Opening Remarks of the ITIF 5th Anniversary Policy Event

BY ROBERT D. ATKINSON | JUNE 2011

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Good afternoon everyone, I'm Rob Atkinson, President of ITIF, and I want to welcome you to this forum on the next conversation on American innovation and competitiveness and where we're going. We really have a fantastic set of speakers today, keynoted by Dr. John Lechleiter, who I'll introduce in a few minutes.

First, I just want to make a few framing remarks. Given that this is our 5th anniversary, I think we've beaten the odds of small business start ups; more than 80 percent fail in the first five years. We are fortunate enough to be in the 20 percent that succeeded. That is due to a lot to a lot of people that helped ITIF, so I just wanted to quickly thank them; particularly our ITIF board chairs, former members of Congress, Vic Fazio and Nancy Johnson. Their leadership has been instrumental in what we have achieved. I wanted to mention the leadership of Congresswoman Jennifer Dunn who was our first board co-chair, until she passed away in 2007. I also want to thank all of the ITIF supporters as well as the ITIF board who has helped us, and of course the ITIF staff, who not only work hard and do great work, but they are a pleasure to work with and without them we obvioU.S.ly couldn't do this.

ITIF was formed in 2006, and if you look back at 2006 and then to today, we see what I would argue is essentially a "Tale of Two Cities". On the one hand we see fairly dramatic global progress in innovation and on the other hand, deterioration in U.S. competiveness and innovation capabilities. Think about the last five years and where we were in 2006 then, there were a billion internet users, today there are 2 billion. Five years ago 30 percent of Americans subscribed to broadband at home; today it's over two-thirds. They're doing that with significantly faster speeds. Five years ago the average speed was 1.5 megabytes a second; today it's closer to 10. The first 3G wireless services was launched about 5 years ago with speeds of about 500 kilobytes per second. Wire and data traffic were so low they weren't even measured, and there were no App stores. Well, today we're getting 4G

rollouts with speeds 20 times faster, last year over 400 billion megabytes of traffic traveled on the U.S. wireless networks, and earlier this year the 10 billionth app from the Apple store was downloaded. Just in 5 years we've seen this explosion.

One reason for all of that is computing power is just getting better and better. In 2006 it would cost you $6.00 for 10 gigabytes of data storage, today it's less than 80 cents. That's why we all have DVRs in our basements and living rooms that are storing all these HD movies. The fastest supercomputer in 2006 could do 0.4 petaflops calculations per second which is a thousand trillion floating point operations. Today the fastest is 20 times faster. Unfortunately, that is a computer in Japan and the second fastest is in China.

IT is not the only area of improvement; we also see it in other areas and other technologies. In 2006 if you wanted to get your own human genome sequenced to find out what your genetic issues were it would have cost you $12.5 million. Today you can get it done for less than the cost of a first class flight to Australia. I gotta tell you, if I had to choose between a first class flight to Australia, and mapping my genome, I'd take my genome any day. We see it in solar energy. While solar energy is still more expensive than base load coal; it has fallen essentially in price by over half just in five years from over $8 per watt to about $3.80.

At the same time we face significant challenges. Technology is getting better, it's making our lives better, but we don't necessarily see that in the economy, or the jobs' story. There is unprecedented job loss in the U.S. economy in the last five years; since ITIF was formed we've lost 4.6 million jobs. One of the reasons for the difficult economy is the fact that America has lost global competitiveness. Over the last decade, U.S. exports as a share of global exports has declined from 17 percent to 11 percent. At the same time European exports has stayed constant at 17 percent. Over the last decade we've imported over 5.5 trillion dollars more of goods and services than we've exported. Think about what that means for the average worker. That's essentially one year of salary for the average American worker. What we've been doing is essentially borrowing from foreign countries to sustain our lifestyle.

Since 2001, 42,000 U.S. factories have closed and when measured properly, U.S. manufacturing output has declined by 10 percent in a time when the overall economy grew by 15 percent. If U.S. manufacturing had not declined, we would have seen 2 million more manufacturing jobs today and 8 million more jobs in total. Think about where the U.S. economy would be if we had 8 million more jobs right now. Some will argue the manufacturing is old economy and doesn't matter, even though Eli Lilly is a manufacturer, and Intel is a manufacturer. Many technology companies make things. People can argue, "Well, we'll focus on innovation," but let's look at how we're doing there. Since 2002 we've run a trade deficit in high technology products every year. In 2010 we ran an $81 billion deficit in high tech products, the largest in American history.

