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COMPETITIVENESS AT A CROSSROADS

Findings of Harvard Business School's 2012 Survey on U.S. Competitiveness

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EXECUTIVE SUMMARY

In recent months, many business and policy leaders have been preoccupied by the dramatic budget negotiations in Washington. Yet the federal government's fiscal situation is one symptom of a far more serious problem: long-term structural challenges to U.S. competitiveness are sapping America's growth and driving a wedge between the nation's aspirations and its means.

Nearly two years ago, Harvard Business School launched a major project to help U.S. leaders understand, assess, and improve U.S. competitiveness. The School's first survey on the topic, unveiled in January 2012, provided sobering evidence of a deepening U.S. competitiveness problem. Business leaders reported that the U.S. fared poorly when competing to attract business activities, and they pointed to important weaknesses in America's business environment.

This year's survey provides an updated view of the U.S. business environment. But it also examines *specific actions* that policymakers and business leaders can take to improve U.S. competitiveness. The survey findings reflect the perspectives of nearly 7,000 HBS alumni from all 50 U.S. states and 115 other countries as well as the views of more than 1,000 members of the U.S. general public.

In this year's survey, business leaders continued to be pessimistic about the future of U.S. competitiveness. Those foreseeing a decline in competitiveness outnumbered those predicting an improvement by more than two to one, a lower ratio than in the previous survey but still a wide margin. Members of the general public were more optimistic than business leaders about future competitiveness, but they saw eye-to-eye with business when identifying the greatest weaknesses in the U.S. business environment: America's tax code, political system, K–12 education system, macroeconomic policies, legal framework, and regulations.

America's competitiveness problem requires concerted action by policymakers and business leaders. On policy, the survey revealed a general consensus about what Washington must do. Across the political spectrum, business leaders and the general public strongly called on the President and Congress to:

- put the federal budget on a sustainable path by increasing revenue and controlling spending;
- reform the corporate tax code, reducing statutory rates and eliminating loopholes;
- enact a multiyear program to improve America's infrastructure;
- address distortions of the international trading system that disadvantage the U.S.; and
- craft a responsible framework for developing newly accessible gas and oil reserves.

Both liberal and conservative business leaders strongly supported moves by Washington to:

- streamline regulations; and
- ease immigration for high-skill workers.

Streamlined regulations won majority support among the general public but not across the political spectrum. High-skill immigration won a majority among liberal members of the general public but not among all members.

The survey also assessed what business itself is doing, and is willing to do, to improve U.S. competitiveness. Many respondents reported that their firms are already acting to build a skilled workforce, upgrade U.S. supply networks, foster innovation and entrepreneurship, and bolster regional and cluster strength. Firms varied widely in how deeply they were engaged, from Competitiveness Leaders, that are taking many steps to make their communities more competitive, to Bystanders, that do almost nothing. Manufacturers were the most likely to act to improve competitiveness, followed by organizations in education and healthcare. Firms in financial services were the least active in taking steps that enhance U.S. competitiveness. On average, respondents thought their employers would consider many of the competitiveness-enhancing actions they were not already adopting.

The competitiveness of the United States is indeed at a crossroads. We know many of the steps that government and business must take to allow firms in the U.S. to win in the global marketplace while lifting the living standards of the average American. The question is, can we muster the will, the foresight, and the unity to take those steps? If U.S. competitiveness continues to wane, we will have only ourselves to blame.

THE MOMENT

In early 2013, the American economy stands at the intersection of hope and doubt.

Reasons for hope are numerous. A divisive election is behind us. The United States continues to grow, albeit slowly, even as Europe struggles to stave off a new recession and growth in many emerging markets is slowing. New technologies for tapping shale gas and oil may give firms in the U.S. an energy-cost advantage for decades. America's system for entrepreneurship continues to produce and commercialize world-leading innovations at a rapid clip.

Yet doubts persist about the U.S. economy. For many observers, these doubts center on the theatrics that surround Washington's budget challenges: Congress's last-minute retreat from the edge of the "fiscal cliff," the deep spending cuts associated with the postponed but still-looming sequestration, and the potential battle over raising the government's debt ceiling. It is surely essential that the President and Congress navigate these issues carefully. But the federal government's fiscal situation is, in many ways, a symptom of a far more serious problem: the U.S. faces a long-term, structural challenge to its competitiveness that is undermining economic growth and average incomes. Unless we address this fundamental problem, Americans will confront budget problems again and again as inadequate growth causes our means to diverge from our aspirations and commitments.

To grasp the challenge facing America's competitiveness, one must first understand what the term "competitiveness" really means. The United States is a competitive location to the extent that firms in the U.S. can succeed in the global marketplace while raising the living standards of the average American. The living standards part of that definition often gets short shrift. We frequently hear, "The U.S. would be a more competitive country if wages in America were lower." But to the contrary, the inability to support good wages is actually a sign that the U.S. *lacks* competitiveness.

Competitive locations allow firms both to win in global markets *and* to support high and rising wages. Competitive economies do so by being highly productive locations for creating innovative, high-quality products and producing them efficiently. High productivity allows firms to compete successfully with rivals while paying employees well.

Assessing the trajectory of U.S. competitiveness has been a key task of Harvard Business School's project on U.S. competitiveness, a multi-faculty effort formally launched in March 2011. One of the early steps was to conduct a first-ever survey, in October 2011, of nearly 10,000 HBS alumni. The respondents were clear: the United States faced a deepening competitiveness problem. A full 71% predicted that, in three years, firms operating in the U.S. would be less able to compete in global markets, less able to pay their employees high wages and benefits, or both. Indeed, 38% of respondents foresaw a decline on both dimensions.

The Roots

What are the roots of America's competitiveness challenge? The basic narrative begins in the late 1970s and the 1980s, when changes in geopolitics and technology dramatically broadened the geographic scope of competition. It became possible and attractive to do business in, to, and from far more countries. At the same time, changes in corporate governance and compensation caused U.S. managers to focus more attention on stock price and short-term performance.

The ensuing wave of globalization by U.S. firms brought great benefits to American consumers, managers, and shareholders. Costs fell, and firms achieved faster growth in newly opening emerging markets. But globalization also weakened the historically strong connections between companies and their U.S. communities. Increasingly, international firms became less invested in what our colleagues Gary Pisano and Willy Shih term "the commons"—shared resources such as pools of skilled labor, supplier networks, an educated populace, and the physical and technical infrastructure on which U.S. productivity and competitiveness depend.[1] Corporate mobility made possible an outcome that would have been hard to imagine a generation earlier: U.S.-based companies could thrive in global competition even as the United States as a location became less competitive.

Globalization also put intense pressure on America's middle class, which suddenly found itself in fierce competition with hundreds of millions of skilled, ambitious workers in other countries with lower wages. Job growth largely ceased in sectors exposed to international competition. Household incomes stagnated in the lower and middle echelons, and U.S. wage growth stopped tracking domestic productivity growth. Meanwhile, individuals with unique skills that could be marketed globally experienced growing opportunities and income. Inequality in America soared, with the divergence in income especially high at the very top. The share of income accruing to the top half of 1% of the population rose from around 7% in 1980 to about 16% in 2010. Gains were so concentrated at the very top that even people widely considered wealthy saw only modest gains: the incomes of the rest of the top 5% improved, but far more slowly. Their share increased from 16% to 20%.

How did America respond to pressure on its middle class? Unfortunately, our society did not mobilize to invest so that the middle class could compete in the global marketplace. Instead, America and Americans maintained an illusion of growing prosperity. Abetted by lenders and government institutions, consumers with stagnant incomes borrowed more to buy houses and fund consumption. Government itself made unsustainable promises to the middle class, pledging to cover more healthcare expenses of future retirees, to employ more individuals in government jobs, and to pay generous pensions to many in the public sector, while reducing effective tax rates across the board between 1980 and 2010.

WITH INCREASED MOBILITY, U.S.-BASED COMPANIES COULD SUCCEED IN GLOBAL COMPETITION EVEN AS THE UNITED STATES AS A LOCATION BECAME LESS COMPETITIVE.

These promises, coupled with a deep recession and two wars, have left government finances in a fragile state. As debts and unfunded liabilities have risen, federal, state, and local government expenditures that support long-run growth in productivity and competitiveness—on items such as infrastructure, training, education, and basic research—have stagnated or fallen as a portion of GDP. Moreover, a resulting need to make tough, unpalatable choices has contributed to paralysis in our political process.

In sum, firms are globally mobile and government is hobbled, with neither making the long-term investments required to secure U.S. competitiveness. Mistrust has emerged in business-government relations: government often sees business as abandoning America, pursuing special interests, and avoiding taxes, while business often views government as layering on unnecessary regulatory, tax, and legal burdens while other countries are aggressively reducing their costs of doing business.

[1]Gary P. Pisano and Willy C. Shih "Restoring America's Competitiveness," *Harvard Business Review*, July 2009. Also, Gary P. Pisano and Willy C. Shih "Does America Really Need Manufacturing," *Harvard Business Review*, March 2012.

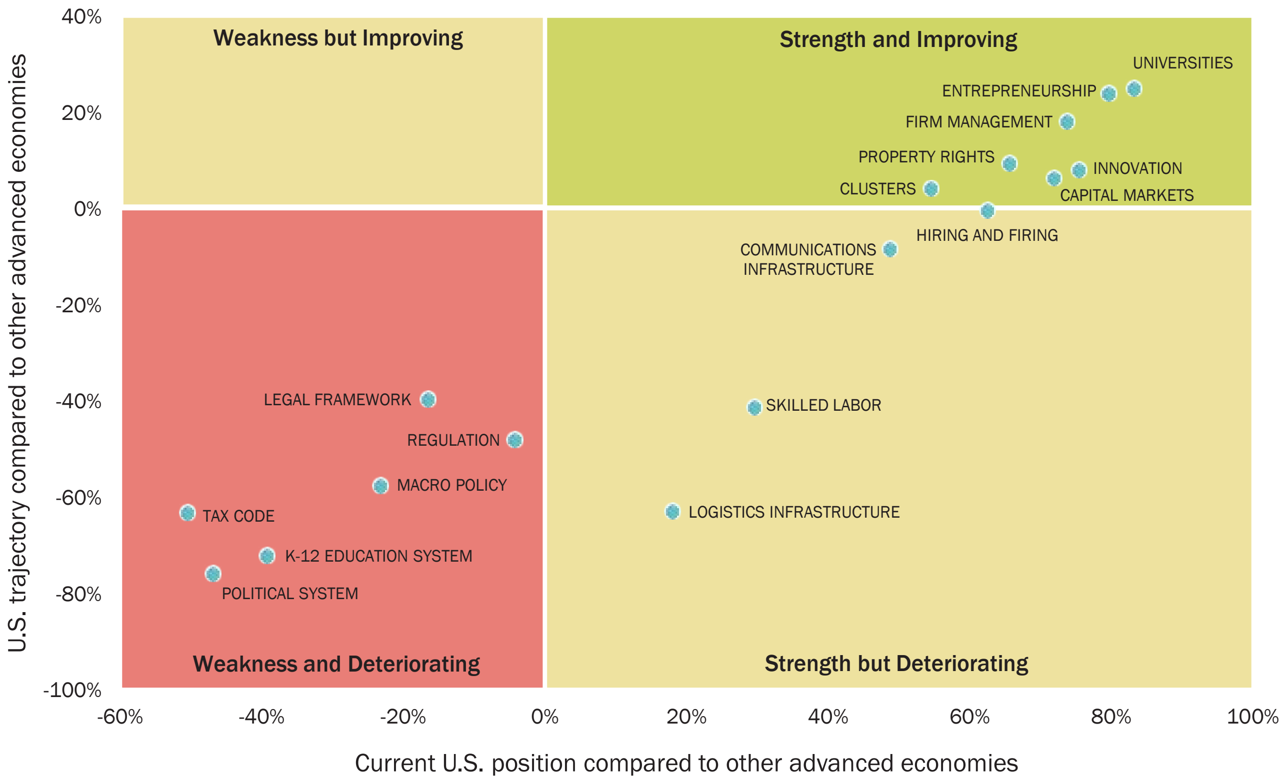
America's Competitive Position

Figure 1, from the 2011 HBS survey, summarizes the resulting competitive position of the U.S. economy, showing respondents' assessments of 17 essential elements of the U.S. business environment that prior research has shown to be drivers of competitiveness. The horizontal axis captures the current state: it records the portion of respondents assessing each element in the U.S. to be better today than in other advanced economies, minus the portion assessing each to be worse. The vertical axis summarizes trajectory, showing the portion feeling that the U.S. is pulling ahead of other advanced economies on each element, minus the portion feeling that the U.S. is falling behind. The sidebar on page 5 explains each element.

