FedEx Head Frederick Smith Outlines Ways to Spur U.S. Economic Growth

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Excerpts from Mr. Smith's Remarks

Formula for Restoring Growth in the U.S.? It gets down to basically three things. The first is we have to modify our non-competitive corporate tax code. Second, we have to understand the injurious effects of the United States' continued importation of petroleum to literally and figuratively fuel our economy, and what that means for our international security and what it means for our balance of payments and for our gross domestic product. And finally, we have to recognize the importance of international trade and its effects on the United States economy and reset a few things in the trade arena.

Who Are the Job Creators? The reality is, it's not small business and it's not big businesses that are the job creators of the United States, it's the people that invent, innovate, and invest that are the job creators of the United States…. So the left talks about government being job creators and the right talks about small business being job creators. In actual fact, whether it's small or large, it's investment that creates jobs, investments that is basically fueled by innovation and invention. And absent a stimulative effect on the willingness to invest in the United States of America, it is impossible to increase the United States' growth rate and to restore it to the level seen in the first chart. It's just that simple.

Why a Reduction in Investment in the U.S.? The problem is in that Tax Act of 1986 – 25 years ago, during the Reagan Administration, international trade represented 17 percent of our economy. Last year, international trade represented 32 percent of our economy. Ninety-five percent of the customers for products around the world or services are not in the United States of America. So it is only natural in the 25 years following the '86 Tax Act that you have seen American business, particularly big American business, focus on faster-growing populations around the world to invest the dollars, because the United States tax rate of 35 percent at the corporate level today is now the highest of all industrialized countries in the world. And if you chart out tax rates of various countries around the world, you will see a very remarkable correlation: High corporate tax rates mean high unemployment. Why is that the case? Because unemployment is directly related to investment.

What Pulls the U.S. Economy? It is big business that's the locomotive that's pulling the train for the United States economy, and the so-called gazelles – the Googles, the Amazons, the oil wildcatters that are fracking down in Texas and in North Dakota – it's the people that are making the investments in capital equipment and software that provide the impetus for the entire economy. And with a tax rate of 35 percent, it is impossible for you to incent the large corporations — that now have at least $1.7 trillion of money offshore — to put their money back in the United States.

So What Do We Need to Do? We have to reduce our corporate tax rate to a worldwide competitive level of 25 percent and we have to go to what's called a territorial tax system. All that means is you pay the tax on where the profit is made and you don't tax it when it's brought back into the United States.

How Has FedEx Managed to Improve Over the Years? FedEx, over its entire existence, has gotten better and better and better at what we do. And we've been able to do that for three reasons: One, the use of technology because just imagine if we were handling all of those millions of people today and things we couldn't keep track of. I mean, things would be going to Mars, for goodness sake.

Secondly, we have availed ourselves of those most advanced, scientific, quality management systems, pioneered by Japanese industry and led by Professor Deming and Professor Juran 25, 30 years ago.

And third, we have a culture, which is represented by a very simple phrase. We call it our Purple Promise. Purple is the common color for all the FedEx branding. We're a little like Coke, you know, red's Coke Classic and silver is Diet Coke and gold is – I don't know what it is, but it doesn't have much in it. [Laughter.] So purple and orange is our original express company, purple and platinum is corporate, purple and green is our ground-parcel company, purple and blue, FedEx Office, and purple and crimson is FedEx Freight. So I have a very simple phrase that every member of the FedEx team knows. And I hope if you walk up to somebody, you ask them, what's the purple promise, and they'll say very simply, I think, one thing, "I will make every FedEx experience outstanding."

So you don't need 18 manuals and one thing or another. You give them the best technology and try to support them and the best management tools, and our team will deliver. So we've gotten better and better every year. So we don't lose many of anyone's packages, including mine.

DAVID RUBENSTEIN: Welcome, members and guests of The Economic Club of Washington, to our fifth event of our 26th season here at the Ronald Reagan Building and International Trade Center in Washington, D.C. I'm David Rubenstein, president of the Club.

I'm very pleased today that we have as our special guest Fred Smith, who's the chairman, founder, president, and chief executive officer of FedEx Corporation. Fred will make some opening remarks that I think you'll find quite interesting, and then we'll have a conversation with him.

Fred Smith is a native of Memphis and went to Yale, where he famously wrote a paper about a company that would transport packages, and he supposedly got a C on this paper. He graduated in the class of 1966 and was president of his fraternity, the same fraternity at which George W. Bush was in while they were together at Yale.

He then went to the Marines, volunteered for four years in the Marines. Served in Vietnam, won a number of combat awards, and then came back and took the paper that he had written at Yale and started FedEx – then called Federal Express. The company started in 1971, and the first day in business, it had about 186 packages. Today, it does daily 9 million packages, and for the Christmas season, they'll probably do about 19 million packages a day.

The company today has revenues of about $43 billion, more than 300,000 employees, market capitalization of about $28 billion, and earnings a little bit more than $5 billion annually. So Fred has taken his idea in college and built it into one of the greatest companies in the United States and one of the greatest companies in the world. And I'm sure many here have done the same with their college papers as well. [Laughter.]

