

The Economic Club of New York

Breakfast Series

David Farr

Chairman and Chief Executive Officer, Emerson Electric
Chairman of the National Association of Manufacturers

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Introduction

Chairman Terry J. Lundgren

Thanks very much. I'm Terry Lundgren, the Chairman of the Economic Club of New York and Executive Chairman of Macy's, Inc. So, as a continuation of our Breakfast Series, I'm pleased to introduce our special guest, David Farr. He's the Chairman and CEO of Emerson Electric, and he is the Chairman of the National Association of Manufacturers. And we also have Jay Timmons here, and Jay is the CEO of NAM. So, today let me talk a little bit about Dave. He has, for the last 16 years, has been running Emerson and this company has steadily transformed – like many of our industries have had to do – from a diversified manufacturing conglomerate into a highly focused global enterprise that provides innovative technology and services solutions for customers in industrial, commercial, and residential markets.

In 2016, he led a number of strategic initiatives at the company to reshape it for the future. Its two key business platforms – automation solutions and commercial and residential solutions – delivered global sales last year of \$14.5 billion with international sales representing more than half of that business. He became CEO in 2000 and was named chairman in 2004. Emerson is one of a handful of companies that has consistently raised their dividend now going on 60 years.

Dave joined the company in 1981. He was appointed President of Emerson's Asia-Pacific operations in 1993 and was based in Hong Kong for four of those years. He returned to the United States in '97 to oversee Emerson's process control business. In 1999, he was appointed as Emerson's Chief Operating Officer, a position that he held until he was named CEO.

Dave has been an active member of the business and industry organizations. He serves as Chairman of NAM as we introduced him here. And he is on the Board of Directors of the U.S.-China Business Council, and he's also a member of the Board of Directors of IBM. He has also been very active in a wide number of civic and charitable organizations in his hometown of St. Louis to the point where he was actually named St. Louis Citizen of the Year for his community leadership and charity activities.

He received his bachelor's degree in chemistry from Wake Forest and his master's degree in business administration from Vanderbilt. As a reminder, this conversation will be on the record and as always, be sure we'll end at 9:00. So we'll come back and take your questions, but now Dave, the microphone is yours. (Applause)

David Farr

Chairman and Chief Executive Officer, Emerson Electric

Chairman of the National Association of Manufacturers

Thank you very much, Terry. It's good to be here this morning. It is kind of unusual with Emerson, just to give you an idea, I'm only the third CEO since 1954, before I was born. And so we've always had a process of having long-tenured CEOs, CEOs that can transform the company, sort of re-engineer the company and make sure it stays relevant. And that's a very important challenge, but one that I take very seriously. And I'm looking forward to the next several years as I pass this baton on to the next leadership team and make sure that it does well and has their chance of running it like I did. But being a CEO, being about to finish the 17th year as CEO next month, or this month, is very unusual in this industry.

It's great to be here and have an honor to address the Economic Club of New York – a great honor. It's also being here with friends and colleagues. And I'm a little bit surprised that so many people are out here for a tax reform speech this morning. I don't understand this. There's a lot more exciting things in this world.

I want to thank Terry Lundgren for his kind introduction and everything at the Economic Club for organizing this event. As Terry said, I'm here in two capacities – as the Chairman and CEO of Emerson located in St. Louis and as the Chairman of the Board of the National Association of Manufacturing, as I refer to it as NAM. The NAM is the unified voice of the manufacturers in the United States, from iconic global brands to family-owned small companies. Led by our president and CEO, Jay Timmons, right here, who is here this morning, and also we are advocates for over 12 million people within manufacturing in the United States. And it's

important to have their voice heard, because we make things right here in America. And given the country's focus currently on manufacturing and our industry, there's a lot going on today and it's really a great time to be the chairman of the NAM and have the ability to go out and talk.

I've been in manufacturing my whole life. I grew up going to Corning Glass Works plants, factory, with my dad for over 20 years. My dad lived in Upstate New York. He was born in Elmira, New York. He was a teacher. He went to Syracuse. He went on and got his degree at Union College in math. Worked on plant floors at Corning. We moved around the world. I walked them every day with him. He finally retired after 36 years as a plant manager. And I remember seeing him one time, he said, Dave, how did you ever become a CEO of a company, when I was a plant foreman. I said your knowledge and your focus on education, which you gave to me.

The manufacturing floor has changed dramatically over the last 36 years. And since I've been involved in the industry, we've grown from \$14 billion up to \$25 billion. And as Terry said, we made the decision to re-engineer the company and change it and focus it, and we took the company back down to \$14 billion where I started, which was quite a traumatic experience. We have more than 80,000 employees with operations in more than 150 countries with 80% of what we sell here in the United States, which is our largest market, around 45% of our sales, we manufacture right here in the United States. So we're really a global manufacturing company and a U.S. manufacturing company.

Emerson primarily serves industrial and commercial customers in vital industries, such as oil and gas, the chemical, food and beverage, power and water, life sciences, pharma, heating and ventilating systems, the cold chain, refrigeration, and many more. But clearly focused on industries around the quality of life that we see today.

Nothing gives me more pride than seeing Emerson employees achieve and accomplish things that have never been done before to make the world safer, cleaner, more efficient. Our world has changed dramatically in my years in manufacturing, and the work we have to do has changed just as much. Manufacturing skills have moved from manual to pneumatic to automation and to digital. A much more educated and skilled workforce is needed than 25 years ago when I started out. Combined with the new ways we gather and use information today, we're rethinking new and exciting manufacturing careers for people from all walks of life – we need a different workforce for manufacturing to be successful today versus 30 years ago when I started at Emerson.