The good news in Figure 1 is that the U.S. retains great strengths—for instance, strong entrepreneurship and innovation, world-class research universities, high-quality management, and vibrant capital markets. Other historical strengths, however, are in decline, including our infrastructure and stock of skilled labor. And America's strengths are weighed down by worsening, self-inflicted weaknesses: a paralyzed political system, a convoluted tax code and regulatory framework, a costly legal system, weak K–12 education, and poor fiscal policy.

These underlying challenges to U.S. competitiveness, not the federal budget alone, are what America's leaders in policy and business must face up to as 2013 opens. If we are to overcome doubt and re-create a sense of hope in America, the time to confront the roots of America's competitiveness problem is now.

FIGURE 1: **POSITION AND TRAJECTORY OF ELEMENTS OF THE U.S. BUSINESS ENVIRONMENT, ALL BUSINESS LEADERS IN 2011**



ELEMENTS OF THE NATIONAL BUSINESS ENVIRONMENT

MACRO ELEMENTS

Macroeconomic policy: soundness of government budgetary, interest rate, and monetary policies

Effectiveness of the political system: ability of the government to pass effective laws

Protection of physical and intellectual property rights and lack of corruption

Efficiency of legal framework: modest legal costs; swift adjudication

Complexity of the national tax code

Education system through high school: universal access to high-quality education; curricula that prepare students for productive work

MICRO ELEMENTS

Logistics infrastructure: high-quality highways, railroads, ports, and air transport

Communications infrastructure: high-quality and widely available telephony, Internet, and data access

High-quality universities with strong linkages to the private sector

Context for entrepreneurship: availability of capital for high-quality ideas; ease of setting up new businesses; lack of stigma for failure

Availability of skilled labor

Flexibility in hiring and firing of workers

Innovation infrastructure: high-quality scientific research institutions; availability of scientists and engineers

Regulation: effective and predictable regulations without unnecessary burden on firms

Strength of clusters: geographic concentrations of related firms, suppliers, service providers, and supporting institutions with effective collaboration

Quality of capital markets: ease of firm access to appropriate capital; capital allocated to most profitable investments

Sophistication of firm management and operations: use of sophisticated strategies, operating practices, management structures, and analytical techniques

THE 2012 SURVEY

To identify steps that America's policymakers and business leaders should take to enhance U.S. competitiveness, the 2012 survey added four new elements.

First, the 2012 survey included a set of questions to gauge support for, or opposition to, a range of federal policies that could affect U.S. competitiveness.

Second, we asked working HBS alumni about steps that businesses might take to improve U.S. competitiveness, including actions such as establishing apprenticeship programs, mentoring local suppliers, bringing offshored activities back to the U.S., and so on. We asked whether respondents' firms were already taking these steps today and, if not, whether they were interested in such actions in the future.

Third, we extended our sample from HBS alumni alone to include 1,025 members of the general public, and we asked them the same questions about the U.S. business environment and federal policy as we asked HBS alumni. This gives us a unique opportunity to compare the views of business leaders and the general public, which is useful for several reasons. When the two agree, it is easier to enact changes. Differences point to political challenges and areas where business may support steps of which the public disapproves.

Finally, the survey replicated the initial battery of questions about the U.S. business environment that we posed to respondents in 2011, enabling us to track how HBS alumni impressions of U.S. competitiveness have changed during the intervening year.

The timing and external context of the 2011 and 2012 surveys are worth bearing in mind. The 2011 survey was administered in October 2011, soon after the July-August congressional standoff over the federal debt ceiling and Standard & Poor's downgrading of the federal government's credit rating. The 2012 survey was administered in September 2012, as the U.S. presidential election campaign approached its climax and after a year of anxiety about the potential breakup of the eurozone.

An appendix describes the survey, our methodology, and the respondents in greater depth. The rest of this report presents our findings on three topics: the U.S. business environment, federal policy priorities, and business actions to enhance U.S. competitiveness.

Alumni respondents were solicited with the help of Abt SRBI, a leading survey research firm, via a message to all 57,913 alumni of Harvard Business School's MBA, doctoral, and longer executive education programs for whom the School has email addresses. Of these, 6,836 (12%) completed the survey. Respondents weighed in from all 50 U.S. states (67% of respondents with known locations) and 115 other countries (33%). They ranged in age from 25 to 98, and the 78% who currently work came from every sector of the economy, with heavy representation in finance and insurance, manufacturing, and professional, scientific, and technical services. Nearly a third of the 2012 respondents reported a title of chief executive, chair, president, founder, owner, managing director, managing partner, or a similar title at the very top of an organization. Accordingly, below, we use the shorthand "business leaders" to refer to all of the alumni respondents.

The general public survey was conducted by GfK, a survey firm that maintains an online representative panel of survey respondents. Many online surveys of the general public recruit their respondents through banner ads or targeted emails. Their findings can be biased because individuals who respond to such recruiting techniques are not representative of the general public. In contrast, GfK maintains a probability-based online panel, recruiting respondents from the population with random sampling techniques and providing a computer and connectivity to those without Internet access so that they can complete surveys.

THE U.S. BUSINESS ENVIRONMENT IN 2012

Declining Pessimism, but Not Optimism, about America's Trajectory

Most business leaders continued to expect U.S. competitiveness to decline in the coming years. Though pessimistic about America's prospects, business leaders were somewhat less pessimistic in 2012 than they were a year ago. This was particularly true among leaders based outside the United States, those working in manufacturing, those in fields insulated from international competition and especially those on the liberal end of the political spectrum.

To gauge the trajectory of U.S. competitiveness in 2012, we asked business leader respondents two questions that make up the definition of competitiveness. In three years, will firms in the U.S. be more or less able to compete in the global economy? And in three years, will firms be more or less able to pay high wages and benefits? As Figure 2 reports, the majority of business leaders, 58%, expected U.S. competitiveness to deteriorate, with firms less able to compete, less able to pay well, or both (red boxes). Another 17% were neutral, anticipating no change on either dimension (yellow box). Only 25% were optimistic, expecting one or both dimensions of U.S. competitiveness to improve and neither to decline (green boxes). (The numbers in green boxes do not total to precisely 25% because of rounding.) Respondents are more doubtful about the future of worker pay than about the future of firms' marketplace success.

Though most see U.S. competitiveness as waning, business leaders are less pessimistic in 2012 than they were a year ago. In 2012, pessimists about the future of U.S. competitiveness (58%) outnumber optimists (25%) among business leaders. But in the 2011 survey, pessimists were even more prevalent: 71% versus 16%.

FIGURE 2: **U.S. COMPETITIVENESS IN THREE YEARS, ALL BUSINESS LEADERS IN 2012**

Will firms in the U.S. be more or less able to compete in the global economy?

Will firms in the U.S. be more or less able to pay high wages and benefits?

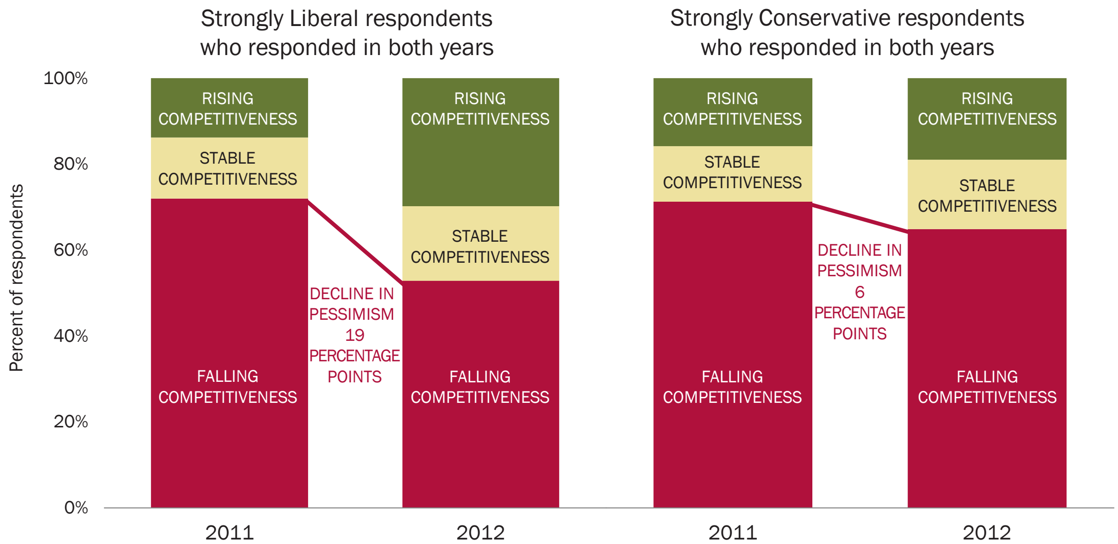
	LESS	NEITHER LESS NOR MORE	MORE
LESS	28%	17%	7%
NEITHER LESS NOR MORE	5%	17%	7%
MORE	1%	5%	14%

Red, or falling competitiveness: 58% in total

Green, or rising competitiveness: 25% in total

Percentages in boxes may not sum to total because of rounding.

FIGURE 3: **U.S. COMPETITIVENESS IN THREE YEARS, 2011 VERSUS 2012, AMONG STRONGLY LIBERAL AND CONSERVATIVE RESPONDENTS**



Pessimism diminished among four subgroups of the surveyed population:

Respondents outside the U.S. The decline in pessimism about the U.S. might reflect not an improvement in America's condition but a worsening of conditions elsewhere – for instance, the euro crisis in Europe or Japan's ongoing stagnation.

Respondents in manufacturing firms. U.S. manufacturing has enjoyed a degree of resurgence in recent years. Moreover, manufacturers were among the most pessimistic respondents to the 2011 survey, leaving them plenty of room to become less negative about America's prospects.

Respondents in firms not exposed to international competition. Firms not facing international competition may have more reason to perceive improvement.

Respondents on the liberal end of the political spectrum. The most striking differences appeared when we coupled responses to competitiveness questions with respondents' policy preferences. The policy portion of the survey, described at length below, included questions about the Buffett rule and the Ryan tax plan and budget proposal. Roughly a quarter of alumni respondents strongly or somewhat agreed with the Buffett rule and strongly or somewhat disagreed with the Ryan tax plan and budget proposal. We label these respondents "strongly liberal." Another quarter of respondents had the opposite stances. We consider them "strongly conservative."

The decline in pessimism was concentrated at the liberal end of the political spectrum (Figure 3). Among the strongly liberal business leaders who responded in both years, pessimism about the trajectory of U.S. competitiveness declined markedly, from 72% in 2011 to 53% in 2012. Among the strongly conservative business leaders, pessimism was more entrenched, falling only slightly – from 71% in 2011 to 65% in 2012.

