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“Are Broken Politics Breaking America?”

by Frederick W. Smith

Long-time friend, former FedEx executive, Netscape founder, and current FedEx board member Jim Barksdale asked me to speak to you today.

- I am honored to do so—especially since this is the Honors College’s 20th anniversary, and because it is named for one of the most dedicated philanthropists and education advocates I’ve ever known, Sally McDonnell Barksdale.
- Sally was a friend, and a person I admired greatly in so many ways. I saw firsthand the work that she and Jim spearheaded and funded in the areas of literacy, scholarships, and resources for underserved populations in Mississippi. She was a true American hero who lived her life for the betterment of others.
- I’m also pleased to speak to a college audience. I was your age or a little older when I first came up with the idea of using a hub-and-spoke system to transport goods. Little did I know then that it would eventually lead to FedEx. It goes to show that even as students, when you search for good ideas, it can lead to great things.

It’s also a pleasure to talk to a group known for its citizenship, scholarship, and willingness to discuss a variety of ideas. This element of rational discourse is

sorely lacking in the United States today. And as I mentioned, sometimes a unique idea turns into something!

- Its absence is one factor contributing to what I consider to be a broken political system.
- Fortunately, the U.S. is still extremely successful due to the strengths of its business institutions, industries, great universities such as this one, and a vibrant Internet that connects the world. These factors are all pulling the yeoman's share of innovation and commerce in America today.

Before pursuing this topic further, let me give you some information about FedEx, our presence in the world, and how we have flourished in the global arena.

- FedEx is a vast enterprise serving 220 countries and territories with 400,000-plus team members around the world. Our more than 650 aircraft and 160,000 vehicles deliver 13 million shipments every day. During the holidays, that volume more than doubles!
- We're organized by operating companies, with each one focusing on a particular segment of the market. Our four biggest operating companies are FedEx Express, FedEx Ground, FedEx Freight, and FedEx Services.
 - With FedEx Express, think planes and overnight delivery.
 - With FedEx Ground, think trucks delivering to your home or office.
 - With FedEx Freight, think big rigs and palletized shipments.
 - Finally, FedEx Services contains our sales, marketing, technology, and customer service functions as well as our FedEx Office retail network.
 - Often, several of our operating companies work together to deliver solutions. With Hurricane Harvey, for instance, FedEx Express,

Freight, and Office all collaborated to get critical supplies to the disaster site.

- If you'd like to know more about FedEx, go to [fedex.com/dream](https://www.fedex.com/dream) and watch a video about the connections we create for people around the world.

Key to all our operations is our culture. It's the way we look at the world and our team members.

- The founding principal of FedEx is People-Service-Profit or PSP. When we take care of our people, they take care of our customers, who in turn do more business with FedEx and enable us to grow the profits necessary to keep our business funded for the future.
- At the heart of FedEx culture is the Purple Promise. I hope you can ask *any* FedEx team member *anywhere* what the Purple Promise is and he or she will respond by saying, "I will make every FedEx experience outstanding." We live and breathe "purple" not only with our customers but with each other. And when FedEx acquires a company, such as our recent acquisition of TNT in Europe, we make sure it will be not only a good strategic and financial move, but also a good cultural fit.

We also value innovation and technology at FedEx. They have always been an integral part of our strategy. By the late 70s, we realized that information about the package is as important as the package itself. So we invented the ability to track and trace shipments while in transit, a revolutionary idea for logistics. We've been on a continuous mission to provide our customers not just shipping but also

access to shipment information and to people, markets, and possibilities around the world. The FedEx history of innovation is built on a series of firsts:

- We created the overnight shipping industry. Before FedEx, people weren't able to get their deliveries so fast from anywhere to anywhere. We changed that, and that changed commerce forever.
- We were the first to offer package tracking through fedex.com in the mid-90s, something you've taken for granted all your life.
- We pioneered a unique wireless technology over 25 years ago to manage our dispatch system.
- Today, we continue to work at the edge of technology. Our FedEx Delivery Manager gives customers a range of flexible options to schedule dates, locations, and times of delivery, all on their mobile devices.
- With our customers we've developed new sustainable products at our innovative Packaging Lab. It's one of several FedEx labs within a Memphis-based entrepreneur incubator centered on advanced optics, scanning, robotics, social networking, and more.
- We also helped establish the FedEx Institute of Technology at the University of Memphis. It works with FedEx IT to cultivate technologies pertinent to our business.

Another key component of FedEx's business is our promotion of world trade. We are at the nexus of global commerce with the millions of shipments we deliver daily. Did you know that the largest customs-clearance port of entry in the U.S. is the Memphis airport, where our FedEx Express Superhub is located?