I know this manufacturing industry extremely well, but in all my working years in manufacturing, I cannot remember a moment like this that we face today. We are standing at a real crossroads, with a narrow window to deliver some major change for this great country. Significant reforms that will make life better for manufacturing workers, better for manufacturing communities, and better for America as a whole, and improve our global

competitiveness.

As a leader of a truly global American company, I can tell you the United States faces intense competition for our jobs – even my job – for our manufacturing businesses, and it grows fiercer and more competitive every day, every year. There’s no question that our Washington, D.C. policies put America, companies like Emerson – and the employees and families in all 50 states – at a clear disadvantage – a competitive disadvantage for America.

The top corporate tax rate can exceed 39% when you add up all the federal and state and local taxes – the highest corporate statutory tax rate among the 35 industrial nations of the OECD, more than 50% higher than the average rate that we see around the world that we compete against.

If you are like me, you look at these numbers and you ask: what are we doing to ourselves? And why? What are we doing to our people? Why is Washington, D.C. making it harder for us to win in this world? This is so stupid. So dumb from my perspective and so self-destructive from my perspective.

While the tax code is not the only problem, it is one of the biggest and most impactful from the U.S. manufacturers’ perspective. But also important is excessive regulations on all manufacturing and industries. Regulation is important, but over-regulation is a big problem for

American industry.

America has some incredible advantages – unparalleled resources and an unbeatable, hard-working and dedicated workforce. But if we modernize our tax code for the modern company – if we let our companies compete on a level playing field in the world – we could lift up more families, invest in more communities, unleash the power of industry, and improve the lives of all Americans and this great nation. Create more long-term economic value for the people of the United States.

If we had a better, more modern tax code, companies like Emerson could expand and hire more workers and help them get ahead. That requires embracing and adapting to the increasing global economy. We are all in the same big economic game. But the U.S. gets to write its own, own rules, and we need to write some new ones now.

But why are we writing rules and regulations that give the other global competitors an advantage over Americans? If you are defending the current tax code, then you are defending a manufacturing worker in Ohio losing his or her job to a foreign worker. If you're defending the current tax code, you're having to defend years and years of mediocre economic growth, stagnant wages, and entire communities losing hope for future prosperity. If you're defending the current tax code, you're defending less innovation, fewer technological breakthroughs, less R&D, and fewer lifesaving medical discoveries. In a country with so much incredible potential,

it's indefensible to not have a current, competitive tax code. But the good news is we can do something about it. And what are we to do about this? The time has come.

First, we must make the federal corporate tax rate down, take it down to 15% and lower the tax rate for two-thirds of manufacturers that pay taxes at individual tax rates as pass-through entities. It's backward and unfair to saddle them with marginal tax rates of up to 44% for these small business owners, it really hurts them.

Small manufacturers are the backbone of our industry, and small businesses drive our economy. So it's time for the tax code to stop treating them like an afterthought – a huge negative in the U.S. economy.

Second, we have to stop punishing global U.S. companies when they are reinvesting overseas earnings back into the United States. At Emerson, for example, more than 80% of our sales, or 50% of our sales in 2016 were outside the United States, and most of our competitors are based abroad. Since Emerson is headquartered in St. Louis, we pay taxes on overseas profits and when we bring them back home, we pay additional taxes. Foreign competitors do not – another negative competitive disadvantage for us U.S. companies.

That kind of tax structure puts Emerson at a disadvantage – and other global companies headquartered across America at a structural cost disadvantage. We can earn the same dollar as a

foreign competitor, but if we want to reinvest in American facilities, in our American workers and in our American communities, we keep less of that dollar solely because of the U.S. tax system. The U.S. needs to catch up with the rest of the world and implement a territorial tax structure. We can create more jobs here while selling to overseas markets and growing our businesses and growing our communities, and growing the U.S. economy.

Third, we need a robust capital cost-recovery system. As I explained to Congress a few months ago, a firm's capital cost includes the price of capital equipment, the cost of financing the equipment and the tax treatment of the investment. Faster capital recovery lowers the after-tax cost of these investments, makes them more profitable, gives us more money to reinvest in the U.S. U.S. investment normally translates into more jobs in America.

Finally, manufacturers will be looking for a strong research and development incentive in any tax package – both R&D deductions and a strengthened R&D credit.

So, that is the straightforward and smart tax, pro-growth reform manufacturers want and that America deserves: a fair corporate tax rate, fair rates for small businesses, a territorial tax system, a robust capital cost-recovery, and a consistent long-term focused R&D incentives, to focus on American jobs.

This is certainly not an easy lift in today's world. But it is possible. It is necessary, and the right

thing to do for the stronger, long-term growth-driven U.S. economy.

A 2015 NAM study concluded that a reform package like this could add more than \$12 trillion to the U.S. economy, GDP, over ten years, deliver more than 6.5 million jobs to the U.S. economy, and increase investment by more than \$3.5 trillion. As a global manufacturing CEO of 17 years who makes decisions based on tax policy almost every day, I believe in this assessment. We look at these issues day in and day out where we invest our dollars as a company. Every CEO in the manufacturing world does this.

Now, the good news is that we have the best chance in decades to get this done. The president wants to get this done. The vice president came to the NAM and told hundreds of manufacturers in person that tax reform would get done this year. And the U.S. businesses believe this and we've increased business investments already in anticipation of this happening. We have done that within our own company.

The Speaker of the House told the same gathering, in his first major address on tax reform, that Congress is going to get this done. He is doing an event tomorrow with *The New York Times* on tax reform. So, we will be watching. And leaders in the House, the Senate, and the White House have all come together to say they agree on the basic principles of tax reform. We now need real actions and results in 2017 – not later, but now.

