

# THE COMPETITIVENESS INDEX: WHERE AMERICA STANDS

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Council on Competitiveness

# The Competitiveness Index: Where America Stands

- **The Changing Global Competitiveness Environment**
- U.S. Prosperity — How Are Americans Doing?
- U.S. Economic Performance — How Is the American Economy Doing?
- Foundations of Future U.S. Competitiveness
  - > Innovation — Can the United States Sustain Its Advantage?
  - > Entrepreneurship — Does the U.S. Economic Engine Face Threats Or Is It Primed for Continued Success?
  - > Education — Are Americans Equipped to Prosper in the 21st Century?
  - > Energy — How Will We Fuel Future Growth?

# What is Competitiveness?

- Competitiveness depends on the **productivity** with which a nation can utilize its human, capital, and natural resources. High incomes require high productivity.

## What is **Not** Competitiveness

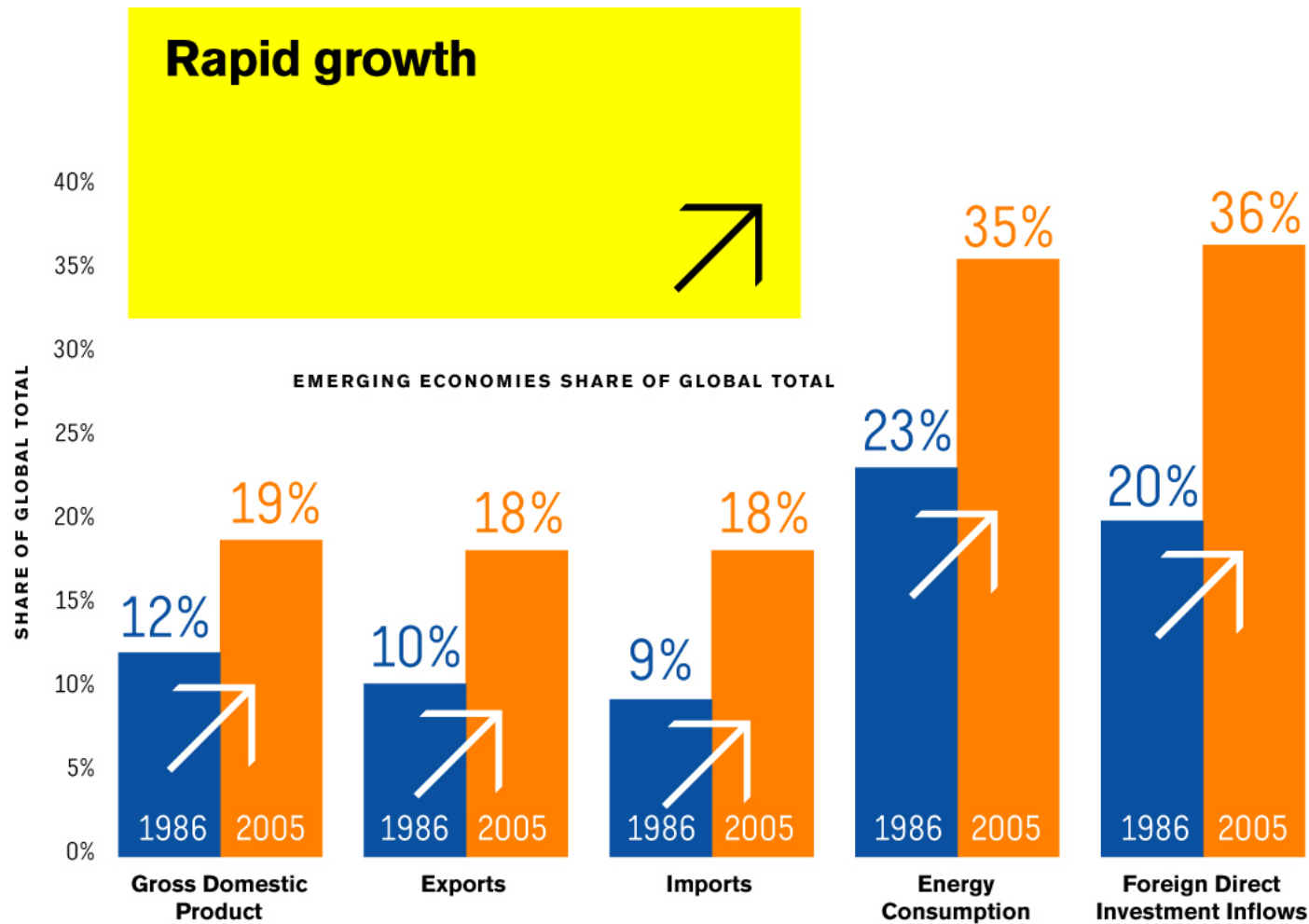
- > The size of the economy
- > Low-cost labor
- > Share of exports
- > The rate of economic growth

- Competitiveness **raises the bar** for performance
- Competitiveness is a **positive-sum game**
  - > As productivity improves, wages rise, markets expand and more human needs can be met



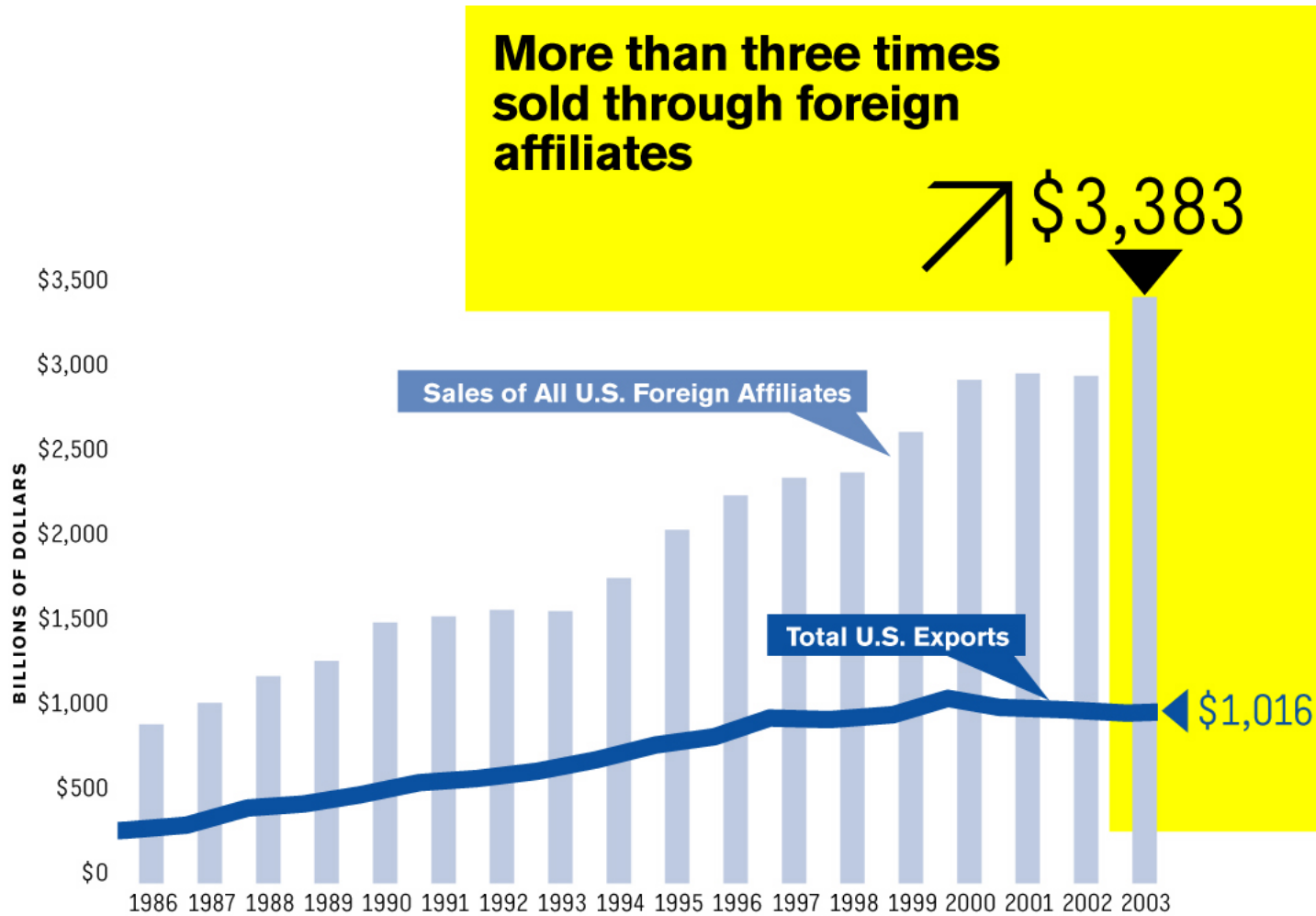
- American prosperity depends on:
  - ➔ The ability to create the conditions under which companies operating in the U.S. can achieve high and rising productivity
  - ➔ An international economic system in which American productivity is not undermined by subsidies, government intervention, and theft of intellectual property in other nations