So Fred has become a great leader not only in the American business community, but globally, and he's very involved in a lot of public policy matters and very involved in a lot of philanthropic matters. And he's also involved in this area because not only is FedEx Stadium named for the company that he started, but he's also a part owner of the Redskins, and he has great interest, therefore, in this area.

So I am very pleased to have today as our guest Fred Smith. [Applause.]

FREDERICK SMITH: Thank you. Well, good morning, ladies and gentlemen. Thank you very much for inviting me to speak to the Economic Club. Washington is an enormously important place for FedEx, and on behalf of those 300,000-plus team members around the world, thank you very much for allowing me to represent them.

This is the second time I've spoken to the Economic Club. I think it was over 10 years ago at a different venue. And as David mentioned to you, not only do we have all of those business interests in Washington, my youngest daughter works for Google in Washington, so I have a more personal reason for coming to Washington from time to time.

I am delighted to be sitting at the table with the distinguished Ambassadors from France and Japan, countries with which we have very long-standing relations and major hubs in those countries.

I was asked to speak today about the economic situation as we see it at FedEx, and because of our involvement in so many aspects of the global and United States economies, many economists believe that we have a unique perspective on things, and I think, quite frankly, that's correct. And it's not by accident that every month, the Federal Reserve gives us a call and asks us what we're seeing and what we think about things. And one of the things I think that we all can agree on in this audience today is that we have a significant problem in the United States, much in the headlines.

The most important part of the equation, I believe – which you'll be happy to know I'm not going to speak about very much – is the cost structure of our government. All of us understand and I think realize that the tremendous escalation in entitlements cost being driven by the advances in medical science and by the demographics of this country are simply unsustainable. And there are truckloads of papers and the blogosphere is full of recommendations about it from very learned and knowledgeable people.

I would simply commend to this audience a wonderful study which I just saw yesterday from the Health and Retirement Committee of the Business Roundtable, headed up by Gary Loveman, the chairman of Harrah's who happens, coincidentally, to be a FedEx board member. And Governor John Engler, the CEO of the Business Roundtable] BRT], is here, and I'm sure if you email him, he can give you those recommendations. And if they are followed and adopted, I think the cost side of the equation of our problem would be handled fairly and relatively expeditiously.

But my interest, and what I'd like to talk to you today, is the other side of the ledger. It's about the growth, or more specifically, the lack of growth, in the United States economy that will allow, as John Kennedy, our President in the early '60s, famously said, to have a rising tide to lift all boats.

One percent GDP growth rate differential over a period of 10 years is worth trillions of dollars in additional income and an improved standard of living of major proportional increase, versus our current track of roughly 2 percent per year. And not only does it increase the incomes of the citizenry of the United States, it produces trillions of dollars in revenues for the United States Treasury to pay for those entitlements, modified hopefully along the lines that I mentioned, but so important to the social compact that the United States has made for the people that are elderly or the people who are not capable of caring for themselves.

So the question in my mind has been for some time, how do you restore that economic growth that made the United States the most prosperous and the most important nation in the world? And I have some charts here to emphasize some of the points that I'm making, but I think the formula for restoring growth in the United States gets down to basically three things.

The first is we have to modify our non-competitive corporate tax code. Second, we have to understand the injurious effects of the United States' continued importation of petroleum to literally and figuratively fuel our economy, and what that means for our international security and what it means for our balance of payments and for our gross domestic product. And finally, we have to recognize the importance of international trade and its effects on the United States economy and reset a few things in the trade arena.

Now, there are regulatory issues but, quite frankly, I believe we're on our way to dealing with some of those. The President of the United States came to the Business Roundtable yesterday and pointed out that it was a major initiative on the part of his Administration to have well thought-out and cost-effective regulation, and he committed to the CEOs of the Business Roundtable even further action to ensure that that's the case. So assuming that those representations are followed, I think that the three things that I just mentioned get to the heart of the matter.

Before I talk about the three things that I just mentioned, I want to say a couple of things very importantly. You cannot take what I'm going to say and take a sound bite and take it out of context, you have to listen to the entire prescription, because the problem is not solved by simplistic sound bite solutions.

And the second thing I want to make sure everybody understands is that nothing that I'm going to say is in any way critical of the small business community. Quite the contrary, the small business community is the backbone of the United States economy. I was a small-business person myself and know what it's like to make those payrolls and to then become a very big business. And I made some of these remarks on Monday, and I think they were misinterpreted in terms of our feelings about small business and taxation.

But let me show you these charts, because they tell a fairly definitive story. The first chart is a picture of the United States GDP. As I mentioned a few moments ago, the difference in 1 percentage point GDP growth over a decade amounts to $5 trillion in additional wealth and trillions of dollars of tax revenues for the United States of America. So in addition to the cost side of the equation, the question for our political leaders needs to be how do we restore economic growth in the United States, because it solves most of the problems of and by itself. But clearly, something happened over these past several decades that retarded the growth of the United States economy from its once robust growth rates, as you can see on the chart, in excess of 3 percent on average.

Well, what happened to make this chart go negative and start to decline? I think the culprit is the Tax Act of 1986. And the Tax Act of 1986 was an attempt to correct a number of abuses that had gone on for a long time – real estate, tax shelters, and so forth. And it equalized the rate of taxation for individuals and small business if they were filing as an individual, a Subchapter S, or as a partnership, and the tax rates of big business. And that tax rate today is about 35 percent for individuals and it's about 35 percent for corporations.

