NATIONAL GOVERNORS' ASSOCIATION

79TH ANNUAL MEETING

Bay Room
Grand Traverse Resort
Traverse City, Michigan

Sunday, July 26, 1987

The meeting convened at 1:15 p.m., Governor Bill Clinton, chairman, presiding.
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CHAIRMAN CLINTON: Ladies and gentlemen, I now call to order the 79th annual meeting of the National Governors Association. I need a motion now from my vice chair, Governor Sununu, for the adoption of the rules of procedure.

GOVERNOR SUNUNU: Chairman, I move that adoption.

CHAIRMAN CLINTON: Is there a second?

GOVERNOR DI PRETE: Second.

CHAIRMAN CLINTON: Second from Governor DiPrete.

All in favor?

(Chorus of ayes.)

CHAIRMAN CLINTON: Opposed?

(No response.)

CHAIRMAN CLINTON: We can now begin.

I would like to announce at this time that any governor intending to offer a motion of suspension of the rules for the purpose of introducing a policy statement for consideration at Tuesday's plenary session must do so in writing by close of business tomorrow. If governors have substantial amendments it would be appreciated if they were also made in writing. Please give copies of all suspensions and all amendments to Jim Martin of our staff.

Before we begin our formal business, ladies and gentlemen, I would like to ask, on behalf of all of the
governors, if we could observe a brief moment of silence in memory of the distinguished Secretary of Commerce, Mr. Baldridge, who had an unfortunate accident and passed away yesterday. If we could just bow our heads for a moment of silence.

(Moment of silence.)

CHAIRMAN CLINTON: Thank you very much.

At this time I would like to announce the members of the nominating committee for next year's executive committee. They are Governor Moore, chairman; Governors Harris, Bryan, Martin and Branstad.

Now I would like to call on our distinguished host, Governor Blanchard, to formally welcome us to the state of Michigan.

Governor Blanchard.

(Applause.)

GOVERNOR BLANCHARD: Thank you very much, Governor Clinton. Welcome to all of you, one and all.

Before I give you the official welcome, I would like to indicate that another tragedy occurred yesterday here when one of Michigan's finest, a state trooper of 20 years, was killed right in Traverse City in a hit and run accident. His name is James Boland. He leaves behind a family and I would like to recommend a moment of silence in his memory and sympathy and love for the family of James Boland.
(Moment of silence.)

GOVERNOR BLANCHARD: Now I hope from this point forward, on a more optimistic note and productive note, let me welcome you all to the great state of Michigan. Governors, their families, distinguished guests, those who will be testifying and advising us on policies, friends from Washington, California, Maine, friends of the news corps and those who are part of the political community of America. We are delighted you are here.

You can see, without my explanation, why we are the Great Lakes state. You may not know, however, that the Great Lakes represent 95 percent of the surface fresh water of America. 20 percent of the surface fresh water on the face of the earth. You have known of Michigan as a great manufacturing state and a state with great urban centers, but you probably hadn’t seen this side until this weekend.

But there are other sides to our state as well. It’s a major agricultural state. It is a citadel of thriving small businesses. We have more state-owned forest land than any state in the nation, and more shoreline than any state in the nation, except Alaska. We have great universities, great institutions which serve people, and that means that we have all the ingredients that you have in your states, as well. The potential as well as the problems, great resources and ideas and systems in leadership, but also challenges, whether
it's the black child in Detroit who grows up without hope or opportunity through no fault of his or her own, or the challenges of education, or the laid off auto worker in Flint, or the working mother in Grand Rapids, or the struggling farmer in mid-Michigan or the miner in Marquette. Like you, we have many faces, we have many faces.

But we have the resources if we work together, and if we provide the kind of leadership that I am proud to say the nation's 50 governors have done. Governors of both parties who believe that government can be a force for good, that we can innovate, that we can solve problems, that we can deal with the challenges without becoming obsessed with ideology. In that spirit, in that spirit, we will go forward in these next few days, I am sure, to have a productive session. In the meantime, I would like to give you again a very special Michigan welcome. We hope you will enjoy your stay and we hope you will come back real soon. Thank you.

(Applause.)

CHAIRMAN CLINTON: Thank you very much, Governor Blanchard. In this year in which you have given me the opportunity to serve as chairman of the National Governors Association, I have asked all of you to work with me on determining how we could do better to make America work. Today we deal with one-half of the great project we have undertaken together, the task force on jobs, growth and
competitiveness, cochaired by Governors Dukakis, Baliles and Branstad. The purpose of this work, which is embodied in their report, which you have before you, was to develop strategies and actions that state government can implement to make our country more productive in the new international economy, and especially to implement strategies in the depressed areas of our country, which will generate more jobs and more rapid economic transformation.

The task force talked with farmers in Iowa, production workers in Ohio, scientists in New Jersey, researched and analyzed the problems and the potential solutions. This report indicates that there is a new economic reality, with an optimism that the governors and state government are doing much and can do more to lead our people and our economy to new heights in the 1990s.

I released this report yesterday, along with Governors Sununu, Governor Baliles and Governor Castle speaking on behalf of the task forces, both the jobs, growth and competitiveness report, and the barriers report. I am pleased to see that it received prominent coverage in many of the major papers in our country today. I have to tell you that even though we don’t have some of the interesting angles of that important event, I think that what we are doing here is probably more important to the future of this country than what is going on in the Iran/Contra hearings. I hope all of
you believe that, too.

    We have today, to open our conference, a
distinguished American who believed that government and
business and labor could work together before it was popular
to believe it, who believed that America could compete and
win again, before it was evident to everyone else, and I want
to ask his governor, Governor Blanchard, to come back to the
platform to formally introduce to you the chairman of the
Chrysler Corporation, Lee Iacocca. Governor Blanchard.

    GOVERNOR BLANCHARD: Thank you very much, Governor
Clinton.

    We governors know that leadership counts. We see
it in state capitals, we see it in Washington, we see it in
the private sector, business, labor, universities, all around
our country. Nowhere has this been more evident than in the
life story of the man I am about to introduce. He needs no
introduction. I will tell you that he is the cochair of my
governors commission on jobs and economic development. He
is, as you know, the chairman and chief executive officer of
the Chrysler Corporation, a Michigan corporation. His name
is Lee Iacocca.

    Lee.

    (Applause.)

    MR. IACOCCA: Thank you very much, Jim.

Congratulations on hosting this great conference here. By
the way, when Blanchard talks to you this week you better listen. He got 68.5 percent of the vote last year.

But, seriously, thanks for coming up and helping us celebrate 150 years of statehood. I might say it's also good to see many other friends here, Governor Jim Thompson, Governor Celeste, Governor Orr, Governors Castle and Ashcroft. Maybe you have noticed, but wherever I have got a plant, I know the governor, and I mean very well. My good friend Governor Cuomo. I not only have a plant in his state but he once offered me a job as head of his transit authority. I won't go into why, except that it's something to do with the fact that Mussolini got the trains to run on time, so why not me. It's obvious today he couldn't get the planes to run on time, because he didn't make it.

But I am truly honored that you asked me to be part of this meeting, even though I have to say I seldom work on the Sabbath, but I couldn't refuse. First of all, there is a very good chance that someone in this room may be a future president of the United States, and I wanted a shot at him early. In fact, the odds are really pretty impressive, because I looked these up personally. Did you know that 16 governors have gone on to become president, 17 if you count Taft, because he was the governor of Cuba for a while.

Then 35, in 35 of the 50 presidential elections we have held in this country, at least one of the candidates was
a governor or former governor. Now, when I looked this up I
thought to myself, I don't know why you people have such a
burning desire to trade in a good job for a lousy one, but
that's your business.

I guess the real reason, though, so many governors
get to be president is because being governor is a great
training job for the country's top CEO position. You all
know what it's like running a big organization, meeting a
payroll, trying to keep the customers happy; and, most of
all, you happen to know what it takes to balance a budget.
Every governor balances his budget, and all but one state, by
law, and that's Vermont, and they do so well they don't even
need a law, I will have to say, though, that some governors
seem to forget everything they learned while they were
governing once they get to Washington, especially the part
about balancing budgets. They always seem to blame it on
defense, of course, or the Congress. I think we are getting
used to the idea in the country that defense is something we
really need, but something we don't have to pay for. We just
sort of put it on the tab as we go along. As for Congress,
the current fashion in Washington seems to be to pretend that
it's just not there.

Something else that certain governors seem to
forget about when they go to Washington is competing, which
is ironic, because it looks like competitiveness is going to
be the big issue in next year’s presidential election.

So I want to talk about competing for a few minutes today, and then -- and this is really a big announcement -- I am going to tell you who I am going to vote for in that election and why.

First of all, I know that I am preaching to the choir here today in a way. You discovered, as governors, competitiveness long before it got to be the popular buzz word that it is today. Your states and the programs for a long time designed to attract new industries and support old ones. In fact, four of you in this room covered me for $207 million in loans that helped Chrysler survive a couple of years ago. And, things like that, well, you never forget them, naturally. But today, I see 50 states fighting, really fighting for jobs. But a funny thing, I don’t see that same kind of fighting spirit in Washington. I see 50 subsidiaries doing a decent job, but, truly, you are not getting much help from the home office. And every state seems to have a foreign trade policy, with missions going all over the world to increase exports and attract new jobs.

But I have looked for a long time now, and I really cannot find an American trade policy. I cannot find a policy in Washington with the same determination to compete in the world.

Maybe it’s simply, because you people here are
closer to the problem. You see first-hand the human
tragedies that come from an America that seems to be losing
its competitive edge. You live up close with the realities
of a ghetto or a mill town where the mill just closed. You
have to, because over and above the human suffering, your tax
base changes every time you shutter one of them.

I couldn't help but notice over the years that
there just aren't many ideologues in state houses, and I have
known a lot of you for a long time. Hell, you have got to
get the damn trains to run on time. But there are plenty of
practicing ideologues in Washington, not in Lansing, not in
Columbus or Springfield or the other state capitals. I don't
think many of you tuck yourselves in at night reading Adam
Smith. 18th century economic theories don't help you to
explain to your constituents why the local steel mill is
going belly up next month.

As governors, you have got to be pragmatic, you
have got to govern, you have got to solve problems and you
have to solve them today. Some of you really got pragmatic a
couple of years ago when the GM Saturn plant was up for
bids. Anybody in the room remember that? You fought like
tigers. You tried to outgun each other with free land, free
training programs, free roads, low cost energy, tax
abatements, you name it, anything it took.

I thought to myself, this is really strange.
Nobody in Washington is fighting for American jobs, but we’ve really got the states fighting among themselves for those jobs. By the way, I have to add at the same time, I saw our old labor unions resisting productivity changes in my old plants but cutting any deal, any deal it took to represent employees at a new plant financed by foreign capital.

Well, the sad fact is that you may be competing, but without a coherent national policy and without the same commitment in Washington that you people have, you are competing for pieces of a smaller and smaller pie. I am afraid, as an American now, that one of these days you are going to find yourselves fighting over crumbs.

Let me tell you what we are up against as a nation right now. This is a quote from Oturo Harasumi. He is a prominent member of the Japanese diet, and he is talking to an American reporter when he says this. He says, "Japan is not going to change." That’s straight English, right? "We love to work hard and Americans don’t. The result is that we will continue to work hard and amass huge surpluses of money. We will buy up your land, and you will live there and pay rent, but we won’t go to war. We won’t destroy each other, but we are condemned to live together."

Gee, that kind of takes your breath away, doesn’t it? I learned early in life how to read between the lines, believe me. What I read between those lines scares the
living hell out of me.

Hard working Japanese against lazy Americans,
America as a nation of renters leasing back our country piece
by piece from the Japanese landlord, the two peoples merely
condemned to live together as though something a little
higher, like mutual respect is no longer possible. Is that
the kind of world we are going to hand off to the kids? I
don't really think so.

Mr. Harasumi has a lot to learn about Americans if
he thinks that scenario will ever play out. But I can
understand why he thinks it's coming.

Look at this. You probably saw this, I hope you
did. This is a full-page ad that a big Japanese conglomerate
took out in the New York Times just a couple of months ago to
brag that it had just "a landmark year." "It has awed U.S.
industry by snapping up $1.8 billion in real estate in a
scant 12 months," including some buildings you know of, the
Arco plaza in L.A., the ABC building in Manhattan, and the
kicker line in here, they say "stay tuned for future
developments because the best is yet to come."

They really know how to rub a guy's nose in it. I
will say that for them. A lot of Japanese made a fortune
exporting to the United States when the yen was $2.50. Now
that the currency finally has flip-flopped, some are taking
those windfall profits at $2.50 and buying American real
estate at $1.50. Why get mad, I think they got a hell of a bargain both ways.

Well, the Japanese always talk a good line on free trade, of course, but when our construction companies wanted to bid on the new airport in Osaka -- you know all about that -- the Japanese said "no, no, no, you don't understand the soil conditions here." When our steam manufacturers wanted a piece of the action in Japan, they were told, "no, no, Japanese snow is different from American snow." Is that their idea of free trade? I have got to back off here a minute. I really hate to pick on the Japanese, but they give us such great material to work with, I can hardly help myself.

Well, I think we are spinning our wheels in a bunch of theoretical debates, when we really need to cut through all the fog and get down to the business of competing. We have run up a cumulative trade deficit since 1980 of almost $700 billion. That is one hell of a lot IOUs out there. While we have been debating, we have been losing the economic war. Like anybody who does that, when you lose a war, you have got reparations to pay. We only have a couple of options available to pay those reparations. Think of it; we could default, but I don't think that's American at all. I think that's unthinkable. Maybe it's an option in South America, but not here.
Two, we could start the printing presses and inflate the currency, and maybe hope that we inflate it enough to pay back the debt at 50 cents on the dollar. That cure is worse than the disease, Germany tried it in the '20s; it doesn't work too well, by the way.

We can swap, number three, all the IOUs we have, the paper for our land and businesses, but there's a limit to that. Gee, they already own a good chunk of Hawaii and southern California.

We could -- here is one for the governors -- we could cut our wages and lower our standard of living so we can undersell the competition. My economics department at Chrysler, that's one guy by the way, one man guy, tells me if we cut our standard of living by roughly 10 percent a year for 10 years, we could probably do it that way. How would you like to sell that idea to the voters? Great platform to run on, huh?

Or, simply, we can regroup and get serious about competing through a combination of greater American productivity and smarter American economic policies so we can start exporting more goods and services and pay off that debt.

That's the only option we really have. I don't know about you, but I think it's the only one that makes any sense. We'd better, together, figure out how we do this.
Let me bring back Mr. Harasumi for just a minute -- he is the diet member who is going to rent back America to us one day. He had something else to say in that same interview, that I happen to agree with 100 percent.

He said, his quote again, "Americans have never had an economic or business competitor of this magnitude. This is why Americans are having a hard time with us. You are unnaturally scared."

Hell, he is absolutely right. We are unnaturally scared. But what the hell are we afraid of? Have we suddenly forgotten how to compete? Have we gotten soft? The American farmer, he is still the most productive in the world. With all his problems, he is still the most productive farmer in the world, isn't he? Come on down to Detroit when you are through here and I will take you through some auto plants that are as modern and efficient as anything they have got in Japan or anyplace else. We still have the natural resources when the chips are down. A little short on oil here and there, but we have got the natural resources. We have got the technology. We have got the human talent to compete with anybody. What we seem to be lacking, I think, is the will to compete.

I am not just talking here about individual will, you know, the guy who wants to feather pin on the job, goof off, or the guy who wants to stay home on Monday mornings to
sober up. I’m not talking about him. I am talking about the
country. I am talking about national policies
designed to help America compete, like the national policies
in the countries that are cleaning our clocks right now. And
maybe, just maybe, the bottom of this whole lack of will is a
fact that we don’t want to face up to the costs of
competing.

Getting competitive again is going to be
expensive. We won’t do it with pep rallies, lapel buttons,
T-shirts. We won’t do it that way. It is going to take one
hell of a lot of sacrifice.

Now, I have got a plan to make America competitive
again. But then, who doesn’t? Everybody has got a plan
these days. It doesn’t take a real genius to put one
together. The things we need to do aren’t hard to see. They
are right before our eyes. But I am afraid that what we
don’t want to see is the cost. My plant happens to have
seven points, all of them simple, all of them very
expensive. I will go through them quickly with you.

Number one on my list, and it had better be number
one on everybody’s list on this room, is to cut the federal
budget deficit. Is there any arguing on that one anymore
with anybody in the world? Politician, businessman, union
leader, press. That is the root of all evil and we have got
to dig it out and quick. Almost a trillion and a half
dollars of new federal debt in just less than 10 years, and
an annual interest bill alone that is pushing $190 billion
annually? We have got to be losing our minds in this
country. We went from the biggest creditor nation -- you
have heard this a million times -- to the biggest debtor
nation, but in just a couple of years, because we have had to
suck in so much foreign capital to feed this monster.

When we try to get the Japanese and others to mend
their mercantilistic ways they throw our debt right in our
faces and say, hey, if you didn't have such a big budget
deficit, you wouldn't have such a huge trade deficit. Of
course, they are interrelated, I think everybody has agreed
to that too. They are absolutely right. By the way, I have
got to say, even on that score, because I deal with a lot of
Japanese businessmen, I say you guys could help out a little
by sharing the burden of our defense budget. At $300 billion
a year for defense and yours, theirs, we don’t look red hot.
The debate raging in Washington right now is over the last 5
percent, or 15 billion of the 300. Why don’t we ask the
Japanese to help out a little? Has anybody even asked them
to kick in? I am not sure of that. I doubt it.

But how do you really fix it? Well, you can dance
around the truth all you want, but it will not go away. You
have to cut spending. Why am I telling you this? Some
defense and some of the entitlements out there, and you have
to raise some taxes. Politicians, like yourselves, have to call them revenues, I can get away with just yelling right out, "raise taxes." Mondale tried that. He got his head blown off. I don’t think that can happen to me.

But that means sacrifice, that means sacrifice by everybody, even for you governors, because it might mean, I don’t know, it might mean fewer dollars going from Washington to the states. You would have to make up for it somehow. Well, I am sorry about that. We all have to face the music, one way or another.

Number two on my list is the competitive trade policy. We are playing by different rules than everybody else, and we can’t keep this up too long. If you really believe in free trade, or, I hate to say it, fair trade, we should, as a country, right now, be retaliating under the definition of free and fair trade.

Instead, even though we are the ones getting mugged so badly, we are worried about the guys with the super surpluses retaliating on us. Do you know these people? Do you think they are crazy? This is not only their biggest market, it’s where all their profits are, and it’s our market, and they respect it. I went to Washington earlier this year -- don’t snow me, some of you guys; I lobbied for the Gephardt amendment because I thought it was at least a start. But it’s been labeled so protectionist, and any
red-blooded guy down in Washington would rather be called a pervert rather than a protectionist, believe me, right now.

    Hell, nobody is talking about closing the borders or bringing back old Smoot-Hawley. I spent about three hours one night reading about Smoot-Hawley. I'm sorry to tell you the Depression started long before Smoot-Hawley, but forget that. To me it's almost become a battle cry, you yell Smoot-Hawley, it's like "fire" in a theater. Everybody says, "God, that wrecked the country. Remember the Depression."

Well, to me it's a bit of a red herring that -- I have to say oftentimes the New York Times and the Washington Post throw up -- every time they bring up the subject of free trade, old Smoot and Hawley are in the article. But we can't let the American market be the dumping ground for the world's excess capacity right now either. And that's what we're doing right now.

    We need a trade policy with teeth, that says to our friends -- the way I talk to them, why can't you talk to them that way -- "Hey, trade has to be two-way, guys, don't give me any crap about soil conditions or your snow being different. It's okay for you to come and sell here, but while you are in town, you damn well better be doing a little shopping." But, of course, a tough trade policy, you know, has got some costs, too. We will probably all pay a little bit more at the store for imports. The odds are you will,
and it might be tougher to control inflation, but there's no free lunch.

Number three, if you are going to compete, you have got to change the tax code. You can say, now, wait a minute, we just did that last year. That was the first change in the tax code in 74 years. True, but we screwed it up.

A tax code should do three things, think about it. It should be fair to everybody. It should raise enough money to pay the bills, and it should, in this one world of ours, now, it should help the country compete in the world.

We spent a whole year in tax reform and only got one of the three right. I will grant the new law is a bit fair. But it had to be revenue neutral, they said, going in, so it didn't raise a dime against the scandalous deficit, and it shifted, in case you didn't know this, about $120 billion directly on to the backs of American business. So we got less competitive with the change in the tax code.

Toyota, make no mistake about it, made out better than Chrysler, and it was our bill. Everybody else writes tax laws that encourage exports. Ours do nothing, nothing to encourage exports. I will give you an example. I want to start exporting, big deal, a few cars to Europe this fall -- first time in my lifetime I will be shipping the other way. But guess what, I can make $11- to $1200 more per car if I
ship them from my plants in Mexico or my plants in Canada, instead of Michigan, Illinois, Missouri, purely from the tax savings. Of course, 11- or $1200 is enough to break the deal, but that's the way it is.

So we have to do tax reform again. This time I have a strong hunch that some of those rate cuts that most of us got last time -- gee, I used to be in the 90 percent bracket, then went to 70, then to 50, now I am at 38.5 and they are taking me to 28. I am almost saying I don't need that much, slow it down a little. Part of those rate cuts --

(Applause.)

MR. IACOCCA: Don't applaud too loudly. I got a break but my company got hit for, I think, $106 million a year more, so it wasn’t fair to my business. We may lose some of the rates. I don’t know what will happen, but I don’t think it will stay the way it is. Why do I say that? Part of the price of competing.

Point number four. We need an energy policy. We had one for a while but we dropped it when OPEC guys started fighting among themselves and oil prices dropped like a rock. But right now we are right back in the ’60s, joyriding, literally joyriding on cheap gas again. We will not learn from history as Americans. I don’t know, I’m the same way. We just will not read histories. We have already been clobbered twice and we are setting ourselves up -- you
can quote me on this one -- we are setting ourselves up for a third fall and soon, especially when you look at some of the headlines out of the Persian Gulf, it doesn't give you any good feeling. The import share of our oil is higher than it was just before the first oil embargo. The federal economy, standards for cars, went out the window last year. We just tossed them away.

I have got to tell you, I wish I had a lot more big V-8s because that's about all I can sell, but I make all the money on those. I don't know what I am mad at. I don't know how we got so blind so fast after all we've been through before. The Senators standing in line at 4:00 in the morning. Maybe we need another shot at that. I don't know. But we cannot compete without a secure and independent energy source. We have been capping our wells and the oil patch in Texas and Oklahoma has been bleeding just like the Rust Belt was just a couple years ago.

