

THE ECONOMIC CLUB

O F W A S H I N G T O N , D . C .

**Excerpts from the Signature Event featuring Ivan Seidenberg, Chairman & CEO, Verizon
Communications**

June 22, 2010

“*[There is]* a growing disconnect between Washington and the business community that is harming our ability to expand the economy and grow private-sector jobs in the U.S. . . . a host of laws, regulations and other policies *[are]* being enacted that impose a government prescription of how individual industries ought to be structured, rather than produce an environment in which the private sector can innovate, invest and create jobs in this modern global economy.”

The U.S. Department of Commerce estimates that each \$1 billion of capital spending generates about 18,000 new jobs for U.S. workers. This means that if we could stimulate an additional \$50 billion in capital spending, we could create nearly 1 million new jobs. That same \$50 billion in capital would also accelerate productivity growth by one or two basis points a year. Over the past 10 years, U.S. productivity growth has averaged 2.8% a year. Raising that by a single basis point, to 2.9% a year, would raise real incomes for Americans by 1% over the next 10 years, injecting an additional \$200 billion into the economy. We have so much untapped potential if we could come together around a pro-jobs economic strategy. So to do that, we need to focus on the inputs required to create investment in private sector jobs. We need a worldview that embraces engagement abroad to support growth here at home. And most of all, we need accountable leaders in government as well as the business community who reject the false choices between job creation or deficit reduction, growth or sustainability, serving consumers or investors, managing for the short term or the long-term, being profitable or doing things right.

Real leadership isn't about making false choices. It's about finding solutions to real problems. Every one of us should find it unacceptable that so much capacity for growth is sitting on the sidelines. It's time for us all to raise our game and embrace the power of the private sector that will create real value and real growth for our country. If we work together to release the private sector's investment and innovative power, I have no doubt that America can accelerate its competitive footing and lead the world in the industries that will create jobs and raise living standards for many decades to come.

Today, almost 2 billion people – about a quarter of the world's population – are connected to the Internet. Twice that many – 4 billion people – have mobile phones, which are themselves becoming smarter and more connected every day. On Verizon's networks alone, we carry more than 1.7 billion text messages, 50 million picture and video messages, 1 billion phone calls, 400 million e-mails, and the equivalent of 4 million full-length movies, all in a single day. Verizon invests some \$17 billion a year to put ourselves in the center of this expanding marketplace.

When it comes to innovation and communications, the U.S. has a clear, decided edge. The smart phone revolution is centered in the U.S. The creation of tens of thousands of wireless applications is a U.S. phenomenon. Our 4G LTE networks – fourth-generation networks – will leapfrog the world in wireless. Verizon alone has deployed more fiber-to-the-home than all the countries of Europe combined. And a new ecosystem of devices, applications, and operating systems is coming together around these platforms for innovation, spawning new businesses and driving our industry forward.

America's communications companies have made a big bet on this vision for the future, investing around \$130 billion in 2009 alone. Last year, total investment in information and communications technology accounted for an astonishing 43% of all non-structural capital

investment in the United States. And while private investment in general fell by almost 23% from 2006 to 2009, communications investment rose by almost 9% over the same period. These investments are a major engine of our economy. Businesses report that every dollar invested in Internet technology creates \$4 of value in return. Robert Crandall of Brookings says, "Broadband investment can produce more than half a million new jobs over the next five years while creating new demand for computer software, network equipment and applications." And on a global basis, one study estimates the annual economic benefits of the commercial Internet to be \$1.5 trillion, more than the global sales of medicine, investment in renewable energy and government R&D investments all combined.

It's important that we not throw sand in the gears of this critical growth engine. You may have seen that last week the FCC began a proceeding to establish a new regulatory regime for broadband that would impose old utility-style regulation on the Internet. We are very concerned that in attempting to address legitimate issues about access to the Internet, the FCC has proposed basically an unimaginative and overbearing set of rules that essentially tries to retrofit a new industry into an old framework, and expand their regulatory reach well beyond what is necessary.