And as a result of that, you hear the sound bite debate that's going on. And from the right, you can't increase the rate of taxation upon the individual because that's going to retard tax creation; and from the left, it's the 2 percent at the top or the 1 percent at the top, or the millionaires and the billionaires need to pay their fair share. And so we're stuck in that paradigm.

The reality is, it's not small business and it's not big businesses that are the job creators of the United States, it's the people that invent, innovate, and invest that are the job creators of the United States. And if you've ever seen a chart that shows something clearly, the next one I'm going to put up does. This shows you the relationship between capital investment in equipment and software in the United States, and job creation. So the left talks about government being job creators and the right talks about small business being job creators. In actual fact, whether it's small or large, it's investment that creates jobs, investments that is basically fueled by innovation and invention. And absent a stimulative effect on the willingness to invest in the United States of America, it is impossible to increase the United States' growth rate and to restore it to the level seen in the first chart. It's just that simple.

The next chart shows the same thing. It shows a reduction in investment in the United States over the past decade. So unless we can restore incentives in the United States to invest, we cannot increase our GDP growth rate and we cannot put our citizenry back to work and reduce our unemployment rate, which is now almost 8 percent and has been since the great meltdown in 2008.

So what's the problem? The problem is in that Tax Act of 1986 – 25 years ago, during the Reagan Administration, international trade represented 17 percent of our economy. Last year, international trade represented 32 percent of our economy. Ninety-five percent of the customers for products around the world or services are not in the United States of America. So it is only natural in the 25 years following the '86 Tax Act that you have seen American business, particularly big American business, focus on faster-growing populations around the world to invest the dollars, because the United States tax rate of 35 percent at the corporate level today is now the highest of all industrialized countries in the world. And if you chart out tax rates of various countries around the world, you will see a very remarkable correlation: High corporate tax rates mean high unemployment. Why is that the case? Because unemployment is directly related to investment.

Now, you can have government investment, infrastructure. And we should have a lot more infrastructure investment than we do. During the periods of time that we had high GDP growth rate, we had almost 3 percent of our GDP being invested in infrastructure by government. It's now 1 percent.

You can have residential investment, but we all know how that ended up – with the best of intentions. And whether you're on the left or the right, and the problem was government policy or greedy Wall Street, we overinvested in real estate. It was unsustainable. And we had the tremendous meltdown of the subprime crash that's been so well noted.

You can have business investment in structures. This is a good example of it. I guess this is a public building. But a lot of private investment in business structures – I don't have to tell that to the D.C. audience, where there are a lot of people who have made a lot of money over the years.

But the big driver is equipment and software, because it is the vast majority of capital investment. And that capital investment is made, as I said before, not necessarily by big business and not necessarily by small business, but in general it is made by those corporations – the 17,000 corporations paying taxes at the corporate rate – that employ over 500 people. And so it is big business that's the locomotive that's pulling the train for the United States economy, and the so-called gazelles – the Googles, the Amazons, the oil wildcatters that are fracking down in Texas and in North Dakota – it's the people that are making the investments in capital equipment and software that provide the impetus for the entire economy. And with a tax rate of 35 percent, it is impossible for you to incent the large corporations — that now have at least $1.7 trillion of money offshore — to put their money back in the United States.

So what do we need to do? We have to reduce our corporate tax rate to a worldwide competitive level of 25 percent and we have to go to what's called a territorial tax system. All that means is you pay the tax on where the profit is made and you don't tax it when it's brought back into the United States.

Today, there's only one other country in the world that has a worldwide tax system that says if you make money in China – making, like P&G does, disposable diapers for Chinese babies – that when you bring that money back into the United States, you have to pay our corporate tax rate differential between the money that you made in China. That country is Chile. And Chile currently has a corporate tax rate of 17 percent – going to 20 [percent], but a 15 percent differential on that is a far different cry from bringing back money and having it taxed at 10 [percent] or 15 percent. So absent a reduction in corporate tax rates and absent moving to a territorial tax system, we will not return to a level in investment that is necessary to increase U.S. GDP, reemploy our citizens, increase the standard of living, and produce trillions of dollars of revenue to help pay for these entitlements, hopefully modified in a good way like the BRT has recommended.

Now, there's another culprit to our lack of growth. And I sort of equate this to the phenomenon of the frog that's put in the pan, and if you turn up the heat slowly the frog doesn't figure it out and gets cooked; but if you put it in a boiling pot, it'll jump out. And that's what's been happening to us over the past 10 years. We've been cooked very slowly in the United States, and the next chart shows it very clearly. [Laughter.]

We've been involved with the largest transfer of wealth over the past 10 years in the history of the world, paying for imported petroleum. And right before the subprime meltdown, we were importing about 70 percent of our oil and we were burning about 20 million barrels of oil per day. Fortunately – remember what I said about investment – innovation, invention, and investment – some very smart people, including people in the government who put a lot of work into the research and development side of the House, figured out how to bring oil and gas out of the ground by so-call fracking previously impermeable rocks and bringing up enormous amounts of natural gas and restoring growth in our oil production, which was deemed impossible just a few years ago.

