DEPARTMENT OF THE TREASURY
PRESIDENT'S ECONOMIC RECOVERY ADVISORY BOARD
APIRL 16, 2010 MEETING

The meeting was convened at the White House pursuant to notice at 1:38 P.M. EDT.

WHITE HOUSE ATTENDEES:
Barack Obama, President of the United States
Joe Biden, Vice President of the United States
Rahm Emanuel, Chief of Staff
Valerie Jarrett, Senior Advisor and Assistant to the President
Lawrence Summers, Director, National Economic Council
Austan Goolsbee, Staff Director and Chief Economist
Adam Hitchcock, Office of the Chief of Staff

ADVISORY BOARD MEMBERS PRESENT:
Paul Volcker, Chairman
Anna Burger, Chair, Change to Win
John Doerr, Partner, Kleiner, Perkins, Caufield & Byers
William H. Donaldson, Former Chairman, SEC
Martin Feldstein, George F. Baker Professor of Economics at Harvard University
Roger W. Ferguson, Jr., President & CEO, TIAA-CREF
Mark T. Gallogly, Founder & Managing Partner, Centerbridge Partners L.P.
Jeff Immelt, Chairman & CEO, GE
Jim Owens, Chairman & CEO Caterpillar
Charles E. Phillips, Jr., President, Oracle Corporation
Penny Pritzker, Chairman & Founder, Pritzker Realty Group
David F. Swensen, Chief Investment Officer, Yale University
Robert Wolf, Chairman & CEO, UBS Group Americas

ALSO PRESENT:
Gary F. Locke, Secretary of Commerce
Fred Hochberg, Chairman and President of Ex-Im Bank
Emanuel A. Pleitez, Designated Federal Officer
Anthony J. Dowd, Office of Chairman Paul Volcker

The President's Economic Recovery Advisory Board (PERAB) held a meeting with the President to discuss exports, job creation, and the growth of the American economy at 1:38 PM (EDT) on April 16, 2010 in the Roosevelt Room of the White House. In accordance with provisions of the Federal Advisory Committee Act, Public Law 92-463, and Federal Committee Management Regulations, 41 C.F.R. 102-3, the meeting was open to the public via internet webcast.

ROLL CALL
Fourteen of the sixteen members of the PERAB were present, constituting a quorum consisting of a simple majority.

DISCUSSION
THE PRESIDENT: Hello, everybody. All right -- don't break anything. (Laughter.) You guys all set? All right.

Well, thank you all for coming. We have a few topics to discuss today and I'm eager to hear from all of you about how the economy looks from your perspective and your forecast for the next few months. We're particularly interested, obviously, in the issuing of hiring and how we're putting Americans back to work. And I'm also going to be focused on hearing from you your recommendations in terms of how we can increase exports in the years to come -- because we know that if we are selling products overseas and not just purchasing products and services, then that is going to directly benefit the growth of our economy.

I do want to say a few words quickly about the issue of Wall Street reform. I know that some of you have worked in the financial industry or been leading financial regulators. Many of you have been advocates of reform for some time -- Paul and Bill, in particular, have been active in this area for more years than they probably care to remember.

As I've said before, we need a strong and healthy financial sector to grow jobs and our economy. And it's exactly because of the centrality and importance of the financial sector that we have to act. The devastating recession that we just went through offered a very painful lesson in what happens when we don't have adequate accountability and transparency and consumer protection.

We can't allow history to repeat itself. Never again should American taxpayers be forced to step in and pay the price for the responsibility of speculators on Wall Street who made risky bets with the expectation that taxpayers would be there to break their fall. And we can't leave in place a tattered set of rules that will allow another crisis to develop without the tools to deal with it. And that's why I expect that we are going to have a strong reform proposal that demands new accountability from Wall Street and provides new protections for consumers.

This is reform that will force banks and financial institutions to pay for bad decisions that they make, and not have taxpayers pay for those bad decisions. And that means no more bailouts.

This reform would also bring new transparency and accountability to the derivatives market, and this is something that Paul Volcker spoke publicly about just the other week. The derivatives market is where a lot of the big, risky financial bets by companies like AIG took place. There are literally trillions of dollars sloshing around this market that basically changes hands under the cover of darkness. When things go wrong, as they did in AIG, they can bring down the entire economy, and that's why we've got to bring more transparency and oversight when it comes to derivatives and bring them into a framework in which everybody knows exactly what's going on, because we can't afford another AIG.

Now, let's be honest. Some in the industry are not happy with the prospect of these reforms. We've seen the usual army of lobbyists dispatched up on Capitol Hill. They have found some willing allies on the other side of the aisle in Congress who have been trying to carve out a lot of exceptions and special loopholes so that folks on Wall Street can keep making these risky bets without any oversight.

I hope that we can pass a bipartisan bill. Bipartisanship cannot mean simply allowing lobbyist-driven loopholes that put American taxpayers at risk. That would not be real reform.

So in the coming weeks, every member of Congress is going to have to make a decision: Are they going to side with the special interests and the status quo, or are they going to side with the American people?

And anyone who opposes this reform is going to be leaving taxpayers on the hook if a crisis like the one that we've just seen ever happens again. And I consider that unacceptable.

My hope and belief is that all of us, Democrats and Republicans, are going to be able to find some common ground on this issue and move it forward. It is too important to become bogged down in the same partisan gridlock and politics that we've seen. It's time that we demanded accountability from Wall Street and protections for consumers so that we don't find ourselves in this same mess again.

All right. So with that, we're going to officially convene the meeting, which will be live-streamed. So let's clear out the room a little bit.

All right. Everybody was much better behaved than usual. (Laughter.)

CHAIRMAN VOLCKER: Well, I guess we're making progress.

THE PRESIDENT: Yes, obviously. Usually I get at least one shouted question. This time everybody was very well behaved, it was good.

PARTICIPANT: Friday afternoon.

THE PRESIDENT: Yes, exactly. (Laughter.)

Q Well, Mr. President, can I ask you -- (laughter) --

PARTICIPANT: You took the bait.

