much how do we attract investment from the rest of the world but how do we recycle the wealth we have. And how we move toward equity funds where equity is going to be a much more important source of capital than debt capital in an entrepreneurial economy. How we build the mechanisms within regions and states to recycle the wealth and create the incentive for people to redeploy their wealth in the businesses in their own backyard. Seems to me the emphasis may well shift somewhat more on that direction and somewhat away from simply trying to attract foreign direct investment.

>>SECRETARY PAULSON

There's a lot of -- a lot of competitiveness. Maybe building on what you said to Governor Napolitano. Because as she said early on when she chaired the US Governor's association, and I remember reading when you looked at the global challenge we have in terms of competitiveness and you I think sounded an alarm. What I remember the big emphasis on innovation. And talk a bit about that an translating -- innovation is an attractive word. Everybody is for innovation but how do you make it tangible? What sorts of initiatives did you focus on there?

>>GOVERNOR NAPOLITANO

I think there are a number of them. One of them obviously deals with the public education system and what really are we training young people to be competent at what skills and competencies, is it different types of foreign languages? Technology skills, fostering very simple things, life supporting competitions for robotics design. You get all these teams of kids competing at each -- with each other on designing and building robots. These kinds of things foster what is taking the classroom to an innovative approach outside foster team learning, team application. That's the way innovative businesses are moving in the world today. And fostering the expectation that they will be competing in a global world. That they will not just be competing with the kid across the street or the kid in the next town over but across the entire globe.

I want to go back to the point about the linkage, the incredible asset we have in our country at the higher education level, particularly the public universities where so much research and innovation happens every day. And yet I venture to say a lot of us don't know the half of what is happening there to even get some ideas how to link that in to an innovation based

economic strategy. Think about this. Now that I know better what's going on in my State's public university, that in and of itself is targeting what kinds of foreign investment we are now looking for. We can use that as an attraction mechanism for some of those things around the world because we have the science, the research T laboratories and the brains to help foster a new product A new service and the like.

>>SECRETARY PAULSON

What you say about universities resonates with me because a lot has been written and said about our failings in the K-12. There's no doubt those are serious. I will say as someone not too long ago ran an employer hired from the best universities all around the world, I would put our universities, our college, our liberal arts education against any place in the world. Because we put out graduates that not to only learn fact but learned how to think, learned how to reason, learned how to question. There is an entrepreneurial spirit and innovativeness.

That is key. Now, at least my experience, to get back to Mark's point, I think when we emphasized what it would take attract foreign investors here, I didn't mean to say that this is all about foreign investment. But you know, it's very interesting. I said the same things of our capital markets competitiveness. Because whatever it is that attracts foreign investment to this country or repels it, whatever those things are, those are the things that are going to either propel our own competitiveness or hold it back.

In other words, it's a complete overlap. Because foreign investments going to look at what are they going to look at? The quality of the labor pool. Do they have -- do we have great labor force? They're going to look at things -- I had I was surprised at the number of times I had a company tell me we're going to build a plant in the Canada rather than US because of healthcare cost, rising costs of healthcare. So there's a variety of things that people look at. Talk a bit about one last question to wrap things up. Because as I travel around the world I hear particularly in the developed countries more and more developed countries talking about not just K-12 and not just colleges and universities but job training. How do we come up with programs to get to train people who want to work and give them the tools they need to be successful in today's global economy? Any thoughts on that in any of your -- how you're thinking about it?

>>GOVERNOR SANFORD

I would say for one don't treat technical education as a step towards second class citizenry. And God gives us all different attributes, different strengths, some

people are gifted in using their brain or their mind, other folks have aptitude with their hands. And I think the one of the things that we have done, again research is incredibly important, four year colleges are incredibly important but one thing we have done is we have to have a match between basic functions in our society and the education process that produces graduates that will be ready for those basic functions.

So we've almost got to this sort of position to say if you go to tech school and learn how to become an electrician or plumber that's second class. But if you get your bill from either one of those folks you see there's no second class citizenry and many of those folks are making more than college grads so one thing you have got to look at is matching the basic needs that you have in a state, city or society with what you're producing educationally.

[Applause]

>>GOVERNOR NAPOLITANO

And then to build on that, because I absolutely agree with that. Then to bill on that, one of the things that we have really employed is our Institutes of Technology. Most importantly our community colleges. Arizona has one of the top community college programs or systems in the entire country. And when we bring in companies they can be from other states or other countries. We set them down, they're talking about workforce development, they need to have continued retraining, updating of their employees. And they can go right in with the community college and develop that curriculum at a local institution so there really is a direct linkage made with their not just their initial training needs but their ongoing training and education needs tied directly to their employees and they know they have that avenue available to them as an existing asset.

>>DR. DRABENSTOTT

I would offer two quick comments. One is seems to me there's great power in aligning our workforce training with what a region's going to do best. The wired program department of labor launch as is a major step in that direction and offers a lot of useful lessons that we could learn from the future. The other thing I would say is that regionally based higher education, in many cases community colleges, can often play a very catalytic role in helping a region to coalesce and form. The Northeast arrow head region of Minnesota is a great case and point where a fantastic community college system there played the key role in bringing about a regional economic development strategy and fundamentally aligning that with workforce training. So there's a great example of how well it can work.

