

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2361 Rayburn House Office Building  
Washington, DC 20515-6515

To: Members, Subcommittee on Economic Growth, Tax and Capital Access, Committee on Small Business  
From: Committee Staff  
Date: June 28, 2013  
Re: Subcommittee Hearing: "*American Competitiveness Worldwide: Impacts on Small Businesses and Entrepreneurs*"

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### **I. Hearing Overview**

On Tuesday, July 9, 2013 at 1:00 pm in Room 2360 of the Rayburn House Office Building, the Subcommittee on Economic Growth, Tax and Capital Access will meet for the purpose of receiving testimony on strengthening America's competitiveness by creating federal policies which foster business production and economic growth. The hearing also will examine the actions undertaken by firms, on their own initiative to restore competitiveness and ensure heightened productivity.

### **II. Globalization's Effects on National Competitiveness**

Globalization has propelled the world into an increasingly competitive economy. Globalization is defined as "the state of being globalized; especially the development of an increasingly integrated global economy marked especially by free trade, free flow of capital, and the tapping of cheaper foreign labor markets."<sup>1</sup> Originally, America capitalized on globalization and was seen as a dominant force; however, over time the American economy has faced detrimental hardships, including outsourcing to other countries, as businesses attempted to reduce some or all of their cost of production. In light of this worldwide economy, America's ability to compete must be examined.

The Organisation for Economic Co-operation and Development (OECD)<sup>2</sup> defines competitiveness as "the ability of companies, industries, regions, nations or supranational regions

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<sup>1</sup> "Globalization" MERRIAM-WEBSTER ONLINE DICTIONARY (2013), available at <http://www.merriam-webster.com/dictionary/globalization>. Courts, when attempting to understand the meaning of a term, will often start with a dictionary. *E.g.*, *Muscarello v. United States*, 524 U.S. 125, 128 (1998); Samuel Thumma & Jeffrey Kirchmeier, *The Lexicon has become a Fortress: The Supreme Court's Use of Dictionaries*, 47 BUFF. L. REV. 227 *passim* (1999).

<sup>2</sup> The Organisation for Economic Co-operation and Development (OECD) is a group of 34 member countries originally founded in 1961 and headquartered in Paris, France. OECD aims to promote economic and social policies worldwide by allowing member countries a forum engage with one another on common problems and share best practices. See <http://www.oecd.org/> for further information. Please note OECD utilizes the British spelling of "organization."

to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment levels on a sustainable basis.”<sup>3</sup> Notably, this definition underscores the importance of successful businesses in a nation’s overall ability to be competitive in a global marketplace. Broadly speaking, a company’s competitiveness is based on its “ability to sell its product in home and foreign markets.”<sup>4</sup> However, it is then “the aggregated competitiveness of all companies [that] determines the competitiveness of a country.”<sup>5</sup>

In essence, the primary concept in evaluating a nation’s competitiveness, including the United States’, is based on productivity,<sup>6</sup> which is defined as “the value of goods and services produced per unit of human, capital, and natural resources.”<sup>7</sup> Given this, firms must increase and maintain high levels of productivity in order to ensure a parallel rising in the nation’s standard of living.<sup>8</sup> Therefore, to be competitive a nation must uncover the decisive characteristic “that allows its firms to create and sustain competitive advantage in particular fields.”<sup>9</sup>

### III. Evaluating America’s Competitiveness

Traditionally, as various studies ranked countries based on their competitiveness, all employing a variety of methodologies to determine the rankings, the United States ranked at the top of these lists regardless of the study or its methodology.<sup>10</sup> However, over time while the United States may rank first in one study, another study employing different methodologies would find limitations in the United States’ ability to be competitive.

One assessor of competitiveness, the International Institute for Management Development (IMD), rates 60 countries’ economies.<sup>11</sup> In 1997, when the IMD began its world competitiveness rankings the United States ranked first.<sup>12</sup> Since then, the IMD rating of the

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<sup>3</sup> THOMAS HATZICHRONOGLU, OECD, GLOBALISATION AND COMPETITIVENESS: RELEVANT INDICATORS 20 (1996), available at <http://dx.doi.org/10.1787/885511061376>. A factor of production is defined as “the inputs used to produce goods and services. Labor, land, and capital are the three most important factors of production.” N. GREGORY MANKIW, PRINCIPLES OF ECONOMICS at 376 (6th ed. 2012).