THE PRESIDENT: Go ahead. Go ahead.

Q -- if you would veto legislation if the derivatives language isn't as strong as what Senator Dodd has?

THE PRESIDENT: You know, I want to see what emerges, but I will veto legislation that does not bring the derivatives market under control and some sort of regulatory framework that assures that we don't have the same kind of crises that we've seen in the past.

Okay. All right. With that, I'm going to turn it over to our Chairman, Mr. Paul Volcker.

CHAIRMAN VOLCKER: Well, thank you, Mr. President. Let me just say I feel more optimistic about the regulatory front. You've been showing -- your administration -- some very strong leadership and I think things have a good chance of coming together. But there is a lot of lobbying on the other side --

THE PRESIDENT: There is.

CHAIRMAN VOLCKER: -- as you are well aware --

THE PRESIDENT: Absolutely.

CHAIRMAN VOLCKER: -- maybe most particularly on the derivatives question.

But we've been talking about exports. You gave us quite a challenge in your State of the Union message. I jumped a little bit when you said we're going to double the exports in five years. I figured out what the compound annual growth rate here means and I thought, my God, what's the guy want from us? (Laughter.) But you know what I mean. We all know that getting exports up and getting the trade balance down is a critical factor in not only getting the economy out of the recession but keeping it on a stable course in the future, where we're not dependent upon all this foreign financing.

You've got a couple of people on your advisory board that are experts on exporting. So I think I'm going to let them talk. I mean, it really is -- they make it actually sound believable that we're going to double our exports. (Laughter.) Jeff, you want to say --

MR. IMMELT: Mr. Chairman, thanks. Mr. President, I'd start by just saying I do -- we see signs of the economy getting better. The early indicators we look at, things like revenue passenger miles, freight holdings, appliance sales, credit losses have peaked. So we're in the early signs and we see encouraging signs. And I think companies like Caterpillar and GE are planning to hire people in the U.S. again and we feel optimistic about that.

The last thing I would add is that there's really an unprecedented amount of cash on company's balance sheets today. And the difference between this being a small recovery versus a more robust recovery I think is in the confidence that business has to invest back in this country because the cash is there, the capital exists.

Now, one of the things that can drive that I think are exports. You know, 60 percent of GE is outside the United States. We've doubled exports in the last five years, from $9 to about $20 billion -- it ain't easy, but I'm here to say it can be done. Our competitors are China, Germany, Japan. They take it seriously, from the President of the country through the business community. So we've got to look at that and we've got to look at some of the new regions, like Africa and Brazil, India, those places where I think we can play to win.

This is not just about big companies -- small companies benefit as well. When we ship a locomotive there's 1,300 suppliers for every locomotive we make. These are small businesses in Pennsylvania, South Carolina, around the country. So this is big and small. And like I said, this is -- for a company like ours there's a billion new consumers in the emerging markets. That's our target. Our target is to take the company, the U.S. brand -- people like buying from American companies and we think we can sell in every corner in the world. But, you know, we love this initiative. We think this is a rallying cry; it's got broad support in the business community; it seems to be something we all agree on and we ought to go for it.

I'll give you four quick ideas, and I think Jim has got other things that we can do to drive it.

Let's make Ex-Im a real weapon. I think, we know, Fred, we've increased, Ex-Im has been more flexible. But I think on a relative basis we're still dwarfed by Canada, Japan, other countries, and Ex-Im can be a tremendous weapon. We need to get our sales people – the export promotion people, our sales people, we need more of them and we need them at different places. Too many are in Western Europe; there's not enough in Latin America and Africa, the places that we need in the future. So we've got to redeploy the export control people.

I think just streamlining it -- this one is controversial, but streamlining business visas. You know, it takes us one to three days to get a visa to go to China, it takes them 30 days to get a visa to come here. We want to encourage foreign direct investment in the United States. These countries have been great at encouraging foreign direct investment.

And in some ways, Mr. President, it's just symbolic of the fact that we're open for business and –

THE PRESIDENT: So streamlining them being able to come here?

MR. IMMELT: Them being able to come here. And I think that's -- and then the last one I would say is to modernize export controls. Most of this trade is already with our allies. This is something that Secretary Locke has talked about. We think there's a couple hundred thousand jobs just if we streamline export controls and had access. We understand why it exists, nobody wants to dodge the rules -- but we think that's important as well.

I think Jim is going to talk trade negotiations and free trade agreements. But, you know, we are a net exporter to the people that we have trade agreements with, and the more of those we can have, the better. You know, the Chinese are every place.

So I would wrap up my comments just by saying I think the initiative is a good one. It will create jobs in big and small businesses. And I think it's one where having a very broad initiative and one that's led by you sends a definite signal to the rest of the world.

THE PRESIDENT: Before, Paul, you call on the next person, I just want to amplify what's already been said. We think that we've got a great team to help lead and drive this export promotion. And so you've already mentioned Gary Locke, Secretary of Commerce; Fred Hochberg at the Export-Import Bank. I have charged them with making this happen. And what I've also said is, is that at the highest levels here in the White House, we will be supportive of their efforts.

And one of the things that we want to do is be out there selling America and selling American companies and letting everybody know that we're ready to do business, we've got great products, we've got great services. And in addition to formal trade agreements, I don't think that we've done enough, in terms of just advocacy, on behalf of U.S. companies. And that's something that we want to see changed over the next several years.

So Gary and Fred are going to be following up with each and every one of you to make sure that that is happening.

CHAIRMAN VOLCKER: We've got really great exporters sitting down there. Jim Owens, kind of upbeat these days too, right? (Laughter.)

MR. OWENS: Well, Mr. President, I am delighted to be here today and to actually bring you some good news for a change. We had a pretty tough year last year, but certainly positive news on the export and job creation side.

And I, too, really salute your initiative to double exports, and I think Caterpillar is another terrific example. Over the five-year period ended in '08, we more than doubled our exports globally. We were at $16 billion that year. It drives a lot of our employment in the United States and is critically important to our economic health.

