Securing Growth and Jobs:
Improving U.S. Prosperity in a Worldwide Economy
The Business Roundtable is an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees in the United States and $3.7 trillion in annual revenues. The chief executives are committed to advocating public policies that foster vigorous economic growth; a dynamic global economy; and a well-trained and productive U.S. workforce essential for future competitiveness.
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Executive Summary

Over the past several months, worldwide sourcing and international investment have generated an intense public debate, with dire warnings that the United States is “shipping jobs overseas” due to foreign “outsourcing.” The issues are much more complex than some of the media coverage about U.S. economic and job growth suggests.

The Business Roundtable, an association of chief executive officers of leading U.S. companies with 10 million employees, urges policymakers to pursue substantive initiatives that will help grow our economy and create more sustainable jobs in the United States. The Business Roundtable also recognizes that even though participating in this dynamic worldwide economy is adding to Americans’ overall prosperity, individual workers or businesses do not always benefit. Economic growth alone provides little solace to a person who loses a job because of domestic or foreign competition, new technology, or increasing productivity. Together, policies that promote trade, education and training, and investment and innovation will result in both economic growth and job creation in the United States.

Promoting Worldwide Trade

+ Improving Education and Training

+ Fostering Investment and Innovation

= Economic Growth and New Jobs in the United States

One of the biggest challenges facing the economy is that worried U.S. policymakers, while genuinely concerned about Americans who have lost their jobs, will undertake efforts that actually will stymie growth and job creation by imposing counterproductive laws and regulations. New government restrictions on worldwide sourcing would not create any new private-sector jobs or give any unemployed worker the new skills that he or she needs. Instead, such restrictions would serve only to raise prices for U.S. consumers, give taxpayers less value for their taxes, and start a downward spiral of international recriminations that would reduce economic growth and job creation.
Effective solutions must be based on a balanced assessment of the facts and a correct diagnosis of the problem.

- Although economists are still studying the current unexpected lag in job creation, one of the causes is known already — higher worker productivity. The sources of higher productivity also are clear — the new technologies that are improving our lives, our homes and our workplaces. Surely no one would argue that the United States should halt technological change.

- Worldwide sourcing is not a new phenomenon and is not limited to the United States. Its advantages to the United States are twofold: U.S. companies obtain cost-effective services from other countries, and other countries obtain them from U.S. suppliers. Overall, the dollar amount of the services the United States sells to other countries is 25 percent larger than the services they sell to the United States.

- Twenty years ago, there was a great deal of concern about U.S. policies of economic openness that permitted large flows of foreign investment into the United States. Yet this foreign investment now is widely recognized as having been very beneficial for the U.S. economy, particularly for workers and consumers. Since 1990, foreigners have made direct investments of $1.5 trillion in U.S. companies and factories, and foreign firms are responsible for more than 6 million U.S. jobs.

- Assertions that job losses in particular companies diminish the aggregate number of U.S. jobs distort the fact that the dynamic U.S. labor market both creates and eliminates about 30 million private-sector jobs each year.

- The U.S. economy, recovering from the recession that began in early 2001 and was exacerbated by the tragic events of September 11, 2001, is now growing. The Bureau of Labor Statistics predicts that the United States will net 21 million new jobs between 2002 and 2012.

Now is the time for government to rev up the engines of growth so that more U.S. workers can be employed in high-wage, high-value-added jobs. Better jobs and higher standards of living are created by new investment, which will occur only if there is greater market demand and a good domestic investment climate. As described in this paper, it will take a smart package of policies — to promote export expansion, prevent a U.S. dollar misalignment, stimulate foreign economic growth, facilitate research and development (R&D), encourage new investment in manufacturing technology, improve worker adjustment and education programs, and raise U.S. student achievement — to solve the challenge. No single policy will suffice.
The Business Roundtable supports an active policy agenda to promote U.S. economic growth that should, as a start, focus on the following key areas:

- **Promoting worldwide trade and stimulating international economic growth.** Trade expansion is one of the most important catalysts for economic growth, and an increasing array of economic evidence is clarifying and quantifying the benefits of more open economies. To help companies export their products to the 95 percent of the world that lives outside of the United States, new U.S. trade agreements to open up foreign markets are more important than ever. Isolating the United States from the world economy is a losing strategy for American companies, workers, farmers and consumers. However, U.S. economic performance alone cannot drive the entire worldwide economy. The U.S. government also must continue to develop and implement vigorous policies to promote international economic cooperation.

- **Improving education and training.** The United States should be steadfast in its emphasis on improving the skills of today’s U.S. workers through better education and training and the skills of tomorrow’s workers through dramatic improvement in the education of U.S. students. Each year, U.S. companies invest more than $70 billion in job training. Even as the United States prospers in the worldwide economy, some workers may experience declining earnings and job instability. So an expanded effort by companies, labor unions and all levels of government is needed to help workers adapt and gain more benefits from the worldwide economy.

- **Fostering investment and innovation.** Spending on R&D is central to maintaining U.S. technological leadership. Federal investment in basic research has been the foundation for many important commercial advances, and other countries now recognize the importance of increasing government funding for research. Since 1970, the federal share of total R&D spending has declined from 57 percent to 28 percent, and that percentage, particularly for basic research, must be boosted.

- **Doing no harm.** While enacting and implementing new policies is important, avoiding policy missteps is just as important. As in the Hippocratic Oath, the most important step U.S. economic policymakers can take is to avoid unintended harm to the U.S. economy by resisting counterproductive ideas, such as proposals that would impose new tax, regulatory or procurement restrictions on how U.S. companies invest and trade worldwide or that would isolate the United States from the world economy. Those who would retreat from the worldwide economy with the expectation of “saving” U.S. jobs are ignoring not only the lessons of economic change but also the lessons of history. Instead, government officials should promote policies that encourage economic expansion, spur trade, and enable companies in the United States to grow and create employment at home.
Recommendations for Federal and State Leaders

The following recommendations will be most effective and have the most benefit for the U.S. economy and the American workforce if they are acted on as a package. Taken together, these recommendations to promote trade, education and training, and investment and innovation will result in both economic growth and job creation in the United States.

