

Innovation: Driving America's Economy into the 21st Century

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It's a pleasure to be here and to talk about our economy, the world economy, our role in the world economy, innovation, and how we need to compete in the future, continue to stay ahead, and to continue to be a winner in this very competitive global environment.

Just yesterday I was at the Consumer Electronics Show in Las Vegas. And as you can well imagine, this is where you see innovation really at play. These are all new products that are going to be introduced over the next 12 months. And you really see why we are the leader in innovation as you walk through the exhibition floor. A lot of the innovation is happening in this country that we can take to many countries around the world.

So I'll just talk a little bit about the global economy. As you well know, working in the business sector today is more competitive than ever before. We all talk about how we picked up three billion new consumers when the Soviet Union and many countries liberated each other's economies, but we also picked up three billion new competitors.

A simple look at population growth shows how much more emphasis and how much more pressure is being put on producing, consuming, purchasing and competing. The global population today is more than 6.5 billion people. Two decades ago there were five billion.

And it's not just people it's the fact that many of these people are engaged in business. Many of these people are engaged in competing for world markets.

In the last 20 years China, India and the former Soviet Union—these three sets of countries total about 40 percent of the world's population—have obviously changed their approach to their economies and that generated a flood of new ideas, new consumers and new competitors and really changed the global marketplace.

In 1986 trade accounted for 17 percent of the world's economy—only 17 percent. Today it's about 30 percent of the world's economy and that number is growing. So almost a third of the world's economy is generated from countries trading with each other. That number will only get larger and larger.

In 1986, the global economy was worth about \$15 trillion. This year it's estimated to be

about \$48 trillion. And if you look at just China, in 1986 China's GDP was less than \$300 billion, today it is an estimated \$2.6 trillion. So the growth has been phenomenal. And what it says too is that the pie is getting larger. This isn't a zero sum game. We can all grow. The world marketplace is growing, and our challenge is to grow with it and even outpace it whenever we can.

Another measure of competition is just the amount of patent application activity around the world, and that's been increasing 20 percent annually. So everyone is innovating, everyone is issuing more patents, everyone wants to get in the game, everyone wants to win.

So clearly, a much more competitive environment. And even in the face of that environment, we are not only holding our own, but we are showing that our economy is strong, resilient and very capable of competing in this highly, intensely competitive environment.

Let me just give you some facts, a look at the statistics. You hear a lot of editorializing about our economy. I'll just give you some real, hard facts.

- Our economy over the past four quarters grew 3 percent. We've had 20 straight quarters of uninterrupted growth. That 3 percent puts us in the top of the list in growth rate among G-7 economies. So we are not only the largest developed economy in the world, the largest economy in the world, period, but we are also the fastest growing developed economy in the world.
- Last week the Labor Department announced that 167,000 new jobs were created in December. That's the 40th consecutive month of payroll increases.
- Just to put that in perspective, we have created since August of 2003, over seven million new jobs; new jobs created here in this country. That is more than all of the new jobs created in the European Union and Japan combined. So a tremendous result and tremendous performance.
- Our unemployment rate is 4.5 percent, below the average of each of the last four decades. So not only are we growing, we are creating jobs, and the great part about that as well is our inflation rate is down to about 2 percent.

So you look at those three numbers: growth, unemployment and inflation and it's hard to come up with a better combination than what we've been able to achieve, in spite of this very competitive environment.

Here in California unemployment is 4.6 percent, so we're also talking about very, very low levels of unemployment, historically speaking, and when compared to many other countries around the world.

The great thing is real after-tax income, this is take home money, take home pay, what consumers have after paying taxes, after receiving dividends, interest payments, has

grown 9.6 percent in real terms, per capita, since the president took office. So these are numbers not just to boast about economic policy, but I think these are numbers that should make people throughout the country very proud, because it's the American people, American businesses who have achieved these results.

And the incredible thing is that we have done this in spite of some tremendous challenges. We had a recession in 2000. We had a stock market crash. We went through a series of corporate scandals. We had 9/11. Then, last year was the worst year in our history for natural disasters, the Gulf Coast, Katrina, Wilma. And we've been through a tremendous surge in the price of oil. In spite of all those, we've been able to demonstrate that our economy is so big, so resilient, so diverse, that we can absorb those challenges and keep growing.

The economy is strong because U.S. business is strong. It's something that we know perhaps more so than other countries, is that if business is strong, the economy will be stronger. And we're not going to create jobs and allocate capital and launch new products sitting in Washington, DC. That's done throughout the country, that's done by businesses. So the question is how do we keep it going?

We know that innovation is a big part of how we've come so far. The question is how do we continue to innovate, to grow and to excel in what will be increasingly a more competitive environment? We believe that in very simple terms, our future relies on our ability to compete. That is our challenge, to every day, every year become more and more competitive.

While the U.S. has led the global marketplace in fostering new ideas we can't be complacent.

International competitors are more rapidly commercializing technological advances. They are rapidly educating their workforces, and offering world-class research opportunities.

Just consider a couple of facts:

- Throughout the 1960s, the U.S. share of worldwide research and development was about 60 percent. Today, not because we've declined, but because everyone else has grown, and everyone else is doing research and development, our share today is 30 percent.
- And think about this from the standpoint of competitiveness, we spend more money on tort litigation in our country than we do on research and development (R&D). So as we look forward for opportunities to get even better, to get even more competitive, and to create an even better environment for businesses, think about the fact that we spend more money suing each other than we do in investing in R&D and technology and new products.

- Since 2000, there have been more foreign graduate students in engineering, math and sciences than those graduating in the U.S., that isn't just a function of numbers, but it is a reality that we are confronting around a lot of new high skilled workforces around the world.