>>MAYOR DALEY

In the 60s and 70s educators closed them down because they believed every high school graduate has to go to college. It was basically you look the other way if your child did not go to college. So what is happening that's why we lost a lot of manufacturing. Because they didn't have a workforce ready to go into machine is all over metropolitan area of Chicago. Higher education never produces graduates to go to manufacturings. So our manufacturers come from China, Mexico, Europe, our manufacturers come from India. The new entrepreneurs here running specialized manufacturing with high technology so we have to create a workforce in high school to be able to get a job when they graduate from high school. How can you get a job if America gives their high school students and elementary students two or three months off during summer? And you think you're going to compete with the rest of the world?

This summer, every high school student has two to three months off. And they're supposed to come back in September and get ready for their junior or senior year and graduate they're supposed to go into a workforce. So what we have done in Chicago we have identified industries and after you complete fresh man year we'll give you a basic program with that industry. So when you graduate they tell me, Mayor, I need a workforce, not today but in 5, 10, 15 years if you want me to invest X amount of money and I'm going to have 2,300 employees at 30 to \$40,000 a year, so what I need is a workforce right out of high school at younger ages so I know they're committed about working for my company. And there's longevity in that company. And so that's one thing we're working with.

And I have the opportunity because I have the responsibility for the schools but in other jurisdictions you don't. You have to work with city colleges, elementary and high schools are separate agencies, very confusing so that's why we marriage basically businesses into our high schools that's one thing you have to do. So every child knows if he or she garage at least they can get a job. Then go on eventually to community college or go on to four year college.

>>SECRETARY PAULSON

I would say I thank you all for the -- your comments, but particularly on that last topic because I so much see that the next 10, 20 years the big job we're going to have as a nation is when we look at income distribution, when we look at competitiveness, whatever, is to figure out how to get the jobs and job training to the people that they need to compete in this economy. I can say there are a number of some good programs at the Federal

level, some well intended programs but I haven't seen any really good programs there. I see a lot of flawed programs and I would say I think this is something people all over the world are focused on, particularly in the major developed countries. But let me conclude by thanking y'all a lot, that -

[Applause]

>>SECRETARY PAULSON

You've done a great job. The Governor's story about the lion and the Gazelle reminded me of the bear story where there's two hikers in a valley in Montana walking across the valley and they see a bear about a hundred yards away closing fast. And one reaches into his backpack puts on his running shoes and he's buddy said are you crazy you can't outrun that bear and he says I don't have to outrun the bear. Just you.

[Laughter]

>>SECRETARY PAULSON

It is a competitive world but I tell you we have the tools it takes with the right policies and thank you all very much.

[Applause]

Town Hall Session

>>ASSISTANT SECRETARY BARUAH

Secretary Paulson, Governor Sanford, Dr. Drabenstott, gopher your Napolitano. For those in the audience, you may stand, you may stretch. We're going to start the town hall session in just a minute here. Thank you.

>>ASSISTANT SECRETARY BARUAH

Ladies and gentlemen, if you could take your seats please.

Maybe this will help. The only thing standing between you and a drink is y'all taking your seats. All right. Okay. This is where we change gears and we are going to open up the floor to you, to ask your questions of our town hall. Let me explain the process. First of all many of you, in fact, a very many of you submitted questions. And I have cards and cards of questions. We're not going to get through them all but I have great questions that are written. We're going to alternate between written questions and some questions from microphones. We have

four microphones and they will proceed to some central points and microphone people, if you could wave, do your Vanna White wave, there you go. To ask a question just proceed to one of these four microphone folks, they will hand you the microphone, you'll ask a question of our panelists and they will respond. So to get things started, first of all our first panelist for the Town Hall, my boss the Honorable Secretary Carlos Gutierrez

[Applause]

>>ASSISTANT SECRETARY BARUAH

The Chairman and CEO of Intel Corporation Dr. Craig Barrett.

[Applause]

>>ASSISTANT SECRETARY BARUAH

Chairman and Chief Executive Officer of Caterpillar Dr. Jim Owens.

[Applause]

>>ASSISTANT SECRETARY BARUAH

Former Secretary of Commerce and current Vice Chairman of J.P. Morgan Chase, William Daley.

[Applause]

>>ASSISTANT SECRETARY BARUAH

And our co-chair for today's event, the Mayor of Chicago the Honorable Mayor Daley.

[Applause]

>>ASSISTANT SECRETARY BARUAH

Well, while we -- okay. Since I have the power of the microphone which is wonderful, I love this job, I'm going to start with a question for all five gentlemen and we're going to go straight down the line here and it's a great opening question. What is the number one most important issue for US competitiveness? Richard Daley? Start with you.

>>MAYOR DALEY

Number one is quality of education we give to from early childhood education high school and opportunities in technical junior colleges and higher universities. I think that's the number one issue. And to me we don't have a clear national policy we have individual state policies or local government policies. We're not looking as one country in competitive market in the world so I really believe the number one issue is the quality education. Again an example previously that this summer we give your children off two and a half months. Only in America can this take place. And to me we really have to

relook at education throughout the year. And not to just use the old system we have been use for the last 100 years in America.

>>ASSISTANT SECRETARY BARUAH

Secretary Daley.

>>SECRETARY DALEY

I never disagree with my brother so -

[Laughter]

>>SECRETARY DALEY

A question I would agree on education. I also think there's got to be some coming to, I think the bipartisanship out there in Washington has killed any honest discussion about our economy and the future. And in some unified way there's got to be some coming together or else those of us who worry about the competitiveness of this country are going to continue to be worried and I think not be very optimistic if there isn't some coming to at some point after this election.

>>ASSISTANT SECRETARY BARUAH

Secretary Gutierrez.