This can happen. The time is right. And we cannot let this critical moment pass. Manufacturers are all in for tax and regulation reform. I am here today to personally challenge you, each and every one of you, to do something in your own power to make the case for tax reform – our great country needs it to win globally, to grow faster, and to create more jobs for Americans.

Talk to your congressional representatives. Write opinion pieces to news outlets and letters to the editor, engage with the NAM, who will continue to drive this effort and bring all of our influence to bear on behalf of our industry, on behalf of our communities, on behalf of America's working families. We need real tax reform. We really need action now – not just talk.

Ultimately, this is a question of values – because the tax code is a reflection of what we value as a country. Do we value the American manufacturing workers – and workers in all industries? I believe in manufacturing, and I have lived it my whole life, for over 50 years. I believe in American manufacturing, innovation, and drive to win and be the best in the world. I do it day in and day out, 365 days a year.

Do we want to secure the jobs here? Do we want to raise the standards of living? Do we want to give the workers the best possible shot at making a good living and a good life? Do we want plentiful jobs for the next generation? I do.

The current tax code says we do not, but I believe we do. So now is the time for action and not

just lip service and not just hot air from Washington, D.C. politicians. I believe we want to keep manufacturing here in the United States. We want it right here in America. I believe we want America to be the leader in 21st century innovation, in medicine, in technology, in energy. I believe we want to reinvest in the promise of this country. Because when American companies do well, they do good things and the country does well.

The most obvious way is through the jobs we create, pulling people in off the sidelines into productive jobs, lifting up communities that have been left behind in the past, and offering a ladder to people who want to move up in their careers and truly make something happen. Creating wealth for themselves.

American companies improve lives in other ways. A stronger manufacturing sector would also mean more of the lifesaving, life-changing innovation that define our world, in companies we lead, in companies we lead and the customers we lead for them.

There are children alive today because of the breakthroughs delivered by U.S. pharmaceutical manufacturers. There are families who are safer today because of the work of great automotive manufacturers to make their cars more protective and efficient. There are communities that are thriving today because of innovations that manufacturers have developed to improve some of the most basic areas of our lives. And yes, we're helping the environment with innovations and technologies.

This is one of my favorite parts. I'll give you an example from Emerson. At Emerson, we produce something that many people use in this world called the InSinkErator garbage disposal.

New York is a little bit late to the party because of regulations. But they really are useful.

Emerson manufactures the InSinkErator garbage disposer. We made over 7 million disposers this year, which, by the way, is the only product of its kind where the assembly, manufacturing, is here in the United States. Our only competitor comes out of China. It sells through one of the big box stores, and they get a free duty into the United States. But if we export to China, we pay 25% duty. That's an issue – a side issue. For cities across this country, trash is a serious problem. Across the world, it's a serious problem. And so much of the trash is food waste, which rots in landfills and increases greenhouse gases – methane gas in fact.

So, Emerson had an idea. We started working with major cities like Boston, Philadelphia, and Milwaukee to encourage InSinkErator use, so they could cut down on food waste in landfills, but just as important – and this is the cool part of it – to recapture the methane and turn it into energy or turn it into fertilizer – to recycle the food waste back into useful energy and to fertilizer.

It's really an amazing solution. It's just one small example of the creativity of American manufacturing. Emerson has recently invested significantly in our InSinkErator facilities in Wisconsin with an over \$30 million expansion, in a new innovation and technology center. And we've also continued to invest across the United States – in Minnesota, Ohio, and Texas and

other states. So, we believe in American innovation. We believe in America and driving the world.

But like other companies, Emerson and our employees know we have to also have an obligation to give back to the communities in many different ways. In our hometown, Ferguson – so I was right there in the heart of Ferguson during all this process – in fact, I always say two nine irons away, but it's more like a driver and three nine irons, but it's okay – there was a tremendous need a few years back, as the whole world saw clearly a few years ago. So, in 2014, we dedicated, since 2014 dedicated over \$15.5 million in programs that support the community and the families in Ferguson. We're connecting people to jobs by promoting STEM-focused scholarships to Ranken Technical College, the University of Missouri right there located in Ferguson, and many other academic programs, and supporting young kids to get out and have a chance to get ahead in life. In fact, the U.S. Department of Commerce just announced last week another \$2.4 million on top of ours to support Ranken and to promoting and teaching technology and manufacturing jobs for that community.

Our commitment in Ferguson extends beyond workforce development as well, in early childhood development programs, a Fathers' Support Center, libraries, and local and national non-profits doing transformative work across the community. We're looking for even more ways to be part of a revival in Ferguson. We've been in Ferguson since 1939, a long time. I'm very proud of Emerson's contributions, but I also know that we are not alone. Companies like ours, all sizes,

big, small are involved in communities across this country. They're trying to help give back to communities. That's part of our job as community leaders, as manufacturing leaders, as leaders in total. Emerson is, and will be there to help with all rebuilding efforts relative to Ferguson. The same thing is going on in Houston right now. We currently have nine facilities, manufacturing facilities in the flood area. We currently have service centers. We have offices, technology centers. We're supporting the people. We're supporting the community as we give back to that community as they rebuild themselves.

Also, our commitment to education and training and STEM goes well beyond Ferguson, to many millions of dollars to building strong relationships and programs across the country, around the world, relative to education and upgrading the education for all kids to have a chance in this world.