To maintain our energy independence, we have all got to bleed a little. We need -- I have been saying this for six years -- we need an oil import fee, or in my book, better still, a gas tax, or both, so we don't get hooked on foreign oil again. Between the states' and our federal government's 9 cents, we are only up to about a quarter; the next closest country in the world's taxes are 86 cents. In Italy and France they go to $2. I don't know what is scaring...
us so much. I think that’s another cost of competing, by the way, on oil tax.

Number five, we have got to gang up on the corporate raiders and run them out of town. Last year more money was spent on takeovers in this country than on all the new plant equipment and a lot of our best management talent that should have been trying to ward off the Germans and the Japanese was busy warding off the raiders -- happened to a lot of friends of mine. My biggest supplier, in fact, was Goodyear. Goodyear escaped by the skin of their teeth by taking on $2.6 billion in needless debt, and an Englishman named Goldsmith, who I happen to know, walked off with a cool $94 million in greenmail profit in one week’s time. Not bad. All that money, though, moving around, and not a dime of it made either Goodyear, the company, or the country, United States of America, one bit more competitive.

I have to say we are involved in a big acquisition of our own right now, but it’s not a very sexy one, because there are no raiders involved -- doesn’t get much press -- no raiders, no greenmail, no proxy fights, no poison pills, no junk bonds, no LBOs. Who wants to read about that stuff, just buying the company. Our American Motors acquisition is just an old-fashioned deal that will, by the way, make everybody involved more competitive. We are buying the company back from the French government and bringing it
home.

But the big money lately has been made on deals, deals that pull equity out of the company and load up the balance sheet. We need to stop that. Of course, if you stop that, there's another cost involved. All the easy money made by the raiders, the arbs and the paper pushers on Wall Street will have to be made, as Mr. Houseman says, the old-fashioned way, by competing.

The sixth point of my plan -- I almost hate to bring it up before this group -- is to -- everybody is talking about it, but it's true and it's real -- give our kids an education that equips them to compete later on.

Here is an irony I have never been able to fathom. America still has, by far, the best graduate schools in the world; Harvard, Stanford, MIT. They are the meccas for the brightest students from Japan, Korea and everywhere else. They come over, they study hard, then they go home and beat our brains out.

But across town, in our own high schools, we have students who can't read, can't write, can't count, and you can bet on it, they can't compete.

Japanese kids go to school longer and they study tougher subjects at an earlier age. They are not only taught math and physics and other tools of a high-tech future, but they are taught how to compete. Geez, they even take tests,
by the way, to determine what kindergarten they get into. We have got to spend more money on education if we’re going to catch up. We have to do a lot more than just throw money at the problem, but -- we cannot duck the cost is a point I am trying to make.

You can debate all the day in this forum whether the money should come from the feds, the state or push it down to the municipal governments. All I am saying is, we better get our act together on that one.

Finally, number seven, companies such as mine have to spend whatever it takes to get more productive than the people overseas. There’s some good news on this one, at least we are at Chrysler -- Chrysler is going to spend $12.5 billion over the next five years on plant and product. I am proud of this.

Our productivity at Chrysler has gone up -- are you ready for this -- since 1980, 9.1 percent every year, compounded. The whole manufacturing sector, by the way, has chalked up productivity gains in that period since the ’80s started of more than 4 percent a year. That compares to about half of that, 2 percent a year during the ‘70s. Most people don’t realize that. Manufacturing productivity in this country has been, by those figures, a raging success.

But you know what the productivity gains have been in the nonmanufacturing side of the house, the service
sector? Zippo, zero. That’s right, zero.

Here is the punch line: With the shrinkage in manufacturing that has taken place since ’80, 76 percent of our whole labor force in this country is now in the service sector. That’s a big group, of course; not manufacturing, all service. But now that 76 percent of the workforce -- they don’t do much about our trade programs, by the way, because services are a little tough to export. On the other hand, the service sector is a whole lot safer place to have your dough in these days because there’s virtually no foreign competition. Banks, by the way, being the big exception, and you know the jam they are in right now.

The fact is, there isn’t too much incentive to improve productivity in any establishment because nobody from Japan or Korea is breathing down your neck. We don’t send our laundry to the Far East, is the point I am making, yet. We can’t call up Swiss Air to get a run from Detroit to Chicago, but New York Times, I tell them and the Wall Street Journal, they can write editorials all day long telling people like you and me how to handle foreign competition, but being a service, they never in their lives have ever faced any foreign competition in selling newspapers or ads. Never.

Do we really want to become just a service economy and maybe hide a little bit longer? Or do we want to
encourage investment needed to make our heavy industry and
our country even more competitive? I think the answer gets
pretty obvious, if we are serious about competing in this
world.

Well, those are my seven simple points: cut the
deficit, give us a trade policy, take another stab at tax
reform, maintain our energy independence, run off the
corporate raiders, give our kids a better deal on education
and encourage more investment in our industrial
productivity. They are simple, but they are all very
expensive. They all mean sacrifice.

Now, I will be honest. I have lost track of how
many people want to be President next year. There’s a slew
of them out there. My hat’s off to anybody who wants it,
because that poor soul is going to pay for a lot of sins over
the past few years. We are either going to end up in this
country with another Herbert Hoover or Franklin Roosevelt, I
don’t really know which one at the moment, by the way. One
thing is sure, every candidate will have his or her own
competitiveness program. Maybe it’s a five point program or
10 point, doesn’t matter. What does matter is that they
level with us about the cost, and that’s how I want to wind
up today.

You see, everybody is saying that we have got to
get more competitive, and almost nobody is willing to talk
about the cost of getting competitive. As a voter, that's what I am going to be listening to in the next 15 months. I will listen to anybody's campaign promises as long as the last line on the promise always is the same: "By the way, folks, here is what it will cost you." Promise me anything you want, but then tell me what the bill is going to be.

I will toss off as phony candidate who implies that somebody else out there is going to pay the cost, and if I ever hear "competitiveness is free," I am turning off my hearing aid completely. I am just not going to listen. I am going to assume that the candidate with the guts to talk about the costs will be the right one to tackle the problems. Now, even though I am not a politician, I understand how risky it can be to take that kind of message out to the voters. But presidential elections are about leadership, and this is going to be at least my measure of leadership. We do not need anymore blue ribbon commissions to study American competitiveness. All we need is a blue ribbon commitment to accept the costs of making America competitive again. The candidate who asks for that commitment is the one who gets my vote, so there.

Well, my best to all of you here today, whatever your political ambitions, and thanks for having me here.

Thank you very much.

(Applause.) (Standing ovation.)
CHAIRMAN CLINTON: Thank you very much.

Mr. Iacocca has generously agreed to answer some questions. Some people wished that he were in the process of telling people what the cost is. I can only say when he began his talk by saying that he made the point to know the governors in the states where he had plants, I sure wish he knew more governors.

(Applause.)

CHAIRMAN CLINTON: I also couldn't help noting that there was a little -- he did play fun and games with one set of numbers. He said there had been 16 Presidents who were governors and then a lot later in another section he said there had been 35 elections in which governors were involved, which means we are rating less than 50/50, not as good as we had hoped. Governor Sununu has a question.

GOVERNOR SUNUNU: Thank you very much. Thank you, Mr. Iacocca, for coming to spend a little time with us. Two of the industries in this country that are extremely important are the auto industry and the electronics industry. Frankly, they seem to be the two industries that have worked the hardest to move a lot of their manufacturing offshore.

What specifically can we do to get your plants and your sister company's plants and the auto industry back here and the electronics industry back in terms of assembly
manufacturing within our own country?

MR. IACOCCA: Well, Governor, the biggest single thing, I have to admit openly, has happened already. I used to be a crybaby at 250, even 200 yen, but at 140 to 150, most of my problems are gone. I have a -- I give you a good example of it. I have a plant with Mitsubishi where we went half and half to build a car in ’88. It was going to be shore 60 percent, the good stuff, in Japan, and 40 percent here. Since the dollar/yen changed, it has already flipped to about 2/3 and 1/3 there. That change alone is making more supplier jobs to build those 150,000 cars end up here. So, to me, that’s the biggest single thing.

When you get in other areas, we could still be helped on tax policy, we can probably get some R and D credits. I am dismayed that the steel industry is gone. The auto industry -- this is an old bias -- we plowed $40 billion back since ’80. We plowed them back. So we are going to be there when the bell rings. We’re am not worried about that.

I am worried that our Toland electronics industry, telecommunications, the works, went into a deficit for the first time about 18 months ago. I didn’t think they would join us that fast. So I don’t know what the government can do other than -- as a businessman, all you have to do is have some parameters of stability. I am only talking change rates. I don’t demand 140, but of 150 to 175 I can live
with. I deal in oil prices. My cars happen to use gasoline. I can deal in a band of 80 to $1.20, but I can't go from 60 to $2.

Interest rates, I can deal at 10 to 12 percent, but I can't go to 22 like last time without dying. So all government can do on a federal level on a macro look is give us as much stability as they can.

If you are any company and can't stand a 10 to 15 percent drop, you should sell the company. You have to weather those kinds of storms. But in '80, to '81 we dropped over 50. I don't know of any business in the world that can drop in two years' time 50 percent of all its revenue and survive. Of course, we almost tested the thesis at Chrysler, didn't we? We hung by our toenails and just barely made it during that crisis. I don't know if I've answered your question the long way around, Governor, but that's the only way I see for maintaining a good backdrop for us to give us stability as currency rates, interest rates, things of that nature.

GOVERNOR SUNUNU: If I may follow up, is the anticipation, then, that in particular in the auto industry that we are going to be looking at a return on shore for some of the manufacturing and assembly operation?

MR. IACOCCA: Yes. Somebody suggested the other day in a meeting that the yen might drop to 88 to the dollar,
less than 100. That might be wishful thinking, but then I'd show you how to compete. Stay about 140 and you will see a red-blooded competitor, because I think we're okay. We will bring jobs back, yes.

GOVERNOR SUNUNU: Then you will be calling on other governors, I presume.

MR. IACOCCA: Right, exactly. I don't know about New Hampshire, Governor, but --

(Laughter.)

GOVERNOR SUNUNU: You are right. Our unemployment rate is 2.3 percent. We probably couldn't accommodate you.

(Laughter.)

CHAIRMAN CLINTON: Governor Gardner.

GOVERNOR GARDNER: You made the argument that -- I am over here. You made the argument that plant and product innovation is necessary to compete and if we assumed that most of the workforce that will be working in the year 2000 is working today, that assumes a great deal of technological advance and training and retraining. My question is, do you think the traditional institutions of higher education are capable of meeting these retraining needs?

MR. IACOCCA: That's a great question, because I am deeply involved in it and personally involved in it. I deal with Pennsylvania because I was born there and I am very close to my alma mater and I deal with Governor Blanchard.
here in Michigan. In both those cases, we have all the
university people in, when we have all the labor people in
and all the banking people in, and I am there, and I see my
governor and local government all together in one room.

Specifically, academia has to change their
approach to life. The professors are telling the students,
"We have done this." I have talked to all these universities
for a decade. We send the good Harvard business school guys
into Wall Street. We send all the good technical minds into
NASA for the Defense Department. You suggest to some
brilliant guy -- because the answer is the factory floor --
manufacturing things better, the process. The professor
tells me, "You have to be crazy to get your hands dirty and
go into an auto factory." First of all, they are not dirty
anymore. They're very clean, they're robotic, there are
laser equipment for fits. I mean, we have really arrived.
But unless we change our whole approach early that producing
goods and services is not something dirty -- we can't all be
working on Star Wars. My contention always is -- Hughes,
which was bought by General Motors, is a fantastic national
asset.

I think they've got 23,000 scientists all working
on this exotic stuff. Japan has 23,000 guys like that. They
are all back home doing new instrument panels. We're beating
our brains in. We won't let them do defense stuff, you see.
Our real assets in brains are being pointed in you say the areas of growth. I hear professors say, "don't go into a factory. Are you crazy?" The auto business and steel is all gone. If they keep saying that, it definitely will be doomed.

"Well, where should I go?" Teacher says, "Go where the action is; defense industries, exotic electronics." And I can say for MIT -- I have been with them -- I would say for Lehigh, where I am raising $40 million to start an institute, campus, at the top of their campus, a new school that will bear my name, by the way. I guess for $40 million they will do that. And it's intended to do one thing, to train the businessman of the future and start with the process in the factory and then also remind him that he can't operate unless he gets into labor relations and exchange rates and environmental protection laws, which are costly. I am not against them, but it's 99 bucks a car now at Chrysler; 99 bucks a car. Got to have them, price is being competitive.

Korea, they say, "What? EPA? Are you guys crazy? Just give us the jobs." It's not $1 a car over there. I am not suggesting we imitate them, that's taking our standard of living down. We don't want to do that. But, sure, academia and their change in recognizing this problem, I think, is absolutely key to all of this.
I think -- we are going to try to be a prototype. Give us three years and I will be able to answer your question better, whether we have made it or not.

CHAIRMAN CLINTON: Governor Orr, Indiana.

GOVERNOR ORR: Mr. Chairman, thank you.

Mr. Iacocca, I am wondering if you would be willing to entertain the addition of one more to your seven points. That is a point which comes home to me every time I visit overseas, and I was just over in the Pacific area three weeks ago on Taiwan. I was banging some of them over the head about some of the things you are talking about. Let's lower some tariff barriers, let's get rid of some of the things that are interfering with our ability to do business with you.

This young man, who was familiar with the United States of America, said, "Well, strange thing, sir, every time we do lower from barriers, it's not the Americans that come in and sell the products to us, it's the Japanese."

My point simply being something which I think most of us as governors struggle with, it's important to educate our children, your sixth point, so that they will be able to compete when they are grown ups. But that's a generation away. It seems to me it's essential that we change America's attitude about our ability to sell. Competitiveness alone won't do it. We have to get over in the marketplace, just as
the automobile companies have so successfully done through
their dealer network, we have to sell. It seems to me it’s
absolutely vital to do it in a current basis, rather than
waiting for the next generation.

MR. IACOCCA: I agree, Governor. I can give you a
lot of shining examples, but I won’t take your time. You
have got to sell the hell out of the product. You’ve got to
get the cost down, get competitive. Then you have to go to
market, and that means -- marketing is not just running ads
in Japan, for example. It’s financing, it’s your
distribution system.

Did you know there’s a barrier? You can’t -- as
an auto dealer in Japan, you can’t take on another
franchise. Well, I am going to buy American Motors. I think
I can sell a lot of Jeeps, but I can’t get representation.
We don’t have a law like that. They can come in and duel
with anybody under our laws. So we can’t get shelf space.
By law, you have got to start scratch. I am only selling 18
Chryslers a year there. I can’t get the volume to get a
distribution center started.

So I would like them to go to GAT and tell them,
"Those barriers have got to go, buster."

GOVERNOR ORR: But there are products where the
barriers have been lowered, but we aren’t over there
selling.
MR. IACOCCA: I agree.

GOVERNOR ORR: It would be an encouragement, I think, to most governors who have made a conscientious effort to encourage their people to sell overseas to add that eighth characteristic, American salesmanship in the market.

MR. IACOCCA: I agree with you, Bob. I am going to hear from all the governors in the Midwest now, because they have taken more junkets over to these foreign spots and they have been selling hard, and they could teach me a thing or two. Go ahead, Thompson, I know you are going to talk.

CHAIRMAN CLINTON: He's not next, though. I have got to keep this in order and we are running late, but I want to recognize everyone who wants to be recognized, but try to ask a question instead of giving a speech.

Governor Kean. There he is.

GOVERNOR KEAN: Lee, first of all, thank you what you did for all of us last year in the Statue of Liberty, that well known New Jersey landmark. That's what Cuomo gets for not coming.

But one of the things which we are all trying to do in the states, as you know, is really reinvent the school in many ways. Businessmen help us, because every time we ask them to serve on a commission or help in some way they do. But talk to them privately and there's an incredible sense of outrage. There's no other expression for it, outrage at what
the American education system is doing and what they find it
is doing when they try to hire somebody.

Now, "outrage" to me means energy. How do we, as
governors, take examples -- take advantage of that kind of
outrage and energy so that the business people are not just
involved at the margins, but really involved at the guts of
it in trying to reinvent the school just as you really
reinvented the American car.

MR. IACOCCA: Well, I should defer to Blanchard
because we are working with him here in our own group here at
Michigan. You have got to get in early. You've got to get
in the grammar schools and junior high schools. We have just
got to have standards. What business can do is say, "Hey, if
you don't meet some minimum standard like, reading and
writing, you ain't going to make it in this country."

Everybody decries it's -- Michigan State
University turns outs a lot of teachers. They tell us the
problem is that some people we get in our plants -- I often
said in foreign plants you put up, because you have guest
workers, symbols, international symbols, because they don't
understand English. I am not being facetious, but I think we
have to do that in some of our American plants. They can't
even read the simplest words. You've got to put up a picture
for them. They are all supposed to be knowing the English
language. So, I agree with you, you can't be outraged. You
have got to see what you can do early on. I think business’
role is not only to participate, but convince them there is
no future for them in any kind of a job unless they get back
to the ABCs.

I know Michigan is trying to do a lot in this
area. We really -- we have great graduate schools here and
great colleges. You know, in Japan they don’t go to
college. They are terrific through high school and then
college is kind of a goof-off time for them. Then they
really get into work. I think it’s really from grades 1
through 12 where all the action should be concentrated,
myself, not in the universities.

CHAIRMAN CLINTON: Governor Sinner.

GOVERNOR SINNER: Mr. Iacocca, in 1983, in
September, you gave a brilliant speech to the Washington
Press Club and I have to apologize -- I hope it wasn’t
copyrighted, because I have distributed hundreds and hundreds
of copies of it.

MR. IACOCCA: We named a truck after you because
of that.

(Laughter.)

GOVERNOR SINNER: And I was there to help Jerry
York with that christening. That was a great show, and I am
grateful.

One of the issues that you addressed briefly in
that talk was the issue of the disparity and the cost of U.S.
Regulation on our industries. And you cited all the ones
that we all know about; EPA, OSHA, Equal Opportunity,
retirement costs, health costs, liability costs. You went
through them all.

But you also made a point about the terrific cost
to industry of the disparity between states in these
regulations and I wondered, with all the fuss and the furor
that we make over states' rights, if we haven't actually
increased the cost tremendously on industry with 50 sets of
truck regulations, 50 sets of environmental regulations, and
on and on. Have we made any improvement or are we going
downhill there?

MR. IACOCCA: I, very honestly, don't know the
answer to that. I am always for having one standard in
anything, because even in California, even when they started
on emission standards, having that set of emission standards,
we had to have two sets of cars made and it gets costly. We
have to pass on those costs to the California drivers one way
or another.

If you had 50 states with evaporative emission
standards, which are up now -- they want to slap, EPA, $80 to
the cost of every car for a canister three times the size of
the present one. It's going to cost billions every year.
It's gotten into an intramural battle, by the way, between us
and the oil companies because the oil companies say, "You do it on the car. You want us to do it at the pump." Well, it's cheaper to do it at the pump. In the long-term somebody has got to pay for this.

So, if you start to proliferate the standards, the cost just skyrockets. I am of the school that says can't we, where it's meaningful -- certainly in the areas of -- many of the areas of safety, environmental, I don't know about healthcare, but even there -- one set of rules would do. But I am talking as a national company. I respect states' rights, but I don't want to do 50 Chryslers for 50 states, it's murder. So, I don't know. I don't know more to say than that.

CHAIRMAN CLINTON: Last question to Governor Thompson.

GOVERNOR THOMPSON: Lee, where do you draw the line between warding off the greenmailers and protecting shareholders and getting companies innovative again by outside challenges to management? Is there some commonly accepted standard that we could use to reach what you want to do?

MR. IACOCCA: Well, I am a great believer that the shareholders, their money should be protected first and foremost. I happen to be of the school -- I am not turning socialist, but there are other people involved when a plant
shuts down. There are employees, the townspeople, the

  citizens out there, not just the shareholders.

  If it's a true restructuring, you are getting more
efficient, that's one thing. My great concern is when there
is a takeover, who are these stockholders? So many of them
are in the hands of a couple of guys that are going for the
ride for 72 hours. So many are in the hands of little people
sitting there with their computers, that one huge pension
fund saying, "I have to make a buck because the quarter is
closing."

  If they are true shareholders, that's one thing.
If they are there to make 5 bucks more -- a guy once told me
he would sell anything for $5, his mother, but if suddenly a
guy came in and offered $5 a share more than the going market
price for Chrysler, he would dump it. I said, "Geez, an old
loyalty?" He said, "I represent pensions. That's my
fiduciary responsibility. If I didn't take the $5, I would
be illegal." And he suggested with me there's only one
answer. You know what he said? "Legislation, it's an abuse
that has to be tackled."

  You know what they are going through now in the
banking committees, waiting periods, can't sell for a year.
If Goldsmith couldn't sell for eight weeks he's have taken a
powder. For a year, he'd have said, "Now, wait a minute."
That would have tested, because he said to Goodyear, "you
guys are in the wrong business. You shouldn’t be in oil." They have been in oil because you need seven gallons of oil to make a tire. They have been in it for 50 years. He forgot to do his homework. "You shouldn’t be in the aerospace business." They were there for 50, 60 years. He said, "We have got to get back to the core of what you know best, tires, and I can do that better than Goodyear management can." So they went for $2.6 billion sleighride.

I happen to believe this, I don’t like more legislation, but I think in this case you need some running rules. I think it’s gotten out of hand. I really do.

CHAIRMAN CLINTON: Thank you very much.

(Applause.)

CHAIRMAN CLINTON: Thank you very much for a terrific job. We are running late, but I know all of you wanted to ask those questions, and I think they were very well taken.

I especially appreciated the strong emphasis that Mr. Iacocca put on the exchange rate issue. I have heard a lot of people deny the fact that the overvalued dollar for four years had a terrible impact on our trade deficit. Every reasonable study I have seen indicates that it was possible for more than half the growth of the trade deficit. And I was happy to hear him address it.

Now we are going to hear from Governor Dukakis,
Governor Baliles and Governor Branstad who cochaired our report on jobs, growth and competitiveness, after which we will have some time for some questions from the floor.

First, Governor Dukakis, to address the issue of productive workers and labor-management relations. I would like to ask the Chairman to come up to the podium, and then we will take questions from the floor.

GOVERNOR DUKAKIS: Let me begin by thanking Bill Clinton and all of you for being part of this. It was really Bill's leadership which got us involved. I know I speak for Jerry, Terry and myself when I say that without his leadership and constant prodding we wouldn't be here with this report. What we tried to do was divide it up into sections. I am going to try very briefly to summarize the first couple of chapters, first on the challenges and opportunities of international competitiveness and then on the whole question of how we help to make a productive workforce and Terry and Jerry will be summarizing the rest of the report.