So again, to stay competitive we have to continue to open more global markets, maintain a business environment that encourages entrepreneurship and develop our workforce for our future.

Let me talk first about opening up global markets, and that's what many of you do here and it's what made us such a great economy. There's a lot of talk these days about withdrawing a bit from the global economy. We hear a lot of protectionist sentiment being expressed throughout the country and in Congress, and I would suggest to you that that is a big trap. The worst thing we could do today is to withdraw from the market, start becoming isolationist, start putting up tariffs, and believing that we can grow without being part of the world economy.

A large driver in our economic growth is exports. Since President Bush took office, we have implemented free trade agreements with 10 countries. We have free trade agreements today with 13 countries, and that is driving our growth.

Exports have grown at about a 6 percent annual rate since the president took office. In 2005, the U.S. was the largest exporter of goods and services in the world with \$1.3 trillion dollars in exports.

We just announced our 2006 numbers. In 2006 our exports grew 13 percent and our imports grew at about 11 percent. We've actually had a positive turn on our deficit over the last few months. And that is because we are exporting more. Our exports to China surged nearly 33 percent over the past year. Imports from China grew 18 percent.

So we're becoming not only a major exporter in terms of growth, it's becoming part of the culture of our economy and part of the culture of our businesses that we are out there, seeking new markets and growing our exports and we are winning in clearly what is the toughest market we've ever confronted.

The second thing we have to do, aside from continuing to open up markets for our goods and services is to maintain a business environment for entrepreneurs, for innovators, for companies; to make sure this is the best environment in the world in which to invest, the best environment in the world to open a business, the best environment in the world to create jobs.

To continue to do that we need to have low taxes, and we need to have a regulatory environment that welcomes businesses. And part of that regulatory environment is to continue to work on tort reform. Our taxes are low. We'd like to have them lower. What

we don't want is a tax increase.

And I would hope that there is no way we could convince the American people, that anyone could convince you, that somehow the government needs a tax increase. Because I know the American people don't want a tax increase, I know businesses don't want a tax increase.

Our budget deficit today is 1.9 percent of our GDP. If you go back 40 years, our budget deficit historically over the last 40 years is 2.1 percent of GDP. So you hear people talk about these "record deficits." Our deficit as a percent of our economy is below the average of the last 40 years. And it's declining. That's in spite of funding a war, in spite of funding the recovery of the Gulf Coast, and it is after having had a tax reduction. So once again we see that if we cut taxes we actually increase revenues. We've seen it time and time again.

The other thing we need to do is implement the President's American Competitiveness Initiative (ACI), announced in his last State of the Union Address. The ACI commits \$136 billion over 10 years to increase investment in R&D, strengthen education and encourage innovation. The sum total of these efforts will contribute to strengthening our ability to stay competitive.

The ACI has four major pillars:

First, doubling funding for innovation-enabling federal research. The federal government does about a third of all the R&D in the country. It tends to be very basic research, long-term research. And we'd like to double the funding for these projects;

Second, making the R&D tax credit permanent. Today we have to renew the tax credit for R&D every 18 months or 24 months. R&D is too long term to make it something that has to be renewed every two years. Businesses want predictability, they want visibility into the future;

Third, strengthening K-12 science and math education; and fourth increasing our ability to compete for and retain the best and brightest highly skilled workers from around the world.

The ACI keeps America competitive by promoting basic research funded by the federal government and part of that is at the National Institutes of Standards and Technology, which is part of the Department of Commerce.

Let me talk for a second about our workforce. There are two things that we have to recognize, that we need to do in the future. One is strengthening our K-12 education. No Child Left Behind, which was put in place when the president took office, is working. Look at the numbers, look at the facts, our students are performing better, we're closing the gap. Among minorities we need to do much more, this is a long-term process, it's K-

12. We are improving but we have to do even more; about the quality of our teachers, the quality of our education, the amount of energy and focus we put into math and science.

The second thing we need to recognize is that we need immigration reform, and immigration reform in two areas. One is high skilled immigration. Today we have students coming in from all over the world, who are getting the best degree that you can get, anywhere in the world. But then they have to go back to their home and compete with us because they don't have papers to stay in the U.S. We need to recognize it's in our benefit to allow those students to work in the U.S.

The second thing regarding immigration is comprehensive immigration reform for labor, for lower skilled labor. We know, because I travel around the country, I hear from businesses, many companies, in many regions of the country that cannot find enough workers.

We need a temporary worker permit to allow people to come to our country legally, and we need to face up to the fact that we have 10 million people in the country that aren't current with their documentation, that aren't here legally, and we need to face up to the fact that we're not going to have a mass deportation. We're also not going to have a blanket amnesty, so the solution is in the middle somewhere. That's why the president wants comprehensive immigration reform. Those are things we need to do to stay competitive and to stay the greatest economy in the world.

So we have a great track record on innovation, we have a great track record on growth. What we need to do is ensure that we keep it going.

I just want to quote something that the president said back in 2002 that still applies to what we feel is the role of the government in this whole area: He said, "*The role of the government is not to create wealth; the role of our government is to create an environment in which the entrepreneur can flourish, in which minds can expand, in which technologies can reach new frontiers.*"

So we're not going to do it in Washington, DC. What we can do in Washington, DC is keep taxes low, keep federal regulation to a minimum, keep spending restrained and under control, and then let the private sector and free enterprise work its magic.

So I want to thank you for your conviction and your belief and your confidence in the free enterprise system, and everything you're doing to make this not only the most competitive economy in the world, but I would say the greatest society in which to work, in which to live and in which to raise a family. Thank you.

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