In doing so, we are addressing the urgent need for manufacturing talent in the United States – the kind of work I talked about earlier. Research from Deloitte and Touche and the NAM's Manufacturing Institute, found that the U.S. will have almost, about 3.5 million manufacturing job openings over the next decade. But about 2 million of them could go unfilled because of the lack of education, the lack of skills needed in today's workforce. American manufacturing cannot reach its full potential until our people can reach theirs. We need to invest in the next generation of manufacturing leaders, innovators, and workers. It is very important that we do this as manufacturing leaders and we spend a lot of time on education. You ask any CEO how much

time they spend on education in their communities, it's right at the top of the list. It is so important to our life and success in America.

And I believe this, too, is at stake in tax reform. Our ability to do more good for America is tied to our ability to succeed in America, which is tied to tax reform. This is what our country is all about – people helping each other. We are seeing this live in Houston and across the Gulf Coast. Companies that are part of the fabric of their towns and cities. Families who are confident in their future. This is what America is about. We grow, we prosper, and we economically become stronger and stronger through our people and through industry.

Our elected leaders have a chance to give them confidence and to do good for our country by empowering all of us to do well and support ourselves. We don't want government handouts. We want to create real wealth. We, the people, all the people, all races, all ethnicities, all cultures, we want a chance to succeed and to grow and prosper and be successful. That's all we want.

We know not all problems are solved in Washington. But if our leaders can improve the tax code for American business and American workers, we, the business community, will be able to tackle so many more of the challenges our country faces, from job creation to community development, to health care, to education, to be a stronger, more prosperous country for all of us.

We will be able to promote innovation, opportunity, security and growth, and uphold our

American values of diversity, inclusion, and respect. We'll be able to invest in the fabric of our nation and help build the future that all Americans deserve and want. We want a chance to succeed by ourselves.

Securing the future of modern manufacturing means having a tax code that lives up to the realities of the modern world. And I hope you are willing to speak out and take a stand and show America that this should be all about, not just money for businesses, but increasing economic prosperity for this country.

It's about what we value as a nation. It's about helping all Americans have a better shot at a better life and a brighter future for America and themselves. So, we need to get to work, and that's why I'm here today.

I want to thank you very much for listening to me. I appreciate your support, and hopefully you'll go out and pass the word. This is important to America and American manufacturing, and it's our chance to revitalize American manufacturing for the future of this country. With that, I open the floor to questions. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN TERRY J. LUNDGREN: Thank you, David. We can obviously feel your passion

for tax reform, and I think that you share that passion with several of our members. I'm going to ask the first question, then I'm going to invite the fellows who are here who are up and coming, potential, high potential individuals, both for our companies and our industries as well as members potentially for the Economic Club, which basically means they're younger than we are. So, the first question came from one of our online questions from one of our members. And that was, with all the changes in robotics taking bigger, bigger roles in manufacturing, even with tax reform, will there indeed be jobs to be created in the manufacturing world if tax reform is passed?

DAVID FARR: That's a question we get a lot as a manufacturer, and the answer is yes, because what's happened is the manufacturing floor is changing, it's evolving. And what we see coming in, as bring the innovation in for new products innovation relative to manufacturing, is a change in the skill set of the people we need on the factory floors. People that can work with electronics, they can work with robotics, can work differently rather than the old days when I walked the floor as a young kid with my dad looking at people, you know, person after person after person lined up. Today, the innovation is around the people and therefore the jobs are there, and the jobs are growing. It's just the education of those workers that's a key thing. So that's, as a CEO, and every CEO you talk to relative to the world, in your world and my world, we're talking about how we need a different educated worker today. Because the jobs will be there and jobs will be created, both at the factory, but also outside in support of that factory worker and the factories and what we're trying to do today around the innovation. So, it's a different world and we, as

America, have to figure it out. It's not about low-cost labor. It's about productive, well-educated labor and workforce, and that's what it's all about today.

CHAIRMAN TERRY J. LUNDGREN: Fellows, any fellow members first. Any questions?

We'll open it up to you first. Yes...

Thank you. You briefly talked about the impact on labor and a qualified workforce. When we talk about education, we often focus on millennials and younger folks, but the reality is...

DAVID FARR: It's everybody.

It's everyone. So, what do you see as corporate...(Inaudible)...

DAVID FARR: Good. You know a lot of things we have to do today, so as we rebuild, I'll just use the example of the InSinkErator, of the disposer in Wisconsin. We're having to re-educate our workers. People have been working on the factory floor one way for 25 or 30 years. We have to send them back to schools. We work with the state. I was up in Wisconsin talking to the governor, Governor Scott Walker, about expanding the community college programs right there in Racine, Wisconsin to support us in what we have to re-educate our workers. So, rather than just throw out people with 25 or 30 years of experience, we want to retrain them and re-educate them. You have the younger workforce coming in behind, but we have to change the skills.

Because we, as parents, did a bad job. We, as parents, did not tell our kids to go into manufacturing, to become engineers. We need to refocus that. So, we're trying to re-educate not only the younger, but also the older people and try to say manufacturing is not a bad place to go. It's a very good place. It's a good paying job. It's a stable job. And you can see the world. But there's a lot of balancing back and forth. We put just as much money into retraining and education through community schools and the technical schools as we do the younger generation.

CHAIRMAN TERRY J. LUNDGREN: Is there another question...yes...

In terms of tax reform, when you think about the other side, you know, how are we going to pay for it, are there any ideas? I mean obviously border-adjusted taxes sort of got taken off the table. Are there any other concepts of these pay-fors that you find troubling?

