"The Business of America"

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Chairman FedEx Corporation

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Thank you, John, for the kind introduction and for inviting me to speak this evening. I would like to acknowledge the work of the Calvin Coolidge Presidential Foundation. Your effort to preserve the legacy and advance the values of America's 30th president is commendable.

Earlier this evening, I had the opportunity to meet the Coolidge Scholars and Coolidge Senators. These bright minds are our nation's future, and the Foundation's work to provide their generous scholarships will help them greatly in their academic endeavors.

Throughout history, there has been a saying attributed to President Coolidge: "The chief business of the American people is business." While this quote has been debated and dissected since 1925, it underscores the undeniable significance of commerce in the American narrative.

Tonight, I would like to share the unique position that FedEx occupies in the world economy and our detailed understanding of macro and geopolitical issues and provide some observations from my many years in business that might serve as a framework to ensure our country prospers in the years ahead.

When Federal Express began operations 50 years ago, on 17 April 1973, we served 25 cities and transported a whopping 186 packages the first night. Last Monday — Cyber Monday — FedEx picked up about 27 million packages in the United States and among the other 220 countries and territories we now serve. In addition, we transported over 110,000 freight shipments totaling more than 100 million pounds. As I stand here tonight, 18 jumbo FedEx freighters are crisscrossing the Atlantic; another 20 are doing the same across the vast Pacific; and still other Express freighters are flying along the spine of South America and between Asia and Europe and points in between.

Vast FedEx networks include over 5,000 facilities, 210,000 vehicles, 700 aircraft, and untold pieces of ground support equipment and electronic devices. Fifty-four major hubs are connected to allow one-to-three-day deliveries between almost any two points on earth covering almost 98% of global GDP. Over 600,000 global FedEx team members are working tirelessly to deliver our Purple Promise – "I will make every FedEx experience outstanding" – for each and every shipment entrusted to us.

We estimate FedEx transports about 6% of the U.S. GDP every business day, with our largest peer competitor UPS accounting for about the same amount of America's daily economic output. A particularly dramatic example of our capabilities occurred in 2021 when FedEx moved about half of the new COVID-19 vaccines to every corner of the U.S. and over 50 countries around the world.

We were able to monitor each and every one of tens of millions of these life-saving shipments using FedEx proprietary Sense Aware devices, and our day-certain service reliability for these all-important vaccines exceeded 99.8%! At the same time, we flew hundreds of Boeing 777 freighter loads of personal protective equipment into the United States desperately needed by our valiant health care workers dealing with the unprecedented challenges of the pandemic.

I recount these amazing statistics to you in part given my unabashed pride in the accomplishments of our FedEx team members, but to also illustrate the unique position FedEx occupies in the world economy which results in an unmatched understanding of economic and geopolitical issues at a granular level.

The fantastic, interconnected world we live in today evolved over the past 50 years for three basic reasons: 1) the growth of international trade; 2) remarkable increases in invention, innovation, energy, and investment; and 3) the American-led finance, security, and alliance systems.

The growth of international trade pulled hundreds of millions of people out of poverty around the globe and improved the living standards of Americans to a level unimaginable to even the wealthiest individuals as World War II ended in 1945. The United States had been the indispensable ally that defeated the tyrannies of the Axis powers. This country was the “arsenal of democracy,” producing the majority of the weapons, technologies, and fuels required for victory in the greatest conflict in history.