>>SECRETARY GUTIERREZ

To add to what the dailies have said on the subject of education somebody Mayor Daley said a while ago that you have echoing all day is this idea of the global mind set. I was very impressed, few people stand up and say we are a city of immigrants and that it's good to speak more than one language. It's just the opposite of xenophobia, the opposite of economic isolationism, it's the opposite of nativism. That's where we should be going as a country is opening up welcoming people, speak more than one language. -- speaking more than one language. Getting used to the fact that we are part of the globe and not looking inward but looking out. I think you're absolutely right.

>>DR. OWENS

I didn't come here to disagree with the Daleys either. I think great edge case system is particularly important and may add a twist of math and science emphasis, we need in our school system to create innovativeness to stay cutting edge and certainly openness. We talked about FTAs in our last panel forcing industries to stay competitive at the leading edge in the world market is going to make us a great country.

>>DR. BARRETT

Best message I got was sitting in Silicon Valley and I opened a fortune cookie and it said, good talent will

always be in demand no matter what it resides. That says if you have the best education system you win.

>>ASSISTANT SECRETARY BARUAH

We have a question in the back.

>>AUDIENCE

I'm from the Detroit Regional Chamber. You may know Detroit is home to the busiest border crossing in North America. More trade crosses our border every day on an annual basis than anywhere else when you look at the value. Our trade between Michigan and Ontario is really fully integrated and much of what comes here to the Chicago area particularly by rail crosses in the Detroit area as well. So for much of our history that position on the border has been a competitive advantage for this country and for our region. But as new regulations are piled on and wait times increasing the price of gas goes up, that wait time becomes worse. The costs are becoming much higher and creating a competitive disadvantage at that border. What would you recommend the government do to try and balance national security with economic security to make sure that border remain as competitive advantage?

>>SECRETARY DALEY

I think first to acknowledge exactly what you said. That there is an economic competitiveness, an economic security issue on issues like the border, obviously we're all sensitive since 9/11 and sometimes the pendulum goes too far, they get -- there's no question that it has in many ways. But it's the knowledge that our economic security is as important as our other concerns around security. But my opinion is that's the first thing to acknowledge that's a real thing as opposed to yeah, we'll worry about the economics later on, it's just about sitting in trucks five hours to make sure somebody goes through every box with a dog.

>>DR. OWENS

If you look at the European Union they're taking down the border crossing and the inefficiencies that I drives. I would love to see the day in North America where borders are really very open. And I think the key for us becomes competitiveness is investing in the infrastructure so goods and services move efficiently. We're under investing in our roads, ports and railroads, we travel the Far East they're putting in high speed rail between their major cities. What are we doing? None of these kinds of investments are going on in the United States today. Or very little. Particularly inner city. And if we want to keep our competitiveness, these are things we need to focus on.

>>MAYOR DALEY

One thing the Mayors have done we passed resolution on the US side criticizing the Federal Government trying to slow down the border trade exchanges that hampered not just those cities adjacent to Canada but also Chicago and other cities relying on the trade throughout Canada with the United States.

We voiced a lot of opposition to really look at that. Otherwise if they delay all this, they slow it down, could have a huge economic impact upon Canada and the United States so we have taken a strong position dealing with Canada in regards to visas and everything else you need coming in out of Canada on a daily basis. that would hurt the economy not only of those cities but throughout this country.

>>SECRETARY GUTIERREZ

If I could add when the three leaders met Canada, US and Mexico, this was that border crossing Detroit Windsor was one of the top items on the agenda and if we're going to grow our trade

We need to add capacity at the northern border, southern border, our seaports, we can't leave it as is and to Secretary Daley's point we have this short term view of things and we've got to think of more strategic long term view because our trade is going to double over the next ten years. And unless we add serious capacity we won't be able to pull it off.

>>ASSISTANT SECRETARY BARUAH

Question in the back of the house.

>>AUDIENCE

My name is (indiscernible) I'm with -- I'm an entrepreneur here in Naperville. I have a question for Secretary Gutierrez. This morning in the first panel discussion we saw a highly distinguished panel openly challenge the political will of the United States. And it's happened at different forums different afternoon. How specifically does the political leadership of our country intend to leverage leaders like Mr. Gutierrez, Mr. Barrett and Mr. (inaudible) in accelerating the at best tenure run way that we have ahead of us in terms of waking up this country and really making it competitive in the world? Clearly we cannot go into the battlegrounds of global competitiveness without leveraging these brilliant minds.

>>SECRETARY GUTIERREZ

I appreciate the question. I think there's others that can add to it but that's for the executive branch to be a an executive body that executes. The interesting thing is that a lot of these jobs in

Washington are some of the biggest executive jobs in the world. If you think about the size of some of these organizations. And hopefully what you have is the ability to execute, the ability to operate, the ability to achieve results. And I think that's an excellent way of thinking about it is how do you get people in there who have run these things, who have -- somebody who has run a city like Chicago obviously knows how to execute and operate and get results. And I think that should be more and more that should be a criteria of operational and executional capability at the Federal Government level because it's huge. It makes all the difference in the world. I don't know if you want to add something.

>>SECRETARY DALEY

I think it gets back to awareness, forms like this, if this is -- if everybody leaves here and doesn't find some action to take to engage other people in the discussion of trade or competitiveness, then this was a nice day but doesn't really -- there's got to be a ripple effect going, I think there's still people in our system, politically speaking who just don't get what's going on in the rest of the world. And understand how difficult the next 50 years are going to be compared to the last maybe 50 years as the worlds change. Much of that change is result of US industry leadership over the last 50 years. And they have got to get it. That's -- and the way our political discourse happens, you can spend two weeks on Paris hill ton or some other movie star and what coverage does there come out about honest discussion like this of people who have interest and knowledge? Very little.

