NATIONAL GOVERNORS' ASSOCIATION

1998 ANNUAL MEETING

OPENING PLENARY SESSION/EXECUTIVE COMMITTEE

SUNDAY, AUGUST 2, 1998

LOCATED AT:

THE MIDWEST EXPRESS CENTER

400 WEST WISCONSIN AVENUE

MILWAUKEE, WISCONSIN
GOVERNORS PRESENT:

Governor George V. Voinovich, Ohio, Chairman
Governor Thomas P. Carper, Delaware, Vice Chairman
Governor Tom Ridge, Pennsylvania
Governor Zell Miller, Georgia
Governor Argeo Paul Cellucci, Massachusetts
Governor David M. Beasley, South Carolina
Governor James S. Gilmore III, Virginia
Governor Howard Dean, M.D., Vermont
Governor Don Sundquist, Tennessee
Governor Kirk Fordice, Mississippi
Governor Mel Carnahan, Missouri
Governor John Engler, Michigan
Governor Tommy G. Thompson, Wisconsin
Governor Arne H. Carlson, Minnesota
Governor Bob Miller, Nevada
Governor Roy Romer, Colorado
Governor William J. Janklow, South Dakota
Governor Frank Keating, Oklahoma
Governor Jane Dee Hull, Arizona
Governor Pedro Rossello', Puerto Rico
Governor Carl T.C. Gutierrez, Guam
Governor Gary E. Johnson, New Mexico
Governor Michael O. Leavitt, Utah
Governor Marc Racicot, Montana
Governor Edward T. Schafer, North Dakota
Governor E. Benjamin Nelson, Nebraska
Governor Cecil H. Underwood, West Virginia
Governor Terry E. Branstad, Iowa
Governor Lawton Chiles, Florida
Governor Mike Huckabee, Arkansas
Governor Jim Edgar, Illinois
Governor Frank O'Bannon, Indiana
Governor Paul E. Patton, Kentucky
Governor Jeanne Shaheen, New Hampshire
Governor Parris N. Glendening, Maryland
Governor John G. Rowland, Connecticut
Governor Christine T. Whitman, New Jersey

GUESTS PRESENT:
Mr. Chuck Martin, The Net Future Institute
Mr. Kenneth R. Thornton, IBM Global Government Industry
Mr. Paul W. Goldberg, Former Director of Ohio Civil Service Employees Association
GOVERNOR VOINOVICH: We'd like to thank the Color Guard from Wisconsin's Army and Air National Guard for presenting the colors this morning. Let's give them another round of applause.

(Applause.)

GOVERNOR VOINOVICH: Good morning. Distinguished guests, ladies and gentlemen, welcome to the opening plenary session of the 90th annual meeting of the National Governors' Association. During the next four days of NGA's 90th annual meeting, governors will explore the opportunity and challenges in three specific areas that will shape our nation as we enter the 21st century.

First, we will discuss how states are responding to new cutting edge technology and how we utilize the principles of total quality management, tools that are necessary for us to have the high performance work force we need to compete in the 21st century.

And second, we will discuss state
initiatives to better serve young people from zero to three which perhaps will be the best investment we can make in developing this country's human resources so our nation can sustain and improve our standard of living in the 21st century.

And last but not least we will focus on the changing global landscape and how states can compete now and into the 21st century understanding that states are the engines of the American economy.

I now call the 1998 annual meeting of the National Governors' Association to order. May I have a motion for the adoption of the rules of procedure for our meeting?

(Motion made.)

GOVERNOR CARPER: Mr. Chairman, I would like to second that motion.

GOVERNOR VOINOVICH: Any discussion? Motions?

(No response.)

GOVERNOR VOINOVICH: All those in favor?

(Chorus of ayes.)

GOVERNOR VOINOVICH: Motion is passed. I now would like to announce the appointment of
the following governors to the nominating
committee for the 1998/99 NGA executive
committee. Governor Rowland, Governor Chiles,
Governor Edgar, Governor Nelson, and Governor Bob
Miller will serve as the chairman.

Part of the rules require that any
governor who desires to submit a new policy or
resolution for adoption at this meeting will need
a three-fourths vote to suspend the rules. And
I'd like you to submit any proposal that you would
like to be considered by no later than 5:00 p.m.
tomorrow.

Now I'd like to recognize and thank our
host for this year's annual meeting, Governor
Tommy Thompson and Sue Ann Thompson.
(Applause.)
GOVERNOR VOINOVICH: Governor Thompson
is one of the most active and effective governors
in the nation. And those of us who are fortunate
enough to call him a colleague are always grateful
for his many contributions to the National
Governors' Association and for his leadership. He
is a tireless worker on behalf of all governors,
first as chairman and now as host governor.

Tommy's passionate work in support of
efforts to reform welfare and Medicaid, advance federalism and improve education, have been appreciated by many of us who have served together with him in the National Governors' Association.

Sue Ann Thompson has been and continues to be very involved in the NGA spouses program serving as chair of that organization several years ago. Before Governor Thompson makes his welcoming remarks, let's show him and Sue Ann how much we appreciate the hospitality that they're extending to us.

(Applause.)

GOVERNOR THOMPSON: Thank you very much. Thank you very much. Thank you. Thank you so very much, all of you, and especially to you my friend, George, for being here and you, George, for as I said last night, most valuable player on our team to Brett Favre of governors in the United States. I thank you so very much for your kind words, leadership in so many issues.

And Tom Carper, thank you so very much for being here and being the new chairperson elect of this wonderful organization. I want to just take this opportunity just for a few minutes to
say welcome on behalf of Sue Ann and myself.
We're delighted that you're here in Wisconsin.
And I want to thank you for coming in the midst of
our year long birthday party.

This year Wisconsin is celebrating its
sesquicentennial. 150 years of strong families,
vibrant communities, bountiful farms, growing
industries, environmental stewardship and good
government. And welcome to the Midwest Express
Center, our brand new $175 million triumph of
architecture and of private/public partnerships.

The National Governors' Association is
the first convention in this beautiful facility.
I dedicated it only last weekend. My appreciation
to Mayor Norquist and County Executive Ament for
all that they have done to make this thing
happen.

While this facility's architectural
flourishes pay homage to the past, it was truly
built for the future. Milwaukee's Midwest Express
Center leads Wisconsin into its second 150 years.
By welcoming the new millennium with powerful
internet connections, video conferencing and
satellite hook-ups, what a fitting setting for a
national conference of governors dedicated to
making the most of technology, to participating
fully in the global marketplace, to enriching
opportunities for our children, forward looking
objectives all of them. That's the nation's
governors. Forward looking.

And that is also Wisconsin's motto,
forward. Which means we're looking forward to a
rematch in next year's Superbowl because the
Packers were America's first Superbowl champions,
they are the immediate past Superbowl champions,
and sorry to have to break it to you, Governor
Romer, the immediate future Superbowl champions.

The last time that my state hosted the
nation's governors, we had also just baptized a
major new public structure. That was in Madison.
The year was 1914. I don't know what we did to
the governors to have you stay away 85 years, but
we're going to make sure that you want to come
back soon.

In fact, the statue that stands atop of
our state capital looks to the east towards
Washington DC as if to say give us our waivers.
The news report that characterized the Governors'
session in 1914, I wanted to read this to you.

It said the prime function of the

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conference is the one its name implies. Whether fitted for leadership or not, whether he likes it or not, the governor of each state must for the time being be the political leader of its people. In all matters affecting the state, they look to him for his own success and for the welfare of all. It is desirable that he should avoid error wherever possible, seek our counsel and wisdom and stead. And what better way may these objects be attained than by attendance at those conferences.

Here he and his fellow executives may find wise and safe guidance in the combined judgment and experience of all by interchange of views and a free and frank discussion of state problems, such as we have had at every meeting. His opinions will be clarified, his convictions deepened and his purposes strengthened.

I couldn't say it better myself. That's why we're governors, and that's why we meet on an annual basis. This year Wisconsin is celebrating 150 years of good government. Our progressive tradition inspired revolutionary programs to protect the working men and women of America with the first unemployment insurance in 1932, first Worker's Compensation in the country in 1911.
We're the first state to pass the constitutional amendment to allow women the right to vote.

Today Wisconsin is also booming in the areas of welfare reform and many other things. We also were the state, contrary to what Massachusetts and New Hampshire say, and Michigan, Wisconsin is also the birthplace of the Republican party.

If you fly up to the Oshkosh Experimental Air Show, you'll see from the air right over Ripon trees planted in the shape of an elephant to prove it, Governor Engler. Wisconsin's accomplishments serve only to underscore the possibilities that still remain. For the states in this union of 50 are the vanguard of policy innovation. The crucibles of change, they are America's original laboratories of democracy.

Today once again all eyes are turned to the states because the states are where America started, it is where America lives, in places as grand as Park Avenue or as humble as the family grocery store in a little town of 1500 called Elroy where I come from.

Today when governors speak, presidents...
and Congress listen. Where Madison and Trenton
and Richmond go, Washington usually follows. The
states are bubbling with innovation and common
sense solutions in education, welfare reform,
business development, health and safety.

The states are where America's
government is being reinvented. The states and
their governors are pointing the way forward to
the future. Wisconsin is very proud to host the
nation's governors in this our sesquicentennial
year. I am confident the work we do here will be
inspired by our heritage of bold policy
initiatives and good old Elroy common sense.

And when our daily work is finished, I
hope that you will also partake of a Wisconsin
tradition which is have fun and have a smile. Be
sure to enjoy yourself. And I want to make sure
that when you leave, everybody has a smile on your
face.

If I walk through this audience today
and you're not smiling, watch out. We're going to
have the biggest Circus Parade for you this
afternoon. Over 1,000 horses, over 15 elephants,
15 camels, the only wagon that has hippos in it
that will be transported through the streets.
Over 700,000 people are here. They have been sleeping out for a couple days.

They're not homeless I want you to know. They're here to enjoy the Circus Parade. And tonight on the lakefront we're going to have a wonderful show. We're going to have the Temptations, and we're going to have several dancers from Milwaukee. We also have a dance contest between George Voinovich who has Serbian blood in him and myself of Irish blood. So we've got ethnic dancers of Serbs and Irish. We'll have a dance contest. If I was you, I would bet on the Irish. That's only a part of it.

We want you to have a wonderful time. We love having you in Wisconsin. Please enjoy yourself. And remember, you have to have a smile on your face. And please enjoy the Circus Parade this afternoon which I'm sure you will. God love you and thank you for coming.

(Applause.)

GOVERNOR VOINOVIĆ: Hey, Tommy, you're in trouble because not only am I going to have the Serbs, I'm going to have the Croats and Slavonians with me.

We have a special pleasure this morning
to welcome the mayor of this great city. And being the former mayor of the City of Cleveland, I know how proud Mayor Norquist is to have the National Governors' Association in his city at a very, very special time. Most governors are and mayors are very proud of their state or their city, and you want to have people in town when you have your best foot forward.

And I recall when Governor Thompson was talking about coming to Milwaukee, and he was talking about a Circus Parade. And he went on and on and on about it. And I looked at some of the other people that were considering whether we would go to Milwaukee or not and wondered why was he making such a big deal out of this Circus Parade.

And it wasn't until last night I ran into a couple in front of the hotel and said Governor Voinovich, and I said yes, and we're from North Canton, Ohio. I said why are you here? We're here for the Circus Parade. 750,000 people here for the Circus Parade. 150th anniversary of the state, the sesquicentennial of the state. Just a great time.

Mayor Norquist, I know you're very --
where is Mayor Norquist. There he is. Very proud of your city. I was mentioning to the Mayor, the last time I was here was to speak before the Wisconsin League of Cities when Henry Maier was the mayor of your town. And I think I speak for everyone here that's had a chance to walk around a little bit and see what you've done with this city to say congratulations on you. This is truly a renaissance city. And I'm glad that you've got the media from all over the United States of America to see what you have accomplished. This is a great mayor of this city and a great mayor in this country. Ladies and gentlemen, let's welcome the Mayor of the City of Milwaukee. John Norquist.

(Applause.)

MAYOR NORQUIST: Dobar dan. That's the only Serbian I know. I want to welcome all of you to Milwaukee. We're very honored to have this convention. We're very happy that our governor, Tommy Thompson, persuaded you to come here. And I think you'll enjoy it very much. Not just the magnificent Circus Parade which you'll see this afternoon and the many other sites in the city, but from a policy standpoint, Milwaukee and
Wisconsin are very interesting places to be.

We have welfare-to-work proposals that have been developed on a bipartisan basis. Our governor has been a leader on welfare reform. And I just wanted to give you one statistic which I think shows some success with that transition from welfare to work in what was our most run down public housing project. We call them developments now. Used to be called projects. Run down in that it had low incomes. 17 percent of the people two years ago had a full time job. At the beginning of this year it was 55 percent had a full time job. And the income going into the households in that place called Hillside is up by over a third.

There are problems, there are still issues that we debate. There are a few things that we discuss with the Governor. But overall, welfare reform seems to be moving in the right direction in Wisconsin. And we're very proud of that. Most of all, because we've shown that low income people want to work. And if given the opportunity, can be very successful.

I also wanted to mention that this city is like Cleveland, one of the two places where
school choice is taking hold. Again it's bipartisan. Democrats like myself in Milwaukee, almost all of the elected officials that are democrats support school choice because we want stronger schools. And I would invite any of you that are interested in it, finding out about it, when you go back to your home state, you can think about whether you want it or not. But it works. And we have statistics that show it. And we have parents that are very happy with it. And it's working and expanding.

There are a number of issues that you'll discuss here. One of them is your dislike for federal mandates. And I wanted to say I agree with you on that. Almost all mayors agree that federal mandates are bad. We also feel that state mandates are bad. And I hope you'll think about that as you develop your next budgets.

There has been a renaissance in Milwaukee and cities around the US. People are starting to understand the value of cities in the marketplace. All of you wrestle with issues such as land use, environmental problems, promoting business. And I would ask you to think of your cities as assets in trying to improve the
situation like with land use.

People used to think of New York City as a bad place. Lately it's started to be thought of as a much better place thanks to Governor Pataki and Mayor Giuliani. But just think if we didn't have New York City. You'd have 8 million people having to spread out across the United States. Let's say they all have two acre lots. You'd have 16 million acres of land occupied.

Or to put it another way, I have a cousin who is a farmer in the St. Croix Valley named Curt Nelson. And he was bad mouthing New York one time. And we had a family reunion. And I pointed out to him that if you eliminated New York, those people would spread out all over the country, and some of them might move right next to his farm. And then he started to understand the value that big cities have.

They concentrate population. They also serve as a place where people can move up the ladder of success. The economies work. And whether it's Miami or Cleveland or Los Angeles or New York or Milwaukee, America's cities are really important.

I also wanted to mention that we have a
lot of great hospitality in this city. The Circus Parade that you'll see today, 350,000 is the lowest number we've had. We've had as many as 750,000 people come to the parade. And notice how the traffic jam is gone almost immediately at the end of the parade. And the reason for that is because we have this street grid, and we have transit, we have all these options that people can use. And most of the landscapes that states create nowadays with these big highway interchanges create places where you can't ever have a parade.

When the New York Islanders had the Stanley Cup, and they wanted to have a parade out on Long Island, they had to go around a shopping center three times. That was their parade. And when you're thinking about cities, remember that, that there are some real basic values to cities, economically and culturally.

Finally, I want to urge you to have a good time here. We have people with great hospitality as you do in your own states. I know Jim Hunt, the Governor of North Carolina, invited me down there, and the hospitality was fantastic. And I told him if he came here, it would be
But I have never had as good a hospitality as I had in Raleigh, North Carolina. I went down there, and everybody knew who I was. He asked me to come down there and give a speech on land use which I did. And everybody knew who I was, took me around to dinner. We had champagne and wine. And everybody knew who I was.

John Norquist from Milwaukee, you have a book out called Wealth of Cities. Yes, we know about that. We know everything because Governor Hunt has told us about you. So I had a great evening. And then I was going home to my hotel, and I realized I had forgotten my toothbrush. So I went to a convenience store. And the woman behind the counter said you must be John Norquist, Mayor of Milwaukee. And I said Governor Hunt even talked to her.

I said excuse me, Ma'am, but how did you know my name and who I was? She looked at me, pointed at my chest and said, name tag. But I want you to know that there are Milwaukeeans who know you're here. They like you. They want you to have a great time.

When you're done tonight, I know you've
got a great program the Governor put together for you with the Temptations. If you still want to hear some music, one of my favorites is John Schneider and his orchestra. I think they're playing at the Metro Hotel or some other place on Water Street. But I like him because -- a lot of people like him. He plays swing music. And he sings like Fred Astaire and dances like Bing Crosby. So he puts it all together in one package. Anyway, have a great time. Thank you very much.

(Applause.)

GOVERNOR VOINOVIČH: Mayor, we want you to know that we do appreciate your warm hospitality. All these volunteers. When I came into the convention center, there were about eight people that just kind of surrounded us that said welcome and wanted to let us know that they would be willing to do anything they could to help us.

Last but not least, Mayor, I want you to know that a lot of what we've accomplished and evolutioned during the last several years has occurred because of a wonderful relationship between the National Governors' Association and the US Conference of Mayors and the National
League of Cities. We do understand that cities
are our partners, and we do understand your
mandate problem. Thank you.

(Applause.)

GOVERNOR VOINOVICH: As most of you
undoubtedly noticed on your way in, and if you
didn't, please spend some time out there, we have
30 states that are exhibiting their innovative use
of information technology at this meeting. These
exhibits illustrate how states are integrating
technology to improve delivery of state services
and enhance the quality of life of their
citizens. I encourage all of you to spend time
exploring these technologies firsthand during the
course of this meeting.

I would ask the governors to at least
spend at least a half hour of your time, just
moving from booth to booth, to see what's going on
out there. Because there are some exciting things
that states are doing, and I'm sure you'll get
some good ideas from visiting those booths.

I also want to thank Governors Rowland
and Glendening for organizing the exhibits and for
their continued leadership in the US innovation
partnership and as NGA's colead governors on
technology. I think that what you're doing is one
of the most important things that we're doing as
an organization.

I now want to turn to the topic of our
first panel, governing in a digital age. The
focus of the panel is on the future. But let it
begin with some lessons from the past. At the
start of this century we were in the midst of the
industrial revolution that was anchored in a new
age that some have called the electric era. The
electricity age and the profound changes it has
brought to society offers us lessons on what we
can expect as we leave the 20th century and
continue the technology revolution, an age defined
by information technology and digital
communications.

Though its practical application was
demonstrated more than 25 years earlier in 1873,
it took 25 years after the turn of the century
before electricity began to significantly change
the way we live and work. Through the first part
of the 20th century, we learned how electricity
could be used to power our factories, illuminate
our towns, connect us by telephone. Electricity
promised to improve every day life and increase
our economic well being. Yet it would take many years for electricity to fulfill its promise. There were many fits and starts before we learned where and how to use new technology to increase productivity and improve our quality of life. Once we did, the benefits were sweeping, and they were profound.

In factories everywhere small and powerful electric motors helped achieve production levels that were unimaginable years earlier. In homes across America new electric appliances relieved the burden of household chores, refrigerated our food and warmed our rooms. And in the night skies electromagnetic waves brought music, entertainment, and news to families everywhere and a homebound beacon to the early aviator. Electricity made this century and changed how we lived.

The digital age promises no less of an impact on our world. But just as it took 50 years before we began to use electricity effectively, it will take some time to learn how to fully exploit the opportunities that technology presents to us. Some of us are still trying to feel comfortable with computers.
On the other hand, elementary school teachers who are using our School Net, School Net Plus in Ohio which is a system where we've connected up all of our classrooms in the state through -- to data and kids are using computers, the teachers tell me that the kids know more about how to use the computers than they do.

Like electricity in 1900, the personal computer has reached its quarter century mark today. And like the Victorian man or woman contemplating the electric age, we at the end of this century are just beginning to glimpse the opportunities available in this digital age.

The personal computer arrived has evolved dramatically since it was unveiled in the 70s. At each step it has grown smaller and smaller and more powerful. Today with technology, a business person in the United States can check inventories and order parts from distant continents without leaving his or her office. A student located in a town far from any college or university can take courses online, sit in on lectures taking place worlds away and even receiving a degree all without leaving her desk.

A driver lost on the interstate can
communicate with a satellite 23,000 miles away to receive directions from the next exit less than a mile away, all through a device held in the palm of his hand.

We are entering a fascinating and unpredictable age. In 1949, Popular Mechanics Magazine forecasting the relentless march of science predicted that computers some day may weigh no more than one-and-a-half tons. Fortunately, they were wrong or we would all need much bigger desks. However, if asked to make predictions on our digital age, I'm sure I would fare no better than the 1949 editorial staff of Popular Mechanics.

For this reason we have asked two distinguished experts to join us to discuss their thoughts on how society might benefit from the digital revolution and what government can do to take advantage of this new technology.

Our first panelist is Mr. Chuck Martin, a distinguished author, journalist and publisher. Mr. Martin's recent best-selling book, The Digital Estate, which we are fortunate to have a copy of right here on our table, explores the new impact of the internet and what business must do to take
advantage of this revolution in communications.

Mr. Martin is president of the Net Future Institute, a US-based think tank exploring the future of electronic business. He also is the founding publisher and CEO of Interactive Age, the first publication simultaneously launched in print and on the internet. Before founding Interactive Age, Chuck Martin was associate publisher of Information Week and the editor-in-chief of Personal Computing.

Our second panelist is Mr. Kenneth Thornton, general manager of IBM Global Government Industry. His responsibilities include directing IBM's consulting solutions, sales and distribution business for governments worldwide, helping them employ information technologies for government efficiency, service to citizens and for economic development.

He has a particular interest in the transformation of governments through electronic channels of service delivery. He's a member of IBM's Worldwide Management Council and a former member of IBM's Corporate Technical Council.

Chuck Martin is going to start our discussion, and he'll be followed directly by Ken
Thornton. And after both of you have spoken this morning, hopefully you'll allow us to ask some questions. Please welcome this morning's panelists. Let's give them both a round of applause.

(Applause.)

GOVERNOR VOINOVICH: Chuck, thank you.

MR. CHUCK MARTIN: Thank you, Governor Voinovich and good morning everyone. Thank you Governors for having us here. I think it's only appropriate this be first on the agenda. I think that makes a real statement about the import of where technology is going now and in the future.

What I suggest to you is that there is in fact a major revolution in the making here because of information technology, primarily the internet. I'd like to give you a very quick background and history of the internet and where things are going.

There are really five bands or five waves of the internet. It started back in the end of 1994 where Netscape popularized the browser so that all of us could have access to information. And typically what happened was marketing departments simply shoveled online what they were
doing in their traditional environment.