We offer a couple interpretations. The 2012 survey was completed just before the fall election. It is possible that liberal respondents were drawn to be more hopeful about America's trajectory in order to justify support for President Obama, and vice versa for conservatives supporting Governor Romney. Liberal respondents also may have grown more confident that the President would be reelected and that subsequent economic policies would follow their preferred direction, making them less pessimistic.

We should emphasize that there was a moderation in pessimism between 2011 and 2012, not optimism in 2012. Even among the strongly liberal respondents in 2012, the majority (53%) expected U.S. competitiveness to be worse in three years. Only 30% foresaw rising competitiveness. One way to interpret the data is to say that the typical respondent saw U.S. competitiveness as declining at a slower pace than it had been in the past, but still saw it as declining.

A Modestly Improved Business Environment, but with Important Exceptions

Business leaders perceived modest improvement in most elements of the U.S. business environment between 2011 and 2012. However, the tax code, the K–12 education system, regulation, and the availability of skilled labor remained stubbornly weak.

In 2012, we asked alumni respondents to assess the state and trajectory of the same 17 elements of the U.S. business environment that were examined in 2011 and reported in Figure 1. Figure 4 shows the shift in each element between 2011 and 2012. Consistent with the moderation in overall pessimism, most elements moved up and to the right. The typical improvement was modest, with no element moving into a more favorable quadrant and few elements shifting sharply relative to one another.

The assessment of U.S. macroeconomic policy and the legal framework moved the most, though there was little tangible evidence of policy progress. The shift in the macroeconomic assessment may reflect the fact that we conducted the 2011 survey at a low point, soon after the debt-ceiling debacle of July and August 2011.

It is striking that the complexity of the national tax code was seen as weaker and in worse decline in 2012 than in 2011 despite the general overall improvement. The K–12 education system, the regulatory environment, and the availability of skilled labor also defied the trend of improvement. These findings point to some of the country's most challenging current and emerging weaknesses.[2]

[2]Strongly liberal and conservative business leaders tended to have similar views of the nation's strengths and weaknesses. There were, however, a few exceptions. Compared to strongly conservative respondents, strongly liberal respondents were less critical of the regulatory system, macroeconomic policy, and the complexity of the tax code, and they were more critical of America's logistical infrastructure.

FIGURE 4: **POSITION AND TRAJECTORY OF ELEMENTS OF THE U.S. BUSINESS ENVIRONMENT, ALL BUSINESS LEADERS, 2011-12 MOVEMENT**

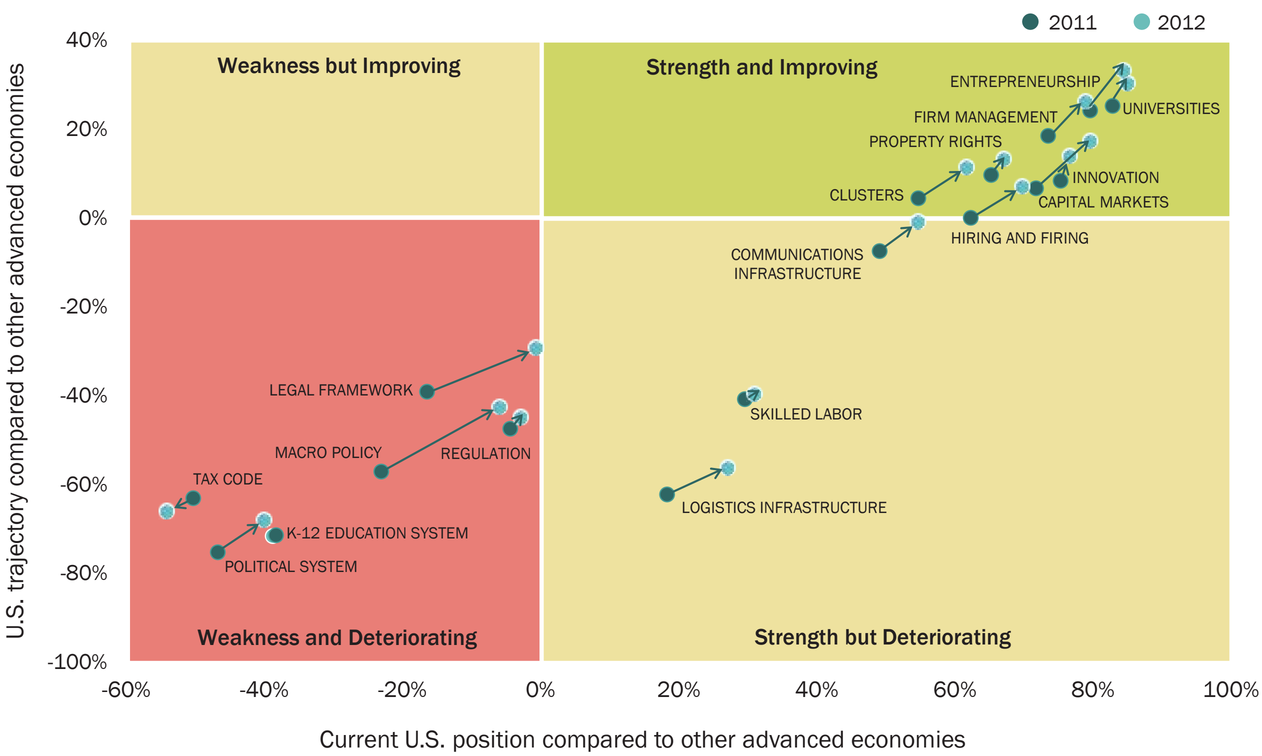
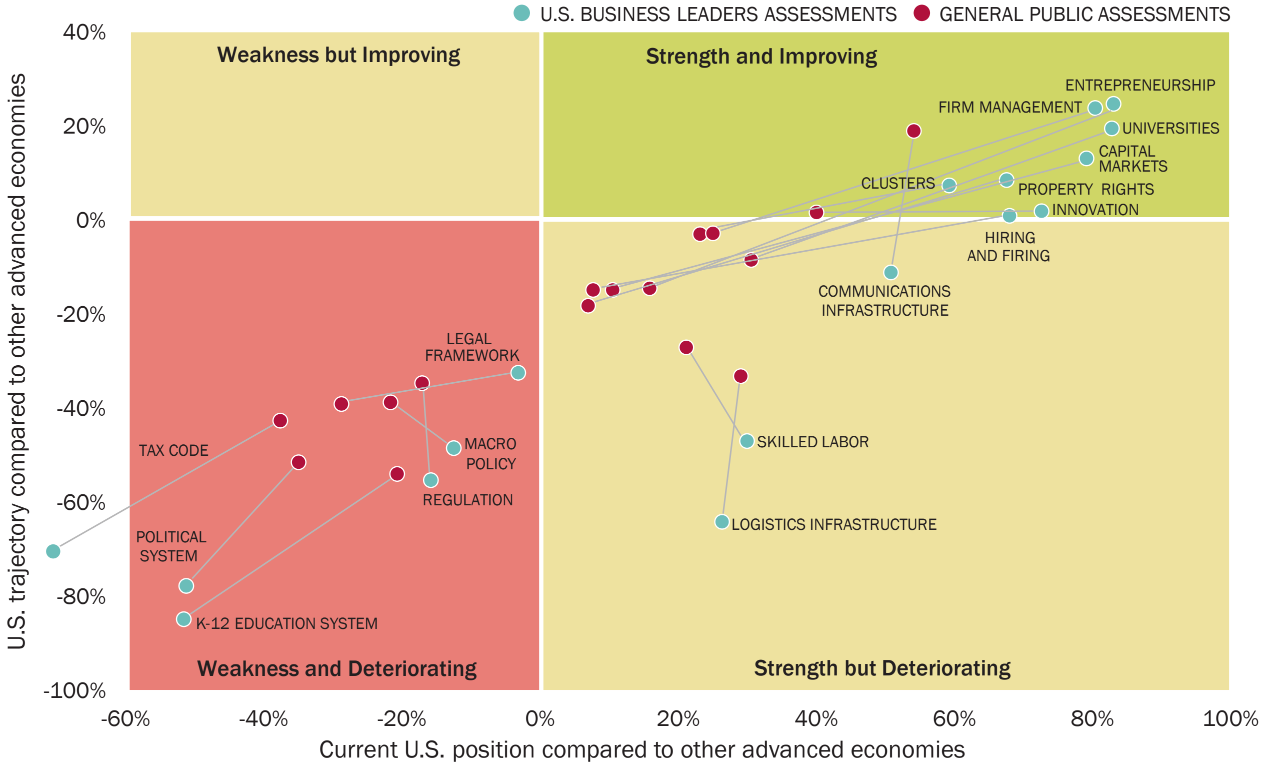


FIGURE 5: **POSITION AND TRAJECTORY OF ELEMENTS OF THE U.S. BUSINESS ENVIRONMENT, U.S. BUSINESS LEADERS VERSUS GENERAL PUBLIC**



Business leader assessments shown here differ from those in Figure 4 because assessments in Figure 4 include non-U.S. respondents

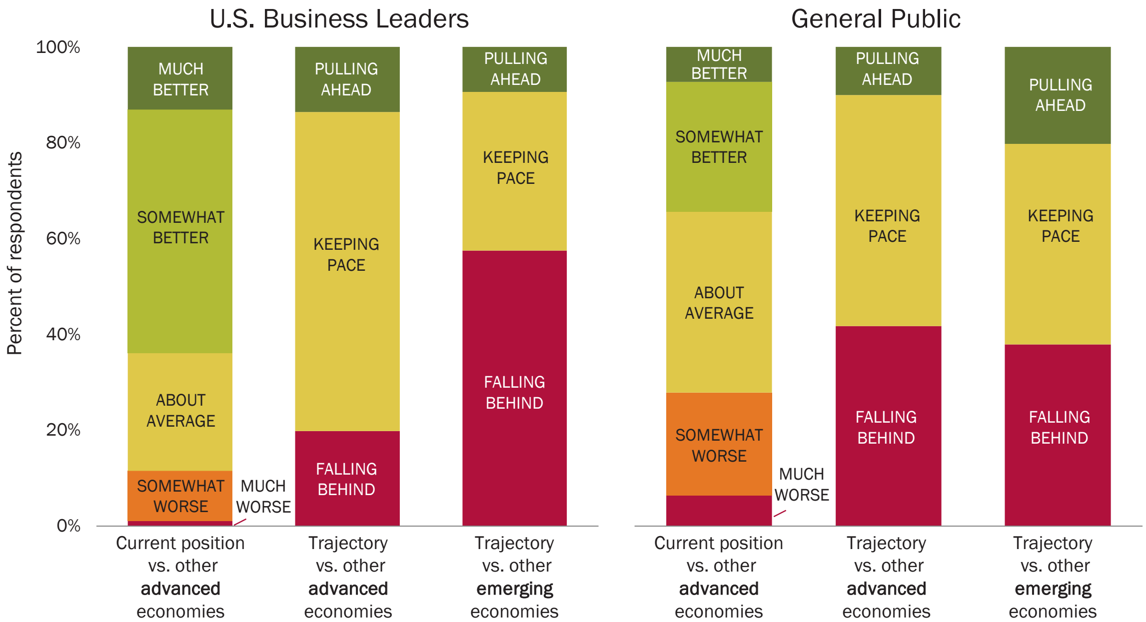
Views of Competitiveness Among the General Public

Members of the general public and business leaders agreed on many of America's greatest weaknesses. But the public saw America's competitiveness somewhat differently than did business leaders: they were more worried about other advanced economies, less sanguine about America's strengths, but more hopeful about the overall trajectory of U.S. competitiveness.