Promoting Worldwide Trade and Stimulating International Economic Growth

- Negotiate more international agreements to open up foreign markets.
- Ensure all countries comply with their international trade obligations.
- Continue trying to convince other countries to adopt trade, fiscal, monetary and regulatory policies that will stimulate their own economic growth.
- Encourage other countries to refrain from policies that keep their currencies artificially weak and distort trade.

Improving Education and Training

- Identify how all of the public programs that now provide worker education, training and adjustment assistance can increase their flexibility, accessibility and effectiveness.
- Modify existing trade adjustment assistance programs to include workers in services.
- Launch a national initiative to design a new worker education, training and adjustment system for the 21st century.
- Stay the course on implementation of the No Child Left Behind Act to improve reading and math achievement of the students who are tomorrow’s workforce.
- Move dedicated support for improving math and science education to the top of the list of federal education funding priorities.
- Design education and immigration policies to address the impact of demographic and higher education enrollment trends on the scientific and engineering workforce.

Fostering Investment and Innovation

- Increase federal funding for basic research.
- Make the current federal tax credit for R&D permanent.
- Restructure the double tax on corporate income and the alternative minimum tax.
 Decrease the disincentives for new investment created by excessive government regulation and frivolous lawsuits against U.S. companies and their workers.

**Doing No Harm**

- Avoid high-risk, isolationist policies that would choke off economic recovery.
- Avoid regulations and tax penalties that will restrict investment, sourcing and staffing decisions of U.S. companies.
I. Introduction

Over the past several months, worldwide sourcing and international investment have generated intense public debate. Many stories have been critical, warning that the United States is “shipping jobs overseas” due to foreign “outsourcing” or “offshoring.”

The issues are much more complex than some of the public debate suggests. Outsourcing is not the cause of the low rate of job growth. Although economists are still studying the current unexpected lag in job creation, a major cause is readily apparent — higher worker productivity. The sources of higher productivity also are clear — the new technologies that are improving our lives, our homes and our workplaces. Surely no one would argue that the United States should halt technological change. Instead, federal and state governments need to do the only thing that will create more jobs for Americans: Help businesses make new investments and help companies export their products to the 95 percent of the world that lives outside of the United States.

Those who think that American jobs can be saved by prohibiting worldwide sourcing are missing a fundamental point — namely, that the United States exports far more services than we import from other countries. In 2003, for example, the surplus of exports over imports was $59.4 billion.\(^1\) If federal or state governments were to enact new restrictions that make it harder for U.S. companies to purchase services from foreign countries, our trading partners could respond by imposing mirror restrictions on their own companies. The result would be that many individuals who work in U.S. companies that sell services (such as financial, insurance, computer-related, publishing, telecom, construction and energy) to other countries would lose their jobs.

The bottom line is that the United States can gain only greater prosperity by trading more with the world, not by isolating ourselves from the world. The increasingly worldwide economy provides opportunities to develop new markets for U.S. goods, services and technology, which in turn helps the U.S. economy grow and creates jobs here at home.

In suggesting the most promising economic path for the United States to take, the Business Roundtable also recognizes that participating in this dynamic global economy, while adding to Americans’ overall prosperity, does not always benefit every individual worker or business. Economic growth alone provides little solace to a person who loses a job because of domestic or foreign competition, new technology, or increasing productivity. Much better programs are needed to help dislocated workers upgrade their skills and find new jobs. Effective programs should be available, whatever the cause of the unemployment.
One of the biggest challenges facing the economy is that worried U.S. policymakers, while genuinely concerned about Americans who have lost their jobs, will undertake efforts that actually will stymie growth and job creation by imposing counterproductive laws and regulations. In recent months, some politicians and organizations have proposed onerous regulations and tax penalties to restrict investment, sourcing and staffing decisions of U.S. companies. Legislative proposals in Congress and in many states would use government procurement and other laws to micromanage how companies engage with the world in everyday business management decisions. At the state level, proposals have been introduced to inhibit U.S. businesses from using the same worldwide sourcing strategies practiced by the most competitive non-U.S. companies.

New government restrictions on worldwide sourcing would not create any new private-sector jobs or give any unemployed worker the new skills that he or she needs. Instead, such restrictions would serve only to raise prices for U.S. consumers, give taxpayers less value for their taxes, and start a downward spiral of international recriminations that would reduce economic growth and job creation. The proponents of pressuring U.S. companies to stop worldwide sourcing often characterize their schemes as “protection” of U.S. jobs. Yet surely such “protection” is a bad idea for U.S. workers if it means cutting the U.S. economy off from the sources of future economic growth and opportunity.

The Business Roundtable prepared this paper to:

- help policymakers and the public better understand the facts about the United States’ role in the worldwide economy;
- offer context and perspective on employment trends; and
- recommend a package of policies that will stimulate economic growth, foster innovation, create jobs and help workers develop skills for the jobs of today — and the jobs of tomorrow.
II. Getting the Diagnosis Right

The United States’ role in the worldwide economy is sometimes distorted or misunderstood. Too often recently, incorrect information and arguments have been used to suggest that international trade is harmful to U.S. workers and the United States, and there has been a surge in criticism of U.S. companies that engage in worldwide investment and sourcing practices. Yet this criticism ignores the strong evidence that U.S. companies that are fully integrated in the world economy create higher-paying U.S. jobs. Furthermore, U.S. companies continue to invest within U.S. borders and are devoting considerable resources to job training for their U.S. employees and to improving American education.

Worldwide Sourcing in the Spotlight

Much of the current criticism about foreign outsourcing relies on one-sided data. The most common distortion is to publicize job losses in particular companies and then to imply that the aggregate number of U.S. jobs has diminished by that amount. This line of argument disregards that the U.S. labor market is highly dynamic and both creates and eliminates about 30 million private-sector jobs each year. The jobs gained from trade may be less visible than the jobs lost, but these new jobs are just as real and tend to be higher paying than the jobs they offset. For example, jobs created by exports are estimated to pay 13 to 18 percent more on average than nonexport-related jobs.

“Adequate private and public investment in skills and lifelong education is paramount in this new world and is where attention should be focusing. But the image conjured up by the self-interested purveyors of alarm, of a hollowed-out America with relentlessly rising unemployment, is not just false but absurd. … The actual and prospective migration of service-sector jobs is small, and likely to remain so, compared with the background level of job creation and destruction in an economy with as much vitality as America’s.”