We call this brochureware or shovelware. This is why we have annual reports. That's why there were so many CEO photos on the internet, because that's how companies got funding. Very easy to put a CEO on the internet to get funding. No problem.

1995 we start to get new media departments. This is where people added new media after their title. They changed jobs and tripled their salaries. New kind of era. We start to get interactive. We would have e-mail back and forth. My goodness.

Where we are right now is we're company wide. And this is because of intranets. Now, despite what you read in the popular press every day, there are really three nets in what I hope at the end of this 10 or 12 minutes, you'll have a different view of how to look at this thing.

There is the internet which is the public internet that we know that's everywhere in the world, of course, never breaks, just goes really slow sometimes. Then there is the intranet which is taking that same internet technology, using it inside the corporation protected by
technology called a firewall. So nobody has access to the information except employees and, of course, 24 year olds.

And then there is the third net which is the extranet. And this is where we're going outside the company or the government and connecting through password with either distributors, suppliers, customers, whomever and really connecting through passwords so we have a private network on the public internet.

Now, where we're going ultimately is band five. This is E business. And this is end game I would suggest to you. And we're getting there rather quickly. Now, E commerce, again, what we read about, the buying and selling of goods on the public internet. E business is the major transformation we're going through right now. That is taking everything from product conception to manufacturing, production, distribution and consumption and turning the whole thing around, what I call the 180 effect.

So the consumer starts the process. And the consumer says I will buy this. Then it gets produced, manufactured, distributed and sold in real time. This has profound implications for
pretty much everything that we do, whether in business, government, or anything. It's going to profoundly change all of our lives.

This all is because of this new access to information. It goes back to the estates. The idea of an estate, an estate is a group defined by common, economic or philosophical interests. Dates back to the estates general in France. First estate was the clergy. The second estate was the nobility. The third estate was the peasant or merchant class. And the fourth estate was the press, or more widely defined the media.

The first three estates were based on class. The fourth estate was based on literacy. This new fifth estate, the digital estate, is based on the instant individual access to information. And that's what's the profound change in all of this.

Now, there are really trends that are happening. There are seven trends. I'm going to quickly go through six of them that are going to change everything. These trends are end-to-end. This is what does in fact comprise E business.

The first is the cyber economy is going main stream. And what do I mean by this, is that
everyone is going to be buying and selling things
on the internet because it is friction free as an
environment.

The best example is Amazon. Amazon is
sort of the poster child of the internet. Now,
Amazon was just valued at $6 billion dollars.
They're less than four years old. They don't have
any profit, of course. This is the internet.
They have the market cap about as large as Barnes
and Noble and Borders combined.

What are they doing, they're getting
customers, and they're building a community of
book readers and book buyers. The reviewers --
the readers write their own reviews.

Now, I have a personal story about
Amazon because when I signed the book that
McGraw-Hill provided you, I signed the contract
with the publisher to write a book, I said well,
three months. I didn't know it was supposed to
take about a year to write a book.

Anyway, I start writing the book. Two
weeks later, I get this design in the mail from
McGraw-Hill. And I think boy, I say good-bye to
my wife and children, go down to the basement and
start writing away.
I'm researching, I come across Amazon.

They're selling my book. It wasn't done. And they're discounting it. This is the way the environment works. And you call up Amazon after when the book is on sale. How are sales? What city? Portland. What day? Today. What hour? You're kidding. No, of course, we can tell you what sales, sales by the hour. What's the problem. That's the way the environment works. It's real time. It's really fast.

I'm going to tear through some of the landscape of E commerce just to give you a flavor of what's happening. What I would suggest to you is it's not the bells and whistles of what's being sold, it's the change in habit of the individual that's happening here.

Real.com, they sell 85,000 videos, 35,000 for rent. They said the Blockbuster model is flawed. Why would you rent a video overnight, pay $3.50 and return it the next day, rewound. We'll give you the video for a week, less than $3, you just drop it in the mail when you're done with it.

Expedia, Microsoft, the company, selling travel, $100 million worth of travel they're going
to book. Music Boulevard, Silicon Alley. All the innovations coming from two places. Silicon Valley, California. Silicon Alley, lower part of New York. Silicon Alley is where the creative community is.

Music Boulevard said we'll sell you the Adams version, the media, $11 for a CD, or we'll sell you the bits version, 99 cents. You transmit it to your PC and then you play it through your PC or transmit it to someone else.

Now, I have two children, 6 and 9, Ryan and Chase. I was telling Chase about this, about how you get records and that. Of course, through this whole thing Chase is what's a record. And I say well, it's like a CD except it's black and it's bigger, and it has these like tracks in it. He said how do you play it? I said well, you can't.

Flower Net. Disintermediation. Elimination of the middle man. They skipped the FTD network, and they go directly to the flower grower. They deliver the flowers by Fed. Ex. I don't know how they get roses in those flat packages, but they're doing it.

Auto By Tel, they sold their millionth
Car on the internet. I bought a car through Auto By Tel, it saved me $4,000 from the best price I negotiated with my local dealer. $4,000, which says how well I negotiate.

But Peapod, based in Chicago. They're selling groceries. They have an 80 percent retention rate. You order groceries online, someone goes and picks them out, and then you get them delivered to you. 5 percent of the value of the groceries delivered, $10 for an extra delivery charge, and $5 a month for fee. They love it.

What happens, Streamline out of Boston, they said we can top that. We will go to your house. We'll put in a Streamline box. This box is a freezer, dry storage area. And then you just order your groceries on the internet. How do they know your product preference? When you sign up for free, they go into your home and they bar code scan all of your groceries. They then have a database for your product preference. What does that do to Procter & Gamble? Procter & Gamble is highly interested in this subject because this aggregates the brands.

Net Grocer, they said let's skip everything else. We will sell you groceries
delivered by Federal Express directly, nonperishable goods, guaranteed lowest price. E Trade, Schwab, Online, the whole brokerage industry has gone upside down in three years because of trading online. That's where Schwab is getting all their business. That's where all their growth is right now. E Trade, they just got another investment, $300 million dollars.

Interestingly what do CEOs think about E Commerce? This is a Price Waterhouse survey of the largest 2,000 companies. It's 60 percent it's going to totally change my business. Actually totally change business. My business, no, it's not going to change my business. 20 percent think it's going to change their business. They think it's going to change his business or her business. They're missing the point. It's changing everything.

Second trend, the wired work force takes over. Same technology that we're talking about is moving inside of the corporations. So people are getting connected all the time so they can communicate in real time with each other and with people around the world and move things in real time.
Lucent has got broadcasts over the radio. They're reaching 50,000 employees on a daily basis who listen on average 156 minutes to music and messages from corporation through the internet through their PCs.

Three, the customer becomes data. In the old environment we would be able to send out information, products, goods, service, whatever. And then as much filtered through, we could track because of history success. We would know 3 percent sell through.

In the new environment the consumer, constituent has total control. All the information is out there, and the individual does what I call pull casting. They build their own information set or product set at the moment. This is a huge change.

So where is the value. The value is two places, over on the left, top left, that's high volume. This is all those things you read about Netscape, Yahoo. Who would think that Yahoo would be a brand. It's a multi-billion dollar company now. This is where the database of contact resides.

What I would suggest is the real
opportunity for most organizations and most
governments if not all is over on the right side.
This is where we build community, communities of
constituents, of buyers, of sellers, of
distributors, whoever. This is really
relationship based. This is where we start to
track the preferences of the person and then
provide services that meet those preferences in
real time.

So we're going through a change from
aggregation of supply to aggregation of demand.
You can aggregate supply in this new arena. For
example, Onsale.com. Onsale does auctions online,
48 hour auctions. They auction pretty much
anything.

Now, their valuation is about a half a
billion dollars. Why so much lower than Amazon?
They're profitable. Over on the top left, it
doesn't say how to buy, it says how to play. Now,
the way Onsale works is this is mostly males, so
it's like 90 plus percent male. You put in your
name and your credit card. And the auction says
in-line skates, starting $19. You bid, $20, $25,
$26, $30, $40. Then it gets interesting because
then the human dynamic gets involved.
$40, who does he think he is. $50. Oh, him again? $60, $70, $80, $90, $100. Five minutes before the auction is over you get an e-mail. If you don't think this happens at the office, you get an e-mail, he has just topped you. Do you want to be a loser? $120. I got it. You can buy those at retail for $90. I don't care. The next time there is an auction, he's not going to mess with me again. I'm going to get a really good deal next time around. They can't stop the money from flowing in.

So what do they do now, they auction meat. This used to be the Cookout Country Combo. They're auctioning steaks, burgers and so forth. They're not really big in London. Orlando vacation, Orlando vacation time share. So then they had this whole set up, infrastructure. They said gee, we have all these people bidding, why don't we have them auction their own things.

Now you go in and you pick up whatever you have around the basement or garage and you put it in the database. Consumer self-service, and they have their own auction, and these people take a percentage of the transaction. This is huge business. They can't stop the money.
So there is also the aggregation of demand. This is the play in the future. This is where companies like Price Line, the Connecticut outfit, they have aggregated buyers, and they're selling airline tickets. So leisure travelers say I'll pay $200 to go to Europe within this time frame, and these people connect electronically to all the airlines, and they get these perishable seats at really low cost which is kind of depressing to some of the high priced fliers, but that's life. This is the new environment.

What happens in the future, in the net future, we change pricing. Instead of being based on supply, it's based on demand. So we can really move to flex kind of pricing. And the price changes are going to start to happen all the time, on a continual basis. This is a huge change.

We move to the open book corporation. This is probably most relevant for state governments. The open book corporation is really when everybody else out there does all of the work. It's self-service.

If you look at what Volvo is doing with trucks, they're selling -- who would think that truckers are buying PCs. Well, 55 percent of
truckers own a PC. These are the large trucks.

So what they're doing now is they're taking credit card applications from truckers, $500 deposit for $120,000 truck, and then they pick it up when they go to their local dealer. It costs them $15,000 to set up this entire business.

Bank of Montreal, you do a mortgage online, 45 minutes. I'm here to apply online. Here, I want to check the status of my online application. The consumer does all the work. I applied for a $10 million dollar loan. It rejected me in 10 seconds.

The cost of a transaction is going down to pretty much nothing on the internet. This is the real key. It's friction free as an environment, and its access is everywhere.

Experienced communities. We're moving to real time communities. This is key because this means that people can communicate with each other in real time. There is technology called chat. And chat is not just a pile of 13 year olds doing things after school although they do that too. It's really the capability for anyone to communicate in real time with other people.

The Globe.com, this was started by two
23 year old Cornell students. They got $20 million from the head of Alamo. He said this is a great idea. They just last week filed for a $50 million dollar IPO. This is going to be a very big business.

I-Village, the Women's Network, more than a million members, Talk City, more than a million members. There are many of these, Mining Company, more than a million members. They're now building a community for Citibank. This is huge change.

Lastly, the move to real time learning. This I think hits home more at the home. There is a real change coming because with this technology, people are going to have to learn on a constant basis, all the time learning. That's what we're moving to.

Let me end by telling you a story about the North Hampton, New Hampshire school. Three weeks ago I was there. There was a computer camp. I did an interview for my new book, Net Future. This was a five day camp, second to fifth graders. So these are 9, 10, 12 year olds, some eight year olds. It was five days, five hours a day.
On Monday they went in, the objective was to replicate a part of the community. So on Monday they were given digital cameras, electronic keyboards, they went out and they captured information about buildings, they took digital photos, and they went back and they learned how to convert those onto the local area network of the school.

On Tuesday they learned how to print three dimensional and build a model of a city. They built a scale model of an entire area of the community, and it really is accurately scaled, three dimension, buildings all the way around. And then in the afternoon they learned how to scan photos to digitize them.

Wednesday they learned how to create a web page by 1:00. From 9:00 to 1:00 they created a web page. On Thursday they learned how to do links, to link on to other things that they really liked around the internet.

On Friday before 1:00, they went live on the internet with every single child having their own home page with their personal preferences linked onto the entire school system with photos, digitized photos of all the buildings they liked.
They had menus of restaurants digitized and scanned, they had everything in the community. And they had this by 1:00 when all the parents came in including a digitized photo of the 3-D model of the building. This is by 1:00.

I asked Holly Dow, the teacher, I said how long would it take you to teach an adult this. Well, I'm not sure it's possible, but, this is what we're coming up with. We're coming up with a wire generation into our midst. That's what's happening. People have different expectations.

If you watch a child using technology, they will be watching TV, using a computer, doing their homework, listening to music. And you ask them a question and they answer you, or choose not to. They're multi-tasking. It's a different kind of way of absorbing information. When we're absorbing information, I'm reading the paper now, don't bother me. Now I'm watching TV. It's a different kind of thing. It's multi-tasking.

It's a new generation.

The net future might I suggest to you is about radical, radical change. It's not going to happen on Tuesday, but it is going to happen. And
I would suggest to you that there is an enormous opportunity to reinvent. And you're going to hear about that from Ken Thornton. I encourage you, I encourage you as much as I can to please be a part of the revolution. Thank you very much.

(Applause.)

GOVERNOR VOINOVICH: I couldn't help but think what an impact, we're having this internet debate here with Congress about what we ought to do about the internet sales. And after hearing you, I can just see all those sales taxes disappearing out of the State of Ohio. Anybody get that one? Got to work on it.

Ken, we're anxious to hear what you have to say.

MR. KENNETH THORNTON: Thank you, Governor and distinguished guests, Governors. Let me just first reaffirm that portrayal of what Chuck has just talked about in this revolution that we're going on. I agree with his portrayal. There is testimony to that. The fact that when I learned we were going to share this panel, Chuck, I ordered your book from Amazon.com, and it arrived in my office two days later.

But I would like to choose not to focus
on the revolution and a continuation of this kind of discussion but to really focus my thoughts more on how government works and especially with the focus on this issue of the electronic delivery of services.

We certainly agree with this revolution called E business, and it is changing many things in this society. Excuse me. I have a problem with the technology. One second, please.

The question of the globally connected society and how it improves, how it changes the context in which commerce happens is broader in the business as it deals with the interaction of all of society, whether it's government with citizens, whether it is doctors with patients, et cetera. It raises a broader question of how ready is government for that in its role as a policy maker, in its role of the facilitation particularly in the growth and economic development sense.

I'll speak particularly to the government use aspects of this. But I did want to call your attention to one handout that we have given you that's just completed by the Computer Systems Policy Project. It is a self-assessment
guide on how ready is a jurisdiction, whether that
be state or a more local jurisdiction, for this
so-called world.

It's a guide for assessing the basic
tools and technologies for the physical
infrastructure and for the critical services that
underpin the evolution to this new economy. How
widespread is the community use, measuring citizen
use, business use and government online use and
plans for a digital future. How far along is a
particular jurisdiction. It's a very helpful
guide I believe in being able to deal with this.
And it identifies four different stages of
maturity. I think you'll find it useful.

This particular -- this aggregation and
reaggregation of commerce or business has value
not just for businesses but as Chuck has alluded
to, has value for customers in a faster, lower
cost, easier access to resources, whether it be
services or products.

You might ask what does this E business
have to do with government and what does it have
to do with our use of technology. Well, many
government transactions are similar to those in
the commercial world. Governments order supplies,
pay their bills, collect fines and taxes from citizens. Citizens order birth certificates, register vehicles and reserve campsites the same way they order flowers or books.

Eliminate the intermediate steps and aggregate services across government departments on an E business website or deliver them electronically through some interactive voice recognition system or for delivery a kiosk. And governments have the same reach and the same magnitude of savings in the value proposition that the private sector enjoys.

Are there cost savings for government, you bet. There have been a variety of studies that have studied this in the private sector but in the public sector. Arizona reports that it costs the state about $7 to renew a vehicle license over the counter and about $2 to offer that service over the internet.

The State of Florida in the demonstration here reports roughly a 5 to 1 return over the investment and in our experience has found some returns that I would say range from no return depending upon the design up to a 10 fold return of investment on a project. The cost
savings will vary based on the service being
delivered, the investment in the infrastructure
and the volumes on that infrastructure. But you
can be sure that in most cases if enough services
are delivered over a common infrastructure, there
are significant savings. And it is most
importantly an improvement in availability and
convenience of service to the citizen while
demonstrating a very real cost reduction in
government.

Yet, today, most, for the most part,
government is still a face-to-face service model.
More than 90 percent of citizen services are
delivered over-the-counter in a high cost
relatively inefficient model. And only a fraction
of government transactions are available online
today despite growing citizen demand and the
potential to reduce cost.

True, many government entities from the
White House to Congress to the states to local
government have recognized the value of creating
websites that offer a wide range of valuable
information. And many of those have been done.

I would point out, however, most often
these are first generation websites which offer
information but don't deliver a service beyond the information itself. The real transformation comes with the next step which is going beyond information delivery to deliver real transactions.

You might think about it this way. The ATM at the bank is convenient when you want to know your bank balance. But the real transformation and the savings for the bank and the convenience for the customer is in the fact that it gets cash which eliminates the need for a face-to-face teller in that transaction and all of the back end check processing associated with it.

Over-the-counter, face-to-face service, of course, won't disappear, but the smart strategy is to shift the routine, high volume transactions to digital delivery methods and to reserve face-to-face services for nonroutine exception processes where only a human being will do. And I would submit it's only a matter of time before face-to-face service will become video interactive and electronic.

Let's look at a few of the leading examples on the delivery of services electronically. And these mostly employ internet
technologies. Notice the title of Arizona's E business website here. It's not a Department of Motor Vehicles or the Revenue Department, it's Service Arizona. And it allows citizens to renew their license plate stickers via the internet or an interactive voice recognition telephone service that comes back into the same system.

Since launching Service Arizona in November of 1997, we've served more than 35,000 customers and processed nearly $10 million in vehicle property tax and registration fees for the state. Arizona plans to add a whole selection of electronic services across government to leverage this investment.

Maryland Department of Labor, Licensing and Regulation created an E business site so that professionals from 17 separate licensing boards will be able to obtain or renew their business licenses over the internet. Maryland launched the program with real estate license renewals, and nearly half of all real estate licenses are already being processed on the internet, 300 to 500 per day at a tremendous cost savings. The service will soon be available to cosmetologists, architects, engineers and others.
Use the service called Orderlink, five US states, Illinois, Indiana, Kentucky, Mississippi and Missouri all use these services to enhance their procurement processes. Purchasing officers state wide use their web browsers to go into this service called Orderlink, search approved state contracts, browse through electronic catalogs to try to find the optimum place to source a particular purchase. They review terms and conditions. And when they're ready to order, they simply point and click. And the order then is transmitted via fax, e-mail, EDI or directly into the website of the supplier. It not only is a very efficient and convenient service, it gives statistics easily on a report on state wide purchasing habits or how much has been spent with a particular supplier.

Here is another example in Canada, Service Ontario. Service Ontario is a network of some 65 interactive kiosks located in major traffic areas, dominantly in shopping malls, throughout the Province of Ontario. Citizens can perform a variety of transactions across government agencies such as renewing vehicle registrations, finding used car information,
designing and ordering custom license plates, 

paying court and parking fines and even updating 

change of address information on health cards or 

driver's licenses. The kiosk dispenses receipts 

and renewal stickers on the spot. And last month 

over 56,000 transactions were recorded on the 

Service Ontario kiosk. 

There are a number of other examples 

that we could cite. But in the interest of time 

and in interaction, we've done a number of 

projects and so have other suppliers in dealing 

with this in governments and literally around the 

world. But in truth, the pace of implementation 

of E business in delivering services 

electronically in government is not keeping pace 

current speed with the private sector. 

Our experience in doing E business 

projects with governments around the world raised 

some issues that we believe must be addressed if 

we are to expedite this practice, this pace. First, 

it takes strong policy level leadership. I know 

of no successful initiative of broad scale where 

strong political leadership has not championed an 

initiative. This is not simply an IT issue, and 

we're very encouraged that it would take the place
Secondly, good E business systems do require an original investment. And even though it's cheaper than the way service is being delivered today, it's difficult to channel those savings in our experience back to fund the project itself. If the business model is attractive, private suppliers are willing to finance, build and run E business channels for governments. However, the business models generally require a cross agency common infrastructure function as opposed to individual agents, agency projects.

So starting in an individual agency is a very good place to start. But the optimum advantage economically, whether it's the funding coming from government or the funding coming from the private sector will lead us to the reuse of a common cross agency infrastructure.

Partnership. This is an arena that lends itself very well to a public/private partnership. For reasons of being able to get the competency and skills associated, being able to run a hardened secure website 24 hours a day for high availability service levels. And in particular, partnership models don't always
coincide very well the procurement policies that
were in some states written for a more traditional
era.

Outsourcing, of course, is one form of
that partnership. We see outsourcing surfacing
and a beginning trend in the US. But it is true
outsourcing in other countries of the world in
government has exceeded the base of outsourcing IT
functions in the US government.

Those are very quickly some of the
experiences we've had, some of the leading edge
practices that we've seen around the world. And
with some particular examples of some of the
states here, it's no longer a question of whether
this is real or whether it matters. The only
question left to be answered is how soon.

Citizens like receiving the services
this way. We have some indication that they trust
the level of service when it's received
electronically even higher than the face-to-face
service. And it is an economical business
proposition. So because delivering services
electronically is both a technical and a financial
reality, we believe that the pace with which your
states move to this new model will have a direct
impact on constituent satisfaction and, of course, on the cost of operations. Thank you very much.  

(Applause.)

GOVERNOR VOINOVIČH: Chuck, if things are moving as fast as you say they are, and I have no reason to doubt it, the pressures are going to build up on the private side. And then on the other side of the coin, Ken Thornton, our customers are going to say we want the service, and it's cheaper, and why aren't you doing it. So I think that -- I got a message today. Let's have some questions.

GOVERNOR CARPER: First of all, thank you both very much for being here and for a great presentation. Chuck, I just wish you had more energy and enthusiasm and a sense of humor too would help. No. I enjoyed very much the both of your presentations.

Sitting here listening to you talk, Chuck, about the services and the goods that are going to be available in increasing volumes, attractive packages to buy over the internet for customers, and then listening to Ken talk about how we in government can provide the services to our customers in a more cost effective way, I'm
sitting here thinking George has already sort of telegraphed his pitch. But I'm thinking as more and more people buy goods and services over the internet and they avoid sales taxes by doing so, we're going to have to get to be real good in the states that do have sales taxes, we're going to be real good at this stuff that Ken is talking about to offer our services to our customers at a lower price because the revenue base for a lot of states is going to dry up. And we're going to have to find ways to be very cost effective in providing our services.

