

“Innovation as the Way Forward”

Remarks (as prepared) by Paul Otellini,
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at the Council on Foreign Relations in New York
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Good afternoon and thank you.

Today I would like to share some of my perspectives on innovation and what I believe it will take to spur economic growth in our country. Then I look forward to our conversation.

It seems like we are constantly being bombarded with negative economic messages. The prevailing mood in the media, in D.C., and in our home communities is that our economy is headed in the wrong direction. Indeed, we remain in poor economic shape. Too many people are out of work or under-employed. We are technically out of recession, but growth is anemic.

As a businessman, I like to focus on solving problems. We do not face insurmountable issues. We have been here before, and we've demonstrated that we can persevere.

I would like to outline two ideas that I believe should give us cause to approach the future with optimism.

The first is the tidal wave of creativity and new invention happening today that is reshaping how we interact with machines and with each other.

Who could have predicted the following just a few years ago?

- That the revolution in phones to transform them into tiny smart information machines would come not from the traditional handset makers, but from an iconoclastic computer company? (Apple)
- That the fastest growing mobile operating system in the world would be designed by a search engine company? (Google)
- That consumers would get netbooks, notebooks and now tablet computers from their phone company?
- That the television is about to change more in the next year than it has in the last 50 through the seamless integration of the microprocessor and the internet into our viewing experience
- That Intel would become the 5th largest software company in terms of employees?

All this is happening around us, and here's what I take away: The surest sign that we are in the middle of a burst of cutting-edge innovation is to look at how much the traditional market and industry boundaries are shape-shifting around us.

The hard lines of fixed categories are blurring. What we may once have thought of as a computer company is now a digital entertainment company or a consumer electronics company. I see a pattern of disruptive innovation behind this corporate morphing.

As grim as the economy may still appear, we are generating the cutting-edge innovation today that can drive tomorrow's vitality.

Economists have described these conditions as "creative destruction" because of the temporary economic distress that results from the process of transformation that accompanies radical innovation.

And as much as business leaders must cope with the fallout of creative destruction, no one wins more from disruptive innovation than the average consumer.

- The consumer has more choice than ever before
- Prices go down as new technology ramps to volume
- And, people have new ways to communicate and enrich their lives
- Oh, and incredible new value accrues to those companies and countries that generate this change.

Whenever this has happened, job and economic growth have followed. History has shown us that tech breakthroughs and innovation can and do re-shape our destiny.

The second reason we should be optimistic about the future is that America is in the best position to create it, and thus continue to control our own destiny. To accomplish this, we must create the conditions where new ideas flourish and innovation is unleashed.

I believe there are two simple ways to make this possible.

The first step, I believe, is to adopt a long-term view and "culture of investment."
But, what do I mean by a "culture of investment?"

It begins with common understanding that good investments lead to ideas and discovery....which spawn new businesses.... that in turn create new jobs...and ultimately leads to wealth creation and higher standards of living.

The start of this cycle is investment. While the government can help, the primary responsibility for taking action and making investments falls upon private enterprises, both large and small.

And perhaps the most important of these investments, are investments in the things that make innovation possible....even if they don't drive meaningful business results for 5 or 10 years.

I've seen firsthand how leading countries have benefitted from taking such long-term views.

Did you know, for example, that it costs \$1 billion more to build, equip and operate a semiconductor manufacturing facility in the U.S.? And contrary to public opinion, this is not because of labor cost differences. Ninety percent of the cost difference is the result of tax and incentive policies.

So I propose we take a page from others' playbooks and provide attractive incentives for companies to build factories here that will employ our workers. We should offer tax credits or a 5-10 year tax holiday to companies, domestic or foreign, that want to set up or expand a factory in the US. This will bring more manufacturing back to the U.S., employ our workers, and stimulate the economy...at no cost to us. It's time to show the world that America is "open for business."

This brings me to the second step for creating conditions where new ideas flourish and innovation is unleashed. And, it's something that I believe goes hand-in-hand with creating a culture of investment.

The second step involves reducing uncertainty for business leaders.

What we need is a set of policies that let businesses invest confidently in the future, take risks, and feel assured that we're training talent to lead the next generation of industries.

We have taken a positive first step by making the R&D tax credit semi-permanent. Business leaders can make long-range decisions when the rules are known and more fixed.

Secondly, the US corporate tax rate is the second highest among the developed economies of the world. I would propose that we adjust our tax rate to a level approximately equal to our global competitors for investment, and reverse the flow of capital and jobs out of this country. The US is still the largest market in the world for many products; our workforce is smart and conscientious with an outstanding work ethic. We need to unleash them and rebuild our manufacturing base.

Thirdly, we need to remove regulations that needlessly deter investment. Regulations can be extremely helpful and effective, but often instead steer investment to other places around the world.

Given the urgency of our situation, we should create a fast track permitting process for companies that want to build new factories here. Someone who wants to invest and employ Americans shouldn't have to wait for years to get a permit.

And we need to increase our investments in infrastructure, so that we can efficiently get resources, materials and people into factories, and finished goods out. Power and water distribution, highways, railways and bridges all are in need of investment. These investments, both public and private are job creators and are lasting. While I would prefer that we “bank” the unspent portion of the stimulus plan, I believe any and all of our remaining stimulus funds ought to be invested in these areas.

In short, what we need is a clear, forward-looking strategy that promotes innovation and investment.

As I bring my prepared remarks to a close, I want to come full circle.

After 36 years in Silicon Valley, I have learned that you cannot solve the problems of today or tomorrow with yesterday’s solutions. The world has changed. Tom Friedman is right. The world is flattening faster than anyone imagined. The best way forward for us is to unleash the unmatched creative energies of the people of this country to re-build our manufacturing base for the 21st century. In this century, software trumps steel, and microprocessors will make everything from cars to TVs smarter. Our policies need to help the engine of American business do its job and re-ignite the creative spirit in our country.

Thank you.

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