A lot of people think of us as a bit of a global bellwether because we do operate all over the world, and I've just come back from some pretty extensive travels in Asia. Our financial release is out next week so I can't be overly specific here, but I will say our exports were down slightly in the first quarter compared to a year ago, and our latest projections are that our exports this year will be up 65 percent.

So the late 2008, early 2009 economic stabilization stimulus packages around the world are having a pretty profound positive impact. I think we're going to find a stronger global economic recovery than many people expect. And we're seeing a pretty sharp "vee" in demand for a lot of our products, particularly in the commodity-related space.

But the big demand is coming from the global market theater, led in Asia, certainly, by India, China and Indonesia, the ASEAN group. But Brazil and the west coast of South America, parts of the Middle East, Russia -- everybody who produces commodities and these stimulus initiatives they've taken, very focused on infrastructure investment, which they need a lot of, is driving demand for our products.

But the megatrend of an emergent middle class and urbanization in these rapidly growing countries is creating a tremendous export opportunity for U.S. companies going forward.

Interestingly enough, last year is the first year we exported more to emerging markets than to our traditional OECD country competitors. We've been operating globally for a very long time.

As you know, last year we had unfortunately headline news of horrific layoffs, and very disappointing. We did maintain our financial strength. We maintained our investment focus on new product technologies. This year the exports alone will allow us to recall over 3,000 employees in the U.S., as we can currently see it. And we think our suppliers, direct suppliers, in the U.S. will recall between 9,000 and 10,000.

THE PRESIDENT: That's great.

MR. OWENS: So I'm very encouraged by that. Certainly it's a lot more fun to be hiring than laying off people.

THE PRESIDENT: Absolutely.

MR. OWENS: And I think the economy is turning.

Just in the way of recommendation, I think we're pretty well known for very being strong supporters of trade agreements. I think the three pending FTAs with Colombia, Panama and South Korea -- if we could move those through the Congress and get passage, it would send a tremendously positive message that our country is open for business.

And I think we need to restart and successfully lead getting a Doha round of trade negotiations. That's a little longer-term initiative. But the world needs the WTO structure. And it's dangerous -- there were a number of protections measures put in place around the world over the last period of economic trauma we've all gone through. We need to get back to leadership there, and I think the United States is the country that can do that.

And finally, on the tax side -- I know there's been a lot of discussion about that -- but we need to pay our fair share of taxes; totally agree. But a territorial tax system -- which most of our major trading partners have -- if we went to that system, we would free up hundreds of billions of dollars, which would flow back to the United States and create investment, I believe, in our own country, and more research and engineering here. These are our key competitive strengths. It's a very complex area, I recognize.

And the other recommendation -- and Jeff touched on it -- as I travel the world, you know, I can't go to India or China or Indonesia without a strong sales pitch, not only from the national government but certainly at the local provincial level -- "We'd like to build tractors here" -- and really encouraging foreign direct investment.

We need to do a better job of encouraging foreign direct investment in our country. It creates jobs here -- it's import substitution. It creates meaningful employment and a tax base. Most every American company and CEO that I know and spend time with -- and there's quite a few of them -- are confident we can compete and win given a level playing field. And the kind of recommendations that I'm making I think are really about creating a level playing field for American manufacturers and service providers around the world.

Thank you very much.

CHAIRMAN VOLCKER: There's a lot of opinion in this group about the free trade agreements and the fact that corporate taxes, the international tax business is a mess and it needs a review. I don't know what the answer is, but it sure does need a review.

THE PRESIDENT: Well, let me just comment on these two issues. I'm on the record as saying I want to complete these trade agreements. To do that, things have to get through Congress and that requires, as I think all of you observed over the last year and a half, quite a bit of work. But this is something that we believe in and we want to continue to pursue.

With respect to the tax system, you're right -- it's complicated. I think our goal here has been to create a level playing field. The challenge is to create a level playing field both between our international companies and foreign companies, but also a level playing field between companies located primarily in the United States and producing and hiring in the United States, and companies that are doing so overseas. And trying to find that right balance is not easy, but we've been listening very carefully to the concerns of companies like yours, Jim, and I think that we are arriving at a balance that is appropriate. But we're going to continue to work with this team in terms of doing that and I know some of you individually are going to have some recommendations on tax issues.

CHAIRMAN VOLCKER: Marty Feldstein may want to say a word or two about the taxes.

MR. FELDSTEIN: Not about the tax thing, no. I mean, I wanted to say something else. (Laughter.)

THE PRESIDENT: Go ahead and let --

MR. FELDSTEIN: Well, I wanted to make a general economic point about exports because in any country being able to have net exports -- and of course it's net exports that create jobs -- exports minus imports -- requires that national saving exceed national investment; that the saving of households and businesses minus the dis-saving of the government has to equal -- has to exceed investment in plant and equipment and housing. If that happens, then there's excess output that can be exported. And right now, we're in the opposite position, where our saving rate is less than our investment in plant and equipment and in housing. And Germany and China are in the opposite position, where they're saving more.

So despite all the individual initiatives, the only way we're going to get net exports up is to deal with national saving in the years ahead. And as you know, the big uncertainty about that is what's going to happen to the fiscal deficit because the projected fiscal deficits over the coming decade would absorb almost all of the saving of households and businesses at current rates. So that has to be high on the list of --

CHAIRMAN VOLCKER: We'll solve the deficit for you at the next meeting. (Laughter.)

THE PRESIDENT: I do want to say something about this. Obviously the national savings rate has to go up, and we're going to have to get deficits under control. We've got a fiscal commission that's working diligently to start putting in place a medium- and long-term plan. This group, I suspect, will have some strong opinions in terms of how we approach it. And I'll be interested in hearing those opinions in a separate meeting.

But suffice to say that if we are continuing along the path that we're on now, then you're right, Marty, we can make some progress in terms of individual companies, but we're not going to be making progress as a whole.

