

JEFFREY IMMELT @ THE ECONOMIC CLUB OF WASHINGTON, DC

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JEFF IMMELT

Thank you, good afternoon, and what I want to do today is talk to you about how free markets and capitalism I think can still be a foundation for competitiveness and job growth in the 21st century. I'm an avid reader and Douglas MacArthur once said, "That there is no security on earth, there's only opportunity." And I can tell you after leading GE for a decade those words are true.

We finished the last century at peace, victorious in the cold war, unprecedented prosperity, and full of confidence that our assumptions in the 1990s would carry forward into a new century. And then we went through the tech bubble bursting, that recession. Our country was attacked, two wars began, a devastating hurricane nearly destroyed New Orleans, new economic powers grew in the world, a global financial crisis plunged us into the worst recession since the Great Depression, last year left an oil spill uncapped in the Gulf of Mexico for three months, and recently there was a devastating earthquake and nuclear crisis in Japan.

Now, with all that, the economy we face in 2011 is getting better. We see signs of growing strength every day, demand for products and loans are growing, the global markets remain strong, deal activity is robust, and corporate borrowers are more optimistic. But it's hard to take encouragements from all those signs if you've lost a job, if your mortgage is under water, and if your income opportunities seem stagnant compared to those that are better off. So the global economy — and I've written about this and talked about this a lot — the global economy really has been reset. And in this reset world we still do have opportunities to succeed beyond the achievements of previous generations. Business can lead the American renewal. I think in many ways American business is in pretty good shape. Our productivity is high, the information technology industry is strong, and we still have some of the global leaders in important industries like aviation. But we have to rid ourselves of a few fallacies of the past. I'll recap just a few lessons that I think we've learned.

We have to have a balanced economy built on both services and manufacturing. A trillion dollar trade deficit is inconsistent with strength and success. We have to export more, innovate more, and manufacture more. We've got to save more and use leverage in moderation. Huge budget deficits create weakness and uncertainty in the future. And we all must care about inequality

and unemployment. Upon reflection, you know, what we call the good old days just weren't as good as they seemed. Excess leverage did create a little bit of a growth mirage in the 1990s and 2000s, and today we have to fight again for our competitiveness and our reputation. We have to win in a new economic cycle where growth is happening at multiple speeds. Developing markets, like Brazil and India, are experiencing fast growth while much of the developed world is dealing with a sluggish rebound and fiscal constraints. China, unlike Japan before it, will be sustained as an economic powerhouse. And globally governments are more active as they grapple with problems ranging from high unemployment to healthcare inflation to crumbling infrastructure. Volatility has become a way of life. Commodity costs are increasing as the economy recovers. Geopolitical risk is also on the rise. Disruption in countries like Egypt and Libya can now shake the global markets. And for the first time in 2500 years global business leaders actually think about Greece.

So classic economic cycles have become shorter and more segmented. Long-term growth will be interrupted by short-term volatility like we see today. I just think we're going to have to get used to massive new and great opportunities with just more volatility. Companies are going to have to invest to grow while staying fast and productive. It's a turbulent time and I think when people lose confidence in their future, they're prone to act on fears and not their hopes. We've begun a great debate in boardrooms and state capitals and government, which is really a great debate for this country. It's how do we compete? How do we create new jobs? And how do we win in this new economic era?

I think in modern times companies have to serve two roles. We have to drive economic growth but we also have to be a force for change and GE tries to do both. We have not been immune as a company to the forces that rocked the world, but we're a resilient company and we have certain pillars that stay the same through the ages — a commitment to integrity, a commitment to performance, and a commitment to innovation. But at the same time great companies have to embrace change. It's hard sometimes, particularly when you've been successful. I still get questions about GE's management practices from the 1980s when 80% of our revenue was in the U.S., global competition was weak, and the world was at peace. And I thought I'd share some of the big steps we've made in the last decade to give you a sense of what we've learned about competitiveness and a few views on how the company has transformed.

If you think about where GE was in the year 2000, we've dramatically changed the company. Over the last decade we sold 50% of the company. Fifty percent. We charted a path, really as much as 10 years ago, to build a company around infrastructure, because we could see the growing needs for infrastructure on a global basis, and financial services. So we exited busi-

nesses like Plastics and Insurance and now we're exiting our stake in the Media business, and we've created \$20 or \$30 billion of new businesses. GE has a \$10 billion footprint today in oil & gas. We have a \$2½ billion business in the water industry. We've dramatically increased the infrastructure presence of the company so today we're the world's biggest infrastructure player. And with \$5 trillion invested in global infrastructure over the next five years that's a pretty good place to be.