DAVID FARR: From my perspective, I start with get the rate as low as possible and we'll take the tradeoffs. We'll take the things, the deductions and other benefits that we give, we're being given as corporations. So I think that I look at this and say, okay, start with a clean slate, get it as low as possible, and then based on what we have to have and can have, then that rate will alter. But from my perspective, I think everything's on the table right now relative to deductions. And I look at it, this is our chance to reset the whole industry and how we want money to be allocated into the economy. Because all these little crazy deductions and benefits and rules out there have

altered the economy and more money flows. And I think the time and the responsibility for Congress right now is to say, okay, step back, we're in a different world right now. What's important for that next generation? Not what's important for this quarter or this year, but what's important for the long term for the U.S. economy to be the most prosperous economy and the fastest growing economy in the world relative to the size of the economy. So, I think that from my perspective, everything's on the table and that we'll deal with this issue. And I think it's very, very important to say, okay, let's take it to 15% and then figure out, okay, how do we make this pay for it? Now, the big issue for manufacturers is we do worry about spending too much money. So, our government today spends more money than the economy's growing, and that's a big issue. So we've got to get the economy growing faster to carry the cost that we need as an economy from the standpoint of benefits in welfare or the benefits in education, the benefits in the defense industry, or emergencies like we have with the hurricanes going on right now. So there's a re-balancing that needs to be done right now. And the way we thought about this 20 years ago is different, and we need to really think hard about how the economy, and how do we want to compete as a country going forward. And that's what they need to think about doing. But it's work. They need to work. But those are the things that CEOs like Terry and I think about every day. We survive as businesses today because we take tough actions and we think about what do we want to look like ten years, fifteen years, twenty years from now. And we throw out a lot of things. For me to say that we're going to sell off a third of the company and get rid of all this industry that we have built together for many, many years is a tough call, but it's very important that from time to time you do this to your business. You reinvent yourself to be

relevant and to be strong. And that's where we are right now in the United States. We need to reinvent ourselves from a tax reform standpoint to be a stronger country, to compete in the world, and that's the way I think about it.

CHAIRMAN TERRY J. LUNDGREN: Yes...

I really enjoy your enthusiasm. It's overwhelming. But I'm going to say something...

DAVID FARR: I'm from the Midwest. I don't watch TV, you know...

I have a kid that went to Wash U in St. Louis. I have a kid that went to school in St. Louis. He loved it. I want to get something negative on the table so I apologize...

DAVID FARR: I love negative stuff.

I apologize for the negative...

DAVID FARR: I don't care about the negatives.

Everyone agrees with the issues of tax reform and so forth. I don't think the ability to implement policy today is as simple as approaching the historic problems of either tax issues or regulatory

issues or any other operational, financial, strategic, you know, initiative that you're addressing. I think you're going to have to come up with a better mousetrap and the mousetrap, it seems to me, and I'd love your thoughts, might involve bringing policy – social policy and business policy – under one umbrella. Because if you can't do that, the right and the left don't communicate and they're never going to communicate and we have a broken system. So, how do you bring social issues, the only thing I think about is I was saying to some of my friends here this morning that if you look at Silicon Valley, nobody copies Silicon Valley, whether it's Stanford and...I didn't go to school at Stanford, I went to another school, but be that as it may...

DAVID FARR: I couldn't get a job...

I couldn't get a job there. But the thing I find really remarkable is that nobody copies that model of California, Silicon Valley, Stanford, all the FANG stocks, and the value they've created is unbelievable, and the employment growth. So, the question is how do you attack policy in a more centrist mode? And it's really critical because...

DAVID FARR: If I had the answer, I'd be a gad-zillionaire, I would say...

You would be a zillionaire...

DAVID FARR: Yes, I'd be a gad-zillionaire, way past a billionaire. But, you know, from my

perspective, as business leaders that's what we do. We balance the tradeoffs between the business and we look at shareholders, we look at employees, we look at customers, we look at the government and all the different things, and we try to balance that in the community. And I think that more and more CEOs are talking this way relative to, we need to think about all aspects of the equation. Not just the right side of the equation. So, I think that that is a tough issue given the fact that we have a political structure today that's been, many people have been in politics for their whole life. And, you know, they lived this one way. I think, I believe in America and I believe that people, the individuals, are voting and saying, hey, we want a change. And that's why you're seeing such turmoil relative to elections. Because I think the individuals, I know in the Midwest, they want it done differently. They want the perspective of industry or manufacturing or jobs, they want it balanced with the social issues. They really do want this balance. And I think that all countries go through evolutions. This country has been able to survive for a long, long time. I believe we will get through this. It is very painful. The fact that it's so painful right now tells you that change is needed. And I think, as a nation, we will rise to this change. We will. Now, it may be painful for the next ten, or twelve, or fifteen years, but as a country, we will not roll over. So, I'm optimistic about this. Yes, that's a negative issue. And people say, well, how can Congress focus on all the issues they need to deal with, with immigration, with tax, and with the budgets and stuff? That's their job. That's their damn job. And they need to step back and think about what's right for the country rather than what's right for themselves. And I think that the world, inside the political world today people are thinking that way. Now, it's going to be painful because today's world is different than 100 years ago. It's

called the press. It's called instant gratification, iPhones, or whatever you want to call them. And so I think that the world has to watch this and it's going to be very painful. I personally believe we will get that balance right. It won't be like California. I hope it won't be like California. I'm from the Midwest. I think we have a pretty good solution in the Midwest. But I think we have to re-balance what we see as priorities today, sir. I think you're exactly right. And if you stayed in Wash U, you know, went to Wash U longer, you'll learn that. Yes, sir...