— The Economist, Feb. 19, 2004

Worldwide sourcing is not a new phenomenon and is not limited to the United States. Worldwide sourcing imports are being used by companies around the globe because of advances in technology and communications. The advantages to the United States are twofold: U.S. companies obtain cost-effective services from other countries, and other countries obtain them from U.S. suppliers. Overall, the level of U.S. services exports
(by value) is 24 percent greater than the level being imported. Given how competitive U.S. producers are in so many sectors of the worldwide economy, the United States can expect to gain billions of dollars of new exports as foreign companies seek high-skill services from the United States.

Furthermore, a balanced assessment of the role that worldwide sourcing plays in international trade would consider the many other benefits that such practices provide to the U.S. economy.

- **Lowering inflation.** Importing services into the United States, like importing goods, helps to minimize inflation. The rate of inflation during the past year was only 1.7 percent. Lower embedded inflation gives policymakers less reason to raise interest rates, and the ensuing low rates provide a tangible benefit for consumers, homebuyers and businesses seeking to finance growth and job creation, especially small and medium-sized companies.

- **Strengthening the role of services.** Services are becoming an increasing share of the U.S. economy. The United States is highly competitive in services overall, with a $59 billion surplus in services trade last year. Services now account for about 56.4 percent of the U.S. economy compared to 34.6 percent for goods and 9.0 percent for physical structures.

- **Leading by example.** By importing services from other countries, the United States leads by example so that foreign governments will reciprocate and allow their companies to buy services from U.S. suppliers.

- **Generating value.** A recent study at the McKinsey Global Institute found that a dollar spent on offshore outsourcing could generate about $1.12 of direct and indirect income benefit for the United States.

- **Providing flexibility to meet customer needs.** The flexibility to engage in worldwide sourcing helps U.S. companies meet global customer needs and enables the U.S. economy to take advantage of its core strengths. Moreover, selective non-U.S. sourcing enables U.S. companies to sell more and to use the returns for new investment.

Together, such benefits expand the size of the U.S. economic pie, which creates more resources that can be used to build broader and stronger safety nets to help workers adversely affected by economic change.
Worldwide Sourcing Benefits the United States
Benefit per $1 of U.S. spending offshore, 2002 (estimated)*

Direct Benefits
- Savings accrued to U.S. investors/customers $0.58
- Imports of U.S. goods and services by providers in India $0.05
- Transfer of profits by U.S.-based providers in India back to United States $0.04
- Net direct benefit retained in United States $0.67

Indirect Benefits
- Value from U.S. labor re-employed** $0.45–0.47

Potential net benefit to United States $1.12–1.14

* Estimated; India offshore services industry example.
** Conservative estimate based on historical re-employment and wage levels; value created from improved global competitiveness of U.S. companies and multiplier effect of increased savings would likely increase amount of value created.


International Investment in the United States

Just as the criticism of worldwide sourcing is misplaced, so too is the criticism of international investment. Twenty years ago, there was a great deal of concern about U.S. policies of economic openness that permitted large flows of foreign investment into the United States. Yet this foreign investment now is widely recognized as having been very beneficial for the U.S. economy, particularly for workers and consumers.

- Fully 22 percent of the current jobs in the United States were created by U.S.-based international businesses or by non-U.S. companies that have invested in the United States.
- Since 1990, foreigners have made direct investments of $1.5 trillion in U.S. companies and factories. Overall, foreign firms in the United States are directly responsible for more than 6 million U.S. jobs.10
Non-U.S. companies investing in the United States spur U.S. productivity and employment growth. About 11 percent of the increase in productivity in manufacturing from 1987 through 1996 (the most recent period studied) stemmed from inward foreign investment.11

Foreign Investment Creates Jobs in the United States, 2001
More than 6 million employees in the United States work for foreign companies

Top 10 States: Number of Employees Who Work for Foreign Companies

Reasons for Optimism

Even as the U.S. economy continues to strengthen in 2004, some critics argue that the temporary lag in job creation is a sign of a deep malady. This is a misdiagnosis; the reality is that the U.S. economy is growing.

The recent recession, which began in early 2001 and was exacerbated by the tragic events of September 11, 2001, is the primary reason for the larger number (2.1 million) of unemployed Americans as compared to three years ago. Now that the United States has emerged from the recession, U.S. job creation should recover, too. The fact that our major trading partners have had lower growth rates and higher unemployment than the United States should give pause to those who claim that the U.S. economy is heading in the wrong direction.
Moreover, the high rate of domestic investment is a strong signal that the markets maintain confidence in the U.S. economy. Over the past year, U.S. domestic investment in equipment and software has grown at a rate of 5.5 percent,¹² which ultimately will spur greater U.S. job creation. Total private investment rose 4.3 percent in 2003 as compared to its falling 1.2 percent in 2002.¹³ As the Business Roundtable looks to the future, the foundation for income and job growth in the United States is solid.

❖ Real growth. The U.S. economy is dynamic, growing 3.1 percent in 2003 in real terms.¹⁴ Current economic growth projections are 1.9 times as high for the United States as they are for the European Union.¹⁵ Excessive government regulation remains an obstacle to European growth.

❖ 21 million new jobs by 2012. The Bureau of Labor Statistics (BLS) predicts that the United States will net 21 million new jobs between 2002 and 2012.¹⁶ For example, the number of job openings for medical assistants and network systems analysts is projected to increase over 55 percent, and openings for physician’s assistants and computer software engineers are projected to increase 45 percent.¹⁷

❖ More U.S. workers employed. More people (138 million) are working now than ever before, and many sectors are expanding.¹⁸ For example, about 1.5 million jobs have been added to the U.S. economy in management, professional and related occupations during the past three years.¹⁹

❖ Unemployment rate down. The current unemployment rate (three-month moving average over the period ending February 2004) is 5.6 percent, which is lower than the average rate during the 1970s, 1980s and 1990s.¹⁰ The Bureau of Labor Statistics also publishes an alternative measure of the unemployment rate that includes “discouraged workers” plus workers marginally attached to the labor force. By this measure, the rate is 6.7 percent, which has fallen from the recent peak of 7.2 percent in June 2003.²¹ The current 6.7 percent rate is much lower than the average rate 10 years ago, which was 7.4 percent.²²

❖ Productivity gains. Productivity growth for the business sector in 2003 was 4.5 percent, and during the past two years, productivity has had the highest jump in more than 50 years.²³ High productivity is especially important because it is a major driver of the rate of economic growth and also leads to rising wages.