Competitiveness is also on the minds of the 170 members of the Business Roundtable, which . . . I serve as Chair. Together, Business Roundtable companies generate more than \$6 trillion in revenues and employ more than 12 million people. We account for 60% of all corporate taxes, 60% of all charitable contributions, and one-half of all private R&D spending in the U.S. Our market capitalization is one-third of the total value of the stock market, and we pay some \$160 billion in dividends to individual investors, pension funds, and retirement accounts. For every person employed by a BRT company, there are two more employed by the medium and small businesses that supply the goods and services that we need to keep our businesses running. So obviously, the companies of the Business Roundtable have a huge stake in the success of the American economy. We create jobs all along the food chain.

From our perspective it's time to refocus public policy on creating the conditions that will drive private sector jobs. . . . Recently, . . . the Business Roundtable and the Business Council polled our members about laws, rules, and regulations that are inhibiting growth. . . . One message we heard loud and clear from our members is that the current U.S. tax system is a major impediment to international competitiveness. Our corporate tax rate is the second-highest among 30 OECD nations. We're one of only five OECD countries to tax companies on worldwide income. Moreover, since 1990 every other OECD country has lowered its corporate tax rates, while the U.S. is going in somewhat the opposite direction.

We also see a disconnect between objectives and actions in the area of international trade. The Administration has indicated its intent to double U.S. exports over the next 5 years. Recognizing that with 75% of the world's purchasing power and 87% of the growth coming from outside the U.S., an export-focused trade policy will grow jobs here at home. The Business Roundtable agrees wholeheartedly with this goal. But while the European Union is moving ahead and implementing free trade agreements, we have seen very little movement on pending agreements with Colombia, Panama, and South Korea, to name a few. Nor have we made it a priority to seek more expansive trade negotiating authority to keep up with foreign competitors. We could also

do more to make America a more attractive destination for foreign direct investment, which fell by nearly 60% from 2008 to 2009. Now, to be fair, much of that is due to the global recession. But the truth is, the U.S. share of global capital inflows has been declining for decades.

A new survey by Ernst & Young found that whereas 48% of global investors saw North America as a desirable location for investment in 2006, by 2010 this percentage had fallen to just 22%. The most attractive market was China, favored by 39%. To quote the Ernst & Young study, "We're competing for capital in a new multi-polar world in which investors can shop the globe for growth, talent, technology and productivity." We need to make sure that the U.S. isn't a flyover zone when it comes to international trade and investment.

We need to increase exports and improve our international competitiveness. Here, the rhetoric from policy makers has been right, but the actions need to be better aligned through an emphasis on trade agreements, corporate tax reform, and other initiatives to put us on a more competitive footing internationally.

We need infrastructure investment to create jobs and build the platform for 21st-century growth. Jim Owens, the Chairman and CEO of Caterpillar, points out that since the 1970s, U.S. investment in infrastructure has grown at only half the rate of GDP growth. Roads and bridges are in disrepair and the power grid is inefficient. In particular, we need to upgrade our transportation and energy systems with communications and information technology to create smart grids that will radically improve efficiency and productivity. We've heard this story before. Some of this will take public investment, but most can be done by the private sector, if we don't impose so many rules and regulations that it becomes an uneconomic proposition.

We fully support the Administration's actions to shore up America's educational system, particularly in science, technology, engineering, and math. Verizon alone is directing more than \$25 million this year from our charitable foundation to support education, working with partners like the National Academy Foundation, the New York Hall of Science, Jobs for America's Graduates, and the many educational partners in our online educational resource, ThinkFinity.org. This is also a top priority for the Business Roundtable, which is leading a businesswide initiative to increase the number of American students with college degrees in STEM fields.

We need to promote the innovation and entrepreneurialism that are the beating heart of the economy. While the government has a lot of innovation initiatives, we need better focus and coordination in this vital arena. We need a permanent tax credit for research and development, more effective protection for intellectual property, and sustained federal investment in basic research. Both government and private sectors have a critical role to play here.

Government invented the Internet, mapped the human genome, developed GPS technology – extraordinary advances. But it took private industry to commercialize these discoveries, develop real businesses around them, and make them available to average Americans. There are many areas, from renewable energy to transportation to homeland security protections, where government and industry can and should be working together to develop the technologies that

will create new industries and new jobs. To do that, though, we need a more favorable environment for investment and new business formation.