The 2012 survey highlights some key areas of agreement between the general public's perspective on U.S. competitiveness and the view of business leaders but also reveals important differences. (The members of the general public whom we surveyed were all based in the United States. Therefore, our comparisons in this section are to responses by *U.S.* business leaders only.)

Figure 5 compares how business leaders and members of the public assess elements of the U.S. business environment. Blue dots denote assessments by U.S. business leaders, while red dots show assessments by the general public. Importantly, the public and business leaders were in agreement about weaknesses that are deteriorating: the tax code, the political system, the legal framework, the regulatory context, macroeconomic policy, and the K–12 education system. However, in assessing the business environment, it is striking that the general public viewed America's core strengths as not improving. Instead, many of these—including the quality of firm management, the context for entrepreneurship, and the vibrancy of capital markets—were seen as weaker and declining among the public than among business leaders. Either the general public underestimates the strengths of America's economic micro-foundations, or business leaders, who are responsible for many of those foundations, exaggerate the strengths.

FIGURE 6: **ASSESSMENT OF THE OVERALL BUSINESS ENVIRONMENT, U.S. BUSINESS LEADERS VERSUS GENERAL PUBLIC**



In assessing where the U.S. business environment stands overall (Figure 6), business leaders were far more likely to see the U.S. as failing to keep pace with emerging economies like China and India than failing to keep pace with advanced economies such as Western Europe and Japan. In contrast, members of the general public were as likely to believe that the U.S. business environment is falling behind other advanced economies as to feel that it is falling behind emerging economies. Either business leaders overestimate the threat posed by emerging economies, or members of the general public fail to grasp the rapid improvements occurring in these countries.

FIGURE 7: **U.S. COMPETITIVENESS IN THREE YEARS, U.S. BUSINESS LEADERS VERSUS GENERAL PUBLIC**

Will firms in the U.S. be more or less able to compete in the global economy? (columns)

Will firms in the U.S. be more or less able to pay high wages and benefits? (rows)

U.S. Business Leaders, 2012

	LESS	NEITHER LESS NOR MORE	MORE
LESS	30%	18%	7%
NEITHER LESS NOR MORE	5%	16%	6%
MORE	1%	4%	12%

Red = 61% Green = 23%

General Public, 2012

	LESS	NEITHER LESS NOR MORE	MORE
LESS	21%	13%	4%
NEITHER LESS NOR MORE	3%	17%	5%
MORE	1%	8%	28%

Red = 43% Green = 40%

Percentages in boxes may not sum to total because of rounding.

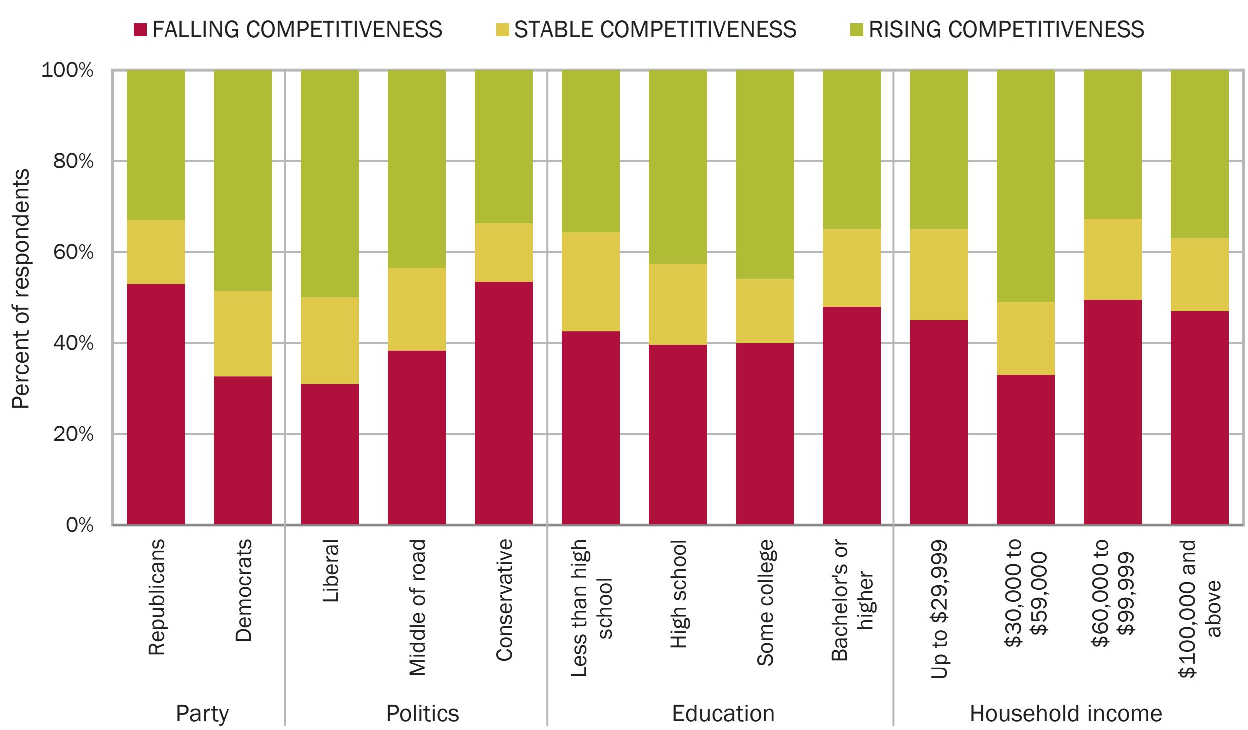
Despite worries about advanced economies and about U.S. core strengths, the general public was much less pessimistic about the future of U.S. competitiveness than were business leaders (Figure 7 on page 11). Compared to the 61% of U.S. business leaders who expected a decline in U.S. competitiveness during the next three years, only 43% of the general public foresaw a decline. And compared to the 23% of U.S. business leaders who anticipated an improvement, 40% of the general public forecast an improvement.

We examined assessments among the general public sample along demographic dimensions (Figure 8) and found the most pessimism about the trajectory of U.S. competitiveness among Republicans, conservatives, and those with high incomes. Education level did not have a simple relationship with pessimism.

The greater hopefulness of the general public, despite their comparatively poor assessment of the U.S. business environment, lends itself to a couple of interpretations. One possibility is that the general public views recent economic problems as largely cyclical and believes that the country is now on the path to recovery, while business leaders see structural problems in our economy that will not abate rapidly. Another possibility is that business leaders see tighter causal connections between the weaknesses of elements of the business environment and overall economic prospects than do members of the general public. There is some support for this interpretation in the survey results: the statistical relationships between respondents' assessments of individual elements of the business environment and their overall assessments are much stronger among business leaders than in the general public.

Finally, we note that members of the general public were far more likely than business leaders to register a "don't know" response to a survey question. Among business leaders, "don't know" typically constituted 4% of replies. Among members of the public, "don't know" averaged 18%. We exclude "don't know" replies from all of our calculations. For instance, when we say that 20% of the general public supports a policy, we mean 20% among those who expressed an opinion.

FIGURE 8: **U.S. COMPETITIVENESS IN THREE YEARS, SUBSETS OF THE GENERAL PUBLIC**



FEDERAL POLICY PRIORITIES

In general, there was consensus on what needs to be done in Washington. Among business leaders, there was strong support across the political spectrum for a set of policies that would improve U.S. competitiveness. Almost all of the policies that business leaders advocated also won majority support from the general public.

The survey asked business leaders and the general public whether they agreed or disagreed with a dozen federal policy proposals that might affect U.S. competitiveness. The sidebar below shows how the proposals were worded. The online survey engine presented the 12 proposals to each respondent in a random order so as to remove any bias that might arise from the sequencing of proposals. During the development of the survey instrument, survey designers sought neutral ways to phrase each proposal and used cognitive testing to make sure that respondents interpreted the proposals as intended. Still, it is difficult to present complicated proposals succinctly without introducing some bias via the choice of words. Thus readers should interpret the findings in light of the wording shown in the sidebar.

FEDERAL POLICY PROPOSALS

WORDING OF PROPOSAL IN THE SURVEY INSTRUMENT	SHORTHAND LABEL USED IN THIS REPORT
1. Ease the **immigration of highly skilled individuals**, starting with—but not restricted to—international graduates of U.S. universities.	**High-skill immigration**
2. Rewrite the **corporate tax code** to eliminate loopholes and lower statutory rates.	**Corporate tax reform**
3. Reform the **tax code for U.S. firms with international operations** so that profits they earn abroad are not taxed by the U.S., even when brought back to the U.S.	**Territorial tax code**
4. Aggressively use established international institutions to address distortions of the **international trading system** that disadvantage the United States, such as trade barriers, subsidies, and lack of intellectual property protection.	**International trading system**
5. Streamline **regulations affecting business** by focusing on outcomes rather than reporting and compliance, shortening delays, and reducing business-government litigation.	**Streamlined regulations**
6. Enact a multiyear program to improve **logistics and communications infrastructure**, prioritizing projects that most increase U.S. efficiency and technological progress.	**Infrastructure investment**
7. Create a sustainable **federal budget** through a combination of greater revenue (including reducing deductions) and less spending (through efficiencies in entitlement programs and revised priorities), embodying a compromise such as Simpson-Bowles or Rivlin-Domenici.	**Sustainable federal budget**
8. Agree on a federal regulatory and reporting framework to guide the **development of newly accessible American gas and oil reserves** that balances economic and environmental considerations.	**Responsible energy extraction**
9. Change the **federal personal income tax code** so that no household making more than $1 million each year pays less than 30% in taxes.	**Buffett rule**
10. Create tax incentives and subsidies for **clean energy manufacturers** in the U.S. to invest and develop new technologies.	**Clean-energy incentives**
11. Enact national legislation so that **no one is required to join or pay a union** as a condition of employment.	**Right to work**
12. Lower the marginal **personal income tax rates** at all income levels, offset by reductions in government spending	**Ryan tax plan / budget**

The first eight proposals emerged from our research as well as our private discussions with leaders in policy, business, labor, and academia and within our team. Each of these eight proposals has two characteristics. First, each addresses an important weakness identified in our research and therefore should have a significant positive impact on U.S. competitiveness; it would "move the needle." Second, each received support behind closed doors from individuals across the political spectrum.

We also included two policy proposals that were distinctively liberal, the Buffett rule and clean-energy incentives, and two that were distinctively conservative, the Ryan tax plan and budget and right-to-work legislation. These proposals were included so that the survey would encompass a broad range of proposals, but they also allowed us to discern the likely political leanings of each respondent.

Policy Priorities Among Business Leaders

Figure 9 shows the breakdown of agreement and disagreement for each policy proposal among business leaders. The alumni business leaders exhibited the strongest support for corporate tax reform, a sustainable federal budget, eased immigration for high-skill individuals, infrastructure investments, and streamlined regulations. The eight consensus proposals received majority support from business leaders, with a territorial tax system garnering the smallest majority. Right-to-work legislation, clean-energy incentives, and the Ryan tax plan and budget also received majority support.

To gauge whether proposals had support across the political spectrum, we examined agreement with each proposal among strongly liberal and strongly conservative business leaders. Recall that strongly liberal respondents support the Buffett rule and oppose the Ryan tax plan and budget, while the opposite is true of strongly conservative respondents.