Now, the oil market is a worldwide market. And it is controlled by a cartel, which, if it were doing its business in the United States, would be found to be illegal and the participants prosecuted, because the foreign oil companies and the foreign government that own the vast majority of the world's oil – about 80 percent of it – only produce about 40 percent of it. So that's the classic sign — market that is being managed to maximize the return — of a cartel.

So you've seen a lot of conversation about the United States becoming the Saudi Arabia of the Western Hemisphere, but we are still only producing in the United States a bit over half of our petroleum needs every day. And our new efficiency standards, which were enacted by the Bush Administration and increased by the Obama Administration, have had a big effect on reducing demand, so we're now down to about 18.7 million barrels a day.

But what the United States must do in concert with reform of our corporate tax rate: We must produce as much oil and gas as humanly possible in the United States and we have to use a lot less of it. So we have to move things in transportation, which consumes about 70 percent of our oil per day, to electric power in the light-duty cars and truck sectors, and natural gas in the heavy-truck sector.

Now, the reason this is so profound is last year the United States had a negative balance of payments of $560 billion. And of that $560 billion, importation of oil represented 64 percent of it – $326 billion. That's $326 billion that were shipped out of the United States, that aren't being spent down the road at the McDonald's or at Fedex Field or any business that you might be in. And over the past 10 years, we've been involved with two wars in Iraq and Afghanistan that relate directly back to our dependence on imported petroleum from the Middle East. So not only is this an enormous drag on our GDP, it's an enormous drag on our citizenry paying for this military apparatus to protect the oil trades.

Now, I can't say to you if we become much less dependent on imported petroleum, it's going to make the cost of gas go down, because it's a worldwide market. And remember I told you it's controlled by a cartel that withholds production in order to keep prices as high as they can, to keep that water just warm enough so that frog doesn't jump out of the pan. So again, what we need to do is to maximize our production of oil and gas – and thank goodness for those entrepreneurs and engineers and inventors who are willing to put this capital up to produce this new wealth for the United States. And the sooner we can reduce our oil and gas dependency from imported locations, at least outside of North America, the more we are going to see our GDP increase, the less danger we're going to have for additional problems in terms of military challenges.

Because that chart, if you notice, it's fairly flat over there to the left. And beginning about 2000, it starts to go up. Well, what caused that? It's because of that trade I mentioned that went from 17 percent to 32 percent; it's the rise of China and India and Brazil and the emerging nations who now want to have the same kind of a living standard as we do. So reducing our dependence on imported petroleum means that that potential competition for those resources is less dangerous. And lest anybody forget the lessons of history, World War II started for the United States over oil. And a big part of the United States' war effort against the Axis powers of Europe was to cut off their oil supply.

This has been the equivalent of a $1,300 dollar tax for every family in the United States, as the next chart shows. In 2001, you can see the average family of four was paying about $1,300 for gasoline. By 2011, they were paying about $2,600 dollars – about $1,300 more. Last year, we had a payroll tax holiday. It was worth $108 billion to the United States economy. We let people spend it on what they wanted. It's not by accident that the price of gasoline at the pump went up by about a hundred billion dollars in 2011, and took that benefit to our economy and exported it elsewhere.

You can see in the next two charts the issue of our dependence. We're doing great in terms of increasing our production, but we're still only at about 9 million barrels a day, where our demand – on the next chart, you can see – is still just below 19 million barrels a day. So it is essential that the United States have an energy policy which maximizes U.S. oil and gas production and reduces our consumption of petroleum so that there is less oil per unit of GDP. And that means diversifying transportation to some degree away from petroleum, where it powers 93 percent of all transportation, into a diverse set of fuels.

The next chart just simply shows the balance of payments problem that I mentioned to you about petroleum.

And finally, the third element that we need to put into any prescription to restore American growth is we have to make sure that the United States, which has been a leader for free trade since the end of World War II – built on the premises of a great Tennessean, Cordell Hull, who one time famously remarked, when goods cross borders, armies rarely do. So the United States took up the mantra of free trade and opening up our market, which reindustrialized Europe, reindustrialized Japan, and over the past quarter century has helped move about 700 million Chinese citizens out of the most abject poverty into a much better standard of living.

But as you can see by the final chart, at least in the case of China, we have a significant balance of payments problem. We're buying over $400 billion a year from China, and China's only buying about $100 billion from us. China has adopted a policy of promoting local competitors against foreign competitors, even though the WTO agreement, which allowed them to have this enormous surge, specifically prohibits that. And we've been on the receiving end of some of that.

So over the next several years, one of the most important things to go with an improvement in our overall tax structure and our focus on energy security, and to reduce our importation of petroleum, is that the United States must insist on fair trade, and that we cannot permit mercantilist trade with the United States because it's too expensive to our citizens. And where our companies have an advantage, particularly in the service sector, we've got to be able to compete and have access to our competitors' markets, just as they've had access to our markets over these past 30 years – that has increased, as I've said twice now, the proportion of U.S. GDP represented by imports and exports from 17 percent in 1986 to 32 percent in 2011.

Now, let me close with one final remark – so again, this is not misunderstood. As a result of the 1986 Tax Act and the equalization of individual and corporate tax rates, the vast majority of business tax rates are now filed as individual or Subchapter S returns; 91 percent. And the President has made it a centerpiece of his negotiations with the Congress that the top rates on the top 1 [percent] or 2 percent have to go up. And that will include some of these businesses that are the gazelles that I mentioned to you.