- History has shown that free-market economies create human opportunity.

- We know that trade is absolutely essential to American prosperity. About 25% of U.S. jobs are trade related.
- Trade-related jobs pay an average of about 18% more than non- trade-related jobs, and in general, trade has added more than \$13,000 a year in purchasing power for the average American household.
- Even though we're the world's largest economy, 80% of the world's purchasing power and 98% of its consumers lie outside the U.S.
- That fact highlights the importance of open and fair trade between America and the rest of the world. Through it we can ensure that the U.S. gets a big piece of the huge global economic pie.

Now that you have a picture of *who* we are today, let's talk about *how* we got here. How did FedEx and other companies such as Southwest, Walmart, Microsoft, Apple, and Amazon become business giants over the last few decades? Several factors were at play, but a key reason was transportation deregulation— of aviation, of rail, and of trucking. With deregulation it became easier for growing companies to get goods and services to market. First, aviation.

- Commercial aviation was regulated in 1938 and placed under a regulator, the Civil Aeronautics Board or CAB.
- In the 70s, I testified before Congress many times to explain how government regulation was choking cargo airlines and to call for policy changes. Then in 1977 air cargo was deregulated which allowed FedEx to grow unimpeded by archaic restrictions.

- The following year, Congress passed and President Carter signed the Airline Deregulation Act, and it changed air travel forever. It was truly an industry disruptor.
- The Airline Deregulation Act removed government control over fares, routes, and the creation of new passenger airlines. The changes sparked a surge of competition that drove prices down. By 2000, customers were paying on average half as much for airfare as in 1978. Airlines bought more fuel-efficient fleets, developed computer reservation systems, and developed other innovations that made both passenger and cargo airlines more agile and service-oriented.
- The CAB was dissolved by the Sunset Act of 1984. The strict regulation of commercial aviation had been adopted for the railroads decades earlier.

Let's look at a similar scenario for the railroads.

- In 1887, the Interstate Commerce Commission or ICC was established to control railroad freight rates, mergers, and competition, ostensibly to protect the public interest. Since the ICC had to rule on every major change and did so with the usual bureaucratic foot-dragging, the railroad industry wasn't motivated to modernize or innovate—it just took too much time and red tape.
- By the 1960s, a third of the U.S. rail industry was bankrupt or close to failure. To the rescue were two regulatory reform acts in 1976 and 1980. They eased rules on rates and mergers, and allowed multi-modal ownership. Lifting restrictions helped the railroads achieve higher performance levels, and consumers benefited from lower rates.

The trucking industry followed a similar deregulation path.

- Once again, the ICC rules and processes imposed upon trucking in 1935 had been squelching new competition for about 40 years. Finally, in 1980, the Motor Carrier Act finally limited the ICC's authority over interstate trucking. Rates became competitive, resulting in lower costs for shippers. And the cost of maintaining inventory fell because truckers could offer more flexible, on-time delivery service.
- The icing on the cake was the Trucking Industry Regulatory Reform Act of 1994, which pre-empted state and intrastate regulations as burdens on the free flow of national and international goods.
- The ICC was disbanded in 1995.

The first point of these mini-history lessons is that deregulation was a huge factor in transforming small and medium businesses into big companies because it spawned innovation, competition, and growth.

- Without deregulation there would have been no big box retailers such as Walmart, Target, and Costco, all of which brought down the price of goods for everyone.
- Logistics costs declined from 16% to 9% of GDP, a huge gain for national productivity.

The second point is that these deregulation laws were the result of tough negotiations among many opposing factions such as shippers, transport companies, unions, professional transportation organizations, and of course lawmakers of both political parties.

- Enacting the laws took argument, and eventual compromise. Congress made decisions in the public versus parochial interests, something very rare these days.
- Keep in mind that FedEx played a major role in the crafting of some of these transportation laws. Committees made decisions based on experts' research, studied opinions, and authentic discussion. Negotiation got things done.

Again, today's political system could never have accomplished all that. It's an entirely different world.

- Both parties have become quite polarized in their viewpoints, seemingly without the ability to compromise. Red states have become redder and blue states bluer. As Americans sort themselves politically and geographically, district gerrymandering plays a bigger role in the election of one candidate over another. Furthermore, congressional districts are drawn in ways that diminish the influence of moderates and exacerbates polarization.
- At the same time, you've had the rise of attack TV advertising based mainly on insults rather than issues. We saw how nasty 2016 election ads got, with the highest percent of negative ads of any modern election. At the same time, cable TV and talk radio news sources became incredibly biased, with most people only watching or listening to those shows confirming their already entrenched political beliefs. More insults, no discourse, no progress.