I am not sure you are going to find anything here that is tremendously new, that's dramatically different. We have just heard from a very impressive spokesman and corporate leader who has said a great deal, frankly, Bill, of what is in this report. But there are some particular points, emphasis, kinds of things which I think every
governor in every state ought to be looking at, and the best
we tried to do.

It was an interesting process, we had an
opportunity to visit some very interesting places. An
opportunity, incidentally, to be encouraged and inspired by
some of the things we saw. In rural and small town in Iowa,
in a steel mill in Cleveland -- which these days isn’t much
of a steel mill, but has one building in the middle of it
which has been cleaned up, fixed up, which has new equipment,
new machinery, new technology and a whole new relationship
between management and labor -- they are making galvanized
steel in that building and they are knocking the socks off
their Japanese competition. But it’s a very different way of
making steel and it’s a very different way of building good
relationships between management and labor. There is a
lesson in that steel plant. Terry, there is a lesson in
Oceola, Iowa and a lesson, Tom, in New Jersey and in those
parts of this country and in our basic industries that are
competing and are competing successfully. Some of it has to
do within investing, a lot of it has to do with transforming
human relationships, whether we are talking about community
relationships or relationships between those who manage and
those who work on the shop floor. You will find a great deal
of that in this report and especially stories, anecdotes,
examples, because in a very real sense, it’s in these living
examples of people and communities, companies and industries
that are working hard at this and succeeding at it that we
have the answer to how we are going to create good jobs at
good wages for people of this country and be competitive.

There have been some dramatic changes, obviously,
in the international economy. I hate to be monotonous. You
have just heard Bill and you have just heard Lee Iacocca.

But those trade practices that we all complain about, and
rightly so, the kinds of things which take up a great deal of
time, great deal of debate in the Congress of the United
States, were restrictive trade practices seven years ago, 10
years ago, 20 years ago. We haven't suddenly confronted,
over the past four or five or six years, an epidemic in
restrictive trade practices. I don't really believe that
Japanese trade practices in the '60s and '70s, Bill, were
much different than they were in the early and mid-'80s. That
doesn't mean that we don't have a right to get mad if they
violate a microchip agreement, or when barriers to American
goods are thrown up or maintained as third world countries
become more modern and more industrial.

But something has happened in this country in the
last four or five or six years which has hurt us and hurt us
badly, in the face of what, to repeat, have been restrictive
trade practices -- have been around for a long time. You and
I know what it is. We have been sitting for a lot of time
around this table discussing it, suggesting, recommending. I remember in 1983, when, under Jim Thompson's leadership, we passed a budget deficit plan, reduction plan, which I think it's fair to say, if it had been adopted by the President and the Congress of the United States, would have us today in a much, much stronger position, financially.

Unfortunately, they didn't listen to us, here we are. There is no question in my mind, and I think in the minds of most of the people who we talked with and listened to in preparing this report, that this is largely a government made disaster. That isn't my phrase, it's Pat Moynihan's phrase on the floor of the Senate when they were debating the trade bill. This is largely a government-made disaster.

When you run up a $220 billion deficit, when you drive the value of the dollar through the roof, when you, in effect, give every single foreign good a 50 percent discount, and that's what we did, or conversely, impose a 50 percent export tax on American goods, we shouldn't be surprised if what has happened has happened.

Now, it is true, as Lee Iacocca just said, that now that that is changing and the value of the dollar is dropping, that we are not going to see some of those things happening quite as much.

In the meantime, we have destroyed American
markets, we have seriously damaged American industry, and
it's not an argument against doing all of the things that we
suggest we should do at the federal and state level. But it
is simply a recognition, once again, that you can't spend a
buck for every 78 cents you're taking in and not do serious
damage to your competitive position, serious damage to your
productivity, serious damage to your farmers and to American
industry. And this wasn't their fault, this was a public
failure. It was a government failure. It was a failure of
public policy.

So, in dealing with the issue of jobs and growth
and competitiveness, quite obviously, the report talks at
length about federal deficit and its impact about those trade
relationships and equity and fairness in those relationships
-- and there must be some -- about economic disparities
across states and regions, which can be minimized so that all
Americans share in our economy. That is why we recommend
some very specific focused regional development strategies.

It's terrific for John Sununu and me to be able to
get up here and say that we have record low unemployment
rates and I am proud of the fact that one out of every 10 New
Hampshire residents works in Massachusetts and we are
providing that kind of employment for John's people so he can
make those statements. But the fact of the matter is there
are whole regions of this country which are hurting and
hurting badly. You know where they are because many of you have to struggle with those problems. So we do recommend some very specific things to deal with the problems of the iron range, Rudy, and Minnesota and the heartland and south Texas and so many places that are hurting badly, need help, need resources, in partnership with states, communities, business, labor, the educational community, because it is those partnerships in the last analysis, as all of us have learned, which really are going to make a difference.

The second chapter in this report has to do with a productive workforce. Here, again, Bill, the governors have been deeply into this for some time. "Time for results," in my judgment, was one of the great achievements of this organization; one of the great achievements of this organization. We are very grateful to you, Tom, for maintaining and expanding on that and providing the kind of leadership you have. We are all working very hard. We all learned from that report.

I don't know where Lamar Alexander is right now, but he, himself, deserves a bouquet for his leadership in helping us to see how important it was for us to invest in quality education at all levels. Improving the productivity of the current workforce. You have heard from Lee Iacocca how dramatic those improvements have been in the manufacturing sector and they are and they have been.
People talk about manufacturing employment
dropping in this country. But the percentage of GNP in this
country going to manufacturing is staying about the same.
That has to tell you something. It tells you we are making
more manufactured goods with your people and that, whether we
like it or not, is what productivity oftentimes is all
about. The question is, how do we take advantage of that,
how do we make that transition. And how do we deal with some
of the consequences when that happens?

The efficiency of our labor markets. I think I am
correct in saying that 70 to 75, maybe 80 percent, of the new
people entering the workforce in this country between now and
the year 2000 will be either women or minorities, in some
cases, both. That is something to think about.

How do we help to train those workers? How do we
do what we discussed just a few minutes ago at the executive
committee, in talking with Senator Moynihan and Congressman
Downy about welfare reform? How do we make it possible for
hundreds of thousands of people in this country that aren’t
part of the world of work, haven’t been part of the world of
the work, to get the skills, get the support for themselves
and their kids that would make it possible for them to
support them and become productive and self-sufficient?

How do we improve the relationship between
management and labor, the kind of thing that has meant
success for that new unit within that steel mill in Cleveland? How do we increase the quantity and quality of scientists and engineers? And how do we deal with the fact, as Lee Iacocca just pointed out, that investing in defense, as we must, we are taking scientists and engineers from nondefense activities; and, if we think we have to do that, and we must, we better start making some investments in the training of additional scientists and engineers to deal with nondefense activities as well.

Finally, Bob, we talk about understanding the international marketplace. What does it take to sell? How do you sell?

You fellows may be making some trips to the Pacific from time to time. I suspect they are very valuable for you. I think one of the things that you have discovered, as I have discovered, is that, at least until recently, countries like the Japanese are outselling us, outhustling us. We all know about the 10,000 Japanese salesman in this country, all of whom speak English and what, 500 Americans until recently who could possibly speak Japanese in Japan. That isn't selling. That isn't going out and marketing. That isn't doing the kinds of things that we have to do.

Those are some of the issues that we address in the first two chapters of this report; again, things many of us have been working on, things many of us have been
collaborating in, as John says, constructively plagiarizing as we do all the time because we learn from each other. But we hope in offering this report to you that it will be helpful, will give you ideas, will give you examples of successful partnerships that are taking place in virtually every one of the 50 states. Again, we are very grateful to you, Bill, for keeping us on track, keeping us moving. And we hope very much that this report will be valuable, too. Is it Jerry or Terry?

CHAIRMAN CLINTON: I think Governor Baliles is next to discuss international education, research and development and technology. I want to thank Governor Dukakis for those fine remarks and also, at least, to abuse the chair a moment, to associate myself with the point he made that while we shouldn't countenance restrictive trade practices, neither can we blame our present predicament primarily on them and I appreciate you making that point.

Governor Baliles.

GOVERNOR BALILES: First, let me tell you what this report does not do. This report offers no quick fix, ideologically driven solutions, panaceas or get-happy-fast formulas.

Rather, this report talks in sensible terms about real problems which must be addressed at the ground level. This report is about jobs; how states are helping to create
them, what states are doing to keep them and what states do when they lose them. So I am honored to participate in the delivery of this task force report, and I am going to do it in about 10 minutes, or about the time it takes Lee Iacocca to sell a dozen cars.

Ladies and gentlemen, the states have confronted administrative impasse with innovation and economic difficulty with determination. The task force report tells the story. History instruct us, unambiguously and unequivocally, that economic strength follows efficient travel and transportation. States know that without an ability to efficiently travel and transport, without highly developed skills of communication and understanding and without the desire to economically move past the provincial to the global, our economic aspirations will remain beyond our reach.

The history of this very region tells us as much. Here, in the heart of a continent, a maritime world was built. Five inland seas which hold a fifth of the earth's fresh surface water. In the early 1600s, the French penetrated this forested country and began turning natural resources into economic strength. Yet, real economic progress would await the effects of transportation improvements in the early 19th century.

In fact, the laying of adequate infrastructure
enabled Michigan to grow faster than any other territory or
state in the 1830s. Similarly, across the continent,
commerce followed roads, rails and waterways.

Yet today, in many of our states, we witness and
endure an increasing morass of crammed, inefficient, urban
and suburban highways and crowded, unreliable national
airways. We watch as our productivity declines from the
simple inability to quickly move our people to work in their
products to market.

Accordingly, the task force recommends a variety
of initiatives to improve local access to public works
financing, to provide new technology for infrastructure
investment, to develop quick response mechanisms for
accelerating projects and to secure interstate cooperation on
strategic regional projects.

In short, it's critical that we establish new
avenues to action to insure that the future is not
compromised by an inability to move our people in their
enterprise.

Likewise, our intellectual infrastructure must
consistently reflect the realities of world commerce and
political competition. In the past, Americans possessed a
unique ability to work together and to use the advantage of
cultural diversity.

We understood the world because we were the
world. In 1910, for example, when less than 15 percent of the U.S. population was foreign born, almost 1/3 of the residents in the northern Great Lakes region had been born abroad. We grew as a nation of many lands, where every citizen had an immigrant for an ancestor. Yet we lost our sense of the world. To almost 3/4 of high school juniors and seniors, geography is a black hole.

They can neither identify the states nor make informed guesses as to whether Ireland is to the east or west of England, but which country lies south of Texas. In one study, only two students could locate Chicago. A junior at UCLA opined that Toronto must be in Italy. A prelaw student put the nation’s capital in the state of Washington. "How," one student asked, "could Latin be called a dead language, when there are millions of people living in Latin America?"

We pay a political and economic price for our inability to understand and communicate with our global neighbors. Knowing the language of trade is to be able to communicate with the buyers and sellers of the world. Knowing the geography of other nations is to appreciate the basis of other economies. In a sense, we urge the acquisition of a heightened sensitivity and an appreciation of the diversity of the people of our planet. The task force concludes that if we are to benefit from global interdependence, members of our current workforce must
understand the world around them. Accordingly, as the principal providers of education in the nation, states must invest in and internationalize their schools. Our economy rests upon, it depends upon our physical and intellectual foundations. And when deterioration sets in, states must act.

But investing transportation and education is not enough. We must not stop there. To the contrary, the task force report catalogs innovations and collective action, efforts of the 50 states that are taking across -- taking shape across the country to shape the future, rather than be shaped by it. Whoever may ask of today's challenges, "Well, yes, but what can we do about them," here is an answer: Read the report.

The task force reports detailed ground floor responses created by states and tested by experience. Here is some of what the report says: "To make our workers more productive, we must build bridges between classrooms and marketplaces to establish a flexible, adaptable workforce with programs similar to those in Georgia and Indiana. We must increase the quantity and quality of our scientists and engineers. In fact, we must increase the number of students in these fields by 50 percent, as a program is seeking to do in South Carolina. We must balance training programs between long-term investments in education, which is critical for
future productivity, and short-term market driven
requirements for retraining, which is necessary for current
productivity, just as is being done in Missouri, Florida and
Delaware."

But what about where the workers work? What can
states do? This report tells you, "States can encourage
development in the application of new technology. States can
promote more productive employer-employee relationships.
States can help identify new markets for exports. States can
help with financial assistance in leverage capital."

How do we do these things? The task force report
tells us how. We do it by making work places more efficient,
by stimulating technology development with links between
businesses and universities to upgrade research and
development, as is being done in North Dakota, North Carolina
and Virginia, by increasing the rate of technology
transferred through incubators and centers for applied
technology so that America, not others, capitalize on our own
inventions -- we can do it with programs such as those found
in Michigan and West Virginia -- by promoting state exports,
so that the 200,000 American companies with export potential
are encouraged to find overseas buyers. And we do it by
finding new markets and expanding old ones, just as it is
being done in state after state across America.

We can make work places more efficient by
establishing financial and technical services with small
business financing, with direct and indirect programs, as is
being done in Illinois, Pennsylvania and Ohio. States are
taking these actions, and we know we can do more. We know
that our task is to come to terms with today's complex,
integrated world along with other cultures, other ideologies
and other economic systems. The task force report says that
the ground work must be laid now, not with the false promise
of instant redemption, but with the understanding that our
efforts must be crafted across generations.

Further, we believe that states are uniquely
qualified, politically and administratively, to provide the
leadership and the direction. Louis Brandeis once
characterized a constitutional arrangement between national
and state governments as vibrations of power. Now is the
time to use that power, not as a source of division and
indecisiveness, but as the genesis for the future of
America. The task force report is a functioning document, a
centralized clearinghouse of good ideas and working
programs. This report and its supporting documents will be
taken back home by governors and used, not as a plan for
study, but as a plan for action.

A few years ago, the National Governors
Association did the same thing for education, and it's made a
difference. Our schools are better. We believe that this
report will make the difference as well. We must push the
states forward. We must push the outside of the envelope, as
Chuck Yeager likes to say, so that our people and their
enterprise are made stronger and brought faster to the
economic future that they desire and deserve. This report
underscores what Governor Clinton has said so well for all of
us; we must make America work. Thank you.

(Applause.)

CHAIRMAN CLINTON: Thank you very much for that
excellent statement and for your fine work, Governor
Baliles.

GOVERNOR BRANSTAD: Governor Clinton, thank you
very much. I want to thank my colleagues who served as
cochairs on this task force on jobs, growth and
competitiveness. I want to especially acknowledge our
chairman, Bill Clinton, who really gave us the leadership,
the insight and the devotion to really pursue this task force
and to give you the report that we are presenting today.
Also, as you know, we had the opportunity to host one of
these meetings in the state of Iowa, and Mike Dukakis was one
of those who came, along with Governors Clinton, Mickelson
and Sinner. Mike liked it so well, he has come back several
times since.

Bill, on the other hand, has decided that he would
rather stay in Arkansas, at least for the present time. But we appreciate all of your visits and your commitments to this very important task.

The health of our economy depends upon the health of our individual communities in both rural and urban America. It is our communities from which we draw our strengths. They provide the basic social and economic fabric of this nation. Just as our nation draws on the strength of our states, we, as states, draw on the vitality of the individual communities that make up our states. Yet, we are witnessing in this country today an increasing disparity between the health of some communities and the sickness of others.

We have what some have called a bicoastal economy. The coasts are doing very well economically. Yet, the great middle struggles to recover from a prolonged economic downturn. And we see the disparities within our individual states, with regions and communities doing well and seeing significant growth contrasted with areas of great poverty.

We see it across the land, with urban areas doing generally well and being areas of significant growth and leaving rural areas in the dust.

Indeed, rural areas and communities, whether they be in places like Iowa, Oregon, Texas or West Virginia, has
suffered more during this decade as a result of uneven economic growth. Consider these facts: But migration of people from rural areas to urban areas in the years 1985 and 1986 was larger than during any similar period in the previous three decades. Three times as many new jobs were created in metropolitan America than in rural America during this period. Per capita, personal income in rural areas, 25 percent less than metropolitan areas.

Incidentally, that is in stark contrast to Japan, where it is just the opposite and rural areas have 40 percent higher personal income than they do in urban areas, and where they subsidize agriculture to the extent of $40 billion a year.

In the 1960s and '70s, the nation's focus was on urban blight and the need to target resources to our cities and to our inner cities. In the 1980s and the '90s, many of these urban areas have become centers of renaissance and redevelopment and growth in our country. Yet it is our rural areas that need to be targeted for assistance and help during this time.

What can we do about it? In many respects, many of our communities are facing the same problems that Lee Iacocca had when he took over in Chrysler in 1978. Chrysler needed strong leadership, adequate financing, a working partnership between the government and a commitment to be
competitive to survive.

Our communities need the same prescription for success. In our task force hearings, it became apparent that we have some communities that have demonstrated their ability to succeed even against the odds. We found out, for example, despite adverse economic conditions in the rural heartland, communities like Oceola, Iowa or Cuba, Missouri were building strong economies for the future. Drawing from those experiences and from the report, we have a five-point plan that is offered for state assistance to help with these communities and to develop their leadership.

First, the states need to have a rural development strategy to deal with these pockets of poverty and problems in rural America, a strategy based on economic diversification so the communities are not so dependent on one industry like agriculture, forestry or mining. We need to be providing transitional services and targeted infrastructure investments.

Second, investing in both development of our human resources and physical capital is critical. Quality education programs and public services are essential to economic success.

Additionally, selected infrastructure improvements with a goal of stimulating the economic growth is an important factor. New telecommunications technologies can
link up rural America, in this information age, to the other parts of the country.

Third, entrepreneurial development must be encouraged and supported. A recent study of the Council on State Planning and Policy Agencies looked at rural Iowa in the decade of the 1980s during this period of agricultural crisis. They found some interesting things.

Despite the loss of jobs related to farm machinery manufacturing and related to agriculture, there had been 108,000 new jobs created; and, 20,000 new business ventures started right in the midst of these agricultural troubles in rural America.

As states, we need to recognize there is this wealth of entrepreneurialship. We need to capitalize on it and use it and use the technological and financial assistance programs that we can provide to encourage and assist the entrepreneurial development and growth. Increasing emphasis needs to be placed to the development of new businesses within our states and our communities.

The fourth point, access to financing new economic initiatives is vital for success. Both state and federal assistance is needed to attract financial investments, especially to rural America. When the banks have been hurt by major losses in farm loans, it's hard to get them to make the loans, even though there are great opportunities there.
Banks and other financial institutions need the funding sources that will motivate them to reinvest in rural America. They need to be able and willing. We need to make sure that they take advantage of a willing and able workforce, a spirit of individual initiative and a high quality of life that exists in so many of these communities. Finally, and I think this is crucial -- and we saw it in Oceola, Iowa and you have seen it in communities in your states -- local leadership is critical.

As governors, we need to do everything we can to promote it, to stimulate it, to nurture it, and we can't do it by ourselves. We have got to do what we can to generate that at the local level. One characteristic that runs throughout the successful rural communities is that they have aggressive and visionary local leaders who have taken it upon themselves to do something for themselves and for their communities.

In Iowa, we recently initiated a program to try to take the star players, the Oceolas and the Mount Pleasants and those leaders, out to talk to the other communities that aren't doing as well. We call it the STEP program, Shaping Tomorrow's Economic Progress. As a part of this program, we are setting up town meetings in communities across the state where the successful communities can go and visit with the leaders in the other communities and say what they went
through and the experiences they had and how they were successful in helping with the diversification of their local community, how they used a local commitment, how they built the partnerships and how they developed the public and private leadership that made it a success.

We have certainly seen what has happened in New England. That is beginning to happen in some of the rural areas of this country as well, and we need to tap on to that.

Each community will then organize its own development team to assess its strengths and weaknesses and to develop a plan and to aggressively pursue their initiative.

I hope that we can designate each of those areas as an enterprise zone so they can get state incentives to match their local initiative.

During the course of this project, our task force devoted most of its efforts to state actions and to the accomplishments that we have seen in economic development at the state and local level. We deliberately avoided going into great detail about actions that could occur at the federal level. But it would be remiss in our responsibilities as a task force if we did not address that, so in my closing remarks here, I want to talk a little bit about what the federal government can do to help us.
States do not operate in a vacuum. We are all part of a great federal system. Our programs, our work, our plants, our daily lives, are influenced by federal policies. We certainly heard that in such things as the value of the dollar versus the yen. In our approach, we did identify four broad areas where federal action is imperative.

First and foremost, a stable federal economic environment and reducing the federal deficit. We all agree on that. We also need to encourage more private savings to promote a stable international and financial framework that contributes to fair trade and to high productivity and growth. The debt in less developed nations must be better managed. The federal government can play a role in getting that accomplished.

Combined monetary and fiscal policies with our major trading partners is very important. Establishing a more equitable trade relationship and reviewing export policies and export licensing procedures, broadening the scope of the GAT agreement, all need to be pursued. We need to provide for an effective rational targeting of flexible state programs. To the final point that I want to brief you on, and that is the governors are calling for a more effective federal/state partnership, a partnership that will help build that national competitiveness to minimize the economic disparities to help us all work together to be
competitive in a world economy.

We need to create a flexible and responsive employment system. That means looking at some of the national programs, like employment service, the unemployment insurance program, the job training and vocational education programs, and not looking at them separately, but look at them together and see how they could be adapted -- adapted to become more responsive, so that we don't just merely cope with the misery of the disparities and the problems, but we use these programs in a creative way to train people to become more competitive for the jobs of the future.

The federal/state partnership needs to be redefined. The states are assuming new roles and responsibilities. We are becoming more aggressive. We need the flexibility to be responsive to today's needs.

Much can be done. However, often separate actions and programs from the federal government conflict with each other. We need to be competitive in the international environment and we need to make sure that one hand of the government knows what the other hand is doing so that we don't have the intolerable duplication or the poor coordination of programs where they could make a difference. It is time that the federal and state governments pull together and that we target our resources, we reevaluate our present relationship and we make a new partnership between

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the two levels of government.

So, Mr. Chairman, with that, I am pleased to close this report to say that our focus is on economic growth in all parts of this nation. Our goal is to make all of America work, and our commitment is to focus the resources of this nation to make us competitive again in a global economy. Thank you very much.

(Applause.)

CHAIRMAN CLINTON: Thank you very much, Governor Branstad, for that fine statement. We now have a few questions, beginning with Governor Martinez.

GOVERNOR MARTINEZ: Thank you, Mr. Chairman. I think all the subchairmans did an excellent job in presenting the document. I know that before us lies a great challenge in terms of how to expand the economy to absorb the newly trained people that we hope to put into the labor market.