Figure 10 shows the portion of strongly liberal respondents who strongly or somewhat agreed with each of the eight proposals (the horizontal axis) and the portion of strongly conservative respondents who did the same (the vertical axis). We find that:

- Corporate tax reform, high-skill immigration, and a sustainable federal budget garnered the highest support from both groups. Approval percentages were in the high 80s or low 90s.
- Responsible extraction of newly accessible energy supplies and more aggressive pursuit of a level playing field in the international trading system received equal and strong support from both ends of the political spectrum. Approval percentages were in the high 70s.

FIGURE 9: **ASSESSMENT OF POLICY PROPOSALS, ALL BUSINESS LEADERS**

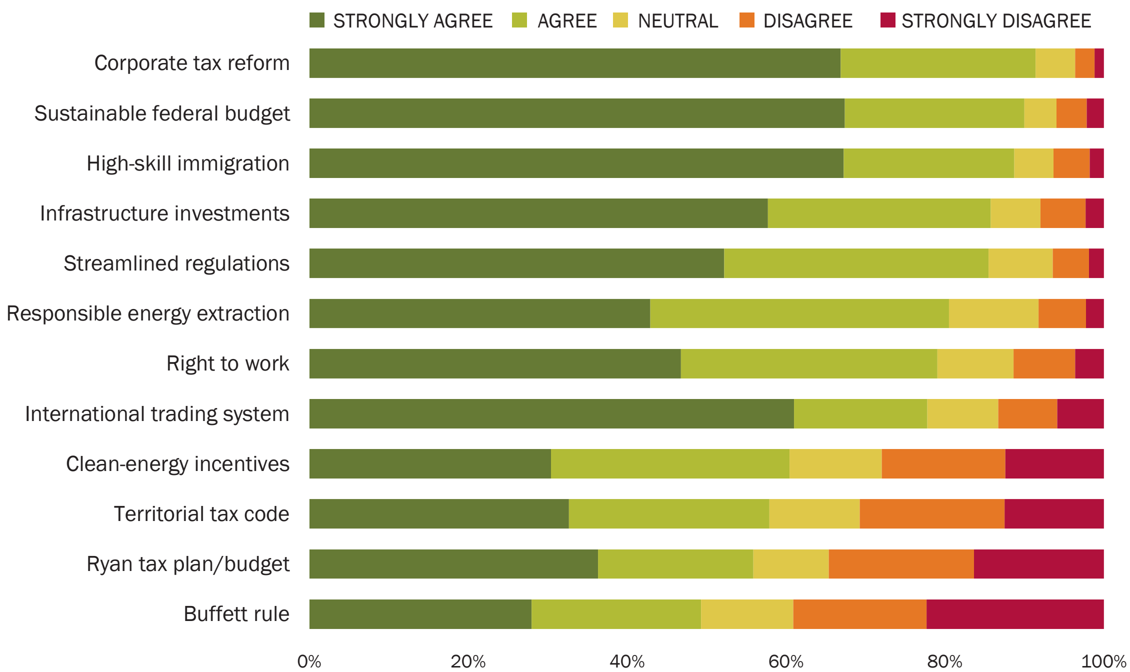
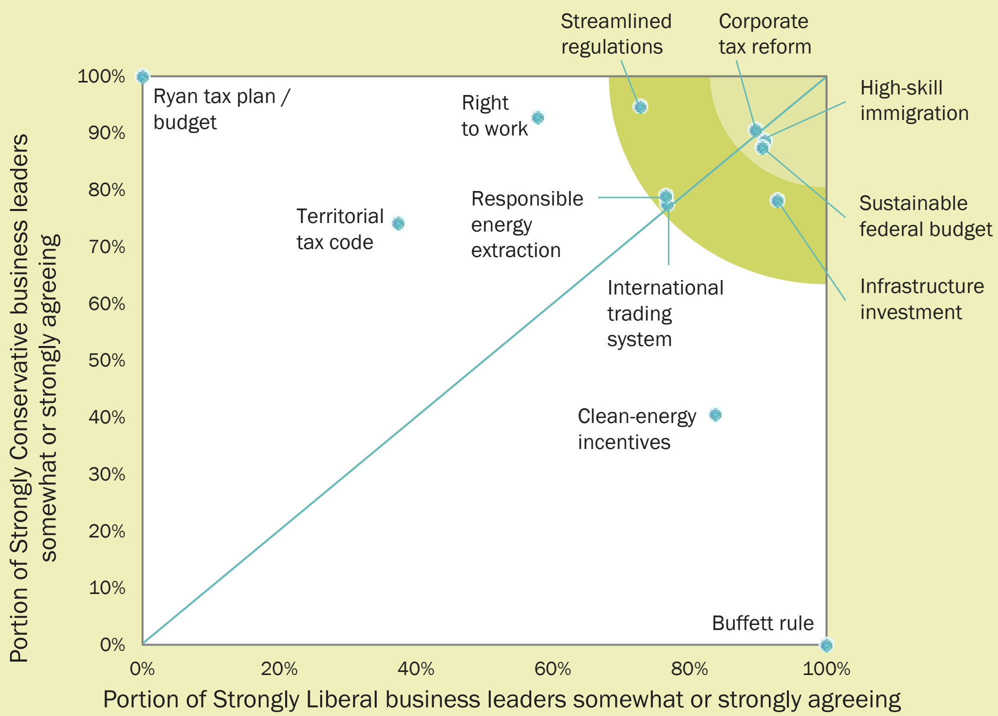


FIGURE 10: **ASSESSMENT OF POLICY PROPOSALS, STRONGLY LIBERAL AND STRONGLY CONSERVATIVE BUSINESS LEADERS**



- Streamlined regulations and greater investment in infrastructure got strong support, but with some differences depending on political leanings. Streamlined regulations received very strong support from conservatives and strong but lower support from liberals. Greater investment in infrastructure had very strong support from liberals and strong but lower support from conservatives.

These seven policies all enjoyed robust support even though, as noted above, liberals and conservatives displayed different degrees of concern about the overall trajectory of U.S. competitiveness.

Movement toward a territorial tax code received narrower support than we anticipated. Among business leaders overall, supporters of the shift outnumbered opponents two to one. But support did not span the political spectrum. While 74% of strongly conservative business leaders agreed with the proposal, only 37% of strongly liberal business leaders did so.

Policy Priorities of the General Public

Figure 11 (page 16) shows the degree of support for each policy proposal among members of the general public (vertical axis) and business leaders (horizontal axis). Since the members of the general public were all based in the United States, the comparison here is to U.S. business leaders only.[3]

Of the seven policy proposals with across-the-spectrum support from business leaders, all but high-skill immigration were supported by most of the general public.

- Corporate tax reform and infrastructure investments received especially strong approval from the general public. This support spanned the political spectrum.[4]

- There was majority support among the general public for responsible new-energy extraction, a sustainable federal budget, more assertive action in the international trading system, and streamlined regulation. Of these four, the first two had balanced support across the political spectrum. More assertive action in the international trading system enjoyed majority support on both the left and the right of the general public, but considerably stronger support on the left. Streamlined regulations had stronger support on the right and failed to sway a majority of the liberal members of the general public.

Business Leaders and the General Public, Together

Overall, corporate tax reform, a sustainable federal budget, infrastructure investments, responsible new-energy extraction, and assertive action on international trade were compelling policy winners. They garnered majority support, left and right, from business leaders and the general public alike.

The streamlining of regulations enjoyed broad business support and much public support, but some members of the general public must still be won over. High-skill immigration is strongly and widely supported in the business community, but the case needs to be made to a skeptical general public.

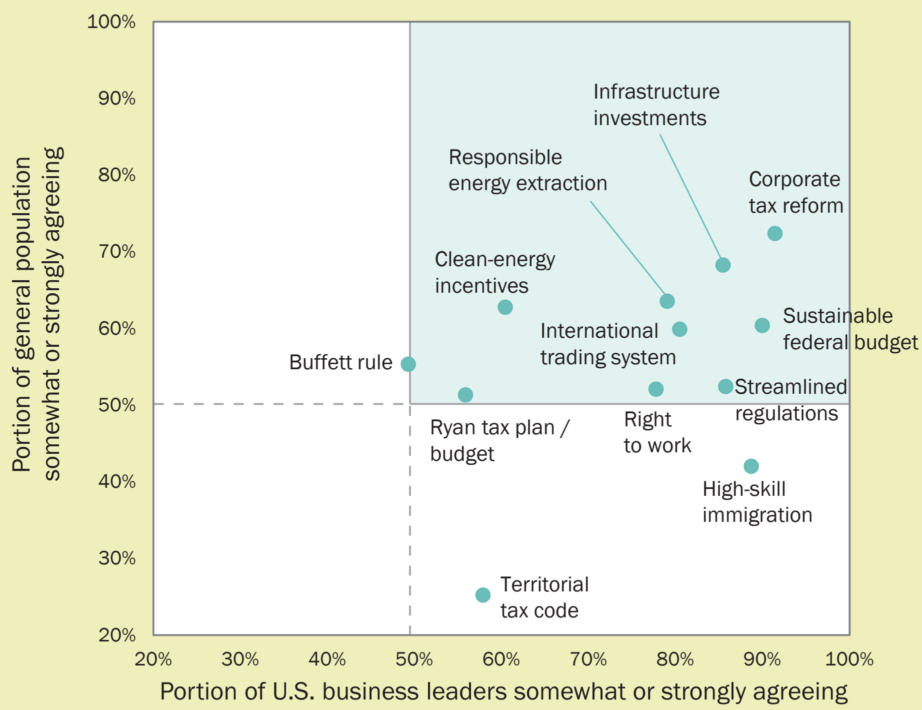
The high degree of consensus on federal policy proposals raises the question, "Why is it so difficult for Congress and the President to act on these priorities?"

Enacting a law is far harder than completing a survey, of course, and there are numerous details that complicate consensus even on proposals where there is general agreement. Still, the survey findings are a clear call for action.

[3]In general, members of the general public were less prone than business leaders to support the proposals. Hence, almost all of the proposals are below the 45° line. An exception is the Buffett rule, which got greater support from the general public (55%) than from business leaders (49%). Given that business leaders are far more likely than members of the general public to earn $1 million and be subject to the Buffett rule, it is perhaps surprising that the approval percentages are not much further apart.

[4]Unlike alumni in the survey of business leaders, members of the general public explicitly identified themselves as liberal, middle-of-the-road, or conservative. For our analyses of the general public, we used respondents' self-classifications of political posture rather than relying on their responses to policy proposals.

FIGURE 11: **ASSESSMENT OF POLICY PROPOSALS, U.S. BUSINESS LEADERS AND GENERAL POPULATION**



ACTIONS BY BUSINESS TO ENHANCE U.S. COMPETITIVENESS

Policymakers are not the only ones who must act to restore U.S. competitiveness. Business leaders can and should play an equal or greater role. Our survey assessed, for the first time to our knowledge, what business is already doing and its appetite to do more.

In earlier research, we identified actions firms can take to improve America's business environment.[5] In many cases, these actions are win-win, benefiting both the firms involved and the competitiveness of the wider economy. In our survey, we focused on 11 such actions, including building skills through training, apprenticeships, and community college partnerships; upgrading supporting industries by sourcing locally and mentoring suppliers; supporting innovation and entrepreneurship through investments in startups and research collaboratives that create new technologies; bolstering industry cluster and regional strength and improving the business-government relationship; and bringing an activity back to the U.S. from an international location ("reshoring"). The sidebar below shows descriptions of the actions as presented to survey respondents.