# Emerging Markets Are Rapidly Growing Their Economies, Exports and Share of Global Investment Flows



Source: World Bank, UNCTAD, U.S. Department of Energy, EIA

# U.S. Multinationals Sell Three Times More Through Foreign Operations Than Through Exports

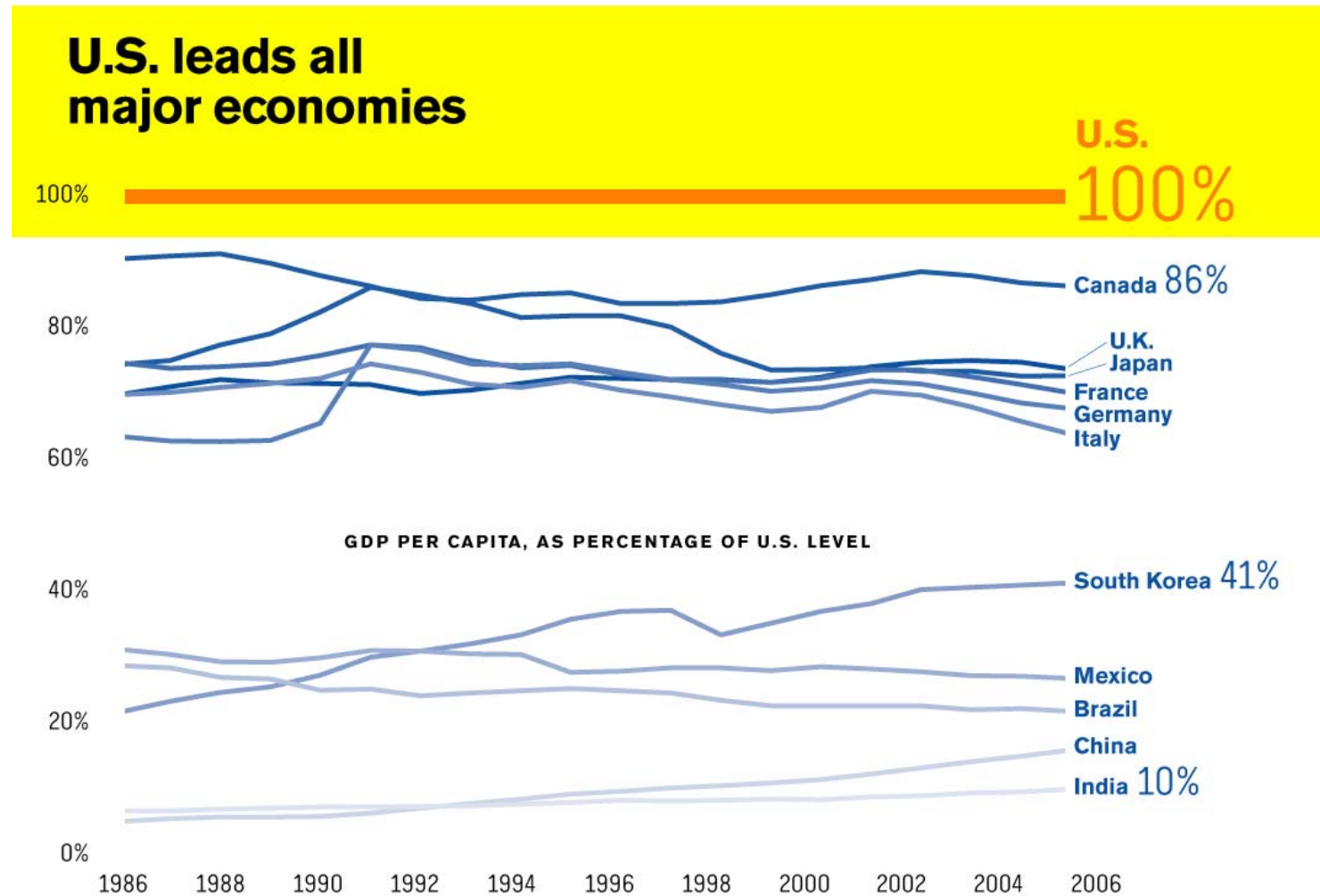


Source: U.S. Bureau of Economic Analysis

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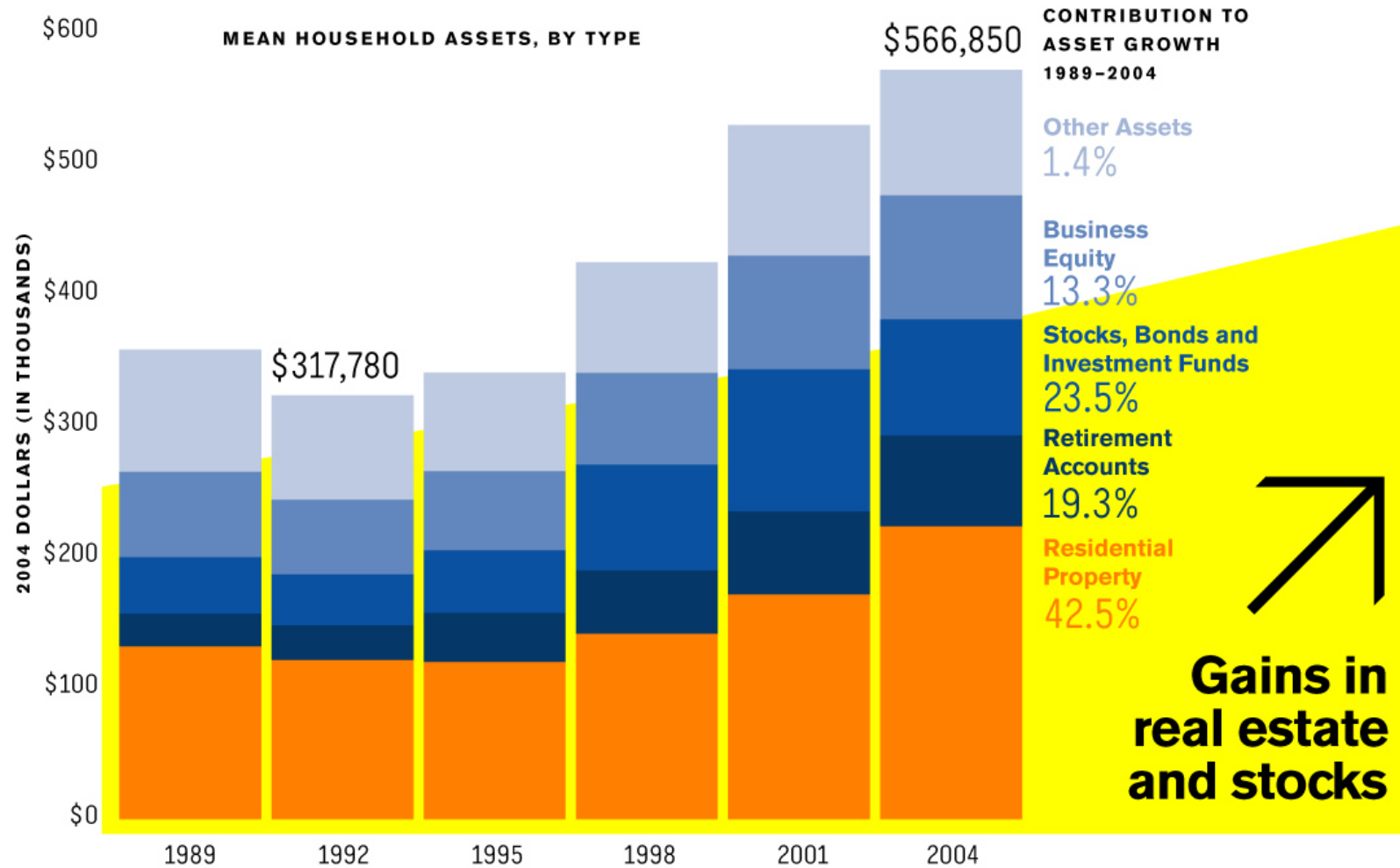
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# The United States Leads All Major Economies in GDP Per Capita



Source: Global Insight, Inc.

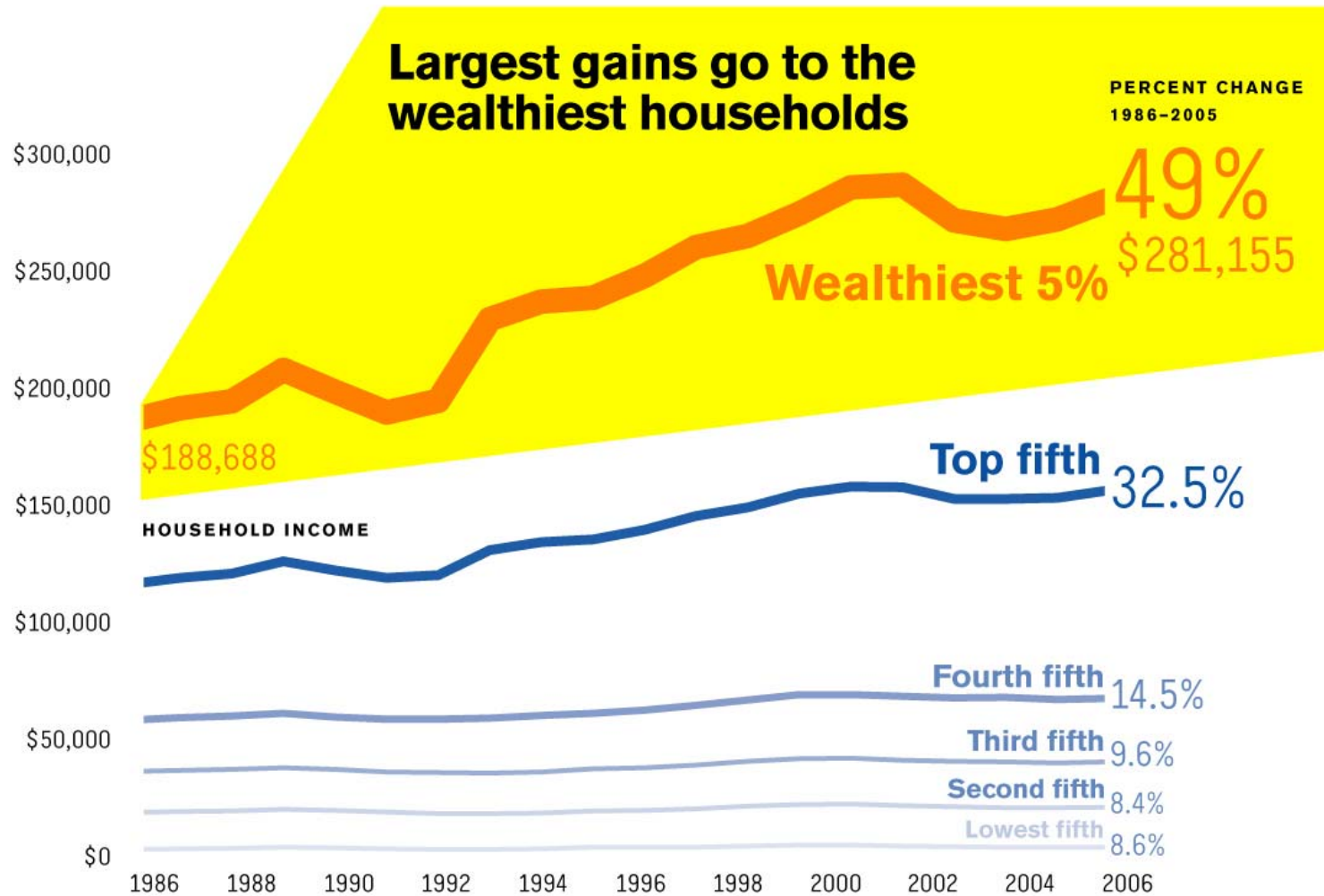
# Household Wealth Grew Strongly, Supported by Gains in Real Estate and Stocks



Source: Federal Reserve Board, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," Federal Reserve Bulletin (2006)