So, on the theory that two negatives make a positive, I'd like to also ask something that might be negative. One major issue that the United States has faced is that manufacturers have moved a lot of basic manufacturing abroad. And the border-adjustment tax is now on the table, but many foreign countries give explicit subsidies – Taiwan Semiconductor, China gives explicit subsidies to their semi-conductor industry, etc., some of the more high-tech areas of manufacturing. Do you, and does the association support any specific tax component outside of the border-adjustment tax to equalize that? And would you like to see that as part of tax reform?

DAVID FARR: Well, that's a...within our members you'd think we...how many companies do we have...12,000, 13,000, 14,000, that's a very challenging issue because of all the different industries we face. But, as a company, okay, and I manufacture, companies, I manufacture around the world. I have, you know, a lot of plants, you know, 150 plants around the world. Plants can be moved. If you put the right incentives in place from a tax reform standpoint, and the right incentives relative to education, and all the things that we deal with from a standpoint of

how we evaluate, we can move jobs and we have moved jobs, and we continue to move jobs. So, I think that if you put the right economic structure in place, in a matter of time, you will see those jobs move around the world. We move jobs constantly. I've moved jobs out of China. I've moved jobs into Mexico. I've moved jobs out of Mexico and moved them back into the United States. Over time, as I told the Speaker of the House, I need a period of two to three years and I can re-balance the formula, relative to the economic formula to the tradeoffs and where we manufacture and how we do things. We are a global company so we have to manufacture around the world, but I think that having special one-time off tax structures to help American companies will backfire. This is my opinion. Then other countries will do it. And then you'll have this rapid change and nothing will get done. I firmly believe you have to change the whole economic proposition. Not with one-off special deals, but with a structural change. And that's where other countries have one over the years. Yes, China started with special incentives, but those disappeared and they're trying to change now where they want people to invest, because we've been investing in China since, basically for 35 years. We've been there a long time. And I think that the way you do it is you think about long-term, how do you want to structure, what's the social balance, what's the economic balance? And how do you want to incentivize the industries to invest? And that's the key issue. But keep in mind, jobs can move. Factories can move. Now maybe not the whole house, people have this vision that we just take everything. We might take a third of that. We might move a third. We might move 40%. We might move 50%. We re-balance it all the time. So, if you have the right structure put in place, and stop companies from wanting to leave the country which is a real painful experience to watch, because of tax

inversion, that's a big problem in itself from my perspective. So, I think that you get the right structure in place, the right thought in place, the right balance of the social and the business and economics, you watch American industry, they'll move. They'll succeed. This is the biggest market in the world. If you could grow this economy faster, you'll find more people wanting to invest in here. Why do you think Europeans are investing in the United States right now? Because it is a vibrant economy and will be the vibrant economy for a long, long time. So, I mean, I think it can be worked. And I don't like special one-offs. I think that's a tough issue to deal with.

CHAIRMAN TERRY J. LUNDGREN: Anybody else...yes, sir...

As a long-time shareholder of Emerson Electric and we sold our company to your predecessor, Chuck Knight...

DAVID FARR: What company did you sell to us?

Xomox, it was a process...

DAVID FARR: Oxmox...

Oxmox, absolutely.

DAVID FARR: It was the first company I sold when I became CEO.

(Laughter) The story of life.

DAVID FARR: That's okay. It was a great company. Xomox in Cincinnati. Lawson Reed.

Absolutely. Lawson Reed. Absolutely. So the question I have, like most companies in the United States, revenue growth has been a real issue. Bottom line growth, we've all, and to some extent the tax issue translates into bottom line growth. The real issue is revenue growth. And the question I have is can you tell me again how the tax incentives that we're talking about is going to enhance Emerson's revenue growth. Let me just start with one you know very well, Emerson's revenue growth. I've been a shareholder for many years. That's been the one knock on Emerson all the way through is revenue growth. So, can you help me with that part of it?

DAVID FARR: If you look at the business and industry we serve, from my perspective what we look at is additional investment so business investments, which we as a country have really lagged behind for too long now. So, from my perspective if the individual companies have more money to spend and they can have a faster recovery relative to the depreciation in investments, they'll have more money to invest and that will drive incrementally higher growth for the industries which we sell into. So, for automation or for commercial residential or the food chain.

And then by having more, obviously growth that way, you're going to create more jobs which puts more money back into people's pockets and they'll spend it. From my perspective, I look at it from a business and I look at what businesses in the United States have under-invested. So why did we run into countries like China? Why did we run into countries like India? Because business growth was so strong. So there was a period there in the 90s and 2000 time period, China, we saw underlying economic growth in business spending 25, 30, 40%. And so we ran to that, to invest in those countries. So, from my perspective, what we need to do is figure out how do we get our growth rates back up in the economic investment of business spending. And that's what will drive Emerson. And, by the way, we're at 64 years of increased dividends. Hopefully, before I retire we'll make it 65. But that's how I see it. I look at it from a business perspective. They'll spend more money. And that's what I see in my own business today, inside Emerson today too. Yes, ma'am...

I fully support the comments you've made about tax reform, but I think all of us have a hidden tax. And I think you too have this hidden tax based on what you said about educating workers. We have a totally failed education system and we're paying for it twice. And so I would hope that in addition to the passion for tax reform, we have a passion for education reform so that we do have the workers who can come in and then be trained for specific jobs, but not having to be taught. I mean all the investments in the communities are appropriate, but we're also doing the education job.