Now, the one other aspect of this I'd raise, just because you mentioned China, Germany, and some other countries, part of this global rebalancing is that they're going to have to make some decisions as well about how they are approaching their domestic markets. And part of the bargain that I think we're trying to strike within the G20 framework is to say, look, we've got to take on our responsibilities in terms of improving our savings rate; you, on the other hand, have to recognize that a purely export-driven strategy of economic growth is not going to work, given that American consumers are just not going to be in the same position and the American government is not going to be in the same position that it's been over the last several years.

One last point I want to make before we move on, somebody mentioned export controls. I think you're aware that we are going through a very thorough reevaluation of our export controls. A lot of them are outdated. Some of them are carryovers of the Cold War. We are losing business opportunities unnecessarily. But we're also, I actually think, impeding effective monitoring of our national security because if you have export controls across everything, then you're not spending time focusing on the handful of things that really do touch on sensitive national security issues. And so that's something that I expect we're going to have a formal report; Bob Gates is leading that directive. It's going to be entirely grounded in our national security needs, but I think we'll have a strong potential impact on where we can go in terms of exports.

MS. PRITZKER: Mr. President, first of all, I want to say I think you're doing a terrific job in our relations with China. It's obviously quite complicated, but one of the topics I wanted to talk about was equal trade and a need for those of us who are exporters to really have a quid pro quo in our trade terms on a country-by-country basis -- obviously exchange rates being the first issue, and needing exchange rates to be market-determined. And obviously some countries pegging their currency to the dollar is a very dangerous way to do trade. And I know you've been working very hard on this. And our companies that are exporters, it's very important to us.

One of the other -- some of the other things that we're seeing is that there are incentives being created in other countries for us not to -- that are creating a disincentive towards exporting.

So, for example, China will give us a 15 percent export credit -- you know, which we don't have in the United States; or they're providing these hidden incentives around shipping or raw material costs that are not making the headlines but are definitely influencing business that's going on.

The other issue that we're seeing are import duties, where there's -- if, for example, we see in some of our businesses if China or France are giving us our advantages, whereas in the United States we don't see that. Or they can import their goods here and not pay duties.

Another thing that we would ask as an activity, which would be the anti-dumping process, which I know that you're -- the Commerce Department is the place that reviews that. It's very cumbersome and very difficult. We currently have a case, for example, where there's copper tubing dumping going on in the United States by China and Mexico. It's a two-year process, a multimillion-dollar legal process for our companies to bring what is sort of obvious dumping going on. And in the meantime, while we're undertaking that fight, we're seeing the dumping continues. And so we're not -- so a possibility to streamline that would be something that would be very helpful. These are just a few ideas of things that we're seeing that might be areas for focus.

And obviously I think the final one I will end with is the notion of really creating strong incentives for us to continue innovating, in terms of our automation and production in the United States; us developing patented technologies, which is ultimately how we're going to maintain our superiority in a trade -- global trade situation.

THE PRESIDENT: Thank you.

CHAIRMAN VOLCKER: DO you want to get in on the high-tech side of things here?

MR. PHILLIPS: Sure, sure. First of all, in the economy we are seeing things pick up. The last, I would say, two quarters we've seen acceleration of our business after a tough '09. And we announced about two months ago we plan to hire 2,000 people, and we're in the process of doing that now. So at least from where we're sitting, we're betting and I'm confident this is going to continue.

I would say for our export perspective we're about 55 percent international and we have been for several years. We've doubled that in the last five years as well. The big market forces, Europe and Latin America, is growing the fastest for us.

The one area I would say that we could use some help is on IT enforcement and intellectual property. So usually when you say that, people think of movies and music and all that. That's not what we're talking about. So almost any product you can think of over the next few years, it may look like a piece of equipment, but it's going to have a high degree of intellectual property content in it, whether it's security systems, handsets, you name it, robots, electrical transmission equipment. This is the information age, and more of the things that we make, that you can touch, and (inaudible) software some sort of content. And it's an area where the U.S. has a comparative advantage: complex manufacturing (inaudible), sophisticated products. Sort of like Germany had (inaudible).

And so the problem today is, though, that can be reverse engineered in some markets, and that is happening. And so it makes certain companies reluctant to export certain types of products. And this is an area where small businesses can benefit a lot because they make specific components, circuit boards, or analog devices. They'd like to be able to license that technology to other markets, but you can't really do that if there's not patent protection.

So I think over time this is an area -- our export as a percentage of what we export today -- is going to be more IT-based, it behooves us to try to create that protection understanding around the world. And I think there's a lot of empirical evidence as well that once you have patent protection in a country, the imports go up. And also the local importing country benefits because it develops a local market, knowledge transfer -- and knowledge as well. And so over time I think we have to convince these importing countries that it's good for them as well as good for us.

MR. FERGUSON: It's been a great discussion here. I think we don't want to lose sight of the fact that somewhere around 30 percent of the jobs that are associated with exports are in the service sector. And so while it's clear that we're focused on manufacturing and other things, service is an area where we actually have a comparative advantage. I think those of us in the service-oriented sector, we're really discovering that in trade negotiations access is very important. For a number of companies (inaudible) providing a full range of services overseas because of access issues in other countries.

THE PRESIDENT: I'm just curious. How do those usually manifest themselves?

MR. FERGUSON: They manifest themselves in (inaudible) implementation, for example, through (inaudible) providing financial services. There are clear restrictions on the range of some of the services that you provide in some countries if you're a financial services provider. And there obviously are also issues of the repatriation of profits. But it is often very focused limitations on the kinds of businesses that one can provide overseas.

CHAIRMAN VOLCKER: Laura, did you --

MS. TYSON: Oh, sure. Let me continue the focus on technology, then, because I think our real strengths -- and I think they're well represented around the room in trade -- are really in the knowledge and technology-intensive sectors, where we still have, despite growing competition, we still have the majority place in the world -- 38 percent of our GDP -- we have about 30 percent of the manufacturing value-added in the knowledge and technology intensive, and about 34 percent of services. We are the primary producer of this stuff.