>>RAYMOND BARTUS

A written question. This one is to Dr. Barrett and Dr. Owens jointly. From your perspective as Chief Executive Officers of leading companies, what do you see as a viable solution for providing quality and affordable healthcare for Americans?

>>DR. BARRETT

Let me try first all of the dialogue we mentioned earlier this morning has been on ensuring more people, there's precious little focus on delivering better healthcare at lower cost. Use of information technology is a good example. Question I usually like to address to people is what was invented 135 years ago what means of communication that a doctor cannot be reimbursed by the Federal Government reusing with the patient? The answer is telephone. You can only be reimbursed on a face to face meeting through CMS, Medicare. Using telephones, using email, remote monitoring, remote diagnostic, electronic prescriptions. There's a ton of technology that has modernized every other industry in the world

which is not being applied in the healthcare side.

So it needs a systems approach as Michael Porter was saying this morning. You can't just say the healthcare crisis of the United States is 45 million uninsured. After you insure them you're still going to be spending 17, 18% GDP, twice as much as any other country and it's still going to be escalate at the rate of 200 billion or so a year. That's not sustainable. We will soon be paying more for an employee's healthcare coverage in the United States than it costs to hire that employee full time fully loaded in India or China. Just think about that, then ask why you would hire that employee in the US. We have to take costs out of the system and use technology to even give better care.

>>RAYMOND BARTUS

Dr. Owens.

>>DR. OWENS

I don't know that I could add much to that. We have to focus on cost and efficiency and improving the quality and much more cost effectively. I think one thick our employer-based healthcare system which is what most Americans rely on, we need to look at portability and better ways to give American citizens comfort that if you lose your job you don't lose all your insurance. I think in terms of winning popular support for trade, things we need to think about that dimension also but principally I agree, I think it's efficiency and using the technology base that we have to make healthcare more affordable.

>>RAYMOND BARTUS

Question from the front of the house.

>>AUDIENCE

My name is Byron (indiscernible) Department of Labor office here in Chicago. We've talked about innovation requires talent and we have talked quite a bit about the education process in that. I want to focus for a moment on the Federal Government policy on life long learning job training, C to J to WIA, we have been in debate in Congress for some time within the department we haven't passed anything new since '98. New administratives coming in referred to this morning. What advice, couple of key points for a new administration or for the department, what do we need to do in Federal policy to actually help generate and create this talent development in this country?

>>ASSISTANT SECRETARY BARUAH

Mayor Daley?

>>MAYOR DALEY

From my perspective you have so many programs not only for the Mayor but average citizen can't figure that out. How do you access to an employer? And if an employer wants to access that, does he access the whole Federal Government? And in the sense that you have an employer that wants to hire 10, 15 people they have to hire a lawyer and accountant and a lobbyist to figure out what they can get. And it's very complicated. I think it should be much more friendly to the employers in various programs. You have to consolidate them. There are too many programs out there. And you have to consolidate the program. One job training program, then identify various specific programs within that. From my perspective that's why employers will shy away from the Federal Government. They don't want the tentacles of the Federal Government to come into their operation. Maybe they have 80 employees or 150. They shy away. So some way you have to create a not for profit so they can basically benefit from that. Otherwise it's very, very confusing for an employer to deal with the Federal Government.

>>ASSISTANT SECRETARY BARUAH

Question right here in front.

>>DR. BARRETT

We don't bother. Why would you get the Federal Government involved? The half life of an employee in our industry, their knowledge, training is about, I don't know, three or four years so you have to retrain them on a continuous basis. If you went to the Federal Government, excuse me Secretary, Mayor.

[Laughter]

>>DR. BARRETT

You know but just do it. You have to do it to be competitive. There's a great saying another fortune cookie saying which is a small deed done is better than a great deed planned. Federal Government is great at great deeds planned. Private sector is great at small deeds done. Just do it.

>>SECRETARY GUTIERREZ

I would add in the private sector seems we spend a lot of time pushing accountability down. The more you can make people accountable the better the results will be. And what happens here is just the opposite where somehow we think that pulling things toward Washington will make them better on the ground. It's really no different than in a company. If you want people to feel accountable, to get results push it down. Push it down to the local level, not pull it to Washington. That's not the way to solve these problems.

>>ASSISTANT SECRETARY BARUAH

Is it just me or is anyone else concerned that the Chairman of Intel gets a lot of advice from fortune cookies?

[Laughter]

>>AUDIENCE

My name is Dick Fleming President and CEO of the St. Louis Chamber Association. Thank you for an insightful day. Looking to the threads and themes of all panels in one way or another immigration free trade and ramped up R&D investment in innovation have been kind of building blocks that we've talked about. Yet when we look at prospect of the two candidate whose are going to be running for President in November, perhaps the primaries have driven them to opposite ends of the spectrum. But they're certainly between the two candidates and prevailing public opinion we seem to be far away from the compelling merits made on those three issues. I would be interested in the panel's advice if your advising either President Obama or President McCain on how to do a Nixon goes to China or Bill Clinton goes to NAFTA in their first year of office how do you make the case to them given where they are today?