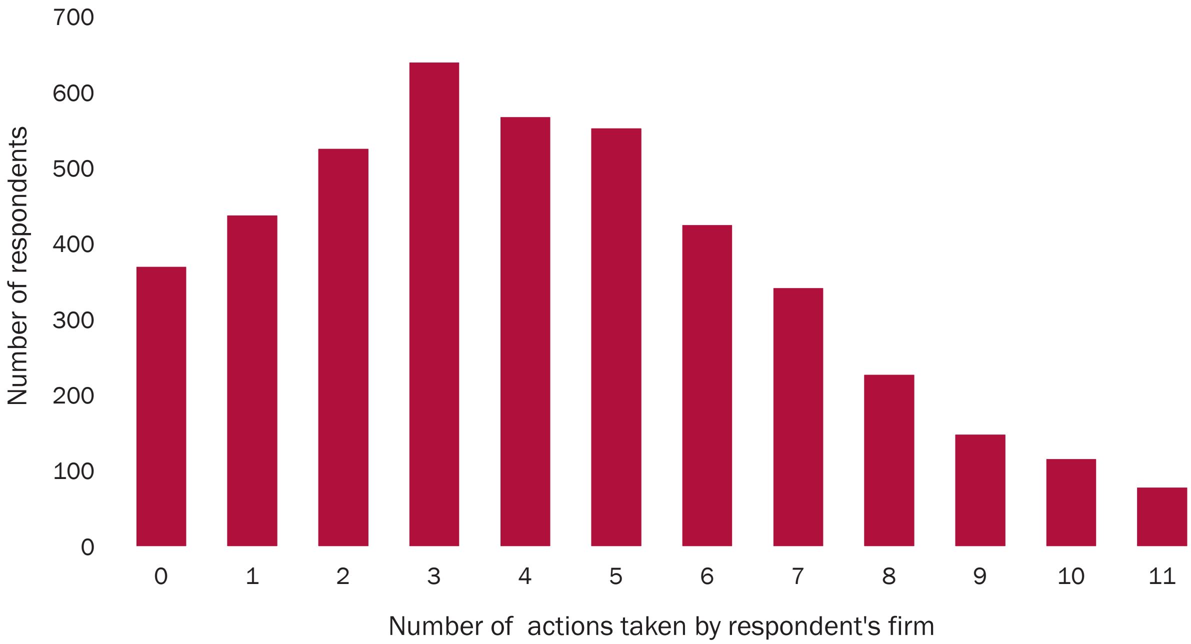
We asked respondents whether their firms are taking these steps or might do so in the future. We find that business leaders are already significantly engaged in improving U.S. competitiveness, but there is substantial room for them to be involved more and, we believe, more effectively.

[5]See, for instance, Rosabeth Moss Kanter. "Enriching the Ecosystem," *Harvard Business Review*, March 2012, and Michael E. Porter and Jan W. Rivkin, "What Business Should Do to Restore U.S. Competitiveness," *Fortune*, October 29, 2012.

BUSINESS ACTIONS THAT MAY ENHANCE COMPETITIVENESS

DESCRIPTION OF THE ACTION IN THE SURVEY INSTRUMENT	SHORTHAND LABEL USED IN THIS REPORT
1. Participate in initiatives to improve the competitiveness of regional clusters in which your firm operates.	**Cluster initiatives**
2. Participate in initiatives to improve the general business environment in your firm's region	**Regional initiatives**
3. Conduct internal training programs for current or prospective employees to upgrade their skills and productivity.	**Internal training programs**
4. Offer a formal apprenticeship program that trains workers to be more employable by your company and others.	**Apprenticeships**
5. Partner with a community college, technical school, or university to offer programs aligned with the needs of your business, and commit your firm to hire a number of its graduates.	**Community college+ partnerships**
6. Actively strive to identify and increase sourcing from local suppliers.	**Local sourcing**
7. Mentor local suppliers to upgrade their capabilities and make them more attractive partners.	**Supplier mentoring**
8. Participate in research collaboratives in your firm's field that build technologies and products of the future.	**Research collaboratives**
9. Invest in or incubate promising startups related to your business.	**Startup incubators**
10. Move to the U.S. a business activity that is currently performed elsewhere and can be performed productively in the U.S.	**Reshoring**
11. Advocate for laws and rules that benefit business as a whole rather than lobby for the special interests of your firm or industry.	**Business-wide advocacy**

FIGURE 12: **DISTRIBUTION OF NUMBER OF ACTIONS AMONG WORKING RESPONDENTS IN FIRMS WITH U.S. OPERATIONS**



Note: Includes responses from all respondents who reported yes, no, or not applicable to at least one action; missing data and don't know coded as no action.

Business is Engaged, but at Varying Levels

Some firms were deeply engaged in actions that could improve U.S. competitiveness. Most firms were modestly involved, and some took no actions.

Figure 12 shows a histogram of the number of competitiveness-enhancing actions undertaken by respondents' companies in their U.S. operations. (In this section, we consider only respondents who are working and whose firms have operations in America.) About 8% of respondents' firms were heavily involved in such actions, taking nine or more of them, with about 2% involved in all 11. These companies are taking the lead in putting into place the conditions not only for their own success but also for the competitiveness of their sectors and regions. Prior research suggests that these firms include larger, more established enterprises with wide public exposure and that some of their actions bring significant benefits. They involve such things as multibillion-dollar research collaboratives targeting technologies of the future and substantial training programs for engineers or advanced manufacturing workers.[6]

At the other extreme, 8% of respondents reported that their firms were taking none of the 11 potential competitiveness-improving actions. This figure rises to 14% if one excludes internal training, an action that sometimes has limited benefit for the wider community. Such firms appear not to understand the benefits of enhancing the business environment or may believe that they are too small to make a difference. (Of course, actions to improve competitiveness are possible regardless of enterprise size: even sole proprietors can participate in regional coalitions, efforts to improve business-government relationships, or competitiveness-enhancing collaborations with other firms.)

Most firms in our survey fell between the two extremes, with more than half of respondents reporting that their firms took from two to five of the 11 potential actions.

[6]See, for instance, Rosabeth Moss Kanter. "Enriching the Ecosystem," *Harvard Business Review*, March 2012.

Which Actions are Firms Taking?

Figure 13 shows the portion of respondents whose firms take each action. Just as firms varied widely in their engagement in competitiveness, so the actions differed widely in their popularity. The most common steps were internal training, regional initiatives, and research collaboratives, while the least common were reshoring, supplier mentoring, and partnerships with community colleges and other schools.

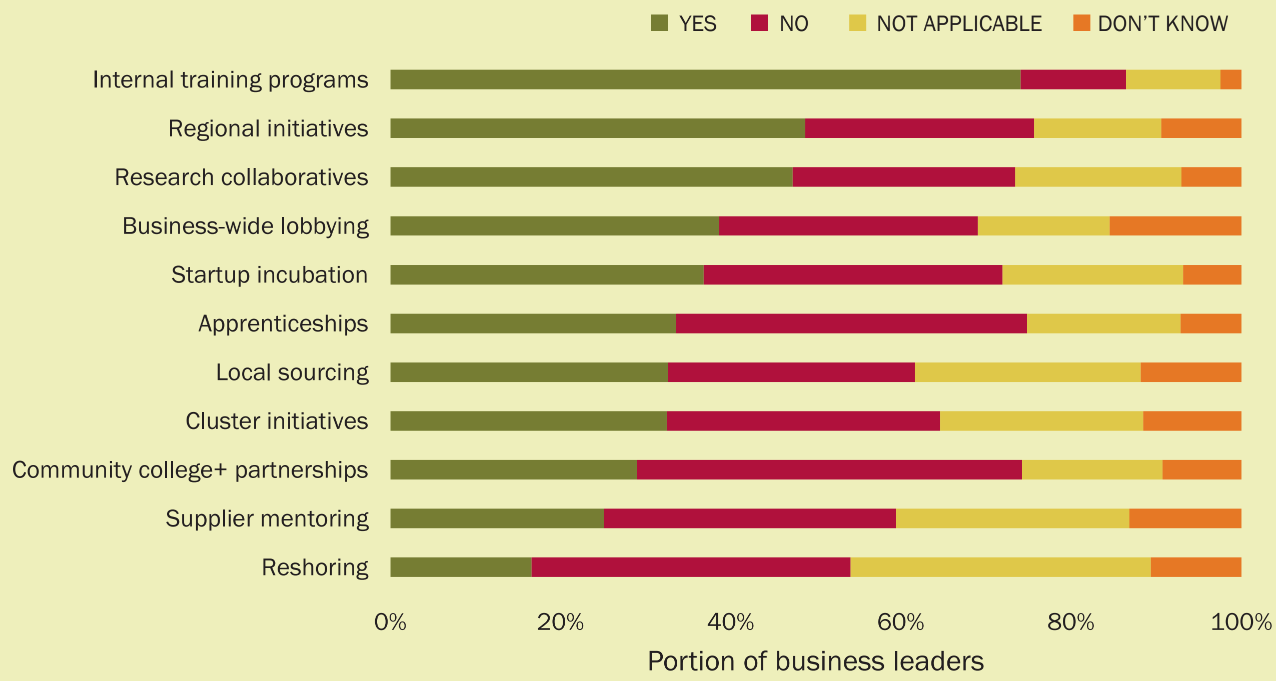
Internal training was overwhelmingly the most common action. But it was not necessarily accompanied by other, external steps to ensure a strong talent pool.

Fully 89% of respondents reported that internal training applied to their enterprises, and 86% of these said their firms offer training. But only 43% of firms with internal training also had apprenticeships, which provide vocational education for new workers, and only 36% also had partnerships with community colleges or others for workforce training.

Reshoring was the least-supported action, and this alone is unlikely to address America's competitiveness challenge.

Only 17% of respondents reported that their firms had brought back to the U.S. an activity performed internationally. Reshoring was also the action with the largest portion of respondents saying it did not apply to their firms. Appeals to bring activities back to the U.S. without real improvements in the U.S. business environment are unlikely to succeed.

FIGURE 13: **PORTION OF BUSINESS LEADERS WHOSE FIRMS TAKE SPECIFIC ACTIONS IN THEIR U.S. OPERATIONS**



Patterns of Engagement

A company's effort to boost competitiveness is defined not just by the number of individual actions it takes but also by the way it combines and aligns its actions.

Firms appeared to take steps that enhance U.S. competitiveness *in sets*, not in isolation. Companies that emphasized local sourcing, for instance, were likely to mentor suppliers. Startup incubators often accompanied research collaboratives. Apprenticeships were commonly employed alongside partnerships with community colleges and other schools.

FIRMS COMBINED COMPETITIVENESS-ENHANCING ACTIONS IN NUMEROUS WAYS TO FIT THEIR BUSINESS AND LOCAL CIRCUMSTANCES.

Figure 14 shows the correlation in adoption across each pair of actions, reflecting how often a firm that adopted one action also pursued another. All of the correlations are positive, large, and very statistically significant. Firms that undertook any of the actions tended to adopt the others.

Companies mixed and matched the surveyed actions in diverse ways. Statistical analysis revealed no simple set of patterns—firms combined competitiveness-enhancing actions in numerous ways to fit their business and local circumstances.

Most of our statistical efforts to find common combinations of actions revealed subsets of firms that we label Competitiveness Leaders and Bystanders. Competitiveness Leaders were, on average, twice or more likely than the typical firm to undertake each of the competitiveness-enhancing actions (except for internal training, where they were about average). Bystanders were firms with limited or no engagement. They were less likely to adopt each of the 11 actions than the typical firm in the sample (except for internal training, where in some analyses they were about average). In most analyses, Bystanders were the most numerous group.