❖ Inflation under control. Inflation remains low, at only 1.7 percent during the past year.²⁴

❖ Manufacturing activity growing. In December 2003, the index of manufacturing activity jumped to its highest level in 20 years.²⁵

Despite these impressive signs, maintaining economic growth in the United States will be challenging. The prospects for expanding economic growth and job creation will depend significantly on policy choices that government officials make in the coming months and years.
The Public Understands the Importance of Economic Change

The U.S. public sees the need for companies and workers to remake themselves in the worldwide economy so that they can continue to excel, meet customer demands, and create sustained growth and jobs. In a recent national survey of 1,049 registered voters, Voter Consumer Research found widespread support for this positive approach and for the belief that the United States is stronger when we work with the world. These results debunk the claim that U.S. citizens oppose economic change and want to see the U.S. economy walled off from international commerce.

The survey results also indicate that the public does not agree with those who are calling for new government regulation of how U.S. companies work with the world. While the survey found that U.S. citizens do have concerns about the movement of some jobs overseas, three out of four respondents oppose government regulation as the solution to the problem. These results demonstrate that the public sees the difference between the helpful and harmful economic policy actions that the U.S. government might take.

Isolation & Concern over Regulation

Isolating ourselves from the rest of the world is not an answer — we should help American companies compete in the world economy, so they create new jobs and build economic strength in the United States.

If politicians and bureaucrats start telling companies how to operate, it will raise prices, cost jobs and make things worse.

Source: Voter Consumer Research, 1/7/04–1/11/04, ± 3.1.
III. Revving Up the Engines of Growth

Now is the time for government to rev up the engines of growth so that more U.S. workers can be employed in high-wage, high-value-added jobs. Better jobs and higher standards of living are created by new investment, and that will occur only if there is greater market demand and a good domestic investment climate. Choosing the right policies will be essential to keeping the United States on the path of greater prosperity for all.

The Business Roundtable supports an active policy agenda to promote U.S. economic growth that should, as a start, focus on the following key areas:

➢ **Promote trade and stimulate international economic growth.** The United States needs to negotiate and enforce trade agreements (bilateral, regional and multilateral) to open foreign markets that remain closed to U.S. companies and workers — or that give an advantage to our foreign competitors. Other countries must do their part to develop the worldwide economy and should not rely on the United States to be the sole engine of growth. The U.S. government should encourage countries to adopt growth-oriented policies and to refrain from policies that keep their currencies artificially weak and distort trade.

➢ **Improve education and training.** The United States should be steadfast in its emphasis on improving the skills of today’s U.S. workers through better education and training and the skills of tomorrow’s workers through dramatic improvement in the education of U.S. students. In addition, greater assistance is needed to help unemployed and discouraged workers move to new jobs.

➢ **Foster investment and innovation.** Federal and state policies need to emphasize incentives to make the United States more attractive for new investments and support new research so that U.S. industries continue to be world leaders.

➢ **Do no harm.** While enacting and implementing new policies is important, avoiding policy missteps is just as important. Policymakers should resist counterproductive ideas, such as proposals that would impose new tax, regulatory or procurement restrictions on how U.S. companies invest and trade worldwide or that would isolate the United States from the world economy.
Businesses Invest in U.S. Economy
American policymakers should resist the temptation to criticize U.S. companies that engage in worldwide operations. Consider that:

- U.S. companies and individuals directly invest 10 times as much in the United States as in other countries.26
- Each year, U.S. companies invest more than $70 billion in job training.27
- In one high-profile sector, information technology, the embrace of global production networks and international trade has lowered prices and contributed 0.3 percentage points of growth to the U.S. economy per year.28
- As services become an ever-increasing share of the U.S. economy, the prospects for raising worker income will depend on productivity, which will be determined by how successfully managers and workers develop more innovative strategies for producing and delivering services.

Policies that promote higher productivity in the United States will help U.S. workers, companies and consumers. But productivity growth also presents challenges, such as addressing the implications for those workers who are displaced and have difficulty finding a comparable job.

This is a problem that industry, labor and government must address together. No single policy will suffice. As described in this paper, it will take a smart package of policies — to promote export expansion, prevent a U.S. dollar misalignment, stimulate foreign economic growth, facilitate R&D, encourage new investment in manufacturing technology, and improve worker adjustment and education programs — to solve the challenge.
IV. Promoting Worldwide Trade and Stimulating International Economic Growth

Trade expansion is one of the most important catalysts for economic growth, but this simple truth often gets lost in the popular debate. An increasing array of economic evidence, however, is clarifying and quantifying the benefits of more open economies.

- From 1950 onward, countries that liberalized their trade regimes, on average, have experienced annual rates of growth that were 1.5 percent higher than the preliberalization period in each country.29
- Over the past four decades, the countries with fast economic growth have had significantly higher ratios of both investment and trade (as a percentage of gross domestic product) than the slower-growing countries have had.30
- During the 1990s, income per person in “globalizing” developing countries grew more than three and a half times faster than it did in “nonglobalizing” countries.31

The United States also has experienced positive results in gaining income and job creation from expanded trade:

- During the past decade, exports accounted for about one quarter of U.S. economic growth. Jobs created by exports are estimated to pay 13 to 18 percent more, on average, than nonexport jobs.32
- Increases in exports lead to more job growth than comparable increases in domestic demand. A 10 percent increase in U.S. exports leads to a 6.9 percent increase in domestic employment. By comparison, a 10 percent increase in domestic demand creates just a 4.2 percent increase in U.S. employment.33
- U.S. plants that export to the world experience a 2–4 percent faster annual growth in employment than plants that do not export. Moreover, they are 8.5 percent less likely to go out of business.34
- By the end of 2004, the World Trade Organization (WTO) Uruguay Round will be generating an annual income gain of $600 to $800 for the average U.S. household.35
- Working families benefit from trade. The successful completion of the current multilateral trade negotiations could translate into an additional $2,000 of purchasing power annually for an average family of four.36

International trade continues to benefit the United States even though the nation currently has a $490 billion trade deficit. The main lesson to be learned from the U.S. trade deficit is that the level of U.S. exports has fallen too low, not that the United States needs to isolate
itself from world markets. U.S. exports are now beginning to recover, and the way to get them growing faster is to expand the customer base in other countries. Moreover, it is important to recognize that imports also make positive contributions to the U.S. economy. Imports help keep inflation under control, which benefits consumers and companies trying to compete in the worldwide market.