Governor Leavitt over here from Utah has been leading an effort along with Governor Romer of Colorado and some other governors, but really focusing on how do we at the end of the day as people buy more and more off the internet, how do we at the end of the day protect the revenue base of those state and local governments that do depend on sales tax. Delaware is one of about five or six states that don't have sales tax, but the vast majority of states do.

For us in working with the Congress, we're trying to find that compromise with them and the President that gives people the ability to buy
conveniently those goods and services but at the same time does not destroy the revenue base of a lot of the states.

It's partly an equity question. For some states, it's a bread and butter issue. But it's partly an equity question. The way I like to pitch it is this. You've got the person who lives in one house, and they have a computer and access to buy, maybe the training to buy over the internet to avoid sales taxes and all kinds of things.

You've got somebody else sitting next door to them in another house, and they don't have that computer. They don't have that access. Taking that a step further, you've got somebody who lives in say one community, better educated, better informed, a lot of computers in their homes.

And next neighborhood over, next community over, the other part of town, they don't. And you've got folks in one part of the community that are buying over the internet, avoiding state and local taxes. And you've got people in another part of the same town, maybe less educated, less economically well off, who end
up bearing the cost, the revenue cost and paying
for the bills of the state or local government.

So we're wrestling with this. Again,
Mike Leavitt has done great work trying to bring
this to the attention of the Congress and to the
President to try to get out of it. Do you have
any thoughts for us particularly as we work with
the Congress and President on finding a way to
promote internet, promote internet commerce but at
the same time not cutting the hearts out of the
state and local governments who depend on the
sales tax?

MR. CHUCK MARTIN: What's interesting is
you're facing the same kinds of issues that all
the corporations are facing because their revenue
streams are also in jeopardy, if you will.
They're saying if our core business, if people are
buying things cheaper somewhere else, what's going
to happen to our traditional business.

What I would suggest, it's an even
bigger issue than that. It is what is -- what
does the future look like. What is a future
business. What is the future product of that
business. What is the future service of a
government. And maybe there is a cost savings
that is so astronomical that a loss in one revenue area is dramatically offset in another area which is the whole point of E business that if you look at just the commerce part, it's relatively small. It's like just what you see of the iceberg. It's all this other stuff that Ken talked about too that's behind the scenes. That if you're changing work forces dramatically, you're changing services to government where the people are actually doing the work.

Like Federal Express does this when they order the packages. People, when they type in their own order and the package gets picked up, if they make a mistake, they feel bad. They apologize to Fed. Ex. I'm sorry, I had the package delivered in the wrong place. Fed. Ex. says that's okay. I mean it's a different kind of mindset that we need to move to I think.

The tax issue, I think personally I think it's too early to tax the net because we don't even know what it is yet. It is way early. And if it makes you feel any better, nobody knows where it's going. Nobody. And if they do, they probably don't. So what I suggest is stay flexible and ride with it as much as you can.
MR. KENNETH THORNTON: I would add to that, Governor, that it is our view that this issue is very much as Chuck has described, but that there will be tools that will surface that will not only help us track where commerce is and, therefore, be able to accommodate a variety of policies that will not yet be determined on where it will be taxed, but it is our view that many of the tax laws that exist today, over a period of time in the evolution of those tools we will enable something that allows us to tax commerce in similar ways that it is taxed today.

I would also on the point of one jurisdiction versus another. There is a positive side on not just being able to just control or know where commerce is happening in a more real time sense, but in being able to remote some of the services into an underprivileged area where you want an economic development agenda in that area.

Once things go online electronically, it doesn't matter where the resource sits, whether it's a government service resource, whether it is a cost center, whether it is interpreting documents that are in this. So there is both a
positive and an issue side to this.

GOVERNOR VOINOUCHE: Thanks. I'm going
to take two more questions because we're behind in
our schedule. Dave Beasley.

GOVERNOR BEASLEY: Chuck or Ken or and.
A lot of different issues we have to deal with.
One of the questions and concerns that I have and
I'm sure every governor here has is the lack of
quantity and quality of people that have a
necessary knowledge base in this area are coming
out of the university system all across America.
And it's a problem. We do not have the
availability of the number of people that can go
into the private sector as well as into the
government sector that have the expertise to deal
with either side of the equation, whether it's
government services or private sector needs in
terms of technicians, computer based work force.

Do you see that the university is behind
the curve and needs to do a better job of
providing us with more graduates in this area?

MR. CHUCK MARTIN: Yeah, I think they're
sort of behind, we're all behind the curve. The
growth has been so exponential. There are now
just IT jobs in America, there are about 300,000
openings right now in the US. And what's happenning is the college grads, they're not even finishing school, they're getting hired before they're done, at least Stanford. And they go become multi-millionaires a year later. That's sort of what you're computing with. But the skill set is getting broader.

Technology companies now who are having to grow exponentially, what they're doing is they're taking people out of second tier colleges and simply training them. And they're taking students who don't have an IT background who have say a philosophy background or who can't get jobs, whatever, and they're taking them saying if you like this technology, we will teach you. And they're having to reinvent people essentially or skill sets.

GOVERNOR BEASLEY: I think we all have graduates coming out of a university setting going back to technical school to get the information knowledge they need to make it a practical application of their discipline. And what the university system has to do is not only have disciplines in technology but also whether it's an English or humanities discipline, they have got to
have a basic background in technology applications.

MR. CHUCK MARTIN: The 10 year olds at North Hampton School are -- they're like the next generation underneath. They will be growing up with it before they even hit college. I mean I think that's what we're facing is waiting for the generations to come up. CEOs, yet most CEOs in large companies don't use technology. They just don't. The higher you go, I mean a CEO, they say yeah, I use e-mail. When you drill down, you say what do you really do. I get my e-mail, my secretary prints it out, I write a note back, she types it back to the person, I'm wired. I mean that's not really using technology.

GOVERNOR VOINOVICH: I think that I know in our state what I have done is I've challenged the Board of Regents to jump start this because information systems people are not available in my state, and I said they have got to go out and start to hustle people that are in universities to point out there are lots of jobs out there, and they maybe ought to change their major. Ed Schafer.

GOVERNOR SCHAFER: Thank you, Governor.
I think the question I have is going back to Amazon, $6 billion dollar value company. No profits. You kind of alluded to it. But that is not an exception on the internet. We don't see many companies that are making a lot of money with actual delivery on the internet. Are we building this huge, huge delivery system for commerce and services that is missing one of the basic fundamental issues of business which is profit and, therefore, is it due to crash sometime?

MR. CHUCK MARTIN: The crash I'm not an expert on, so I can't predict when that's coming. But in terms of the Amazon model, they're going to do a couple hundred million dollars in sales. They choose not to take a profit right now. They're reinvesting it into the business.

Broadcast.com, went public last week. This is audio through the internet. They went public at $16. They went to $68. They're now a billion dollars. And anyone here can duplicate that in about a week if you want to as a business. Not the billion dollars.

But yes, there will be revenue. The investors in this market believe that the hockey stick has not yet gone up. They believe that
we're still at the bottom. Even though we all see
this big growth, they believe the growth hasn't
occurred yet. If the growth does not occur, there
will be some reconciliation.

GOVERNOR SCHAFFER: Sure. But if I start
a business and choose not to make a profit, you
know, that's an easy way to compete because my
competitor has got to make a profit to stay in
business. I think it goes back to some of the
taxes you hear, and I'd like to just defer a
second to Governor Leavitt. Because you say well,
the commerce issue and tax, often you don't have
to compete with the neighborhood hardware store or
the service delivery, whatever it is, because
they're taxed by state and your company isn't.
How are we going to deal with that? I think Mike
ought to talk about that.

GOVERNOR VOINOVICH: We'll finish up
with Mike, and we've got to move on. Mike, you're
the last one.

GOVERNOR LEAVITT: I would just like to
draw the distinction. Chuck, you mentioned that
it's very early in this and that we ought not to
be taxing the net. I think you'll find that those
who sit around this table concur with that. But
it's very important that we distinguish between

two issues, taxing the net itself and taxing
transactions that occur over the internet.

        I have used Amazon.com. I bought a book
recently. I didn't pay sales tax on it.

        Hopefully I will when I put my return in. But if
I had used another website in my state for B.
Dalton, I would have paid sales tax because they
have a retail store in my state.

        So I'm sitting at one computer buying
the same book. I can buy it from one website and
not pay tax, I can buy it from another and I have
to. There is no equity in that. And I would just
point out that our purpose as an association has
to be to redesign this system. There is no one
who will do this unless it's us. States and local
communities have to redesign our tax system, and
we have to do it quickly or we're going to find
ourselves in a world shaping change that we have
no control over. So I don't know that we have a
more important issue before us than how we respond
to this very, very fast moving dilemma.

        GOVERNOR VOINOVICH: Chuck and Ken, we
thank you very much for being here with us this
morning. You have really gotten our attention.
Thank you very much.

(Applause.)

GOVERNOR VOINOVICH: As all of you know, the National Governors' Association awards Distinguished Service Awards to individuals who have been outstanding state administrators, private citizens and who have been involved in the arts.

The individuals that we're recognizing today represent the best states have to offer in public service, community activism and the arts. And I want to thank all of the governors that submitted nominations for this year's program. All of the nominees were outstanding.

In addition, I'd like to thank Roger Geiger who chaired the selection committee as well as other members of the committee. I'd also thank the members of the arts review panel, especially Pat Fordice who is the First Lady of Mississippi. And she chaired the panel this year.

The awards are going to be presented to state officials, private citizens in arts categories. As I announce each winner, would they please come forward along with the Governor. And we will start off with the state category. And
first from Massachusetts is Charles D. Baker, Secretary of Administration and Finance. Mr. Baker's decision to overhaul state procurement and leasing practices saved the state government more than $100 million dollars. His expertise helped the administration get several important bills through the legislative process including pension reforms that will save the commonwealth more than $20 billion over the next 20 years, the abolition of several bankrupt county governments, reform of the uncompensated Care Pool Program for free hospital care, and the building of a new $600,000 square foot convention center facility in the center of Boston.

The Boston Globe Magazine called Charles Baker the smartest man in state government. And Governor Cellucci says Mr. Baker's outstanding contributions have helped raise Massachusetts' fiscal ranking from 50th in the nation to 11th. 

(Appause.)

(Award presented.)

GOVERNOR VOINOVI: We should all be so lucky as having Mr. Baker working for us. Our next winner in the state official category is Kathleen C. Hoyt, Secretary of Administration in
GOVERNOR VOINOVICH: As Secretary of Administration, Ms. Hoyt was instrumental in negotiating the final agreement that led to Vermont's new Education Funding Law Act 60. Governor Dean says that Kathy played a crucial role insuring all Vermont's children have access to quality education. Ms. Hoyt is a prime example of an exemplary career in public service having served as Director of Planning for the Agency of Human Services, commissioner of the Department of Employment and Training, and as the Governor's Chief of Staff and secretary of Civil and Military Affairs.

She has also helped to lay the groundwork for welfare reform which was implemented in Vermont in 1994, developed the Vermont Youth Conservation Corps., and was instrumental in helping state agencies create more efficient ways to deliver services.

(Applause.)

(Award presented.)

GOVERNOR VOINOVICH: Finally, from Delaware, the late Michael C. Ferguson, Deputy
Secretary of Education who is being posthumously recognized. Mr. Ferguson whose life was tragically cut short this past spring had an abiding public policy passion for improving education. He was at the forefront of successful education initiatives in Delaware, creating a Department of Education headed by a secretary directly accountable to the Governor, enacting charter school and public school choice legislation, and creating a system of accountability for students, schools and districts.

In his more than a decade long career as a state government official, Mr. Ferguson served as State Budget Officer, Deputy Chief of Staff, Deputy State Superintendent of Education and acting Secretary of Education. Governor Carper said the enormity of what Mike has meant to Delaware over the course of his career cannot be captured by words.

By his own example, Mike instilled fortitude in his colleagues and allies who lacked it and backed off opponents who knew they could not intimidate him, outlast him or outsmart him. I would like to ask Governor Carper to accept this
award in honor of Mike Ferguson and on behalf of the Ferguson family.

(Applause.)

(Award presented.)

GOVERNOR VOINOVICH: Next we're going to recognize award winners in the private citizen category. I'm especially proud of our next award winner from Ohio. John D. Ong, Chairman Emeritus of the board of directors of the BF Goodrich Company. John is -- John, do you want to come up here? I finally got the system here. Give John a hand.

(Applause.)

GOVERNOR VOINOVICH: John has helped make Ohio a leader in public/private partnerships with his expertise in corporate management, economic development and workplace technology. While Chairman and Chief Executive Officer of BF Goodrich, John transformed what had been a manufacturer of tires and industrial rubber products into one of the world's leading producers of specialty chemicals, aerospace systems and components and services.

John has also provided leadership to many organizations involved with education and the
competitiveness of American business including the Ohio Business Roundtable, the Ohio Science and Technology Council, and Ohio's best program, Building Excellent Schools for Today and Tomorrow.

On the national level, he was chairman of the Business Round Table. I'd like to just add a personal note that John has always -- is always eager to serve. He has generously lent his considerable expertise and management skills to state government for the benefit of all Ohioans.

For example, John was the invaluable member of my GEM Council, the Governor's Education Management Council, which was responsible for Ohio's education reform for results package. In addition to that, he helped change the Ohio Department of Education from a command and control operation and a bean counter to an innovator that provides assistance to Ohio's most needy school districts. John, congratulations.

(Applause.)

(Award presented.)

GOVERNOR VOINOVICH: Next from South Carolina, Lisa Cooper Van Riper, Executive Director of the Putting Families First
Foundation. In 1996 Ms. Van Riper established this foundation which is a nonprofit organization initiated and funded as a private adjunct to welfare reform.

(Appause.)

GOVERNOR VOINOVICH: What a mission to encourage every religious and civic organization in South Carolina to adopt a family, a welfare family and to mentor that family toward self-sufficiency. The foundation has changed the way the private sector views its responsibility for welfare.

Under Mrs. Van Riper's leadership the foundation has been instrumental in the adoption of 160 families as well as initiating statewide partnerships with five major denominations. As executive director of the foundation, Mrs. Van Riper has overseen the development of a model that works to encourage mentor relationships between private sector teams and their welfare clients. She believes that the potential for the long-term success of welfare reform is found in the hearts of the citizens of South Carolina.

Governor Beasley says Mrs. Van Riper exemplifies hope that will change lives and hope
that is changing government. Congratulations.

(Applause.)

(Award presented.)

GOVERNOR VOINOVICH: From Puerto Rico
the Honorable Luis A. Ferre', former governor of
Puerto Rico and founder of the Ponce Museum of Art
is the winner in our art support category.
Governor Ferre' has demonstrated a deep and
abiding dedication to his country and the arts to
his native city of Ponce. Governor Ferre' helped
the Ponce Museum of Art acquire an inventory of
masterpieces unsurpassed by many larger
institutions. The Governor is coming forward, and
his lovely wife.

(Applause.)

GOVERNOR VOINOVICH: Thanks to his
promotion of a patron program that encourages
business involvement, arts appreciation has grown
through educational activities and instructional
exhibitions at the museum. Governor Ferre' has
also rendered distinguished service to the Puerto
Rican Academy of the Arts and Sciences, the
American Academy of Arts and Sciences and numerous
other organizations. Governor Rossello' says
Governor Ferre's visions, steadfast dedication and
generous philanthropy have contributed immensely
to making art more accessible to Puerto Ricans
from all walks of life. Let us present the
plaque.

(Applause.)

(Award presented.)

GOVERNOR VOINOCH: And unfortunately
two of our remaining award winners could not be
with us today, but I would like to briefly
describe their outstanding contributions and honor
them for their efforts.

In private citizen category from
Minnesota, Weelock Whitney. Governor Carlson has
stated that Weelock Whitney has helped define the
quality of life in Minnesota. His fingerprints
are on virtually every piece of progress in the
state. Mr. Whitney is a pioneer in public health
issues and helped lead Minnesota in the treatment
of alcohol and drug addictions with his founding
of the Johnson Institute.

In addition, he has expanded his
activism to include AIDS prevention and
treatment. Mr. Whitney has also been a leader in
Minnesota's business community. In 1971 he was
elected president of the Investment Bankers'
Association of America, the largest trade organization, association in the securities industry. And Finance Magazine named him investment banker of the year.

He is also credited as being the driving force behind sports in Minnesota which now boasts four professional league franchises. In the artistic production category, Jacob -- will you come forward so I can present this for Mr. Whitney? I guess you've already presented -- he's already got the plaque and it's delivered.

GOVERNOR CARLSON: Nice to see you again, George.

GOVERNOR VOINOVICH: Does Mr. Lawrence have his plaque too? Well, the other category winner in the arts area is Jacob Lawrence from Washington State. And for more than 60 years Jacob Lawrence provided images of hope and perseverance in hundreds of works of art. His paintings and prints often done in series or in suites focus on the contribution of African Americans and their striving for freedom and dignity. Mr. Lawrence acts as a chronicler of both the American and the African American scene rendering the situation in human rather than
heroic terms. Let's just congratulate Jacob Lawrence from Washington State.

(Applause.)

GOVERNOR VOINOYICH: Let's give all of the awardees a hand, folks.

(Applause.)

GOVERNOR VOINOYICH: At our winter meeting in February we heard from four governors who pioneered major initiatives to improve the quality of government services through quality total management and how these efforts are transforming state employees into the high performance work forces states will need to respond to the challenge of devolution and improve the quality of services to their customers so we can better compete in the global marketplace of the 21st century.

We have developed a governor's guide for launching or expanding major quality initiatives, a copy of which is at each governor's place and is available for meeting attendees from NGA's Office of Public Affairs. This is the document. It probably if you take about a half an hour to go through it, I would recommend that you read it. It's very impressive with what some states have
done in the area of quality management.

One of the critical factors for success in quality management is partnerships with key stakeholders who are concerned with improving the quality of government services. Our public employee unions in the State of Ohio have been key partners in Ohio's quality services through partnership programs.

And I've asked one of our four union leaders to join us this morning to briefly discuss how governors can hold and should partner with public employee unions. Just to give you an idea of what we're talking about, we have over 50,000 state employees who have completed a three day quality service through partnership training. 1800 employees have completed the team facilitation course. In other words, you have 1800 facilitators. We've saved over $75 million dollars, and we have 2,500 quality management teams in the state. The most important thing I think about this program though is the pride and enthusiasm and self-worth of the individuals that have participated in the program.

Employees report that being equipped with new skills and being empowered to make
changes in their own work not only improves the
quality of services but also improves the quality
of their work lives and has made a difference in
their lives not only at work but at home.

It is my pleasure to call on Paul Goldberg. Paul is the former executive director
of the Ohio Civil Service Employees Association, AFSCME Local 11. Although Paul and his membership
in Ohio have typical tensions in our bargaining
sessions, his enlightened leadership has helped
transform Ohio's work force through empowerment of
their membership, by concentrating on the needs of
their internal and external customers.

Paul's background is impressive. He
took office the same year I did, and previously
Paul held positions as Minnesota's Council 6
director of AFSCME for five Midwestern states and
was field services director for AFSCME. He also
served as Minnesota's Commissioner of Mediation
Services from 1983 to 1991 where he developed
programs that promoted collaborative labor
management relations in both the private and
public sectors, a job which undoubtedly helped
Paul prepare for his work in Ohio, particularly as
our partner in quality.
I want to thank you, Paul, for coming here today and sharing your experience with our Quality Services through Partnership Program.

Paul Goldberg.

MR. PAUL GOLDBERG: Thank you, Governor. It's a distinct honor for me to share this podium with Governor Voinovich and to be able to share these remarks with you. I believe that governors and public sector union leaders have a collective problem. In virtually every one of our states, public employees go to work each day with the realization that many citizens believe their government is broken or at least inept and inefficient. And sometimes those employees have firsthand evidence of the truth in such assessments.

There is much that could be said, but in the brief time that I have available, I want to talk about two factors. The B teams that each of you has in your state and the potential for partnering with your unions to bring about change.

Each of you has assembled a strong team to implement the public policy initiatives of your administration. These A team members typically
share your vision for the role of government. Usually they have responsibility for enrolling other state managers and employees in the pursuit of those visions.

Each of you, however, has a B team as well. These are the state employees who will be there whenever a new governor takes office and who will be there when that governor is gone. And although they continue from one A team to the next, they are seldom asked for their opinions about what's right or what's wrong.

The B team members are the men and women who actually make government work. They are the ones who deal with the long lines of frequently frustrated citizens at many of our public service counters, who struggle to meet the expectations of taxpayers while using lowest bid equipment and frequently outdated work methods, and who have almost universally been conditioned to believe that the last thing a political leader would want them to do is to take a risk.

These employees are often trapped in top-down bureaucratic mazes which muscle creativity as well as their voice. Each of them, however, is also a stakeholder in whether or not
you take measures to enhance the quality and
efficiency of your state services. In many
respects, their job security may well depend upon
your leadership on this front.

In my more than 30 years in the public
sector, I have never met a public employee whose
ambition was to have a career in mediocrity.
Virtually everybody I've ever met in public life
from political leader to front line worker has
wanted to do a good job, has wanted to go home
feeling good about their contributions for the
day.

Unfortunately, sometimes the failures of
government systems victimize employees as well.
Doctor Edward Deming, widely regarded as the
father of the quality movement, used to emphasize
that quality is a function of the appropriateness
of the work system, not a matter of worker
effort. Fix the system, not the blame for the
Deming quality mantra. And whenever someone
blamed poor quality on the work force, he would
tersely remind them that the system within which
those workers toiled belonged to management.

Well, in considering management's
responsibility for work systems, it's worth noting
that today's most widely read author on management practice is not Peter Drucker, nor is it Rosabeth Canter or Charles Handy or Tom Peters. It's Scott Adams, the creator of the cartoon strip Dilbert. I venture to say that there are few state offices and perhaps few governors' offices as well that don't have a Dilbert cartoon hanging in a cubical or two.

Most front line employees agree with Dilbert's cynical view of management's capacity to actually manage the challenges facing their enterprise, public or private. It is Gary Hammel, coauthor of the book "Competing for the Future," has noted, the bottleneck is at the top of the bottle.

Improving state services requires changes in the way things are done at the top as well as on the front lines. And perhaps the most important top level change is to recognize that the people now doing the work know the most about it. Because management is in charge of the work system and because most management systems are top-down, it is probably natural for managers to lean toward top-down solutions to change. Unfortunately, these strategies are
seldom successful. And in fact, studies reveal that about 85 percent of all top-down efforts to implement quality end in outright failure. Overwhelmingly a more successful strategy is to build from the bottom up. This approach enrolls all of your stakeholders in the need for change, then helps align them in strategies for achieving it. And yet, if a bottom-up approach is to be sustained, it is important to mention one other factor with particular significance in the public sector. The union.