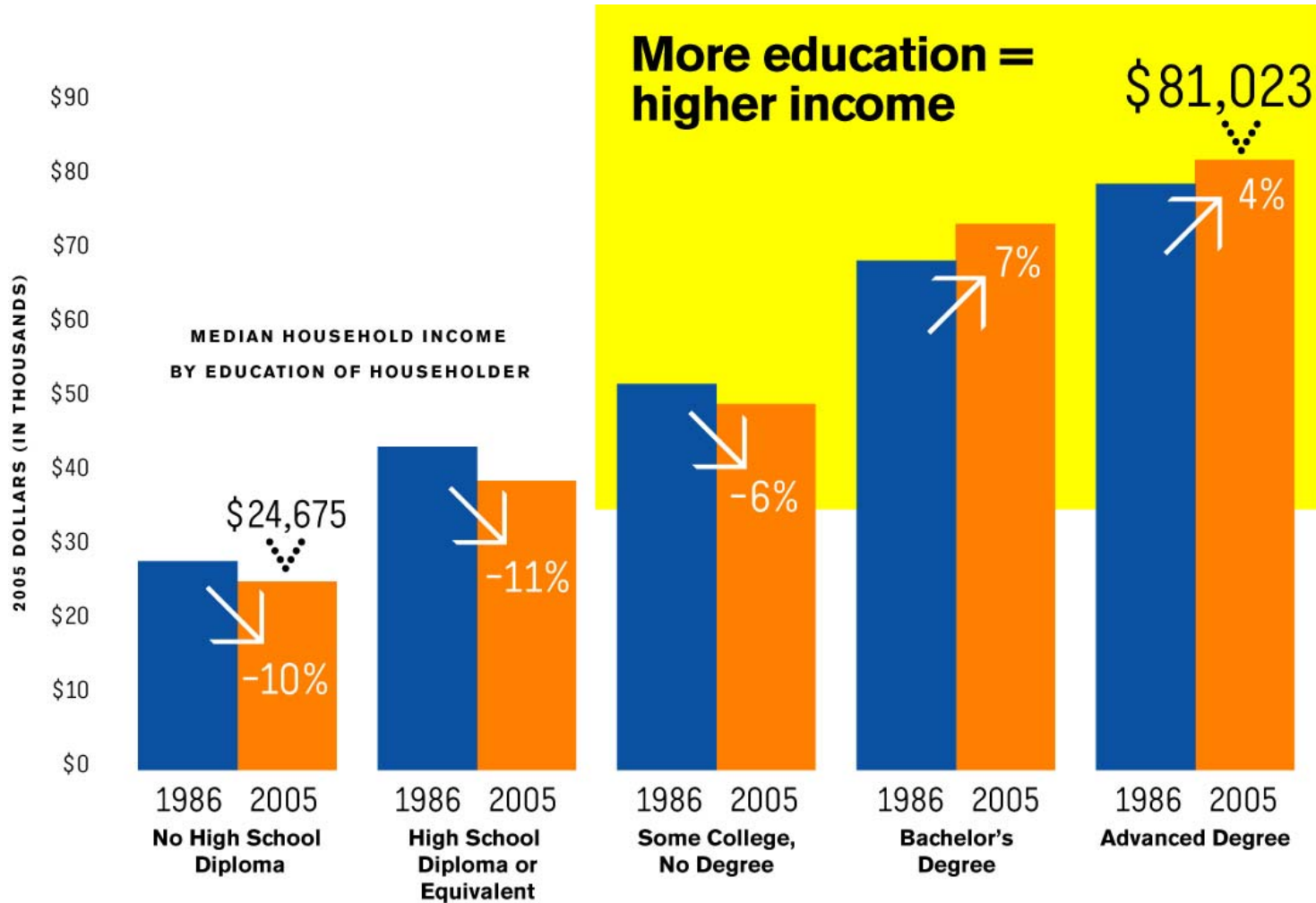


# The Greatest Gains in Income Have Gone to the Highest Income Households



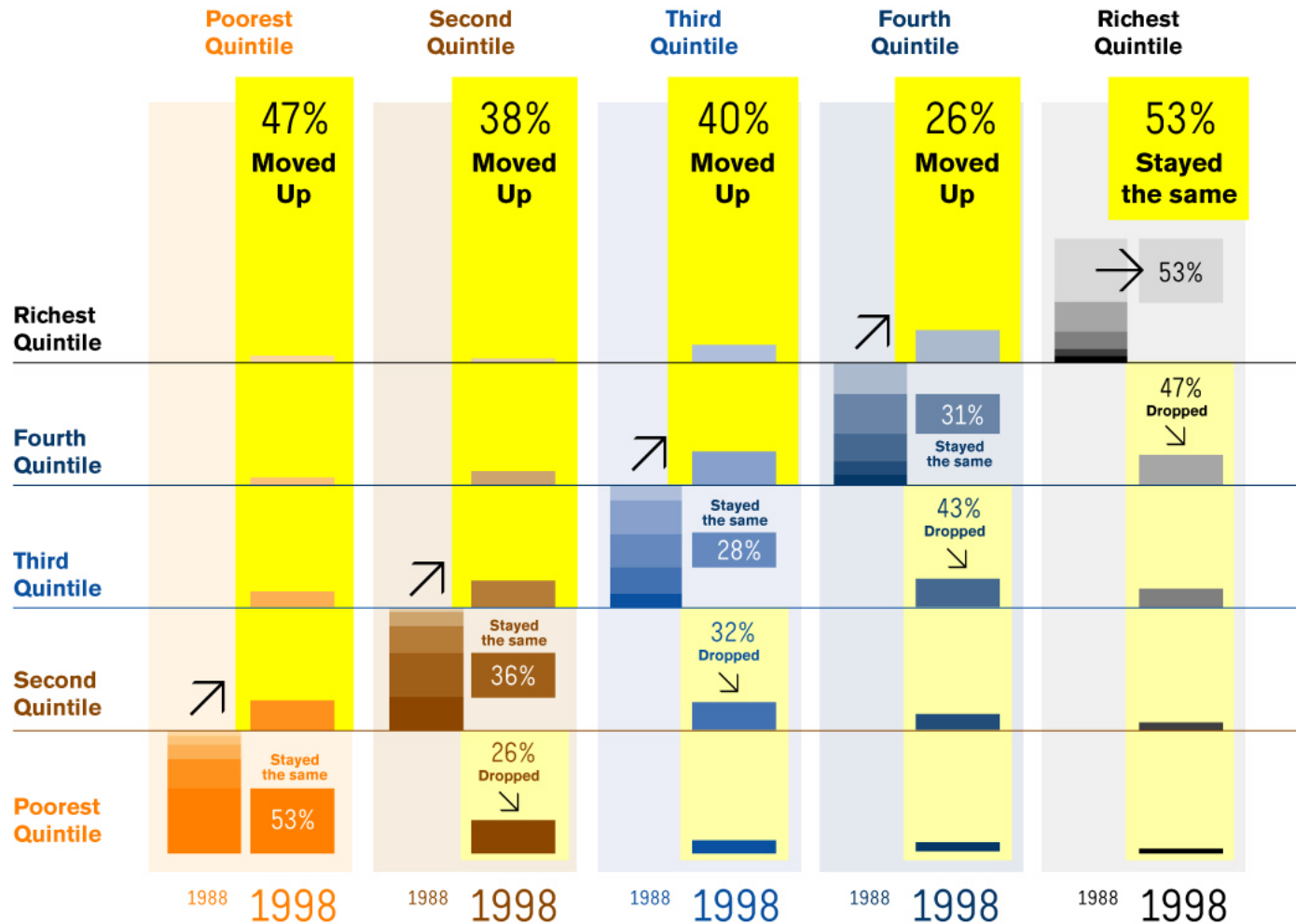
Source: U.S. Census, Income, Poverty, and Health Coverage in the U.S.: 2005 (Aug. 2006)

## Only Households Headed By a College Graduate Saw Their Incomes Rise over the Past 20 Years



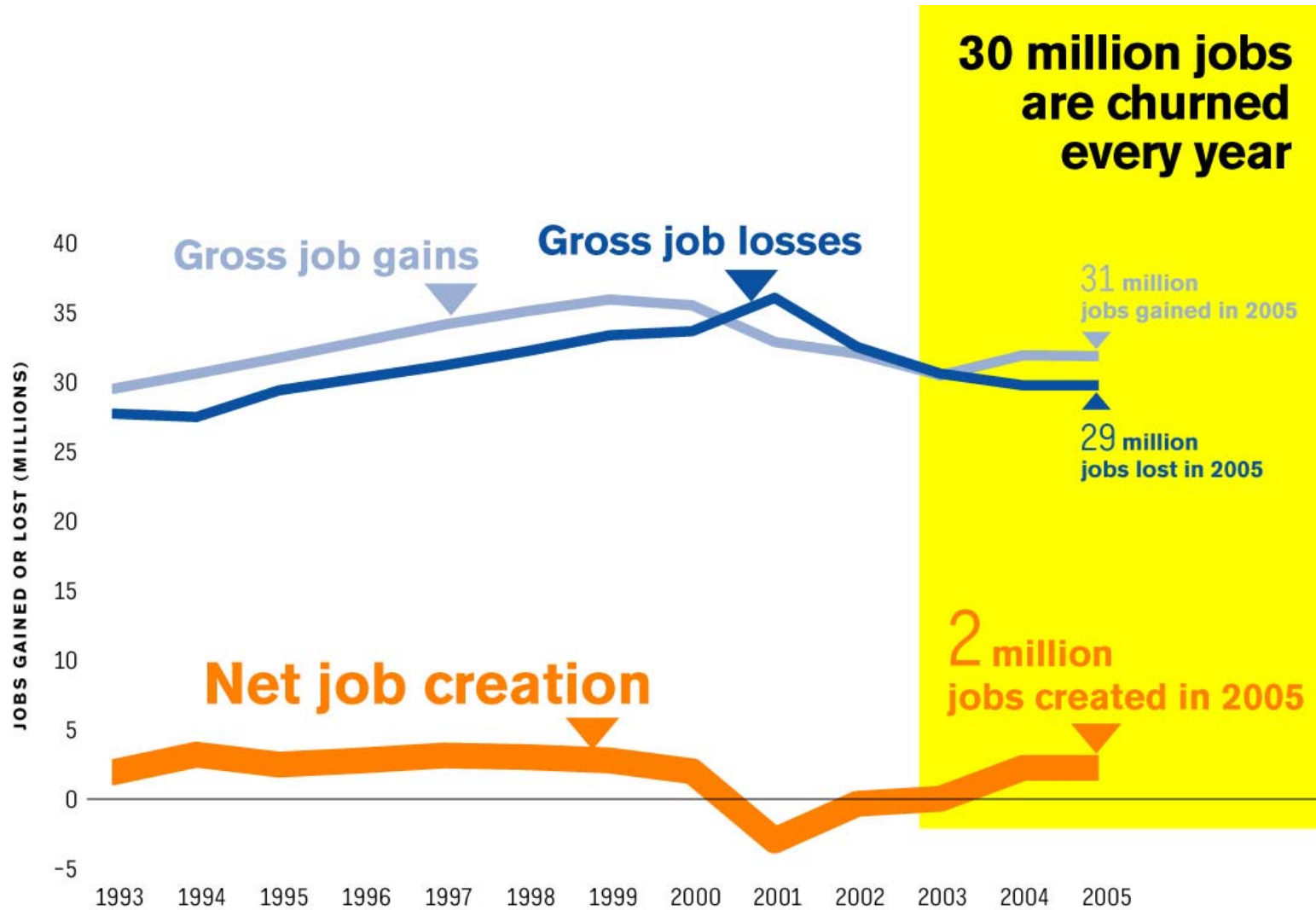
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements

# Over a Decade, Most Families Move Between Income Groups



Source: Katharine Bradbury and Jane Katz, "Are Lifetime Incomes Growing More Unequal? Looking at New Evidence on Family Income Mobility," Regional Review (Q4 2002)