But the solution to the problem, in my opinion, is that, at the same time that there's any deal between the Congress and the President on increasing marginal rates for the wealthiest, including small business who decide to file their taxes in the manner I mentioned, you must at the same time lower corporate tax rates on any small business for a very small amount of money. And I'll bet you half the people in this audience are lawyers; we'd be glad to sign you up and give you a certificate of incorporation – [laughter] – and you can pay your taxes as a C filer rather than a S filer. That means you're going to have to leave that money in the business, and hopefully you're going to invest in it and produce some results I showed you in that chart. And guess what? That's why prior to 1986 there was a significant differential between corporate and individual rates, because the people that preceded this generation of legislators felt – and I think understood – that those locomotives that were pulling our economic train were the businesses that were investing and innovating and inventing. And we have to do all three of these things, in my opinion, to restore economic growth, increase jobs and reduce unemployment and to be able to pay for those entitlements and keep the promises that we've made, albeit smartly modernized along the lines I mentioned to you by the BRT recommendations.

Thank you very much. [Applause.]

MR. RUBENSTEIN: Fred, thank you very much for that. You've been in town for a couple days. You had a meeting with the President, and you've met with Congressional leaders I presume as well. Do you think we will go over the fiscal cliff?

MR. SMITH: I think that the odds are that we will have a deal. I think both sides want to avoid the fiscal cliff. I think both sides understood, based on the President's remarks to the BRT yesterday and to remarks that have been made by Speaker Boehner and the Minority Leader, Senator McConnell, that they definitely want to avoid this.

At the BRT yesterday – Governor Engler can verify this – we were discussing this matter. And I asked the chairman of the BRT to poll the audience, and I asked them to have a show of hands for all of the BRT companies represented there, which are trillions of dollars of revenues and millions of employees, as to how many of the people in that audience would reduce capital investment if we went over the fiscal cliff. And I daresay that virtually everyone who makes capital investment in that audience – and there were some noncapital-intensive businesses in there – raised their hand. So the consequences of going over this fiscal cliff are enormous. And it will result in a significant reduction in United States GDP, in growth, and additional unemployment and deficits if we're not able to come up to a solution. And I think our elected leaders — from the President to the House and the Senate — understand that very clearly. So I'm cautiously optimistic.

MR. RUBENSTEIN: Now, some people say, well, we could go over the fiscal cliff and we could fix the problem in January, and it doesn't really make that much difference – January, February, what's the difference? Do you subscribe to that view?

MR. SMITH: You know, that kind of thinking reminds me of some guys that I knew – when I was flying, you know – that said, the Mach limit here is so-and-so; I'll bet you I can push this damn thing just a little bit faster, and let me see if I can do it. And I can tell you, some of them aren't with us anymore. [Laughter.]

So I don't know whether it would or whether it wouldn't, but I know one thing: It's stupid to go past a referendum like I just mentioned, where you have the largest employers in the country almost to a person raising their hand, saying they're going to reduce capital expenditures – and I hope I made clear in those charts – I mean, those charts are startling, aren't they? I mean, everybody talks about this, you know, growing jobs with the government and doing this. It's all nonsense. It's invention, innovation, and investment. And you have those three buckets, but the most important by far is the investment in equipment and software.

Because otherwise, go down to the Permian Basin in Texas and tell me what they're doing without the investment of all those hundreds of millions of dollars in the oil rigging equipment, and Schlumberger down there assisting them, drilling this, that, and the other – they're playing checkers on the porch. [Laughter.] There's no growth. It's the innovation and investment that creates economic growth and jobs. It's not government, and it's not somebody that's performing very useful work for some high society, perhaps, in a two- or three-person law firm. It's important work. And they made my personal computer, or a tablet or something. But it's those industrial companies out there and those gazelles, like I mentioned, that are pulling the train. So it's foolish to put the nose of this plane over and see if you can exceed that Mach limit.

MR. RUBENSTEIN: Now, one of the more obvious changes in what's going on in Washington from months ago – we're in the debt limit discussions – the business community is very actively involved in Washington, lobbying Members of Congress. Do you think the business community should have done more with Republican Members before to say some tax increases are tolerable, or do you think it's been appropriate just to wait until now?

MR. SMITH: Well, I think that the business community has been very active, David, for a long time, telling our elected representatives on both sides of the aisle that the levels of expenditures that this country has are simply unsustainable and that we have to bring those under control. I think that's why the President appointed Senator Simpson and Erskine Bowles – both wonderful, capable people – to try to address this. You had the Rivlin-Domenici report. You've had all kinds of people that have reiterated that we can't continue on this course or we become like some of the European countries with unsustainable government spending. And as I mentioned now twice, the BRT report on the Health and Retirement Task Force is very wise in the recommendations that it made. And I urge you to contact Governor Engler, and you'll see it.

Now, I think that the Business Roundtable has been saying for at least two years, in an unofficial capacity: You have to have a competitive international tax rate. We're now the highest-taxed corporate tax rate around the world; it's like saying, well, let's play the Wizards, and our basketball team can only have guys or girls or whatever they want to put out that are six feet tall. They're not going to win. So you can't have American multinational companies competing against foreigners – well, maybe they would against the Wizards – [inaudible, laughter] – no, I'm teasing about that. The Redskins sent RG3 over there the other night; he took care of that, didn't he, though? [Laughter.]