This is, after all, the organization which many B team members have selected to express their collective voice. And while many private sector enterprises are able to implement change without regard for the view of the union, this is usually not the case in the public sector. Union density among government workers is higher today than was ever achieved in the private sector with almost 40 percent of all public workers now being represented by union.

Unfortunately, some see this significant union presence as a barrier to change rather than an opportunity for gain. Labor relations policy in any organization but certainly in the public sector.
sector should be a matter of deliberate, strategic leadership choice, not the laissez-faire result of history or assumptions. The character and efficiency of government services and the character and effectiveness of your union/management relationships are inextricably linked. You cannot address one arena without impacting the other.

But too often the sort of battle we just saw being played out between the UAW and General Motors symbolizes or typifies our view of labor relations. The truth is that many once shaky corporations now thrive because of partnership with their union.

In part, these companies are now successful because the CEO understood that union leaders generally have far more credibility with the front line than is the case for management. The failure to enroll union leaders in a change initiative or to discount their influence on workplace culture is not just short-sighted. It robs management of important perspective and insight during the decision making process, and it can alienate a potentially powerful ally for helping workers understand the purpose and need
for workplace change.

In Ohio, it was more than just traditional skepticism about management which motivated the union to seek a partnership for quality. We also understood that you cannot produce quality products or services in a bad work environment. Nor can quality outcomes coexist with mean spirited labor/management relations.

Thus, we believe that Partnering for Quality would not only help address the expectations of citizens, but it would enhance workplace conditions for our members and foster a healthy labor/management relationship as well. And these factors do not distinguish our union nor state service in Ohio. I believe they are common truths in all state systems.

What does distinguish Ohio, however, is the fact that a Republican governor and the union which endorsed his democratic opponent, not just once but twice, were able to put aside their differences and invest in a collect -- invest their collective energy in a partnership for change. Both sides of the bargaining table were willing to take risks in order to enhance the quality and efficiency of state services.
And as Governor Voinovich confirmed, I speak of a partnership between the union and management, not a sense of oneness. There are inherent tensions between the interests of labor and those of management. And our Quality Partnership did not mean an end to sometimes contentious bargaining. Nor did it mean that union and governors were together on every public policy issue.

But our disagreements in one arena did not make us powerless to collaborate in another. And frankly, many contemporary workplace issues are difficult to resolve with a labor relations model which was developed during the New Deal.

To truly protect the social and economic and workplace interests of Ohio state employees, we found it necessary to fashion new 21st century strategies. And although it is possible to find pockets of resistance mixed in with our examples of excellence, the $75 million dollars in savings our quality teams have produced so far and the high performance workplaces we see beginning to emerge in state agencies not only attribute to Ohio's unique union/management partnership, they have made state service a better place to work.
As each of you struggle with the issues of high quality, high performance work systems in your states, I encourage you to explore the potential to partner with your labor unions for change. Like the B team, the union will be around long after you're gone. It can, therefore, be an important factor in sustaining the momentum for change.

For decades, both sides of the bargaining table have invested heavily in the skills and resources necessary to do battle in traditional ways. If our goal, however, is to enhance the capability of government to meet its obligations to our citizens in a high quality, high performance way, then it seems wise to invest at least a little effort in creating labor management partnerships for mutual gain.

From my perspective, the challenges of managing in the public sector are simply too important to leave to management alone. Thanks for your attention.

(Applause.)

GOVERNOR VOINOVICH: When you get to the end of your service as a governor of the state, you start to look back on the things that you have
been involved with and try to contemplate what
long-term benefit you're going to leave your
state. And I would like all of you to know that I
believe in my instance that our initiatives in
quality management are the most significant, is
the most significant thing that I've done as
Governor of the State of Ohio because this
partnership that we have in quality will live long
after I'm gone as Governor of Ohio and will
continue to permeate every aspect of state
government.

And the thing that guarantees that it
will continue is the fact that our labor unions
have been involved as a partner in our quality
management effort. And if you look around this
country and you look at the companies that are
really competing in this global marketplace, they
are the companies that have enlightened labor
management relations, companies that are willing
to invest in technology and the training that goes
along with that technology and partnership.

And I think all of us know that if we
believe in more responsibility going to our
states, then we're going to have a much greater
challenge than we've ever had before. And I think
that good management and technology go hand in
hand with evolution. And if you don't have one,
you're not going to get the other. So Paul,
again, I want to thank you for being here. And
thank you for allowing me to editorialize.

I now would like to convene a meeting of
the executive committee of the Governors'
Association to -- and only the executive committee
members can vote. May I have a motion and a
second to approve the minutes of the February 22nd
and April 24th, 1998 executive committee.

GOVERNOR CARPER: So moved.

GOVERNOR VOINOCH: So moved. Second?

GOVERNOR DEAN: Second.

GOVERNOR VOINOCH: All those in favor,
signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOCH: Motion is passed.

As many of you know, our policy on managed care
was due to expire at this meeting. And earlier
this week the executive committee decided on a
conference call to extend our -- decided at a
conference call to extend our current policy.

Governor Carper, bless you, will convene
a task force to develop new policy over the course

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of the next several months. Accordingly, we will
need to move the existing policy as an amendment
to the draft policy. May I have a motion to do
that?

GOVERNOR CARPER: So moved.

GOVERNOR VOINOVICH: Second?

MEMBER OF THE EXECUTIVE COMMITTEE:
Second.

GOVERNOR VOINOVICH: It's been moved and
seconded that we move the proposal. All those in
favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion is
passed.

I'd now like to call on Governor Carper
to give us a year-to-date financial report.
Governor Carper.

GOVERNOR CARPER: Thank you very much.

Under the stewardship of Governor Voinovich and
your vice chairman and the leadership of our
executive director, Ray Scheppach and his staff,
through May we're pleased to report, May of this
year, the NGA's operating fund revenue is on
target while our expenses are running slightly
under budget. That's due in part to staffing
vacancies and in some timing differences that have
occurred with respect to those staffing
vacancies.

We anticipate that when the current
fiscal year ends that both NGA and our Center for
Best Practices operating funds should break even.
And we look forward to being able to make that
official. That's a good report.

GOVERNOR VOINOVICH: Any questions? I'd
like to then remind governors that the governors
only luncheon will be in Rooms 102-D and E.
That's rooms 102-D and E immediately after our
adjournment.

The only other announcements I have is
that the bleachers are open at 1:15 for our
guests. And we've been told that if you're not
there in your seats by 2:10, you've lost your
seat. This session stands adjourned.

(At 12:30 p.m., the proceedings
adjourned.)

*   *   *

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I, VICKY L. ST. GEORGE, RMR, Registered Merit Reporter with the firm of Schindhelm & Associates, Inc., 606 E. Wisconsin Avenue, Suite 250, Milwaukee, Wisconsin, do hereby certify that I reported the foregoing proceedings had on August 2, 1998, and that the same is true and correct in accordance with my original machine shorthand notes taken at said time and place.

________________________________________
Registered Merit Reporter

Dated this 2nd day of August, 1998.

Milwaukee, Wisconsin.
NATIONAL GOVERNORS' ASSOCIATION

1998 ANNUAL MEETING

PLENARY SESSION

MONDAY, AUGUST 3, 1998

LOCATED AT:

THE MIDWEST EXPRESS CENTER

400 WEST WISCONSIN AVENUE

MILWAUKEE, WISCONSIN
GOVERNORS PRESENT:

Governor George V. Voinovich, Ohio, Chairman
Governor Thomas P. Carper, Delaware, Vice Chairman
Governor Tom Ridge, Pennsylvania
Governor Zell Miller, Georgia
Governor Argeo Paul Cellucci, Massachusetts
Governor David M. Beasley, South Carolina
Governor James S. Gilmore III, Virginia
Governor Howard Dean, M.D., Vermont
Governor Don Sundquist, Tennessee
Governor Kirk Fordice, Mississippi
Governor Mel Carnahan, Missouri
Governor John Engler, Michigan
Governor Tommy G. Thompson, Wisconsin
Governor Arne H. Carlson, Minnesota
Governor Bob Miller, Nevada
Governor Roy Romer, Colorado
Governor William J. Janklow, South Dakota
Governor Frank Keating, Oklahoma
Governor Jane Dee Hull, Arizona
Governor Pedro Rossello', Puerto Rico
Governor Carl T.C. Gutierrez, Guam
Governor Gary E. Johnson, New Mexico
Governor Michael O. Leavitt, Utah
Governor Marc Racicot, Montana
Governor Edward T. Schafer, North Dakota
Governor E. Benjamin Nelson, Nebraska
Governor Cecil H. Underwood, West Virginia
Governor Terry E. Branstad, Iowa
Governor Lawton Chiles, Florida
Governor Mike Huckabee, Arkansas
Governor Jim Edgar, Illinois
Governor Frank O'Bannon, Indiana
Governor Paul E. Patton, Kentucky
Governor Jeanne Shaheen, New Hampshire
Governor Parris N. Glendening, Maryland
Governor John G. Rowland, Connecticut
Governor Christine T. Whitman, New Jersey

GUESTS PRESENT:
Mr. Ervin S. Duggan, CEO, Public Broadcasting Service
Mr. Murray Gaylord, COO, The Advertising Council
Mr. John Fahey, President and CEO, National Geographic Society

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GOVERNOR VOINOCH: I'd like to welcome you to our second plenary session. As Governor of Ohio and Chairman of the National Governors' Association, I've tried to build on the initiatives started by Governor Bob Miller when he was chairman, and that is the healthy development of children from conception to three years. That has been a top priority.

And I must tell you that I've been working on that priority since 1991. During my first State of the State Address, I staked out the challenge to the people in my state and said our aim is to make an unprecedented commitment to one priority that I believe ranks above all others. The health and education of our children.

Most Ohioans have had enough welfare, enough poverty, enough drugs, enough crime. Most would love to see the debilitating cycle broken and the people trapped within it freed once and for all. And so would I. And the only way to do that is to pick one generation of children, draw a line in the sand and say to all this is where it stops. Today we draw the line.
Like many of you, Ohio has been practicing sound fiscal management. We've restored our Rainy Day Fund and reduced the state income tax by 9.3 percent for this year. And yet, while operating within the lowest growth in state spending of 30 years, we have increased funding for families and children 47 percent. And more importantly, we have seen measurable improvement in the process.

The framework for change is our Family and Children First Initiative. It's a framework that encourages a variety of state and local agencies, providers, and more importantly, parents to work together for change. Ohio will always be in the National Governors' Association's debt for the intense technical assistance our state received while launching this effort.

This organization, our National Governors' Association, helped facilitate three retreats, for our people, and numerous visits to Ohio. And that year process laid the foundation which continues to serve our state very well.

Basically, the directors of our departments along with their deputies got to know each other, grew to understand that they had a
symbiotic relationship. And when the public and private agencies in our 88 counties saw that our agencies and state government were working together as a team, then they started to understand that by working together, they could achieve their respective goals.

In the past this organization has heard from experts who have discussed recent research which demonstrates how an infant's experiences from zero to three will literally shape the brain structure and learning capacity for a lifetime. We've shared ideas about what works in improving results for pregnant women, infants and young children, and we've identified goals and outcome indicators to measure the success of our efforts.

To measure the success of the last two NGA chairmen's initiatives which are focused on early childhood development, I asked the Center for Best Practices to conduct a survey of state early childhood activities during the past two years. And I'm pleased to now share the results with you.

Of the 49 states, Bob Miller, you should feel very good about this. Of the 49 states and territories responding, 42 governors talked about
the importance of early childhood development in
their State of the State Address. 46 states
passed legislation improving early childhood
services. 42 states sponsored or co-sponsored
community events focused on raising awareness
about the importance of early childhood
development. 41 states have identified or are
developing goals and measurable indicators of
success for improving the condition of young
children and families. 42 states and territories
are participating in the Hallmark Immunization
Greeting Card Program or a similar immunization
effort. And 42 states are coordinating services
and strengthening local communities' capacity to
address the needs of their youngest children.

I think these results show we can be
proud of what we've accomplished and confident
that the investments that we're making today are
going to produce even larger dividends in the way
of reduced cost for mediation, rehabilitation and
incarceration.

I think these results will also please
Rob Reiner and Doctor Bruce Perry who so
eloquently focused our attention on early
childhood brain development at our winter meeting
back in 1997.

I know we're already seeing returns on our investments in our state. Immunizations and adoptions are up. Infant mortality and teenage pregnancy rates are down. But we can't stop there. We must also focus attention on the quality of the learning experience small children receive. Whether they are cared for at home by mom or dad, by a neighbor at home provider or in a child care or Head Start center.

As we learned if you remember in the winter meeting when Lynn Kagan came in and talked to us about the fact that we needed to improve the quality of the people that were working with our children. In Ohio we teamed up with the public television stations in a first ever partnership to provide training for home based child care providers, mom and dad, a neighborhood child care center. And in terms of quality preschool programing, I don't think that you can get any better than Big Bird, Elmo and Mr. Rogers.

I'm so impressed with the partnership that we have established with public broadcasting that I asked the president of the Public Broadcasting Service, Mr. Ervin Duggan, to come
and speak to us today.

In case you are not familiar with PBS and what it does for children, this brief video will help you. And after we see that video, I will introduce Mr. Duggan to you. May we have the video.

(Video played.)

GOVERNOR VOINOVICH: Mr. Duggan began his distinguished career as a Washington Post reporter and was later the national editor of the Washingtonian Magazine. He is also the coauthor with Ben Wattenburg of Against All Enemies, a 1977 political novel.

Mr. Duggan has served in a number of public/private posts in the Congress and in the Johnson administration. 1990 he was nominated by President Bush and confirmed by the United States Senate as Commissioner of the Federal Communications Commission. Mr. Duggan has served as president of PBS for the past four years during which time a host of new initiatives have been launched in programing, education and technology that extends way beyond the television screen.

And I was pleased today that I had an opportunity to spend some time with Mr. Duggan and...
was just amazed at what PBS is doing that I wasn't aware of. And I'm sure you'll share that with the other governors that are here today.

We look forward to your presentation.

(Applause.)

MR. ERVIN DUGGAN: Thank you, Governor Voinovich. Thank you for your invitation and your hospitality. And thank you in particular for your interest in early childhood education. The work that you have done in Ohio is I think a legacy that will be remembered long after your term is over.

So I want to begin by thanking you and thanking all of the governors for the invitation to come and talk about this subject that Governor Voinovich is so deeply interested in. And it is so crucial to all of us, early childhood development and education.

We have a context in which we meet. And I hope that as I speak, you will keep in mind the background against which we meet. I call it the triple crisis in American life. The first aspect of that triple crisis is a crisis in education. All of us are struggling, and you are struggling on the front lines with a critical challenge to
make a quality educational experience available to
everyone from every walk of life. And it is not
an easy thing to do.

The second aspect of that triple crisis
is a crisis of popular culture. When I was
growing up in a small town in South Carolina and
television was relatively new, parents could know,
and parents for a generation or more knew that the
media and television were their allies in trying
to rear their children and instill decent values
in their children. Today they wonder whether the
media are an ally or an enemy. We have a crisis
in the popular culture.

The third aspect of that triple crisis
is a crisis of citizenship. We have gridlock, we
have a degree of partisanship that is troubling I
know to you. An event like this which is
bipartisan and civil is almost the exception in
our public discourse today. People are turned off
by the political process. We have a crisis of
citizenship.

I'm very delighted that we at PBS are
able to address in some constructive way every
aspect of that triple crisis, education, culture
and citizenship. And I'm delighted to come today
with exciting news on the education front.

Today I want to pursue three quick purposes with you and to accomplish three quick things. First, I want to describe some exciting developments, you are aware of the research on early childhood development. I want to talk a little bit about that and add to that a description and demonstration of a new digital technology that enriches television. That will be my first purpose.

Second, I want to describe an exciting project of PBS, one that Governor Voinovich mentioned, that he has supported in Ohio, we're pursuing in virtually all of the states of the union. It is very good for young children and families. It is a service that we think deserves support, and it has tremendous implications when we look at the enriching possibilities of digital technology.

Third and finally, I want to talk very briefly about what we can do to work together to advance what we know about early childhood learning, to unite it with technology and to achieve real progress in every one of our 50 states.
What about that first topic, the developments in research and technology. In March of 1997 I went on a long car trip with Governor Dick Riley who as you know is now the Secretary of Education. He had just come on that trip that we took to Pennsylvania to see Frank Lloyd Wright's Falling Water. He had just come from the White House where they unveiled the new research on brain development and early childhood development. And he was on fire with the significance of that.

We talked for a long time about the importance of this new research. The research as Dick Riley said to me spelled both hope and danger. Hope because it held out the possibility that if we intervene early enough, we can accomplish decisive things for the well-being of young children.

Danger, however, in that if we fail to intervene, if we neglect doing what we should do about this early childhood development, the consequences of that neglect can last forever. And he used an example that stuck in my mind.

He said take the R sound in American English. If a Japanese child learns that R sound
before age two-and-a-half or three, he will always
or she will always be able to pronounce the
American or English R. But if they don't learn it
by age 3, they will always pronounce it as an L.
Secretary Liley instead of Secretary Riley.

If the synapses in the brain are not
wired on that skill by age three, it can never be
acquired. What other skills involve the hard
wiring of the brain at such an early age that we
can never recover the knowledge or build the
knowledge unless we intervene so early. That
stuck in my mind.

I went back to PBS, and we began talking
about how we could utilize that research and
improve our service. One of the things that we
did a year later, in April, was introduce a
program that is aimed at the youngest group of
children ever before to be addressed by PBS
programing. Toddlers who are not yet able to talk
but who are able to think.

It's a program called the Teletubbies.
It's been a sensation in Britain. It is very
controversial in this country. It has set off a
debate about whether the program is educational at
all or whether baby talk and some of the things
that are done on that program are just mindless.

It set off a debate whether toddlers
should be watching television at all. We're going
to endure that controversy with as much good cheer
as we can because we believe that intervening at
that very early age and addressing our educational
service to the youngest children is an experiment
that very much deserves to happen.

So we are going forward with the
Teletubbies, and we are vitally interested in
preschool education. We intend to do more in the
future as the technologies on-rush as they
converge and fuse. The computer, the television
set and the telephone. Imagine television that is
not top-down in anymore. Imagine television that
you can talk back to, ask a question of, make a
request of, get a response from.

That interactive television can give you
say a tidbit on the screen during the television
program. If you want more information, you can go
to the internet portion of the program
simultaneously and request and download the
information. Think of the implications of that
for early childhood education and for the
experience of television by adults. This is not a
pipe dream.

In November PBS and our member stations, 350 member stations nationwide, will begin beaming digital programs over the air that unlock these new possibilities of enriched digital information streams that accompany the program. Rather than merely describe these for you, I want to pause now and ask my colleague, PBS executive vice president John Hollar who heads all the educational efforts at PBS to come forward and give you just a brief one or two minute display of what we call enriched television. Ladies and gentlemen, John Hollar of PBS.

(Applause.)

MR. JOHN HOLLAR: Thank you, Ervin.

Thank you, Governor Voinovich. On November 11th and 12th PBS will unveil its newest innovation in digital television for the 21st century. We call it enhanced television. Enhanced television will bring you all the quality and clarity of digital television plus something more, a simultaneous digital stream that rides along with the broadcast and delivers video, audio, images and the worldwide web to your home at 10 times the speed of today's conventional internet.
In partnership with the Intel Corporation, we've developed a prototype of enhanced television based on last year's PBS blockbuster documentary Louis and Clark, The Journey of the Core of Discovery by Ken Burns. We're going to show you a brief prototype this morning and then tie that into early childhood development in our preschool programming.

Imagine that you're watching this fabulous historical film. And at the end, you want to know more about Louis and Clark and their team of discoverers.

(Video played.)

MR. JOHN HOLLAR: As your local PBS station broadcast this digital program, the signal also carries a vast amount of other information that flows directly into your computer or eventually your smart television. Notice at the bottom of the page how the icons are popping up as the film progresses. This is a signal that more information is coming to you through that digital stream that I was mentioning earlier.

Now, at the end of the film you'll have a rich array of more educational information at your fingertips. Under the more information
section, we transmitted more than 1,000 pages of information from PBS Online off the worldwide web about the journey. Under video clips, we've transmitted a completely separate 10 minute film about Ken Burns and the art of documentary film making.

(Video played.)

MR. JOHN HOLLAR: And under related products, we've sent you information about the home video version and the companion soundtrack. We presume you'll have a home internet connection to place your order. And yes, we do collect state sales taxes on internet orders in all 50 states.

On November 11th and 12th we'll broadcast our first live enhanced digital television production, another Ken Burns documentary. This one a three hour film about Frank Lloyd Wright. With it we'll distribute the complete video interviews of all of Ken's scholars and commentators. We'll transmit the blueprints, the site plans and sketches of two of Wright's most famous houses.

We'll transmit in their entirety two half hour interviews with Frank Lloyd Wright himself and Mike Wallace from the 1950s. And
we'll transmit much more, all directly to digital receivers in six cities where PBS member stations are already on the air with the digital signal. And one of them is right here in Milwaukee.

So imagine the power of this technology for education, for early learning, for child development. There is good news on that front as well because next month we'll announce our second major enhanced TV project, a new preschool program featuring two of our zaniest personalities and a Madagascan lemur who will teach preschoolers about animals, their habitats and the environment.

We're really looking forward to the enormous possibility of this technology. Thank you.

Ervin.

(Appause.)

MR. ERVIN DUGGAN: Thank you, John. I hope all of you governors will keep in mind the possibilities for early childhood education. Imagine parents being able to request educational materials that they can download right into the home that accompany out programmings and you catch some of the possibilities for early childhood education that we will be exploiting in the coming years.
I want to turn now to the second topic that I said I will talk about which is that project in early childhood learning that we have been pursuing nationally for four years and which Governor Voinovich and some other governors have been vitally involved in. The effort is called Ready to Learn. The impulse behind it is simple. If the programing that we bring to the preschool children of America is educational by its very nature, and we know from our research and testing that it is, could it be even more powerful in the hands of well-trained parents, home caregivers who have previously been giving nothing but custodial care and preschool teachers. Could it be a tool in those trained hands to help preschool children literally be better prepared for school, to become in the words of the educator who introduced the phrase, Doctor Ernest Boyer, Ready to Learn. We believe the answer is yes.

And so in partnership with the Corporation for Public Broadcasting, with Congress, the Department of Education, hand in hand with talented children's producers like some of those you saw on the screen and with a small core of 10 PBS member stations four years ago, we 
embarked upon the Ready to Learn experiment.