## The United States Has High Levels of Job Churn

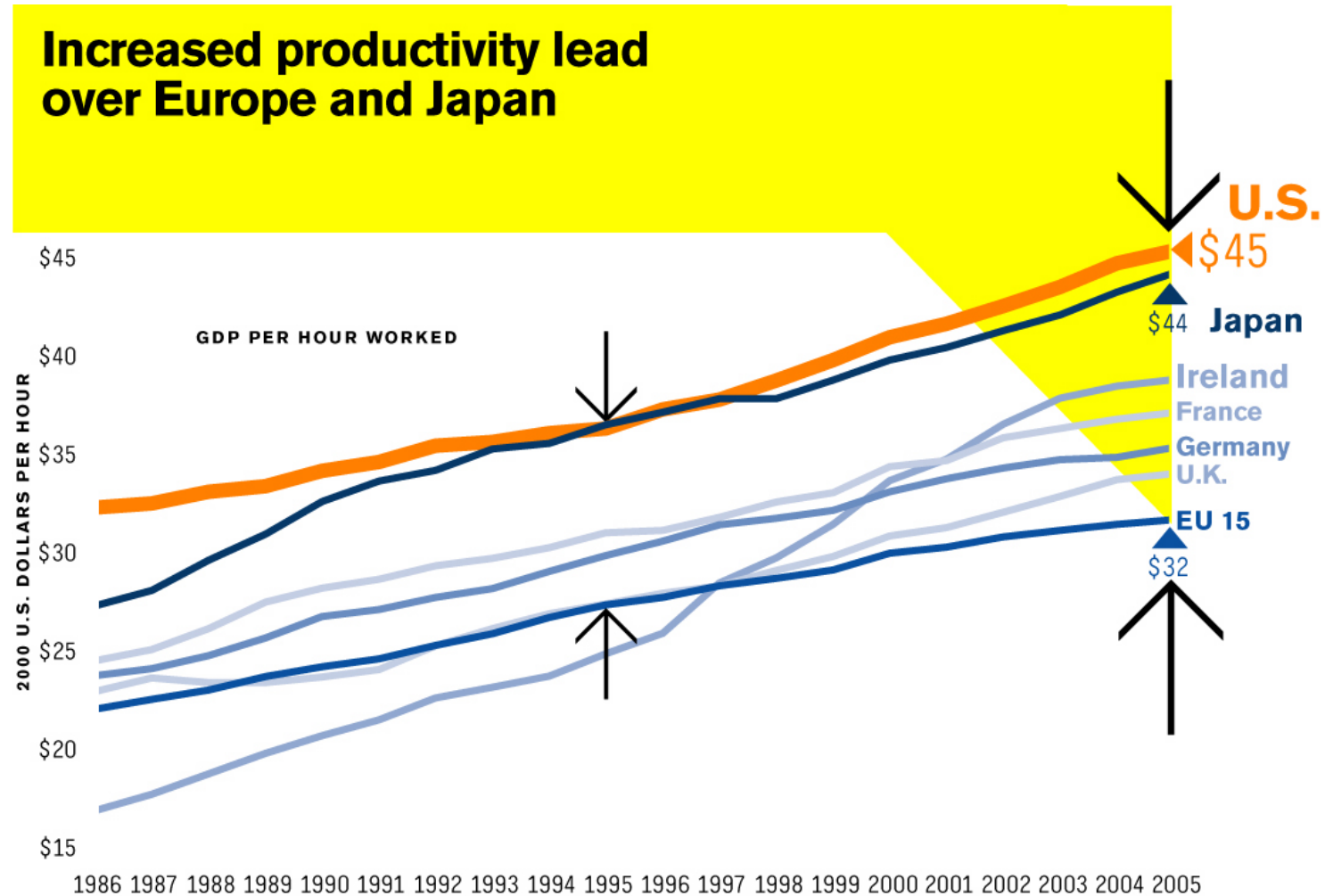


Source: U.S. Bureau of Labor Statistics

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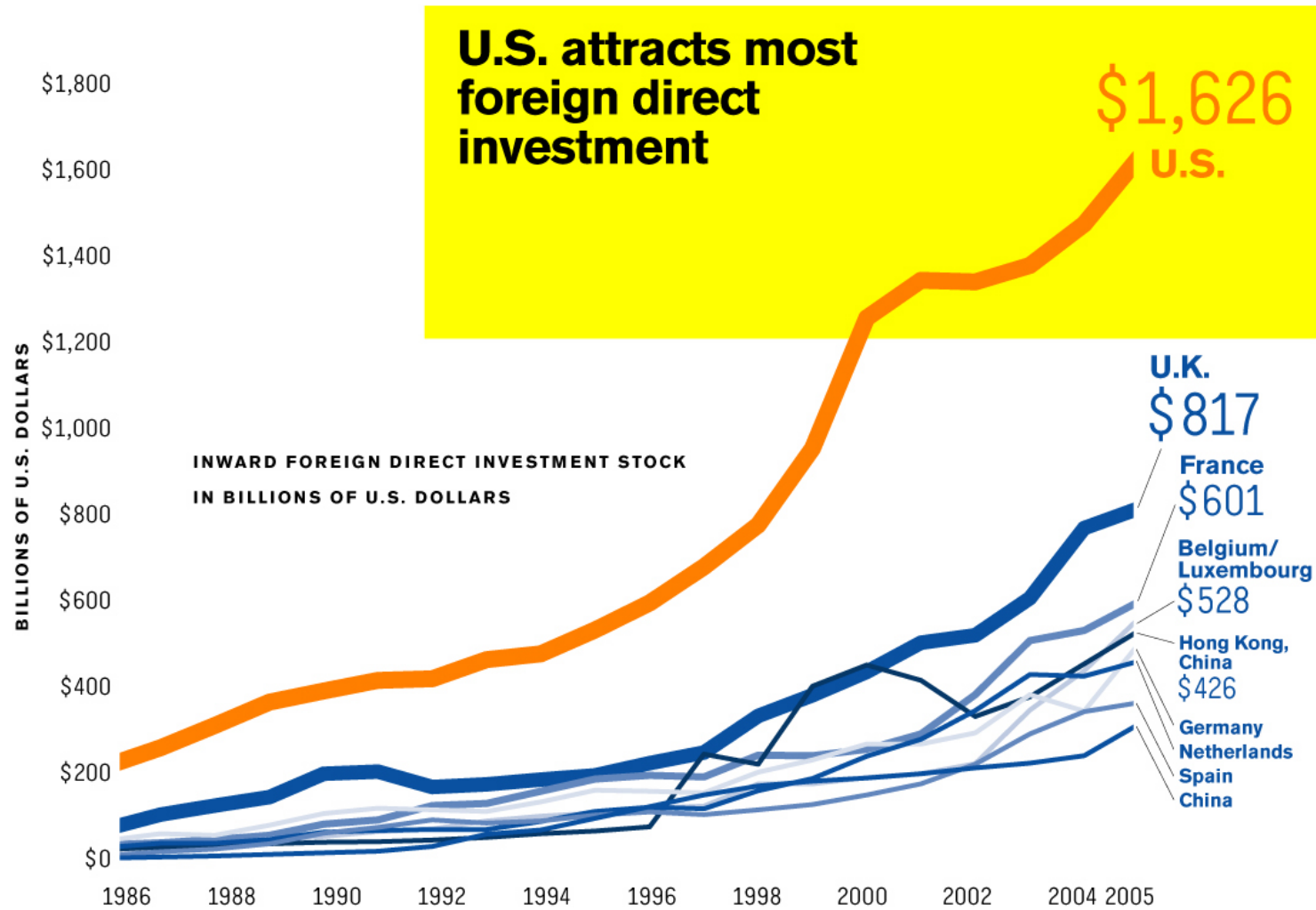
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# U.S. Productivity Growth Has Accelerated, Increasing Its Lead over Europe and Japan



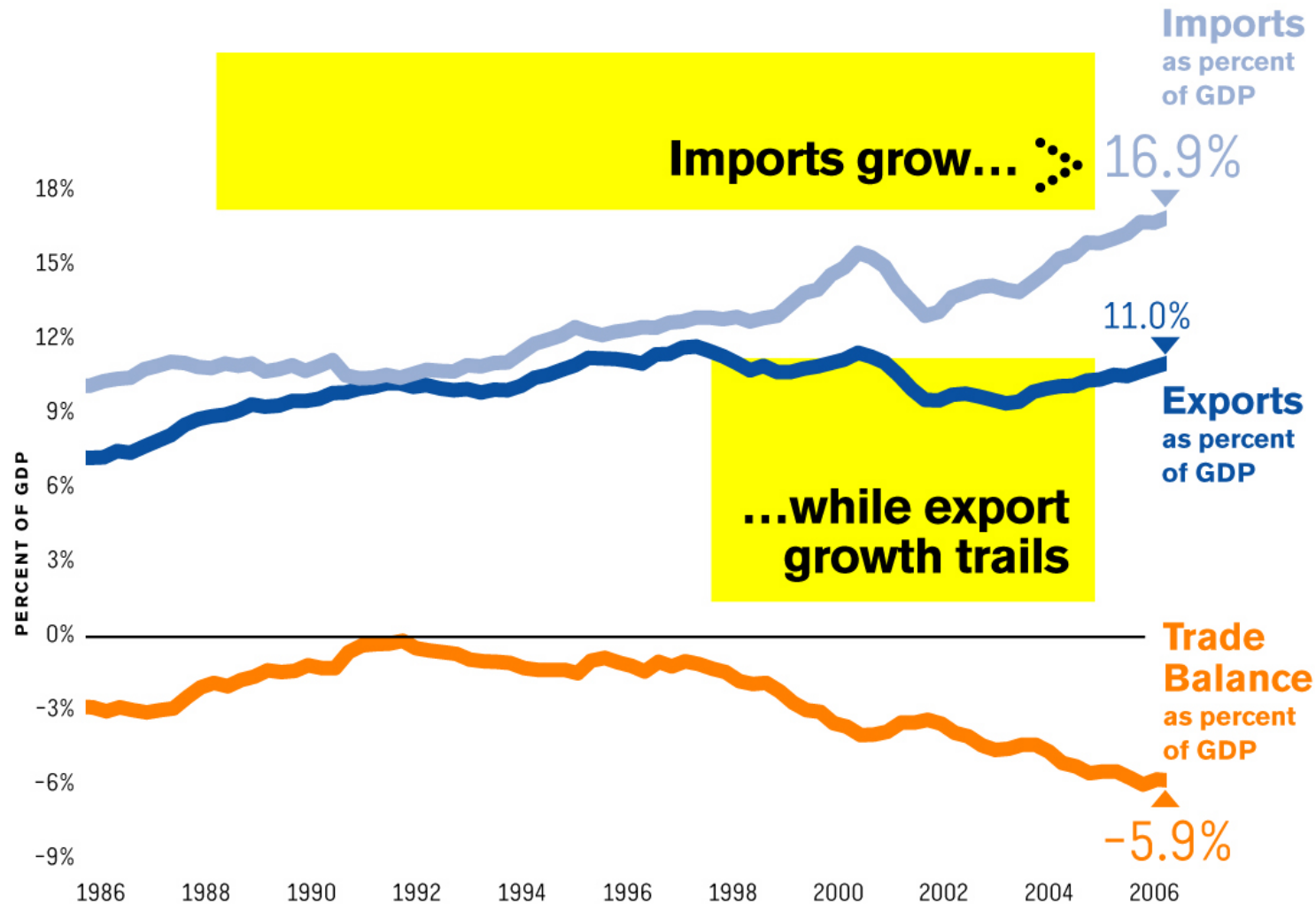
Source: Global Insight, Inc.

# America Continues to Attract the Largest Share of Foreign Direct Investment



Source: Global Insight, Inc.

## The U.S. Trade Balance Has Deteriorated as Imports Have Increased While Export Growth Has Trailed



Source: Global Insight, Inc.



