



BUSINESS NEEDS A CLEAR VIEW.

As we move into spring, many economists are focused on businesses creating jobs. Similar to the market rally following the tech bubble in the 1992-1994 jobs growth has virtually been non-existent. Investors will not feel comfortable about a sustainable rally without the return of lower unemployment through the creation of jobs. While jobs/unemployment has always been the human side of recessions, business efficiency and cost cutting are what separated the wheat from the chaff. Those companies that are able to adjust to a slower economy have always and will always make it through to the next growth cycle in great shape. The paramount reason for our significant outperformance over the past two years is our focus on companies that have the financial strength and management dedication to not only enduring the recession but thriving in the subsequent recovery.

Recently in a speech at The Brookings Institution, the CEO of Intel, Paul S. Otellini, shared several interesting thoughts on the current negative influences on the business environment in the U.S. While he paints a difficult picture of the long term business environment, his perspective gives us a better understanding of the reluctance of businesses to return to their pre-recession ways of management.

Mr. Otellini believes need to address the fact that government policies can create disincentives to investing in America, and the trends here are worrisome. What is true for companies is also true for countries. Global competitiveness requires continually making investments for the future, investments in things that make innovation possible even if they don't yield results immediately. Unfortunately, long-term investments in education, research, digital technology and human capital have been steadily declining in the United States. So too has the commitment to policies that made us such an entrepreneurial powerhouse for more than a century.

At one time the United States could boast about the best students in math, science, and engineering. Our research centers were without peer. No country was more attractive for startup capital or global investors. We seemed a generation ahead of the rest of the world in information technology. That simply is no longer the case. Over the past decade our competitors have focused on the very things that made America's innovative economy the strongest in the world. Around the world, business and government leaders, students and employees, are very instructive. Other countries have focused on investing in innovation, creating national policies to build digital infrastructure and have moved quickly to embrace sustainable energy. We're seeing this not just in India and China, but in Finland, Korea, Japan, the Netherlands and many other places. All of this activity on their part is making them far more potent competitors in the next phase of the global economy.

Consider the tax credits that our government gives to businesses that invest in R&D. They were once the most generous in the world. Today companies find their R&D investments more valued and more rewarded by many other countries. Think about our ability to win the global war for talent. Our immigration policies seem deliberately designed to prevent us from attracting the best minds in the world. American companies are given a tiny allotment of visas for foreign-born engineers and scientists. Last year the quota of visas for those with advanced degrees was completely filled by April. With such policies are we surprised that more and more top-performing students return to their home companies after studying in our graduate schools?

Then there are taxes. At a time when countries in Europe and Asia are clamoring to offer companies like Intel significant tax benefits to build factories, the national tax incentives for companies to invest here in the U.S. are few. Our combined state and federal corporate tax is the second highest in the world. Economists at the OECD tell us it is precisely these high statutory corporate rates that punish the most dynamic and innovative firms. Lastly, we have significant uncertainty relative to the future costs that businesses may incur in the areas of health care and energy costs. On all of these issues there may be legitimate policy differences, but as a nation we must have a clear and enduring strategy to promote innovation, investment and startup companies, a set of policies that let American businesses confidently invest in the future, raise capital, take risks and feel assured that we are training the talent to lead to the next generation of industries. That after all is what the rest of the world is doing.



Stimulus spending is not a substitute for forward-looking investments that help create the underpinnings of economic growth. Perhaps the most important of those is education, an area in which international test scores continually tell us we are failing to be competitive. But it doesn't have to remain like that.

According to one source, America's GDP would grow by more than a third if U.S. students became globally competitive in math and science. Any real strategy for future competitiveness has to address this issue. President Obama has made this issue a top focus for his administration. We see it as the responsibility of not just government, but of every business that depends on highly skilled employees.

The future is going to be more demanding, more competitive, and more disruptive to American business. But those conditions can be exactly the right environment for new thinking and breakthrough innovations. That is why fostering such an environment ought to be the essential characteristic of our economic policy and the plans of every competitive business.

With so much unknown, how are U.S. business leaders supposed to plan budgets, hiring, and growth when the costs have yet to be determined. Voters may be able to make decisions based on hype and hope, but in the business environment, it is all about the numbers. The good news is when the U.S. government gets out of the way, businesses will finally know what they are working with and plan accordingly. Markets know how to handle good news and bad news, but the unknown is difficult to digest.

We continue to invest in for companies that are taking advantage of the benefits of the global marketplace, as the growth continues to be outside the United States.

As always, thanks for your trust.