And this coming school year, four years into the project, Ready to Learn will involve 135 public stations in 40 states covering 90 percent of the national television population. Each station starts at home just as charity begins at home by broadcasting at least seven to nine hours a day of high quality children's educational programing. Sesame Street, Barney, Arthur and Mr. Rogers' Neighborhood and the Teletubbies.

We broadcast seven to nine hours a day. Some stations increase that by repeating to 11 hours a day. Compare that to the three hours a week that the government has been struggling to get commercial broadcasters to broadcast, and you see how committed we are to this project. This year those programs that I mentioned won more Daytime Emmy Awards for their excellence than all commercial broadcasting cable channels put together.

Wholesome television fare for children is only the beginning. Each Ready to Learn station then reaches out into the community with at least 10 training workshops a year. Intensive training for parents, for teachers, day care
providers and how to enrich life for young people, to enrich early learning, to take what once was a passing viewing experience on television and turn it into an activity laden enriched experience.

In four years our Ready to Learn stations have staged more than 6600 training workshops in all the states. Our outreach experts have trained more than a quarter of a million parents, teachers and caregivers, and they in turn we believe have had impact on roughly 2.3 million preschoolers across the country.

In West Virginia, I just spoke to Mrs. Underwood a moment ago, in West Virginia Governor Cecil Underwood proclaims Read To Me Day across the state each year. That is a Ready to Learn initiative of West Virginia Public Television. West Virginia First Lady Hovah Underwood is one of our Ready to Learn volunteers. This year she and 9,000 volunteers across West Virginia read to 140,000 kids state wide.

In Ohio, Governor Voinovich has made possible a Help Me Grow grant of over $1 million dollars to eight Ohio Ready to Learn PBS stations. Each of those stations will conduct a minimum of 25 training workshops this year. One
station, WGBU, Lima, works with Lima Head Start, Bowling Green State University. Is it Leema or Lima, Governor?

GOVERNOR VOINOVICH: Lima.

MR. ERVIN DUGGAN: It's Lima. I grew up on lima beans in South Carolina, so I should know that. Works with Lima Head Start, Bowling Green State University, Ohio Migrant Education and the YMCAs to increase the impact of the work in preschool learning.

In my home state, South Carolina, the wonderful State Education Network, South Carolina ETV and Ready to Learn are part of Governor Beasley's K-12 school technology project which is a comprehensive plan to advance education using television, computers and telecommunications.

There is more, however, than training workshops and television. PBS member stations and an organization called First Book distribute thousands of free books each year in Ready to Learn communities. In four years they put more than a million free books into the hands of disadvantaged children and their parents along with training for the parents on how to enrich life and create a more verbal, verbally enriched
atmosphere for children.

This year they will give away 35,000 books each month. They will distribute hundreds of thousands of viewing guides, activity planners and media literacy handbooks and a quarterly magazine which I believe is in the packet in front of you called PBS Families which we publish both in English and Spanish.

There is one more thing that is a vital part of this mix as we do this outreach. It is our new digital channel on the internet. More than 150 stations have websites that are linked through our fantastically popular internet site called PBS Online. And this features an extensive area with Ready to Learn materials.

PBS Online averages more than 2 million users a month. And now that 26 million homes across the country have access to the internet, 26 million and growing, we believe we have a phenomenally efficient way to extend our educational reach and deliver educational materials into the home along with our television programing. We believe, we know, that we have here a fantastic recipe for educational progress and educational success.
Our studies show already that parents who have attended a Ready to Learn workshop read more often to their children, read longer to their children. We know that they read more for specifically educational and training reasons. We know that they take their children more often to book stores and to the library than if they didn't have the exposure to Ready to Learn.

We know all these hopeful things, and we also know some things I'm sorry to say which are not so hopeful. And that brings me to my final topic today. What can we do together to harness the power of this new research in early childhood learning and the new capabilities of television and telecommunications technology. What can we do to unite the computer, the telephone, the internet, for educational purposes. How can we encourage the use of this power to advance public education and early childhood education.

We know this about the new media and about all the growth that we hear about new television channels, 500 channels. We know that most of the action is commercial. It is definitely not devoted to education. Most of the action and energy are aimed at entertaining people.
or helping them play games. We know that much of the energy around the newest media is being spent on helping people to sell things and inducing people to buy things.

We know, finally, this depressing fact. Pornographers are having a field day with the new media, the internet, and other new media. Now, all this is perhaps inevitable. But one thing is not inevitable. It is not inevitable that we will use the fantastic power of all these new technologies to advance education. It is not inevitable that we will use the new technologies to broaden the availability of rich, deep cultural experiences. It is not inevitable that we will use these new technologies to improve and enhance citizenship. It's not inevitable unless you and I show leadership.

But if we do show leadership and support the educational use of these technologies, marvelous things can happen. Proven efforts like Ready to Learn can expand their impact. And beyond early childhood education we have an opportunity to use these new technologies to democratize education as dramatically as the invention of the printing press 500 years ago.
democratized information for the people of that day.

We have now created -- I met with Governors Leavitt and Romer yesterday, we talked about this. With the addition of the digital capacity, the internet capacity to the television information stream, what we're doing is creating a complete feedback loop.

Television used to be a top-down technology. Now it's becoming an interactive technology, and this creates the possibility that we must realize the eventual possibility of what I like to call the university of the air.

A little digression here, PBS works with community colleges to deliver the associate arts degree to students all over the country, students who never come to the campus. We use television and the internet, that complete feedback loop to create university learning without building another classroom or dormitory or hiring another professor, without any capital investment on your part.

Because I believe that this opportunity is so enormous and your participation is so crucial, I want to close today with a very simple
three-part challenge to this ballroom filled with leaders. First, I hope you will call on the leaders of public television in your states, ask them what they are doing that is new in the use of information technology. Learn about the new and exciting activities of what we call the new PBS. That is a whole new thing, it's not just television anymore. Push them along if you can. Hold their feet to the fire.

The worldwide phenomenon that is now called Net Day began at a public television station in San Francisco, KQED. Kentucky Educational Television is using television and the new media to help thousands of Kentuckians get their GED degrees on television. All of this is happening off the screen, but it is very important. So the first thing, call in those leaders, find out what they're doing. Help them do more. Urge them to do more.

Second, use your leadership to discipline and unite the scattered disparate piecemeal efforts that are going on in this new media field. If you see people talking about the use of computers and the internet and education as separate from the use of television, beware,
because that separation is an unnatural separation. What we want is a continuum of technology that uses the best of all these things and unites them rather than trying to invent the wheel anew after 30 years of good experience with educational television.

In and of itself, a computer is no more educational than a typewriter or an adding machine. The internet in the wrong hands without the right kind of use is more like Times Square or the Tower of Babel than it is educational. It is content that makes the difference.

Public television has 30 years of experience in building content and joining that content to technology to create educational results. And this is where we need to be looking for results, putting content at the center rather than just infrastructure and wires and waves.

Third and finally, tap into the rich array of technology based services that we offer. PBS is far more than Masterpiece Theater or the News Hour or even Sesame Street. Off the screen as I said earlier, we deliver distance learning telecourses to college campuses.

Our adult learning service goes by
satellite to two-thirds of the university campuses in America and reaches 425,000 degree candidates every year. This is a tremendous use of educational technology.

Off the screen there is much that we can do, so don't be beguiled by the vivid things you see on the screen. There is much that we do off the screen. That video that Governor Voinovich showed at the start of this session was accompanied by music. The lyrics were from a song called The New Day. We think it has a double meaning. One meaning will be familiar to all of us. When we think about children, we think of a new day. All of our hopes for a more prosperous, worthwhile future are inevitably tied up in the oncoming generation of children.

But there is another meaning hidden in that lyric about a new day. And it is that there is a possible new day in the use of technology for education, a day that is near at hand. That day will come, however, only if we are wise enough to help it emerge. If we do help it emerge, however, the possibilities are tremendous.

When I was leaving the FCC to go to PBS, a 95 year old woman, a remarkable woman named
Elizabeth Campbell came to see me in my office. She is the founder of WETA, the public television station in Washington. And she still serves as vice president of the organization and drives to her office every day.

Ms. Campbell came to my office, and at the end of a wonderful meeting which she instructed me about what I was to do as president of PBS, she ended by saying this, remember this, Commissioner. There are only three truly public institutions of learning in America. The public library, the public school or university and public television. Which of these can reach the most people in one hour. Which indeed.

At this moment that Dick Riley described to me on that car trip as a moment of hope and danger, we very much need your vision, your leadership, your participation and your push to insure that the next generation of all this marvelous technology will be put to work not just on behalf of games and entertainment and commerce and heaven forbid, pornography, but marvelous possibilities of this new technology with your help can be put to work on behalf of education. That is what we want to help you accomplish. And
we are delighted to have been invited to this
discussion today. Thank you very, very much.

(Applause.)

GOVERNOR VOINOVICH: In spite of the
fact that Ohio has entered into a partnership with
PBS, I must admit that I know very little about
what PBS does in our state. And I hope that the
governors that are here today know a lot more
about it than I do.

And if nothing else happens as a result
of your being here, I'm sure all of us are going
to go home and find out what you're doing and how
we can take more advantage of what it is that
you're doing. It's a wonderful resource for us.

Are there any questions that anyone
would like to ask of Ervin? Mike.

GOVERNOR LEAVITT: Mr. Chairman, I would
just like to echo what a powerful tool I believe
PBS can be, particularly linked carefully with the
technologies that you have addressed. You
referenced a conversation we had yesterday where
we were talking about being able to essentially
make PBS an interactive medium by being able to
backlink with the internet. And I think John
mentioned the fact that if -- once we have digital
television, it will essentially allow for that as a resource to be developed on an asynchronous or on demand basis. That becomes a very powerful tool.

And I would just encourage all of my colleagues to become acquainted with the applications of these technologies. Because it's not just redoing and changing the way we deliver it but changing the pedagogies of how we deliver education. And it will ultimately be the answer to how we retrain literally millions of workers again and again and again.

Governor Romer and I are involved in an enterprise known as Western Governors University. 18 of us around this table are engaged and a number of others are interested in being able to collaborate with us. It's a worldwide enterprise now including consortial agreements with universities in the UK and Beijing. And I'm very excited about the ideas that we discussed yesterday of being able to link the course work that's available on PBS.

I would like to just ask how soon do you expect the digital television efforts to be expanded? How rapidly do you see a rollout on the
technology you're going to be demonstrating on the
10th and 11th of November?

MR. ERVIN DUGGAN: Well, Governor,
you're talking to a technological optimist here.
I think it will be faster. I think the rollout
will be faster than any of us expect. The analogy
that I would use is the analogy of the conversion
from black and white to color.

If we were at the beginning of that, we
now remember it as sort of a seamless, quick
transition. It actually took almost a decade.
And people were asking the same pessimistic
questions then that they're asking now about
digital.

They were saying well, the color
television set is going to be so expensive that
only rich people will be able to afford them. And
why should I get one. Is color really that good.
You have a lot of sort of nagging, pessimistic
questions.

But when the marketplace, when people in
the marketplace saw the glories of color
television, they wanted it. And we saw the
peacock spread its tail first in black and white,
but then increasingly homes had color, and the
cost of sets came down.

I think that the growth curve for digital will follow pretty much the model of color to black and white. At first USA Today has a story that says $6,000 sets are being sold starting this week with a 56-inch wide screen, a rear projection which is rather large for most people's family rooms. And they will go to homes and buyers that can't get any digital programs. Now, in November we will start streaming those programs.

That's a very pessimistic statement in the article. But I think that would have been said about color. And we're going to see the sets get smaller, the cost come down, more and more homes buy them. And I think in a decade we will look back on top-down television as very much an artifact of the past.

GOVERNOR LEAVITT: Mr. Chairman, may I follow with one quick question while others are thinking?

GOVERNOR VOINOVICH: Yes.

GOVERNOR LEAVITT: I'm interested in the critics of this kind of learning would often say well, it's just people watching television and,
therefore, it's a lower quality experience than in
the classroom. Would you care to respond to how
-- what you would say to those?

MR. ERVIN DUGGAN: Well, what we do in
our training with parents about the use of
television, we actually encourage people to get
their children away from the television set and
involve themselves in activities. I would say
that any technology is neutral. And the way that
we use it is crucial.

The way that someone reads a book can be
very passive and uninvolved. But the intelligent
reader reads in a critical way that is more like a
conversation with the author. What we bring to
the experience of watching television will be very
much what we get out of it.

And so we believe that a more
interactive version of television will be highly
appealing to people. They will hear a 20 second
sound bite from the FBI negotiations with the
David Koresh people on Front Line. They can hear
the whole negotiations by calling up on the
internet, you know, the stored whole interview.

So there is a tremendous richness about
to happen here, and we think people are basically
pretty smart about what they want. I don't think watching television inevitably has to be a passive experience unless the people having the experience make it passive and the people marketing television want it to be passive.

We at PBS have always wanted an involved citizenry watching us, and that's what we have. We hear from them. So I think it has to do with more than the technology. It's the way we use the technology.

GOVERNOR VOINOVICH: John Engler.

Governor Engler.

GOVERNOR ENGLER: I'm curious what the conversion cost to go to a full digital public broadcasting system in the nation is estimated to be. And I don't know if that's on a per station basis. And are we looking at there is a receiving and an ability to also transmit a lot of I suppose for their locally produced programs, they're going to have to have additional equipment for that. Is there a national tab? And I couldn't tell from the Intel announcement. The partnership with Intel is for PBS originated broadcasts --

MR. ERVIN DUGGAN: That's for creating content, Governor, for creating content in
children's programing, for experimenting with the enhancing possibilities. We have several, about $5 million dollars from Intel to conduct that experiment.

Let me go to your first question which was about the total tab for conversion to digital. This is going to sound like a pretty large number. We estimate the cost of the digital transition to be well over a billion dollars. What is the exact figure, John?

GOVERNOR ENGLER: That would be a lot of telethons.

MR. ERVIN DUGGAN: $1.2 billion for public television alone. Now, we are going to raise 60 percent of that cost from private means and ask our government sources for support to help us with the rest. That will be spread over a period of years. That sounds like a lot, but investing in satellite transmission costs hundreds of millions of dollars also.

We believe that different stations will incur different costs. WGBH Boston which is almost the Disney of public television, a very powerful producer, will need to be digital in a highly sophisticated way because they produce. A
small rural station might need only the capacity
as you say to pass through a national signal and
can take longer and spread its investment and the
conversion out over a longer period.

So I can't put a dollar cost on what a
typical station would spend because different
stations will be on a different timetable and will
have different missions.

GOVERNOR ENGLER: Is there a national
sort of rollout schedule, implementation schedule,
if you will, so that you don't have two stations
maybe side by side competing in effect to have
fully upgraded transmission capabilities sort of
concurrently. Maybe one should do it and the
other should come later or even the collaboration
of stations.

It seems to me Michigan happens to have
a lot of independent PBS stations. And I've heard
some numbers in Michigan. They're eye popping in
terms of the cost. And yet they presuppose that
everybody gets to do sort of everything. And I'm
not sure they should. And I'm curious if the
parent has a rollout cost.

MR. ERVIN DUGGAN: The parent is often
in the situation, and you use a good metaphor,
Governor, parent. Sibling rivalry is a factor in every family. And a parent often has to manage that sibling rivalry. We don't have the kind of power over sibling rivalry and the kind of competition you describe. We can't dictate or arbitrate what people will do at the local level because these are locally owned stations.

But we do hope that those costs will encourage stations in the same markets, some of them, to embrace each other and make joint plans about locating their transmitters and bring those costs down. We think that the high price tag will induce a kind of rational cooperation. I hope that happens in Michigan.

GOVERNOR VOINOVICH: One last question?

(No response.)

GOVERNOR VOINOVICH: Well, Ervin and John, I'd like to thank you very much. I want to say to you that when we got involved with this program with you, I took the materials. And by the way, Ervin said he will mail the materials to you, and I would hope that you look at them. But I gave them to my daughter-in-law, and she was just ecstatic about them.

And fundamentally, it's real simple.
She's going to have a curriculum that will plug into public television. She'll be able to read before it comes on with Mary Faith. They will be able to watch the program together. After it's over, there is some more material that they will discuss, and there are some books to go along with it. And I really believe that it's going to make that stay-at-home mom or that neighborhood child care center or quite frankly, some of the other child care centers that people pay to have their children stay a lot more meaningful because of what you're doing with this effort.

And I would urge all of you to take a look at it. I think it's a wonderful way that we can enhance the quality of that time that people spend with our kids. So we thank you very, very much, and we look forward to working with you.

MR. ERVIN DUGGAN: Thank you, Governor.

(Applause.)

GOVERNOR VOINOVICH: I'm now pleased to introduce Murray Gaylord. Murray is the chief operating officer and the executive vice president of the Advertising Council. I think you know that the Ad Council is committed to working with states to design campaigns that directly benefit the
welfare of children. They have been doing that for the last couple of years.

As a partner in the I Am Your Child public engagement campaign, the Ad Council has developed public service announcements and advertisements promoting the importance of those first three years. In Ohio we have adapted the good work of the Ad Council to promote our Help Me Grow initiative. And I would like to take this moment to recognize the generous support of the Procter & Gamble Company in terms of making these public service announcements in our state.

I'd now like to call on Mr. Gaylord.

(Applause.)

MR. MURRAY GAYLORD: Thank you, Governor Voinovich. The Ad Council would like to extend our sincere gratitude to you and Mrs. Voinovich and recognize your tremendous leadership in the area of childhood, early childhood development. You have truly gone to great lengths to make this issue a cornerstone of your own career, and we all benefit from it.

In the next few minutes, I would like to do three things. First, tell you a little bit about the Ad Council and our commitment to the
issue. Second, show you some early childhood
development commercials that we've developed for
both national use and for local state use. And
finally, extend an invitation to all of you to
launch a state wide public service campaign
highlighting the importance of a child's first
years.

Since the Ad Council was created by
President Franklin Roosevelt over 56 years ago,
really to support the war effort, we have used the
power of advertising in a positive way to create
thousands of public service messages to help
influence positive change. Our efforts have
helped save lives, starting with loose lips sink
ships during World War II, to friends don't let
friends drive drunk today for designated drivers.
Our work has helped send more young people to
college because a mind is a terrible thing to
waste. And except for this year, unfortunately,
Smokey Bear has helped reduce forest fires for
over 50 years.

Today through a 10 year commitment, the
Ad Council is focusing its public education
expertise to help improve the lives and
circumstances of our national's most precious
resource, our children. Virtually every one of our 36 national campaigns are today aimed at helping children in some way. New campaigns for the National Fatherhood Initiative which was discussed this morning, for infant immunization, learning disabilities, child abuse and, of course, early childhood development.

Probably comes as no surprise to most of you, but extensive research has shown that many problems facing our children today, poverty, drugs, crime, suicide and others, cannot be really solved unless we address a very clear problem and that’s parenting.

In fact, according to a major Ad Council research study conducted by Public Agenda entitled Kids These Days, What Americans Think About The Next Generation, most Americans in this country believe that the basic values such as trust, responsibility and honesty are noticeably absent from our children. And only 37 percent, 37 percent of the public believe that today's children once grown will make this country a better place.

And not surprisingly the public immediately blames parents for the problems that
are facing these kids, in spite of the fact that 8
out of 10 acknowledge that it's harder than ever
for parents to do their jobs today.

Now, the Ad Council took this
disheartening portrait of today's family as a call
to action. We believe that in order for any
children's campaign, program or policy to resonate
well with the American people, it must focus on
supporting and strengthening parents. In other
words, we must help parents to help the kids.

And one of our first efforts was with
early childhood development with the I Am Your
Child campaign launched in partnership with the
Reiner Foundation and the Families in Work
Institute. Many of you heard Rob Reiner talk
about this campaign at last year's conference, and
I would like to show you one of the public service
announcements that we've developed and produced to
support this effort.

The commercial uses the tag line, the
first years last forever, to highlight the new
brain research which has already been discussed
showing that a child's capacity to learn is shaped
in those first three years. Let's take a look at
the first commercial.
MR. MURRAY GAYLORD: Last year when the NGA pledged to continue its major commitment to the issue of early childhood development, the Ad Council offered to help. We partnered with Governor Voinovich's office to launch a public service campaign for Help Me Grow, the state's early child development program.

The Help Me Grow campaign is an important initiative for our organization because it serves as a test model for us to partner with the single state, Ohio in this case, to create change on a local level by maximizing our relationships with the state broadcasters and local volunteer ad agencies that develop the work. It also serves as a test of the new type of public/private partnership using paid media and corporate sponsorships to get our important messages on the air.

And together with Governor Voinovich's office, we reached out to a local ad agency, HMS Partners in Cincinnati, to create the first television commercial for the Help Me Grow campaign. It's called Developing, and it's targeted to young first time parents and
caregivers. Let's take a look at this spot.

(Video played.)

MR. MURRAY GAYLORD: Procter & Gamble was very generous in paying for the production of the spot. And Governor Voinovich's Deputy Chief of Staff, Jackie Sensky, was successful in generating corporate funding to buy the media in our test market.

We also reached out to another leader committed to the area of early childhood development, Governor Jim Hunt in the State of North Carolina for shared support in ownership of the PSA. We're working with the Governor's Smart Start Program on an adaptation of this commercial for North Carolina's use.

As we were developing these programs, we were hopeful that if the effort was a success, we could stand here today and extend a similar partnership to each of yours states. Well, I'm pleased to report that we have some very positive early research findings. As of a month ago, almost two months, Developing commercial began airing in Cleveland, Cincinnati and Columbus. And over the course of the first month, the public attitude about the importance of broad social
issues, crime, drug and alcohol abuse, hasn't changed.

However, general awareness of having seen or heard information about the importance of healthy brain development in children was up 17 percent from 36 before we started advertising to 42 percent after just one month. And calls to the hotline have doubled from 2800 in June to 5600 in July. An awareness of the specific commercial has also increased, particularly in the paid market of Cleveland.

We expect awareness to rise as the announcement continues to run in the months ahead and build recognition among the target audience, young parents as well as those who have regular interaction with the babies zero to three. Given the success of the program to date, we are committed to developing programs locally aimed at strengthening parents and parenting skills. We would like to develop a partnership with each of you and encourage you to contact us to launch a public service campaign in your state using this work or creating some others.

We think the advantages of working with the Ad Council are threefold. First, our brand,
the Ad Council brand in effect is recognized and respected by the public and the media as a provider of trustworthy and important public service education messages.

Secondly, our process using volunteer advertising agencies around the country ensures the highest quality as evidenced by the commercial you just saw.

And finally, we can serve as the focal point to bring several states together to create one message and significantly reduce the creative and production costs as has been the case with Ohio and North Carolina.