<sup>4</sup> RENÉ KEMP & JENS HORBACH, MEASUREMENT OF COMPETITIVENESS OF ECO-INNOVATION 2 (Mar. 2008), available at [http://www.merit.unu.edu/MEI/papers/Measuring%20the%20competitiveness%20of%20eco-innovation\\_Final%20Vers..pdf](http://www.merit.unu.edu/MEI/papers/Measuring%20the%20competitiveness%20of%20eco-innovation_Final%20Vers..pdf).

<sup>5</sup> *Id.*

<sup>6</sup> Michael Porter & Jan Rivkin, *What Washington Must Do Now*, ECONOMIST (Nov. 21, 2012), available at <http://www.economist.com/news/21566902-eight-point-plan-restore-american-competitiveness-what-washington-must-do-now> [hereinafter Porter & Rivkin, *Washington Must Do*].

<sup>7</sup> Michael Porter & Jan Rivkin, *The Looming Challenge to the U.S. Competitiveness*, HARV. BUS. REV., Mar. 2012, at 55, 56 [hereinafter Porter & Rivkin, *Looming Challenge*].

<sup>8</sup> Michael Porter, *The Competitive Advantage of Nations*, HARV. BUS. REV., Mar. 1990, available at <http://hbr.org/1990/03/the-competitive-advantage-of-nations/ar/1>.

<sup>9</sup> MICHAEL PORTER, THE COMPETITIVE ADVANTAGE OF NATIONS 18 (1st ed.1990).

<sup>10</sup> For the two reports discussed in this memo the methodologies can be found for IMD at Methodology, IMD, available at <http://www.imd.org/news/World-Competitiveness-2013.cfm> and for WEF, KLAUS SCHWAB, WORLD ECONOMIC FORUM, THE GLOBAL COMPETITIVENESS REPORT 2012-2013 at 519-522 (2012), available at [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2012-13.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf).

<sup>11</sup> Press Release, IMD, IMD Releases its 25<sup>th</sup> Anniversary World Competitiveness Rankings (May 29, 2013), available at <http://www.imd.org/news/World-Competitiveness-2013.cfm>.

<sup>12</sup> *Id.*

United States has fluctuated.<sup>13</sup> Another organization, the World Economic Forum (WEF) releases a global competitiveness ranking which evaluates over 140 countries.<sup>14</sup> In 2008, the United States ranked number one in global competitiveness in the WEF's report.<sup>15</sup> However, since that time the United States has consistently fallen and in the most recent report issued in September 2012, America's competitiveness rating globally was seventh.<sup>16</sup>

In 2007, the OECD noted, "the capability to innovate and to bring innovation successfully to market will be a crucial determinant of the global competitiveness of nations over the coming decade."<sup>17</sup> For America, innovation has consistently been a critical competitive advantage and is a significant impetus of "job growth and a higher standard of living for future generations."<sup>18</sup> It is notable that despite the United States shifting on the competitiveness scale, each study inherently recognized that a key strength in America's competitiveness is its ability to foster innovation. The IMD report noted that the United States regained its top spot due to an "abundance of technological innovation."<sup>19</sup> Further, despite the United States lowered ranking in the WEF report, it highlights that American firms are highly innovative which helps bolster the United States competitiveness ranking.<sup>20</sup> According to Bloomberg's Global Innovation Index, the United States' remains the most innovative nation in the world.<sup>21</sup>

#### IV. Igniting America's Competitive Advantage

While America has continued driving innovation, other obstacles within the United States have eroded parts of America's competitive advantage over other nations. This has fostered discussions about whether the United States is significantly advancing policies needed to ensure that American businesses continue capitalizing on innovation and that allow the United States to remain a dominant force in the global economy.<sup>22</sup> To ensure competitiveness, America's broad economic policy goal should aid businesses in increasing long-term productivity.<sup>23</sup>

<sup>13</sup> *Id.* In 2012, the United States ranked second in this study, yet the United States regained the top spot in 2013. See also IMD, THE WORLD COMPETITIVENESS SCOREBOARD 2013, available at <http://www.imd.org/uupload/IMD.WebSite/wcc/WCYResults/1/scoreboard.pdf>.

<sup>14</sup> KLAUS SCHWAB, WORLD ECONOMIC FORUM, THE GLOBAL COMPETITIVENESS REPORT 2012-2013 10 (2012), available at [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2012-13.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf).