I know that we have heard some great speakers here today, including Lee Iacocca, and our ability to compete in terms of creating jobs here.

I, for one, would like to join with all governors to make sure that our national government sets the proper policy to expand jobs so that our road is not simply to relocate jobs; that my mission, out of Florida, would be not simply to take a company from another state, but to truly expand the economy to create the opportunity for all those
that I think this fine document will educate and train for
the future of this country. So that I think we are good
partners, but I think the partnership we need at this moment,
the strongest partnership, is the federal government.

CHAIRMAN CLINTON: Thank you very much. I think
Governor Harris has a statement or a question.

GOVERNOR HARRIS: Mr. Chairman, I would like to
take this opportunity to commend you and these three
cochairmen that have work so hard with members of the task
force in compiling the report. It’s an excellent report
which gives us tremendous insight into our current economic
conditions of our states and also outlines the ways that we
as governors can respond to the many challenges that face us
in our state that need attention, such as jobs and growth and
competitiveness and also the four-step framework for economic
competition. What the report sets forth is, I think, an
excellent and sound approach for revitalizing our states’
economies and moving us forward as a nation.

I can say, with a lot of appreciation, that we
have already tried a number of the recommendations that have
been made in our state of Georgia from education, to our
quick-start special training program, the aggressive
industrial recruitment we have had and the market development
programs that have been recommended in this report, and it
has been effective for Georgia. The working relationship
that we have established with the local governments and the
team spirit that has presented itself from that relationship
has certainly enhanced our capabilities.

So I would like to just call on each one of the
governors that are here today to join with me in giving you
and these three cochairmen and the members of this task force
a hand of appreciation. Would you join with me at this
time.

(Applause.)

CHAIRMAN CLINTON: Thank you very much. We have
to hear now from Governor Ashcroft. Are there any further
questions or comments that anyone wants to make at this
time?

Governor Orr.

GOVERNOR ORR: Thank you, Mr. Chairman. I am
sitting where I don't belong, but in a sense, I am sitting
here by Lee Iacocca's sign. I wanted to reaffirm what I had
suggested to him, sort of in the form of a question. You
took me a bit to task for making a statement rather than a
question, Mr. Chairman.

CHAIRMAN CLINTON: I agreed with you, though.

GOVERNOR ORR: This report that has been put
together here, we have heard from this afternoon, is a true
achievement for the governors, in my opinion. It is setting
a course of action for all of us to observe as we move into
the future. But, more particularly, it is dealing with a future that is beyond tomorrow, especially with education. That is not going to have its effect until some time well off into the future.

I most strongly believe that we have a major undertaking in each of the 50 states to cause our business community, to cause our people, to understand what is happening in the world; and, therefore, what they need to do to hustle business. I am not sure exactly how to approach it, except that it seems to me very important indeed that we carry forward with what has been found in this report and what has been made evident to us as a result of the report. I believe that the most important thing we need to do in the next two or three years is to awaken America's attitude towards doing business in the rest of the world.

We have been fortunate, over a period of the last 200 years, not to have to go elsewhere to get business. We have been enjoying doing it within our borders. We could enjoy doing it on a basis where we are selling to each other. And very few of our more enterprising companies have gone abroad and sold their product.

But the point I was trying to make of the young man who spoke to me in Taiwan was that in response to what America has asked us to do in lowering tariff barriers and things of that kind, it's not Americans that come in and sell
with products to us, it's the Japanese who do so. We are being beaten out because the attitude of America about hustling business is, unfortunately, confined mostly to our domestic economy rather than to the international world. I would like to suggest that a thing we ought to be doing in the future is to work on what we have been found in this report, but to bring some of that to the current period and doing what we can do as governors to encourage a quicker response to the opportunities that are now becoming so evident throughout the world.

CHAIRMAN CLINTON: Thank you. Anyone else? I would like to point out that tomorrow there will be several opportunities to follow up on and flesh out this report. And for the benefit, not only of the governors, but others here, John Kenneth Galbraith will be speaking at the governors workshop on rural development that Governor Branstad will chair in the morning. Governor Dukakis's committee will feature a very important session on responsive communities, including the mayor of New Haven. The committee on trade and international relations, which Governor Blailes chair, will have a big focus on Governor Orr's subject of a moment ago, exports of governors' secret weapon.

Then at 10:15, we will have a special work session on this report, which we will be able to hear from the private sector; from business, from labor, from the
scientific community, about the importance of this report and its relevance to the future.

So I think we will have a very good day tomorrow working on this. We are going to talk about worker adjustments and a number of other things in the other committees.

Before we adjourn, I have to call on Governor Ashcroft, who was the cochair or the chairman of our task force on literacy which is part of the various projects. He will not be able to be here on Tuesday, unfortunately, and therefore has asked for a few minutes to be heard today.

I want all the governors who are here who weren't on that task force to know I think that he did a terrific job on the report. I would hope that all of you would sit here just a few more minutes and listen to what he has to say, because he won't be able to be with us on Tuesday.

Governor Ashcroft.

GOVERNOR ASHCROFT: Thank you, Chairman Clinton. I want to thank you for letting me give the report early. I will trying to make it very quick.

None of us would expect a team that was playing a player short to be able to be successful in the competition. If we allow people who can't read or write to continue to be on our team, or if we continue to carry them without those skills, they can't play effectively. We simply must have all
the members of our team in our productive capacity and with
that capability of helping contribute to what we want to do.
Illiteracy is one of the most imposing barriers to
participation in our society, to joining the productive
engine or community we call America.

Today, over 20 million Americans can't read or
write above the fourth grade level. Another 30 million can't
read or right above the 8th grade level. By the year 2000,
well, six out of every seven jobs, almost 90 percent of the
jobs, will require more than a high school education in order
to do successfully.

If we are going to be competitive, we are going to
be productive in the years ahead. We are going to have to
have even higher levels of skill than we now have. We simply
face a major challenge in terms of literacy.

Our task force took very seriously your charge to
be action-oriented rather than merely study-focused. We have
worked very closely with Capital Cities, ABC, the Public
Broadcasting Service and their highly successful PLUS
project; Project Literacy, U.S. With the National Alliance of
Business, who have benefited from the work of the U.S.
Department of Education's adult literacy initiative. The
National Assessment of Education Progress has published solid
information on literacy skills of America's young adults.
The task force met twice, once to take expert testimony, a
second time to convene with the education commission of the states with ABC, with PBS; a national literacy summit. I think both of those meetings were helpful. The summit was the first of its kind of event on this topic. There were a number of people there from private as well as public agencies in the literacy movement. And we worked on building partnerships for a literate America. We made a good start.

We plan to follow up on that meeting with another literacy summit in the months to come.

Literacy task force also worked closely with one of NGA's affiliated groups, the Council of State Policy and Planning Agencies. The first week of June, CSPA sponsored a state policy academy on increasing literacy for jobs and productivity. Academy attendees came from 10 states to learn how to develop and improve state literacy policies related to its work on the policy academy and with input from our task force. There was a state policy guide for literacy, which is on the table before each of the governors today. I recommend it to you; it's important. Each of you can find ways to improve our approach to the problem of illiteracy.

The formal report of our task force recognizes that governors want to shape an environment in which citizens can prosper and participate. Successful state strategy will encourage, I believe, every ablebodied person in our society to be a part of the team, to have the skills necessary to be
productive workers in a competitive universe, in a global
circumstance of competition. I think we can help develop a
set of strategies -- we might call these strategies a line up
for literacy -- that can help our citizens improve their
basic skills. The task force has identified seven major
components of what we would call an effective state literacy
strategy. More detail will be given about these on Tuesday,
but I want to share some of the broad, quick outlines.

First, we need to focus on the needs of adult
learners. We are doing a lot in education to try to prevent
illiteracy. This task force focused on the intervention; how
do we correct illiteracy?

Second, find ways to enhance literacy training in
the workplace, cooperation with the private sector. State
government should take advantage of the motivation to learn
in the work setting as we structure effective literacy
programs and -- working together with individuals in the
workplace.

Third, we need to foster cooperation among state
agencies, the private sector and volunteer groups that deal
with literacy.

Lots of people want to be involved. Some of them
want to teach other people how to read, but they don't know
how to teach reading in spite of the fact that they know how
to read. Sometimes a state can be the agency that helps
train volunteers who will later on through the volunteer agencies provide the actual instruction.

Fourth, state government should improve productivity and accountability of literacy programs. We need to make sure that literacy programs that are supported with tax dollars are very effective and that they use those tax dollars wisely. We need better opportunities for parents and children to work together on literacy skills. The PACE program in Kentucky and the Parents as Teachers program in Missouri are just two of the programs that can help accomplish that goal.

Although our focus was on adult literacy and on successful intervention strategy, we do recognize the need to follow through with existing efforts to reform secondary and elementary education to prevent adult illiteracy. Our schools must do a better job so that we aren't pumping additional illiterates into the workforce.

Finally, the task force believes literacy strategies can play a large part in efforts to reform our welfare system. We suggest that governors formalize plans to help welfare recipients develop basic literacy skills that will help them find productive employment.

I currently am working on a program called "Learn Fair" in the state of Missouri, which is designed to require people who do not have high school or GED skills to work
toward those skills of they are to continue as recipients in the -- in our system. Literacy is simply a matter of fundamental importance, which I believe is key to our being competitive.

If I may have another 30 seconds, I need to make one other item as a report.

Governor Joe Frank Harris of Georgia and I are serving on a committee of the National Thanksgiving Foundation, which is putting together programs to celebrate the benefits of 200 years of life under the United States Constitution. Both houses of the Congress have enacted legislation which was signed by the President designating 1987 as the national year of Thanksgiving. Bob Hope is the national chairman of the committee.

The purpose is to express or develop an attitude of gratitude in the United States for the blessings of life and liberty under the Constitution for 200 years. There are a lot of important plans. Last week the U.S. Conference of Mayors sent a letter to well over 800 mayors of the country to help them get involved in organizing this celebration of Thanksgiving. Governor Harris and I, through the NGA, will be writing to you in the near future to ask you to participate in this exciting and historic event. For now, I want to urge you to issue a state proclamation similar to the national proclamation designating the period Thanksgiving '87
to '88 as a year of Thanksgiving in your state.

Thanksgiving 1987 could be a very exciting and meaningful celebration. While we think about competitiveness, I think it's important for us to understand that we have all benefited from a structure and circumstance, set of values in this country, for which we ought to be grateful which will allow us to be competitive in the future. Thank you very much, Mr. Chairman.

CHAIRMAN CLINTON: Thank you very much for that excellent statement. Does anyone have a question of Governor Ashcroft on the adult literacy or comment? Then I am going to adjourn this meeting. Keep in mind that we begin immediately now with the committee on criminal justice, Governor Deukmejian's committee, and Governor O'Neill's committee on transportation.

We are adjourned.

(Whereupon, at 3:10 p.m., the meeting was adjourned.)
NATIONAL GOVERNORS' ASSOCIATION

PLENARY SESSION

Governors' Hall
Grand Traverse Resort
Traverse City, Michigan
Tuesday, July 28, 1987

The plenary session convened at 9:43 a.m., Bill Clinton, chairman, presiding.
PROCEEDINGS

CHAIRMAN CLINTON: This morning we have a very tight agenda. We are going to hear from a very distinguished American executive on the subject of competing, on the matter of winning and losing. We are going to discuss the summary reports from the five governors who chaired the task forces on bringing down the barriers. We will consider proposed policy statements and elect the executive committee for the coming year.

I would like to ask everyone to please take your seats. We need quiet in the back. We are going to have a speech here that the governors want to hear, and all the rest of you should too.

Our guest this morning is the chairman of Ford Motor Company, Donald Petersen. He is going to be introduced by his governor, Jim Blanchard. But before I call on Governor Blanchard, I just want to say a personal word of thanks to Mr. Petersen for joining us here. Last year, when I was writing the report on leadership for the Education Commission to the States, I tried to make arrangements to interview a few distinguished Americans about leadership and effectiveness. Last December in Arizona Mr. Petersen was kind enough to take about an hour of his time to visit with me about that subject. I think anyone who has witnessed the stunning effects of his company or driven the cars which
produced that success, knows that he has a lot to tell America's governors and America's business community. I am very grateful that he has come to be with us today. I want to ask Governor Blanchard to come forward now and introduce him.

GOVERNOR BLANCHARD: Thank you very much, Governor Clinton.

Our next guest is another proud resident of Michigan. He was born in Pipestone, Minnesota; was educated at the University of Washington and Stanford.

He happens to be chairman of the Ford Motor Company, but what I like about him most of all is that for a number of years he has paid careful attention to the importance of education at all levels. On the skills of our workforce and the brain power of our country. He also serves as a member of my Governor's Commission on Jobs and Economic Development, and presides over, without any doubt, overwhelmingly, the most profitable automobile company in America today. He is a classic example of how it is that nice guys finish first.

Don Petersen, chairman of Ford Motor Company.

(Applause.)

MR. PETERSEN: Well, thank you very, very much, Jim, for that most friendly introduction.

Good morning, ladies and gentlemen. I am honored
to have this opportunity to address the 79th annual meeting of the National Governors Association, and it's a pleasure to be meeting with you in my home state of Michigan. When I received the invitation to be here, I simply could not refuse. Just think of it, a chance to speak to and meet with most of the 50 governors, that's almost as many people as are running for president.

But what really drew me here today was the theme of your conference, and your recognition that international competitiveness is mandatory today for the success of our nation and the wellbeing of our people. The need for international competitiveness dominates my business. It's a 24 hour a day, seven days a week concern. I think I even dream about it. That is, when it isn't keeping me up nights.

But if I lose a little sleep, that's okay. I think a lot of us are going to have to lose a little sleep and work a little harder and a little smarter if we are going to have a competitive edge in the worldwide economy. I don't think we have an option on this. We must have that edge. The United States cannot allow its economic leadership to falter.

I think Governor Booth Gardner quite plainly told us why, in his state of the state address this year, and I quote him:
"Our standard of living, our quality of life, our status as a leader in this world, all depend on our ability to meet the dramatic challenge faced by the changing world economy."

I think we as a nation are finally understanding this. I think Americans may be accepting the unpleasant possibility that we could lose. Competition among economies is like competition in anything else. There will be winners and there will be losers. It's more than a question of simply playing the game. Thinking about what I would say here, I also had on my mind a series of events that have occurred or are occurring at Ford in July.

For example, this morning, Ford enters national negotiations with United Auto Workers. These may be difficult negotiations because the issues are difficult. But this is not a time for confrontation. It is a time to pull together as a team against all comers. It is a critical time to find new and innovative ways to work together.

Running through every issue, we will face at the bargaining table, is the central theme of competing. How do we compete and at the same time assure our employees a decent standard of living and some degree of security. Tough questions.

The answers won't come from one side of the table or the other, only from both sides working together.
Another event occurred at Ford last Thursday, when we announced record earnings at a time of increased competition in markets here and abroad.

Those earnings were more than nice. They were important to the company and its employees, because they allow us to reinvest in future product programs and manufacturing and other technologies required to face the competition.

Investments, such as the more than half a billion dollars for a new line of light trucks announced two weeks ago. Governor Collins shared in announcing that $260 million of investment, which will go towards expanding and retooling our Louisville assembly plant. It will create 300 new jobs and help secure 700 existing jobs at that plant. For investments such as the $900 million investment that we announced just yesterday, almost $400 million of that will go towards converting our Romeo, Michigan facility, to a state of the art engine plant. That is something we will need to compete with the newest engine technologies of the '90s. Investments such as these, in high quality products and new manufacturing processes, do pay off.

I would like to think that similar efforts in the past have a lot to do with Ford's car market share being up 2.6 percentage points this past quarter.

Now, I have to tell you that talking about how a
business has to compete is not very hard; it's actually doing it that is difficult.

But the formula is simple. You have to get your product right, because in any business, you have to appeal to the customer with quality, with value and attractive design.

You must keep your costs down. At Ford we have taken $5 billion a year out of our ongoing costs and continued with the effort. You have to apply the best technology to help insure a state of the art system; and you have to apply it at the right pace. Finally, you have to help people involved with training and allow them to fully participate in the work that they do with their ideas and commitment.

The final judgment as to whether a business is competing is in the bottom line. Earnings to reinvest in the business all over again, in projects such as those in Louisville and Romeo and a lot of other places. I won't mention all the states where we are planning investment, because I don't want to start a free-for-all among you here this morning.

But last year, we invested about $3.5 billion into our products, our plants and our people. That amount can only go up in the future. So I guarantee you, Ford is competing. But like any other business, we know we have to compete even more intensively.
But I haven’t come here simply to regale you with stories of Ford. Much of American industry in the past few years has come to the same conclusion and has been compelled to take similar actions. Compelled not only to play the game but play to win. We are competing in a new era; and I think understanding this is a key to the future. But there is more than one lock to be opened.

While the primary responsibility for international competitiveness remains with us, the businesses and industries of America, we have to accept that government policies matter also.

There is simply no denying this in today’s environmental -- I am sorry, international economic environment. It certainly isn’t denied in other countries and other economies. Much of our foreign competition is aided directly by coordinated government policy in their home countries. If we are to compete here in the United States, then we need a similar relationship. We need a policy environment consciously supportive of our international competitiveness. Everything that American business and industry does to compete will work only if government abides by a basic ethic, and that is the belief and the need for a sound environment in which commerce can compete and flourish.

The welfare of the people, a fundamental
responsibility of the governments we create, includes their being able to work, strive, achieve and take pride in being productive members of society. Since the start of this decade, I and many of my colleagues in industry have spoken often of the government's role; of the need for appropriately valued and stable currencies; of the need for opposing adversarial trade, that is trade and export strategies that create serious dislocations in the importing country; of the need for responsible economic policy in our country and in those of our trading partners; and of the need for responsible tax and regulatory policy.

Most of these actions can't be taken in isolation. They require the cooperation of our trading partners. If the goal is correcting world imbalances, yet some nations have expressed complete indifference to the problems in our international trading system.

Just a week ago I sat and listened rather incredulously to a Japanese business leader who questioned why Japan should import American goods when the same goods are manufactured in Japan. This leader couldn't understand, or chose not to, that U.S. manufacturers, using that argument, could take the same position, a position which, if practiced, could cause massive damage to the Japanese economy or any other export-based economy.

But we don't take that position. Anyone can come
to our market with goods to sell, and most do. The results are that about 1/3 of all goods sold in America are imported. Many of our basic industries are under immense pressure, and some even for their survival.

I would like to think that I am a free trader at heart. Yet I am frustrated that we are competing in a world where there is little free trade and certainly less fair trade than there is restricted trade. The frustration is heightened when the restrictions and adversarial trading practices come from those who proclaim the merit in the free movement of goods and those who most benefit from the wide-open markets of the U.S.

The trade bill moving through Congress right now is a realization of the problems in our world trading system. It is an attempt to put our trading partners on notice; an attempt to say that the U.S. will deal with the situations that threaten our economic wellbeing.

I hope that Congress and the administration can work out an accommodation on the more important issues and provide a law which promotes a fair competitive international environment for U.S. businesses and industries. It is clear that the action that Congress is taking reflects the mood of the American people. Many of our national leaders are recognizing that, to a large degree, America's competitive ability is determined by the international and national
environments the government provides.

   Not the least of this recognition has occurred in
the individual states, and with good reason. When the United
States isn't competitive, it shows up in Washington as
numbers in a government publication. It shows up in
corporate America as red ink on the ledger sheets. But in
your states and local communities, it shows up in
unemployment or under employment, an eroded tax base,
foreclosures and business failings. That gives the states a
mighty big stake in the competitive ability of this country
and its ability to retain and hopefully expand our
manufacturing base and the jobs that result.

   I know that you realize this. While
competitiveness is an issue relatively new at the federal
level, states have long been involved in programs and
strategies to strengthen their own competitive position. In
recent years, these strategies have become quite
sophisticated. Changing Alliances, a recently published
Harvard study on the auto industry and the American economy,
says, and I quote, "Even though the relationship between the
Federal Government and the auto industry appears to be mired
in preglobal orthodoxies, at the level of state governments
across the country, a new model is emerging, one that
emphasizes the value of government as a competent partner, a
catalyst for competitiveness."
Exchange rates, budget deficits and unfair trading practices may be in the purview of the Federal Government. But whether the products from a particular plant are internationally competitive can also be affected by what a state does or doesn't do. There is a wide array of incentives offered by states to lure industries and help keep them. There are, of course, tax incentives, highway improvements, state financing programs and many more.

But I don't want to dwell on those types of specifics today. Don't get me wrong, those incentives and assistance programs are very important to us. They lower our investment and operating costs, and cost is a major factor in being competitive.

But there is a much broader viewpoint demanded by today's world. We need to foster a total environment for competitiveness; and, in many respects, state governments will be in the forefront of promoting such an environment. There needs to be a commitment to the importance of cooperation. I think this is well demonstrated in my own state of Michigan.

The auto in Michigan project, set up by Governor Blanchard's administration, formally recognizes that the auto industry and Michigan have common interests. The project pulls together representatives from the industry, government and labor, to assess trends and develop options for dealing
with a changing, but still very important part of the state
economy. It is, in a very real sense, a partnership.

More and more evidence of this cooperative spirit
is springing up throughout the states, foreseeing more state
support for research and development. And much of this R&D
is being tailored to the state's major industries, or their
economic development plans. We are seeing states assist in
the commercialization of new technology, by linking research
centers with potential commercial users of new technology,
and even with direct financial assistance for businesses and
entrepreneurs seeking to bring new products to the market.

But there is another area where a cooperative
spirit is needed, and it starts much further back in the
process. I truly believe that one of the most critical
factors in our future competitive ability will be our people,
their skills and determination to succeed.

I have no doubt of their determination, but they
must have the skills as well if we are to compete. Your
report notes that the vast majority of people who will be
working in the next two decades are already in the labor
force. To succeed, these people must receive the training
and retraining they will need to work in a world of
ever-increasing technological complexity.

Ford recognizes industry's role in this effort,
providing our employees with the training and new knowledge
they need to do the best job possible, is a critical element of our push to be competitive. Employee education and training must be a life-long commitment. The ability to adapt and keep our knowledge current is crucial.

Still, long before the workforce welcomes a new member, the education system will have left its mark. If we are to compete on into the next century, our education system must be much better. The dropout rate, undereducated or even illiterate graduates, curricula insufficient to prepare for an increasingly technical and changing world. Too few students taking up the sciences and mathematics. These are more than depressing observations. They are dangerous trends.

Governor Clinton, you and the other governors are leading this nation's effort in a monumental task. But if some of the statistics and trends are frightening, many of the state actions thus far are encouraging.

Just a few of numerous examples, Indiana has recently passed the most comprehensive education program in its history. A critical feature provides for bonus funding to schools that improve student attendance and improve math and reading skills.