So I think the business community has been very vocal about this. It really goes back to four years. I think that what you're seeing now is the business community is like being a passenger in that airplane and knowing somebody's about to try to see if they can go through that Mach limit. So that's why the decibel level from the business community has gotten much louder here lately.

MR. RUBENSTEIN: Now, it's unlikely, most people would say, that the corporate tax issues will be addressed in the three weeks that are left to solve the "fiscal cliff" issues. Those are thought to be more complicated and not something that can be dealt with this quickly. So what is likely to happen, most people would say, is we'll have tax revenue increases of marginal rates on individuals go up, capital gains will go up and dividends rates would go up. Would you support that in the short term as a way to get to the next stage?

MR. SMITH: Well, first, you began with a premise which I disagree with. I don't think that the corporate tax issue is nearly as complicated as people make it. The Business Roundtable companies have said, very clearly, get rid of all the credits, the deductions, the special deals, lower the corporate tax and go to a territorial system. You could write the bill essentially on one piece of paper. You might need to have two – that talked about transfer of payments and where you reside, intellectual property – but it's not complicated. And I – my personal belief is that corporate tax rate reform – which the President said yesterday he supports, and that he supports a modified territorial system. And the Republicans support it. So my goodness, when you got two sides that support it, let's make a deal. And then you do with the individual rates what they can negotiate.

But if you don't address the companies that make these investments in equipment and software – which are the 17,000 in the United States of over 500 people on average, mostly, and the small businesses that are becoming the gazelles, that are growing and making these investments – all you're doing is basically putting this down the road. So I would urge that they simply make a deal on both of the two, or commit to making a deal at the very least. We have to be competitive.

You can't play in the international arena with a noncompetitive tax system. We have approaching $2 trillion of money in American corporate treasuries that should have the incentive to come back to the United States and be invested. And if it does, you saw the relationship there. That's the secret to increasing U.S. employment.

MR. RUBENSTEIN: Right. If your premise is right and they could deal with the corporate issues, and they did deal with that, would you support increasing capital gains rates and dividend rates?

MR. SMITH: Well, my feeling, if I were a czar and I could raise the capital gains rate – I mean, deal with capital gains rate – I would make it 25 percent for everyone, including the nonprofits, and I would reduce to 5 percent per year for the year as held down to either nothing or 20 percent.

Part of the biggest problem we have in the corporate world today is people that are, quote, "shareholders." Hell, they're speculators. They're coming in, they're coming out, – so everybody should pay a capital gains rate if you actually are making an investment.

And I know people on the left say, well, it should be the same as your paycheck – tax ceiling. Well, the problem with your paycheck is nobody tells you I'm going to put your pay in here, in this account, and you may or may not get back in three, four, five years. There's a huge difference between capital investment and ordinary income earned by wages. So I would make it 25 percent and I would decrement it – and it takes care of inflation – but I would make it for the pension funds and the nonprofits and the hedge funds and everyone.

In the case of dividends, the President yesterday made the point – well, he thought that the tax rate of 15 percent on dividends should go up. And I didn't have a chance to say it, but I will say it in this room, I think – and the President, of course, understands this – but the tax rate on dividends isn't 15 percent. The tax rates on dividends is 50 percent plus state taxes because what a dividend is, is a return on a share of an economic activity that has already been taxed at the highest rate in the industrialized world. So I think dividend tax rates should stay at 15 percent. If the corporate tax rates goes to 25 percent, which is the recommendation of the Business Roundtable, it's at 40 percent, that's where the President wants the top rate to go, 39.2 [percent] or 40 percent, so the return on industrial activity in the form of the dividend is taxed exactly as ordinary income, except you have on top of that 3.8 percent or 3.2 percent, which is a new Medicare tax.

MR. RUBENSTEIN: Three-point-eight [percent].

MR. SMITH: Three-point-eight [percent]. So if you increased dividends to the same as ordinary income, almost 40 percent, and you leave corporate tax rates at 35 percent and you add in the Medicare tax rates, you have a marginal tax rate of almost 80 percent on a unit of economic activity.

Now, you want to reduce some jobs? That's a good way to do it.

MR. RUBENSTEIN: So you obviously have a passion for these issues. Have you ever considered going into elective office or appointive office or – [laughter] –

MR. SMITH: No. [Laughter.] I have neither the temperament, the inclination nor the family situation that would permit me to go into public office. I admire greatly the people that do, but I'm not sure passion's the right word. It's desperation.

You know, it's like going to the doctor, and the doctor tells you you've got to do these three things, and if you don't do them, you're going to get in trouble.

So everybody talks about the job creators. The job creators are the business community, and they have been speaking very loudly about this and telling the patient, which is the body politic in the United States and our elected leaders, if you don't do this, our economy is not going to grow at a level that's sufficient to pay the obligations that we have. And again, they must be modified. They're unsustainable. Everybody knows that.