<sup>15</sup> MICHAEL PORTER & KLAUS SCHWAB, WORLD ECONOMIC FORUM, THE GLOBAL COMPETITIVENESS REPORT 2008-2009 at 10 (2008), available at <http://www.weforum.org/pdf/GCR08/GCR08.pdf>. Please note in 2008, the United States also ranked first in IMD's study, available at <https://www.worldcompetitiveness.com/OnLine/App/Index.htm>.

<sup>16</sup> SCHWAB, *supra* note 14, at 21 (2012).

<sup>17</sup> OECD, INNOVATION AND GROWTH: RATIONALE FOR AN INNOVATION STRATEGY 3 (2007), available at <http://www.oecd.org/science/inno/39374789.pdf>.

<sup>18</sup> UNITED STATES DEPT. OF COMMERCE, THE COMPETITIVENESS AND INNOVATIVE CAPACITY OF THE UNITED STATES 2-1 (Jan. 2012), available at [http://www.commerce.gov/sites/default/files/documents/2012/january/competes\\_010511\\_0.pdf](http://www.commerce.gov/sites/default/files/documents/2012/january/competes_010511_0.pdf).

<sup>19</sup> Press Release, IMD, IMD Releases its 25<sup>th</sup> Anniversary World Competitiveness Rankings (May 29, 2013), available at <http://www.imd.org/news/World-Competitiveness-2013.cfm>.

<sup>20</sup> SCHWAB, *supra* note 14, at 21 (2012).

<sup>21</sup> Bloomberg Rankings, *50 Most Innovative Countries*, BLOOMBERG, Feb. 1, 2013, available at <http://www.bloomberg.com/slideshow/2013-02-01/50-most-innovative-countries.html#slide51>.

<sup>22</sup> Michael Porter, *The Competitive Advantage of Nations*, HARV. BUS. REV., Mar. 1990, available at <http://hbr.org/1990/03/the-competitive-advantage-of-nations/ar/1>.

<sup>23</sup> Porter & Rivkin, *Looming Challenge*, *supra* note 7, at 56.

In order to achieve this broad policy objective, Prof. Michael Porter believes eight policy items must be addressed. These items are:

1. Ease the immigration of highly skilled individuals, starting with international graduates of American universities;
2. Simplify the corporate tax code with lower statutory rates and no loopholes;
3. Create an international taxation system for American multinationals that taxes overseas profits only where they are earned, consistent with practices in other leading countries;
4. Aggressively use bilateral agreements and established international institutions to address distortions and abuses in the international trading and investment system;
5. Simplify and streamline regulations affecting business to focus on outcomes rather than reporting and compliance, delays and frequent litigation;
6. Enact a multi-year [program] to improve logistical, communications and energy infrastructure, [prioritizing] those projects most important for reducing the costs of doing business and promoting innovation;
7. Agree on a balanced regulatory and reporting framework to guide the responsible development of American shale-gas and oil reserves; and
8. Create a sustainable federal budget through a combination of greater revenue (including reducing deductions) and less spending (through efficiencies in entitlement [programs] and revised spending priorities), embodying a compromise such as Simpson-Bowles or Rivlin-Domenici.<sup>24</sup>

While the majority of these recommendations may spur advances in both large and small businesses, small firms account for 99.7 percent of employer firms in the United States and following the recession small firms accounted for 67 percent of the net new jobs.<sup>25</sup> It is imperative that America bolster policies that advance small firms as it seeks to maintain competitiveness in a global market. During the 113<sup>th</sup> Congress, the Committee on Small Business has held hearings related to several aspects of the eight recommendations. For example, on April 10, 2013, the Committee held a hearing on small business tax reform,<sup>26</sup> and on April 25, 2013, the Subcommittee on Contracting and Workforce held a hearing on science, technology, engineering and mathematics (STEM) workforce shortages and immigration reform.<sup>27</sup>

However, the overall concept of competitiveness indicates that merely fixing one of these policy items, while clearly beneficial, does not solve the overall dissipation of competitiveness. Rather, the key to restoring America's competitiveness is to adopt these policies holistically, as they work together. While preventing onerous regulations may help a firm in one manner, the cost of energy may still prevent that firm from achieving the highest rate of productivity. Thus,

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<sup>24</sup> Porter & Rivkin, *Washington Must Do*, *supra* note 6.

<sup>25</sup> [http://www.sba.gov/sites/default/files/FAQ\\_Sept\\_2012.pdf](http://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf).