The Ohio program is an example of what can be accomplished in one state in a short period of time to make a difference. Just imagine what this could mean for America's children if every state embraced this program to help parents help their kids. The Ad Council is committed to providing all of our resources to do whatever it takes to help you in your state.

You should also have a sheet in front of you in your packet with some more information on how to contact us, and I am, of course, available to answer any questions. Thank you.
GOVERNOR VOINOVICH: Thank you, Murray.

I want to thank the Ad Council for the commitment that they have made to this initiative. We also thank your members. And I can say this, that when you're out trying to raise money from the private sector and the Ad Council has got something to do with it, it makes it a whole lot easier to get money from them.

For the second year in a row our organization -- would anyone like to ask Murray a question?

(No response.)

GOVERNOR VOINOVICH: You've answered them all. For the second year in a row the National Governors' Association will recognize the best efforts of governors to improve services for children. It's the second annual Building Block Awards, honor innovative efforts of states to improve services to children in working helping families. Once again, I would like to thank Procter & Gamble for their support of this award.

Since there were so many good ideas submitted for the award, NGA compiled the examples of this report. And do you have a copy of that?
I think it's on your -- it's in front of all of you. This report. And so lots of these ideas are contained right here so that you can look at them. And we were really delighted with so many -- the fact that so many states were interested in being recognized. I'm now going to announce the winners of this year's awards.

The first is Governor Fordice for three of Mississippi's strategies to improve the quality of child care programs. The first is the Director's Child Care Credential Program through which graduates of 130 hour course of study on child care management practices become credentialed directors and receive enhanced child care reimbursement rates from the state.

The second is the Child Care Connections Youth Mobile Training Unit which is a 29 foot customized vehicle that travels throughout the state delivering training to caregivers in an efficient and cost effective manner.

And the third is the Child Care Compass Kiosk which is an interactive multi-media booth which gives parents information on key indicators of a quality child care program.

Governor Fordice, if you'll come
forward, I'll present this to you.

Congratulations.

(Award presented.)

GOVERNOR VOINOVICH:  Kirk, congratulations to you.

GOVERNOR FORDICE:  We appreciate it.

Thank you very much, George.

(Applause.)

GOVERNOR VOINOVICH:  Our next award winner is Governor Bob Miller of Nevada for the state's Family to Family Connection program.  The state created 13 infant support districts through which every parent in Nevada is eligible to receive a home and hospital visit.  Since its inception the program has seen close to a 50 percent participation rate.  In addition, 22 new baby centers state-wide provide early childhood information to parents, offer parent training and link parents to child care, health care and other resources.  And 22 lending resource centers state wide lend new families items such as playpens, car seats and books.  Bob, congratulations to you. And again, I want to recognize you for your leadership.  Fantastic.

GOVERNOR MILLER:  I would just like to
take a second to thank George because it's a -- we
defied tradition by initiating this emphasis two
years ago together. And George's continuation
this year has -- I think has some unprecedented
gains on behalf of the association because of the
leadership you provided on this. And
congratulations on your Building Block Award last
year.

GOVERNOR VOINOVICH: Thank you.

(Applause.)

GOVERNOR VOINOVICH: And our final
Building Block Award goes to Governor Rossello'
for three of Puerto Rico's efforts to support
young children and their family.

(Applause.)

GOVERNOR VOINOVICH: The Governor
established the Children's First Congress to
coordinate efforts to provide for children's basic
needs and issued an executive order that allows
all government agencies to establish child care
and development centers for its full time
employees with children zero to five which is
really very, very impressive.

The Governor has also set an example by
opening the first center in the Governor's Mansion
for his employees, another great example. And I hope your private sector people are doing the same thing. Puerto Rico has also created the Madrinas Escolardas, Godmother's For School Children Program. And through this program Godmother volunteers devote part of each day ensuring school attendance within their community, take children to after-school activities including tutoring and as necessary make referrals to the school counselor or local social worker.

And the Boy Scouts for Low Income Children After-school program allows 500 young boys from 25 public housing projects to attend school after -- attend after-school programs that promote community involvement and prevention of domestic violence, child abuse and social ailments. Governor Rossello', congratulations to you. You're setting a great role model for all of us.

(Applause.)

GOVERNOR VOINOVICH: Finally, to conclude this afternoon's session, I'd like to introduce to you John Fahey, the president of the National Geographic Society. The Society is the largest nonprofit scientific and educational
organization in the world, perhaps best known for its publication of the National Geographic magazine. John will tell us about the generous way National Geographic Society is celebrating the 10th anniversary of its education foundation.

John, come forward.

(Applause.)

MR. JOHN FAHEY: Thank you, Governor Voinovich and the other governors who are here today. I would like to first bring your attention to the two maps that are over my left shoulder in the back of the room and thought we might start off with a quick geography quiz. How do you feel about that? Why don't we start with US state capitols as a category. I think it's a pretty safe territory.

Actually, if this was a group of ordinary Americans, and I know I'm addressing a very unique group today, the concept of a surprise geography quiz would create a significant degree of anxiety. And I'm sure maybe it did for you as well.

10 years ago the National Geographic Society commissioned the Gallup Organization to take a look and try to assess the state of
geographic literacy in this country and other
countries of the world. The results were not very
positive. Of nine countries that we looked at,
the United States was last in terms of knowledge
of geography. Basically knowledge of the world
that we live in. It was especially true for
children in the high school and college age
group. And you all know that geography, if
anything, is becoming increasingly important with
time.

Geography isn't simply about maps, it's
truly about world literacy, basic issues that you
wrestle with all the time, the economic
interdependence of nations or just having a better
understanding of cultural diversity are really
parts of geography. So the National Geographic
Society decided to do something about that. And
10 years ago we set up an education foundation.
In that 10 year period of time we have made grants
of $25 million dollars to the schools in your
states to improve the quality of geography
education.

First of all, I'd like to thank you for
having the vision for making room in your budgets
the funds to match those grants because indeed all
$25 million dollars have been matched. And the Geographic has spent a multiple of that $25 million dollars trying to improve geography education in a number of different ways.

Which brings me back to the two maps that are in the back of the room. Those, that's a double-sided map. You're looking at each side of a single map that will be laminated. It was designed by the cartographers of the National Geographic Society with the input of quite a few geography teachers from around the country.

To remedy the situation of there not being in classrooms today maps that reflect the world post the break up of the Soviet Union, our estimates are that perhaps as many as 50 percent of the schools in the country do not have a map after 1990.

And to celebrate the 10th anniversary of the Education Foundation, we have decided to make a gift of this map laminated to all 113,000 public and private elementary, middle and high schools throughout the entire United States.

(Appplause.)

MR. JOHN FAHEY: Those maps will be sent to 113,000 school buildings, reach 52 million
students around the country. And Governor
Voinovich will be happy to know that we are using
a laminator in the State of Ohio. And it's taking
two months of that laminator's time to prepare
those maps. You're welcome. He said thank you
for the business.

We're in the process of doing that right
now, and the maps will be in each classroom or
each school in the country by September 19th. I
have a map to give to the Governor today. It is
laminated. And I wanted to let all of you know
that each of you will receive in the next couple
of months one of these maps that will be given to
you by a geography teacher in your state.

That's all I have to say. I want to
thank you for your time. And again, thank you for
your support of geography education.

(Applause.)

GOVERNOR EDGAR: Can I ask a question?

GOVERNOR VOINOVIPH: Yeah Jim. Governor
Edgar.

GOVERNOR EDGAR: I'm curious, when we
saw the test results 10 years ago it was
terrible. Is it any better today?

MR. JOHN FAHEY: Yeah, that's a good
point. We've spent a lot of money, and we're trying to make sure that it does improve. We haven't done the same test as we did 10 years ago although we plan to do it soon, survey. But test scores in geography are improving, and they seem to be improving year after year. And I think it's really related to geography being welcomed back into the curriculum around the country. It was really pushed out. And in the last 10 years, it's back in.

As an example, twice as many high school students actually study geography today as they did 10 years ago. So there is a difference and the scores are improving. We still believe that we probably lag most of the countries, most of the industrial countries of the world.

GOVERNOR VOINOVICh: Any other questions?
(No response.)

GOVERNOR VOINOVICh: I want all of you to know that before I invited John here, I did not know the maps were being laminated in Ohio.

One of the things, and I'm sure all of you do jobs missions, one of the things that we've done in Ohio is that we encourage classes to
follow our jobs mission. And we bring one of those digital cameras along. And then we send it back to the state, and they get it on their computers. And the kids can kind of follow us from city to city to see the people that we're meeting and where we're going.

And it's been a real good educational endeavor on the part of the state. And the kids, of course, are learning a lot more about the geography of the world. The other thing is that Janet accompanies me, and she does a school partnership so the kids then start to exchange letters and art work and that type of thing. And I think the more of that kind of stuff that we can do to stimulate kids to do that, particularly in our country, the better they're going to understand the geography of the world.

I was told that Mr. Fahey was meeting with a member or heard about a member of Congress that was sitting with someone from overseas talking about something he was very concerned about. And the person that he was talking with realized very quickly that he didn't really know where the country was that he was talking about. So I think all of us need to improve our
understanding of it. And we should do everything we can to educate our kids because they are in a global marketplace. And the more they become citizens and understand the world, the better off they're going to be.

I think all of you know, and there aren't many of us here, that Governor Miller and I have tried to make zero to three our top initiative. And even though Governor Carper indicated to us at our governors only session that he's going to be going in another direction, I did talk with Governor Carper, and he indicated that he is going to create a governors leadership group on early childhood development to make sure that children do remain a top priority of this association.

To date Governors Almond, Chiles, Dean, Hunt, Miller, Romer and Underwood as well as myself have agreed to serve on the group and to personally reach out to the new governors that are going to be coming on board so that we can share with them the importance of zero to three and also give other governors who are interested an opportunity to learn more about what is happening throughout this country.
This concludes our session on enhancing learning opportunities for children and caregivers. And I'd like to thank the Center for Best Practices and its director, John Thomasian, for the work that they have done on our chairman's initiative. And I encourage all of you to continue the momentum we have generated around this issue in the past two years.

I'd like to, is John here, Thomasian?

John, are you here?

(No response.)

GOVERNOR VINOVIČ: Well, hopefully tomorrow we can recognize him. I really believe John has done an outstanding job with the Center for Best Practices. And Bob Miller, you should be very, very proud of what your group has done.

John Engler.

GOVERNOR ENGLER: Well, since we're speaking of early childhood, I want to make an announcement. For seven years LeAnne Redick has always been at these meetings. But yesterday LeAnne Redick Wilson and her husband John became the proud parents of Alexander McKinley Wilson at eight pounds nine ounces. So she's not here, but she's doing her part. And I just wanted -- since
so many know of her, I just wanted you to know
that that's why LeAnne is not in evidence at this
meeting, because she's now a new mom.

(Applause.)

GOVERNOR VOINOVICH: Thank you, John.

Well, we adjourn to another evening of smiles.

GOVERNOR THOMPSON: Mr. Chairman, before
all the governors leave, I would like to invite
everybody tonight. It's going to be another fun
evening. Everybody has got to have a smile on
their face. But we're going to be down at the
museum. The I-Max Theater is there, Discovery
World is there for the kids. I-Max Theater is
going to be showing some very action-packed movies
tonight. We've got several floors of the museum
with entertainment and food. And I hope, I know
some of the governors are planning to go to the
baseball game between the Brewers and the St.
Louis Cardinals expecting to see Mark McGwire
break Roger Maris's homerun derby this evening,
but he's not going to do that.

I wish you would show up for the
entertainment first before you go out to the park
because we've put a lot of effort into making this
last finale the biggest and the best. So make
sure, and hopefully you will all come with your families.

GOVERNOR VOINOVICH: Thank you. You'll have to go a long way to beat last night. It was wonderful. Thank you. Meeting is adjourned.

(At 2:35 p.m., the proceedings adjourned.)

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I, VICKY L. ST. GEORGE, RMR, Registered Merit Reporter with the firm of Schindhelm & Associates, Inc., 606 E. Wisconsin Avenue, Suite 250, Milwaukee, Wisconsin, do hereby certify that I reported the foregoing proceedings had on August 3, 1998, and that the same is true and correct in accordance with my original machine shorthand notes taken at said time and place.

________________________________________
Registered Merit Reporter

Dated this 3rd day of August, 1998.

Milwaukee, Wisconsin.
NATIONAL GOVERNORS' ASSOCIATION

1998 ANNUAL MEETING

CLOSING PLENARY SESSION

TUESDAY, AUGUST 4, 1998

LOCATED AT:

THE MIDWEST EXPRESS CENTER

400 WEST WISCONSIN AVENUE

MILWAUKEE, WISCONSIN
GOVERNORS PRESENT:

Governor George V. Voinovich, Ohio, Chairman
Governor Thomas P. Carper, Delaware, Vice Chairman
Governor Tom Ridge, Pennsylvania
Governor Zell Miller, Georgia
Governor Argeo Paul Cellucci, Massachusetts
Governor David M. Beasley, South Carolina
Governor James S. Gilmore III, Virginia
Governor Howard Dean, M.D., Vermont
Governor Don Sundquist, Tennessee
Governor Kirk Fordice, Mississippi
Governor Mel Carnahan, Missouri
Governor John Engler, Michigan
Governor Tommy G. Thompson, Wisconsin
Governor Arne H. Carlson, Minnesota
Governor Bob Miller, Nevada
Governor Roy Romer, Colorado
Governor William J. Janklow, South Dakota
Governor Frank Keating, Oklahoma
Governor Jane Dee Hull, Arizona
Governor Pedro Rossello', Puerto Rico
Governor Carl T.C. Gutierrez, Guam
Governor Gary E. Johnson, New Mexico
Governor Michael O. Leavitt, Utah
Governor Marc Racicot, Montana
Governor Edward T. Schafer, North Dakota
Governor E. Benjamin Nelson, Nebraska
Governor Cecil H. Underwood, West Virginia
Governor Terry E. Branstad, Iowa
Governor Lawton Chiles, Florida
Governor Mike Huckabee, Arkansas
Governor Jim Edgar, Illinois
Governor Frank O'Bannon, Indiana
Governor Paul E. Patton, Kentucky
Governor Jeanne Shaheen, New Hampshire
Governor Parris N. Glendening, Maryland
Governor John G. Rowland, Connecticut
Governor Christine T. Whitman, New Jersey

GUESTS PRESENT:
Mr. Daniel Yergin, President, Cambridge Energy Research Associates.
Mr. Lawrence H. Summers, Deputy Secretary, US Department of the Treasury.
Honorable Henry A. Kissinger, Former US Secretary of State.
GOVERNOR VOINOVICH: I'd like to welcome everyone to the closing session of the 1998 National Governors' Association annual meeting. And I'm sure that more of our governors will be coming in.

First of all, I'd like to recognize one of our corporate fellows. QVC as most of you know has been a great booster of our respective states, and they have put together mementos for each of us, a little pin depicting something very special about our respective states. The pins are designed to call attention to the unique characteristics of our states.

During the tour, QVC's goal was to assist our states' entrepreneurs and to promote the state's scenic beauty, historic attractions and contributions to our history and progress. And I know we just really enjoyed having them in Ohio and had great competition from our entrepreneurs to see if they couldn't get on QVC.

On behalf of all of the governors, I would like to thank QVC for this gift. Let me say one final thing. QVC voluntarily collects millions of dollars of sales taxes. QVC is
pleased to be working with the National Governors' Association in support of the internet tax freedom legislation which would be responsive to the needs of the states and those engaged in electronic and remote commerce. And we really appreciate it. Let's give QVC a hand for their good citizenship and what they have done to promote our states. 

(Applause.)

GOVERNOR VOINOVICH: I'd next like to recognize the person who is in charge of fun in this convention. And I understand that I missed it last night. I had missed the opportunity to see you do a Russian dance. And you were part of the entertainment as I understand.

Tommy, we just want you to know we are grateful to you and Sue Ann and to your community for the wonderful hospitality that you've extended to us. I've just had a wonderful time here. Your town of Milwaukee is just spectacular. The events that you put together have not only been enjoyable but they have been fun. And last night Janet and I had a great time down at the museum there. We danced to a German band and was serenaded by a barbershop quartet and had some ethnic food, and we just had a wonderful time. And I think
everyone, all of the governors and their spouses
and families have. I want to say thank you very,
very much for your great, great hospitality.

(Applause.)

GOVERNOR THOMPSON: George, we loved
doing it. I don't think I would ever do it again,
but we loved doing it. And we had -- I had just a
wonderful group of volunteers and people that put
it on. And I'm getting the credit for it, but it
wasn't me, it was the Convention Bureau. And I
think everybody loves the Milwaukee Police and the
State Patrol, they're wonderful people, and all
the volunteers. And all I can say is thank you to
them because they're the ones that really made it
happen.

GOVERNOR VOINOVICH: Let's give them a
hand.

(Applause.)

GOVERNOR VOINOVICH: Brother Beasley.

Governor Beasley.

GOVERNOR BEASLEY: I would like to
reiterate about those volunteers, Governor
Thompson. Your volunteers have been the nicest
people. Everywhere you go, they have had those
smiling faces. And I kept asking them, are you
from the south, are you from the south, because they're so nice. But the people here have just been incredible. And Tommy, I know I speak for everyone else as well as George was talking about, but you all have really put on a tremendous conference here. It's been very enjoyable. A lot of work has been accomplished, but it's also kept the pace that I think the governors could enjoy a smile time to time. The evenings and everything have just been great. You all have done a remarkable, remarkable job. And I can't wait to come back to Milwaukee and visit again. So thank you, thank you.

GOVERNOR VOINOVICH: This morning we're going to do something that's a little different than what we've done in the past at these meetings. We're going to have a discussion of global economic change. Just a quarter century ago the United States stood virtually alone with the community of nations in that it relied primarily on a free enterprise economic system.

At the other end of the spectrum were many of the socialist communist systems where governments actually owned the farms and factories and other sources of production. Between the
United States and those socialist and communist systems were most of the other countries that relied upon mixed economic systems where resources were partly owned by government and partly owned by the private sector.

From the end of the second world war until the last decade, there was a major debate among economists and political scientists on one level and political leaders on the other concerning what type of economic system would be most productive for its citizens.

That debate is over now. Few would now question that the free market economy has won the debate. From England under the leadership of Margaret Thatcher to India to the former Soviet Union under Gorbachev and Yeltsin to China to the emerging countries of South America, the world economic systems have tried to adopt the US model of free enterprise.

I'll never forget in 1996 during a jobs mission to India, the prime minister there told me that one of the most communist leaning leaders of his country was India's most aggressive free market advocate. I was in South America last year and was amazed at the change of standard of living.
that a free market economy has brought. Even with high unemployment, President Cardosa told me that his people are sticking with the market economy. And in China in 1995 many young people told me there was no way they would go back to the old economic system.

We're pleased to have with us today three of this country's most respected experts on what is happening in the world and its impact on the US from an economic and foreign policy perspective. Today we are going to begin our discussion with remarks from Doctor Daniel Yergin.

Doctor Yergin is a highly respected authority on international politics and economics and on energy. In 1992 Doctor Yergin received the coveted Pulitzer Prize for his work, The Prize, which became a national best-seller and ultimately was made into an eight hour PBS BBC series seen by 20 million people in this country.

Doctor Yergin is also the author of a new best-seller, The Commanding Heights, that is receiving wide attention and acclaim. And Doctor Yergin, I notice that we have a copy of your book here in front of us, and we appreciate that. And
because you've brought it here, we guarantee you we'll read it.

Doctor Yergin has served our nation well as a public and private citizen, and we are very pleased that he could join us today. Let's give a wonderful welcome to Daniel Yergin.

(Applause.)

DR. DANIEL YERGIN: Thank you, Governor Voinovich, for your gracious introduction. And I want to thank you and the National Governors' Association very much indeed for the opportunity to be part of this wonderful program. Also certainly acknowledge Governor Thompson and the State of Wisconsin, Milwaukee, for that wonderful evening last night at the public museum. I've never been to such a good opening reception for an event like this. So it was really, thank you indeed.

I'm also pleased to be on this panel this morning with Larry Summers who is, I think everybody in our country, is a person who is playing the most critical role in trying to stabilize the global economy at this time, a turbulent economy. And he's someone that I've learned a lot from over the years and shared his
thinking in The Commanding Heights. So I too like the rest of you are looking forward to his current view of where we are.

Well, Governor Voinovich, we were talking last night about the changes in the world as you have observed them, traveling around. And I was thinking afterwards that in addressing The Commanding Heights this evening -- this morning, I'm really bringing together two themes that are very much on the minds of the governors and have been on part of the program.

One is the changes in the global economy and our relationship as a country to it. And secondly, I think, is the far reaching changes that we're seeing in the reorientation of state governments in terms of how you provide services, welfare, how you tax, how you spend, how you motivate your work forces.

And so I want to try and bring these two sets of considerations together. It really comes down to the relationship of government and markets, what we talk about in The Commanding Heights.

I should pause for a second to say where this title came from. It was a term used by the
British Labor Party after World War II to justify strong government intervention and control of economy. Governor Voinovich, mentioned you were in India. They too use The Commanding Heights as their favorite term to say why you should have large state owned sector.

The term actually goes back to Lenin after the Bolshevik revolution when the Bolshevik revolution was on the ropes, and he was looking for some way to allow a little private property and so forth. And he allowed some private businesses in the early 1920s. And he was attacked for selling out the Bolshevik revolution. And he said to his comrades it's okay because we'll control the commanding heights, the strategic sectors.

Now, the US has been different from other economies around the world because we haven't had a large state-owned sector as other economies do. But we have had really what we call regulatory capitalism in which government controlled the commanding heights through regulation.

So what I want to try and do this morning very briefly is talk about the issues that
concern you but put them in the context of a
global movement. I want to try and explain why
what Governor Voinovich discussed has happened.
Why has the world changed its mind and moved
towards this market consensus, and then look at
what that means in terms of -- with technology and
the integration of markets around the world and to
think about the world beyond this buzz term that
we all use. It's only about 10 years old,
globalization. And then finally suggest to you
that maybe what we're seeing in this period that
we're living through now and into the next century
is not just the triumph of markets as some say but
a testing of markets.

Basically if you look at this century up
until the 1970s and the 1980s, the whole thrust of
relationship between governments and markets was
towards greater state control over economies.
Whether it was through state-owned companies,
ownership, whether it's through intervention,
whether it was through as I already suggested
before, regulation.

If you ask why was this all happening,
you come back to saying, well, basically,
underlying it all was a focus on -- that markets
fail, on market failure which really arose from
the experience more than anything else of the
Great Depression.

And in response to that, in response to
that, the responsibilities and the reach of
governments around the world grew. And in a
certain sense, the United States was an island in
all of that. And that's the way it looked, it was
going to continue to grow in that direction.