We have seen, however, our share of exports declining – absolutely declining on a regular basis. It's been particularly severe in the information and computer sector. And we have gone from a trade surplus position in high technology goods to a deficit, although we still have a trade surplus in services.

Now, what does that tell us about policy? First of all, these sectors are really important not only because they're big in the U.S. economy but because they have higher-than-average productivity, they pay higher-than-average wages, they have higher-than-average export intensity, they do most of the R&D in the United States, they have very important relationships with universities. So these are activities and sectors we really need to care about.

I think what we know is that the rest of the world is focusing on getting as much of this as they can from us. And so when you ask, well, what can we do to keep it here, I think this is about your agenda in research and education. And I think we've talked about this in terms of a national competitiveness agenda, but you can see it very clearly in what you're doing in research and education.

So I would say whether it's the goal of increasing R&D as a share of GDP to 3 percent or significant increases in the funding for basic science, even when we're in a very difficult deficit situation, very, very important for this long-run competitiveness.

I think starting, frankly, with the Race to the Top, K-12, all the way through Ph.D. student support, I mean, at every level what you hear from companies over and over again, the two ways you compete in these fields are research and talent -- research and talent. And there's a kind of virtuous circle between them. The more you invest in research the more you need talent. The more you have talent, the more you can invest in research.

So I think that these initiatives are very, very important. I would add to the list of all of the education and research data that you've put in place, which I applaud, and the STEM -- emphasis on STEM education, very, very important -- concerns about further efforts over time to retain foreign-educated talent. I mean, after all, in most of the Ph.D.-level education in the United States in the science and technology fields we're at close to half and in some cases 70 percent of students who are getting these advanced degrees are foreign.

Luckily for the United States, these students have wanted to stay, but we don't make it particularly easy for them to stay. So just like saying we need some visa improvement in terms of, say, businesses, a lot of business leaders will say it would be lovely to come up with a program in which you had an automatic visa for certain kinds of degrees granted in the United States -- instant, for some period of time, because companies can use them -- and I just saw as I was walking in the Wall Street Journal saying there's now aggressive already talent-hunting going on in the high-technology community. They will therefore hit the wall pretty quickly if that's the case, with things like temporary H1B visas. It won't be enough for them. So we need to have -- to think very hard about immigration.

And then I want to relate this to the broader issues jobs, because I just saw as I was preparing for this meeting last night, I'm making the case for education in terms of exports and technology exports. But you know, the truth is when you look at this unemployment rate, it's the no high school degree where you get 15 percent unemployment; the high school degree where you get 10. When you get down to the bachelor's degree right now, it's about 5 percent. I mean, unemployment in this country is an education problem as well as an aggregate demand problem.

And in every sector and in every occupation, what you see happening is the education level of the jobs that are being created is rising. The jobs that are being destroyed -- those are education levels that are not high enough to be competitive with the technology. So very, very important.

And then finally I will just put in also -- because I've heard so much about it -- the tax issue. I should say on the tax issue, we do have a sub-group of PERAB that will be reporting to you on this, so I will only just say what I hear on a repeated basis. Because we have the second-highest statutory corporate rate in the world, we have a disincentive to invest from that. Firms that end up making investments abroad because they have to serve the foreign market or they get a huge capital grant from another government, then they face the other thing, is if they make the investment abroad, then when they earn the profits abroad they have a disincentive to bring them home.

So you kind of have a two-fer. You have a kind of incentive to make the investment someplace else and then you have a disincentive to bring the profits home. So I agree with the notion of trying to come up with a balance, but I think from the point of view of the multinational companies, which account for about half of U.S. exports -- half – this is an extremely important issue and we have to get the balance right because those are the major exporters and they pull along all of the small- and medium-sized firms.

So education research and taxes I think important to long run competitiveness.

THE PRESIDENT: Thank you.

CHAIRMAN VOLCKER: Mark.

MR. GALLOGLY: I want to follow up on something that Marty talked about, which is the idea of a net export. So the big thing today is I believe we should start a public/private partnership that's a race for the top for American energy independence. Today and every day – every day -- we spend about a billion dollars on foreign oil -- the better part of a billion bucks. If you look at that over a generation and you (inaudible) that, that's about $10 trillion. So we're spending $10 trillion over the next generation.

What do we do about that? There's at least one good idea out there I think, which is to figure out a way to electrify cars. We spent $2 billion, this administration has, on batteries. So in the next few years, we're going to be leaders in battery technology. When you spend $2 billion, you're going to take a leadership position.

But there's a real risk, I think, that we'll be a niche player, because the reality is that our system is fundamentally not structured as well as some of our direct competitors on whether this works or not.

So for example, if you're in Western Europe, you're spending $7.50 a gallon, so you had a real incentive to switch. You're not very mobile, you're in a small country, so you're more likely to switch.

You've got one utility. There's one utility in most of these countries. We have 2,000 utilities.

And you've already started a governmental process to put in place the infrastructure that's going to increase the likelihood that you're successful.

So yesterday I met with a very senior guy at Sinopec. He controls 90,000 gas stations in China. Every new gas station he builds has to have a power outlet; has to have power outlets for their cars. And in China they've started -- only really recently -- 13 cities to have the infrastructure associated with electric vehicles. So those 13 cities are going to be able to allow them to do things that will be different than how our consumers will approach it.

If you look at that, you say okay, they're more -- they have a higher price of fuel, they have better infrastructure, they have a policy in place to support it. What's the likelihood that in France, for example, where they've got one utility, EDF, they've got a national champion in Peugeot Renault, which is really a leader in electric cars – what they're going to do is really push this.

And so if we're not in a position where we figured out a way to compete with that, we're going to have leadership in batteries, but ultimately we won't have consumers buying cars.

Now, we can't do this across the country, right? It's too expensive.

And it's not absolutely clear how it's going to play out. But I think what we should do is take what we've learned in education, and what I think Arne and the team have done brilliantly, and figure out a way to compete by region, and say, I want to take X number of cities, I want to do a public/private partnership.