South Carolina has approved money for a math and science high school. It will bring together the state's top juniors and seniors for two years of intense study in those
disciplines. In Minnesota, students can enter technical institutes to study curricula designed in concert with industry representatives. The students graduate when they demonstrate mastery of the course of study. I applaud all of these efforts, but much more will be needed.

David Kearns, the chief executive officer of Xerox has suggested that we need to rethink our education system from the ground up. We need to reorganize it, as we have our businesses, for high quality an productivity, because we can't remain a world-class nation otherwise. And I agree.

I believe that accomplishing this most critical task will require the commitment of us all, including American business.

Funding, beyond the judicious use of tax dollars, will remain an important area of support. Already, educational gifts are the largest category of corporate giving, but our commitment must be even broader.

A recent survey of public school officials by proeducation magazine found the following: 87 percent of respondents thought more communication was needed between schools and the business community concerning each other's needs. 75 percent felt that the business community should lend support in developing relevant curriculum. 59 percent said that business should play a role in student motivation.

Clearly, the involvement of American business can
and should take many forms. It's a big investment, but it's the best investment we can make. A schoolhouse has been described as four walls with the future inside. In today's world, that future has to be international competitiveness.

Rather than think in terms of trade deficits or productivity or market share, I sometimes find it easier to focus on the importance of competitiveness by taking a more personal perspective. And that is this, the American dream has always centered on the next generation believing they can aspire to something better than the previous generation; and that previous generation has always helped pave the way to those aspirations. Whether it was the Founding Fathers forming a new nation or the pioneers of expanding a nation, or in this century, the generation that fought for an ideal or way of life, Americans have always passed something on. I don't want to be in that generation that leaves something less for those coming behind us.

Competing is a matter of winning or losing. We have a lot to lose. But together, we can win. We can pass on a stronger America and be proud of what we leave behind.

Thank you very much.

(Appause.)

CHAIRMAN CLINTON: Mr. Petersen is going to take a few questions beginning, I think, with Governor Sununu.

GOVERNOR SUNUNU: Mr. Petersen, thank you again
very much for taking the time to come and address us and
giving us a chance to discuss some of these issues with you.

One issue that I think a lot of us are concerned
with, and certainly you have addressed the issue of training
and education and the refocusing of our external resources in
this country. But one issue that I am concerned with is the
question of corporate philosophy and the fact that for a long
time in this country it seemed that the private sector was
content to make products that met our own domestic market
needs and hoped that they might be able to sell those abroad
without very much of an effort to tailor those products to
the desire of foreign markets.

In appliances, we were content to change the plug
to fit their electric system and never worried about the size
or cycle of our washers. The automobile industry built
automobiles for a large size in our domestic consumption and
was reluctant to down size for foreign markets.

Certainly there's been significant change in this
direction, certainly in your industry and others. But still,
I don't feel the trend has gone far enough. Could you
comment a little bit on what you see the reason for
continuing reluctance to tailor-make our products for foreign
markets.

MR. PETERSEN: I think the first observation I
would make is that the U.S. market is such a huge one that in
many cases many companies find -- have thought in the past that if they could get a good chunk of the American market, that that was a very adequate effort on their part. Also, I think until relatively recently, competition tended to be much more localized, geographically, than it is now. I think we have seen a true internationalizing of competition in the last decade or so.

The very current problem that American industry faces is that we had a prolonged period in the first part of '80s, '80 to '85, especially when it became almost hopeless to try to compete in any external markets because of the extraordinary imbalance in our currency. The dollar just made it absolutely impossible for most anyone, unless they had a product that was unique, to be able to compete.

I think we saw many of the nation's companies and industries virtually close up their export efforts, export departments, in the first half of the '80s, because there was no business. I believe many are now taking a look at the sharp change in the other direction in currency relationships. And as they believe, come to believe, that those sharp changes are going to be relatively permanent, I think what we are going to need and will see in this country is a gearing back up, industry by industry, and company by company, of efforts to export.

The largest -- one last comment I might make --
the largest multinationals in this country have not had any
reduction in any significant percentage terms, in the total
amount of export those companies do worldwide. This is true
for the Ford Motor Company. All that has happened is that we
have changed -- Ford has, and all the other majors -- have
changed the countries from which we export. We couldn’t
export from here, so we exported from elsewhere.

    Our percentage of our total business that is
exported from one country to another, to repeat, is
absolutely the same level that was in the '70s or the '60s,
when this country traditionally ran tremendous surpluses.
It’s been a movement from this country, which was
inhospitable to exports, to countries that were hospitable
that has occurred in so many cases.

    CHAIRMAN CLINTON: Other questions?
    Governor Thompson, then Governor Orr.
    MR. THOMASIAN: On that point, Mr. Chairman, do
you agree with Lee Iacocca when he says the current tax bill
is unfair to American manufacturers and that it encourages
exports from offshore operations like Canada and Mexico
instead of exports of automobiles, for example, from U.S.
factories?

    MR. PETERSEN: I didn’t hear that particular part
of Lee’s speech, so I am not exactly sure what he said. The
last Federal tax law did reduce the competitiveness of
America's manufacturing base somewhat by reducing some of the tax incentives for capital investment. I would hope -- now, the trade-off that I saw on that for the manufacturing sector was the hope that the reduction in income taxes would generate sufficient additional strength in the economy to offset.

But as far as incentive to invest, incentive to -- in new capital equipment, I would hope the next round of tax policy or tax action remembers that there was this action taken, the previous occasion.

As far as thinking there was anything in the tax law that unduly favored other countries, specifically, I can't think of anything that I would comment on. In that respect, the one concern that certainly I have for the auto industry is the practice that is occurring now in Canada of permitting foreign manufacturers with very modest investment activity in Canada to have access to the American market outside of the auto trade pact. This is clearly working to the significant disadvantage of the American auto sector.

CHAIRMAN CLINTON: Governor Orr.

GOVERNOR ORR: Mr. Petersen, most governors are spending a great deal of time on ventures overseas attempting to hustle business, either encourage businesses elsewhere to take a look at our perspective states; or I think in an increasing way nowadays, encouraging businesses from our
states to export to other parts of the world.

One of those things that I have noticed, and I think many other governors, is that while, yes, the major multinationals, many of them, but by far not all of them, are very active in foreign markets, that you don't see very many American salesmen out hustling business for their companies, anywhere in foreign areas. This is particularly true, I believe, in the areas across the Pacific.

Admittedly, Ford is doing an extremely good job internationally. But I am wondering if there isn't a need for top business leadership in this country to encourage the smaller companies, where growth is more apt to take place than perhaps anywhere, to get with it, to get over there.

We do lower, from time to time, barriers. But what happens is that the Japanese rush in and sell those products, like automotive components parts, for example. Right now in Korea, there is a major opportunity for the manufacturers of component parts, but you don't see salesmen over there.

Do you have any suggestions that you can give to all of us as to how we can bring that about?

MR. PETERSEN: You certainly touch on a characteristic, I think, of Americans. We certainly don't have as great a tendency to go over to the other person's country and to work on that aspect of business as others do.
Again, I think it's the size of this country. We tend to grow up in a rather insular environment, that's been our history.

There definitely is a huge need and huge potential for this country if we can between us and among us find ways to motivate both our business and government sectors as well as our individual citizens and workers and employees to have an interest in going overseas and living overseas, working there.

I think you touch on the area where it would be far most useful, and that is among the smaller size, medium size companies. As you get into the larger-size companies, we tend to be positioned in the countries overseas, and you don't see us as Americans because we aren't.

We are now starting in Korea. As you look for us in Korea, you will find us as Koreans, and so on all around the world. There are just a few hundred of us Americans in Ford's empire of 23 nations, I think it is, where we are manufacturing today. There are just a few hundred of us.

We believe that we should become part of the nation and develop jobs in that nation, if we want to be an important participant in that nation.

It's gotten us around this dilemma of how in the world do you get Americans willing, especially I can touch on a key problem, willing to live in Asia? Because, in my mind,
there is no question but what we are entering an era that I think of as the Asian era. This will remain true now for decades.

I think that it’s a very fortunate fact for the United States that we are positioned as we are geographically where we can simply refocus ourselves across the Pacific, where we have until now lived with such a dominant focus across the Atlantic. If we can only do that and bring ourselves to realize that’s absolutely what we must do, I think we have every opportunity to remain one of the vital focal points in international trade.

How to do it, how to generate the interest, I guess I would start right in the schools. I talked about how business certainly has to be more active than it has been in working in the school environment. We could be helping to generate interest in living overseas, in the tremendous environment that can provide a stimulation, stimulating environment that it can provide. Our people who do go overseas invariably consider it among the highlight periods in their lives.

So I think there are many things that we ought to be able to do to generate more interest among Americans in outreach, if you will. I certainly hope so, because I think it’s a very important element.

CHAIRMAN CLINTON: Governor Bryan. This will have
to be the last question.

GOVERNOR BRYAN: Mr. Petersen, many of the commentators who have compared American business philosophy with Japanese business philosophy make the comparison that Japan has a long-term focus, that they are prepared to accept some short-term losses for long-term advantages.

Just the opposite seems to be the American corporate philosophy. That is, we are so anxious to see what the bottom line is this year that we have often lost sight of the long-term advantage and market share that might be gained from that new product that initially involves enormous expense with no apparent short-term benefit.

Could you comment on that observation.

MR. PETERSEN: I think there's an element of truth in it. In some respects, I think it's been even more true in these past years, in the '80s, when -- you are never quite sure when the next raider is going to be attempting to take over your company.

It's a little bit hard to be long-term in your view if you are facing some very, very serious questions about whether you are going to survive as an entity. It's also a truism that we live with the dynamics of Wall Street as part of our ongoing lives. That has its effect on the American psyche, business psyche.

So I do believe there is an element of a problem
for a business person in the United States to work with and
to develop the right balance of short- and long-term
objectives, vis-a-vis some of the other societies. Again, I
think we are talking particularly the Asian societies.

Perhaps the difficulties of the past, close on to
10 years, has done its job and has been sufficiently
therapeutic to cause more and more businesses to realize that
the long-term stability of the enterprise is obviously the
most paramount issue that any chief executive of any major
group of management individuals must face.

Certainly it's an institutionalized feeling in my
own company. And I sense, as I talk with other chief
executives, other people in business, that there is a growing
awareness of the importance of this, and a determination to
inject more thrust as far as long-term objectives into the
overall strategy that a company has for the future.

It's an ongoing problem, and there are some
built-in institutional reasons why it's there and it's going
to continue to be there.

CHAIRMAN CLINTON: Thank you very much,
Mr. Petersen.

(Applause.)

CHAIRMAN CLINTON: We are about ready to start the
final report of the Barriers Task Force, which I hope will be
interesting to you.
Governor Baliles has asked to be recognized for just a moment. I want him to make a brief comment, and then we will go on to the report of the Barriers Task Force.

GOVERNOR BALILES: Mr. Chairman, I think it's clear from this conference that in state after state many good ideas are finding their way to the surface, offering the debate for risk and models for action by other states. Time and time again, whether we are talking about education, human resources or economic development, the NGA has been a catalyst for change in action in the national debate.

But during this conference, several comments have been made, some from our speakers, that disturb me, because it's been inferred that with all of our problems in the area of economic development and trade, that our greatest challenge is figuring out what to do about the Japanese.

The fact is, if you take the Japanese and the West Germans together, they account for only 22 percent of American trade. Canada, with whom we do not seem to have many problems, accounts for almost 21 percent of the trade. If you take south Korea, Brazil and some of the other countries, they being for about 11 percent of the trade. So it seems to me that while we need to keep the pressure on and talk about two-way trade and removal of barriers, I think it would be a mistake for anyone to associate disassociation as engaging in the bashing of one country over another.
The fact is that international trade is a way of life; it has been going on for years. 25 years ago, when Kennedy was president, I think the numbers that I saw the other day, less than 10 percent of our GNP was tied up in foreign trade. Today, it's 1/4. By 1990 it will be 1/3. 25 years ago, only 1/4 of our company faced foreign competition. Today, it's 70 percent. So whether we like it or not, foreign trade, international trade, will be a fact of life for all of us to consider.

In the words of that immortal professor, Harold Hill, much of the trouble, at any rate, is right here in River City. The NGA report that Governor Clinton directed us to consider and develop is aimed at healing ourselves, making us competitive, so that when the streets are open, the barriers are down, we have the able to hustle and compete in world markets. I think it's important for us to recognize that the importance of this report that the governors have developed is to provide us with the ability to compete and survive in an international marketplace that I think is here forever.

CHAIRMAN CLINTON: Thank you very much, Governor Baliles. I would just like to say in support of that, a couple of brief remarks. All the studies I have seen indicate that of the $60 billion trade deficit we had with Japan last year, only about 20 percent of it was attributable
to restrictive markets in that country. By contrast -- which is about 6 percent of our total deficit -- by contrast, 19 percent of our trade deficit last year was due to the depression in Latin America, which exceeds the conditions which prevailed in the '30s. And if the growth rates of the '70s had prevailed there, our trade deficit would have been 20 percent lower, and the farmers in the middle of the country would have been much better off.

I think there's much we have to do with the Japanese, not only with regard to markets, but in helping them reduce the Third World debt. I think it's important to do it in the context of always recognizing that we have a responsibility to order our own house first.

Now, I would like to ask you to direct your attention to the screens behind me. We will begin the final report of the Bringing Down the Barriers Task Force.

(Presentation of "Bringing Down the Barriers" film.)

CHAIRMAN CLINTON: When I became chairman of the National Governors Association last year, the governors had been working hard for four years on education reform. One of the most fundamental issues of our time. Our association had just issued a report on what governors should be doing for the next five years to get the reform band-wagon rolling and keep our schools improving.
But I assumed the chairmanship with a haunting sense that as important as these education reforms were, much more needed to be done. I established this welfare prevention project, the Barriers Project, composed of five task forces dealing with most widespread and crippling barriers facing our country today, welfare dependency, school dropouts, teen pregnancy, adult illiteracy and alcohol and drug abuse.

The plans developed by these task forces emphasized prevention and are designed to enhance the ability of our people to live up to their God-given capacities. And in so doing, to provide the contributions we need from them, I am grateful to the governor of Delaware, Governor Castle, to Governor Perpich of Minnesota, Governor Thompson of Illinois, Governor Ashcroft of Missouri and Governor Collins of Kentucky for their work in chairing these tasks forces. Their work is found in the Bringing Down the Barriers Report, which will now be presented by them.

Since March of 1986, Governor Castle and I have worked as a team on the important subject of welfare prevention. The National Governors Association will be proud of the role we played in this welfare reform prevention movement.

Governor Castle.

GOVERNOR CASTLE: Thank you very much,
Mr. Chairman.

The task force of which I am chair came into existence in February 1986, to take up the question of welfare reform. It is significant that one of the first acts of the task force was to rename itself from Welfare Reform Task Force to Welfare Prevention Task Force. We could have easily called it the Human Opportunity Task Force, because that is the real issue the members of the task force and every governor in this organization has addressed. Dignity and hope and opportunity.

Over the past year and a half, the Welfare Prevention Task Force has focused on the issue of redesigning the welfare program as we know it, changing the emphasis from income maintenance with a minor work training component, to employment training with a minor income maintenance component.

The work of the task force has taken two paths. First, was the development of a welfare reform policy that would support a major shift to emphasizing employment and training opportunities for people already on welfare. Once that policy was in place, we turned our attention to the development of prevention strategies to end the generation after generation of dependency the current system encourages.

This would complement the work of the other task
forces addressing the issues of teen pregnancy, substance
abuse, school dropouts and adult literacy. This effort was
not unlike the search for the single spring that represents
the beginning of a great river. To arrive at the root causes
of welfare dependency requires a long journey. And, for the
most part, the origins of that dependency are found at the
beginning of the recipient's life and even before.

It's almost like predestination. In many cases, a
24-year-old single mother on welfare today was born into
welfare. Her mother did not receive proper medical care
during pregnancy. As a baby, she received inadequate care.
The factors that put her at risk were not identified early
enough or were ignored. If we are to truly prevent welfare
and even work toward eliminating it, then we must concern
ourselves with intervening early on.

The question always before us was, what
interventions can be made and at what points in the person's
lifetime should they be made to maximize every individual's
chance to be healthy, productive and independent.

Because our original charge was a welfare reform
policy, we applied the question first to current adult
welfare recipients. We looked at the historical mission and
structure of the Aid to Families with Dependent Children
program. We talked to clients. We read the available
research on both the characteristics of AFDC clients and the
impact of AFDC on their lives. We concluded that the current welfare system requires people to choose between security without pride or pride without security.

The welfare reform policy, adopted by the governors in February, would change that. Adopted by Congress and signed into law by the president, it would turn the welfare system into a system capable of repairing damaged and unproductive lives and would allow this nation to make good on its promise of opportunity for every citizen.

We believe in a strong child support system, one that ensures that each parent lives up to the responsibility to support the children he has brought into the world. We support a flexible employment program, combined services, ranging from remedial education and training to child care.

We recognize the need for a case management component that ensures its services reflect an individual client's needs, resources and family circumstances. We support a contract between client and agency which clarifies the responsibilities of each. We believe that government can help remove disincentives to work and can smooth the transition to self-sufficient by providing key support service like child care and healthcare coverage.

Finally, we support a revised income assistance program, a family living standard based on state specific costs of living, to provide fair and adequate support to
families moving towards independence, as well as to families
that may never become totally free of the need for the
community’s help and to nourish and sustain children
regardless of where they live.

With our welfare reform policy adopted and moving
towards Congressional action, we turn again to the question
of strategic points of intervention in a person’s life that
would reduce the risk of the eventual dependency. We asked
ourselves what could we do for the children, the 7 million
children who live on AFDC and the 5 million children not
serving by the welfare system, who live in poverty in our
country.

The information emerging from the other task
forces about the interrelated natures of the problem of teen
pregnancy, substance abuse, school dropouts and adult
literacy and their common basis in low academic achievement,
low self esteem and restricted life options, haunted us as we
searched for the key elements of a strategy for children. A
simple yet profound truth emerged. By investing in some very
basic protections for our children, we can reduce the risks
they face; the risk of dependency, the risk of failing in
school, the risk of unhealthy lives, their risk that they
will give up on life convinced that life has given up on
them.

Comprehensive prenatal care, preventive
healthcare, a healthy diet, child care that enhances a child's educational and social development. Family resource centers to nurture and support parents' efforts to raise healthy children and recreation opportunities which positively engage children's energy. These are the things in which we must invest.

How can governors direct this change?

As it happens, the steps involved in developing an action agenda for welfare recipients are little different from the steps involved in developing an agenda to prevent dependency in succeeding generations of children. There are four critical factors: Leadership in the governors office, creative reallocation of existing funds and pooling of funds from multiple sources, broad interagency collaboration and development of the public/private partnership at the community level.

We believe that our best contribution to the welfare debate has been to reshape the way we see the problem. We can all look at the streams of discouraging statistics and see a large and hopeless mess. Or we can look at the statistics and see opportunity, opportunity to change the way we do business, to invest wisely, systematically and substantially in prevention.

The question before us all is how to bring down the barriers to productive lives, invest in our human capital
and make America competitive in a global economy. We must
act in concert; governors, Congress, county commissioners,
mayors, state legislatures, citizen advocates, communities,
churches. We must act deliberately and thoughtfully,
implementing investment strategies based on tested ideas and
at the same time open to innovative approaches. Our problems
are complex, but they are solvable. We cannot afford not to
solve them. Our very survival as a nation of compassion,
creativity and strength depends on it.

Thank you.

(Applause.)

CHAIRMAN CLINTON: More than 4 million teenage
girls in this country become pregnant each year, a teen
pregnancy rate that surpasses all other western developed
nations.

Governor Thompson.

MR. THOMASIAN: Thank you, Mr. Chairman.

The work of this task force just may be the most
important item on our agenda today. I say that because we
are attempting to call attention to the nationwide problem of
children giving birth to children. It’s not a population
explosion, but it carries significant problems today and for
the future of our states, for the future of those very young
mothers and fathers and their babies. We are all aware of
the effects that teen pregnancies have in our own states, in
our schools, our welfare departments, our child protection agencies.

But consider the impact nationwide. Here are just a few of the statistics gathered during the course of this task force's work.

Point one, more than 1 million teenage girls in America become pregnant each year. Often forgotten are the teenage boys and young men who become fathers each year. That astounding and unacceptable teen pregnancy rate places the United States first among all western developed nations in its rates of teen pregnancy, abortion and births. Not a record for us to point to with pride.

Point two, because these child mothers often receive medical care late in the pregnancy, the probability increases for low birth weight babies with complex and expensive health problems. The likelihood increases that their babies will die in the first year of life.

Point three, the future for these young mothers and fathers is at risk. Teen pregnancy is the number 1 reason for females to terminate their education prematurely. Without an income or job skills, these young parents will turn to the government for assistance. Too many will never know anything but a life on welfare.

Point four, the welfare, food stamp and Medicaid cost of teenage childbearing last year was $18 billion. That
conservative estimate exceeds the entire budgets of all but
four of the 50 states.

Those are only statistics, cold numbers. They may
describe the impact on a government budget document, but the
children have their own stories. In Illinois, our
parents-too-soon program has launched a media campaign to let
teens talk about the consequences of teen sexuality, about
the harsh realities of being a parent too soon.

(Film continued.)

MR. THOMASIAN: The task force examined the
parents-too-soon program in Illinois, efforts of the
governors on the task force and throughout the country. We
found much to be commended to all of you. We have completed
a report containing a full set of recommendations directed
towards the responsible approach by state government.

Through a careful analysis of successful programs
throughout the nation, the task forces developed a guide with
an eight-step process that states will find useful in
developing or building on their own programs. We recognize
that every governor in every state must tailor his own
system. We recognize that every governor must act.

In Illinois, we are paying attention to the
children of teenagers as well as their parents. As one
method of breaking the cycle of children having children, we
have adopted the class of '99. If we don't take special care
of those four-year-olds today, we will compound problems for both society and those children at the turn of the century. Through that adoption, we are setting goals for state government to work with volunteers and the private sector to guide those children away from early pregnancies, away from alcohol and drugs, away from gangs and prison. If we lose the child, we lose the adult. By current statistics, at least one of every seven females in the class of '99 will have, as children themselves, become pregnant. We aim to reverse that trend.

For the short-term, we turn to our community-based parents-too-soon program, which receives its strength from its diversity. We recognize that what works in Chicago may not be best for rural Illinois. And what works in my state may not be the answer for your state.

There are, I believe, three recommendations that apply to all states and need to be highlighted in our brief remaining time today.

First, our recommendations begin with ourselves. While many of the programs will be adopted and implemented at the local level, leadership by governors is critical.