**Negotiating New Trade Agreements**

Isolating the United States from the world economy is a losing strategy for American companies, workers, farmers and consumers. New U.S. trade agreements to open up foreign markets are more important than ever. They will facilitate trade and investment, which will increase income and create jobs in the U.S.

The slowing of export growth shows the potential for new trade initiatives to help restore some of the opportunities lost between 1995 and 2002, when the U.S. president lacked trade-negotiating authority. For many years, European business held an advantage over U.S. business because the European community had consummated so many free trade agreements (FTAs). With the congressional enactment of trade promotion authority in 2002, the United States now has the opportunity to catch up. Just as past trade agreements helped the U.S. economy grow, the new FTAs with Chile and Singapore, which went into effect at the beginning of 2004, already are starting to deliver new export opportunities.

The agenda for trade should be to negotiate more international agreements to open up foreign markets and to ensure that other countries honor their legal commitments. (Of course, the United States also has to meet its legal commitments.)

**Spurring Other Countries To Grow**

U.S. economic performance alone cannot drive the entire worldwide economy. The U.S. government also must continue to develop and implement vigorous policies to promote international economic cooperation. The agenda for international economic cooperation should be to convince other countries to adopt trade, fiscal, monetary and regulatory policies that will stimulate their own economic growth and to avoid policies that keep their

Isolating the United States from the world economy is a losing strategy for American companies, workers, farmers and consumers. New U.S. trade agreements to open up foreign markets are more important than ever. They will facilitate trade and investment, which will increase income and create jobs in the U.S.
currencies artificially weak and distort trade. Although the United States’ capacity to produce is stronger than ever, the U.S. trade deficit widened in recent years because exports have not kept pace with demand for imports. There are several reasons for this trend, but the most important is that many of the United States’ traditional export markets have sluggish economies. Since 2001, the U.S. economy has grown more than twice as fast as the economies of the European Union, and it has grown faster than any other country in the G-7, including Japan, Canada, France, Germany, Italy and the United Kingdom.\textsuperscript{37} Since feeble economies in other countries contribute significantly to the stagnation in U.S. exports, particularly manufacturing exports, the administration should give priority to encouraging major trading partners in the G-7 to adopt progrowth economic policies. The United States also needs to strengthen initiatives to help developing countries remake their economies.

World economic growth is not a zero-sum game. When other nations, such as India, employ highly educated and skilled workers, the United States does not suffer. Foreign economic development, technology use and prosperity will lead to more customers for U.S. merchandise and services, as long as the United States continues to pursue progrowth policies. These policies have been, and will be, a source of new jobs and careers that were not even imagined 10 years earlier. In addition to being a good economic strategy for the United States, international trade also enables the United States to achieve its longtime foreign policy goal of helping other countries lift themselves out of persistent poverty. The U.S. business community shares that goal and participates in many partnership programs to help developing countries by promoting best practices to improve labor, environmental and social conditions.
V. Improving Education and Training

U.S. business takes very seriously the need to create opportunities for individual workers. Even as the United States prospers in the worldwide economy, some workers can experience declining earnings and job instability. The current low levels of net job creation stem from several factors, the most important of which are higher productivity, economic uncertainty and caution, the slowdown in foreign investment in the United States, and the overvalued U.S. currency, which is adversely affecting U.S. exports. The business community is concerned about this problem and is committed to help solve it. U.S. businesses acknowledge that:

- Even though U.S. engagement in competitive markets benefits the U.S. economy as a whole, the effects of global competition are painful to particular individuals.
- The most vulnerable workers are those with only a high school education or less.
- An average U.S. worker today with only a high school education makes the same real wage as the average worker 25 years ago.38

More Specialized Education and Training Pays Off for Workers

Workers who are more educated are earning on average a wage premium of 77 percent more that a matched group with fewer skills.39

What Business Is Doing

U.S. employers, especially large companies, are providing extensive training and education benefits to their employees. Each year, U.S. companies spend more than $70 billion on formal worker training. Many employers, such as the members of the Business Roundtable, provide a range of services to assist employees who lose their jobs. Companies also are involved in innovative partnerships that help stimulate local and regional economic and job growth.

Personal and Customized Career Counseling Services

J.P. Morgan Chase created the Career Services Program (CSP) to provide personal, customized career counseling services to employees until they find a new job. Services offered to employees include: one-on-one counseling, education and training assistance in the form of an education grant, redeployment, job development, a computer learning center, training and skills development workshops, and business information centers. Career services are available to all levels of departing employees for the duration of their active job search until they become re-employed, as long as they maintain continuous contact with their job counselor.

An Education They Can Use for a Lifetime

According to United Technologies (UTC) Chairman and CEO George David, “Our goal is to have the best educated workforce on the planet.” UTC believes that, while no one can guarantee a job forever, the best way to help employees is by giving them the education they can use for a lifetime. Under its Employee Scholar Program, one of the most comprehensive employer-sponsored education programs in the world, UTC pays 100 percent of the costs for employees, both in the United States and internationally, who go back to school. That includes registration, tuition, fees and books — and all costs are paid up front. Employees can enroll in classes and obtain a degree in any field, whether or not it is job related. Students can receive up to half of their classroom time as paid time off for studying (a maximum of three hours per week). UTC further rewards its employee scholars when they graduate. U.S.-based employees who complete a bachelor’s or graduate degree are awarded $10,000 in UTC stock, and those who receive an associate’s degree are awarded $5,000 worth of stock.