>>SECRETARY DALEY

I think you can't necessarily separate them. And Jim made a comment regarding healthcare. I think healthcare and the need to get something done in healthcare will go a long way in easing anxiety of people that the only place they really have a chance to take it out on is trade. Can't take it out on technology, can't blame the machine for your losing your job. But you can blame a trade deal. And or the anxiety that comes from not only you lose your job, worse than that maybe you lose your healthcare. Until we look at what -- forget the crazies who just don't believe in trade. Either extreme who have the extreme positions of there should be no rules just have trade period forget everything else or the other extreme keep everything out. The people in the middle, there are legitimate anxieties and concerns about globalization going on and trade is one place you can blame it for anything and people blame NAFTA for everything in their life that goes wrong but I think we have got those of us who believe that it's important to begin to change this, we have to look at some of the undercurrent things that we can address that can hopefully over time begin to alleviate some of the anxieties that exhibit themselves in some of this irrational discussion by the political people. But I would say healthcare is one of the bigger ones.

>>DR. BARRETT

Got to get candidates, all of Washington D.C. out of

Washington D.C. there should be a prerequisite you need about 25 visits in your passport. You have gone there seen what's happening in the ground on education, industry and competition. Until you know what you're competing with it's very difficult to formulate policy. I guess my contention would be Washington is relatively isolated from the rest of the world. Washington hasn't a clue what the US is going to be competing with over the next 10 to 20 years. They need to see on the ground what's happening in China, Vietnam, in Brazil, in India, the hot spots of the world. If you see what's happening there you can't come back and say we're okay. All we need to do is cut the gasoline tax. We're okay, all we need to do this, it's not simple. You have to see what you're competing with. I'm not clear that Washington is there.

>>SECRETARY DALEY

I think there are people in these discussions that understand that but it's -- I think the vast majority of the American people, it's worse than just politicians not knowing it or even though who travel the world and know it still take positions that seem irrational. I think the real concern is the American people don't get what's going on in the world.

>>DR. OWENS

Our politicians are essentially playing for votes. As a business leader who spends a fair bit of time talking to people in Washington and trying to encourage them to support global competitiveness and international engagement I can tell you a lot of congressmen and senators say I understand but the people back home, the people voting for me are vehemently opposed to trade. It's a hard to sell back home. So I think I worry too. We come to a meeting like this, if everybody who is here today already believes in trade, I've wasted my time.

I should have stayed home. Unless you go out and help convince people that being internationally engaged is key to our country's future and success and we start to win over the hearts and minds of people I think the American CEOs have got to get back out on the biscuit circuit at the rotary club helping the public really understand, we have got to look for bipartisan solutions that help us compete in the world market. And we right now it's just being demagogued on both sides, the extreme right or extreme left and the American public is going to be very ill served if we don't change this course quickly.

>>SECRETARY GUTIERREZ

To those three points, right now the congressional agenda, this is a bipartisan comment. Number one, you say trade, we have free trade agreements that are

standing still being held up. We changed the Congress changed trade promotion authority rules so they wouldn't have to vote on Columbia. So that's the first thing we could do is vote on these agreements. Second thing you mentioned was immigration, we were not able to get a comprehensive immigration reform through. This is a bipartisan comment and we need to do that. The third point is on innovation and research, I just put one example up there, the American competes act, overwhelmingly approved by Congress. But when it came time to put money behind the program, money is not there. So those are three things that you mentioned that Congress could do something about immediately.

>>ASSISTANT SECRETARY BARUAH

Next question back of the house.

>>AUDIENCE

(indiscernible) with Regional Commission. I would like to follow up on that, Secretary Daley and others mentioned about what we could do here. Given most of us are either in business or academics or at the government level somewhat lower than the secretarial level, what one thing would you suggest that each individual here could go home and do tonight or tomorrow and what two or three things could we do over the next month or so?

>>MAYOR DALEY

I hope you go to your business community and have a discussion on free trade and competitiveness in your community. At the same time go to your high schools. Go to your junior colleges. Talk about how important the world is to the United States. We don't get it. If we don't we're going to be washed up. That's why I'm bringing language into the school system.

That's why we go overseas to hire our teachers overseas. Math and science teachers. Higher education is not producing math and science teachers so you have to educate your business leaders how important trade is to the United States and how many jobs not only in the city of Chicago but in the rural areas, small towns, some way are related to basically a trade agreement. And foreign investments. And here just in Chicago northern Indiana, Wisconsin we have a huge amount of foreign investments from around the world coming in. If we didn't have that, where would we be as a global city? I would encourage you to go back into your Chamber of Commerce, your junior colleges, your high school and become a speaker in regards to the future of America and how important education in math and science and languages are with the future of this country.

>>SECRETARY DALEY

I agree once again, but find the group that you think probably doesn't get it. And try to engage them. I think the idea of the high schools, the -- to get these kids to understand what's going on in the world and what they're faced with in five, six years, as they get into the workforce, if they don't get it, those of us who are at the back end of this thing is not as important as those at the high school level.

>>DR. BARRETT

One thing I said this morning, go to [neigh's report card.gov](http://neigh'sreport.card.gov). Look up your home state and find out how many of your kids are proficient in math, science or reading. And then ask yourself how come 70% are not? And what can you do about it at the local education level? Until there's a public outcry from people and the media that that is an outrage, not much will change.

>>ASSISTANT SECRETARY BARUAH

Go to a written question, this question is for our two Commerce Secretaries and Dr. Barrett. Roughly 80% of the US GDP employment is attributed to the service sector but we have heard little about that today. Can you please give your views on the importance of innovation in the service industry and the importance of the service industry overall in our economy?

>>SECRETARY GUTIERREZ

That's a great question. You're absolutely right. This is services are a huge part of our economy, almost 80%. That's not a bad thing. The more developed an economy becomes, the more services become part of that economy. And that's just -- look around the world, look at different economies. We can measure say the agricultural sector really well. We can tell you down to crops and regions and then we do just about as good in manufacturing, in services we know very little in comparison. So we've actually put money in our budget so we can start parsing services down and measure it better.