Beyond these two groups, certain patterns of action arose commonly but not robustly in our analyses. These patterns resembled types of firms we have encountered in field research, each with a different area of focus. Local Buyers sourced locally and mentored suppliers; Skills Builders emphasized internal training as well as apprenticeships and partnerships with community colleges; Regional Innovators engaged in research collaboratives and startup incubation as well as regional and cluster development efforts; and Business Boosters did little but lobby for business as a whole rather than their narrow special interests.

In most of the analyses, manufacturing companies were overrepresented among Competitiveness Leaders, and financial firms were overrepresented among Bystanders. These patterns point to important differences across sectors in actions that boost competitiveness.

FIGURE 14: **CORRELATIONS ACROSS BUSINESS ACTIONS**

	Cluster initiatives	Regional initiatives	Internal training programs	Apprenticeships	Community college+ partnerships	Local sourcing	Supplier mentoring	Research collaboratives	Startup incubation	Reshoring
Regional initiatives	0.53									
Internal training programs	0.18	0.28								
Apprenticeships	0.24	0.26	0.35							
Community college+ partnerships	0.27	0.29	0.28	0.41						
Local sourcing	0.26	0.26	0.19	0.17	0.26					
Supplier mentoring	0.29	0.27	0.20	0.27	0.33	0.62				
Research collaboratives	0.33	0.29	0.25	0.24	0.35	0.20	0.30			
Startup incubation	0.27	0.24	0.13	0.20	0.23	0.17	0.21	0.42		
Reshoring	0.18	0.13	0.12	0.18	0.20	0.20	0.24	0.19	0.19	
Business-wide lobbying	0.27	0.39	0.21	0.19	0.27	0.23	0.26	0.25	0.20	0.17

Business Action by Sector

Manufacturing firms took the most actions to boost U.S. competitiveness, followed by firms in education and healthcare.

Respondents from manufacturing firms reported the largest number of actions that boost U.S. competitiveness: 86% engaged in internal training; 59% in regional initiatives; 40% offered apprenticeships; 47% reported community college or other external training partnerships; 54% sourced locally; and 45% engaged in supplier mentoring—the highest proportion for each action (Figure 15 on page 22). Manufacturing was also near the top in participation in research collaboratives (63%) and showed the highest interest in reshoring (29%). Not surprisingly, manufacturers were the least likely to feel that business actions to improve competitiveness did not apply to their firm. These findings point to a reason to emphasize manufacturing in efforts to improve U.S. competitiveness that is not widely understood: manufacturers tend to take actions that benefit the wider commons.

The education and healthcare sectors were close behind manufacturing in actions that improve competitiveness but with a different emphasis; their focus was on knowledge creation and new venture formation as well as workforce education. Education and healthcare firms were most likely to participate in research collaboratives (71% and 69%, respectively) and startup investments/incubation (51% and 52%, respectively). Compared to manufacturers, they were as engaged or more active in regional and cluster initiatives. Education organizations were especially likely to engage in supplier mentoring, while firms in healthcare were more likely to have apprenticeships (perhaps for medical paraprofessionals and lab technicians).

Education and healthcare not only provide essential services but also play a direct role in competitiveness. These two service-delivery industries with deep local roots contribute to skills improvement and are also engines of knowledge creation and business startups. Though often nonprofits or public-sector organizations, they provide important spillover benefits to private companies.

Some other sectors were selectively active in improving U.S. competitiveness. For instance, wholesalers and retailers were almost as active as manufacturers in local sourcing (48%), supplier mentoring (36%), and reshoring (24%). This reflects the importance of supplier proximity, quality, and capabilities to both wholesalers and retailers.

Financial services and construction/real estate firms were the least likely to be active in steps that boost U.S. competitiveness.

The financial services sector was the least active per respondent in steps to improve U.S. competitiveness. Respondents from financial services were also among the most likely to believe that competitiveness-improving actions did not apply to their enterprises. The financial sector has not been at the forefront of upgrading American competitiveness by improving skills, creating knowledge, or collaborating in regional initiatives. The results suggest a missed opportunity for the sector. Indeed, some individual firms in the sector are already stepping up to foster entrepreneurship, build midlevel skills, and take other actions that boost U.S. competitiveness.

The construction and real estate sector also has taken relatively few steps that improve competitiveness. This is perhaps not surprising for such locally focused industries. Respondents in the sector were mostly engaged in business-wide advocacy (53%), regional initiatives (51%), and local sourcing (45%). Although 63% reported internal training, apprenticeships were less prevalent among real estate and construction firms than elsewhere. (National statistics reveal that the largest number of apprenticeships in America occurs in construction, but many of these may be attached to trade unions.)

FIGURE 15: **PORTION OF RESPONDENTS IN EACH SECTOR WHOSE FIRMS TAKE EACH BUSINESS ACTION**

	Manufacturing	Educational services	Healthcare & social assistance	Other services	Professional, scientific, & technical services	Information	Wholesale & retail trade	Construction & real estate	Financial services & insurance
Cluster initiatives	39%	54%	46%	38%	36%	36%	19%	28%	32%
Regional initiatives	59%	64%	58%	57%	53%	43%	43%	51%	49%
Internal training programs	86%	83%	77%	67%	77%	73%	77%	63%	70%
Apprenticeships	40%	31%	34%	36%	36%	33%	30%	27%	36%
Community college+ partnerships	47%	39%	39%	33%	30%	31%	25%	20%	20%
Local sourcing	54%	47%	34%	34%	31%	32%	48%	45%	20%
Supplier mentoring	45%	34%	27%	30%	25%	22%	36%	30%	15%
Research collaboratives	63%	71%	69%	51%	54%	47%	37%	31%	37%
Startup incubation	36%	51%	52%	43%	36%	41%	29%	29%	43%
Reshoring	29%	9%	13%	18%	17%	19%	24%	10%	16%
Business-wide lobbying	49%	45%	46%	44%	42%	37%	43%	53%	45%
Average across actions	**50%**	**48%**	**45%**	**41%**	**40%**	**38%**	**37%**	**35%**	**35%**

Percentage among respondents who answered “yes,” “no,” or “not applicable.” Includes sectors with 200 or more respondents.

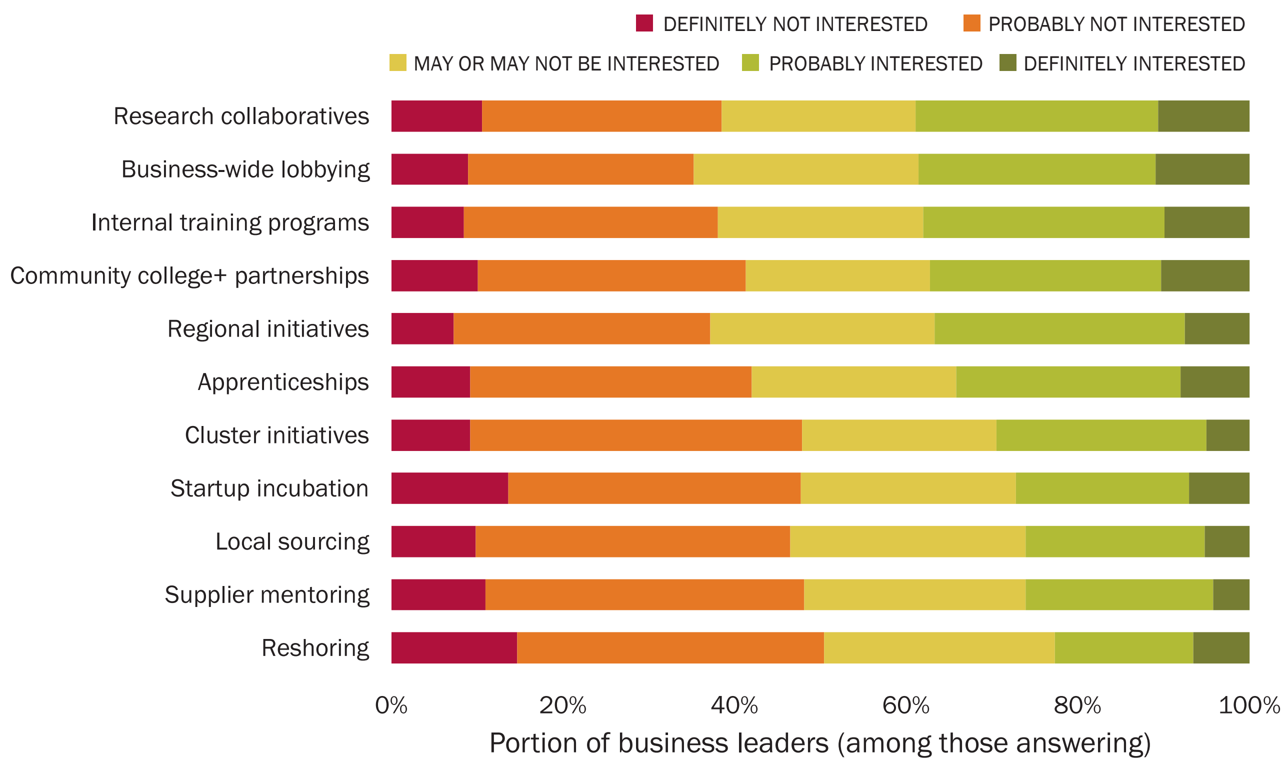
A Willingness to Do More

Business leaders expressed significant willingness to consider competitiveness-enhancing actions that they are not currently taking.

We asked respondents about their firms' willingness to consider actions that they are not currently taking (Figure 16). Up to 39% indicated that they might be interested in doing so, with 5–10% indicating that they would definitely be interested in a particular action. On average, only 10% of the respondents said that they would definitely not be interested in a particular action.

Research collaboratives and improving the business-government relationship attracted the most interest among those not currently involved, followed by internal training, community college partnerships, regional initiatives, and apprenticeships.

FIGURE 16: **PORTION OF BUSINESS LEADERS WHOSE FIRMS WOULD BE INTERESTED IN EACH ACTION (AMONG THOSE NOT ALREADY ACTING)**



Initiatives to Spur Business Actions

Clearly, great potential exists for businesses to do more to improve U.S. competitiveness while also contributing to their own success. For leaders of individual firms, our findings point to actions they should consider as well as combinations of steps that may work well together.

Our survey findings also point to opportunities for business leaders to act collectively, or with the support of government bodies, to enhance U.S. competitiveness:

1. Accelerate action to build skills collaboratives that ensure a work-ready talent pool.

Skills are seen as deteriorating in America, many firms are already acting to build skills, and many more are willing to adopt such steps. Together, these findings suggest that collective skills-building should be a top priority for every sector and will garner widespread public support. Skills collaboratives, which are under way in several states, should link employers (or potential employers) with training sources (community colleges, high schools, nonprofits with apprenticeship programs, and public agencies). Incentives, awards/publicity, and civic organizing can be used to encourage widespread participation, as well as upgrading of programs. Better linkages among involved federal agencies—Labor, Education, Commerce, the Corporation for National and Community Service, Defense—would foster a unified, comprehensive effort.

2. Mount a national campaign to engage companies in mentoring high-potential American suppliers.

Here, larger companies can contribute to the growth of smaller enterprises in ways that benefit both. For example, they can directly advise small firms on strategy and operations, include them in company training programs or online resources, invest in them through corporate venturing arms, promote their exports by making international introductions or offering use of overseas offices, or provide easier access to contracts. The Small Business Administration (SBA) has partnered with the IBM-led Supplier Connection initiative, for instance, to give thousands of small businesses open access to large-company procurement opportunities, while regional manufacturing associations maintain supplier registries or online matching services. Such efforts can be accelerated, broadened, and deepened. This could fuel a virtuous cycle: more qualified local suppliers could help increase reshoring and new business investment in the U.S., which would foster better local suppliers.