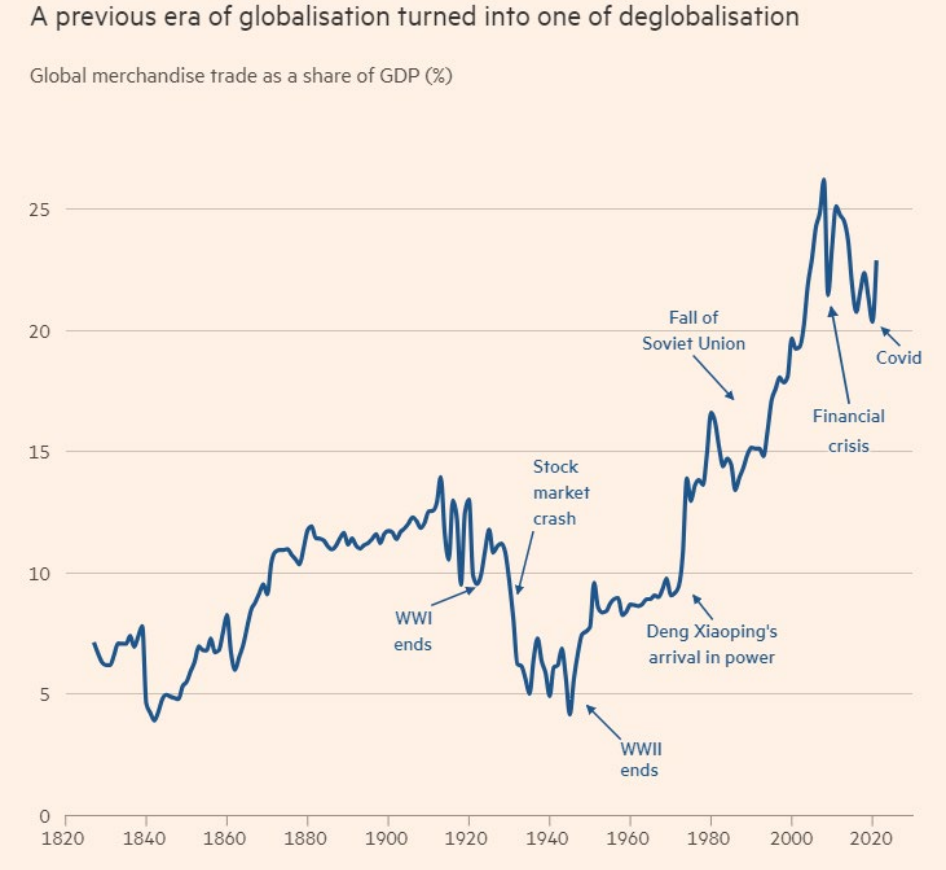
Largely due to American leadership after the war, stable financial institutions were established — the International Monetary Fund and World Bank — and financial aid was provided to former enemies for their reconstruction.

Most important, American trade and economic policy, from President Roosevelt’s Trade Adjustment Act of 1934 forward, embraced opening U.S. markets to producers abroad which, in turn, helped rebuild the European and Asian countries that had been devastated during the war. This farsighted embrace of trade was based on Roosevelt’s Secretary of State Cordell Hull’s simple axiom that “when goods cross borders, armies rarely do.”

By early this century, trade represented over 25% of United States economic activity, providing millions of high-paying jobs and significantly lowering the cost of living for every American family by over $10,000 dollars per year. In this regard, China's rise as a manufacturing powerhouse and its entry into the world trading system in 2001 as a developing economy was greatly beneficial in terms of improving American living standards. But given China’s decision to restrict imports in favor of local producers, the demonstrably beneficial effects of free trade long championed by the United States were thwarted, resulting in a political backlash and the growth of populism in the U.S. and Europe.

Tariff wars began in 2018, with long-term global growth diminishing as a result. By the way, the U.S. enjoys a trade surplus — including goods and services — with the majority of our 20 free trade agreements partners.

Figure 1:



Source: Financial Times via Fouquin and Hugot (CEPII 2016), Our World in Data, IMF

The second reason the world has prospered over FedEx's 50-year lifetime was the constant stream of invention, innovation, and investment that produced high-paying employment, improved global productivity, and lengthened life spans. However, as the famous management scholar Peter Drucker predicted in his 1976 book "The Unseen Revolution," the massive pension funds accruing to the 1946-1954 post-World War II birth cohort required an unending search for above-average returns by financial managers for those savings to pay for the retirements of these "Baby Boomers."