We repositioned Financial Services. Look, we had let GE Capital get too big in the context of GE, but we protected the franchise. We built the franchise around businesses in Financial Services that we can really have a competitive advantage. I like the way we look today in GE Capital and I think it's going to be good for our investors and our customers over the long term.

So the point I'd make, number one, is that all of our companies have to stay contemporary. If a company like GE can trade out 50% of its portfolio, reposition in a decade — a pretty seismic change for a company our size — I think those things have potential for every company.

The second thing we did is we tripled the investment R&D. We went from 2% of our revenue back into R&D to 6% of our revenue into R&D in a decade. We've always been good at the science of management and that's a great thing. You also have to be good at the science of science. That's really how margins get set, that's how jobs get created, that's how the future gets built. And I think as a company we had to reinvigorate our innovation and engineering base. We focus on big complex systems like Aircraft Engines; we focus on more products at more price points so that we can serve India and Africa and all the countries around the world. But we've transformed GE into being a big innovation in science company.

Third, we repositioned our leadership around growth markets. We were 30% outside the United States in 2000. We're 60% outside the United States today. We're in excess of \$30 billion in the emerging markets. And we're out there to tap the great growth markets of our time. And we're bigger and better than almost any of our competitors, and most of our competitors in all those positions around the world.

We've globalized to sell our products. We're a big U.S. exporter. We're always up there with Boeing and Caterpillar as the country's biggest exporters. We're a net exporter so we're accomplishing what the President set out and doubling exports in five years. We went from \$7 billion of exports in 2000 to almost \$20 billion today. And we've globalized around markets, not cheap labor. I just think the era of globalization around cheap labor is over. Today we go to Brazil, we

go to China, we go to India because that's where the customers are. That's where the markets are. So we did that.

The fourth thing we did is we reinvested again in our operational capability. We wanted to make sure GE was good at making things. We wanted to make sure that we had a great manufacturing footprint. To that regard, we have insourced production over the last two years. Recently we decided to move the production of our refrigerators and appliances back to the United States. We can run call centers now in the U.S. that are only 10% more expensive than India. So we dramatically improved the capability.

And the fifth thing we did is we positioned the GE brand around big themes — clean energy, affordable healthcare, productivity — and really tried to build the brand around big solutions that were going to be relevant in the 21st century..

So I think when you think about competitiveness as a framework and GE maybe as a microcosm, a focus on places where we can win, technology, manufacturing capability, exports, globalization, solutions — that's what we did and that's where we focused.

In the last decade GE's cumulative earnings would rank third in the world behind only Exxon and Shell. And coming out of the financial crisis our results are improving and our earnings will accelerate throughout 2011. We have a lot of cash that we can use to plot our future, to build factories, to increase the dividend, to do acquisitions, do buybacks and I feel good about that. I just have never been more confident about our ability to compete and win in the global economy.

We persevered through tough times and it made us better and perseverance is a source of confidence. And I'm privileged to lead GE and that's my passion but I think all of us also have a responsibility to serve the country that's made it possible for GE to succeed.

I run a competitive company and remain an unapologetic globalist. GE's a private enterprise. We're not in the top 30 of government contractors and only 4% of our revenue is sold to the U.S. government. But the world looks to America for leadership and I'm committed to do my best through my role on the President's Council on Jobs & Competitiveness. And I'll work with other CEOs and public leaders to improve America's future.

Increasing our competitiveness for the opportunities in the reset world won't be achieved overnight. We're reversing trends that were put in place over a long time and the solutions aren't

easy politically, socially, or economically. Our Council is focused on jobs and competitiveness, not reducing the budget deficit per se, but I would commend the Simpson-Bowles Commission. Their thoughtful recommendations on everything from spending reduction to tax policy and entitlement reform I think provide a helpful context.

The Council is still new but we're making progress. I think we've assembled a great group of leaders from some of our country's most inspiring small businesses and largest corporations, respected labor leaders and economists. We've identified some early areas of focus that have the potential we think to accelerate job growth. We've created teams to foster the elements of long-term competition and we're really focused on transparency, deliverables, and metrics like we would do on any corporate project that we undertook.