But starting in the 1980s and into the
1990s we've seen what can only be described as a
great reversal. We've seen a shift in the balance
of confidence. A greater credibility for markets,
greater respect to its discipline, and a
rethinking of well, what is the role of
governments in a modern interconnected global
economy. And we've seen this on a global basis.

What it really demonstrates, and it's
something I think I find really fascinating to
look at is how ideas interact with politics and
economics to shape the way things are done. And
if you think about it, many of you are concerned
with electric power deregulation in your states.
And sometimes you have to stand back and say well,
where did this come from. Why are we actually
deregulating electric power today. And you start
to see that what's happening in this country is
part of a bigger picture, part of something that's
happening on a global basis.

So the question, why have we moved from
an era where governments sought to seize and
control the commanding heights of the economy to
this era in which these ideas of free markets, of
privatization, of deregulation, have captured the
commanding heights of world economy thinking. And
let me quickly give you what seem to us to be the
reasons.

No. 1 is that the mixed economies
including the United States in the 1970s it seemed
stopped working. Inflation, stackflation,
economies not growing. You'll remember that sense
of despair that seemed to be in the economy, the
notion of the rust belt and all of that. And
there was a sense that these economies were too
rigid. That's why you look back now amazingly to
think that the Nixon Administration when inflation
was just 5 percent put wage and price controls on
the economy, because somehow things couldn't work
otherwise.

But that was in this country started the
process of deregulation, economic deregulation I should emphasize. It began among other things with airline deregulation. And in The Commanding Heights is a story of how airline deregulation began because you look back on it again and you see to some degree it's big forces and to some degree it's accidents. But that's the beginning of electric power deregulation and the other issues you're dealing with today.

Of course, Britain, 1979, Margaret Thatcher became prime minister. She seemed to be isolated. She seemed to have a platform that really wasn't going to be accepted by people, and yet started putting in a program that ended up writing the script for much of the global economy today. So problems with the mixed economies led to a rethinking.

Secondly, in countries outside the United States, the problems of state-owned companies which were meant to be engines of modernization but turned out to be often inefficient loss-making enterprises affected people's thinking.

In Latin America in this hemisphere the lost decade, the debt crisis of the 1980s sent a
message about not only the bankruptcy of
governments but bankruptcy about ideas, about how
governments should control their economies.

   Certainly the collapse of the Soviet
Union changed the world thinking. We begin in the
book, that chapter with John Kennedy running for
president in 1960 saying we must get this nation
moving again. And one forgets what we were
going the nation moving again in a race that we
were thought to be losing against the Soviet
Union. The power of that model was so strong
until it became apparent that in fact it wasn't
working.

   And finally, and this is going to be
ironic, and it's going to be ironic in terms of
what Larry has to tell you about, the Asia
economic miracle really changed thinking around
the world. India and South Korea in 1960 had
about the same per capita income. By 1990, South
Korea's was 15 times greater than it was. And so
although we now -- the phrase Asian economic
miracles has been transliterated into crony
capitalism, there really and truly was an Asian
economic miracle, extraordinary event, and it did
have a big impact on thinking.
So we can see the effects today from these changes in the way the world thinks. We can see it in a democratic administration that puts fiscal prudence right at the top of the agenda. We see it in Britain where a Thatcherite, what is it, eight years since Margaret Thatcher fell from power, a Thatcherite is prime minister. He just happens to be head of the British Labor Party, something that would have been unthinkable a few years ago. We see trillions of dollars in privatization. We see socialists promoting capitalism.

We saw last Thursday this very strange spectacle of the Russian prime minister behaving like the CEO of a troubled American company going in front of several dozen analysts from banks and brokerage firms explaining that they had a really terrible quarter, and this is the way they were going to turn around their company. Things like that didn't used to happen.

We also see it in things that concern you directly, the efforts to reform the social safety net and the welfare system to be more competitive and more compatible with the global economy. Now, with this move to markets, of
course, you also see the unease about jobs, their permanence, about the social safety net, about the bracing competition that we feel in the world today. That's part of these changes that are going on.

Two other factors that are working with the change of minds to create this new world in which we're in. One is the integration of markets, trade, investment, capital markets, foreign exchange markets. You know, we all talk about emerging markets. That concept was only invented in the middle 1980s as an effort to promote investment in what used to be called the Third World. Somebody figured out that actually you would be more likely to put your retirement savings into emerging markets than into the Third World.

Markets are integrated and, of course, technologies. We know the internet. But I think it's well worth focusing on the cheapening cost of communications. Two decades ago if you wanted to make a phone call from New York to London of three minutes, it would have been $8. Today it's 36 cents, and you can probably get an even better deal. That's getting the world together.
So we're really in this world that we say is a world after globalization, a world of globality, a world of 24-hour interconnected world, one with more bracing opportunity and more bracing competition.

Well, is it all going to go smooth from here? Have to look at the future and think about that now. I think one thing we would have to say is it depends upon having a relatively low level of military threats going forward. We see particular questions in the United States. And I have to tell you all the chapter 12 in this book about the United States was the hardest one to write. Because on the one hand we've seen the movement towards decreased economic regulation, but we're also seeing increased what one would call social regulation or social value regulation, what Supreme Court Justice Steve Breyer has referred to as regulatory gridlock in that arena. And we see an effort to try and apply market forces and market principles even to issues like the environment.

Well, the role of government in this new world is changing. It's less than an active intervenor and it's more of an umpire, more of a
rule setter, making the game work. I think we're
going through a great actually experiment in this
country in terms of deregulation to see if
consumers can be protected through competition
rather than through traditional regulation.

But what about the future? And what I
want to suggest here is five tasks that you might
keep your eyes on to determine whether what I've
described here is something that's going to
continue or whether it's really a pendulum that's
going to swing back. And I think that's the 64
trillion dollar question.

No. 1, do these new market oriented
systems around the world including in our country,
do they deliver the goods in terms of jobs,
growth, employment, things you can measure, things
you can watch.

Secondly, something that's harder to
measure, the questions of fairness, equity and
social justices. As I speak about these issues
across the country, I find that these are the
questions that people often come back to. Is it
fair or are we going to see a concentration of
wealth and abusive power. And different societies
will answer it differently.
I think this is why we're seeing a rebirth of antitrust and a focus on antitrust in our system. Because if you say you're going to rely on markets, then those competitive markets have to be competitive.

Third is a question of identity as we get all part of this global economy. We can see fundamentalism in the Middle East, we can see the unease in Asia. Last night Governor Voinovich and I were speaking about the fact that in his state like so many of your states, how well our states, our country is doing from the global economy. In fact, there is no country that's doing better. We're the envy of the rest of the world. And yet, even here you find that great unease about being part of the global economy.

The fourth test to keep your eye on is the environment and environmental values which are so strong. Will the population, particularly the younger generations, feel that their concerns about the environment are being met through the new market oriented systems.

The fifth, the fifth issue to watch is demographics. Like as in all the other industrial countries, our population is aging. And as more
and more people move into the elderly category, it creates almost a paradox because people will be looking both more to government to meet needs. At the same time as our retirements get more and more dependent upon what happens to the stock market, they will also become in a sense more and more dependent on how markets perform.

    And if you look at the great debate that's coming or that is here about privatization or partial privatization of Social Security, it fits right into this arena. And this is a great classic example of in our country of the kind of change of debate and the changes of mind that are going on.

    Biggest worry, I would say my biggest worry is that the world seems to be divided into two right now. The US doing very well, Western Europe starting to do very well versus the rest of the world where you almost have a sense of economies cratering.

    I don't see how we can be endlessly insulated from these problems in the rest of the world. Some will say our economy is so strong, we can. And certainly we'll look forward to what Larry has to say and explain as to what is being
done to try and stabilize the situation. But that's why I want to suggest that what we're seeing today in many ways is not just a triumph of markets but is a testing of markets and market systems.

Two final thoughts to leave you with. Markets are a very effective way it turns out, more effective than many thought for many decades, to get things done. But markets are not all of life. The confidence in markets seems to me is more likely to endure if there is a realistic appraisal of risk and of uncertainty, a recognition of the benefits of markets and their values but also their limits.

The other thought I want to share with you is a lesson it seems to me is clear from our work, really from around the world. Markets and market systems don't exist in a vacuum. You don't have good markets if you don't have good governance. Thank you very much.

(Applause.)

GOVERNOR VOINOVIČ: Anyone like to ask Doctor Yergin a question? Frank. Governor O'Bannon.

GOVERNOR O'BANNON: If we're moving to
free markets, if we're moving to wealth, if we're moving to more free trade, is government reducing and corporations taking more command on how decisions are made in the world?

DR. DANIEL YERGIN: We do see, I think, I think it is true that the sense that national governments have in terms of leverage over their own economies is decreasing. And the decisions that companies make definitely do have a larger impact. I think though sometimes one loses site that companies don't exist in a vacuum either.

The other thing you look out 10 years from now, and you see a world economy in which nongovernmental organizations of one kind or another are very influential as well. And what I see and what we see in our work is companies on the one hand having to respond to the demand for quarterly performance and on the other hand also responding to a broadening social agenda on a global basis.

GOVERNOR VOINOVIČ: Governor Nelson.

GOVERNOR NELSON: My question is more specific. As it relates to the agricultural situation we have today which I think can be called a crisis where there is weather disasters
and a growing crisis because of the worsening of
the economy as it relates to agriculture, low
prices, reduction in export opportunities.

So my question really comes down to with
low prices, a strong dollar in the foreign markets
and with growing competition from other countries,
is this going to be a temporary adjustment to
agriculture, or are we looking at something that
may be far more permanent before prices can rise
to the level of where farmers can make a profit?

DR. DANIEL YERGIN: I think your
question about the export markets is absolutely
critical. And I think in some parts of this
country, maybe more towards the east, there is not
a recognition of the impact of the downturn in
Asia, what it means for American agriculture and
as played out in the debate over the IMF.

But I think that, you know, if we can
see -- if Asia continues on a down track, if the
in fact what almost seems greater pessimism is
borne out, then we are -- agriculture and the rest
of the American economy is going to be hit by it.
I don't think we can as I said before, I don't
think we can be insulated from it. The impacts
may be felt at different times for different
sectors. But what's happening in the rest of the world is too big for us to be an island.

GOVERNOR VOINOVICH: Governor Edgar.

GOVERNOR EDGAR: What impact is the -- it seems like more recent even escalation on the mergers of multi-national corporations going to have on the direction this is all moving?

DR. DANIEL YERGIN: You know, these days it seems big is in and very big is very in. And we're seeing even in the last year or two mergers on a scale that would have seemed not plausible just a few years ago. And we're seeing them on a cross-border basis of which Daimler-Benz and Chrysler is a particularly dramatic example.

And I think as the capital markets get integrated, as American style capitalism makes its impact on the rest of the world in terms of companies looking towards quarterly performance and so forth, I think we see that trend continuing.

And so one of the very interesting features of the American economy is both the kind of consolidation that's continuing and at the same time the great entrepreneurial spirit that is in our country that continues to create new
companies. But I think with the coming -- something that probably people are not focused on very much now, but it is only a few months away, the Euro, the single currency in Europe, that's going to accelerate mergers in that part of the world. And companies there will want to have a big position here. So I think we're going to continue to see this unfold, and we'll see some famous names change names.

GOVERNOR VOINOVICH: Governor Gilmore.

GOVERNOR GILMORE: If I could follow up on Governor Edgar's question. I believe the marketplace is the best producer of goods and services, it's the place where the price becomes most reasonable, quality becomes best. I believe all that. But to follow up on Governor Edgar's comment, we're now seeing international joining together of major corporations. Even within this country we're beginning to see the unification of the insurance industry, of the banking industry, a consolidation may be the right word.

And then when you get in international mergers as well, how are you going to protect the little guy? Are we going to see the reemergence of trusts and monopolies in such a way in the
historic marketplace so that the little guy, the
average citizen no longer has the market power to
be able to protect himself?

And another -- I think one of the checks
on the marketplace has always traditionally been
the emergence of smaller companies, they enter
into the marketplace and compete so that again
more choices and options are offered to the
consumer by the growth of a diverse economy. Are
we going to see the elimination of that by these
new mergers and acquisitions we're seeing both
internationally and nationally?

DR. DANIEL YERGIN: I think your
question, Governor's question here really do touch
a deep nerve. And I have to say, I have a day job
too. I actually am an entrepreneur, started a
business, created a couple hundred jobs, and
that's what I do during the daytime. And I also
feel that sense of unease with the kind of scale
that we're seeing. I think this is part, in a
sense part of our character as a country that
there is a suspicion of bigness, and at times with
this kind of consolidation, it makes you think
back to the turn of the century and the trust
era. But I think that's really why I made my
remarks, that antitrust takes on a whole new
importance now that it maybe didn't seem to have
relevance 10 years ago as we move into this era.

You know, you see foreign companies,
take the Daimler/Chrysler merger. If Daimler
hadn't come and listed itself on the New York
Stock Exchange five years ago, you probably
wouldn't see the merger that you're seeing today.
But these markets are coming together.

So the pressures on companies to get
scale, to have a global position and to respond to
the demands of the financial market will continue
to drive it. But I think as you're suggesting,
it's something that has to be watched closely and
on each case looked at in terms of well, what does
this mean for competition. Because we don't want
an economy where that entrepreneurial genius which
has been such a driving force in this decade in
this country gets stomped out.

GOVERNOR VOINOVICH: Any other
questions? Governor Janklow.

GOVERNOR JANKLOW: Doctor Yergin, from
your perspective as we move into this new economy,
accelerating at the rate that it is, two parts to
my question. One, what can individual states do
to screw it up for their states? What can we do
that will make us so that we're not part of it on
the front end?

And 2, what do you suggest we can do to
get on the leading edge of it? What can we do
that's proactive to get on the front end of it,
and what can we do that will screw it up for our
states?

DR. DANIEL YERGIN: That's a very
interesting two-part question. I think this
screwing up part is allowing or making it
difficult for the state, for people in the state
to do business nationally but also internationally
in terms of regulations and in terms of controls.
That in other words, doing things and losing sight
that each state here exists in not only a national
but global context. And I think that in a sense
is a starting point or starting premise.

I think the things that can be done is
try to make obviously education, obviously an
environment that encourages investment, obviously
the kind of things that many of you are doing to
make sure that businesses in your state,
particularly the smaller businesses, are tied into
and feel they have a chance to participate, not
only nationally but really internationally. And that's a place where states can make a very important difference in creating the links where companies in your state are operating on a global basis. And technology enables small companies to be players in a way that they couldn't do a few years ago. So I would say those are some of the responses to the questions you put there.

GOVERNOR VOINOVICH: I think we'll close out the questioning on that because that was the key one as far as all of us are concerned. Doctor Yergin, we thank you very much for being with us today. Let's give Doctor Yergin a hand.

(Applause.)

GOVERNOR VOINOVICH: Doctor Yergin made reference to what's happening in Asia. And I think that that's something all of us are very concerned about. A lot of us are very concerned about Japan because in many instances Japan is our second or third largest trading partner.

Lawrence Summers, Deputy Secretary of the US Department of Treasury is the senior spokesman for American policy on this issue. He is the former chief economist at the World Bank, he is a past winner of the John Bates Clark medal.
which is given every two years to the outstanding 
American economist under the age of 40. And we 
are pleased that he can be with us this morning. 
Mr. Summers, we appreciate your service to the 
nation, and we look forward to your remarks. 

(Applause.)

MR. LAWRENCE SUMMERS: Thank you very 
much for that kind introduction. As Linden 
Johnson used to say when he was introduced that 
way, I wish my parents would have been here for 
that. My father would have appreciated it, and my 
mother would have believed it.

It is good to have a chance to speak to 
this group about what I think are a crucial set of 
issues facing the country and facing each one of 
your states. The set of issues posed by the 
current financial problems in Asia and around the 
world and the threat they pose to some of the very 
encouraging trends that Dan Yergin described in 
his speech and in his enormously thoughtful book.

I want to begin by telling a story. 
About a year ago I traveled in Africa, and I 
visited Maputo, the capital of Mozambique. And I 
spoke at a lunch. Before that lunch I sat next to 
someone. And trying to make conversation, I asked
him how is business? And he said not so good. And I said why? He said right now I'm the monopoly internet provider in Mozambique. But there is competition on the way, and I think it's going to erode my franchise.

And I thought about that. That little story brings together what I think are the three defining trends of the global economy right now. The emphasis on information, technology, on information, on value residing in knowledge rather than in mass. The rise of market forces, competition as the best way to stimulate economic activity, what Doctor Yergin talked about. And the rise of the developing world.

Because I am convinced that when somebody writes the history of this period, the last 15 years of the 20th century, 200 years from now, that remarkable as it may seem right now, the end of the Cold War will be the second story in that history book. And the first story will be that this was the period when the age of the market started three billion people around the world, half of humanity, four times as many people as live in all the industrialized country, on a period of rapid growth and a surge towards
modernization, an event that potentially ranks in economic history with the Renaissance and the Industrial Revolution.

And it is the continuation of those three trends in a safe and successful way that is ultimately what is at stake in the Asian financial crisis and what is ultimately of greatest importance for our own prosperity.

To be sure, the American economy is performing remarkably well right now. 16 million jobs in the last five-and-a-half years, real wages increasing more rapidly than any time in the last 25 years, a budget deficit that is no more. Successes that I think have something to do with prudent public policies in Washington, but also have a great deal to do with the fact that the United States is best situated to take advantage of those three trends. We lead in everything about information technology. We were the first to fully embrace the market, and we have the closest connections with the emerging markets all around the world.

Yet as Doctor Kissinger once famously observed, history knows no resting places and no plateaus. And as strong as our economy is, as Dan
Yergin suggested, our ultimate and continuing prosperity is embedded in the ultimate and continuing prosperity of the world. Because increasingly national economics is becoming like gubernatorial economics. And just as no state in the United States would prosper if our national economy were suffering grievously, so too, no national economy will continually prosper if the global economy is suffering.

The Asian financial crisis is having a very substantial impact not just on the countries involved but also globally. The Thai, Indonesia, Korean, Malaysian economies are now all expected to shrink this year by upwards of 12 percent in the case of Indonesia with unemployment rising to unprecedented levels.

Japan, the world's second largest economy, comprising nearly two-thirds of Asia's total GNP, has been mired in slow growth and recession for seven years and faces banking problems that dwarf our own savings and loan crisis of the early 1980s.

South Africa where US exports more than to all of the former Soviet Union, we've seen the rand depreciate by more than 20 percent in the
last three months, and we've seen risk premiums rise far above Asian levels.

And in Russia, continuing structural problems have been exacerbated by contagion affects from Asia that have raised serious questions about the future. Russia's trouble in turn has the potential to become Central Europe's and the world's.

Make no mistake, containing these problems is crucial to our future. It is about safeguarding American jobs, safeguarding American savings and ultimately safeguarding our security, our jobs. Trade has accounted for one-third of growth in this expansion and is the prime engine for high wage jobs. 30 percent of our exports and 40 percent of our agricultural exports go to Asia.

Exports to the economies that are in crisis are down by nearly one-third, year on year, and private forecasts are suggesting that the crisis could add half or even a full percentage point of GDP to the United States' current account deficit this year.

For some states, the problem is particularly serious. California had half of its
exports go to Asia last year. To take just
another example, Governor Romer, I'm told that
Colorado's exports to Thailand had increased
fourfold between 1993 and 1996.

Our markets have been remarkably strong
in recent years including through the last year as
these problems have spread and more American
savings than ever before are dependent on our
markets. The history teaches us that markets are
closely linked, that our markets depend upon our
company's performance which depends ever more
closely on the global economy. And that as global
capital flows increase, our stock market's
performance is increasingly tied to markets
abroad.

And as I'm sure Doctor Kissinger will
detail in a far more learned way than I could, the
Cold War is over, but our security challenges are
not. In too many ways nationalist forces,
economic frustrations, incipient ethnic conflicts,
a shortage of institutions knitting nations
together, rapid changes in the economic balance of
power. Asia today bears resemblance to Europe at
certain points earlier in this century. Seen in
that light, a strong response to the crisis that
prevents it from festering is I believe a forward defense of America's core interests.

We in the administration believe that the way in which we confront this crisis will be as important to the way the 21st century begins as any other issue we are now facing. The goal is clear to restore stability and growth in Asia and Russia and prevent further contagion to other markets.

Our response in addressing this situation and indeed the international community's response in addressing this situation has been based on three principles. First, strong domestic policies in the countries affected is the absolute prerequisite for restoring stability. Because any amount of financial support that goes into an economy will flow right back out if policies are unsound or governments are not credible. That means sound monetary and fiscal policies, policies to strengthen the financial system, and that means structural reforms to open the economy, raise transparency and let market forces operate. And it means bringing an end to crony capitalism as rapidly as possible.

Second, our response is predicated on
the idea that sovereign financial crises have
important elements of a self-fulfilling prophecy,
much like a bank run. If everyone expects
failure, everyone wants to be the first not to let
-- not the last, to get their money out. And
that rush to the exits produces the very problem
that people are seeking to avoid. Temporary,
conditioned financial support provides countries a
bridge to overcome this self-fulfilling prophecy,
just as deposit insurance provides safety to a
banking system.

The third element beyond domestic
policies, beyond appropriately conditioned
international financial support of our strategy,
is the recognition that the major economies of the
world and particularly of the region must do what
they can to support the process of growth.

In the United States we can and have
maintained sound economic and financial policies
that provide the basis for sustainable economic
growth. The Chinese have recognized that their
continued commitment to addressing their financial
sector problems and to maintaining a stable
currency, and continuing to reform their economy
will be crucial to the stability of Asia and
crucial to the prospects of sustained growth in their own country.

Japan, the largest Asian economy, has an especially crucial role to play. The new government has reaffirmed the importance of tackling decisively problems in the financial sector and of fiscal action to stimulate domestic demand. But as confidence has declined, so too has the scope for further delay.

The crisis is still very much an unfolding story, and large challenges lay ahead. There is no question there is enormous economic distress being felt in the countries worst affected. This is inevitable given the massive withdrawals of private capital that have occurred. But it is encouraging that in those countries that were first hit and where policy has been most determined, there has been evidence of containment.

In Korea and Thailand the run on the currency has stopped, and production shows signs of stabilizing. The Korean won has retraced more than four-fifths of its initial decline and import volumes have actually been rising in recent months.
In Latin America a quick response to market pressures in Brazil last fall has helped to maintain stability in a region not so long ago considered highly vulnerable. The case of Mexico several years ago was very instructive. President Zedillo in describing that experience draws the lesson that when markets overreact, policy has to overreact in response to instill confidence.