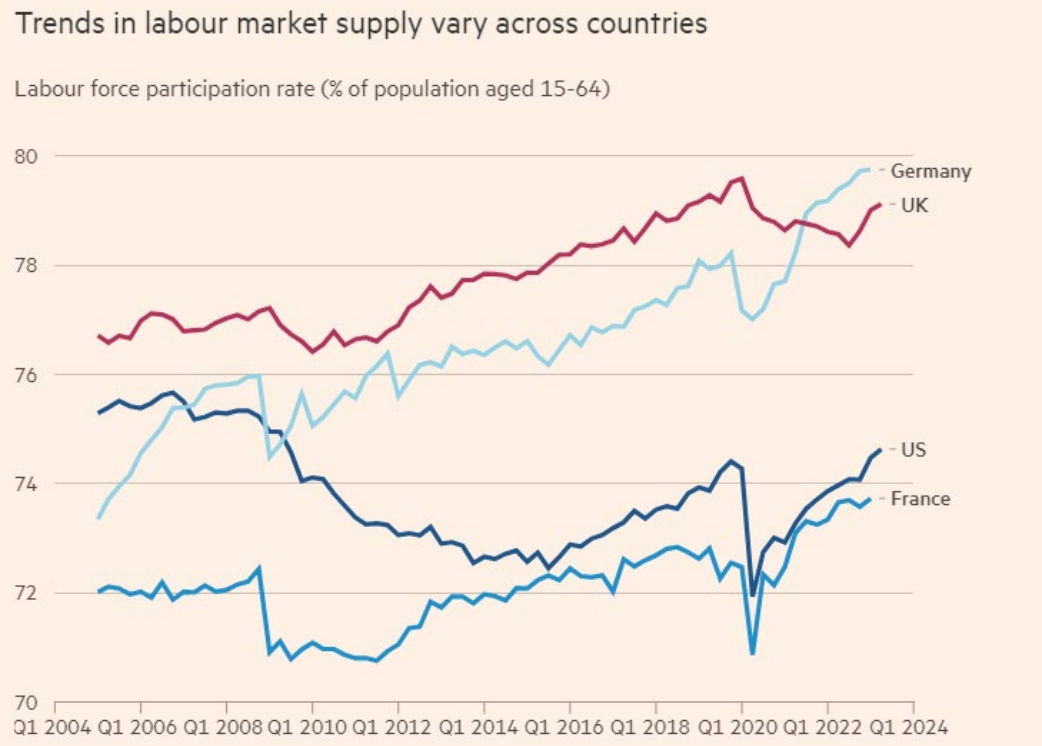
From the 1930's until 1999, industry and finance had been legally separate fields, with the latter's intermediate activities financing business and industrial growth. With the repeal of the 1932 Glass-Steagall Act as the 21st century began, the clear distinction between the sectors blurred, and finance became once again, — as it had been in the 1920's — an enormous business unto itself. This led to the great financial crisis of 2008-2009, based on excesses in the housing and mortgage sectors and a near collapse of the entire financial sector which required a controversial, but necessary, Federal bailout stoking extreme anger among a large swath of the American public was required, as a result. Over the subsequent 15 years, profits from financial activities reached 23% of all profits in the United States economy, versus about 10% in the mid-1980's.

Beginning in the 1980's, innovative financiers in the private equity sector recognized the advantage of interest deductibility for private corporations in lieu of paying taxes and began the most massive acquisitions spree in history using mostly borrowed money.

Today private equity (PE) owns more companies than are publicly traded on all U.S. stock exchanges. There are about half the number of publicly-held entities now than there were 30 years ago. The relentless search for cash flows to fund PE purchases using acquired companies' own revenue streams led to a significant reduction in capital expenditures in traditional sectors that had provided much of America's blue-collar employment, particularly for men.

By 2019, only 89% of men ages 25 to 54 were employed or looking for work, versus more than 95% when FedEx began operations in 1973. The renowned demographer Nicholas Eberstadt refers to these missing workers as "Men Without Work" in his acclaimed 2016 book. There are now seven million prime age American men not in the workforce receiving some sort of government payments. Despite the national labor shortage, the percentage of prime age males without paid work is actually higher today than before the pandemic. Working females have taken up the slack.

Figure 2:



Source: Financial Times via OECD

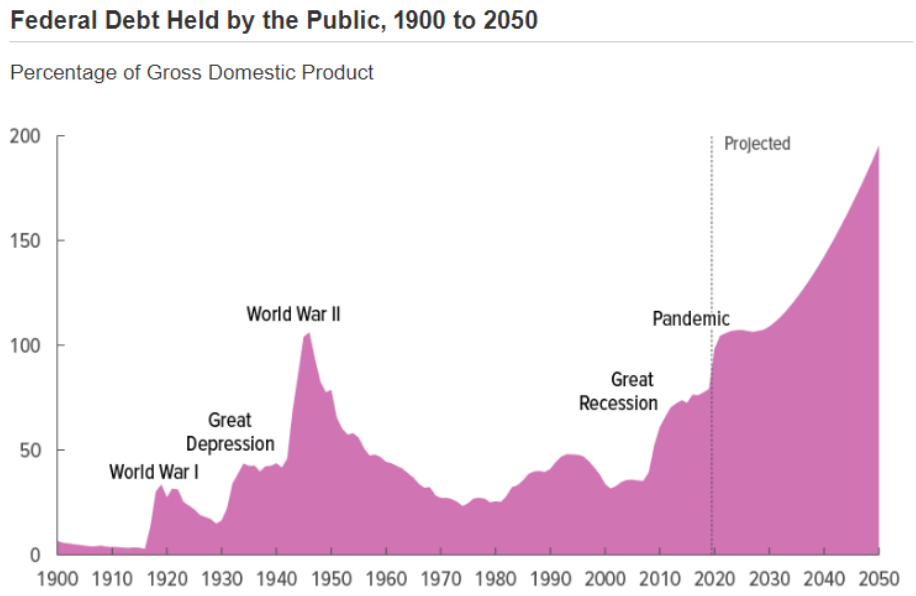
As Drucker had predicted, the search for ever higher returns created major new financial segments such as private equity, hedge funds, venture capital, alternative investments (including art and timber), and ultimately modern alchemy, or "crypto" as it's now called! By last year, the combination of China's rise and the financialization of much of America's economy led to the United States becoming the world's fourth largest social democracy — as measured by government payments to individuals — behind only Greece, France, and Italy.

