

Interview

The Global Economy

An Interview with Harold McGraw III, Chairman,
President, and Chief Executive Officer, The McGraw-Hill Companies



Harold "Terry" McGraw III

EDITORS' NOTE With a BA from Tufts University and an MBA from the University of Pennsylvania's Wharton School of Business, Harold "Terry" McGraw joined The McGraw-Hill Companies in 1980, and has since held a number of senior managerial and executive positions, including Vice President of Corporate Planning, President of McGraw-Hill Publications Company, and President of McGraw-Hill Financial Services Company. He was elected President and COO of The McGraw-Hill Companies in 1993, CEO in 1998, and Chairman of the Board in December 1999.

COMPANY BRIEF Based in New York, The McGraw-Hill Companies (www.mcgraw-hill.com) is a global information services provider, operating in the education, media, and financial services markets through more than 280 offices in 40 countries. With leading brands such as Standard & Poor's (the world's leading provider of independent equity research, market indices, and credit ratings), BusinessWeek (the number-one global business magazine in print and online), and McGraw-Hill Education (which serves virtually every aspect of the education market, from pre-kindergarten to professional learning), the company is one of the world's leading publishers.

There is much debate about the outlook for the U.S. economy and for American business in 2008. As CEO of McGraw-Hill and

Chairman of the Business Roundtable, can you share your thoughts on the economy and the forecast for American business?

Clearly, the first half of the year is proving to be challenging. However, many economists expect a pickup from the economic stimulus package, which is already having an impact. Business Roundtable is looking for GDP growth of 1.3 percent for the year, in spite of the drag on the economy caused by high energy prices.

Despite the current recessionary feel in the U.S., Business Roundtable CEOs are maintaining a steady outlook for their businesses over the next six months. In our most recent survey, expectations for sales and capital expenditures remained virtually unchanged compared with the previous quarter's results. I believe there are a couple of reasons for this: First, strong demand from overseas markets is providing some relief for companies that are actively engaged in the international economy. In fact, exports increased 8.8 percent from the first quarter of 2007 to the first quarter of 2008. Second, the Federal Reserve's actions to inject more liquidity into the system – along with the relatively weak dollar, export growth, and a declining trade deficit – are expected to have a positive impact in the months ahead.

Globalization has affected corporations across all industries. Has there been effective cooperation between business and government leaders around the world to support strong economic growth worldwide?

Cooperation between the public and private sectors is critical to global economic growth, and we certainly have more work to do in this area. To that end, the voice of the business community needs to be louder and clearer when advocating policies to drive economic growth, especially those that promote more transparency in financial markets and greater openness among economies.

While the global economy presents our nation and others with a number of challenges, it also offers expanding economic opportunities for our citizens, communities, and companies that we must embrace. To succeed in this environment, global business and policy leaders must continue to work together on pro-growth policies, including promoting innovation, through support for education and research and development, and resisting protectionist sentiment, while advancing an agenda that facilitates global trade.

The U.S.-India CEO Forum, which produces

recommendations for increasing trade and investment between the two countries, is a perfect example of the type of open relationships we need to develop. I am proud to be a part of the forum because of the work it does to strengthen the ties between American and Indian business leaders and between our two countries, which is helping improve the business climate for all.

I should also point out the progress the Business Roundtable is making on this front. In April, I represented the roundtable in Tokyo for the G8 Business Summit. Hosted by the Nippon Keidanren, Japan's leading business organization, the summit brought together leaders of global business groups, who worked together to develop a series of constructive, economic-growth recommendations for government leaders around the world to consider. The leaders of the G8 will be meeting in July 2008, and we look forward to furthering this discussion when they do.

With the heavy focus on American competitiveness and the concern over the United States remaining competitive globally, what should be the U.S. business community's key policy priorities?

For many, American competitiveness in an increasingly interconnected world is a burning issue. So we have a robust agenda that requires action, if we are going to maintain our preeminent position in the global marketplace.

I will start with education, because it is one of the most critical issues facing the U.S. If you look at this country's extraordinary economic performance throughout the 20th century, much of it can be traced back to our success in educating a greater proportion of our young people – to higher levels of learning – than virtually any other country.

For many years, our education system was alone at the top, but that is no longer true. For example, while we once led the world in the number of students to earn a high school diploma, we now rank 11th among the 30 countries of the Organisation for Economic Cooperation and Development. Graduation rates are falling, dropout rates are rising, and widespread access to education – once an unquestioned national asset – has become a national challenge.

The most important action government can take to put us on the right path is to develop and implement solid curricula, set high standards, and insist that those standards are met. The business community needs to support the government's efforts in these areas. It can

also help to expand mentoring and internship programs that provide a huge boost to local education and the lives of individual students.

Second, Congress needs to authorize outstanding free trade agreements [FTAs] with Colombia, Panama, and South Korea. Today, the U.S. is party to only 10 of the world's 300 free trade agreements. For the world's largest economy, this is unacceptable. Policies that facilitate global trade will both strengthen the U.S. economy and support robust job creation. With 31 million U.S. jobs related to trade, and one quarter of U.S. GDP directly linked to trade, it is critical that U.S. trade policy continues to embrace open markets and reject calls for protectionism.