We don't know enough about our service sectors. That's one thing I would say. Second thing is we have a huge surplus in exports of services. That's everything from tourism to financial services to consulting, you name it, and it's only about 30% of our trade. So that's more of our growth can be. But whoever asked the question is absolutely right. We need to talk more about services. A lot of questions here were about manufacturing, manufacturing is very important. Agriculture is very important. But you talk about the bulk of the economy, it's services and these are what people used to talk about, these aren't hamburger flipping jobs. These are high paying high skill jobs and I tell you that's very much the future. So you're right on.

>>DR. BARRETT

Financial services as the Secretary mentioned is a big deal for the US. I can't think of a business area that uses more computer technology. I mean, it is the fastest computers, fastest algorithm, makes split second decisions on financial transactions that creates competitiveness and their ability to succeed so they are at the leading edge really of technology every day. And I think the utilization of technology makes the US financial sector that much stronger.

>>SECRETARY DALEY

The only thing I would add to Craig's and SEC's comments is we have to be more aggressive in our trade deals on service sector to open up a lot of countries that have not been open to the service sector. Financial service sector and others. And the US has to get -- I think we all have to get more aggressive to see some of these countries open up so we can do a better job in the parts of the world we have undone over the last couple of years.

>>ASSISTANT SECRETARY BARUAH

Next question microphone right here.

>>AUDIENCE

Thank you. Betty (indiscernible) with Origin Associates, I also sit on the President's Export Council and I chair the Subcommittee on Technology and Competitiveness. So the question here is as a service provider, thank you Secretary Gutierrez, I supply a service supply chain management. One of the things today we talked about China, we talked about leveling the playing fields. A lot of concern in the small medium enterprise because not only are we competing in this, corporations have challenges globally, so do we here at home. We compete here with companies that are being supported and funded by countries like China to come here, set up operations. So now they own the manufacturing, they own the -- they do a lot of the vessel, they also do a lot of supply chain. So what do we do in corporate America to support some of our local SMEs, Small Medium Enterprises, here at home to grow here as well as support you as you grow internationally like China does with their SMEs.

>>DR. OWENS

We work very hard with our purchasing global purchasing group and with our key suppliers. And we're investing a lot in improving their technology, their delivery capabilities to us. Certainly we're not doing nearly as well I must add as we would like to be doing at the moment and we've really been stretched on capacity but we're very much focused on the fact that value change

win. We're very large exporters from the United States. Usually top 5. Last year 12.7 billion, this year it will grow. A lot of our employment is export related and probably three times that is in our supply base.

Both service providers and manufacturers, small manufacturing companies. So we're working very closely with them to enhance their ability to feed our assembly plants. I think proximity to our assembly plants gives you huge competitive advantage. We're setting up fully integrated manufacturing presence in each hemisphere. In the manufacturing context today you have to do that to be competitive with currencies fluctuating the way they do over extended cycles. You need to be manufacturing in every hemisphere and naturally hedged. Having a great supply chain and highly integrated one is key to that success.

>>DR. BARRETT

I think if you look at three panelist whose have had cat, Intel and Boeing today three of the biggest exporters in the United States who have a great bit of their manufacturing located in the US, we do exactly what Jim was saying in terms of you go to great extent to try to develop a supply chain, locally, small suppliers on up, because having that consolidated in the area that you're working is very convenient, speeds up the process, makes it more efficient.

>>SECRETARY DALEY

Can I add a point? I think you raise an interesting point though and that is this government support by foreign governments of that supply chain of those companies, if not direct ownership, very aggressive involvement that may give them a competitive advantage. As we look to disputes whether trade disputes or oftentimes because it's a service sector some of them, it's outside, one has to question that level of industrial policy by some countries and whether that puts us in not only SMEs, others at a competitive disadvantage.

>>MAYOR DALEY

One thing I found as Mayor traveling, I bring corporations with me when I go to China, and I talk on their behalf. Many located right here in the Chicago metropolitan area. One thing governments are sometimes afraid we're getting too close to business. I'm very pro business. That doesn't mean I don't have disagreements with them on issue but I need businesses to grow the city with employment and opportunities for many, many people. Seems like America we have a love hate relationship with business. It's too bad. It's always confrontational. You can bring people forward and ask them questions in

regards to their industry but we have to get a feeling that we're very proud of these businesses.

It has a huge effect upon not only America but the world. So my position is always been very pro business. And understanding when you go see somebody else in a foreign country they will ask well I get so and so companies have investments in your city. They will tell me specifically what the companies are and how much they're investing in the city. I think America has to realize that the business community is -- should be really a partner in a sense that we should foster better relationships with our business community in America, medium size to the larger global companies as well.

>>ASSISTANT SECRETARY BARUAH

That leads into a great question Mayor Daley that we have written for you. Government resources at all levels including the city level are limited. How do you prioritize attracting new industries and innovative industries versus maintaining the manufacturing AKA lower skill jobs in the Chicagoland region?

>>MAYOR DALEY

First of all I think the Federal government they don't have to balance their budget. If you don't have to balance the budget I can promise everybody something in America. That's what has been going on for far too many years so here in Chicago you have to have a good workforce. That's number one. And you have to technology is coming into manufacturing. Specialized manufacturing is coming back. We know that we believe that transportation will be the key. Air transportation for cargo. Everybody thinks it's only shipping. But if you look at that time Ports of California and other ones, you have a real issue there. So we think air transportation cargo will be the future bringing in much goods from the rest of the world.