Public-Private Collaboration To Advance Research

Last fall, the University of Memphis opened the FedEx Institute of Technology, a unique public-private collaboration designed to advance world-class interdisciplinary research and introduce a new generation of highly skilled graduates to the workforce. FedEx Corp. worked closely with the university in shaping the institute’s vision and donated $5 million toward the new facilities. The company has more than 219,000 employees globally and expects the alliance will help develop a highly skilled recruitment pool. The institute will house 10 research centers focusing on an array of studies, ranging from medical breakthroughs in cancer and alcoholism to artificial intelligence and radio
frequency identification tags. The FedEx alliance helped the institute forge relationships with other high-profile companies, including AT&T, AutoZone, Avaya, BellSouth, Cisco Systems, Computer Associates, Dell, EDS, Landmark Graphics, Methodist Healthcare, Morgan Keegan & Company, SteelCase, and Time Warner, and institutions such as the St. Jude’s Children’s Research Hospital, Oak Ridge National Laboratory, the Technology Resource Foundation and the U.S. Department of Defense. The institute is envisioned as the digital epicenter of the mid-South, with the potential to change business, education, government, health care and the arts.

Investments in Employee Training
IBM understands that its success depends on a well-educated and highly skilled workforce. As part of IBM’s long-standing commitment to education and training, each IBM employee on average spends an estimated 55 hours each year in formal training — either through online learning activities or in a traditional classroom. In 2004, IBM will invest $400 million in the United States to develop the knowledge and expertise of its employees. This includes employee training in emerging “hot” skill areas, such as high-value services, business integration skills, open standards and pervasive/wireless technologies. To help its employees compete in the worldwide economy, IBM also announced a $25 million Human Capital Alliance fund. This fund is dedicated to helping IBM’s employees who are concerned that they could lose their jobs to technical experts overseas develop and refresh their skills and find work with the company’s 90,000 business partners worldwide.

Next Steps for Government, Business and Labor

Across the federal government, 44 programs in nine different agencies have a principal focus on employment training. Government programs now provide a wide range of services with different eligibility requirements. There are numerous programs for dislocated workers, including adjustment assistance for trade-related layoffs. These programs seek to improve worker skills and mobility. In addition, the innovative experiment in wage insurance for older workers, authorized by the Trade Act of 2002, may offer lessons for the future.

The president’s FY 2005 budget includes nearly $15 billion for worker education, training and adjustment assistance. The proposed community college initiative holds promise for building partnerships between skills training in community colleges and employers in high-demand job sectors. Streamlining all of these programs and making information more readily available to workers will go a long way toward improving existing resources.
An expanded effort by all levels of government, companies and labor unions is needed to help workers adapt and gain more benefits from the worldwide economy. The Business Roundtable recommends a two-part strategy.

The first step is to take immediate action and examine how all of the public programs that now provide education, training and adjustment assistance to people who have lost their jobs and need help in making the transition to a new job can be made more flexible, accessible and effective. In particular, all the relevant federal programs that are up for reauthorization this year — the Workforce Investment Act, the Higher Education Act and the Perkins Vocational-Technical Education Act — need close scrutiny to make sure that they remove barriers that limit adult participation in higher education, increase opportunities for worker training, streamline effective programs and make program outcomes transparent so that workers can make informed decisions. The Business Roundtable also recommends exploring ways that existing programs such as trade adjustment assistance can be modified to include services workers as well as manufacturing workers. Congress should receive annual reports on the numbers of workers that receive adjustment assistance and the program’s effectiveness in helping them find new employment.

However, a second step is needed for the longer term. Many of the current federal and state employment and training programs were developed to assist workers for an economy that no longer exists. They were intended to help a static labor market adjust to cyclical business changes. Instead, today and for the foreseeable future, we have a dynamic labor market that must adjust to structural economic changes. To respond to the real needs of Americans who have lost jobs, we must recognize that the patchwork system of programs for educating and training working or unemployed adults is not functioning effectively. The United States should design a more flexible and responsive system for the 21st century. A minor tune-up of these programs is insufficient when a major overhaul is needed to help these workers benefit from economic growth.

That is why the Business Roundtable recommends a second step — a national initiative to design a worker education, training and adjustment system for the 21st century that builds on best practices in training and in providing portable health and retirement benefits. This will necessitate a thorough independent evaluation of what is working and what is not. This long-term initiative should seek to address persistent problems in the current system.

- Existing public training programs are balkanized.
- Programs concentrate primarily on people who already are out of work, rather than on incumbent workers who need to upgrade their skills.
- Most states discourage or prohibit unemployed people from participating in training until they have used up their unemployment insurance.
- Potential users of the system find it difficult to access relevant information.
Creative ideas are emerging — from wage insurance to a human capital investment tax credit to personal lifelong learning accounts — and more suggestions should be encouraged to ensure that U.S. workers are prepared for the next generation of jobs. This issue requires the best thinking of the private and public sectors, labor and management, and Democrats and Republicans. It is time to get U.S. worker training and adjustment policies and programs moving in a direction that makes sense for a world in which Americans will change jobs frequently and will need to upgrade their skills and knowledge continually.

**Helping Today's Students and Tomorrow's Workers**

The business community also is concerned that far too many students in our nation's schools are not prepared to succeed in the world economy. The difficulties that today's most vulnerable workers face will persist for the 30 percent of students who leave formal education without a high school diploma and the high school students who graduate but are ill-prepared for either further education or high-skilled work. Today, even entry-level jobs require literacy and proficiency in math. U.S. companies are leaders in education reform initiatives at the national, state and local levels. These efforts are beginning to show results, but the improvements are not keeping pace with a changing economy that, as the chart below illustrates, puts a high premium on knowledge and skills.