<sup>26</sup> *Small Business Tax Reform: Growth Through Simplicity: Hearing Before the House Comm. on Small Business*, 113<sup>th</sup> Cong. (2013), available at <http://smallbusiness.house.gov/calendar/eventsingle.aspx?EventID=325471/>.

<sup>27</sup> *STEM Workforce and Immigration Reform: Hearing Before the Subcommittee on Contracting and Workforce of the House Comm. on Small Business*, 113<sup>th</sup> Cong. (2013), available at <http://smallbusiness.house.gov/calendar/eventsingle.aspx?EventID=325620>.

working to effect change in all areas should substantially strengthen companies' productivity, leading to enhanced competitiveness.

In addition to the policy improvements that may be made on a federal scale, businesses themselves "can and must play a far more proactive role in transforming competition and investing in local communities rather than being passive victims of public policy."<sup>28</sup> For example, there are concerns that the United States is facing a shortage of highly skilled workers, often in the STEM fields, which inhibits America's ability to be competitive. In this case, some companies are working to solve a workforce shortage through creation of internal training programs. For example, ExxonMobil recently announced funding for a workforce training program in partnership with local community colleges.<sup>29</sup> This program aims to fill a gap in the market while utilizing local workers and providing the necessary skills to work in the local chemical manufacturing industry.<sup>30</sup> Similarly, across the United States small manufacturing firms are working with local community colleges to develop curriculum in advanced manufacturing that would allow the companies to hire local students with requisite skills.<sup>31</sup> The approach employed by ExxonMobil and these small manufacturers directly underscores the importance of businesses recognizing what is needed to foster their own development and take advantage of factors within their control to ensure their business advances and is competitive. At the same time, these investments benefit the United States as a whole since they increase highly skilled workers, who earn higher wages, and generate economic growth, leading to a more productive and competitive nation.

## V. Conclusion

As we seek to promote economic growth and restore America's place within the global economy we must ensure that federal policies promote firms' ability to be competitive. America continues to be known for innovative firms, which is a key factor of competitiveness. Despite this, as businesses undertake their own initiatives to restore competitiveness, it is imperative that items under the purview of the federal government, such as onerous federal regulations and a complex tax code, do not negate the entrepreneurial and innovative work of companies in the United States.

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<sup>28</sup> Porter & Rivkin, *Looming Challenge*, *supra* note 7, at 55-56.

<sup>29</sup> Zain Shauk, *ExxonMobil, Colleges Partner to Train Thousands for Jobs*, HOUSTON CHRONICLE, June 7, 2013, available at <http://www.houstonchronicle.com/business/energy/article/Exxon-Mobil-colleges-partner-to-train-thousands-4585335.php>.

<sup>30</sup> *Id.* This will train workers in fields such as computer maintenance, mechanical engineering, pipefitting, and welding, among others. For a more in-depth list, please visit <http://www.lee.edu/petrochemjobs/home.php>.

<sup>31</sup> During the 112<sup>th</sup> Congress the Committee held on hearing which examined this topic. *Innovative Approaches to Meeting the Workforce Needs of Small Businesses: Hearing Before the House Comm. on Small Business*, 112<sup>th</sup> Cong. (2011). See also Liz Markhlevskaya, *Center at Lilac Mall will Train Workers for Albany-Safran Jobs*, FOSTER'S DAILY DEMOCRAT, May 18, 2013, available at [http://www.fosters.com/apps/pbcs.dll/article?AID=/20130518/GJNEWS\\_01/130519248/0/SEARCH](http://www.fosters.com/apps/pbcs.dll/article?AID=/20130518/GJNEWS_01/130519248/0/SEARCH); Marcia Heroux Pounds, *Employer Needs Plus Training Equals Jobs*, SUN SENTINEL, Jan. 28, 2013, available at [http://articles.sun-sentinel.com/2013-01-28/business/fl-jobs-skills-match-20130127\\_1\\_skills-program-broward-college-palm-beach-state-college](http://articles.sun-sentinel.com/2013-01-28/business/fl-jobs-skills-match-20130127_1_skills-program-broward-college-palm-beach-state-college); Wendy Killen, *Community Colleges Program to Train Workers for Manufacturing Jobs*, BOSTON GLOBE, Jan. 2, 2013, available at <http://www.boston.com/ae/events/2013/01/03/northern-essex-community-college-launches-program-train-workers-for-manufacturing-jobs/ioNhenUKhYOeAUDDFVvTIK/story.html>.