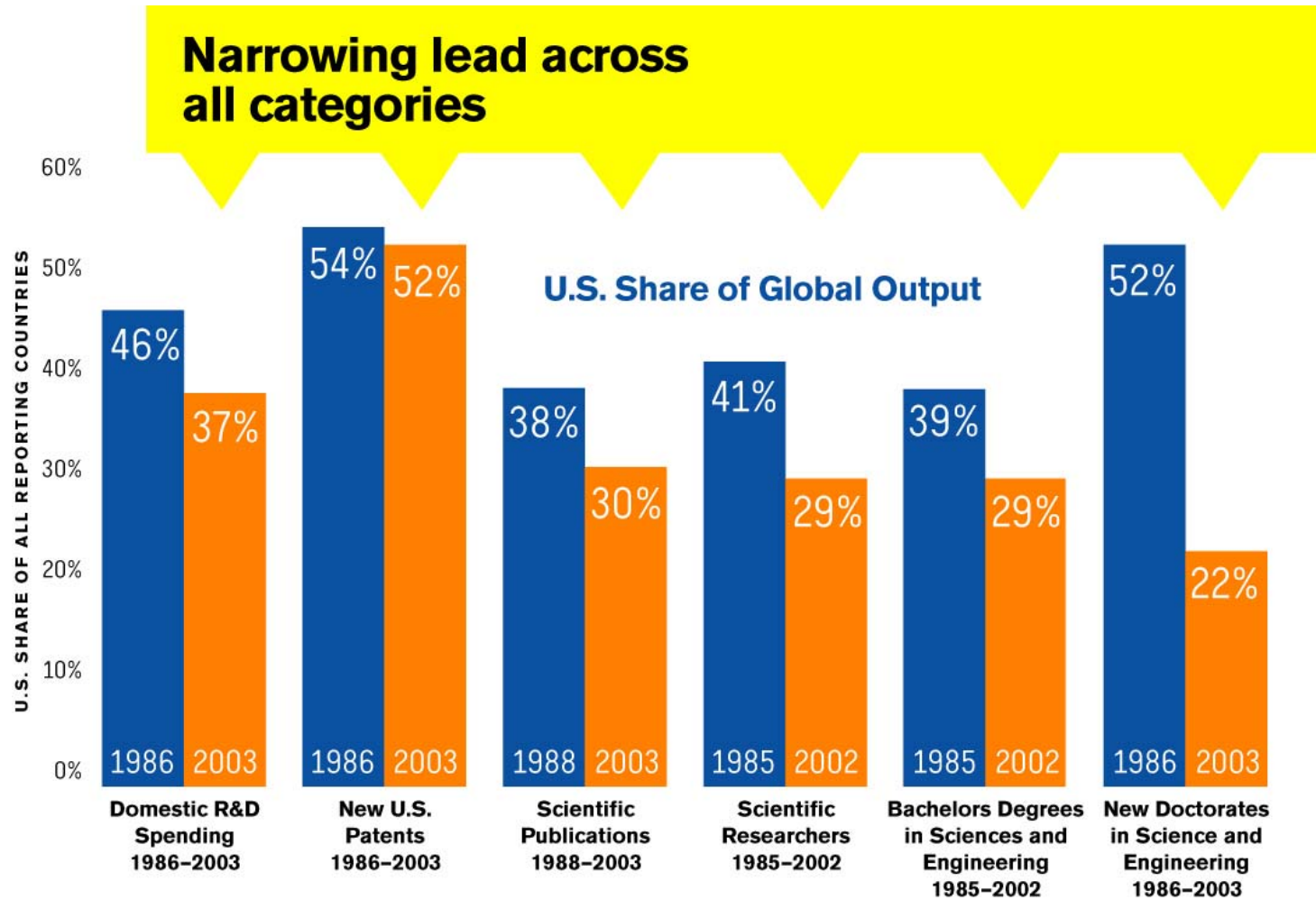
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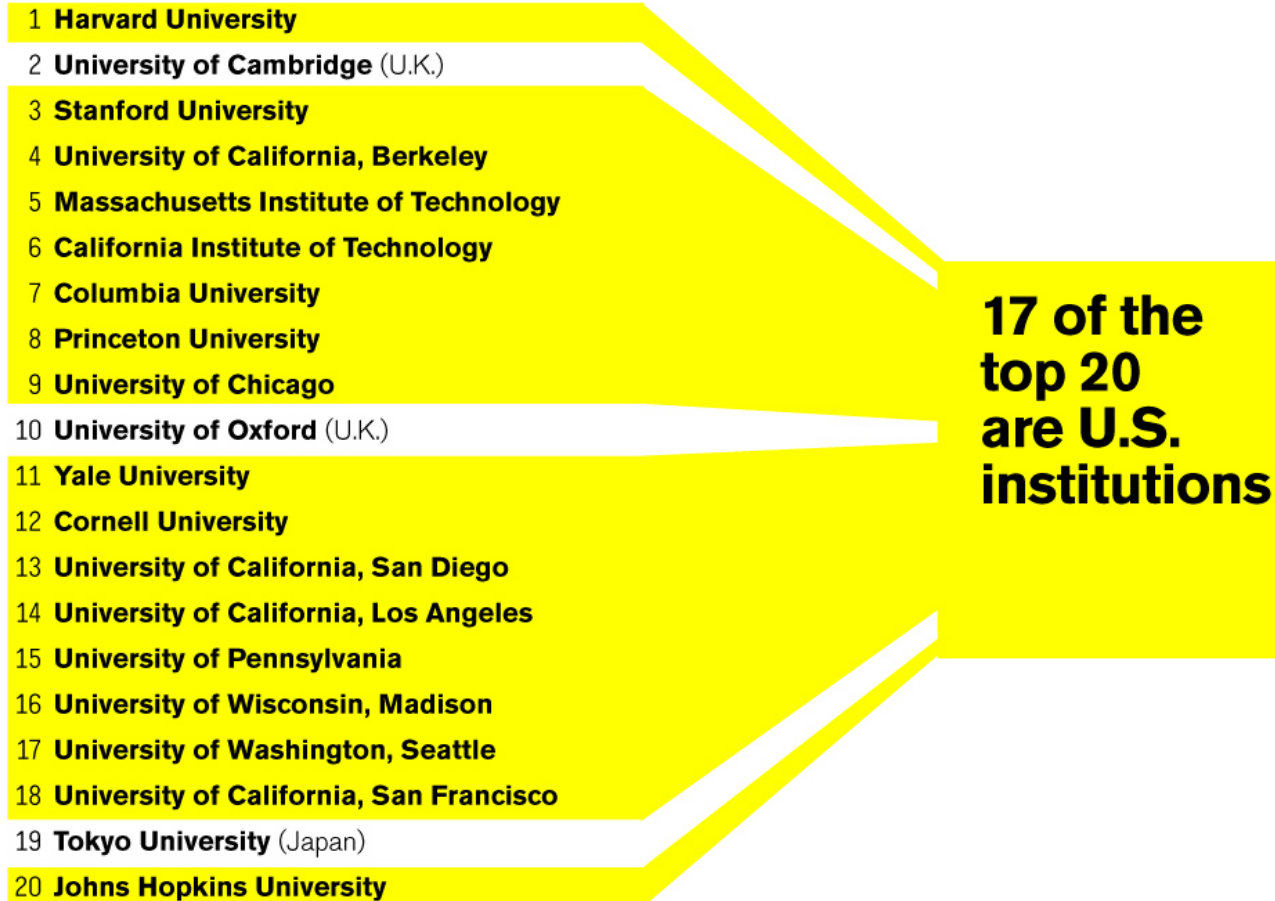
# U.S. Share of Global Output Has Fallen Across a Range of Science and Technology Metrics



Source: NSF, Science and Engineering Indicators (2006), OECD, Main Science and Technology Indicators (2006), U.S. Patent and Trademark Office

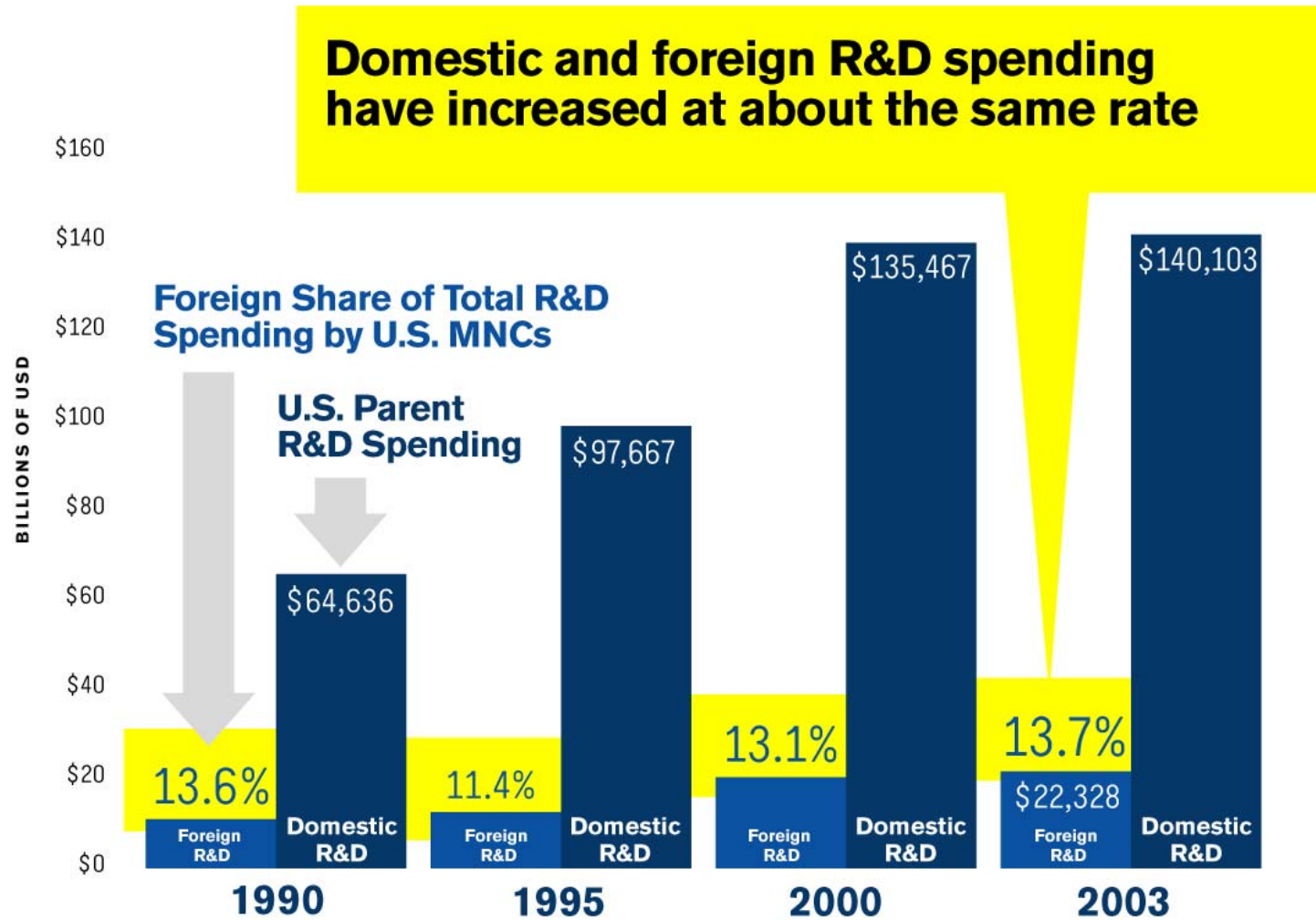
# U.S. Universities Dominate World Rankings Based on Research Performance

## World Rank



Source: Institute of Higher Education, Shanghai Jiao Tong University, Academic Ranking of World Universities (2006) <http://ed.sjtu.edu.cn/ranking.htm>

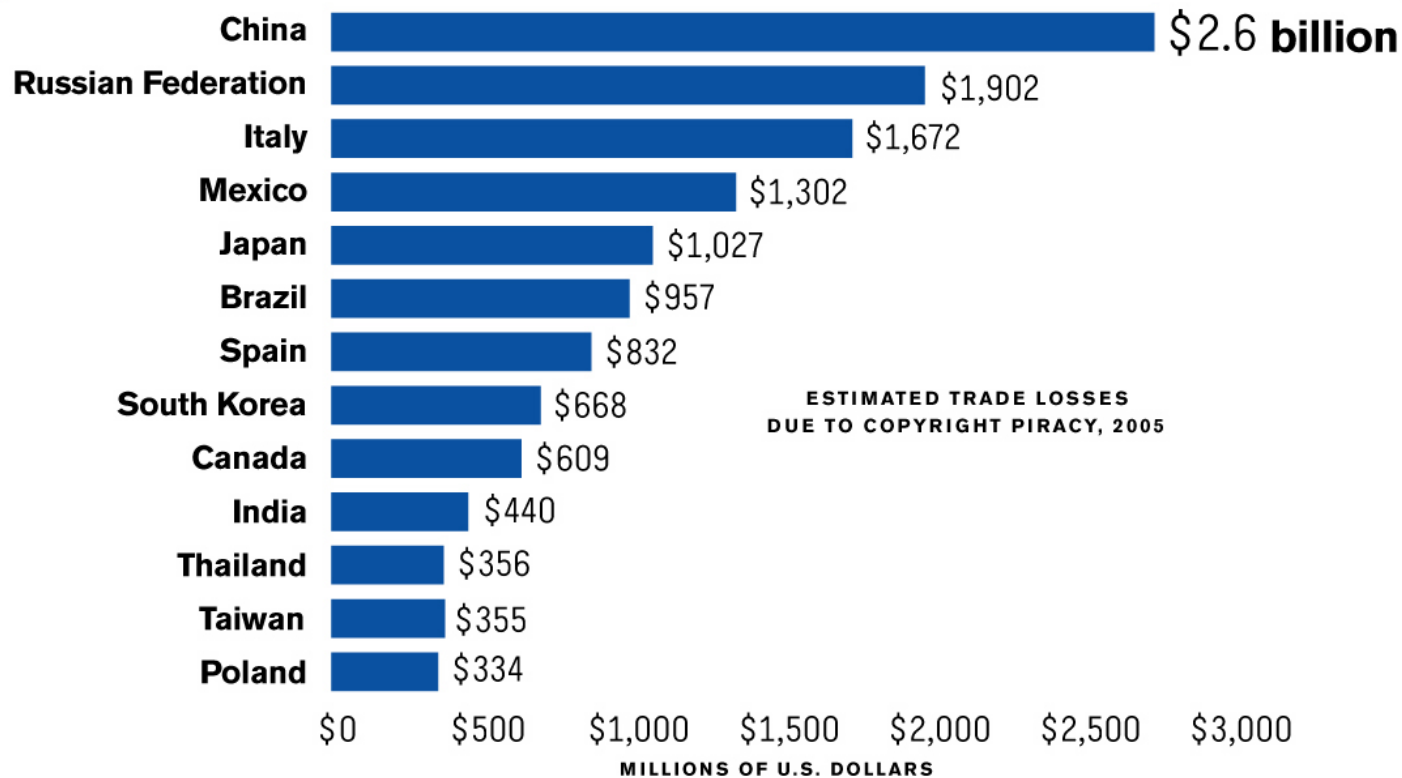
## Domestic R&D Investments by Multinationals Rising as Fast as Foreign R&D Investment