More Jobs Are Highly Paid or Skilled, Require More Education

![Chart showing the distribution of jobs by skill level and earnings](chart.png)

- **Highly Paid Professional Jobs**
  - Earnings: $40,000+
  - Projected Job Growth Rate: 20%
  - Share of Jobs: 25%

- **Well-Paid, Skilled Jobs**
  - Earnings: $25,000–$40,000
  - Projected Job Growth Rate: 12%
  - Share of Jobs: 37%

- **Low-Paid or Low-Skilled Jobs**
  - Earnings Less than $25,000
  - Projected Job Growth Rate: 15%
  - Share of Jobs: 38%

Source: American Diploma Project, 2002.
The No Child Left Behind Act, passed by Congress with strong bipartisan support, provides an essential policy framework for obtaining the education results all students need to achieve. It is imperative that Congress and state leaders stay the course on implementation. New federal initiatives that support math and science teachers and encourage high school students to take rigorous core courses provide important supplements to state and local standards-based reform efforts. Nevertheless, more public-private efforts will be needed, particularly in programs proven to raise student achievement and interest in math, science and engineering — the fields that will drive future innovation. Dedicated federal support for improving math and science education must rise to the top of the list of federal education funding priorities.

At the higher education level, there are additional challenges. According to a recent report by the American Diploma Project, more than 70 percent of high school graduates enroll in postsecondary education, but fewer than half leave with a degree. Transcripts further show that 53 percent of students take at least one remedial English or math class in college.44 Higher education also is experiencing a growing gender gap as women considerably outpace men in rates of college attendance and degree attainment. Assuming the current trends continue, by 2010 women will receive 173 associate’s degrees and 142 bachelor’s degrees for every 100 earned by men.45

Perhaps most troubling, without deliberate focus and intervention, the talent pipeline for research and innovation in the United States, especially in engineering and physical sciences, is in jeopardy.

Demographic trends will dramatically change the profile of the current pool of scientists and engineers in the United States — which is now 80 percent white, 75 percent male, 22 percent foreign-born and 25 percent over the age of 50. In the last decade, as the U.S. population grew from 249 million to 281.4 million, the non-Hispanic white population increased 3.3 percent, while the minority population increased 35 percent. In addition, the United States is seeing a decline in foreign students attending U.S. universities. These students currently receive more than half of the graduate degrees in key technical fields awarded at U.S. universities. Due to new national security restrictions, increased opportunities for higher education and employment at home or elsewhere, and tighter immigration policies, more foreign students are staying home or returning to their native countries.46
Simultaneously, the U.S. scientific and engineering workforce is aging. The number reaching retirement age is likely to triple in the next decade. Addressing the impact of all of these trends on the critical scientific and engineering workforce will require consideration of new strategic and creative education and immigration policies.

The Business Roundtable is mindful that the lion’s share of resources for prekindergarten through higher education will continue to come from the states. State policymakers face an array of complex and sometimes competing policy and funding decisions, including compelling research supporting investments in high-quality early childhood education, calls to revamp teacher education courses and compensation programs to recruit and retain talented teachers in the United States’ public schools, promising practices to close the achievement gap between minority and poor children and their majority and more affluent peers, and concerns about the affordability of college. Just as it is time to rethink the nation’s worker training and retraining system, the Business Roundtable believes that it is also time to encourage forward-looking education and political leaders to examine new visions for high-performing public schools and colleges in the 21st century.
VI. Fostering Investment and Innovation

Since its 1987 report, *American Excellence in a World Economy*, the Business Roundtable has argued that the quality of the U.S. economic environment and the growth of investment will be key factors in enabling a growing economy. The federal government needs to adhere to sound budgetary and tax policies that will promote more saving and investment for the future.

Spending on research and development (R&D) is central to maintaining U.S. technological leadership. Federal R&D investment, particularly for basic research, must be boosted. Federal investment in basic research has been the foundation for many important commercial advances, and other countries now recognize the importance of increasing government funding for research. Since 1970, the federal share of total R&D spending has declined from 57 percent to 28 percent. Funding for basic research in the physical sciences has been essentially flat for 30 years, and as a percentage of GDP, it is down 37 percent. Companies cannot afford to fund basic research that may not lead to development for 10 to 20 years or longer. Numerous studies have sounded alarm bells about this decline. One inevitable byproduct of reduced funding for research in the physical sciences and engineering has been a reduction in the number of U.S. students pursuing those disciplines. In countries that are increasing government funding for research, these fields are attracting increasing numbers of students.

Like many other countries, the United States provides significant tax incentives for private R&D. The current federal tax credit encourages companies to increase their research activities in the United States, at the same time increasing high-skilled jobs domestically because the bulk of credit-eligible research spending is for wages and salaries. However, the credit is scheduled to expire June 30, 2004. As the President’s Council of Advisors on Science and Technology recommended in January 2004, Congress should make this tax credit permanent as part of an overall strategy for strengthening the United States’ research.

Unlike many U.S. trading partners, the United States places a double tax on corporate income (a corporate tax at the business level and then an individual tax on dividends and capital gains), so these taxes, including the outmoded and increasingly burdensome alternative minimum tax, discourage private investing. To be sure, considerable progress was made in 2003 when Congress and the president agreed to reduce tax rates on certain capital gains and dividends. Yet more tax reform is needed. Money paid in corporate taxes is money not available for investment in machinery, equipment and human capital.
Another comparative disadvantage that U.S. companies face arises from the differential treatment of taxes under international trade rules. Value-added taxes (and other indirect taxes) are adjustable at the border; income taxes are not. This gives countries that raise a significant share of revenues from value-added taxes, such as all Organisation for Economic Co-operation and Development (OECD) countries except the United States, a potential advantage in international trade not enjoyed by countries that generate a high proportion of revenue from income taxes, such as the United States. As a result, U.S. exports carry a higher share of the burden of government taxation than exports from our trading partners. Moreover, over-reliance on income and profit taxes discourages saving and investment in the United States, which reduces U.S. economic growth.

Another important factor in shaping the investment climate is the array of disincentives for new investment embedded in U.S. law and practice. The United States needs to decrease the impact of excessive government regulation and frivolous lawsuits on U.S. companies and their workers. A recent study prepared for the Manufacturing Institute of the National Association of Manufacturers found that U.S. manufacturers face much higher “structural costs” than competing manufacturers in other industrial economies do. That study makes several recommendations, including a more objective cost-benefit review process for federal regulations. U.S. workers can and do compete successfully with workers in other nations when U.S. workers have the proper skills and tools and when employers are not impeded with government-created disincentives to invest and create jobs.