The fact is that from a business context, we need a jobs plan. Competitiveness depends on productivity and U.S. productivity has to continue to expand to sustain growth. And productivity will accelerate job growth when it's driven by innovation and investment. Job growth has been slow in this recovery. When we look at it, there appears to be structural shifts in sectors and geographies. There's training and talent mismatches between labor supply and demand. Small business formation is trailing historic norms. And business has been investing more in efficiency and less in innovation. So with that context in mind, I'll just go through a few of the priorities we have at the Council as we get started and some of the key actions we're really driving.

First, we're going to have a real strong focus on small business. New business creation is down 23% in this recession — much larger than previous times. If this recovery had been more typical, small business would have created one to two million more jobs in the last two years. So we plan to do a lot of outreach to small and medium size businesses to see what is structurally happening and how we can achieve more growth. In the meantime, we're going to improve the small business financing vehicles for new growth. These would include SBA loans or venture co-financing. I think we can develop new markets for small business, like commercial building retrofits. And there's a lot big business can do alongside small business on supplier programs, export programs, and financing. But I think it's very important that the Council remain really focused on new business formation and small businesses we get started on the jobs council.

Second, we're going to target a lot of leadership on technology, R&D, and innovation. We've got to encourage long-term prioritization, R&D spending in both the public and private sector. In addition we've got to reduce the skills mismatch in the labor market. I think we need a continued commitment to reforming public education — initiatives like *Race to the Top* I think show that competitive dollars can drive reform. We're very encouraged that 44 states have put standards

in place that can drive more achievement in science and math. And I think this mix of state and local reform and partnership with private sector can really help us move the needle in delivering more engineers and scientists. I think this is important to help the U.S. compete more successfully. Our universities are the best in the world but they're graduating more people with degrees in sports therapy than electrical engineering — that is not a winning hand.

Intel, which is a great American company — it's well positioned. You know, Paul and his company, they invest \$7 billion a year in R&D. They're also investing in a skilled American workforce that will allow Intel to expand their manufacturing base in the U.S. And they made the hard long-term investments in America's future that every company needs to do as well.

Changing our immigration policies is also going to be essential. Because our universities and colleges are the best in the world, students from all over enroll in them. Many of them excel and would like to remain here, become loyal citizens, and make valuable contributions to America's progress. The early focus of the Council will be in two areas around training and education. The first is we're going to really develop a detailed roadmap to graduate and produce 10,000 incremental engineers in this country every year. We think this is the key to long-term innovation success. And at the same time, we're going to focus on community colleges and skills training to upgrade the training and education needed to build a more competitive workforce.

Third, we're going to focus on winning in a growing global market. I think if you look at a great company like Boeing, more than 80% of their backlog is in overseas markets. GE would have a similar profile. Of our big products, 80% of them will be sold outside the U.S. So we have to increase not only our exports to overseas markets, but the number of markets we can compete in successfully. We have to become the world's leading exporter and to achieve that we should quickly pass the three Free Trade agreements currently before Congress. The rest of the world, every country in the world is signing trade agreements as we're sitting here today. The U.S. has to join that process. Those who advocate increasing domestic manufacturing jobs by competing less in overseas markets we think have it wrong. Ninety-five percent of the world's consumers live outside the U.S. and currently the U.S. ranks lowest among all the world's largest manufacturing nations in export intensity. So this is a big opportunity for job growth. In working closely with Jim McNerney in the Export Council we're going to really continue to drive and deliver some good results there.

Next, I think really focused on real solutions for infrastructure, energy security, and affordable healthcare. These are the pillars that are going to insure long-term competitiveness. Two crises — one in the Middle East and one in Japan — make us understand the critical role that energy

plays in our economy. Volatile oil prices reemphasize the need for more domestic supply, fuel diversity, and new technology. And while nuclear may be questioned, we must remain committed to the industry and we'll learn from all the events that are created by the horrific earthquake and tsunami. Energy policy is controversial and it's unlikely that the U.S. will lead. But how many times do we have to watch massive energy price volatility before we do something. I truly believe that the U.S. can achieve energy security through investment in energy infrastructure and R&D, and I also know we can create jobs through energy efficiency retrofit programs and other programs.