Source: U.S. Bureau of Economic Analysis

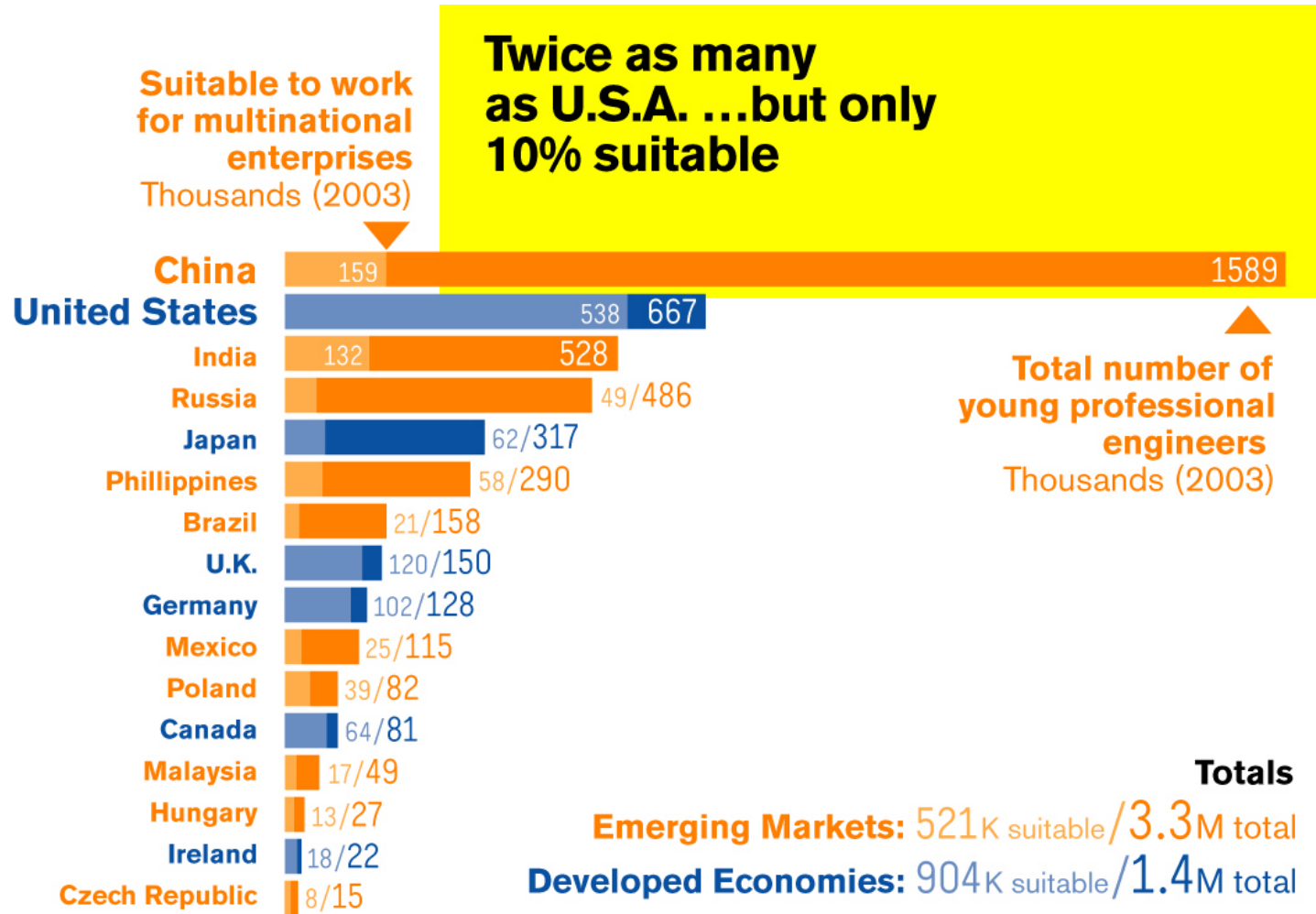
# American Businesses Lose Billions of Dollars Annually Due to Intellectual Property Violations

## American companies lose billions in intellectual property



Source: International Intellectual Property Alliance, "2004-2005 Estimated Trade Losses Due to Copyright Piracy" (Sep. 18, 2006)

# The United States Has More Engineers Ready To Work for Multinational Enterprises

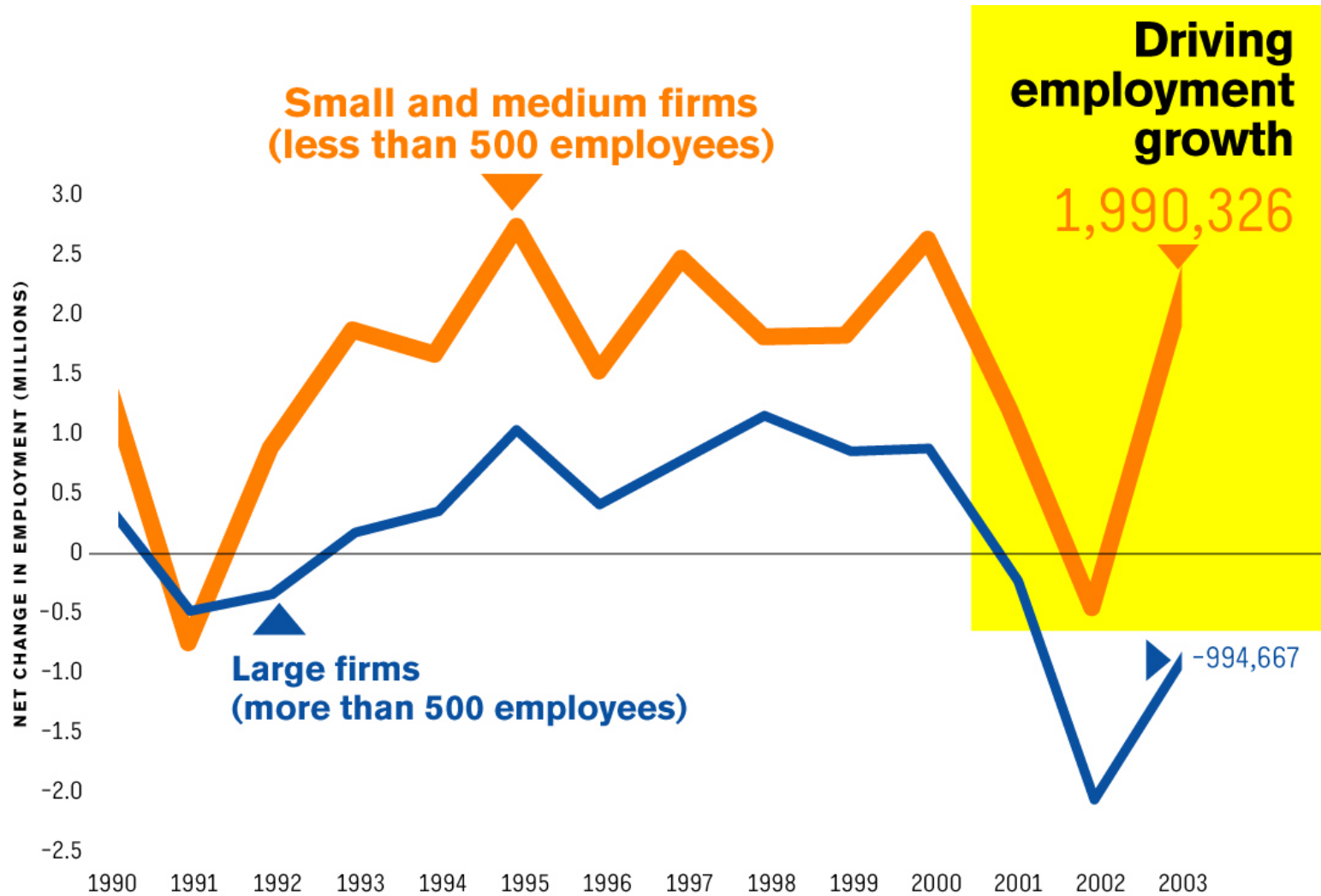


Source: McKinsey Global Institute, The Emerging Global Labor Market: Part II-- The Supply of Offshore Talent in Services (June 2005)

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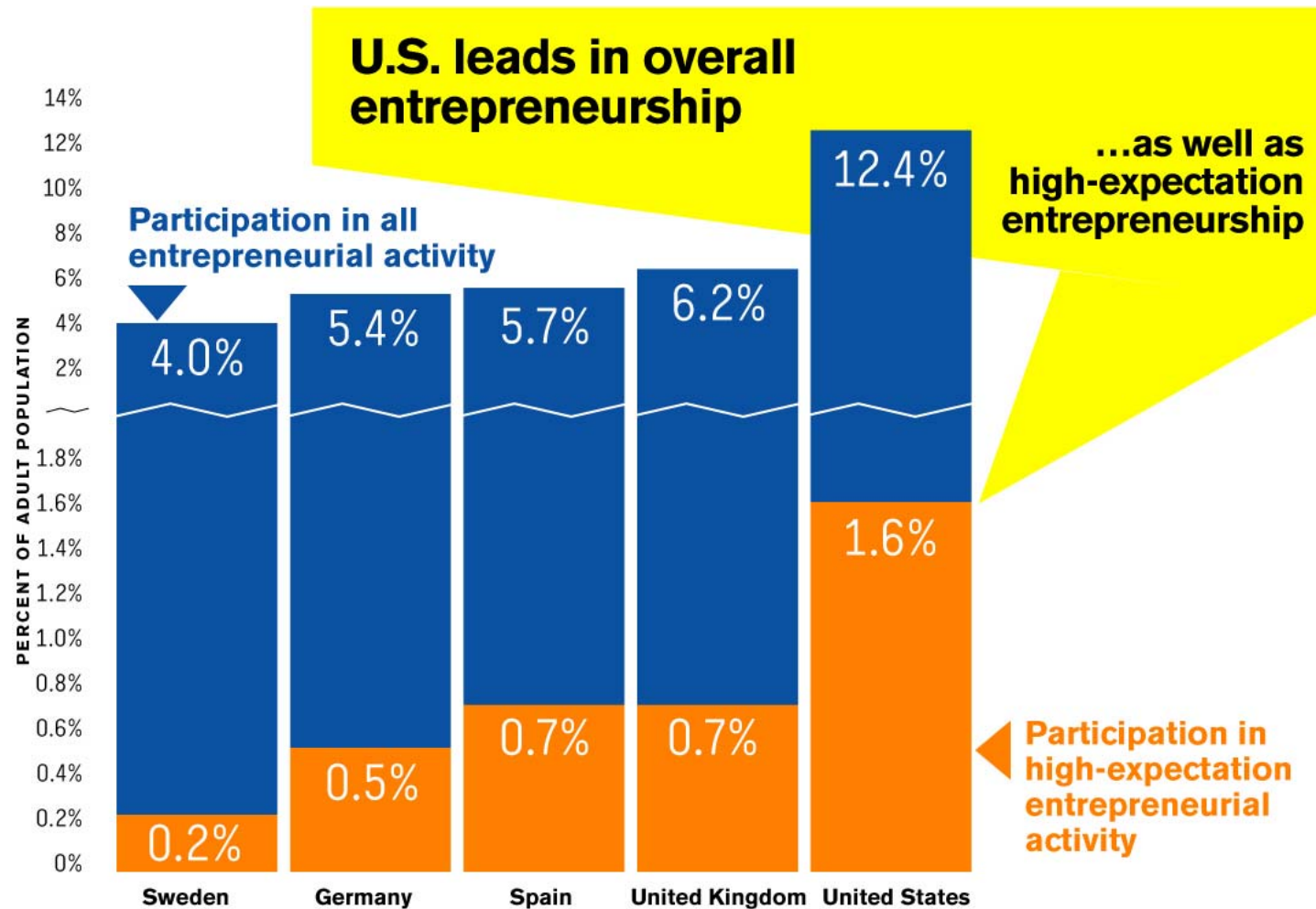
# Small and Medium-Sized Firms Create Most New Jobs