We issued a report two years ago called *The Atlantic Century* which we'll be updating in about three weeks. We looked at forty countries around the world, including the United States, on a number of different factors around innovation based competitiveness. What we found was that the United States ranked 6th overall; it's not number one. Most

disturbingly, the United States ranked 40th out of forty countries in the rate of progress over the last decade on things like the growth of corporate R&D, the number of new business start ups, the reduction in our corporate tax rates, and the amount of venture capital. We really are falling behind and have failed to keep up with other nations and in part that's because other nations have not been sitting around idly, they've been aggressively putting in place R&D tax credits, funding science and technology, opening up their borders to high scale immigration a whole set of policies. I was just reading two days ago that the Australian government is very close to putting into place what would be the highest R&D tax credit in the world, six times more generous than America, and it's refundable.

So we have a real challenge. I would go further and say that one of the reasons for the financial crisis, which people attribute only really to mismanagement and poor regulation, was because we failed on this competiveness challenge. There is a 2009 *National Bureau of Economic Research* article that stated, "We argue that this pattern (the increase in the current account deficit by the United States matched by increase in current account surpluses in other nations, especially China) precipitated the housing bubble in the United States." They are absolutely right. We had all this money flowing in but we didn't have job creation and not enough of the competiveness we needed. Clearly that is a factor contributing to the anemic job recovery today, the slowest job recovery we've ever faced in our history since we've been recording these in the post war era. There was a statement in the paper today by Chairman Bernanke where is he said that we're not sure why the recovery is so slow. I would posit one reason the recovery is so slow is because we've lost confidence in the future.

There is a wonderful quote by John Keynes in *The General Theory of Unemployment,* his classic 1936 book, where he states, "our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits - a spontaneous urge to action rather than inaction." That really is fundamentally what investment is about, whether you're investing a new house or your own training or a company is deciding to put a couple of billion dollars into a new facility. It requires a huge leap of faith; that the point of the future is going to be better than the point of the present. Until we get that back, that view that in 2020 we're going to be the world leader in innovation and that we're going to be the world's leading economy again. It's going to be hard to get robust job growth and as Harvard business schools', Willy Shih and Gary Pisano argue in a recent Harvard business review article, we don't have much time left.

Now I think the good news is that America still has an incredible array of strengths: we're entrepreneurial, we've got great companies, according to recent study we have the best managerial talent in the world, we're an open economy, and we're a creative economy. What we're lacking really is a bipartisan consensus to take the big steps that we need to take next. That's really what this conference is about. We've got to get the four "Ts" right: tax policy, trade policy, technology policy and talent. On all four of those we've let other countries get past the United States.

Doing that requires two big things: One—and this sounds completely wonky, but I think it's really important—we've got to get economic policymakers and economic pundits who really dictate economic policy in Washington, to abandon their 20th century economic frameworks. You still have economists in Washington who argue, with a straight face, that the U.S. is not in competition with other countries and that the entire notion of competitiveness is somehow deviating from macroeconomics 101. We are in competition, we're not winning that competition, and we have to recognize that frankly there are some sectors that are more important than other sectors. I would argue that out economic policy should really be focused on what economists call our traded sectors; so not barber shops, but pharmaceutical firms. Not dry cleaners, but semi-conductor makers. In particular we need to be focused on those innovation-based sectors. So computer chips are more important than potato chips, when more happens in computer chips we all get rich and have better computers, when it happens in potato chips we just get fat.

The second thing we need is a new spirit of bipartisan cooperation. What's striking from what states are doing is it's irrelevant whether states are controlled by Republicans or Democrats. Or whether they have unified government or split government. States are generally pragmatic, they know they're in competition and they know they've got to work together and I think we need that spirit here.

I can't think of a better person to talk about these issues today than our keynote speaker. I want to introduce Dr. John Lechleiter who is the Chairman, President and CEO of Eli Lilly and company.