Second, coordination among the many agencies and volunteer groups serving youngsters is an important element of the successful program. The more comprehensive approach, the more better are our chances of reducing the number of
pregnancies. Early sexual activity and early pregnancy are linked to problems associated with low school achievements, school dropouts, juvenile delinquency, teen unemployment and alcohol and drug use. Programs aimed at combatting those programs are directed at the same people we are trying to reach. We will get our best results by coordinating the response.

Third, the task force urges all states to increase the awareness and the accountability of the fathers. Equal attention should be focused on young males, both for pregnancy prevention and to prepare them for the responsibilities of being a parent.

In Illinois, we will increase our efforts in this area next fall when we join with the United Way and the Urban League for a summit on male responsibilities. Too often, young males assume they can walk away, and they do walk away. Males should be part of the solution. It means encouraging males to postpone sexual activity and letting them know the realities of child support enforcement. It means including the fathers in parent education courses, regardless of whether they have married the mother of their children. It means reaching out to parents, instructing them on their responsibilities for their son's sexual behavior and its consequences. It means targeting, training and employment programs to young, unemployed fathers so they can
provide for their new families and recognize the
responsibilities of raising a family.

The governors and their staff members assisting
this task force have done a very good job. Many of us think
that we have excellent programs in our own states to serve as
models. But in reality, there is much more to be done. We
cannot outlaw teen pregnancies through legislation, require
bureaucratic permits or taxing out of existence. We can only
commit to working on all fronts, to supporting our
communities and social service workers in the field. We
cannot sit back and do nothing. The price of inaction is too
high. The governors of this nation should be prepared to
act.

Thank you.

(Applause.)

CHAIRMAN CLINTON: Governor Ashcroft chaired our
Task Force on Adult Literacy. Regretfully, he cannot be here
with us today. He has asked me to read his report and
present it for him.

Literacy may be the most important issue of our
time. It is fundamental to everything else, our system of
education, our work, the efficiency and productivity of our
society. It's fundamental to human fulfillment and to the
appreciation of world culture on western civilization. It's
fundamental to the future of our democratic republic. The
literacy task for has benefitted from the exemplary work of
the United States Department of Education’s national
assessment of educational progress. NAPH has published
several notable reports dealing with literacy.

Literacy has has received attention in the
have received widespread attention and have elevated and
enlightened the national discussion of literacy.

But nothing has done more to bring public
attention to literacy than has the cooperative effort between
the Public Broadcasting Service, PBS, and Capital Cities,
ABC, Project Literacy U.S., or PLUS. ABC and PBS have
recently announced that they will continue PLUS for another
year. Both networks have major literacy programming events
in development in many everyday of every week PLUS
advertisements aired throughout the country.

In addition, the PLUS initiative has launched a
new literacy effort with America’s theme parks entitled "Read
America, Win America." One of America’s foremost
entertainers and theme park entrepreneurs, Dolly Parton has
agreed to chair this creative effort.

This task force worked with PBS, ABC and the
Education Commission of the States to sponsor a national
literacy summit in St. Louis in March. In the room on that
day, were many of the key players in the literacy efforts in
our country, including President Frank Newman of ECS, Jim
Duffy, president of Capital Cities, ABC communications
network. Margo Woodwell of PBS station WQED in Pittsburgh
and Harold McGraw, chairman of the board of McGraw-Hill and
founder of the Business Council for Effective Literacy.
Other guests included foundation executives, scholars,
business leaders, association officers, political leaders and
educators.

The members of the task force are very encouraged
about the serious interest in literacy displayed by leading
America corporations. The number of companies sponsors
literacy initiatives and organizing in-house efforts
continues to expand. Governor Ashcroft and his task force
are pleased to note that several companies, McGraw-Hill and
General Dynamics, among others, have made significant
contributions to supporting the National Literacy Hotline,
the basic referral agency used in the PLUS campaign and by
state literacy coalitions in many of your states.

The burgeoning literacy movement in America has
received a tremendous boost from leading civic, political and
entertainment personalities. Their efforts to bring
increased public awareness to the issue and to recruit new
tutors and learners is accomplishing much to make easier our
jobs at the state level.

The task force has identified seven key components
of an effective state literacy strategy to be led by
governors, that makes sense for our times. It’s strategy
that calls for gubernatorial leadership. Let me share with
you its seven crucial themes.

First, a state literacy strategy that can bring
down the barriers to employment must focus on the needs of
adult learners. Adults learn differently than children do.
Their motivations are different; usually to enhance their
chances for increased work responsibilities and pay, to keep
up with changes in the nature of work or in anticipation of
new employment. Learning for adults is contextual,
functional and relevant to their needs in life. Those of us
who make state policy must acknowledge the circumstances in
which adults learn, and shape programs and services to meet
those special considerations.

A second component of the state successful
literacy strategy is to find ways to enhance literacy
training in the workplace. Because adults are best motivated
to learn in the work setting, state governments should take
advantage of that motivation to promote literacy programs in
conjunction with business and labor.

Related to promoting workplace literacy is the
need to foster cooperation among state agencies for private
sector and volunteer groups that deal with literacy. The
problem of adult literacy is staggering. We cannot afford to
waste anything through inefficiency.

I have already mentioned some of the corporate leaders in literacy. Let me mention now some of the volunteer groups that have labored in this field for years without receiving the recognition they richly deserve. The Lawback Literacy International, International Reading Association, Literacy Volunteers of America, public libraries, church groups and many others. These volunteers have given time, money and dedication in the struggle to make our citizenry more literate and productive.

As governors, we need to assure that business, labor and volunteer groups are fully incorporated in our literacy strategies.

The fourth component of a good literacy strategy is to further program productivity and accountability. One of the common themes shared during the task force meetings was a need to ensure that literacy programs supported with public funds are really working, and that they make a real difference in the lives of adult learners.

Literacy programs need to be accountable for the public funds they spend. We owe this to the taxpayers and to the adults who come to the program as tutors and learners.

The fifth idea is this. We need to facilitate means by which parents and children can jointly enhance their own literacy skills. Parents who foster an environment
conducive to reading and learning in the home will be doing much to promote good literacy skills among their children.

In Missouri, Governor Ashcroft developed a program called Parents as Teachers to help parents learn how they can become their children’s first and best teachers. This helps parents know when the child is ready to learn and what kinds of learning are appropriate as the child develops. We need to break the intergenerational cycle of illiteracy. I cannot think of a better or more logical place to start in the than in the home. Our schools must be in the front line.

Although the task force recognizes an intervention strategy necessary to address the problem of adult literacy, a prevention strategy based in our schools is just as important. Thus, we suggest that all governors follow through with existing reform elements in elementary and secondary education as a way to best prevent adult illiteracy.

Many of us are heavily involved in implementing education reforms that we sponsored in the last several years. We must continue. We must work to prevent adult illiteracy by enhancing the educational opportunities and achievements of children in our schools.

Seventh and finally, a suggestion for effective state literacy strategy is this. We need to formalize plans to help welfare recipients receive basic literacy skills that
will help them to find productive employment. Providing basic literacy training to those on welfare who need it is essential to an effective welfare reform effort.

Finally, I want to mention the cooperative relationship that task forces had with the Council of State, Planning and Policy Agencies, one of NGA's affiliated agencies. CSPA sponsored a state policy academy for increasing literacy for jobs and productivity, June 1st through 5th in Excelsior Springs, Missouri.

Teens from 10 states were selected to participate in the academy which helped to clarify state literacy needs and to develop policy to address those needs effectively. In addition, CSPA has developed a literacy policy guide which the task force helped to shape. Each of you will receive a copy of that at this conference.

The task force appreciates this opportunity to share with the governors the seven components of an effective literacy strategy and to present information on the broader literacy movement in America.

(Applause.)

CHAIRMAN CLINTON: At our February meeting, the Task Force on Alcohol and Drug Abuse Prevention brought us Amy Freeman and her parents. Amy is a teenage alcoholic and drug addict who told us of her 16-month struggle to become drug and alcohol free. We were all touched; we all yearned
to reach out and help young people and adults like Amy.

Governor Martha Lane Collins.

GOVERNOR COLLINS: First of all, I would like to thank all of the governors on this task force and their staffs for the wonderful cooperation and job that they did. I hope that all of the governors have seen the bags that have been stuffed with information from about 12 different states. I hope that you will take them home and share them with your staff.

For nearly a year the Task Force on Alcohol and Drug Abuse Prevention has been working to develop a comprehensive plan for fighting substance abuse that can be adapted to our states. Today, on behalf of the members of that task force, I would like to present our agenda for state action.

Our recommendations are not costly, and they will work. They can be suited to the particular circumstances in any state. The keystone around which they are built is an effort to prevent abuse in the first place. But education and prevention by themselves are not enough. They must work in concert with other measures. The four steps of our action plan are; one, lay the ground work; two, find a program that works; three, find funding for the plan; and, then, four, rally support for that plan.

Now, I would like to give you a more in-depth look
at these steps and offer you some concrete examples of how an action plan can be implemented. To lay the groundwork for a broad-based prevention and education program, states must first assess the scope of the problem then develop individual strategies. In the early planning stages, states need to establish a clearinghouse for information, such as a task force or a statewide action group. The clearinghouse would report directly to the governor and would be instrumental in developing the final action plan.

Develop a centralized system where substance abuse data and statistics are collected. This enables states to determine the scope of their substance abuse problem and will help in targeting programs.

Review existing services. States should closely examine current programs before deciding what areas need more attention or where changes need to be made, and then coordinate state agencies that deal directly with drug and alcohol abuse. In Kentucky, we have organized our state agencies and other key groups under the umbrella of Champions against Drugs. The division of Substance Abuse and the Cabinet of Human Resources helps direct and plan the Champion’s efforts.

Several other states have undertaken similar coordinated approaches, such as New Jersey Governor Kean’s Alliance for a Drug-Free New Jersey. Under the Alliance,
Governor Kean is working to establish a drug-free program against substance abuse in all of New Jersey's 567 cities and towns.

Missouri's governor, John Ashcroft, recently announced a six-part drug and alcohol abuse initiative entitled "Mo Says No to Drug and Alcohol Abuse."

The Governors Alliance Against Drugs, spearheaded by Massachusetts Governor Michael Dukakis is a nationally acclaimed program which began in 18 communities in 1984 and has grown to over 300 communities. Programs such as these enable states to better focus responsibility and encourages cooperation on both the state and local levels.

After laying the groundwork for a comprehensive plan, states must find a program that works, which includes addressing the areas of prevention and education, training and professional development, intervention and treatment and interdiction in law enforcement.

Prevention and education continue to be our most effective weapons in the fight against substance abuse. These programs are aimed at discouraging individuals from ever using drugs and alcohol. Kentucky's Champions program enlists the help of the well known sports figures and other celebrities in spreading the message that drugs and alcohol are dangerous. The members of our Council of Champions volunteered to participate in rallies and other events that
promote drug-free environments.

In designing an effective education and prevents program, antisubstance abuse messages must be tailored to different age groups. In Kentucky, we have recently introduced a very exciting program into several of our schools' curriculum. Project Dare, which originated in California, gears messages to kindergarten and elementary-age young people. One of the unique aspects of Project Dare is that a uniformed policeman serves as an instructor. This, we have found, teaches children respect for law enforcement officials, and we are already in the process of expanding the program.

Training and professional development for those involved in a fight against alcohol and drugs are also essential ingredients for successful action plan. The purpose of training and professional development is to sharpen the abilities of teachers, judges, social workers and others in detecting individuals with substance abuse problems.

Intervention and treatment are vital components in any broad-based state program. Schools and communities across this country have already taken the initiative and established substance abuse centers to help our citizens triumph over drug and alcohol problems. Peer groups in several states are using positive peer pressure in an effort
to keep individuals from forming drug and alcohol abuse habits, or help those with problems conquer it.

Amy Freeman, the young woman who testified during NGA's February meeting, was a participant in such a peer problem called Kids Helping Kids. Finding programs that work, states must control not only the demand for but also the supply of dangerous substances. States must make a concerted effort to reduce the supply through increased law enforcement and more stringent regulations.

In Kentucky, we've stepped up our efforts to stop the supply of illegal substances. Last October, the National Guard in Kentucky joined forces with Kentucky state police in the "green-gray sweep," an operation to locate and destroy marijuana fields across the Commonwealth. Our enforcement efforts enabled us to confiscate and destroy $949 million worth of marijuana last year alone, more than any other state in the nation.

In October 1986, Iowa, under the leadership of Governor Terry Branstad, took an innovative step in opening eight correctional facilities for individuals convicted of driving while intoxicated. These facilities combined treatment programs, supervised living and employment opportunities.

Once a program course has been charted, the next step, the third step in our proposal, is find funding for the
plan. Funding can come in many forms from several sources. In addition to state and federal money, states should not forget to look to businesses, community organizations, individuals, banks, corporations and even the media for support. The key is to determine long- and short-range goals and fund those programs that have proven to be good investments or have the potential for being highly successful. It is also important to once again survey current expenditures and consider redirecting funds, if necessary.

After states have formulated a comprehensive strategy and have found funding for their programs, the final and most important step is rally support for the plan. As state leaders, governors can and must play a vital role in garnering support for and implementing a successful program.

I have cited just a few examples of states that have already begun coordinating and instituting substance abuse programs. Many more states have begun exploring ways to fight the drug and alcohol problem that plagues our nation.

Our four-step proposal is meant to be used as a guideline for mapping out individual action plans. Our recommendations are far-reaching, comprehensive and practical. It's imperative that we act on them, taking any necessary initiatives strengthening existing programs.
frightening numbers tell us why. Too many dreams are being destroyed, too many lives are being devastated. And we know they are being devastated in every quarter of society.

As compelling as the numbers themselves are, even more compelling are the faces of the young people. I ask you to recall Amy Freeman's story of pain and anguish in her struggle to overcome her addiction. Hers is not a unique experience. Thousands are suffering and struggling every day. Their tragedy should spur us to act, and their triumphs tell us we can succeed.

Thank you.

(Applause.)

CHAIRMAN CLINTON: Between 14 and 25 percent of our young people are dropping out of school. The Task Force on School Dropouts has stated every state dollar invested in educating potential dropouts returns an estimated $9.

The governor with the lowest school dropout rate in America, Governor Rudy Perpich.

GOVERNOR PERPICH: It's been a privilege to study an issue of great importance to this nation. Success in school has great social and economic implications for individuals and for society as a whole.

I belong to a generation that believed education could be a passport from poverty to a life of productivity and opportunity. As a first generation American, I could not
speak a word of English when I entered school at the age of 5. But thanks to dedicated teachers, I learned to read and write English, prepare for higher education, a profession and a career in public service.

Today, with nearly 1/4 the students in this nation dropping out of school, we must rekindle the expectations that many of our parents around grand parents had for us. We must rekindle the expectation in America that our children, all of our children, will do well.

I would like to briefly describe some of the major findings of our task force. I will highlight some of the actions states can take to provide opportunities for many more young people to succeed. We found that a strong correlation exists today between success in school and success in later life. In the future, it will be even more vital for students to succeed in school in order to lead productive lives.

In Minnesota, we are fortunate to have a good high school completion rate. It is no accident that we also have the nation's second lowest rate of incarceration. We can see this relationship when we look at the few people who are incarcerated in Minnesota. 60 percent of those individuals never finished high school. Nationally, 2/3 of the people in our nation's prisons are functionally illiterate.

The relationship between success in school and
success in later life also shows up when we look at the welfare roles. Half of the long-term users of public assistance in my state are high school dropouts. The cost of this failure is high, both for the individual and for society as a whole.

Public assistance payments may amount to a minimal income for apparent and child. But collectively, these payments add up to a substantial cost for society. And the costs of our correctional system are even more staggering. In Minnesota, it costs $23,490 to incarcerate an adult male for one year. Far less than that amount, we could support an individual through a year of study at Harvard University. The choices are clear, we can invest in our young people today or pay the consequences later. Governors are in an excellent position to point to the solutions.

First, we can help shape public opinion. We can convey the importance of keeping our young people in school, and the certainty that we can accomplish this objective. We can rekindle the expectation that all of our children will do well.

Second, as governors, we can move forward with education reform that will increase opportunities for students to learn.

Finally, we can make a strong and highly visible commitment to education through our budget priorities.
In what types of efforts should we invest? We have time today to highlight only a few of many different options. Our task force finds that there is no single isolated prevention or intervention effort that works. A range of services must be provided from the prenatal care for mothers to second chance programs for young adults who have dropped out of school.

The two main strategies that I would highlight today are these: Provide a variety of alternatives for parental involvement, and utilize technology to teach basic skills.

First, I would like to address the role of technology in helping students to succeed. Our task force learned that inadequate basic skills are the strongest predictor of school failure. Many states have found that the skills can be taught more cost effectively, using technology. Using computers, interactive video disk and other devices also give students a sense of mastery and higher self esteem. The Northern Carolina Governors Program allows low-achieving students to work at their own pace at computer terminals with programs designed to meet their individual needs.

In Minnesota, I had the opportunity to work with a PALS literacy system developed by IBM. The system has proved to teach reading and writing skills to more students more
quickly than these skills have been taught in the conventional classroom setting. Technology has the great potential to reach more students and motivate them to stay in school.

The other major points I want to stress today deal with parental involvement. Many studies have shown that children do better when their parents play a role in their education. States promote many avenues for this involvement.

One such avenue is early childhood health and developmental screening. Through this testing process, parents can obtain an early understanding of the expectations for their children. Minnesota was in the forefront in beginning the screening in 1971; and today, of course, many of the other states have this program. Screening helps parents to know their children's strengths and weaknesses, and so that they may place a child where he or she will enjoy the greatest success.

Another way of encouraging parental involvement and monitoring the progress of our children is to make child care available at places where parents work and where parents go to school.

We have additional funding in Minnesota this year to provide child care facilities on-site at all of our vocational training centers. This encourages parents, specially single mothers, to get the education they need in
order to get jobs to support their families. We will make a
similar push to increase the number of child care centers in
our inner-city high schools.

For teenage parents, there's a dual benefit to
providing child care on-site at schools. It's reported that
1 in 4 teenage girls who drops out of school does so because
of pregnancy. If child care services are provided, teen
parents will be encouraged to complete school. Meanwhile,
early prevention and intervention efforts will be provided
for the children of these teen parents, offering greater hope
for their futures.

Finally, states must provide dropouts as potential
dropouts with choices with every opportunity to succeed. We
cannot afford to lose even one of America's young people if
we are to meet the challenges of the future. This year in
Minnesota, we enacted what we call High School Graduation
Incentives Program. This frees students between the ages of
12 and 21 to find learning environments in which they can
succeed. A student can select from any secondary school in
the state or any schools offering alternative programs.
Under legislation passed in 1985, the opportunity also exists
for these students to complete their education at post
secondary institutions and receive both high school and
college credits. We call this the Post Secondary Enrollment
Options Program.
In the first year of this program, 6 percent of the students participating had earlier dropped out of school. So we have found that choice empowers students, empowers parents, generates greater parental involvement, promotes better support for schools. Most important, choice promotes better schools and better opportunities for the young people.

All of these are means to greater success for individual students. There are many other activities states and local school districts can undertake to promote students' success. Ultimately, however, an individual student must have the will and the desire to learn.

A student must be helped to see the benefits of education, as many of us were helped to see the benefits of education when we were very young. As we heard from individuals at our February meeting and on the video recap of that meeting presented today, students wanted to learn, once they saw the importance of getting a good education and once they saw some hope. They were eager to do something to be somebody.

In Minnesota we have a program that provides that motivation. Our marketing strategy, "be somebody, a star," provides tools to encourage students to adopt positive attitudes and set education and career goals. This is a program that a state, local district or community can use to
help young people succeed.

Before you, or they are now distributing a black box containing some of tools of this program, please review them at your leisure and feel free to use them to develop plans for your own state. As governors, we must make sure that there is a commitment to helping every young person to succeed. We owe each of these young people a chance to be somebody, a star.

Thank you.

(Applause.)

(Film played.)

(Applause.)

GOVERNOR PERPICH: Our marketing program, "be somebody, a star," awards the superstar an Oscar and we believe -- we in Minnesota, at least, believe that you and Hillary, is Hillary here? Where is Hillary? Well, you and Hillary really deserve an Oscar for the good work, very hard work, dedication on behalf of the children and the young people of the nation. This Oscar is presented to you. Hillary is not here, but the two of you together are undoubtedly the superstars in this nation in what you are doing for young people. I am very, very proud to be able to present this to you, to what I believe is the best governor the United States.
CHAIRMAN CLINTON: Thank you very much. Thank you very much, Governor Perpich and all the other task force chairs.

Because of Governor Perpich's efforts in education and the efforts of the other governors who are working to bring down the barriers, I am pleased to announce today that the council of state planning agencies has provided $180,000 to establish a state policy academy for 10 states and Minnesota to teach officials of the states to combat the problem of school dropout. I will congratulate Governor Perpich and all the others of the task force who did such good work.

This final report of the Barriers Task Force is a powerful testament to the work that lies ahead of us. It is clear today as it was when we started this effort that America won't work if Americans can't work or learn or believe in the promise of tomorrow. Governors have seen in stark, permanent terms the cost of these barriers not only to those that live in their shadow but to the rest of us as well. We must work to break down those barriers because our capacity to promote economic opportunity, even to preserve our national security, is limited by the incapacity of our fellow citizens. We are all in this together.

One of our speakers said that he was raised with the idea that the obligation of our generation was to pass on
to the next a better opportunity than we had, and we do face
that prospect that we won't be able to do that. I think what
is important to recognize today is that today the opportunity
of the next generation depends upon, or is the precondition
of our own continued opportunity.

In my daughter's public school, they permit the
parents to come to lunch everyday and sit at the guest
table. I was there the other day having lunch with Chelsea
right before the end of the school with a lot of her fellow
classmates, some of whom are desperately poor. I was looking
at them and thinking, I hope they do better than I have done
economically. If you are governor of Arkansas, that's not
too tough. But I was also thinking I want them to do well
not just for them but for me as well and for all the people
of our generation. If they don't learn, not just those who
are well born, not just those who have parents who are well
educated but all the others as well, we are never going to be
able to be what we ought to be. We will never be able to
compete, no matter what else we do.

As much as we have to do, it has become clear to
me also during this year that government can accomplish
little without a reciprocal effort on the part of those in
need. Government cannot replace or control that moving force
within each individual which causes them to abuse drugs or
get pregnant, drop out of school or remain illiterate or on
welfare.

So government cannot be a savior, but government cannot be a spectator either. We need a government that can be a catalyst. One that offers people the right to participate in the American dream in return for their willingness to assume the responsibilities of citizenship. I believe most of our people are ready do their part to build a new politics based on this very old idea, a social contract between government and the people in which no right can be asserted without a citizen being willing to assume a corresponding responsibility.