There are a lot of big companies that are interested in this. You know, Walmart is interested in it. I'm sure that some of the companies represented here are interested. Anybody who has done transportation is going to focus on it. The utilities are focused on it. If you're a leading governor, you're going to want your POC to get aligned with this. And since you've got a crisis going on at the state level, you've got a real incentive for the states to do things they've never done before.

So if you choose a handful of places to start it, then you're more likely, if you're focused on this, to make some progress.

What's the multiplier on this? So you reduce imports, which is where Marty is all focused. You increase national security; you're not importing as many barrels.

We had a discussion a number of months -- a couple of years ago now. Why is oil 150 bucks? Remember when oil was 150 bucks? Why was that? Because oil demand went up 5 percent. Really. It was a demand-driven event. If we could ever figure out a way to margin, to bring down the number -- the demand for oil, the elasticity should be -- I know there a number of economists here who could talk about this -- much better than you'd think. Oil prices should come down. So you get a real benefit from it.

And then you say, okay, over a 20-year period, what's the likelihood we have -- what normally shocks the U.S. economy? You know, it's not normally a financial crisis, it's normally that energy prices just spiked. So that $10 trillion doesn't assume anything about the likelihood of averting a recession as a result of figuring out a way to move out of the oil business.

And then on climate change, it's got obvious positive ramifications. And on job creation it's got positive ramifications.

A lot of people talk about natural gas. I'm all for that. We've got a tremendous amount of natural gas. That's a great thing for this country. We may actually be able to produce more chemicals going forward, more steel going forward, more of a lot of things going forward because we've got cheap natural gas that we never had before, which is why chemical industry and other places have moved to wherever there's cheap money and there's cheap sources of natural gas.

But if we ever did this where we electrify, then the market can figure out how we should generate electricity in the United States. Should it be carbon? If we put a price on carbon and do this, should it be coal, coal sequestration, natural gas, wind, solar, biomass, nuclear? Whatever it should be, they'll figure it out, but we'll have an infrastructure in place that will have proven, once and for all, whether the American people are willing to buy this.

I think they probably are. I was an early investor in a company called SIRIUS satellite radio almost 15 years ago. When we did that investment -- which had its ups and downs over a very long period of time, I can tell you -- no one really knew whether all OEM manufacturers were going to put satellite radios in a car. Now everybody does.

So it does take time. This isn't something that we should over-promise on. But if we did a public/private partnership where we said, over a generation, over 20 years, we want to create a situation where America can be independent of foreign oil, I think all Americans, Democrats -- people will get behind that.

THE PRESIDENT: Thank you.

MR. IMMELT: I think, Mr. President, there's some uncertainty on energy right now, just on where it's going to go, that's it's keeping jobs from being created. And I think whatever it is, whether it's an extension of ENERGY STAR tax credits or whether it's some kind of movement there, I think we have to think about jobs in the next 18-24 months. That would be helpful to me, just to get some clarity around where that's likely going to go.

And, really, I -- this is more lower tech, but if you had something like an extension on the ENERGY STAR tax credits, manufacturing will come back to the U.S. quickly. Now, it's a small, teeny-tiny little point, but it's meaningful. It says you can make things here, and, you know, most of us now know how to make products with fewer -- you know, lean manufacturing and stuff like that -- that can compete with China and Mexico. So all around the energy space, I think there's jobs that can be created just with some clarity.

MR. DONALDSON: Also within energy space. And it's not low-tech either, it's high-tech capability now to develop our natural gas resources and our domestic energy resources that will create a lot of jobs, and some clarity there, I think, would be very helpful.

CHAIRMAN VOLCKER: Can't say we lack for imagination.

THE PRESIDENT: No, this has all been extremely helpful.

CHAIRMAN VOLCKER: John Doerr.

THE PRESIDENT: John, you want to chime in?

PARTICIPANT: This is our least imaginative guy.

PARTICIPANT: Yes, least imaginative guy, John. (Laughter.)

MR. DOERR: These points that have been covered are super important and I agree with them. I think the dimension to this that I want to bring is about innovation, because in the long run, the only way we're going to increase exports is for America to be, continue to be, and increasingly be the most innovative nation in the world. And we're actually I think in good shape when it comes to the biotechnologies and the information technologies, and no surprise, we're not in good shape when it comes to the energy technologies -- ET. Over the last 15 -- a few fast facts -- over the last 15 years the average U.S. corporate spending in the private sector on energy innovation has been one-fourth of 1 percent of their revenues. That contrasts with in the biotech or the information technology sector of anywhere from 5 to 15 percent of revenues. And we're at a moment in time now where the advances of science, what we can do with the science of the small -- small (inaudible), small materials, nanotechnologies -- it's possible to innovate and develop durable advantages – better batteries, a better renewable fuels not from food.

Another fast fact: Federal R&D on clean energy is less than $3 billion a year. And you contrast with the NIH of $30-$35 billion. And of course you know this -- this is why you called for $15 billion a year of R&D in clean energy technologies for the country.

Where all that comes home is what happens in markets. And to make this innovation go on a recurring basis, we got to have strong, robust domestic markets. We've seen a leading U.S. manufacturer of solar cells move its R&D operations to China because that's where the markets are. The energy growth around the world is going to be around the world, not inside our country.

I just came across this fact and it should inspire us, I think, that three years ago China had 2 percent of the worldwide solar market. And as of the fourth quarter of last year -- these numbers are just out – their share has almost approached 50 percent of the market, while the U.S. share has gone from 43 percent to 16 percent.

So what are we going to do about all this? We got to up our investment in energy R&D. And I can't come to this table and just say more, more, more -- we got to find ways to pay for these things because it's just as important that we reduce our deficits.

So the very first meeting of PERAB unanimously advised, recommended, and you have advocated some kind of comprehensive energy climate legislation that could fund, that could pay for substantially more R&D. And there's a lot of recommendations below that, but I just want that to be in our minds as we think about what we're going to do about exports.