These massive structural changes in the American economy, combined with the trauma of the COVID-19 pandemic, led to the largest government spending programs in history outside of World War II. From March 2020, the U.S. Congress approved almost $7.5 trillion in new spending in nine different pieces of legislation. Industrial policy replaced Coolidge's famous refrain that "the business of America is business," with the largest activities of the American economy now being government and government-related industries like healthcare, defense, and education with finance and technology having become enormous standalone industries. By the summer of 2021, this unprecedented federal spending created inflationary pressures and reduced workforce participation, as evidenced by consumer prices rising over 20% and labor participation rates remaining below 2019 levels.

In response, the Federal Reserve increased interest rates from near zero before the pandemic to the current 5%, with particularly damaging effects on housing construction, mortgage costs, and automobile finance charges. Private capital expenditures for buildings and equipment are disdained versus the predilection for near-term returns and asset-light activities. Less than 14% of the income of the bottom quintile of American citizens is derived from work. Read the profound 2022 book, "The Myth of American Inequality" by Gramm, Ekelund, and Early, that chronicles the American journey towards European levels of entitlement spending and transfer payments.

Privately held debt of the United States is now almost $27 trillion (the Federal government owes another $6 trillion among its various accounts) and climbing daily, with annual interest costs currently almost $900 billion and deficits near 7% of GDP hitting $2 trillion in FY23 just ended October 1. American tax policy was best summed up by Senator Russell Long's mantra: "Don't tax you, don't tax me, tax the fellow behind the tree." Simply put, the American tax base cannot pay for the current level of Federal government expenditures. Clearly this is now unsustainable given America's role in the world. What is frightening about the current situation is the inability of our political system to self-correct, as the polarization of the permanent political class finds it impossible to compromise to deal with these problems.

Figure 3:



Source: Congressional Budget Office

It's important to note in that regard the American system of government was specifically designed to force compromise and prevent any one political faction from imposing its will without regard to the interests of other large factions. So we have reached a point where the political party in power conducts its affairs as if it had a mandate for solely its ideology as is the case with parliamentary systems. In the U.S., this now means about half of the citizens are perpetually outraged.

To avoid a catastrophic fiscal crisis, I fervently hope that next year our political process produces leaders who recognize the extreme and unprecedented dangers we face in terms of our political and financial instability — not to mention military challenges around the world — which require a grand compromise and resolution of these problems. It is simply impossible for the United States to be a gargantuan social democracy with federal, state, and local government spending over 40% of GDP and remain the superpower that has maintained a world order that did not result in a nuclear exchange or World War III over the past 50 years.

If such leaders can be found, I recommend they consider the following three actions. First, sunset all energy subsidies of any type and adopt an energy value added tax (eVAT) to produce a new broad-based stream of revenue while incenting individuals and businesses to become more energy efficient. An eVAT would be deductible at the border which has been an advantage our trading partners have enjoyed for years, as value added taxes are deductible against exports, while our corporate taxes are not deductible when we sell goods or services to another country.

Part of the eVAT revenues should cover a reduction in income taxes for those earning less than $100,000 per year, which will encourage people to rejoin the workforce which will increase GDP and tax revenues. This structure is similar to the proposal made by Vice President Al Gore some years ago towards a Congressional compromise to deal with increasing CO_2 emissions while lowering Federal Insurance Contributions Act (FICA) taxes for our blue-collar workforce.

At the same time, government expenditures should be frozen for two to three years, driving U.S. debt levels in line with our ability to repay our debt to a reasonable level of GDP.