That idea is at the heart of our welfare reform proposal which requires a person to return for the right to receive benefits to assume the responsibility to move toward independence. It is at the heart of our best education reforms, which require teachers more accountability in return for higher pay; students, more effort in return for more opportunity.

The American people want us to work together to take responsibility for our future. They know we share a common commitment to solving these problems. They know that government cannot solve them alone or leave them alone. They know they must do their part. We are making progress, our schools are better, our children are learning more. Manufacturing productivity is up.
But we still have a long, long way go. Our nation remains deeply divided by region, race, age, sex and income. We simply cannot have another five or 10 years in which 40 percent of our people grow poorer as 40 percent grow wealthier, in which both prosperity and poverty have a distinct geographical aspect.

The states are going to do their part, but we also need an agenda of national unity, committed to these new partnerships which embody neither the uncritical generosity of our past nor the penurious neglect of the president. The principles when have guided the governors in developing the Making America Work Project should be a part of that national agenda of unity.

For example, I would argue that the national interest would be served in the area of adult literacy by increasing, not decreasing, student loans, but by requiring at the same time those who have a right to receive them to assume the responsibility of helping adult illiterates to learn to read.

I would argue if our Japanese and European friends want us to maintain our economy in a more consumer-oriented manner than theirs, they, in turn, should be willing to spend the vast sums of money they have accumulated on trade to help us refinance the debt of the Latin American countries whose depressed condition accounted for nearly 20 percent of our
trade deficit last year.

I close my work on this project with a call to you, all of you, my colleagues, Republicans and Democrats, to get your political parties to address our agenda and its fundamental principles. If we believe the New York stockbroker and the California defense contractor has an interest in common with the pain and promise of farmer in Iowa or unemployed auto worker in Michigan or a poor black southern school child, surely we must believe that what needs to be done is a national question, without any necessary partisan element. If we believe our prosperity and security are threatened by the divisions among us, we must believe in a national unity effort to heal them.

So I ask you to unite in a commitment to the future of every individual child in this country whose mind and strength and spirit will determine the way America will walk into the future. I thank you for giving me the chance to work with you this last year to reaffirm my commitment to this country's fundamental principles to have renewed my commitment and faith in the governors and what they can do and to feel very good at the end about the promise of America's future.

Thank you very much.

(Applause.)

CHAIRMAN CLINTON: Believe it or not, I lost my
agenda. Hard to move around in the dark without losing something. Some people think that's the story of my adult life.

We now move to the consideration of the proposed policy positions. We will have discussion and votes on the revised and new committee policy provisions that were sent to you on July 10th. You have before you these statements plus any amendments made by the standing committees at this conference and any proposals offered under suspension of the rules.

To expedite matters, we will vote en bloc on proposals of each committee except where a request is made to consider a proposal on an individual basis. We will proceed in alphabetical order by committee beginning with the Agricultural Committee.

Will the standing committee chairman please summarize and move adoption of policy postitions, beginning with Governor Branstad, chairman of the Committee on Agriculture.

GOVERNOR BRANSTAD: Governor Clinton, thank you very much. The first thing that I would note is a name change of the committee to Agriculture and Rural Development. We have some changes in policy positions, G-1 on global agricultural, trade and development; G-2, strategic management and investment for rural vitality; G-3 is an
update of our agricultural finance policy; G-4, an
agricultural research technology and innovation, discussing
the opportunities for adding value to the agriculture
commodities that we produce in this country; G-5, on a
natural resource conservation and management; and G-7 is on
agricultural natural disaster management.

And I don’t think there’s a great deal of
controversy with this. We have another one that was not
recommended out of the committee. I would move the adoption
of the proposed policy changes by the Committee on
Agriculture and Rural Development.

GOVERNOR CLINTON: Is there --

GOVERNOR CARRUTHERS: Second.

CHAIRMAN CLINTON: The motion has been made and
seconded.

All in favor?

(Chorus of ayes.)

CHAIRMAN CLINTON: Opposed?

The ayes have it. The policy is adopted.

Governor Deukmejian, the chair of the Committee on
Criminal Justice and Public Protection.

GOVERNOR DEUKMEJIAN: Mr. Chairman, the Committee
on Criminal Justice and Public Protection met on Sunday
afternoon. We discussed the issues of prison overcrowding
and the status of the National Guard on overseas training.
The committee also reviewed its policies pursuant to the directive from this body at its winter meeting. All policies of this committee are current and do not need any revision at this time.

Governor Sinner submitted a policy proposal which the committee discussed but decided not to move forward on at this time until further information is obtained.

That's the report of our committee. Thank you, Mr. Chairman.

CHAIRMAN CLINTON: Thank you very much.

Governor Dukakis, chair of the Committee on Economic Development and Technological Innovation.

GOVERNOR DEUKMEJIAN: Mr. Chairman, our committee has also a series of developments that I don't think are controversial, deal with housing issues, especially modular housing, and how we deal with those issues and make modular housing work for decent, affordable housing for families of low or moderate income especially.

We have a proposed amendment submitted by Governor Thompson of Wisconsin on rural development which jives very nicely with the work of the Agriculture Committee.

We have a proposed amendment urged and supported by Governor Celeste and the entire Committee on Technological Innovation, and especially the role of governors in states in working with the administration, working with the Congress,
as we now embark on what clearly will be a major new national
investment in technology.

Principally through the National Science
Foundation, but also through the Department of Defense and
the National Institutes of Health. I can't emphasize too
much how important it is for the National Governors
Association to work closely with the administration, with the
NSF and with the Congress on these issues. The President has
recommended a 17 percent increase in the National Science
Foundation budget, has signed off on a doubling of the NSF
budget for the next five years from $1 billion to $3.27
billion. We are talking about a lot of money and a lot of
investment in a national network of engineering research
centers and centers for technological excellence.

While I know many of you are deeply involved in
making proposals for the supercollider and superconductor
project, don't forget that there's a lot of federal
investment that will now be coming down the road in
technology generally. We are going to try to establish a
clearinghouse with the administration, with the Federal
Government, where governors in states will be actively
involved in helping to plan, share, take advantage of these
opportunities, especially those states with serious economic
problems. This resolution deals with that and commits the
NGA to working closely with the Administration and the
Congress as we embark on what could well be a whole new chapter in public investment and new technology.

Finally, 10 is simply an administrative transfer of responsibility from no-fault insurance to our committee, and one which I do not think is controversial.

I would move adoption of all of these policy resolutions, Mr. Chairman.

GOVERNOR CARRUTHERS: Second.

CHAIRMAN CLINTON: Motion has been made and seconded.

All in favor?

(Chorus of ayes.)

CHAIRMAN CLINTON: Opposed?

Adopted.

Governor Moore, Committee of Energy and Environment.

GOVERNOR MOORE: Mr. Chairman, the Committee on Energy and Environment has one more position. These include amendment to our electricity policy, D-15, reflecting the recommendations of our Task Force on Electricity Transmission. This important addition to our policy charts actions that the states can take to ease the development of new electricity transmission lines in order to take advantage of important opportunities for sales of inexpensive electricity from areas like the Midwest where we have a
surplus capacity and to areas in need in our country.

Our policies also touch upon other recommendations and changes in the following areas. An amendment to our nuclear energy policy. This amendment reflects the hard work of the Task Force on Nuclear Safety, and I am placed to report to the plenary session, the task force developed total unanimity on the policy position advanced here today.

In addition to that, an amendment to our policy on oil and gas to reflect recent changes in the federal law. And thirdly, an amendment to our policy on solid and hazardous waste, making recommendation to the Congress and to EPA on these important programs.

We embarked upon a new area of consideration to and perhaps emphasis and concern more importantly to coastal states. But nevertheless, the governors and your committee have advanced for your consideration, new policy on ocean and coastal pollution reflecting the importance of this resource today.

And in wanting to keep current the addition we undertook a review of the President's policy positions within the breast of the Energy and Environment Committee. We are recommending several consolidations and deletions of existing policy in the form of technical changes and updates without changes in substance.

Mr. Chairman, I move the adoption of these
additions and/or changes of policy en banc.

CHAIRMAN CLINTON: Is there a second?

GOVERNOR CARRUTHERS: Second.

CHAIRMAN CLINTON: All in favor?

(Chorus of ayes.)

CHAIRMAN CLINTON: Opposed?

They are adopted.

Governor Castle, chairman of the Committee on Human Resources.

GOVERNOR CASTLE: Thank you, Mr. Chairman. The Committee on Human Resources has covered many important topics this year, from worker adjustment to focus on the first 60 months. I hope you all got that booklets on that, from education to health to welfare reform.

Mr. Chairman let me say I have enjoyed working with you. I feel very good about our accomplishments. Welfare reform will continue to be a priority issue for us, as you all know. And I believe that the governors working together can continue to be the honest brokers of welfare reform.

I would like to move policies C-2 and 18 to the committee resolution and a policy update on education and a committee resolution on AIDS, which is a matter of great importance to all of us. Before we make the actual motion, I would ask that Governors Dukakis and DiPrete be recognized for the outstanding work that they have done. I believe they
both want to comment on this after the motion is made.

Governor Celeste would also like to comment on the AIDS position. This is not, as we all know, a very easy subject to handle, but it is a subject in which the country has taken a great deal of interest, particularly in more recent months, as the problems have spread in greater on the problems that’s come into being.

We fortunately have had governors who are thinking in advance of that and are ready to develop and have developed a policy for us which will address this particular issue. With that, I would move the policy en bloc and yield to the others who are the actual authors of the policy.

CHAIRMAN CLINTON: Thank you very much.

Governor Dukakis.

GOVERNOR DUKAKIS: Mr. Chairman, thanks to Mike Castle’s leadership, and with the very strong leadership of Ed DiPrete and help of Dick Celeste and Tom Kean and other members of the committee, we have produced through the working group on AIDS, which we established over a year ago, what I think is a very strong and very comprehensive resolution. I think Governor DiPrete wants to comment in some detail on it and its importance, and I would defer to him. But I simply want to express my appreciation to the members of the Human Resources Committee, to members of the working group and the staff who worked so hard to produce
what is a very strong and, I believe, a very positive
governors' position on aids.

We have much to do. As all of us know, this is
the most serious threat to the public health we have had
probably in our lifetimes. It is very important that we
establish a real partnership with our federal counterparts,
with the public health community and the citizens generally
with a very strong emphasis of education and
confidentiality. That is what the resolution attempts to do,
and I know Governor DiPrete, who has been so deeply involved
in this, has some comments on his own and I would defer to
him.

CHAIRMAN CLINTON: Governor DiPrete.

GOVERNOR DI PRETE: Thank you, Mr. Chairman.

This policy that we are considering at the moment
is certainly a very strong policy and breaks new ground, I
believe, for governors, in this particular area. However,
the question of AIDS, and AIDS, as we all know, is always a
fatal disease. AIDS recognizes no borders, and I believe
this policy, which is -- I would be pleased to say, is an
improvement over the one that I first presented in February,
working with Governor Dukakis and the other governors and
staff individuals. I believe this policy we are considering
is comprehensive in scope, I will say it's very strong, will
affect not only high risk groups but, as I had suggested
several months ago, I think it was important that we consider the general population, and I believe the policy does exactly that with an emphasis on education and the prevention of AIDS. I would certainly encourage approval by my colleagues here today.

Thank you, Mr. Chairman.

CHAIRMAN CLINTON: Governor Celeste.

GOVERNOR CELESTE: Thank you, Mr. Chairman.

I would like to express my appreciation to Governor DiPrete, who raised this concern at our last meeting and persued it to Governor Dukakis, who chaired a task force on what is an urgent and often controversial subject.

I support the policy which was approved yesterday in the Human Resources Committee. I would call attention to my colleagues to one omission in that policy, which I think needs to be a concern of each of us as we confront this matter in our states. And that is the issue of under what ground rules testing occurs. We do not, and I think it's very difficult to come to a consensus on the matter of the need for particularly a focus on voluntary testing, to make that voluntary testing readily available in reliable circumstances through our citizens and to avoid getting drawn into undue controversy about those appropriate circumstances where mandatory testing should occur.

I would simply underscore the fact that not only
American Medical Association, Surgeon General, Center for Disease Control, those who are involved professionally in addressing this problem, encourage expanding voluntary testing problems, recognizing the importance of confidentiality, which is underscored in this resolution, ensuring that the screening or testing is not so much used on large general population groups who are at low risk, but targeted to those who are at high risk and where necessary subsidizing the cost of the tests for individuals who can't afford it. I believe that the demand for the expectation for reliable screening is growing. That is going to present a challenge to all of us. We will have our hands full if we run the right kinds of testing programs that are available for people on a voluntary basis.

CHAIRMAN CLINTON: Thank you very much.
Is there a second to Governor Castle's motion?
All in favor?
(Chorus of ayes.)
CHAIRMAN CLINTON: Opposed?
It's adopted.
I want to say a word of personal thanks to the chair to Governor Dukakis and task force and a special word of thanks to Governor DiPrete who raised this issue for all of us in February and insisted that we needed to move on it. I would also like to thank all of the physicians and other
people from around the country who contributed to the work that resulted in our policy statement. Thank you, especially, Governor DiPrete and Governor Dukakis.

Governor Baliles, chair of the Committee on Trade and Foreign Relations.

GOVERNOR BALILES: Mr. Chairman, the committee proposes three minor amendments to existing policy statements of this association. The first one deals with the promotion and expansion of international trade, minor amendment, simply highlights the importance of the federal role in providing leadership in the world’s financial system, highlighting the need to stabilize exchange rates, coordinate monetary and fiscal policy.

The second amendment deals with H-6 and simply expresses the strong support of this association for the work and funding of U.S. Travel and Tourism Administration. The third deals with a minor amendment to policy H-1, substituting the most recent statistics on U.S. Trade as it relates to Gross National Product. The Committee’s deliberations and recommendations were unanimous and I move that the amendments be adopted.

CHAIRMAN CLINTON: Second?

GOVERNOR CARRUTHERS: Second.

CHAIRMAN CLINTON: Comment? Governor Sinner.

GOVERNOR SINNER: Mr. Chairman, I want to commend
the committee for including this reference to the federal rule in the exchange rate issue. I am sort of appalled by the fact that speaker after speaker after speaker at this conference has alluded to the difficulty that American production products have had in the world market as a result of the exchange rate problem that has existed for seven years, and yet nothing that I read anywhere suggests a solution. Everyone goes on, the free trade talks go on with Canada, not even addressing the exchange rate problem.

I think it may fall, again, to the governors to undertake a special effort to highlight and direct the Federal Government in this area. I hope that in our future work, the Committee on International Trade and Foreign Relations, if it must, will take a look at specific answer to this problem.

CHAIRMAN CLINTON: Thank you very much. I agree with that.

Anybody else have anything to say about this proposed policy?

All in favor?

(Chorus of ayes.)

CHAIRMAN CLINTON: Opposed?

It's adopted.

Governor O'Neill, the chair of the Committee on Transportation, Commerce and Communications.
GOVERNOR O’NEILL: Thank you, Mr. Chairman.

We dealt with a number of items on the Transportation Committee. One particular under air transportation led by Governor Jim Thompson, calls for the reauthorization of legislation in Washington as it expires September 30, and proposes diversion of trust fund monies for other purposes, and it supports continuation of essential air services in the country. Under motor carrier safety results of hearings held in Nebraska by Governor Kay Orr and myself in Connecticut, we had six components to effect a national policy of truck safety in the United States. A number of items in those policies called for one driver’s license, of course, and also motor vehicle inspections. Also under motor carrier taxation to promote procedural uniformity across the United States as far as a tax base.

That’s basically the report, and I therefore move the policy issues collectively.

CHAIRMAN CLINTON: Is there a second?

MR. THOMASIAN: Second.

CHAIRMAN CLINTON: All in favor?

(Chorus of ayes.)

CHAIRMAN CLINTON: Opposed?

They are adopted.

Governor Orr, what are the Executive Committee policies and updates?
GOVERNOR ORR: Mr. Chairman, there were six policy matters taken up by the Executive Committee; A-4, A-26, A-27, A-28, A-29. And policy updates and technical revisions, a number of policy measures. I would move that all of those be enacted en bloc.

GOVERNOR SCHWINDEN: Second.

CHAIRMAN CLINTON: It’s been seconded. All in favor?

(Chorus of ayes.)

CHAIRMAN CLINTON: Opposed?

They are adopted.

I would now to like to call on Governor Kean for a 1991 update on education. Governor Kean.

GOVERNOR KEAN: A year ago, we gave each other advice on education. Did we take it? We certainly did. The report is called Results on Education, 1987. In a very real sense, everybody in this room around this table wrote it, just as surely as they are writing the nation’s education policy every day that goes by. You can’t read this report without thinking of people you want to talk about, people around this table who are doing exciting things. You can call Terry Branstad if you are ready for a bold performance in investment in teacher pay. You can talk about Bob Orr about what it takes to lead a comprehensive education reform package. You can look to Rudy Perpich if you really want to
put pressure on schools to perform for young people at risk of failure. Bill Clinton can tell you what it will be like to rethink the school leadership role. If you are ready to go after schools year after year, just fail to teach kids to even read or write, then you can call me.

Some people say the American political process is shortsighted, but we don’t see that here. What governors are doing for the schools is a compelling expression of faith in the future of America and the future of American children. Governors make the difference, no matter if it’s a Democrat or Republican. Governors have made courageous decisions, they’ve risked political capital, taken on powerful interest groups. And they have done it for the children of this country. Believe me, people notice. They remember, also.

Bob Orr, you have proved that in many so ways.

Would you like to make a comment?

GOVERNOR ORR: Yes, I would, Governor Kean. Let me say quickly that in 1987, Indiana enacted it’s A-plus program for educational excellence, which was the most comprehensive education reform package in our history. I do believe the most comprehensive in the nation this year. Really, it was six years of continuing effort, session by session, which was climaxed in 1987.

My state of the state message, which was delivered over statewide television in the evening, had the theme that
was essentially the same as the one for this NGA conference, meaning the international competition. I gave out books by David Halverstam to all members and quoted one passage which I will quote now.

"In some ways, as America faced the future and prepared to find its place, it was still remarkably blessed. There were, however, two real respects in which America was ill prepared for the new world economy. One was the public school system and the low level of literacy. The other was in terms of expectations. Few Americans were discussing how to marshall the nation's abundant resources for survival in a harsh, unforgiving new world."

To increase our school year from 170 days to 180 days was perhaps one of the most difficult accomplishments, and we did do that. We accomplished change and overall change in our educational system to make it accountable to taxpayers who expect better results. Performance of all individuals and schools must be effectively evaluated and rewarded. I believe that we have accomplished that.

One use we made of television, really, to scare people, to cause them to awaken with the competition in the world. I would now like to ask it to be shown.

(Film showed.)

GOVERNOR ORR: That was shown week after week toward the end of the session. We did obtain an increase of
$640 million above an already sizable budget. And if those of you are a bit frightened by the prospect of doing something of that kind, let me simply make the point that it's politically wise. During that period, my job approval rating went up 10 percent. Education is popular with the public.

GOVERNOR KEAN: Thank you very, very much, Governor Orr.

I would like to ask now for Chairman Clinton to make a comment.

CHAIRMAN CLINTON: Thank you very much, Governor Kean. I will be exceedingly brief.

I have concluded, after two years of studying the whole question of leadership in the schools, that it is still one of the most neglected but most significant issues in the whole matter of educational improvement. We recommend in the 1991 report several specific strategies designed to deal with the people who are running the schools, how do we select them, how do we train them, how do we support them, how do we evaluate them. The report reveals that the states have made a great deal of progress in that regard.

There is now a second major issue which has to be faced, which is even if you get good people in the schools, what will be the rules for them. Will the state be a problem to them or will the state be an asset? What kind of
environment will they operate in, will they be instructional leaders and will they work with their teachers in an atmosphere of shared leadership.

I wrote this report for the Education Commission of the States, which I released a couple of weeks ago in Denver. If any of you are interested in it, we are going to send it to all of you chief state school officers. I commend it to you, not because it's my work but because it has a whole series of specific examples from across the country documented of schools where leadership is succeeding in stunning fashion because of the rules that have been changed. One of them in Governor Gardner's home state that we deal with quite extensively.

I would commend that to you and I would urge you to make sure that in your states you are paying close attention to the issue of leadership, how do you get them, how do you train them, how do you support them, how do you evaluate them. Then how do you give them the environment they need to succeed.

Thank you.

GOVERNOR KEAN: Thank you, Governor. As I say in the preface to our report, we didn't write this report to celebrate. We are doing well as governors, but we still have a long way to go.

Where should we put our energy now? Well, I think
we as governors have to, as we said in our report, get behind the National Board of Teaching Standards. Governors should lead the way in defining the results, what do we really want our children to know, and how do we get there state by state. Governors should go after schools that fail to educate year after year in spite of reform. Governors should champion programs to educate all Americans to a far higher standard than we do today. These are some of the best bets.

But there's a special opportunity, I think, that we have before us right now. I first saw it last winter on the Education Subcommittee, as we translated our experience into a sit of principles to try to guide the United States Congress as it reauthorized Chapter 1. We are now making education policy, we are, as governors; that's where it is happening. State leadership isn't enough. Our economic competitors are acting in exactly the same agenda we follow, but they don't have the muscle we have. They don't have our constitution. They don't have our potential strength and diversity of our people.

But to use this competitive advantage, to work together on it, we need each other. Federal action is limited by the deficit. The economies of nearly 1/3 of our states that are here are weak at the moment. Some local school districts have abundant money and ideas but don't know where to go. They all need help.
We all have limits, but we can share a strength that was born of a common purpose. We must join those willing to link the energies of the states and localities to the actions of the Federal Government.

We have concentrated our experience into a set of principles, respecting the states' responsibilities to set high standards and then to follow through. Supporting the focus on schools as a place where results can really count, concentrating on the schools with the greatest needs, supporting and nourishing teachers, rewarding performance and so on.

On your behalf, I have asked the Congress to apply those principles in a straightforward manner. We have allies in the Congress who are very willing to work on education matters with the governors. Congress is now asking hard questions on major education programs. Let's try to work with them this fall as they wrestle with these ideas. Let's talk about those districts with the highest proportion of poor and low achieving students.

That's where our nation's future lies, for good or for real. In the United States of America, there is no place for an underclass. Over time, we need to concentrate our funds and our energy. That doesn't mean rewarding past failure with more money. We need to combine more money with better tools and absolutely better controls and measurement.
on performance. I would offer performance grants only to those low achieving schools that start to get results.

Let's start to reward success in education for a change and not reward failure. Let the others who fail try to explain to their people why in spite of more money and more help they weren't able to succeed. I want somebody beside the children to pay the penalty for increased educational failure.