At the same time looking outside as a city to lease your public presence basically rebuild your infrastructure, schools, parks, water, sewer, streets, really make a city better on a daily basis because they come here they have the perception is it clean, is it welcoming, what's the workforce. So you're really -- you have to build it, you can't wait for the State or Federal Government because if you do, you'll be waiting a long, long time for infrastructure. So what we're doing now is basically leasing assets and initially putting back into infrastructure. And if you look at other cities, take New York, London, they have infrastructure problems, take Shanghai. The amount of money they spend in China on infrastructure, in the Middle East, it's amazing. So we have to. How do we build older cities? If you don't have the help of Federal Government, local

government has to do it and you have to be creative on the financial side.

>>ASSISTANT SECRETARY BARUAH

I have lost my place, let's go right here in front.

>>AUDIENCE

Thank you gentlemen for all being here. Wonderful conference. Do you see any concerns in opening borders in regards to our national sovereignty, our identity as a nation or the watering down of our US Constitution? In other words, do treaties supersede our US Constitution? Thank you.

>>SECRETARY GUTIERREZ

That's a great question and the answer is no. We have -- we've got treaties with countries around the world and if anything because we are the large country and because we are the -- the largest economy in the world, the countries with which we have treaties and agreements are the ones that usually worry about this. Because we're a \$14 trillion economy, we're doing trade deals with economies that are \$50 million, \$100 billion, a minute part of our size so they worry about that but in the end they say let's go ahead with it because we have got to do this because it's good for growth. So I don't think that that should be our concern. Our sovereignty is strong, we are strong as we want to be and we shouldn't feel threatened by the rest of the world. We are the largest economy in the world so we shouldn't feel threatened. If anything, there's huge opportunity and the stronger we get the stronger our sovereignty gets. And we don't make it stronger by going on the defensive.

>>ASSISTANT SECRETARY BARUAH

Let's go back to a written question, this is for our two corporate leaders. There's been much talk about political will, the lack of political will to support free trade agreements. Research shows that global free trade has produced 1 trillion in new wealth but 100 billion in dislocation costs. Politician versus to deal with this dollar cost problem. What are you going to do to help them? Ten words or less.

>>DR. BARRETT

We were talking about this backstage and I think they talked about it accurately in the session today. There are no data that suggests free trade is bad. Every metric says it's good. Unfortunately like many things in the United States, the data are lost in the discussion. And it gets to be an emotional discussion about I lost my job because of free trade or something like that. So if corporate America could do anything it is to convince local voters this is not their problem that competitiveness is their problem. When you talk to the

elected politicians and several of us had experience with CAFTA, NAFTA and several other issues and when CAFTA almost got scuttled because 1% of US sugar consumption was going to be imported from the central American customers, 1%, and not one senator from one sugar beat growing state in the United States voted for it on the basis of I can't get reelected if I let 1% sugar come into the US. We have to do a better job selling it at the local level. Because I think philosophically the politicians understand the value of free trade but they say I can't get elected if I vote for it. Because my constituents don't understand. So getting back to the local level. We haven't done as good a job as we can selling.

>>DR. OWENS

I'm chairing the Trade Investment of the Business Round Table, the largest 160 firms in the country. We spend a lot of time there talking about what are we have to do to reengage the public. I think this is about reengaging the public. Because we can't win the politicians unless the people that vote them in understand more so corporate executives have to partner with the local politician whose get it and we have to go out and spend some sweat equity at the Rotary Club, Kiwanis Club, convincing our employees and our own suppliers. I enjoy speaking at universities these days, commented on our panel. 95% of the academic economists believe in the free trade, most are liberal democrats, somehow they have kind of divorced these two, the debate going on in the political primaries from their academic knowledge. What's wrong with this picture? I think we have to do a better job of not doing something silly for our country turning inward.

>>ASSISTANT SECRETARY BARUAH

We're going to take our last question from the audience. I'm sorry, way in the back.

>>AUDIENCE

It's a follow up on the free trade issue. I'm just wondering if it isn't more than a public relations issue how should we do that? Who should do it, the public he can sector or the private sector and what efforts are underway on a national regional and local level?

>>SECRETARY GUTIERREZ

I'll say two things. We have a very large budget at the Federal Government level which is called trade adjustment assistance. And it's designed to help dislocated companies, workers when they are affected directly by trade and I'll say the President has actually said that we're willing to talk about if there are ways to strengthen that in a way that's logical, that's common sense that makes sense for workers, for impacted -- who

are impacted by trade. I think there's also this comment made a while ago about life long learning, community colleges, and also taking individual accountability for one's career. Someone was saying your best asset is your knowledge and what can you do to improve it? I think it's combination of relying on the public sector but also recognizing that this is about life long learning, it is a competitive world. And what can we each of us do as individuals to learn something new every year, every day? But we do have a big budget called trade adjustment assistance. And we use it quite often to help dislocated workers who have been impacted by trade.

>>DR. OWENS

Only thing I would add to that, a lot of encouragement, Business Round Table is working on a program called "Vision 21", and really focused on helping all workers who lose their jobs with education opportunities to help them reengage in the workforce. The fact is I flinch a little bit at trade promotion or trade assistance adjustment because most people who lose their job don't lose it because of trade. Gives trade a bad name. More jobs have been lost because of productivity gains. So I don't care why you lost your job. If you lost your job and feeling disadvantaged we find more creative ways to get people re-employed. But you're right Carlos. To Craig's point earlier, almost every major company in the country is spending money every year training and developing their employees because to stay competitive we must. At Caterpillar we spend probably \$100 million dollars a year to train and help us be a winner in the global economy.