In short, we need “a grand bargain” among Democrats and Republicans. I think this is possible, as key members of both parties have supported a carbon tax. Although the proposed eVAT would be agnostic as to the energy source, it would lower emissions as a function of individuals and business actions to reduce their energy consumption. The eVAT would be phased in over the same period as the government spending freeze, allowing adjustments to the new system. The eVAT can be collected at the source or when consumed.

My second recommendation is to permanently change the tax code to reward long-term investments by expensing capital expenditures (as the UK has recently done), research and development, and software. These investments are the cornerstone of future prosperity, just as they were from the end of World War II through the early part of this century. Investment incentives were supported by both Democrat and Republican presidents like John Kennedy and Donald Trump. Presidents Ronald Reagan and Barack Obama supported lower corporate tax rates for the same reason.

In addition, to encourage long-term investment — as Presidential candidate Hillary Clinton espoused — capital gains taxes should be decremented over time, depending on the length the asset is held, to change financial markets’ short-term focus toward increased long-term returns.

Such a tax system should be applied to all not-for-profit entities as well. Most private investment today is being largely driven by government borrowing, mandates, grants, subsidies, and guaranteed loans. The majority of new jobs over the last year have been in government, health care, and social services.

Clearly government investments in infrastructure and basic research and development (R&D) are urgently needed as well. These too require a broader tax base. David Leonhardt's *New York Times* piece from October 17 chronicles the benefits of historical government investment in highways, airports, and waterways and basic R&D, which gave us radar, jet travel, GPS, microwave, and the internet.

We can live above our means only because the U.S. dollar is king, and the U.S. can print money at will. Other countries cannot. America's "exorbitant privilege" (as it was coined in France in 1965) of having the world's reserve currency is at grave risk if the United States' fiscal irresponsibility is not corrected in the near future. For the first time in modern history, coordinated efforts by the BRIC countries (Brazil, Russia, India, and China) and others are gaining ground to dethrone the American greenback.

History shows the alternative to prudent management of large economies is eventually deflation, hyperinflation, or depression. When this occurred during the 1930s, the tyrannies that precipitated World War II — and over 40 million deaths — emerged from the chaos. The bond markets are flashing yellow, with increasingly tepid demand for U.S. government bonds being issued in profusion — over $500 billion this past October alone. Two rating agencies have recently downgraded the U. S. government's economic outlook absent fiscal reform. Consider these as warning signs there is danger ahead!

Third, the United States must once again become the champion of free and open trade. The population of North America, including our United States-Mexico-Canada Agreement (USMCA) trading partners Canada and Mexico, cannot alone provide the economic activity needed to sustain the standards of living Americans expect, absent doing business with the other seven plus billion people on the planet.

Given the intractable disputes within the World Trade Organization, and the distortions of China's enormous centrally directed economy, we need a new paradigm for trade.

To this end, the U.S. should pursue free trade agreements among those willing to abide by a common set of rules and enjoy the benefits of free and fair trade. I suggest that given the success of the USMCA , the U.S. should focus on a free-trade agreement with the UK and the EU, especially considering the recent war in Ukraine and reinvigoration of NATO. Labor standards are in rough balance, the rule of law is strong, and industrial capabilities are substantial in these two enormous economic spheres. Any such effort with the UK and the EU would not preclude similar agreements with other countries and regions.

The foregone Trans-Pacific Partnership (TPP) provided the model for the recent USMCA. The 11 other TPP participants went forward with another trade agreement without the United States after President Trump scuttled it on his first day in office. It was renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). USMCA and CPTPP should be the template of a new UK/EU/U.S. trade agreement. And by all means, remembering Hull's axiom, we should continue to trade with China whenever possible, understanding China and the U.S. will

manage their respective national security issues, separate and apart from the overall trading relationship. Let me emphasize again — it was the United States' leadership on expanding trade that was the most consequential policy of the post-World War II world, as it raised living standards, increased life expectancies, brought hundreds of millions of people out of poverty, and provided a framework that has prevented another World War.

After I prepared the outline for this talk last week, I was gratified to read Dr. Alan Blinder's November 27 *Wall Street Journal* op-ed, which espoused policies similar to those I recommended tonight. So, if one of our nation's most esteemed liberal economists and a center-right corporate executive can see the urgent need for such a grand compromise, perhaps there is hope for similar bipartisan initiatives in Congress soon.

I hope these observations from my 50 years in business and extensive experience in Washington have given you at least food for thought and perhaps a framework for our future politics that allow our country and the world at large to prosper in peace in the years ahead.

Thank you again for the invitation to join you this evening. I wish continued success to the Calvin Coolidge Presidential Foundation for their important work.

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