DAVID FARR: Correct. I think that from my perspective, going back to the current president and, you know, the councils he put together, which now have been falling apart because of other issues, there were four issues we focus on as CEOs – tax reform, regulation reform, infrastructure, and education. The CEOs, the business leaders, the community leaders know we have a failed education process here. So, from the standpoint, you take what happened in Ferguson, and I saw all these kids, I spent more time in Ferguson, Missouri than I did in my own little city because I travel back and forth and I've been doing it since the early 80s. So, the issue was we saw kids who would just drop out of school, they didn't get jobs. They got caught up in the crimes. They got caught up in the bad parts of life. So the whole focus is how do we get those kids back into education. So we pulled together and said we'll go out and raise \$20 million for this community for technology investment for the Ranken School of Technology and we'll build classrooms right there, or we'll take kids and move them somewhere else in the city. But the whole idea was to teach them skills and then get them to come back into the community to live in that community. I couldn't get the government to do it, to support us. I said I'll raise \$20 million, you put \$10 million in. Now we just got \$2.5 million, but it took how many years? Since 2014. So, the issue really boils down to I think businesses know for America to succeed, for innovation and to be successful, we have to figure out this education. Now, I think there's always going to be two paths in education. I don't think we're ever going to solve the path that sits out there. It's just, you can't change it forever. But I think we can create an environment where we can educate more and more workers inside, or more and more people inside the communities. So my wife and I have been huge supporters of KIPP – Knowledge is Power schools in St. Louis, as

they come into St. Louis. And those kids come out and they go into universities and they come back into the community. So my focus has always been how do we get these kids educated and get them back into the community to create that quality of life that we need for that stability in life. But, boy, we'll be fighting this one long past my life. But, as I said, I think America will not give up because they know education is so important. As leaders we know education is important and we will not walk away from it. I mean there are a lot of people that say, well, we'll just walk to other countries. And then they get into other countries and they say they've got the same problem. And so I think it's something we can work on and we'll continue to work on. It's always in the back of my mind. Yes, sir, you had a question? Then I'll come over here. Let me give you a hypothetical that may be real. You're in the Oval Office.

DAVID FARR: I've never been in the Oval Office.

And the president says, you're the Chairman of NAM and you're concerned about jobs in the Rust Belt. I'm concerned about jobs in the Rust Belt.

DAVID FARR: Upstate New York.

You bet. All across, right through, even down to Missouri. And I can re-patriot the trillions abroad. I can cut the tax rate on your business down to 25% let's say, maybe even 20%. Or I can have immediate depreciation of capital investment. But I'm told there are deficit hawks in the

House and Ryan tells me you can't do them all. What would your tradeoff be with respect to jobs in the Rust Belt? Which would you say to the president? This is the one, or which mixture would you recommend?

DAVID FARR: I will err on the side, because I grew up on this side, you drive faster growth. You'll drive more income, more wealth, and that will solve the problem of having more money to spend on this deficit. So, I'm a firm believer that we've got to figure out how to drive the growth, the spending level we need to get to. And it's not going to be just taking more money away from everybody, but figure out how to create a bigger pie. So if I was in the Oval Office, I'd say how do we increase the pie? And then how do we increase that pie, then we can figure out how do we spend that pie? Because just like businesses, we, as a government, need to think about where do we spend today for the future? We are spending on things we don't need to spend on anymore. And so you have to re-allocate, just like we do in businesses. Governments have to do the same thing – where to invest today for the future. And you're going to have to say, well, we've been doing this since 1492. Well, it's time to change. And so from my perspective, I think we have to err on the side of, okay, let's get faster growth, let's figure out where we need to spend money and don't need to spend money. And then if we drive that growth, we'll drive the increased revenues. And it's a fine line, that balance. And I'm not saying crazy drive the deficit out of kilter, but at the same time I realize right now that our underlying inherent growth in the U.S. economy is too low for what we need to spend as a nation. So we need to figure out how do we get that growth rate up to drive the whole value of the nation and to drive those jobs

and to drive that wealth creation and get that pie bigger. And so that's where I will err on the side of, as a president, get that going. My tradeoff might be I might spend a little bit more from a deficit standpoint, but I'm also going to look at where do we spend money today and where shouldn't we spend money today.

(Inaudible comment)

DAVID FARR: The depreciation will have a faster impact from day one. But the incremental impact will slow down. So, you may, in the first 12 to 18 months, if you gave me 100% depreciation, it will impact me faster. So that's a big bump. But then at the same time, the impact will slow down because I will run out of, what I'd say, incremental projects, and I can only do so many projects at one time. But the fastest impact will be the depreciation side in what I would say a consistent, relevant R&D tax credit approach rather than you have it today, no, you don't have it, yes, you have it. So I think the depreciation side is the quickest from my perspective. But I think that you're going to have to look at all the things. You're going to have to look at that tax rate, what benefits you've given companies like mine or other companies, and then where we spend money as a government. Because I think we really need to think, going back to the question the gentleman asked over there from Stanford and Wash U, was, you know, how do we balance the social issues with the business issues with the economic issues and with the government issues. It's a fine line. But we need to step back and re-think the way we do this, which is, unfortunately today we do it live, everything. I mean, and if you watch me make my

decisions live, it would be ugly, to be honest. But that's why I don't let cameras in the room when I'm making decisions. Over here first, and then we'll go over here...

To what extent, if any, are you aware of any economic or other studies that support your position that a lower corporate rate will help the lower economic levels and more disadvantaged members of our society?

DAVID FARR: There are a lot of studies out there. One of them I mentioned in my report. There's two studies out there that are available that talk about this, that through the lower tax rates, the incentives, and the investment increase, that the employment increase. There are studies that say you can do this or studies that you can't do it. But I firmly believe, in looking at businesses, that studies show that if we do allow more money to stay in the pockets of businesses and individuals, that money will go back into it because, as shareholders have said to me, I want you to grow faster. The way I grow faster is I have to invest. And cutting constantly is not going to drive my growth. I have to invest. And the way I invest is I have more money to invest in my pocket. And so I think that the studies show that if you have that money sitting there, that you will see people invest and you will see people...because we want to grow, we want to prosper, and we want to create that, sort of that economic umbrella. And there are studies in there, there's a copy back there on the tables, of my speech, you'll see that I refer to two studies in there, from that perspective. So, it's an important thing. We've got to grow this country back to where it should grow. Yes, sir...