The proposal that you got leaders -- Congress together in and around some sort of Kerry/Lieberman/Graham idea is a very promising way to go do this. And it's awfully important, I think.

What's going on in the Department of Energy I think is quite exciting. Steve Chu -- this is an A-team -- they're working very hard. The E-ARPA program made 37 grants to innovative programs. Most of our clean energy R&D today is in our national labs. I don't want to take a thing away from that.

I want to close telling you a story about MIT. Susan Hockfield at MIT told me that a third -- fully a third -- of all the faculty at MIT wants to work on clean energy research. And the total amount of MIT's funding, federal funding for that work, is under $100 million, which is not enough to fund that degree of innovation.

So I think we've got to innovate. And to innovate, we've got to invest and incentivize those investments. And if we do that, I think America could get its export mojo, its economic strength back.

THE PRESIDENT: Let me just -- since energy (inaudible) -- discuss sort of how we're looking at this area. This is one of these foundational priorities from my perspective that has to be done soon. As has been noted, there's been a good bipartisan discussion taking place within the Senate around a mechanism that would put a price on carbon and would also deal with some of the research issues and would renew some of those programs like Energy Star that are already working.

The one thing I think is going to be very important is for the business community to weigh in on this in a significant way. I'd say just in terms of timing, you know, financial regulatory reform will take several more weeks and then we'll probably be transitioning next to look at what can be done on the energy front. The more business is out front, this is a big creator, the better off we're going to be.

And, look, part of what makes this difficult is it entails transitions not just for the macro-economy but for the micro-economy. Individual industries are affected differently. There are regional impacts that are different. In the aggregate, I don't think there's any argument that this is not the right thing to do. But as Tip O'Neill said, all politics is local. And so individual members of Congress may be worried about the implications at least short term of some of these moves. And having assurances from the business community and having that messaged effectively that this is important is going to be critical to our success.

But the vision that Mark, you and John have both articulated, is one that excites me enormously because I think it's inevitable. And I'm just generally big on getting ahead of change as opposed to having change happen to you, having change roll you over. And I fear that if we don't take these steps soon, that we're going to have some big, big problems.

CHAIRMAN VOLCKER: You going to bring (inaudible), Anna?

MS. BURGER: I do, actually. So thank you, Mr. President, for everything that you do, for your courage and your leadership. And I think that it's easy for the media to sometimes forget the challenges that you inherited when you took office; that the realities across our country, millions of workers wake up every day in frantic panic about what's going on with them because they live the economic disaster every single day.

And so I think that this -- and you took action by the Recovery Act, which actually kept people working and kept their states and local governments serving people. You took action by being a strong advocate for health care reform when we really needed you to be the one who shook heads and pushed people together to make this get done. And you have been standing up to Wall Street. And you talk about getting America going again and your actions actually give people hope.

But I just wanted to talk about the depth of the crisis because as we sit here talking about exports and making sure that it's a net job increase and we talk about trade and we have to talk about enforcement of dumping and other things, we need to figure out how we really get America going in a much larger way.

And so when you think about the crisis, the crisis is really deep. Laura talked a little bit about it. It is really deep across this country. You talk about 9.7 percent unemployment, but you also talk about the number of people who are underemployed or have given up looking for jobs. For people who are looking for jobs -- there are six applicants for every one job. And for people of color, it's even worse. And for young people, it's even worse.

And as we try to think about the human suffering, we can think about individual suffering, but it actually is an impact on our society and our country, both in our communities and society long term. And I think that we have to grapple with that and somehow get Congress's attention and our partners around this - everywhere -- this attention to the fact that if we don't do something soon, that it's going to have a long term impact on our society.

And so when I think about what goes on with chronic joblessness -- I can see Austan and talk about whether -- his awesome studies on young people. When young people out of high school don't have jobs, can't find jobs for a couple of years, the longer it goes on the less likely they will find jobs, the more likely they will fall into drugs or illegal behavior, and give up hope.

For young people graduating from college -- and there still are some who are desperately looking for jobs -- every year that they don't get a job they're up against the next class who are coming out, with white spaces on their resumes, and it holds them back not just for those years, but forever. Studies have demonstrated that they're held back for the rest of their lives in terms of earnings, in terms of advancements.

And then when you think about people who give up hope on jobs and lose their confidence, and can't find work and end up giving up, it has a huge impact on their families as well.

And so I'll tell you a story. My father was a truck driver, and he was disabled when I was nine and he ended up being eventually permanently disabled. But he frantically looked for work and couldn't get it. And then he ended up being under-confidant, unhappy and a difficult person to live with -- as we all grew up with him -- because it took away that hope. That is what's happening in millions of homes around America. People are giving up hope; it's having an impact on domestic violence.

And then when we think about our kids -- kids go to school hungry and they go to bed hungry. And I can't imagine being a parent and putting my kid to bed hungry, but that's what goes on. And when kids are hungry, they can't learn. And when they can't learn, they can't advance. And when they get out of high school, whether they make it through high school or not, they are left behind for a long time -- forever.

And so this crisis has an impact on our communities, because high pockets of unemployment -- especially for people of color, and in pockets of -- in rural parts of America where factories have disappeared -- it changes their whole communities forever. It changes the family structures. People don't get married; people get more -- divorced; kids are in single families. So there's this problem that we all face.

And I think that as we think about the human impact not just of the individuals, but of our communities and what happens to our society long term, when people have lost hope, have lost the talents and the skills and the opportunities, it really has a long -- it's something that we have to grapple with.

So my thing is not only do we have to think about exports; we have to think about fast jobs. We have to think about how to put people together, put people to work today, not -- and I want to do long term, too. I think it's really important to invest in energy. I really think it's important to create the new technology and the new industries for the future. But there are some things that we can do now that can take especially pockets of high unemployment and put people to work.

And so, yes, we do need more stimulus for the states and local governments. We cannot have 900,000 jobs be lost across this country because state and local governments' budgets are hemorrhaging. Whether we can figure out some financial support for them, I think that we need to do that. Otherwise it will be -- people will be more desperate. And the services that will be lost will be actual services that people who are jobless and homeless need the most. And so it has a double impact. So I think we need to do that.