But you can't meet the aspirations of the American public. That's why we have Occupy Wall Street, that's why we have all of these pushes – you know, anti-growth initiatives – because people are angry because their incomes aren't going up. And their incomes aren't going up because we've reduced the amount of investment we have in the United States because, of those historical things that I mentioned to you in the talk. I'm absolutely convinced of that. So whether it's desperation or passion, I think the prescription is pretty clear.

MR. RUBENSTEIN: All right. Now, you indicated earlier that you get pretty good data about where the economy is going. Do you think the U.S. economy is heading for a recession or do you think we're going to head for higher growth next year than we've had this year?

MR. SMITH: I think absent some of the things that I mentioned a few moments ago or some sort of shock – and obviously, the situation in the Middle East is very dangerous and you'll see it reflected first in the run-up in oil prices. And that's very serious.

Everybody talks again – as I mentioned in the talk – about the great meltdown of 2008 and whether it was the government policies or whether it was the greedy Wall Street people that did it. People forget that in the summer of 2008, oil went to its highest price in historical terms. It went to $147 per barrel. And what that meant was a lot of people that took out those subprime mortgages probably shouldn't have done it to begin with, and took on obligations that they couldn't afford, were literally at the point of deciding do I buy the gas – because you can't just turn around and get a new car and if you've got one of those big old, you know, gas hogs – am I going to buy the gas or am I going to pay my mortgage? It was the match that lit the subprime bonfire in 2008.

Now it would have happened anyway, probably, but that's what kicked it off. So, you know, absent a conflagration in the Middle East and no change in some of the policies, we don't think the United States has the capability of growing much above 2 percent per year.

Now let me tell you something that'll really sober you up. If you look at the Administration's projections and all of these out-year resolutions of our fiscal problems, their assumption, I think, in 2016 is that we'll have growth rates of 4.8 percent. That's impossible unless – and absent some new new thing, you know, some new Internet, some – you know, making fuel out of water – [laughter]. But you can't get to those kinds of fast growth rates unless you make it more attractive to invest in terms of capital gains, as I mentioned, and dividends and the corporate tax rate.

MR. RUBENSTEIN: Well, what do you see as the economy, say, next year, based on what you're seeing in your business in Europe and in China?

MR. SMITH: Well, we have a very good economist, Gene Huang, one of the best. He's the President of the, I believe, in this year, I think, of the Business Economist Group. I think Gene has got us – do you know, Bill? Two-point-five? Two-point-five [percent] for 2013. Remember what I said, 1 percent increase growth rate is equivalent to about $5 trillion of –

MR. RUBENSTEIN: Two-point-five percent in the United States? What about in Europe and China? Where do you think those economies are going?

MR. SMITH: Well, China, as you well know because you're heavily invested there, has a relatively opaque system, and so what I would do is to tell you to just take whatever they are saying and that's what it is by their terms. [Laughter.]

But I would say this much about China. I think a number of the people at the BRT, including ourselves, are seeing some increase in economic activity in China. In Europe, with the exception of Germany, there is no growth and there's economic contraction. And there is economic contraction and no growth in Europe. Guess why? Because they took on entitlements which are unsustainable and they have some of the highest corporate taxes in the world, which are directly related to some of the highest unemployment in the world and some of the lowest capital investment.

So it's not like we don't have in real time, you know, a lesson book. You know, we can see it, and the failure for us to act on both sides of the house, getting the expenditures in line and putting in pro-growth policies will end up, as sure as the sun coming up, in a European-type situation at some point.

MR. RUBENSTEIN: So just to shift for a moment to your own company, right now, this company you started in 1971, and I don't know whether it's apocryphal or not that you wrote this famous paper that you allegedly got a C on –

MR. SMITH: Well, let me correct everybody on that because it gets brought up a lot and I would like to make sure everybody understands that was a very good grade for me and I was happy to get it. [Laughter, applause.]

MR. RUBENSTEIN: All right. So when you started the company, on the first day, you had 186 packages. Did you actually think it would ever to get where it is today?

MR. SMITH: You know, I think the reason we got to where we are today, David, is best described – and I use this quote a lot by the great philosopher, Pogo the possum who used to be in the funny papers, and he said, if you want be a great leader, find a big parade and run in front of it. [Laughter.] And the biggest trends in the world, you know, the digital revolution, the globalization of trade, the development of the Internet and e-commerce and those things, that's the parade we've been running in front of.

And so it is remarkable to me. I mean, we started with a little airplane, the DA-20 Falcon. It actually sits in the Smithsonian out at Dulles. It used to be in this one here, the Wendy, named after my sweet oldest daughter, and today that airplane would fit very easily inside the engine of one of our 777s. And those 777s with two big GE engines take off from Hong Kong and bring a hundred tons nonstop into Indianapolis or Memphis and we could get next-day service to every address in the United States of America. In fact, we go over the dateline and we call our flight out of Osaka our "Back to the Future" flight because you actually get the delivery before it was shipped. [Laughter.]

So could I have predicted it? Of course not. But who could have predicted in those days the iPad and, you know, the surgical things or the 777s. And I might say on that 777, to make my point again about this – what drives the economy, that 777 was developed by some fantastic engineers and internal entrepreneurs inside the Boeing company. Alan Mulally, my friend, who runs Ford, was the person that shepherded the 777, and it's the most fantastic flying machine. I couldn't have conceived when we started FedEx that they could do something like that. And every time we spend a $150 some-odd-million to buy that airplane, it's a big risk. We don't know what's going to happen in 10 years or 15 years. And the more that the corporate tax rate is, the more risky and the less incentive we have. And at the board level, that's what goes on. Should we make this investment or not? That's why everybody in the BRT put their hand up when we asked that question yesterday.