Source: Office of Advocacy, U.S. Small Business Administration



# Total Entrepreneurial Activity In The United States Continues To Outpace All Major Industrial Economies



Source: Global Entrepreneurship Monitor, 2005 Executive Report and High Expectation Entrepreneurship, 2005

## The United States has a Diverse Range of Sources of Capital for Start-Up and Growth Companies

### Diverse range of funding sources

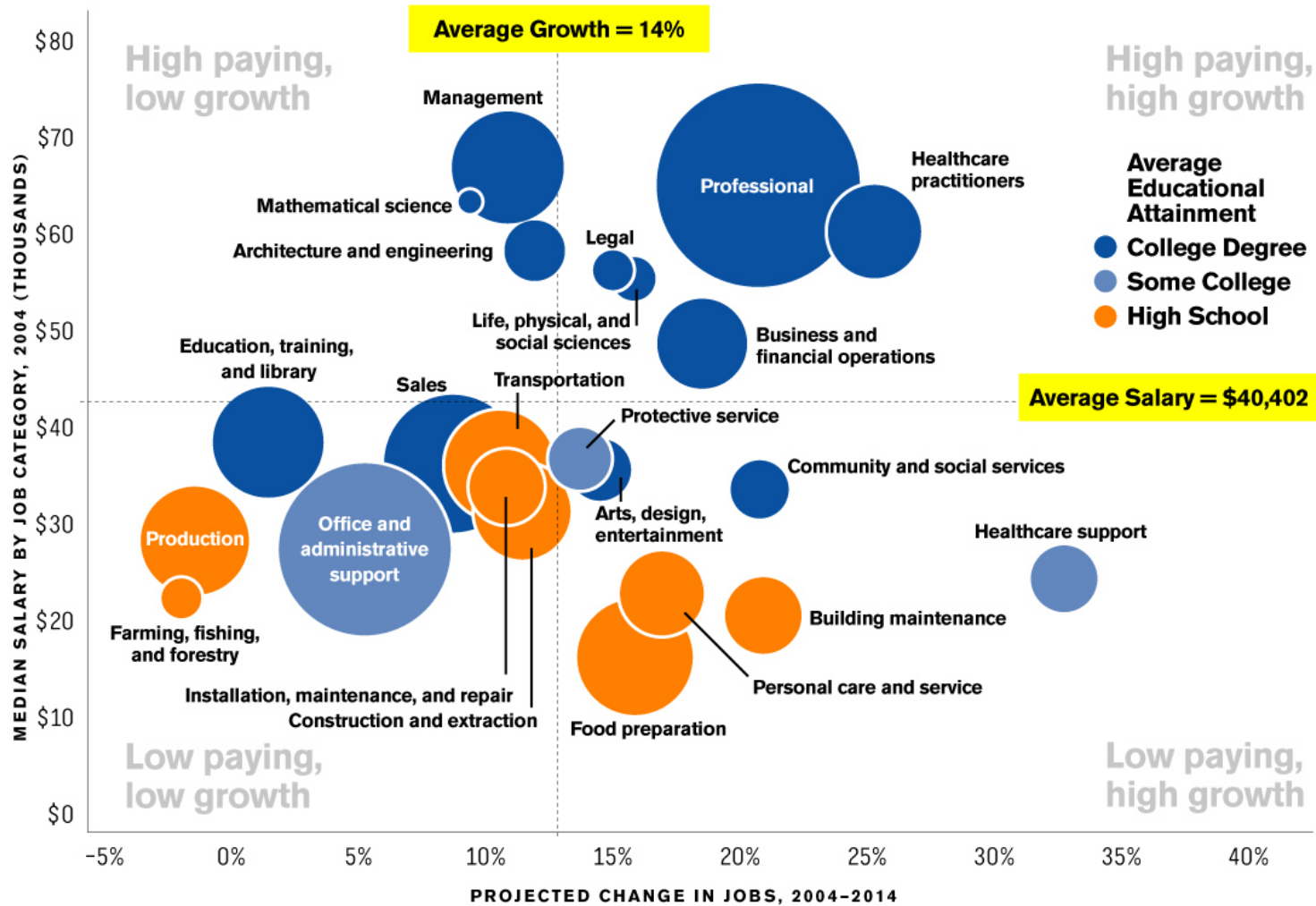
<b>Angel Investors</b>	<b>\$23.1 billion invested (2005)</b>
<b>Venture Capital Firms</b>	<b>\$22.4 billion invested (2005)</b>
<b>State Venture Capital Programs</b>	<b>\$2.2 billion available (2006)</b>
<b>Federal Programs (SBIR/STTR)</b>	<b>\$2.0 billion invested (2004)</b>
<b>Corporate Venture Funds</b>	<b>\$1.1 billion invested (2005)</b>

Source: Small Business Administration, National Venture Capital Association, National Association of Seed and Venture Funds, Center for Venture Research

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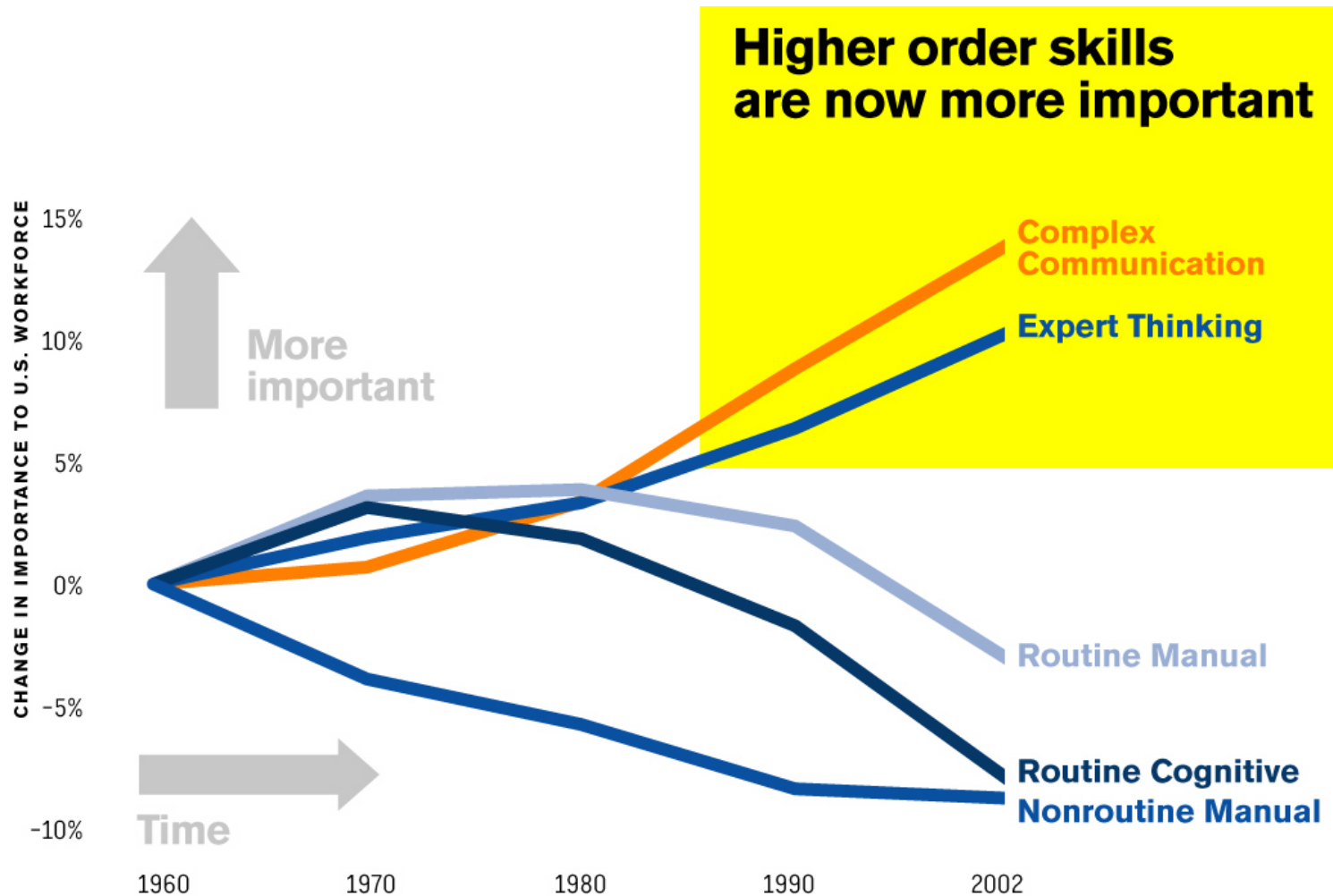
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# High-Wage, Fast-Growth Occupations Require Higher Levels of Education