But American's infrastructure has declined dramatically in a generation. Crumbling roads and ports impair our ability to export. Our broadband capability trails many of our global competitors like Korea. And in the end, infrastructure is the only way to simultaneously rebuild productivity and private sector construction jobs at the same time. So the Council will focus on infrastructure investment as a source of job creation and competitiveness. I think private capital exists to fund many of these projects but many projects require investment certainty provided by clear public policy. And infrastructure ultimately will be a key to long-term growth.

Finally, we'll improve the collaboration between government and business. History I think has proved the superiority of market economies where private initiative and individual choice are the great engines of progress. But business and government can work together to improve our competitiveness. Government should encourage business as it seeks to revitalize our manufacturing competitiveness with incentives for investing in R&D, opening new markets to our goods and trade agreements, and changing tax policies that discourage business from investing overseas earnings back in the U.S.

It's time to examine regulation and its impact on jobs. Now, regulations serve a necessary purpose. Clear rules of the road help businesses, they help our customers, they help society. But piling numerous and uncoordinated regulations on top of out of date regulatory processes creates needless uncertainty. So the Council will make some constructive recommendations on tax policy and regulatory competitiveness, however it's important they be balanced. In other words, we must recognize the reality of the budget deficit.

Now GE has taken criticism lately over our tax rate over the past two years. Like any American, we do like to keep our tax rate low. But we do it in a compliant way and there are no exceptions. The reason why our tax rate was so low in 2009 and 2008, or 2009 and '10 is simple. We lost \$32 billion in GE Capital as a result of the global financial crisis. Our tax rate will be much higher in 2011 as GE Capital recovers. But make no mistake, make no mistake. Business rarely

speaks with one voice about anything. About anything. But we do on taxes. That's because our system is old, complex, and uncompetitive. The purpose of the tax code should be that everyone pays their fair share, including GE. But it also should help to promote jobs and competitiveness and it does the opposite today. Like most of our business colleagues, GE favors closing loopholes, a lower corporate rate, and a territorial system. This would put us in line with every other developed country in the world — Germany, Japan, United Kingdom — all of them. Taxes are an important part of jobs and competitiveness and we think it deserves a healthy debate.

So we're off to a good start with a few focused ideas. Government can work with business to improve the conditions to expand and create jobs. But it can't create and sustain those jobs for us. That's our job. The principles of capitalism, competitiveness, innovation, and markets that have allowed America to lead for generations — and GE — can win again today. But we must invest more of our cash on the American worker, particularly manufacturing. They can compete and they must be given the chance.

Over the past decade, GE's employment is up, excluding our dispositions. Employment in our Infrastructure businesses has grown 30% since 2000. Meanwhile our exports have grown, as I said earlier, from \$7 billion to almost \$20 billion in a decade. And in 2010 and 2011 GE will add 16,000 jobs in the U.S. comprised of manufacturing and high tech services. And we've worked shoulder by shoulder with our labor unions in an incredibly constructive way to make that happen. And our union jobs will grow in the thousands this year in the United States. America business should and can be competitive while manufacturing more of their products for global markets here at home. It doesn't mean business will be able to locate all of their jobs in the U.S., but we can create enough new jobs to give the middle class a better future.

So the U.S. has a growth challenge. We've come through a difficult time as a country but anger and cynicism doesn't create jobs. Only optimists invest in the future. You know, over the past decade I've traveled the world extensively and met almost every CEO. And in every corner of the world business leaders believe in globalization but they also root for their own country. That's true in India, it's true in Germany, it's true in France, it's true in Brazil, it's true in Japan, and it's really true in China. We can do the same here. So we have the cash to create jobs — how do we create the confidence? The fact is business can do a lot on our own. The political parties can disagree on policy — that's okay. But everyone, especially the President, wants to create a more positive environment where business can win. So I would subscribe that the American dream's not dead. We simply didn't respond as well as we could have when the world embraced the same economic values that we've always championed. But the eventful first decade of this century has caused us all to reset and to see clearly where our great opportunities

lie. And I think we know in the end how we can all become successful competitors in this global economy.

So there is no security in the world. There's only opportunity. And I know we can outwork and outsell everybody in the world. And I certainly feel, in the case of GE and in the case of this country, we're just beginning. You know, the future is going to be better than the past.

So those are my comments. It's great to be with you today and now David's going to ask a few questions. Thank you.

APPLAUSE
