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FedEx's Fred Smith Agrees US Needs to Return to a "Product Economy"

Tax Policies are Unfair to Asset-Heavy Businesses, He Says; Would have Bought More "Triple Sevens"

SCDigest Editorial Staff

In an recent interview with the Wall Street Journal, legendary Federal Express founder and CEO **Fred Smith** covered similar ground to the ideas offered by SCDigest editor **Dan Gilmore** in his recent column **Back to the Product Economy?**

In the interview, Smith crisply summarized how things have become so out of whack in the financial sector versus the rest of the product economy that has to play by traditional rules.

"Rather than in our business, where you have to have a dollar of equity for, 10 cents or 15 cents of debt, it's exactly the opposite in the financial sector where you have one dollar of equity for 10, 25, 50 times risk," Smith said.

Smith said a key part of the problem is that US tax and other policies are unfair to asset-heavy businesses, such as manufacturers and the service providers like FedEx, with its fleet of 300 planes and thousands of trucks.

"The United States has a completely uncompetitive tax structure in general and it has a particularly onerous tax structure for firms that are asset-intensive," Smith said. "If you run an industrial company like FedEx, which employs 290,000 folks, most of whom are blue-collar people, the way we have to run this business is to equip those workers with billions of dollars of assets that allow them to pick up and deliver millions of things around the world."

Smith also cited, as did Gilmore, that the potential for vast salaries and bonuses in the financial sector siphoned off too much of America's top talent in recent years, especially those coming out of college.

The Wall Street Journal article said Smith "views the heroes of the U.S. economy as the companies that actually produce real goods and services. He sees the Wall Street collapse as an inevitable byproduct of investment bankers building multitrillion dollar debt pyramid structures."

"Not too many young people coming out of school are studying to be production managers at General Motors, Smith said, adding that most of FedEx's first line managers come not from the top flight universities, but out of community colleges and the military.

"The top talent has wanted to go to Wall Street," he said.

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Smith said US tax policy is a real problem. First, corporate taxes are high. Smith said FedEx' corporate tax rate is 38%, while even in Germany it is only 25%. He also thinks companies should be able to immediately expense capital investments against profits, rather than being forced to depreciate that expense over several years.

FedEx's Fred Smith Agrees US Needs to Return to a "Product Economy (Con't)

"Look, our capital budget as we went into this year was about $3 billion. We went out to Boeing in July for our board meeting to see the new triple seven, [the Boeing 777] which we have bought," Smith said. "If we had a lower corporate tax rate with the ability to expense capital expenditures, guess what? We'd buy more triple sevens."

Smith also believes capital investment is the best way to keep blue collar wages on the rise.

"The politicians deplore the fact that we have a disparity of income," he says, but "the only way to make a blue-collar person earn more is to invest in capital, training and infrastructure. So the more you tax capital, the more you hurt workers." Smith said he estimates that about 70% of the return from FedEx capital expenditures is captured by workers in the form of higher wages as their productivity rises.