- Add to the mix the emergence of social media, where everyone has a platform to voice their opinions, whether based in fact or science.
 - While social media and the Internet have wrought wonderful changes, they have spurred the creation and consumption of content from very diverse sources for anyone with an internet connection. Easy access to information and social or financial transactions has been liberating in many ways to people and businesses the world over.
 - However, social media is ubiquitous and often unreliable, putting our democratic processes at risk. While in the past, newspapers were not without bias, to a large degree they provided broader information, discourse, and analysis. With the rise of a multitude of digital and cable alternatives, these historic sources of common information are dwindling.
 - “In place of media scarcity, we now have a media firehose,” said University of California law professor Richard Hasen last month. He explains that because the barrier to entry is so low, it’s easy for both domestic and foreign sources to spread lies and propaganda for political or financial purposes. Thus the development of “fake news.” And since fake news web sites, emails and Facebook links look just like legitimate ones, people often have a hard time distinguishing the truth.

With both parties gravitating to extremes and little willingness to listen or compromise, we cannot move America forward.

- We can't fix health care. Millions of people are waiting to see if they're in or they're out.
- We can't replace antiquated tax laws with new ones that stimulate corporate investment and job growth.
- We can't fix our country's deteriorating infrastructure. Did you know that the tire life expectancy across FedEx Ground is roughly half what it was 20 years ago, due to the deterioration of highways?
- On top of all this, we are turning inward as a country, becoming more protectionist. That will not expand job or trade horizons for the U.S.

Unfortunately, despite our broken political system, we have some big relationships to manage:

- The most important is the U.S-China relationship.
 - China still practices mercantilist policies they renounced when they joined the WTO. We along with many others supported China's entrance into the WTO, but the Chinese have remained protectionist and mercantilist when it comes to rules governing trade, investment and economic policy.
 - China's 2006 "indigenous innovation" policy favors and subsidizes Chinese companies at the expense of foreign businesses around the world. This is prohibited in the WTO agreement China signed. The government also directed its leading firms to "assimilate imported technologies."
 - According to William Galston in a *Wall Street Journal* op-ed last month, "In practice this meant giving American firms an offer Don

Corleone would have recognized—either share their technologies with Chinese competitors—or refuse and miss out on the world’s fastest growing market.”

- The U.S. must insist China keep its WTO promises. We must manage this relationship responsibly, firmly, and equitably.
- The United States has a host of other global challenges: Russia, North Korea, Iran, Venezuela and the containment of the threat of terrorism. All these foreign policy challenges require an engaged United States for continuing peace and prosperity. This fact makes our political dysfunction so dangerous for the future.

Some have suggested that a way to fix our broken two-party political system is the formation of a third political party or movement that becomes the swing vote forcing compromise in the Congress.

- Emmanuel Macron did it in France. Similar to the U.S., France had two major parties, one left, one right, facing declining appeal from voters weary of the negative back-and-forth without seeing real change.
- Far right and far left movements had begun to get traction among the electorate, given the gridlock of the major parties.
- Riding the wave of voter exasperation, last year Macron started a movement called En Marche, in English “On the Go,” and Macron did it without the support of either major political party. Instead, he drafted thousands of young volunteers on Facebook and sent them across France to ask citizens what they wanted from their leaders. People were amazed to be asked the question.

- Eventually Macron declared his bid for the presidency. Naysayers in both parties said he'd never be elected. But he based his campaign on the idea of being an agent of change. He said, "Our democracy can only be nourished in action and our ability to change..."
- Macron's election broke up the two-party system in France that had endured for 60 years. Now, with En Marche winning the parliamentary election as well, Macron is emerging as one of the strongest leaders in the Western world.
- The U.S. might learn from his approach. Here, with our Congressional system, all it might take here is five or six senators who are willing to form a centrist party and an attractive presidential candidate to lead them.

Regarding rationale discourse, my friend Senator John McCain said recently: "Our entire system of government...was designed for compromise. It requires pragmatic problem-solving from even the most passionate partisan. It relies on compromise between opposing sides to protect the interests we share." It is clear for the reasons I've outlined Congressional Democrats and Republicans can no longer do so.

If we are to continue to be recognized as the world leader we became after World War II, we must find the rational thinking and political will to fix America. Too many things hang in the balance—faster growth of our economy, overall prosperity, U.S. relationships with other world powers, and our ability to get things done for the benefit of future generations.

I hope you who are part of the Sally Barksdale Honors College will continue to discuss the major issues I've highlighted. Become educated and committed citizens. As such, you are our best hope for crafting new solutions and delivering the innovations that have, to coin a phrase, "made America great."

We're counting on you.