You talked principally about how the tax system disadvantages U.S. manufacturing. One of the main points the administration has made is that the trade system globally disadvantages American manufacturing and their emphasis is being in part on renegotiating trade treaties. So, NAFTA is in the works. There's been talk of higher tariffs on Chinese goods. You could argue the border-adjustment tax is a form of protectionism although that's debatable. So, I wondered if you could talk a bit about whether you think the global trade system is unfair and whether it needs redesigning as well, not just tax.

DAVID FARR: I wouldn't classify that global trade is unfair. I think that global trade is changing, just like we, as a nation is changing, global trade is changing. So I gave an example of the disposer. We manufacture it here in the United States. We're the only one that manufactures it. So when we want to export those into countries like China, we pay a 25% duty. The Chinese comparator we have that sells in a big box store in the United States pays no duty. So I think that we have to look at how things are moving around the world today versus 30 years ago. When I started at Emerson, how did we find out about things? We got a fax four or five days later, maybe a fax four or five days later. Today I'm on the phone 24 hours a day finding out how things flow around the world. So I think that what the president and the White House are looking at, okay, so how do we re-balance these thing? But it's very difficult to do, to go back and to look at trade. Look at what's going on with Brexit, how hard that's going to be. And I think that NAFTA is a great agreement. It just needs to be tweaked and fine-tuned is my perspective. Just

like all agreements need to be looked at. Just like companies have to be looked at, and how we do business. So I think that, yes, trade is good. Trade is very good for America and we've succeeded at it for many, many years. The question is right now, do we need to think about what are some of those pluses and minuses in trade? What's working and not working? But it's a very complex issue because you're dealing with nations and sometimes trade agreements among multiple nations, but I think that it's something you always have to look at. Just like we look at it from inside our company, how we're doing things, and you know, what's the right structure? But I can see what, over time what happens is we see competitors emerging because they see a loophole in a structure, because America is wide open for trade, and say, hey, we can do that and go right in. The same thing happened with NAFTA. NAFTA was created for a joint relationship between Canada and the United States and Mexico. And then all of a sudden, all of the European people and the foreign people saw, or the Asian people saw, go to Mexico, we can get into the United States easier and cheaper, lower costs. So those are the things that, you know, the consequences that happened, that started 25 years ago, and that we need to rethink about how we go about that. And I think one-off special, you know, taxes or whatever you want to call them, import taxes, aren't the best way to go. Think about the economic tradeoffs. It's not easy to do, though, because it's very challenging but it's got to be looked at. Because trade is important, trade does create, America has done very well with trading over the years. Closing the borders is not the right thing, how do we look at the borders is very, very important.

CHAIRMAN TERRY J. LUNDGREN: Last question.

DAVID FARR: Last question. Yes, sir...

I'm going to change the subject just a second. So, going back to manufacturing and the importance of manufacturing in the U.S. and abroad, and it's maybe more a question for the CEO of the National Association of Manufacturers, the question is how do you really promote manufacturing as a career opportunity early in the process? And what I mean by that is I come from an accounting background. We promote accounting. We do all kinds of fellowships and stuff. There really isn't a manufacturing major in college that I'm aware of. And when you look at competition at the MBA Program, it is 10% going into manufacturing. Okay, so I'm just saying, I just think if you're thinking about the broader issue, there needs to be much more of a promotion in terms of the importance of manufacturing to society and that there's a career opportunity for people that really want to get into that.

DAVID FARR: Okay, my way was when I was young, my dad dragged me to plants, so I saw, and I wanted to be in manufacturing. The way we do it today is we call them STEM Programs. So we have STEM days in all our facilities where we take the young kids, the parents take their kids to work and they see, hey, this is pretty cool. My dad and mom sitting around at meetings all day long. That's pretty cool. Or they do this in engineering. I think what we need to do is we have to educate the kids at a younger age that manufacturing, jobs in manufacturing – be it in design work or manufacturing work or whatever aspects of the work you want – are interesting.

And get engaged, stop being parents that leave kids alone and say, hey, do what you want to do. And don't be helicopter parents. But at the same time, get engaged. So what we do at the NAM is we have Manufacturing Days. So we're out promoting manufacturing and we try to get people to go to manufacturing. And many executives like myself are now developing engineering scholarships and STEM scholarships. We're trying to get people to think about it. Don't go to school to be accountants. We need accountants. Don't go to school to be tax lawyers. We need tax lawyers. But we need less of them. Let's have engineering. Let's create some things, rather than accounting things. Let's create, then you can count. So I want to reverse it. I want to create it, then account it. So, Jay, what would you say?

JAY TIMMONS: I'm going to let that be the last word. (Laughter)

(Applause)

CHAIRMAN TERRY J. LUNDGREN: Thank you. Thanks Dave. That was great. And Jay, thanks for being here and for the role you both play in helping create these manufacturing jobs as we go forward. I'll just cut this short and just say keep your eye on the website. Lots of very exciting things ahead of us in terms of presentations. We have Bill Dudley of the New York Fed coming to talk to us. We have the Governor of the National Bank of Belgium. We have CEOs from IBM, Walmart, AT&T, CVS, all here in the next several weeks. So please join us. Have a good day everybody. Thanks again Dave. (Applause)