>>ASSISTANT SECRETARY BARUAH

We have just enough time for a final word from each panelist starting with Dr. Barrett.

>>DR. BARRETT

It's my last fortune cookie, I promise. Fortune cookie says to win you have to choose to compete. My worry is the United States has not chosen to compete.

>>ASSISTANT SECRETARY BARUAH

Jim Owens.

>>DR. OWENS

I'm going to start eating more fortune cookies. There's a lot of wisdom in those things. I encourage everyone here, I think most likely you're here because you are already believe that it's important for the United States to stay engaged in the global economy and because you believe we can win. I think we need to really focus our efforts on creating government policy that enables American industry to compete and win in the global

marketplace. I think we have dozens of great companies demonstrating every day that American industry can compete in the global marketplace. And our service businesses too. So we just need to give encouragement, create the right kind of policies in Washington to encourage us to win as opposed to trying to play defense and build walls.

>>SECRETARY GUTIERREZ

Our biggest potential is economic isolationism, protectionism ironically does not protect. The only thing that does to Craig's point is competition, innovation, being better than the other company, launching new product, opening up new markets. And competing.

>>SECRETARY DALEY

I think we have to have an optimism about our ability to compete. The world is changing, two things we have got to do, first understand that as a general public, the electorate and America has to understand the world has really changed fundamentally and but we do have enormous advantages in this country and we have got to be a little more optimistic about our chances if we acknowledge the difficulties first and acknowledging that is probably the most difficult thing right now for the American electorate.

>>MAYOR DALEY

We're a city of immigrants past present and future. America is so great that even today such a young country we achieved so much in the dreams and the opportunities we given to people. Not many of us grew up during the depression but those are really difficult economic times. These challenges that we have as a nation I firmly believe can be overcome by each and every one of you doing your part in educating the rest of the public. I am convinced that this is the greatest country in the world and to me there are people knocking on our doors to get in here. Because they realize this is the country of opportunities. Thank you.

[Applause]

>>ASSISTANT SECRETARY BARUAH

Thank you very much. And if I can get the panel members to stay exactly where they are. Mr. Secretary, if you could come up here to the podium for your final closing remarks.

>>SECRETARY GUTIERREZ

Thank you, very much. And first let me just thank all the organizers and I'll mention a few groups of people, the staff from the Commerce Department especially

Economic Development Administration, Sandy our leader and hero, Sandy? Right here.

[Applause]

>>**SECRETARY GUTIERREZ**

Kelly O'Brien, Kelly, please stand up, take a bow.

[Applause]

>>**SECRETARY GUTIERREZ**

And all our presenters and moderators and members of panels and I think they've added a great deal to this conference and they're the ones who have made this a success. So please even though they're not all here, there are four up here on stage, let's have a round of applause for them.

[Applause]

>>**SECRETARY GUTIERREZ**

And if I may I'm just going to make some very quick closing comments. And just try to summarize some of the things that we learned today. That I think can add to the discussions in the debate. A couple of numbers first of all. Immigration has come up. And it's come up as a factual need. It's a very emotional issue but let me give you a couple of very quick numbers. If we go back the last ten years to the ten years that ended in 2006 our labor force so domestic born and foreign born workers, that includes some immigration grew at about 1.2%. That's the number of people entering the workforce in the US. If we want to grow at 3, 3 1/2% we have to have a certain amount of people entering the workforce, if you have 2% labor growth you're going to get 1% from productivity. But the numbers have to add up. Over the next ten years our labor force will grow at .8. That includes foreign borne workers entering workforce and the percent of people from 16-24 will decline by .7, 25-54 will grow by .2. And the largest portion of our population is 55 plus. Point is regardless of emotions we cannot grow as fast as we want to grow without immigration. That's one point. The second point we have talked a lot about education. And how important education is.

I don't think it's every bit as important.

Unemployment in April was 5%. If you take people without a high school diploma our unemployment was an average of 7.8%. If you take people with more than a high school diploma, some kind of a college degree our unemployment was 2.1 so it's never been clear that the more education the better the jobs the more the jobs and that number says it all for me. Two more points from today. Michael

Porter mentioned the only way forward is competitiveness. We have to believe that growth is a noble goal. That creating jobs, prosperity and better and demanding and rewarding lifestyles is what we're all about. That's what we're here to do. And if that's the goal, and I don't see why it wouldn't be the goal, then the only way forward is to compete more effectively. Finally, a point that came up throughout the course of the conversation is this idea of that we're not in a zero sum game. I found that to be an incredibly compelling idea.

This notion that if someone is successful, that means that someone else isn't successful. And just suggest to you that that philosophically, that is an idea that can ruin our country. Because in the end what counts is not to take wealth and redistribute it, that's pretty easy to do, I mean the country I was born in what they did in order to achieve equality is they made everyone poor. That's pretty easy. The challenge is to create wealth. To create new prosperity. Create new jobs. That's the big challenge and I think that's what this conference is about. That's what you know that not everyone knows. If we can get that word out and not fall into the trap assuming that wealth has already been created, it's 100% and if we want to improve people's lot we have to take something away from someone to give it to someone else. It's a trap. We are all here, the magic of this country is that every day we go out there and create new wealth, new prosperity, new jobs, and give everyone an opportunity to move up. That's why we are the greatest country in the world. And thanks to you we can continue to do that by sticking to what got us here. Thank you very much for being here.

[Applause]

>>ASSISTANT SECRETARY BARUAH

Thank you very much. The reception starts shortly. Have a great night. Thank you for coming.