Investing and Creating Jobs at Home

In 2003, Texas Instruments (TI) announced its intention to build a new $3 billion 300-millimeter semiconductor manufacturing facility in Richardson, TX, that will produce the world’s most advanced semiconductors. Groundbreaking is expected to occur in 2005. TI looked at sites in the United States and abroad. The company considered Texas because of its cost competitiveness as a place to do business, its existing base for R&D, and its proximity to TI’s headquarters, but it was not an automatic decision. TI operates globally, with manufacturing plants worldwide. A commitment to maintain a state tax structure attractive to capital-intensive investments and manufacturing was an essential component of the decision. However, what clinched the deal was how state leaders worked with TI to create an economic development plan centered on R&D. Under the plan, the University of Texas at Dallas will receive up to $300 million from the state and other sources to enhance its engineering and research programs. TI sees the university as a center that can help address the increasing need for basic research in North Texas and nurture a community of research excellence that can benefit the entire region.
VII. Doing No Harm

With the U.S. economy now climbing out of the recession, it is imperative that policymakers avoid high-risk, isolationist policies that would choke off the recovery. Those who would retreat from the worldwide economy with the expectation of “saving” U.S. blue-collar or white-collar jobs are ignoring not only the lessons of economic change but also the lessons of history.

The economic worries of the early and mid-1980s — the idea that Japan was replacing the United States as the world’s technological leader, the loss of jobs in U.S. manufacturing, the growing U.S. trade deficit and the surge of foreign investment into the United States — sparked numerous proposals to place limits on inward and outward foreign investment. In many ways, the contemporary debate is an echo of the grim predictions that were voiced then.

To its credit, however, Congress resisted the many bad ideas then on the table for trade and investment restrictions. Instead, Congress enacted and President Ronald Reagan signed the Omnibus Trade and Competitiveness Act of 1988 to authorize new trade negotiations and to promote more education, training, technology development and protection of intellectual property rights. Within five years, the worries about the “hollowing out” of manufacturing and “foreign control” of the U.S. economy had faded away. U.S. companies re-established their competitiveness, and the U.S. economy, after a brief recession ending in March 1991, created more than 20 million net new jobs and produced the longest period of economic expansion in U.S. history.

The Business Roundtable does not mean to suggest that the economic picture now is completely rosy. The rate of job creation in the United States should be higher. As the source of most job creation, the business community is keenly aware of the employment situation and of our role in training employees and in fostering career opportunities. That is why the Business Roundtable advocates an optimal mix of governmental policies that will be most supportive of higher economic growth and job creation. That is also why the business community opposes ill-considered proposals that would undermine the prospects for U.S. workers and companies in the worldwide economy and prevent them from taking charge of their future.

As in the Hippocratic Oath, the most important step U.S. economic policymakers can take is to avoid unintended harm to the U.S. economy. One of the most counterproductive proposals being advocated today is to stifle the flexibility of U.S. businesses to engage in worldwide sourcing of goods and services. Another proposal is to limit U.S.
companies from investing abroad. Such proposals would handcuff U.S. businesses and workers, limit choices for U.S. consumers, and leave U.S. employers less able to compete with non-U.S. businesses. Restrictive legislation in the United States also could trigger foreign retaliation, which could block the export expansion needed to help maintain the economic recovery and make it even stronger.

Instead of isolationist thinking that creates uncertainty for companies that want to create jobs, government officials should promote policies that encourage economic expansion, spur trade, and enable companies in the United States to grow and create employment at home. Clearly, promoting growth, innovation, American job creation and retraining of U.S. workers is a better approach than government over-regulation of business operations. Do not forget the lesson that Japan learned in the 1990s: When you build walls to protect your own companies and workers, in the long run you end up hurting them. Japan went into a recession 10 years ago from which it is only just beginning to emerge. The return of sustained, strong U.S. economic growth could be stopped in its tracks should the United States turn to isolationist policies and away from worldwide economic engagement. Furthermore, the undue attention being given to business sourcing and investment practices diverts attention from the real social and economic challenges that call for more focused federal and state government attention.
VIII. Moving Forward

With the U.S. economy now climbing out of the recession, this is a dangerous time to promote isolationist policies that — just by being debated — may put a damper on the economic recovery. Instead, this is the right time to renew vigorous efforts to improve education and training and to strengthen the United States’ research base. In this paper, the Business Roundtable has offered numerous recommendations for policymakers on how to be proactive in pursuing greater U.S. prosperity that is broadly shared among all U.S. workers. The Business Roundtable and its CEO members are committed to working with Congress, the administration and state governments to achieve these objectives.
Endnotes


3 Speech by Robert B. Zoellick, U.S. Trade Representative, National Press Club, October 1, 2002, p. 3.


6 BEA, National Income and Product Accounts Table, Table 1.2.6, Real Gross Domestic Product by Major Type of Product.


12 BEA, Gross Domestic Product: Fourth Quarter 2003 (Preliminary), Table 7.

13 BEA, Gross Domestic Product: Fourth Quarter 2003 (Preliminary), Table 1.

14 BEA, Gross Domestic Product: Fourth Quarter 2003 (Preliminary), BEA 04-08, February 27, 2004, Table 1.


22 Ibid.


30 WTO, World Trade Report 2003, Table IIA.1.
32 Speech by Robert B. Zoellick, U.S. Trade Representative, National Press Club, October 1, 2002, p. 3.
37 OECD, Gross Domestic Product, Main Economic Indicators, March 2004, p. 259.
41 Best practice identified by John J. Heldrich Center for Workforce Development, Edward J. Bloustein School of Planning and Public Policy, Rutgers University.
43 Includes new budget authority for Workforce Investment Act (WIA) programs, the Employment Service, One-Stop Career Centers, and Community Service Employment for Older Americans; spending for Trade Adjustment Assistance; and estimate of the portion of budget authority used at technical and two-year postsecondary schools (roughly 50 percent of total Pell Grants).
44 “Ready or Not: Creating a High School Diploma That Counts,” The American Diploma Project, p. 3.
45 The Growing Gender Gaps in College Enrollment and Degree Attainment in the U.S. and Their Potential Economic and Social Consequences, Andrew Sum et al., Center for Labor Market Studies, Northeastern University, Business Roundtable, May 2003, p. 38.