The other thing, there are ways to be able to put people to work fast. George Miller has a bill in Congress right now with a hundred-and-some sponsors and he's moving on more, which is about jobs for local governments that will be additional jobs in public services, but in private sector as well, that can get people going again. And according to the numbers, we could probably put close to 100 million people to work through his program. And those are basic-skill jobs. You can take people out, give them basic skills.

We also think, though, that there needs to be a whole initiative on some of the services that are in high demand -- child care, home care are in high demand. There is a long list across this country of people who are in need of both of them. We can train people quickly to do those kinds of jobs. And those jobs go right into wages so people can spend it, and so it's actually good for our communities.

And I do think that the whole issue of the greening of America, whether it's Home Star and retrofitting homes or Building Star and retrofitting buildings, can actually be another way of putting people to work quickly. Some of it will be short term and some of it – in Building Star, it actually needs to be done for a longer term as well. And those are all areas of employment.

And I would also say thank you for health care reform, but when we cover 32 million more people in America with health care that means we need more health care providers and we need to do it in a smart way. So to really ratchet up the training for health care workers, whether they're community-based health care workers or nurses or nurse practitioners, they're all occupations out there that we need to recruit people. And we can actually begin by thinking about how do we retrain in high schools and what are we going to do in terms of giving people the opportunity to get from high school to college in some of these training programs.

And so I do think the last -- in terms of training, if we could really think about all the training dollars in this government and try to focus them on the new technologies or the new industries, I think that we could get out of the 20th century and perhaps move into the 21st century in a faster way. And so for all the infrastructure and high-speed rail -- I think that's all good, but that's really something that would go down the line.

And so I think that we can, in fact, get America to work again. I think it's going to take a couple things. One, it's going to take you; like, we could not have passed health care reform without you. Your strong voice enforcing the Senate, particularly, to come to the table and understand that they could not walk away from health care -- I think we have to somehow force them to understand that they can't walk away from America. American families are desperate. In every single Senate seat across this country, people are desperate. And somehow we have to pull -- bring the urgency to that Senate.

And I also want to commit to you that we also need to put the field in motion, too, because we have to get the people who are frustrated with the joblessness and the big financial institutions together again to understand that we can solve this problem.

MR. IMMELT: Mr. President, could I just -- because I think jobs are your toughest grade, but I'm not sure how much indeed you can actually do about it. Capital exists; cash exists --

THE PRESIDENT: We've got to get it off the sidelines.

MR. IMMELT: We've got to get it off the sidelines. And so your self-confidence, your belief in the system, your sense of optimism is what we need. It's your toughest grade, but in the end how much you control philosophically will differ around this table. But I can tell you that corporations have never had as much cash as they have today.

MR. GALLOGLY: And it's not just corporations, it's a global phenomena.

MR. IMMELT: And we got to get -- we've got to get back to work in this country. And that's what's going to create jobs.

THE PRESIDENT: Well, confidence is a good stimulus and it's relatively cheap. And so part of what makes, obviously, me confident is when I hear business leaders like you, Jeff, and Jim and others saying you see opportunity out there and want to put it to work.

Now, Anna, I want to address directly what you said. This entire export initiative is all designed to make sure that those families who are so desperate and write to me every day are starting to see more opportunity.

And so I'm not interested in exports just for some theoretical reason. I'm interested so that Jim can hire -- instead of 3,000 more folks, he's hiring 5,000 more folks; and the suppliers are hiring 15,000 instead of 10,000. And that means that they're paying taxes, which means that the local and state governments have the funds to not lay off teachers, and we get a virtuous cycle.

So I'm very mindful of this. Obviously there's a broad debate that's taking place and has been taking place over the last year and a half, which goes to Marty's point, which is, how do we balance a huge hole in the economy that was created as a consequence of the financial sector, making sure that we're stabilized and we're growing again, while keeping an eye on the fact that we've got these long-term deficits that really can be crushing and could end up being a huge impediment to growth in the future?

I think so far we've struck the right balance. I think that there are some selective areas where I still think we can make a difference. For example, every business leader here should be concerned about the fact that you've got states now that are going to four-day school days – or school weeks because they just can't afford it.

And so as concerned as we are about deficits, long-term, until states and local school districts are getting their tax base back, and that tends to be -- that lags even the tax revenues and federal government -- you know, I don't think it's acceptable for us to be sending our kids to school for four days a week.

And so one of the things that we're looking at is are there ways where we can get some immediate help to those state and local districts around education, because it actually undermines the good work that we've done on Race to the Top if you've got a whole bunch of schools that are interested in innovating and demanding greater teacher performance and this and that and the other, except they can't afford to pay teachers. Then we've got problems.

So I'm very mindful that our immediate work, our short-term work, of lifting folks out of the terrible crisis that they've experienced in very human terms, that that is ongoing.

But this is one of those situations where we've got to do two things that at times are contradictory. We've got to be focused on the short term, but we've got to keep our eye on the medium and long term. And so even as we're making sure that unemployment benefits are out there and COBRA continues and we're providing states and local governments with help, we've got to be thinking about how are we getting this energy sector cranking, how are we protecting intellectual property, how are we training the next generation of engineers and scientists. Those are all things that we're going to have to do now in order for us to be successful.

This has been a very useful conversation. I appreciate it. I want to remind everybody that in terms of follow-up, Gary Locke and Fred Hochberg are going to be calling you incessantly -- (laughter) – and asking for your advice, your counsel and giving you reports about how we're implementing effectively.

All right. Thank you very much. Thank you, Mr. Chairman.

Appreciate you. Thank you.

ADJOURNMENT

The meeting of the President's Economic Recovery Advisory Board adjourned at 2:40 P.M. EDT

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Paul A Volcker 5/5/10

Paul Volcker, Chairman, President's Economic Recovery Advisory Board

Emanuel Pleitez, Designated Federal Officer