

U. S. Competitiveness: Reversing the Decline!

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Recently the head of China's \$400 billion sovereign wealth fund, Gao Xiqing, said: "Your (the West's) system has come to some sort of a dead end, at least for now. You need to rethink your system." He was observing that the developed countries of North America, Europe and Japan, often referred to as the West, are no longer competitive in several important areas versus the developing countries of the East, often defined as Asia excluding Japan and including the Middle East.

Gao Xiqing is suggesting that the problem is a system problem; specifically, the process in the West for getting tough decisions made doesn't seem to be working. Let's look at the symptoms that suggest there is a problem, and then discuss our current system for making tough decisions. We conclude with an outline what might be a start to fixing the situation.

The Symptoms

Finances – Most western countries have massively mismanaged their finances. They not only have huge debt, but even more serious, gigantic unfunded liabilities (e.g., Social Security, Medicare in the U.S.) and unrealistically generous citizen and government employee benefit programs. You have heard a lot about these issues in countries like Greece, Spain and Italy, but we are right behind them with a national debt currently at \$15.8 trillion, about 105% of GDP, and unfunded liabilities of a mind-blowing \$119 trillion (see the U.S. debt clock at www.usdebtclock.org). In stark contrast, many countries in the East actually build up reserves. Of the ten countries with the largest sovereign wealth funds, 9 of the ten are in the East. It's not just about oil: for example, Singapore, the 6th largest sovereign wealth funds, has no natural resources.

How About Education? - The core countries of the West (USA, Germany, Great Britain, and France) rank 32nd, 15th, 30th, and 19th respectively in mathematics in the recent global testing results of high school level

students by country. Four of the top five in that ranking are in the East (China/Shanghai, Singapore, Hong Kong, Korea). In the U.S., ever since the report called "A Nation at Risk" was published in 1983, there have been hundreds of studies showing that great teachers are the most important ingredient in generating qualified students, but the teachers unions ban performance appraisals of teachers and support tenure, so mediocrity has been the norm for 20+ years.

How About the Business Environment? – All of the ten countries with the highest corporate tax rates are Western (the U.S. is the highest). Considering all OECD countries, only eight tax the profit a company makes in a foreign country when those profits are brought back to the home country (the U.S. is one of them). All but one of the eight is in the West. This is the reason why most U.S.-based multinational companies don't bring their foreign profits back to the U.S. Also, in the U.S., legislation like the healthcare bill and Dodd-Frank regulations are so complex that industry is frozen in its tracks due to vast uncertainty about the future these things will generate.

The Current System for Making Tough Decisions

Let's face it; democracies are having a very difficult time making tough decisions: decisions where in some cases benefits need to be cut, or services modified, or high performance standards installed. Why? When any kind of change or cut in programs is considered, the modern media is likely to showcase some resulting "victim," that is, an individual who may be losing a benefit or service. We see this whenever a change in Medicare or Social Security is considered. Given that politicians fear being framed as the cause of any pain or inconvenience, and their first priority is to get re-elected, they back off from making the tough decisions. The result: the current mess in the West.

What To Do:

- Given the above, like it or not, the guy from China is right. So...what should we do? Here are a few simple, clear steps that would put the U.S. on the path to regaining our competitiveness:
 - Politicians: Institute a term limit of one four-year term in the Congress and White House with a ban on ever running again for any office after being termed out
 - Finance: Pass a balanced budget amendment. This year the U.S. is taking in \$2.3 trillion, and spending \$3.6 trillion. Like 49 of the 50 states, a balanced budget should be a requirement. We should also begin tackling the entitlements by installing means testing on Social Security and Medicare, and re-designing these programs for individuals 40 years or less.
 - Education: Pass legislation that makes it a requirement that all publically funded schools scrap tenure and have performance appraisals for teachers, with the bottom 2-3% of performers being let go each year. Most well run companies, like GE and Microsoft, do this. Why not our schools?
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- Business Environment: Lower the corporate rate to 18.6%, the OECD average, and repeal any legislation of the past five years that creates regulations, and start over on those issues and come up with alternatives that are clear, understandable, affordable and effective.
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