3. Enhance the role that education and healthcare institutions, especially higher education and major medical centers, play in U.S. competitiveness.

Our findings show that these sectors not only provide direct services in education and health. They also produce knowledge and take many actions that enhance competitiveness: they incubate new ventures, foster research collaboratives, and build middle skills through apprenticeships and other efforts. To expand these capability-building roles, national business associations and the White House could jointly sponsor a U.S. Competitiveness Champions Challenge—a competitive process to recognize and fund those institutions that contribute the most to their local ecosystems. Such a challenge could be modeled after the U.S. Department of Education's Race to the Top grants. Moreover, 30-40 of the winners could be named U.S. Competitiveness Centers of Excellence, similar to the Brookings Institution's proposal for 20 national "manufacturing universities." The education and healthcare institutions selected would be asked to create tools or best-practice guides for others. In addition, grants to education and healthcare institutions from public sources and business philanthropy could favor projects that build capabilities relevant to U.S. competitiveness—for example, laboratory studies that train new technicians or research efforts whose findings quickly create new ventures.

4. Create a national "Census of Business Actions to Enhance Competitiveness" that provides an inventory of actions businesses are undertaking, region by region.

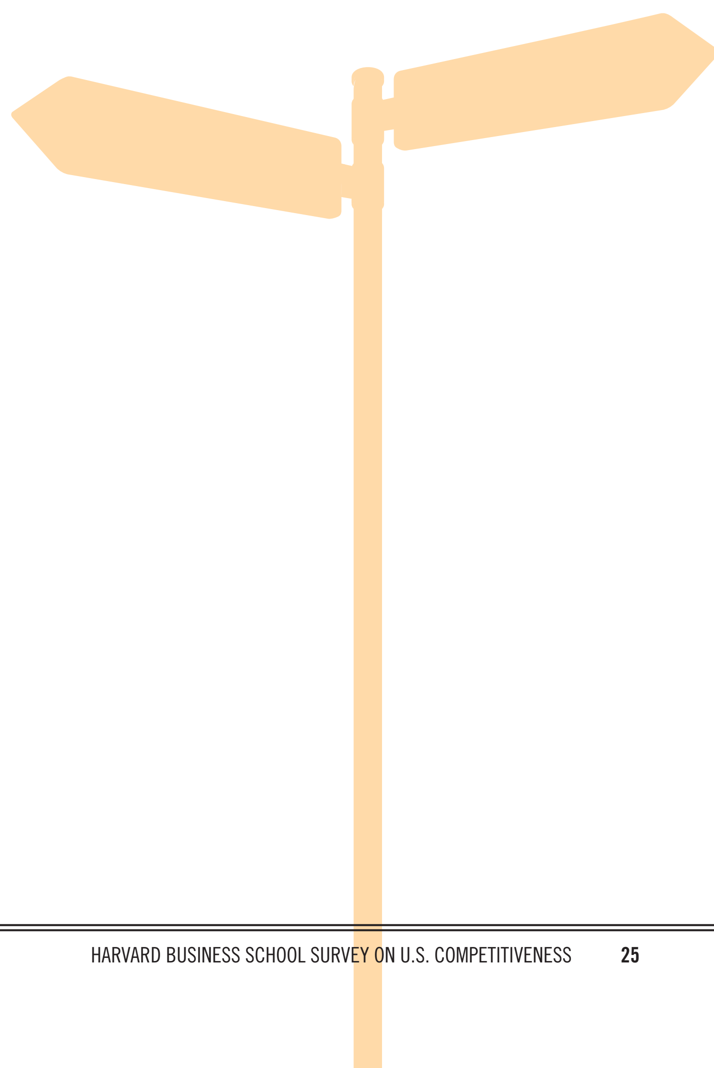
Industry associations should play a central role in identifying existing actions that enhance competitiveness in their fields, disseminating best practices, and highlighting areas that deserve more attention. Federal leadership could spur industry groups to gather and share such information.

TWO PATHS

In 2013, U.S. competitiveness is at a crossroads. The current path is one where policymakers squabble for partisan gains, delay tough choices, careen from one self-made crisis to another, and make America a less attractive place to compete. On this path, business leaders pursue their narrow, short-run interests and free-ride off others' investments in the business commons. The U.S. business environment deteriorates, leading business to leave America and society not to trust business. As distrust grows, government enacts anti-business policies, companies reduce U.S. activities further, and distrust deepens.

However, there is another, far better path suggested by our work. On this path, policymakers put their long-term fiscal house in order, invest in infrastructure, and enact a handful of policies to make America a great place to do business. Business leaders, recognizing their long-run interests in a vibrant commons, take steps themselves to build a skilled workforce, upgrade local suppliers, foster innovation, and bolster regional strength. Productivity gains enable firms in the U.S. to win in the global marketplace while creating jobs that lift living standards for the average American. With robust growth, government and business alike gather the resources to reinvest in making America's business environment better and better.

For both business leaders and policymakers, the first steps down the attractive path are fairly clear, and they are confirmed by the findings of the 2012 survey. The key question is, can we Americans muster the will, the foresight, and the unity to take the steps to restore U.S. competitiveness?



APPENDIX: METHODOLOGY AND RESPONDENT PROFILE

The 2012 HBS Survey on U.S. Competitiveness was designed and conducted by HBS faculty and researchers in conjunction with Abt SRBI, a leading survey research firm. A copy of the survey and a full report on methodology are available at: http://www.hbs.edu/competitiveness/survey.

The 2012 competitiveness survey, like the 2011 survey, targeted HBS alumni, defined as former students holding MBA and doctoral degrees as well as those who have completed comprehensive executive education courses (e.g., the Advanced Management Program or the Program for Leadership Development). All living alumni with an email address were eligible for the survey, regardless of their occupational status, field of employment, or location. Alumni contact information came from an internal HBS alumni list, which is based on original matriculation and graduation records and is actively managed and regularly updated.

This year, in order to compare HBS alumni responses with the perceptions of the general public, parts of the survey were also administered to a generalizable sample of U.S. adults age 25 or older by GfK Custom Research North America, one of the world's leading market research companies. GfK employed its proprietary KnowledgePanel®, a panel that is based on probability sampling (random digit dialing through 2009 and address-based sampling from 2009 onwards) and covers households with and without Internet access.

The instrument for the 2012 survey was designed to capture longitudinal data on assessments of U.S. competitiveness as well as gather insights into new issues. Therefore, the opening three sections of the 2012 survey instrument remained similar to 2011, gathering background information on respondents, asking alumni to assess America's standing on 17 elements of the business environment, and posing questions on the overall competitiveness of the U.S.

The next section of the survey, new in 2012, gauged respondents' approval or disapproval of a series of U.S. federal government policies that might affect America's competitiveness. A final new section, administered only to alumni, asked working respondents about their employers' current engagement and future interest in a set of actions that may affect the U.S. business environment.

HBS faculty led the process of designing and vetting the survey instrument in collaboration with survey methodologists. HBS and Abt SRBI researchers developed topics and questions with input from faculty members with substantive expertise in relevant areas. Cognitive interviews were conducted by telephone and in-person to ensure that respondents' interpretations of survey items matched the expectations of researchers.

The field period for the HBS alumni survey was August 29–September 27, 2012, and for the general population, September 13–September 21, 2012. The 2012 alumni survey was designed to be completed by web and paper and, unlike in 2011, did not include supplemental telephone interviews. The previous survey's experience showed no substantive difference between the 2011 core samples that used the telephone mode and the "noncore" samples that relied only on web and paper surveys.

The alumni survey was administered to 57,913 eligible HBS alumni. Alumni received an initial mailing, followed by several reminder requests from HBS faculty to complete the survey. In addition, HBS alumni club presidents urged alumni to fill out the survey. The overall response rate for the HBS alumni survey was 11.8%, with 6,836 completions. The general population survey was fielded to a random sample of 1,777 panelists with 1,025 completions for a completion rate of 57.7%. The KnowledgePanel recruitment rate for this study was 14.6%, the profile rate was 65.9%, and the household retention rate was 36.9%, yielding a cumulative response rate of 2.1%.

Weighting. In the case of HBS alumni, survey data were weighted to provide estimates that corrected for differences between respondents' mix of age, location, and gender and the mix of the overall alumni population.

For the general population, GfK calculated compound weights to adjust for sample and panel design as well as demographic characteristics. All 1,025 respondents were weighted to be representative of the U.S. population aged 25 and older. Demographic and geographic data from the Current Population Survey (U.S. Census Bureau, August 2012) were used as the benchmarks for the following weighting variables: age, race and ethnicity, education, household income, Census region, metropolitan area, and Internet access.

Precision of estimates. The U.S. Competitiveness Survey was designed as a census of HBS alumni. Consequently, sampling error (the extent to which responses to a survey may be expected to differ from those of the population from which the survey sample was drawn due to the sampling process) does not apply.

Across survey items, 95% confidence intervals for the general population survey averaged ± 3.8 percentage points for a statistical result of 50% (e.g., 50% of respondents indicating strong support for a certain policy). Confidence intervals for statistical results above and below 50% will decrease as they approach 100% and 0%. Confidence intervals for analyses based on part of the sample will be greater.

Respondent profile. The tables below report the distribution of respondents to the HBS alumni survey across countries and states, sectors of the economy, and age ranges.

ALUMNI RESPONDENT LOCATION

IN THE UNITED STATES	
California	666
New York	582
Massachusetts	542
Texas	268
Illinois	171
Florida	150
Connecticut	138
Virginia	116
New Jersey	111
Pennsylvania	107
40 other states, plus D.C. and territories	1,128
Subtotal	**3,979**
OUTSIDE THE UNITED STATES	
United Kingdom	184
Canada	127
Japan	155
Switzerland	102
Australia	92
Brazil	88
Germany	76
China	74
India	71
France	70
105 other countries and territories	961
Subtotal	**2,000**
UNKNOWN LOCATION	857
TOTAL	**6,836**

RESPONDENT AGE*

	NUMBER	PERCENT
Under 30	279	4%
30-39	982	14%
40-49	1,040	15%
50-59	1,415	21%
60-69	1,296	19%
70 and older	1,050	15%
Unknown	774	11%
Total	**6,836**	**100%**

* Percentages rounded.

RESPONDENT SECTOR OF EMPLOYMENT*

	NUMBER	PERCENT
Finance and Insurance	1,663	24%
Manufacturing	1,309	19%
Wood, Paper, and Printing	*265*	*4%*
Textile and Apparel	*239*	*4%*
Petroleum, Chemicals, and Plastics	*179*	*3%*
Computer, Electrical, and Appliance	*139*	*2%*
Food and Beverage	*64*	*1%*
Metal and Machinery	*47*	*1%*
Other Manufacturing	*376*	*6%*
Professional, Scientific, and Technical	1,171	17%
Information: Media, Telecom, and Data Processing	446	7%
Educational Services	368	5%
Other Services	360	5%
Construction and Real Estate	334	5%
Wholesale and Retail Trade	308	5%
Health Care and Social Assistance	280	4%
Mining and Oil & Gas Extraction	149	2%
Transportation and Logistics	142	2%
Utilities	68	1%
Public Administration	67	1%
Arts, Entertainment, and Recreation	62	1%
Accommodation and Food Services	47	1%
Agriculture, Forestry, and Fishing	46	1%
Subtotal	**6,820**	**100%**
Gave no response	**16**	
Total	**6,836**	

* Includes working and nonworking respondents. Working respondents were asked, “In what sector do you work?” Nonworking respondents were asked, “In what sector did you work?”

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For more information on Harvard Business School's U.S. Competitiveness Project, please visit: http://www.hbs.edu/competitiveness/