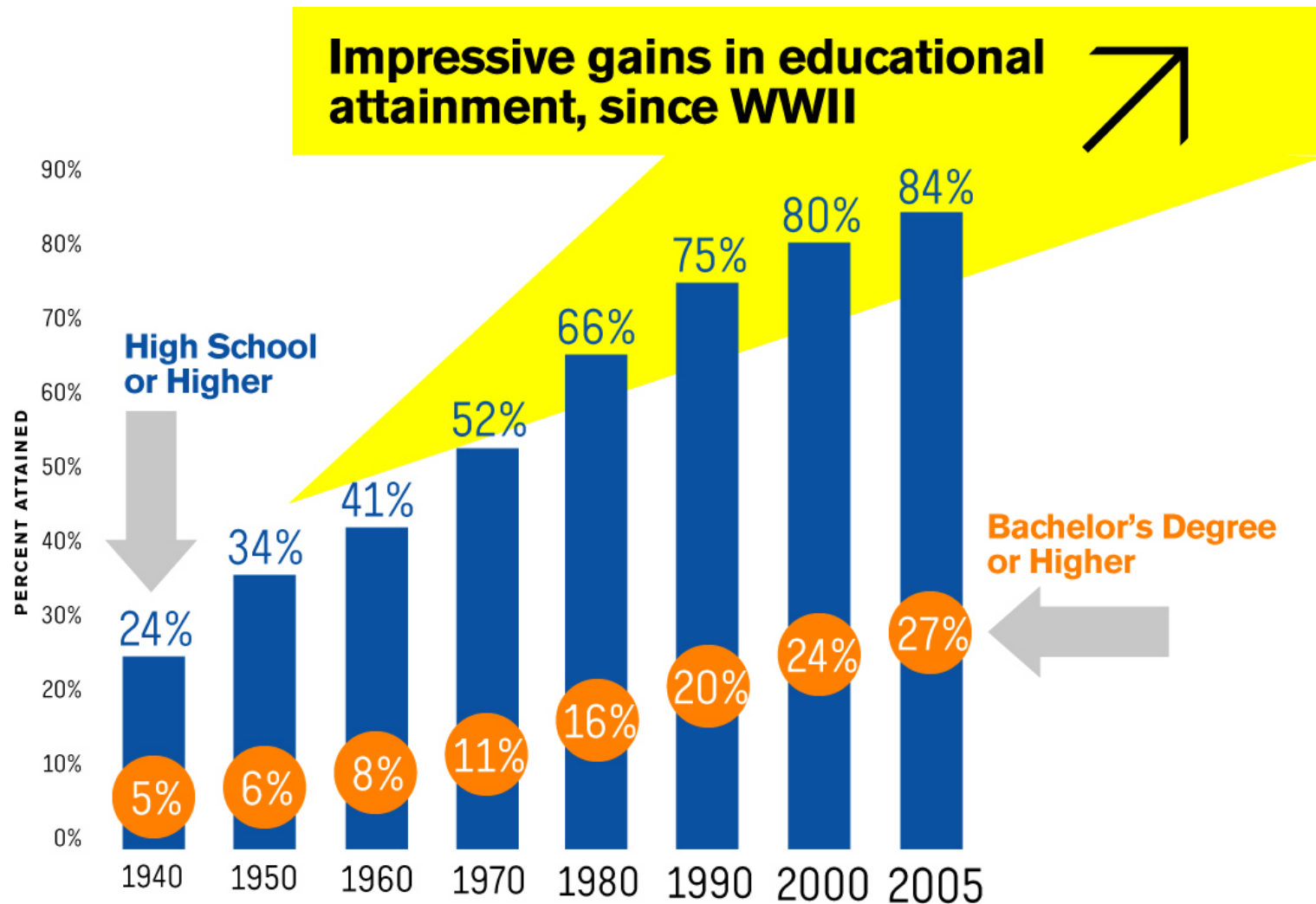
Source: U.S. Bureau of Labor Statistics

## Higher-Order Skills Have Grown in Importance, Driven by Technological Change and Globalization



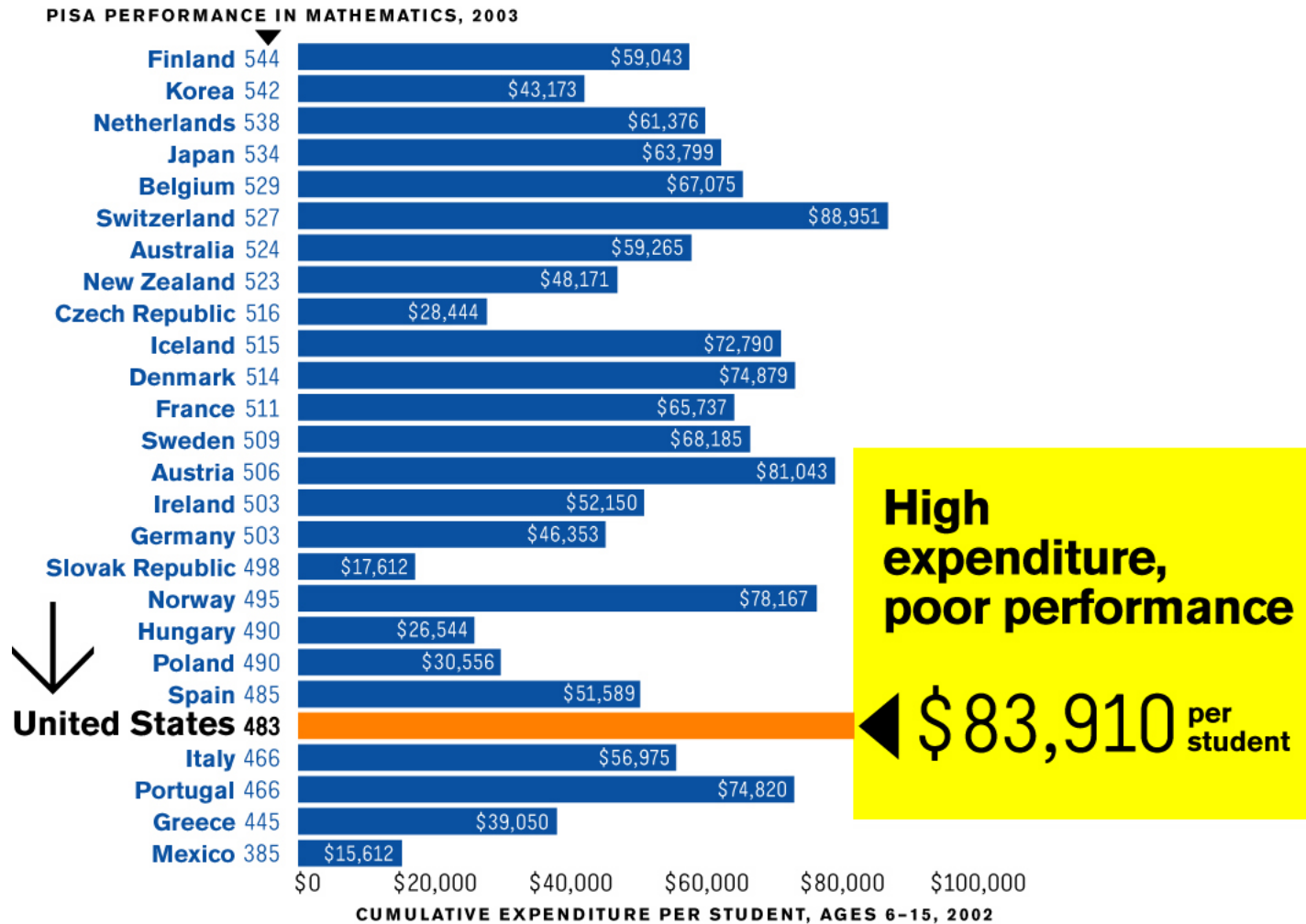
Source: Updated version of Figure 1 in David H. Autor, Frank Levy, and Richard J. Murnane, "The Skill Content Of Recent Technological Change: An Empirical Exploration," Quarterly Journal of Economics, 118(4), November 2003. See also Frank Levy and Richard J. Murnane, "How Computerized Work and Globalization Shape Human Skill Demands," (May 31, 2006)

## Levels of Educational Attainment Grew Rapidly After World War II



Source: Global Entrepreneurship Monitor, 2005 Executive Report and High Expectation Entrepreneurship, 2005

# The United States Invests Significantly More in Education, Yet Test Scores Are Low Compared to Other Nations



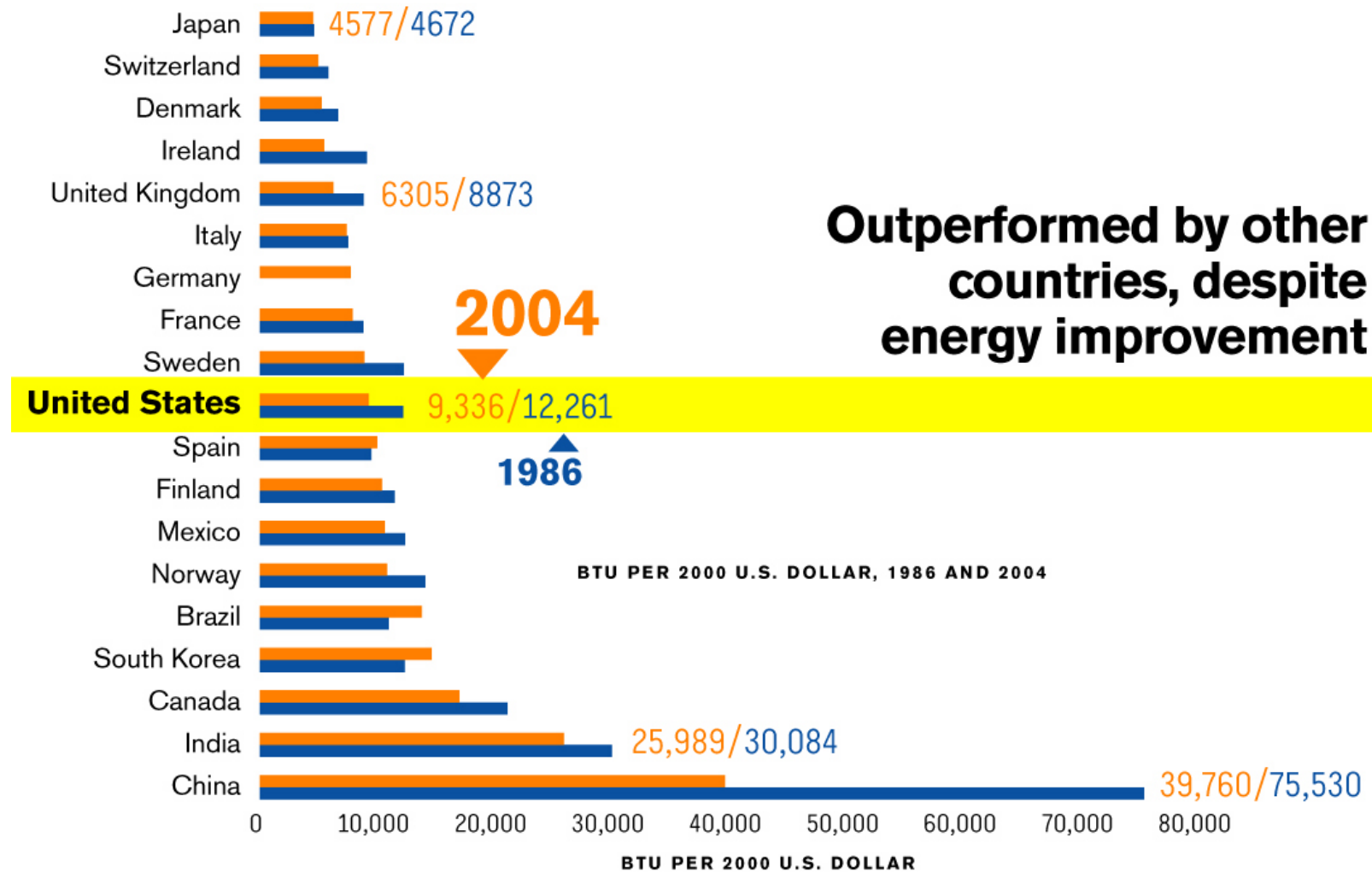
Source: OECD, Education at a Glance (2006)

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# The U.S. Is Making Gains in Energy Efficiency...But Not As Fast as Some Other Countries



Source: International Energy Agency, International Energy Annual 2004, Table E.1p

## Conclusions

- The U.S. has **defined** and **driven** the new global competitive environment
- The U.S. enjoyed **compelling strengths** for the new competition
- The U.S. has **prospered remarkably** over the last two decades
- U.S. leadership in driving the new global competition has **exposed us earlier and wider** to its new standards
- Globalization **raises the bar** for countries, regions, companies, and individuals
- Key U.S. strengths, notably **innovation** and **entrepreneurship**, remain strengths and can be preserved
- Former strengths, notably **education** and **energy**, have become weaknesses
- New weaknesses have become more apparent in the new, more challenging environment (e.g., **litigation, health care**)
- It is a crucial moment to capitalize on the unique capacity of the U.S. to **change**, and our ability to **act**
- New forms of **collaboration** (including political) will be needed to address America's challenges
- The U.S. must also take a firmer and more forceful role in addressing **weaknesses in the international trading system** and working actively to **enhance the economic prospects of other nations**