This nation has some thinking to do before it's ready to invest in a major way in education at the national level. Invest we must; governors are setting the terms of that discussion, governors are leading the way. Governors are not going to walk away from the schools.

I am turning over this chairmanship to Governor John Ashcroft of Missouri. Governor Ashcroft couldn't be here today, but he wanted me to tell you that he will continue to work with you in every way. He asked me to tell you that he will continue forward with time for results, and he is particularly interested in the area of parental involvement. He wants to pursue that more. He wrote me. He said we need to reconnect our families to the schoolhouse.

Also, we need to reconnect neighborhoods and communities to the schools. I firmly believe that we cannot enjoy the success we so earnestly desire for education reform unless we gets parents, grandparents and citizens involved.
again in our schools and in developing life styles of learning for their children.

More than 100 years ago, Abraham Lincoln said, on the subject of education, "I can only say that I view it as the most important subject that we as a people can be enjoined in." We believe that today as governors. Nothing is more important. Nothing that we are doing, certainly nothing that Washington is doing, is more important than the education of our children. Because if we fail in that regard, we fail in all other regards also.

I congratulate you, the governors of the United States, on what you have done already. I commend you for what you are about in the future. That's my report. Thank you.

(Appause.)

CHAIRMAN CLINTON: Thank you very much, Governor Kean, for the kind of excellent presentation we have almost come to take for granted from you. I would like to take care of a couple of preliminary matters now. First, Governor Sinner has asked me to announce that there will be a 1:15 meeting of the Canadian premieres and the governors. We hope all the governors will make every effort to be there on time, because the agenda is tight.

Secondly, I would like to propose for unanimous consent a tribute to Secretary of Commerce Malcolm Baldridge,
recognizing that we mourn his passing, that he worked
tirelessly to benefit our country and our competitive
position which we are dealing with at this conference. He
was a great patriot with a high degree of integrity. We will
all miss him. If there is no objection, this will be
presented to the Baldridge family and Department of Commerce
as unanimous resolution of the NGA.

Now, I would like to alter the agenda for a
minute. As governors, we don't always have the opportunity
to recognize personally individuals who have rendered
outstanding service to us as staff. Today, on behalf of my
colleagues and the nation's governors, we would like to
recognize and honor such an individual. As of this past
April, he has served the interests of state government and
represented all the 50 states and five territories and the
commonwealths that constitute the NGA for 20 years. He came
to NGA in April of 1967 as the associate director of the
Washington office, the Council of State Governments, and
deputy director of the office of State and Federal relations
of the National Governors Conference. In March of 1976, he
became director of state and local relations. And in 1979,
he assumed the responsibility of staff coordinator for state,
city and county public interest groups for the Academy of
Contemporary Problems. Two years later he returned to the
NGA in his current capacity as director of state and federal
relations.

On the occasion of the 79th annual meeting of the nation's governors, we want to take this opportunity to express our sincere appreciation for the many years of devoted professional and personal service in fostering, advocating and tirelessly representing policy and legislation which advances the quality of life for the citizens of our country.

Therefore, it's with deep gratitude and public recognition that we honor today Jim Martin, NGA's director of State and Federal relations, and Parliamentarian and resident historian, liason to Washington state and local interest groups, and the only person who has lived in Washington, D.C. for 20 years who still thinks governors are the best public officials in America.

Through the years, Jim has brought to his responsibilities a keen sense of understanding and concern for the programs and legislation which protect and provide the best opportunities for human development and dignity through the office of governor. His sense of loyalty, direction and purpose have earned him the respect of all of our chief executives and his peers as well.

We just want to say thanks, Jim, for your sense of service which you rendered to all of us for the last 20 years as the charter NGA staff member whose historical perspective
has earned respect and affection. We salute you and thank you for a job well done. And your staying power and love of your fellow man is a real inspiration to all of us. And besides, you have got a good sense of humor. Congratulations.

GOVERNOR MARTIN: Mr. Chairman, as the other Jim Martin, I would like to motion my second to the real Jim Martin.

CHAIRMAN CLINTON: Mr. Martin has never given a speech here because if he even opens his mouth, he will run afoul of these rules he has hung us up all these years, which has thoroughly prevented us from doing anything interesting at these plenary sessions. You have to say at least two sentences.

MR. MARTIN: I fully believe that the basic policy of the National Governors Association is a governor is a governor is a governor. I really appreciate the privilege of working with the governors of the United States, and that is -- it grows year after year. I am absolutely convinced with your 2/3 rule requiring your votes on policy, that when 2/3 of the nation's governors agree on an issue, that that is the next best step for the nation. It's a privilege to work for you in that regard. Thank you very much.

(Appause.)

CHAIRMAN CLINTON: I would now like to call on
Governor Celeste for a brief word about our next summer’s meeting in Cincinatti.

GOVERNOR CELESTE: Thank you, very much.

Mr. Chairman, I think Michigan and Traverse City have been fabulous, I know you will say more about that. Governor Blanchard, you have been terrific. It will take me quite a while to recover from the Motown Review, but hopefully by next year this time I will be fully recovered and in Cincinatti to greet all of you at what will be the 80th, I don’t know whether it will be the 80th, but the next annual meeting when we have family all together, be prepared for chili five ways, as Cincinatti only can do it, Pete Rose and all that goes with it. It’s going to be a good time for the governors and for your families. I will give you detailed instructions on how to take full advantage of our meeting in Cincinatti at the winter meeting. I will look forward to seeing you.

GOVERNOR CARRUTHERS: Mr. Chairman, did he say chili five ways? New Mexico over here. Did he say something about chili five ways?

GOVERNOR CELESTE: You have got to come, Governor.

GOVERNOR CARRUTHERS: I will challenge that, man, we will bring our chili cooks to Cincinatti. We will give you seven ways.
GOVERNOR CELESTE: Please do.

CHAIRMAN CLINTON: Maybe we should have a chili cookoff in Cincinatti.

I have three minutes to make, in this little agenda, to make my concluding remarks. I have already said substantively what I would like to say. I would like to say a few things in a very personal way about what has been one of the most rewarding years of my life. First of all, when it's all said and done and I look back on the years I spent in public service, I think that knowing so many governors and understanding what they are trying to do and how deeply committed they are to doing what is best for the people of the country is one thing that I will always count as one of the richest experiences I have ever had.

Second thing I would like to do is thank you for taking these issues seriously. I noticed that our making America work report made the front page of one of our country's distinguished newspapers, something that would not have happened a few years ago. I went up to the reporter and I thanked him for taking this business as seriously as all of you do. I am grateful for that. I appreciate it. I know you all have other things to do, yet you come here consistently year in and year out to try to make a difference.

I would like to think Governor Sununu for being
such a good vice chairman. When we got on this boat
together, people made all kinds of cracks. I made a few
jokes at the opening conference, we were as different as
night and day.

I am Democrat, he is Republican. He's got eight
kids and I have one. I have taxes and he has liquor and
lottery. People said we would never see the same facts the
same way. You can never assume people will see the same set
of facts the same way. The Motown Review last night reminded
me of the story I heard about two dogs who were watching a
bunch of kids break dancing. One of the dogs looked at the
kids and said, you know, if we did that they would worm us.
You can never assume things will come out the same.

(Laughter.)

CHAIRMAN CLINTON: But he has been so good to me
and good for our association. I really look forward to being
a good soldier during his year as chairman.

I would like to thank the NGA staff. I gave them
a whole lot of extra work to do, and they did it without
complaining, at least within my hearing. I would like to
thank my staff. They sure had a lot of work to do. We had
an election, Education Commission of the States, two
legislative sessions. They did a good job. I appreciate all
of that.

Let me just say in closing that, to follow up on
something Jim Martin said, we do have this 2/3 rule. We also have practical people who without regard of party have to deal with the stark and you human problems of our people and the exhilarating possibilities. I meant what I said, I think we should try to put these issues that we have worked so hard to work through, on education, human development, economic development, on the national agenda.

It would be good for the country if they wound up on the national agenda of both parties. Because when I was a kid growing up in the '50s, we were all dealing with the cold war. A lot of you will remember this. The common parlance was that politics had to stop at the water's edge. One of the most difficult things about the path we steered with the Vietnam war was dealing with that first question about whether it was all right for anybody ever to criticize the foreign policy of the country. Because in those early years after World War II, we perceived that our security was so caught up in dealing with the cold war that all the political discussion and differences and partisan differences had to be concentrated on domestic issues.

Today it seems to me that our security is so dependent on our ability to compete in the world by developing the abilities of our people. None of us should be ashamed to say it would be a good thing for our country if both parties adopted the positions that we have advocated and
enshrined the values that we have tried to hold up. I hope
that all of you will do that.

I hope you will give me the chance, whenever I
can, to make up to you for the opportunity you have given to
me to have one of the best, most enjoyable years of my life.
And finally I would like to say a special word of thanks to
Governor Blanchard. Governor Dukakis may go to the White
House, but last night with Junior Walker and the Four Tops, I
was just one step from heaven.

(Applause.)

CHAIRMAN CLINTON: I have to call now on Governor
Moore for the report of the Nominating Committee and the
election of the officers and the Executive Committee.

GOVERNOR MOORE: Mr. Chairman, for and on behalf
of the Nominating Committee, Governor Branstad of Iowa,
Governor Harris of Georgia, Governor Bryan of Nevada and
Governor Martin of North Carolina, we submit this following
report and move its adoption, that the nominations for the
1987-88 executive committee be as follows: Governor Bill
Clinton with saxophone in hand from Arkansas; Governor Robert
Orr of Indiana; Governor James Blanchard of Michigan;
Governor Ted Schwinden of Montana; Governor Tom Kean of New
Jersey; Governor Norman Bangerter of Utah; Governor Madeleine
Kunin of Vermont. As the new and incoming vice chairman,
Governor Gerald Baliles of Virginia, and as the new chairman
of the NGA, Governor John H. Sununu of New Hampshire.

I move the adoption of the report of the
nominating committee, Mr. Chairman.

CHAIRMAN CLINTON: Is there a second?

GOVERNOR CELESTE: Second.

CHAIRMAN CLINTON: All in favor?

(Chorus of ayes.)

CHAIRMAN CLINTON: Opposed?

The committee's recommendations are unanimously
accepted.

It is my pleasure now to present to you your new
chairman of the National Governors' Association,
distinguished Governor of New Hampshire, John Sununu.

(Applause.)

GOVERNOR SUNUNU: Stay here a minute, Bill.

Certainly what has been accomplished this past year is a very
important result for the governors of the country. It comes
about not by accident but because somebody led them well.

There's been a lot said today about your effectiveness. I
would also like to stress that one of the aspects I have
admired and certainly I think serves as a model has been a
style and a capacity of dealing with colleagues to get
results. I want to commend you for that.

I would be remiss if I didn't note that your seven
colleagues in the party that you represent should feel very
happy and comfortable that you have chosen to relax in 1988. I guarantee you both the style and effectiveness that you carry would have played very well in New Hampshire.

On behalf of all of the governors, having said that, I would like to present this plaque to you as something that will remind you that your colleagues appreciate what you have done, recognize what you have done as a model to be emulated, and certainly wish you and your family nothing but the best -- but the best and the West.

(Applause.)

GOVERNOR SUNUNU: Before I get into any formal remarks, I must add my thanks to Governor Blanchard and everyone here, not just in Traverse City, but Governor Blanchard's staff and all the citizens of Michigan, both for their hospitality and really for the quality of this experience, which I think for all of us, as governors, and as governors with families, has been really one of the nice, nice events that I have had the opportunity and all the other governors have had the opportunity to share with our colleagues. We appreciate it. Last night was a high point, but the whole event has done professionally. We do appreciate what you have done, Jim.

I have also been asked to recognize Governor Collins of Kentucky for a few minutes before we go into any formal acceptance. Governor Collins.
GOVERNOR COLLINS: Thank you. I just want to take this opportunity to tell all of you, I guess an official goodbye, to tell you how proud I am of this group and how proud I am to have been a part of this group. I wish everyone the best and the future.

This is my last NGA meeting, because in Kentucky you can't succeed yourself. So you will be having a new governor from the Commonwealth of Kentucky at your next meeting.

I want to commend all of you all, of course Governor Clinton and everyone who has worked so hard in giving me the opportunity to work with you for the betterment of our people.

Thank you and God bless you all.

(Appplause.)

GOVERNOR SUNUNU: Thank you, Governor Collins. As Governor Clinton indicated the other day, we suspect you might be back as a member of his renowned phoenix club of governors who go out, come back after missing a little bit of a beat.

I would like to tell you all how much I appreciate, how much I am honored to accept this chairman of the National Governors' Association. I want you to know that I accept it with sincere appreciation to each and every one of you for providing an opportunity that I think is unique.
and certainly one that, I guarantee you, I accept with an
enthusiasm particular commitment to reflect the positive and
constructive bipartisan approach that I think has been the
hallmark of this association.

As all of you do, I love my job as governor. I
can't think of anything I would rather do than be governor of
the state of New Hampshire. In that role, one of the most
gratifying and rewarding experiences, the most satisfying
experiences, has been the shared activities I have had as
governor with my fellow governors. Any success that anyone
might anticipate in accepting the responsibilities of a
chairmanship to an organization has to be built on the
foundation established by predecessors. I am very mindful of
the significant contributions made by those chairmen that I
have had an opportunity to serve with and to serve under in
the past. Governor Mathison, Governor Thompson, Governor
Carlin, Governor Alexander, and in particular, I want to
reiterate my acknowledgement of the understanding
contribution and the leadership role played by Governor Bill
Clinton this past year.

His leadership has focused the examination of our
national capacity to compete, and that leadership has
produced a very significant set of proposals and guidelines
for addressing how best we as a nation can use the resources
of our great population. Under Bill Clinton's direction, we
also examined the development of incentives and programs to move the less advantaged of our society from a role of dependency to one where they can be productive, contributing members. I do believe that the successes of this organization under his leadership and those contributions contained in the reports and the activities of governors across the country will be major contributions to our shared commitment to keep America great.

Over the next year, our country will be celebrating the 200th anniversary of the writing and the ratification of our constitution. As our citizens participate in that celebration, I think we have an opportunity to review and to reconsider, and, in fact, to renew the fundamental principles that framed the debates that created that constitution. We will have an opportunity to examine the give-and-take of the delicate compromise that established a unique governing structure and unique set of relationships that have served the nation and our states well over the past 200 years.

As those historic discussions are reviewed, I anticipate, at least from the perspective of a governor, that one clear and critical balance that was very carefully crafted in that constitution will stand out. There was a very careful effort to provide some strength in a central government, while retaining effective authority and
preservation of rights within the states. And that debate occupied a great deal of the difficult exchanges in Philadelphia in 1787. It was a sensitive compromise and that compromise was specifically reaffirmed in the Bill of Rights and the 10th Amendment.

The other evening we as governors were eating dinner at a very nice setting on the lake. Governor Blanchard spoke, and he noted that as governors with our legislatures, we do make sure that we have programs which actually determine the quality of life and the constructive destiny of our citizens. We work hard to make sure that those programs work well. He noted that issues such as education, economic development, job creation and job training, quality of health service and even our social and welfare assurance programs, are all made more effective by and within our own states.

Paradoxically, at the same time that we are becoming aware of a heightened role and responsibility for our states, I think we as governors, and I think more and more our citizens, are becoming well aware and sensitive to the fact that there has been a long-term and drastic erosion of the basic state authority. We carry responsibility to govern our states, and with our state legislators we fulfill specific duties to our citizens.

But unfortunately, the carefully crafted and the
planned balance between the states and the Federal Government
that came out of Philadelphia has, over the years, been
 tilted to a drastic overcentralization of power in
 Washington. The fundamental federalism structure as
 understood by the framers of our constitution was based on a
 clear recognition that the authority of the Federal
 Government, the national government extended to only a few
 enumerated powers. That authority not delegated by the
 states to the Federal Government were explicitly denied to
 the states by the constitution was reserved to the states,
 from the very first days following the ratification of our
 Constitution. There’s been a constant erosion, steadily
 nibbling, if you will, by the Federal Government, through
 Congress and the federal courts, that that delicate
 relationship which was so careful framed and so carefully
 balanced.

 That drift in a sense, that change in the basic
 character of our federalism structure reached a point wherein
 the Supreme Court’s decision excluding the authority of both
 the municipality and the state in the Garcia case, made clear
 that there remains virtually no rights reserved to the
 states.

 In fact, the decision in the Garcia case was, in
 effect, a complete rescission or a completion of the
 rescission process of the 10th Amendment separation of
powers. That loss represents not only fundamental change, but what I believe is a rejection of one of the basic ingredients that made our system so effective. The resulting exclusive concentration of authority and power does not serve this country well.

Many of our efforts in the National Governors Association in recent years have been directed to influence a restoration of an appropriate federalism balance. They have not always been successful. However, any frustration that we might feel of the limited impact of past attempts should not keep us from continuing our efforts and focusing some resources in that direction. Therefore, the focus that I have selected for the coming year will be to try and build on what I hope will be the increased citizen sensitivity and awareness to our constitutional heritage.

That understanding should make it clear that it is in the nation's interest to restore a balanced separation of powers and return to the states the rights and authority originally envisioned in our constitution.

You all will be receiving correspondence outlining the details of a broad agenda based on three parallel efforts to restore that balance. The first effort includes a call to each governor to identify specific changes in federal rules and regulations which would allow us within the states to improve the quality of service and the efficiency and the
effectiveness of what we do for our citizens.

That effort, which will probably be based on interaction with our departments and agencies, is intended to be a more intense examination of the initial recommendations we gave to the Federal Government last year and which, in fact, the Administration did give us a quick and constructive response about 2/3 of the requests that we made have been, in general, acceded to.

In concert with that effort, I will ask our standing committee structure to examine in detail the existing federal legislation in each of the areas of responsibilities to the standing committees and to identify very specific changes in federal legislation which could improve our capacity to serve our citizens.

Finally, the third segment will be undertaken by a task force on federalism, which will be charged to examine and, if appropriate, to develop a bold, direct, overall approach at restoration of the balance.

I assume that this task force will examine a range of alternatives, including umbrella legislation at the federal level or even suggesting a federal constitutional amendment.

I am confident that a significant bipartisan effort on our part can make an impact on this basic federalism issue.
As we all know, that impact, that shifting of authority and capacity back to the states, would have a real long-term significant benefit to the people of this country.

A couple of nights ago, at that same dinner on the lake, Roger Smith, the chairman of General Motors Corporation, quoted James Madison on what was the intention of the constitutional compromise. Madison said: "The powers delegated by the proposed constitution to the Federal Government are few and defined. Those which are to remain in the state governments are numerous and indefinite. The former will be exercised principally on external objects as war, peace, negotiation and foreign commerce. The powers reserved to the several states will extend to all objects which in the ordinary course of affairs concern the lives, liberties and properties of the people and the internal improvement and prosperity of the states."

Those distinctions are why we as governors are on the firing line. We meet with our citizens daily, we see them daily, their problems are our problems and we must make on a daily basis difficult and decisive decisions.

As Madison noted, "on those issues critical to our citizens the most responsive government is the one closer to the people."

We, and our constituents, have always recognized the capacity of states to serve the most effective role of
all our government institutions. Once again, I believe we
governors must take the lead in addressing that challenge.

I have a feeling that this time, with your help, we can and will succeed. Thank you all very much for this opportunity to serve.

(Applause.)

GOVERNOR SUNUNU: Thank you. I have a couple of announcements to complete the formality of this meeting. The first is to communicate to you the committee assignments. We have tried very hard, and with the help and cooperation of incoming Chairman Baliles, and I hope that Jerry and I continue the great chemistry that Bill Clinton and I have put together, I am sure it’s going to happen that way. We have a copy of the committee structures, which we will give you before you leave. I hope you understand that in an effort to get something to you now today, we had to trade-off a little bit in terms of time and finality of these assignments.

So what we have given you is, in essence, a 99 percent sure, but not absolutely final structure, but something we can begin to work with. Let me announce a few of them, so that you will have some point of reference to leave with.

There will be the Task Force on Federalism, which I will, as chairman, continue to chair. The Task Force on Rural Development will be chaired by Governor Branstad of
Iowa. The lead governors on welfare reform will be Governor Bill Clinton and Governor Mike Castle of Delaware. The lead governors for out-of-state sales tax collections will be Governor Thompson of Illinois.

The Committee on Agriculture and Rural Development will be chaired by Governor Sinner of North Dakota and Governor Ashcroft of Missouri. The Committee on Criminal Justice and Public Protection will be chaired by Governor Deukmejian of California; Governor Casey of Pennsylvania will be the vice chairman. Committee on Economic Development and Technological Innovation will be chaired by Governor DiPrete of Rhode Island, and vice chair will be Governor Romer of Colorado.

The Committee on Energy and Environment will be chaired by Governor Moore of West Virginia, and vice chairman will be Governor Joe Frank Harris of Georgia. The Committee on Human Resources will be Governor Castle of Delaware, with Governor Celeste of Ohio as vice chairman. The Committee on International Trade and Foreign Relations will be chaired by Governor Gardner of Washington, and Governor Martin of North Carolina will be the vice chairman. The Committee on Transportation, Commerce and Communications will be chaired by Governor O'Neill of Connecticut, and Governor Kay Orr of Nebraska will be the vice chairman.

One point on the committee assignments, which is
included in the cover letter, but I would like to stress here. All the assignments were based primarily on first and second choices as expressed by the governors. You will notice that one committee, the Committee on Economic Development and Technological Information, is extremely large on that basis. I would just ask that those of you that might have sought that assignment might take a look at it. If you feel comfortable, you might indicate to us a preference for reassignment to one of the other committees which is a little -- which may be a little bit smaller and might address specific interests that you have.

Having said that, the last announcement is that the executive committee will be meeting after the press conference in room Peninsula B, and with that, Governor Orr.

GOVERNOR ORR: Mr. Chairman, a little noted element of this morning's proceedings is the departure from the Executive Committee of one of the governors who has served in that capacity for nine years.

I refer to our colleague, Jim Thompson. It seemed appropriate to me to call everyone's attention to the fact that he has declined to continue to serve on that important committee, and we should recognize his great service, his important, strong efforts for all things good that that organization has accomplished over that nine years of his service.
(Applause.)

GOVERNOR SUNUNU: Governor, obviously all of us agree to that. I assure you we will try to take full advantage of Governor Thompson's long, long, long years of service as governor and As a member of this organization.

Is there anything else anyone cares to bring up before adjournment? If not, he will entertain a motion to adjourn.

Seconded?

Thank you very much. We look forward to seeing you in Washington in February and Cincinatti next summer.

(Whereupon, at 12:50 p.m., the meeting was adjourned.)