Third, rising health care costs present a significant issue for many Americans, which is why we are urging Congress to take action on health information technology [IT] legislation. By creating a nationwide, interoperable IT infrastructure for health care, we could save our health care system \$165 billion annually, which translates to an extra \$2,200 in the pockets of the average family.

Would you provide an update on business leaders' international trade agenda and the key issues that you foresee with regard to international trade?

Let me first say, trade should not be a partisan issue; trade is an economic issue and has never been more important to our economic well-being. Today, nearly one in five jobs in the United States is attributable to international trade. Trade is not just about opening up new places to do business; it's also about building, strengthening, and nurturing geopolitical relationships. As a result, we should engage, not retreat behind protectionist sentiment.

Congress needs to begin moving the U.S. forward on this front by passing the pending free trade agreements with Colombia, Panama, and South Korea. There are compelling arguments in support of each of these agreements. In fact, an FTA with South Korea would be the most significant trade agreement for the U.S. since NAFTA. In the longer term, Business Roundtable CEOs continue to promote an ambitious outcome for the Doha round of global trade talks, which can still make history by boosting the world economy by nearly \$300 billion over the next decade. In our view, Doha cannot be considered successful unless it delivers commitments to increase economic openness through meaningful trade liberalization across agriculture, manufacturing, and services.

The global economy brings strong opportunities in emerging markets, among them China and India. What is your outlook for these markets, and do they truly offer the type of opportunities that we hear about?

These markets offer tremendous opportunities. Consider that just after World War II, the U.S. accounted for 45 percent of the world's GDP. Today it's approaching 20 percent and



Terry McGraw meets with H.E. Kamal Nath, India's Minister of Commerce and Industry, to discuss U.S.-India relations.

getting smaller. This shift is something for us to applaud – not fear – because the “global GDP pie” and the opportunity that comes along with it continues to grow. This shift is largely a function of growth across Asia, which is now home to two of the three largest economies in the world – Japan and China. China is expected to grow at about 10 percent this year. Other emerging markets to pay particular attention to include India, which is expected to grow at about 8 percent this year; Russia, which is expected to grow at 7 percent; and Brazil, with 5 percent projected growth, just to name a few.

India and China are not only growing economically; they're also becoming more and more competitive in the industries that matter most for the future. For example, India's annual information technology revenues have soared from about \$150 million a decade and a half ago to nearly \$40 billion today, and that will probably double in the next five years. India holds so much promise. It is a nation on the move, and it is in our nation's best interest to move with it.

China is also making huge economic strides. It has just overtaken Germany to become the world's third-largest economy, and last year, it displaced the U.S. as Japan's largest trading partner. Going forward, the U.S. needs to continue to work with China to advance our trade and economic agenda, and China needs to recognize its responsibilities to its number-one export market. The business community needs to play a pivotal role in preserving and expanding this important economic relationship.

As the leader of The McGraw-Hill Companies, you have always focused on creating long-term growth for the company.

How well positioned is your business for long-term growth in each of its markets – financial services, education, and information and media?

Very well positioned. The long-term prospects for each of our markets are extremely strong. Our businesses are built around powerful and enduring trends that continue to reshape the global economy, and the world. The demands of the knowledge economy – on workers, on management, on educators, on everyone – are only going to accelerate, ensuring that the need for capital, knowledge, and transparent business information will continue to grow.

We are home to a wealth of leading global brands, and our focus is on precisely the knowledge-based products and services in greatest demand around the world. Over the long term, we believe the diversity, quality, and resiliency of our portfolio of businesses will help us deliver consistent earnings performance, while generating superior shareholder value.

What are the most promising international and emerging markets for The McGraw-Hill Companies?

We are a growing, global company, and international expansion remains a focal point and growth driver for us. The world is growing up fast, and the global economy increasingly relies on emerging economies, especially across Asia. These economies are driving an ever-growing demand for capital, education, and transparent business information, which is creating expanded opportunities for us.

Take India, for example. A few years ago we had 250 employees there. Today, we have more than 4,000, and we continue to expand our presence there. We own a majority stake in the preeminent Indian credit-rating agency, CRISIL, which enables us to capitalize on the exciting growth opportunities in India's capital markets.

Almost 50 percent of our first quarter 2008 ratings revenue came from outside the U.S., and Standard & Poor's is continuing to expand its global footprint, with the recent acquisition of a ratings agency in Israel and the opening of new offices in Dubai and Johannesburg.

The favorable long-term trends are equally as promising in the education sector, where we serve virtually every aspect of the market from pre-kindergarten through professional learning. The demand for education continues to increase throughout the world, given the wage premiums for educated workers that have developed in the knowledge economy. And with the spectacular growth in the emerging markets in recent years, citizens of those countries have greater opportunities to pursue formal education and purchase a range of education services. As a result, we see a lot of opportunity for international growth at McGraw-Hill Education. We also are seeing increased international opportunities in our Information & Media segment where, to cite one example, J.D. Power and Associates' global automotive business is rapidly growing in the Asia Pacific markets. ●