Now in that Boeing 777 airplane, there are parts and pieces from 22,000 suppliers, the vast majority of them are small business. But absent Boeing, designing it and FedEx buying it, all of those machinists in Seattle and the technicians at GE up in Cincinnati and everything, wouldn't have the job. And those small business people are the backbone of the economy. But it's that innovation and invention, then capital investment, that create the prosperity that we've enjoyed for so long, you know.

MR. RUBENSTEIN: Today, if I said I sent a FedEx package yesterday, it hasn't been delivered yet, how long would it take you to find out where that is?

MR. SMITH: About a millisecond. We handle millions and millions of pieces every day. And one of the things we did years ago, which was very important, is we figured out our customers wanted the information about where every one of them was every day. Which was impossible at the time, but we had an internal entrepreneur that figured out how to do it. He revolutionized all kinds of things.

There's a great story, I think, it's in the National Academy of Sciences about how the FedEx people did it. And the reason it was so important, for the first time in history, you were able to see inventory in motion or at rest. Now a warehouse doesn't add any value. It's just a place to put something so you know you got it. Well, once we invented the tracking of things in motion, you could keep track of inventory whether it was moving in a 500-mile-an-hour – or 550 777 or in a 50-mile-an-hour FedEx over-the-road truck, and it allowed people to have fantastic productivity. It's what allowed, along with government deregulation of transportation, things like Walmart, which is a really logistic system, not just a retailer. So we could tell you pretty damn quick.

MR. RUBENSTEIN: Have they ever lost one of your packages or that's never happened? [Laughter.]

MR. SMITH: We actually have – we didn't lose it, but we misrouted it a couple of times over the years, but the good news is with the tracking system we found it and we remediated it. The biggest problem for us is that when the thing isn't packaged well enough and the package comes apart or the label comes off.

But FedEx over its entire existence, David, has gotten better and better and better at what we do. And we've been able to do that for three reasons: One, the use of technology because just imagine if we were handling all of those millions of people today and things we couldn't keep track of. I mean, things would be going to Mars, for goodness sake.

Secondly, we have availed ourselves of those most advanced, scientific, quality management systems, pioneered by Japanese industry and led by Professor Deming and Professor Juran 25, 30 years ago.

And third, we have a culture, which is represented by a very simple phrase. We call it our Purple Promise. Purple is the common color for all the FedEx branding. We're a little like Coke, you know, red's Coke Classic and silver is Diet Coke and gold is – I don't know what it is, but it doesn't have much in it. [Laughter.] So purple and orange is our original express company, purple and platinum is corporate, purple and green is our ground-parcel company, purple and blue, FedEx Office, and purple and crimson is FedEx Freight. So I have a very simple phrase that every member of the FedEx team knows. And I hope if you walk up to somebody, you ask them, what's the purple promise, and they'll say very simply, I think, one thing, "I will make every FedEx experience outstanding."

So you don't need 18 manuals and one thing or another. You give them the best technology and try to support them and the best management tools, and our team will deliver. So we've gotten better and better every year. So we don't lose many of anyone's packages, including mine.

MR. RUBENSTEIN: And speaking of teams, will the Redskins get to the Super Bowl this year, you think?

MR. SMITH: You know, with the quarterback we have and the running back and the protection our line is giving them and our defense, you know, it wouldn't be the strangest thing in the world to happen. It's tough up at that level, at the National Football League, but we've got a great coach and it would be exciting, wouldn't it? That really would be "Back to the Future." [Laughter.]

MR. RUBENSTEIN: So Fred, I want to thank you very much for your time. Let me give you a gift — a copy of the first map of the District of Columbia. Thank you. [Applause.]

MR. SMITH: Thank you.

Frederick W. Smith

Frederick W. Smith

Frederick W. Smith is chairman, president, and chief executive officer of FedEx Corporation, a $43-billion global transportation, business services, and logistics company.

Mr. Smith is responsible for providing strategic direction for all FedEx Corporation operating companies, including FedEx Services, FedEx Express, FedEx Ground, and FedEx Freight. FedEx serves more than 220 countries and territories with operations that include 663 aircraft and over 90,000 vehicles. More than 300,000 team members worldwide handle more than 9 million shipments each business day.

Since founding FedEx in 1971, Mr. Smith has been an active proponent of regulatory reform, free trade, and “open skies agreements” for aviation around the world. Most recently, he has advocated for vehicle energy-efficiency standards and a national energy policy. Mr. Smith is co-chairman of the Energy Security Leadership Council, a Trustee for the United States Council for International Business, and a member of the Business Roundtable. He served as chairman of the U.S.–China Business Council and is co-chairman of the French–American Business Council.

Mr. Smith has received numerous civic, academic, and business awards including the Circle of Honor Award from the Congressional Medal of Honor Foundation. In addition, Mr. Smith is a member of the Aviation Hall of Fame, and served as co-chairman of both the U.S. World War II Memorial Project and the campaign for the National Museum of the Marine Corps.