And it is certainly true that just three years ago the Mexican economy was in very serious crisis, shrinking by 6 percent in 1995. But with strong policies and conditioned support from the United States and the IMF, it has grown over 5 percent the year after and has sustained that pace ever since. Unemployment has fallen and investment in real wages are on the rise.

To be sure, a strategy of supporting strong policy and working multi-laterally, cooperatively with other countries through the IMF to provide financial support for countries in difficulty involves very difficult issues of balance.

As Doctor Kissinger and other experts have pointed out, it is essential that national sovereignty be respected, that politics be
understood and that the provision of support not
engender a backlash against the providers. At the
same time, these essential objectives must be
balanced against the need for credible policies
that are strong enough to work to reduce the risk
of future crisis and that have the potential to
increase market confidence.

In Asia these structural issues,
particularly in the financial system, are at the
heart of the crisis, and that is why structural
reforms have been an important element of the
programs that countries have agreed with the IMF.

Economic growth in a sustained way, not
austerity, is and must be the crucial objective of
support programs. But a resumption of market
confidence is essential if growth is to be
sustained. This is not an easy balance to strike
at a time when banks are failing but also
currencies are declining. It does I think bear
emphasis that interest rates in Korea and Thailand
have now returned to precrisis -- to near
precrisis levels and in real terms are well below
precrisis levels. And in Thailand the government
has chosen not to make use of the fiscal expansion
provided for in the IMF program.
A balance must also be found between the imperative of maintaining confidence and the imperative of avoiding bailouts of investors who should have invested more wisely. As Secretary Rubin has often said, he would not give one dime to help any creditor or investor. But the imperative of creating confidence, of avoiding hyperdevaluation, of maintaining a flow of trade, often forces actions that do indirectly benefit some creditors.

To be sure, investors in non-Japan Asia have lost as much as three quarters of a trillion dollars in the last year, in part, because of the programs for resolution of private sector debt entered into by Korea and Indonesia along with the IMF.

The United States has enormous stakes in continuing to contain these problems. What would be most crucial going forward is the steps that other countries take, particularly in Japan and in Russia. Japan's actions to fix its problems and get its economy growing are crucial to the future of the world economy. The success of the Russian government in carrying forward on its reform program is of the utmost importance, economically.
and politically.

But as this group recognized in its resolution this past winter, it is also absolutely essential that the United States provide the IMF with the support that it needs. Without an effective IMF, there can be no effective international response to events in Asia. And without its response so far, we would be facing a far more serious and damaging challenge to American interests than we face today.

There would have been no conditioned reforms, there would have been larger devaluations and greater reductions in these countries' capacity to purchase our goods. And I'm confident that there would now be much more pressure on the United States to respond unilaterally with taxpayer resources.

Recent events have taken their toll on the IMF's resources. And so today the IMF had less than $10 billion dollars, less than $10 billion dollars available to prudently respond to an intensification of present problems. Moreover, its lack of resources could well become a constraint to action in case future problems arise. And by reducing confidence, its lack of
resources make future problems more likely. And the IMF's ability to get new resources depends on only one thing at this point, the approval of the United States.

Making good on our commitment to the IMF would not cost American taxpayers one cent. Appropriations for the IMF are scored at a zero cost to our budget. That is because we receive an interest bearing claim. The IMF functions in many ways like an international credit union from which the United States made a withdrawal in the late 1970s, from which Britain received an emergency loan 22 years ago.

It is a well reserved international credit union with nearly $30 billion dollars -- more than $30 billion dollars in gold backing about $60 billion dollars in outstanding loans. It does not cost us anything, and yet, what it saves us is potentially very significant.

To say that the IMF is indispensable is in no way to say that we can be satisfied with the institution we have now. The IMF needs to be more transparent and accountable to the public, allow for increased external evaluation and work at ways of making more information available to the
markets. It needs to improve its techniques of surveillance. It needs to be engaged in making sure that we have international institutions that in future crises can bail creditors in rather than bailing them out. But the way forward is not to hold the IMF up over these issues right now.

Doctor Kissinger and others have spoken about the tendency in our country to oscillate between isolation and commitment. In the 1920s and early 1930s we oscillated in one direction with disastrous consequences for America and for the world. With the leadership of Franklin Roosevelt, our post-war leaders, we swung decisively and triumphantly in the other direction after the second world war and laid a basis for what with all the problems were 50 very good years for the American people and for the world.

When we consider the challenge of winning support in our country for the IMF, of meeting our obligations to the UN, providing the President with the authority to negotiate trade agreements, conclusion only can be that we are fighting another swing of the pendulum into perilous isolation.

America's success and its economic
strength is not now in question. What is today at
issue is our ability to invest that success
wisely. Not supporting the IMF now would be like
canceling your life insurance when you've just
learned that you were ill. It is a risk, a risk
that might pan out fine, but a risk that might
not. It is a risk we should not take. Thank you
very much.

(Applause.)

GOVERNOR VOINOVICH: Thank you, Mr.
Summers. I would like you to know that the
governors, National Governors' Association,
strongly supported NAFTA, strongly supported
bailing out Mexico, strongly supports Fast Track
and IMF. And I think it's really important that
more people in this country understand that jobs,
savings and security are tied up in that
international marketplace.

And I know in my state, we have
increased export by 90 percent since 1991. Since
NAFTA we've increased our export to Canada by 85
percent. And export has a dramatic impact on our
economy and on the economy of our respective
states.

And somehow in this period where people
are getting a little shaky, I think it's incumbent on all of us and also people like the President and others to speak out strongly how important it is that we stand up and be counted. Because if we don't, we're going to be in deep trouble down the road. And we've got to also convince I think people that our American businesses can compete with anyone in the world.

I always hear about the German and the Japanese and so forth. I think back to Lester Thoreau's book, Head To Head, and how he predicted the buys toward the end of this century of US and Germany and Japan would eclipse us, and look what's happened. Enough of that.


GOVERNOR KEATING: Mr. Summers, how do we assure multi-national corporations, how do we assure ourselves that multi-national corporations headquartered in the United States show their first loyalty to the United States and to the workers of the United States?

MR. LAWRENCE SUMMERS: I think you raise a very important question. And in many ways I think that we are not going to be able to force
our companies to show total devotion to the United
States rather than to the other markets in which
they can produce and sell any more than I suspect
you are able with respect to companies that are
headquartered in Oklahoma. There are limits to or
things you can do, and there are things you can't
do. And what basically constrains you is that
there are things that if you do them will cause
the companies to locate someplace other than
Oklahoma. And increasingly in a competitive
global economy we are going to face those kinds of
limits as a country.

At the same time, I think the experience
suggests two things that are not widely
recognized. One is that foreign direct investment
by multi-nationals is often associated with very
substantial increases in US exports. Because as
they penetrate other markets, they import
equipment from the United States, they import
products for distribution in those other markets.
And so external investment in the long run
benefits the American economy by creating export
demand.

Second, I think the experience suggests
that when a hospitable environment is created for
companies to be headquartered, that often in the place where they're headquartered, many of the best jobs and many of the most strategic decisions are made.

So I think our priority has to be to continue to create an environment that is welcomed and that is hospitable, makes this a place people want to come to and makes this a place people want to stay in. And an effort to in a heavy-handed way coerce them to come or coerce them to stay is likely to backfire.

I might also say, and I know this is something that the President feels very, very deeply, and I suspect almost all of you do, that a lot of attracting people is making sure that our most distinctively American resource, our people, are as able as they possibly can. And that's why along with the sound financial policies, education has to be so central a part of our national economic strategy.

GOVERNOR VOINOVICH: Thank you. Tommy, Governor Thompson.

GOVERNOR THOMPSON: Thank you, Mr. Chairman. Secretary Summers, it was very informative what you had to tell us. But there
was one thing that you sort of passed over quickly, and I'd like to have you direct your attention to the fact that yes, Korea is coming back somewhat, Thailand and it is somewhat, but they still have serious problems. But you did not mention Indonesia and the 800 pound gorilla, Japan, with their change of government and the fact that our policy, their banks in Japan, I don't know how many but some people say up to 50 percent of their banks are actually bankrupt or on the verge of bankruptcy if in fact the true accounting was taking place.

If Japan with the new government, does it have the fortitude to have it push through a tax cut, and is that the best policy for Japan even though the United States is pushing it? When I've talked to the leaders of Japanese government recently, they said the Americans just don't understand the Japanese people. With a tax cut when we have troubles in Japan, we'll just save the money, we won't spend it. And I'm just wondering, your observations of the banking crisis, the governmental crisis and the tax cut phenomenon that we're pushing on the Japanese government. What impact does that have for us
here as states?

MR. LAWRENCE SUMMERS: Governor Thompson, I think you've hit on what is as crucial an issue as any in emphasizing the importance of what Japan does, as I mentioned, 70 percent of Asia. And it has had problems that have not been fully addressed and have, therefore, been allowed to fester for quite -- for quite some time.

I think if somebody had stood here in 1990 and predicted that Japan, the Japanese economy would have grown at a rate of 1 percent a year for most of the decade of the 1990s, I think one would have found it as stunning, a stunning prediction.

I think you mentioned in your question what are the two primary policy imperatives at this point and the two on which the government will be tested and two on which markets will be looking to the government.

The first is the very large problems in the banking sector where there is a great deal of experience internationally. And what that experience suggests including our own S&L crisis, including problems in Europe is a few things.

One, you have to face the problems
squarely and gauge their magnitude accurately and describe them. Because until you recognize the problems, you can't solve them.

Two, inevitably there is a need for substantial aggressive -- substantial infusion of public money to provide confidence and to provide the wherewithal for continued lending so that the financial system can work.

Three, that there is a need to get assets out of banks and onto the marketplace so that they can find their level. Because until people think they have found their level, there is very little incentive to go and buy them just as the RTC did in our country.

And fourth, there is a need to deal with institutions that are under water and to find a way of resolving those institutions by merger, by -- there are any number of devices. But what is the least effective device is to allow them to continue to operate. I think that a strong resolution along those lines is crucial to the future of the Japanese economy.

My own reading as a professional economist is that expansion of our fiscal policy, increasing budget deficits through spending if the
spending is productive or through tax cuts is overwhelmingly likely to be stimulative in its impact. No one can predict precisely the fraction of any given tax change that will be saved. Of course, it depends on how the tax change is structured.

But I think the very substantial preponderance of evidence is that giving people more income and more confidence increases their spending. And that's particularly true if the way in which the income is provided motivates spending on durable goods or on business investment. So I think that fiscal policy and banking policy really are at the center of getting the Japanese economy going again and that it's very important.

GOVERNOR VOINOVICH: Thank you.

Governor Carper.

GOVERNOR CARPER: Mr. Summers, we appreciate very much your being here, and thank you for your stewardship and the very, very excellent leadership you provide at treasury along with the secretary.

You've answered one question that I was going to ask. I get to lead a trade delegation from Delaware to Japan and Taiwan and Vietnam
about a month from tomorrow. And one of the
questions I was going to ask is what message
should I take on behalf of our country to the
political and business leaders of Japan. And
you've already answered that question, so thank
you.

The other thing, I used to be a member
of Congress for a number of years, several of us
were. And whenever we would head out on a
congressional delegation, we would if we were
interested could get a briefing from State
Department and Treasury or any other. And
virtually every governor around this table and a
lot that aren't here travel from time to time,
whether it is to South America or to Canada, to
Asia, to Europe.

And I don't know how, we don't want to
be a pest, but there might be some advantage for
us and perhaps for you if we could call on the
appropriate people at Commerce or our Treasury or
our State Department. And I would just like to
ask how you recommend we go about doing that. And
my guess is we could probably let the folks at
Intergovernmental, Mickey Abara and his people,
know what we're doing and see what assistance they
might round up.

The other thing I want to ask, this is more specific to my own visit. I spent some time in Southeast Asia during the Vietnam War as a naval flight officer. And it's a part of the world that I still have a lot of interest in. I lead a congressional delegation there seven years ago with now Ambassador Pete Peterson as one of our members.

I'm interested in your take on what's going on in Vietnam. There was a lot of potential and a lot of hope there six or seven years ago that they're moving from a command and control economy to more of a free market system. And as I watch from a distance, I began to become more disappointed in the lack of enthusiasm for change. I just would be interested in your take on that country in particular.

MR. LAWRENCE SUMMERS: On Vietnam, I'm afraid, Governor Carper, I can't speak very knowledgeably which given the kinds of assignments I tend to get is probably a good thing for Vietnam. Their challenges are in many ways like those of China, of moving from a more agricultural dominated economy to the market, to a market
system. And they haven't been as caught up in these financial difficulties simply because they haven't been as open an economy historically.

I will speak with Mickey Abara as soon as I return. I think you raise a very good point. And I think that through Mickey Abara's office, while I cannot commit him, I guess I can't commit the Treasury Department, we would be very happy to provide briefings for anybody who is going abroad on this set of issues where we have competence. I think it's a very good idea, and I'll talk to Mickey about seeing if he can find a mechanism for doing it on an interagency basis. And I'll ask him to get back in touch with people here.

GOVERNOR VOINOVICH: Thank you.

Governor Schafer.

GOVERNOR SCHAFER: My question has been answered as well.

GOVERNOR VOINOVICH: Okay. Governor Edgar.

GOVERNOR EDGAR: Mr. Summers, I think all the states, probably at least short-term the biggest concern we have is what's happening in Asia and how it's going to impact us. I'm
curious, are you more optimistic or more pessimistic about Asia coming out of their problem than you were six months ago?

And secondly, if we haven't and I think we probably haven't realized the full brunt of it yet, when will it hit us if you can make such a prediction?

MR. LAWRENCE SUMMERS: Relative to six months ago, I think that there is a sense of the situation coming under more control in Korea and in Thailand relative to what most observers would have expected six months ago. I think that largely for political rather than economic reasons the situation in Indonesia is more serious than appeared six months ago. And I think that the -- some of the fears that people expressed six months ago with respect to the Japanese situation have come true.

And as for making forecasts, Howard Wilson provided the advice, name a date or name a number but never name both. I'm going to I think hold to that. But I would say we have a long way to go in working through these problems. But I think with a strong response, particularly if the Japanese take what I think are crucial steps for
them, I think this can remain very much a
contained situation and that there is no inherent
reason why it needs to, we respond well, others
respond well, no reason why it needs to pose a
threat to the basic momentum of economic -- of an
American economic expansion, though obviously it
will have consequences for particular sectors.

GOVERNOR VOINOVICH: Governor Romer.

GOVERNOR ROMER: Larry, if I look at the
future economically in the next 50 years, it seems
to me that skill levels and knowledge are going to
be the key inputs in every nation. Therefore, if
you or I were the CEO of any one of those nations,
we would not think of having an economic policy
without an educational policy. They're very
closely tied.

In our tradition in our country where we
disburse that judgment about education so broadly,
how do we cope with arriving at an educational
policy as a nation in keeping with our historic
unwillingness to deal with it at federal level.
Can we find quasi American national ways to get
together on this? Specifically, we're looking at
changing immigration laws to get more talent
inside. How do we over a period of time develop a
consistent educational policy as a nation without getting into federalism?

MR. LAWRENCE SUMMERS: That's a very important question for the future of the country and one I suspect you could give a better answer to than I can. I think it is fair to say in defense of our system that -- and it has many, many, many problems, that there is an increasing awareness that our system has been somewhat more successful in producing mold breakers and people of true creativity than some of the other systems that have perhaps produced better average performance on certain standardized tests. I think it would be unfortunate if we did things that lost that virtue.

I think also that in thinking about the broad issue of education, we should try to learn lessons from the one area of education where I think everybody would say we are the leaders which is post-secondary, higher education, where the best institutions I think most people would say disproportionately American institutions.

I guess, Governor Romer, I'm very much a believer in the old management doctrine that what you count counts. And so I think finding as good
measures as we can and getting people to agree
that it's a good idea to measure performance along
those lines, and then letting different
communities draw the conclusions they want,
letting the pressure of decisions that parents
make influence the judgments that communities
make, letting the incentive of needing to attract
employees influence decisions.

And so I would say providing the best
report cards we can on as many dimensions as
possible of how our schools are doing is it seems
to me -- and then letting choice, politics, people
responding, operate seems to me to be the right
kind of approach with a federal role in spurring
innovation and in making resources for certain
target initiatives available.

I guess the last thing I would say is
that education in our country is a multi-hundred
billion dollar industry. And I suspect there are
not that many industries that spend as little on
research on new techniques. I think that there is
a crucial role in both research on new techniques
and in evaluation that are important for us to
think about.

GOVERNOR VOINOYICH: Larry, thank you
very much. We ended on a note where governors
that are really trying to make a difference in
terms of increasing the standards in this country
and measuring our educational institutions. Thank
you very much for being with us today.

MR. LAWRENCE SUMMERS: Thank you.

(Applause.)

GOVERNOR VOINOVICH: As the closing
speaker on this very interesting topic, we have
with us probably one of the most qualified persons
in this country, maybe in the world, to talk about
the US foreign policy implications of the quote,
New World Order. And I think all of you know that
Doctor Henry Kissinger served as the National
Security Advisor and Secretary of State during a
period of profound policy changes for our
country. He is one of the most foremost players
and experts on the political winds of change. He
has literally changed history. From the opening
of China to negotiating a close to America's
chapter in Vietnam, to helping to bring peace and
stability in the Middle East to arms control
negotiations with the former Soviet Union, Doctor
Kissinger has not only been at the forefront of
history, he has, as I said, created it. His
advice has been sought by both Republican and Democratic presidents over the years, and today he continues to serve our country with distinction.

We really appreciate your being with us today, Doctor Kissinger. Let us give Doctor Kissinger a warm welcome from the National Governors' Association.

(Applause.)

DR. HENRY KISSINGER: Governor Voinovich and ladies and gentlemen, I have been asked to confine my remarks to 20 minutes. And if I do that, you can all say you were present at a historic occasion. I want to talk to you about the general foreign policy problem briefly. And then I would like to discuss the issues raised by Dan Yergin and by Summers, by Larry Summers, especially the impact on the political situation in the world of the economic crisis that now exists.

I cannot think of any period as a student of history where so many changes have occurred simultaneously in so many parts of the world. It was never the case that foreign policy had to be conducted on a global basis. Until very recently foreign policy was dominated by regions
or was entirely regional.

200 years ago one could not have compared, been able to compare the power of England and the power of China because they had no means of interacting on each other, either militarily or in a substantial way economically. Never before has it been necessary to conduct foreign policy in real time so that events could actually be observed by the constituencies that would be affected by them.

Never before has there been a major gap between economic and military power so that it is now possible to be relatively powerful economically and not very strong militarily and conversely, like the Soviet Union was for a long period, extremely powerful militarily and almost a shell economically.

These are all new conditions. And never before has the United States been engaged in foreign policy on a permanent basis. No other major nation has been populated entirely by immigrants, has had two great oceans to protect it, has until relatively recently never had to confront a real danger to its existence. All of this creates a unique situation for the United
On the one hand, it makes us extraordinarily optimistic about the possibility to solve problems by overwhelming them with resources. On the other hand, it makes it very difficult for us to grasp that we are engaged in a permanent process from now on which we cannot escape.

We talk about NATO and the Marshall Plan and the great constructions of the Truman and Eisenhower period as the great innovations of American foreign policy. And that is true. But they were all put forward as temporary expedients which would solve the problem, whatever the problem was at the moment, Soviet aggression, economic recovery of Europe, after which the need for an American role would diminish or disappear.

If you read the debates of the late 40s, 50s, that was how these issues were presented. Now we are in a situation where every solution is an admission ticket to another problem. We cannot separate ourselves anymore from the rest of the world. And it's not a debate between isolation and interventionism. It is a reality. And that also is why someone like myself for whom the
present administration, frankly, was the second
choice, nevertheless, believes that foreign policy
is a nonpartisan effort.

The national interest of the United
States cannot be reinvented every few years. And
what we lack most is a coherent, permanent view of
the American national interest and the American
national purpose that we pursue from
administration to administration with, of course,
tactical differences and important debates about
specifics but nevertheless fixed in its major
directions.

Right now as Larry Summers says, we face
different situations in different parts of the
world. And we do it from a history of believing
that the sovereign remedy for all our problems is
the spread of democracy on the theory that
democratic countries do not quarrel with each
other. This may be true, but there is not enough
experience in the world to judge it. There
haven't been that many democracies over a long
period of time interacting with each other.

And there is also the question of how
quickly that process can succeed, and do we know
how to speed up a process that took us in the west
300 years, based on religions that affirmed the separation of religious organizations from political organizations, the Renaissance, the Enlightenment, the Age of Discovery, all of this took us 300 years to get to. And that now has to be compressed in Indonesia or Korea or whatever into a very brief period of time.

That is the fundamental challenge we face. And we face it while in Asia, as Larry Summers said, the nations really deal with each other as if they -- like the European nations did in the 19th century, as strategic rivals and not as part of a cooperative system.

At the same time Europe is unifying and will emerge if everything works as a unit that's strong economically as we are with more or less the same statistical capacities. And that will impose a major adjustment on us. And in the Middle East we have not only the Israel Palestinian problem but the problem how to preserve stability in the Gulf when the two major nations in the Gulf are still hostile to us. This is just a brief catalog of problems that we need to address as a nation and on a conceptual basis. And our difficulty has been, frankly, that we've

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been pushing it ahead of ourselves, solving the
symptoms but not dealing in my view with the
fundamentals.

Now, I would, however, like to spend the
rest of my remarks on the political implications
of the economic issues that have been presented to
you by Larry Summers and I'm sure by Daniel
Yergin. Let me add for not immediately that I'm
not an economist. In fact, when I was in
government, the Secretary of Treasury at the time
once said that my knowledge of economics was one
of the better arguments against universal suffrage
that he knew. He then immediately proved his
knowledge about politics by calling the Shah of
Iran at the height of the energy crisis a nut.

And when I complained to him, he said
you political types always get so excited. I'll
have it solved by the end of the day. The end of
the day he said, when I called the Shah of Iran a
nut, saying it a second time, I was quoted out of
context. Poor Shah went to his grave trying to
figure out in what context he could have been
called a nut without offense.

But let me now raise a number of foreign
policy questions with respect to the international
financial crisis. One is systemic and the other has to do with the solution. When you hear a presentation which says that Japan, Indonesia, Southeast Asia, China, Russia, South Africa are all simultaneously in crisis, you ask yourself what is it about the system that produces simultaneous crises in so many countries at the same time. And how can you talk of an operating global system if the countries that represent the majority of the population are somehow, world population, some are not part of it, at least during this period.

I want to stress, I have enormous respect for Secretary Rubin and Larry Summers. Of the people I have seen in Washington, they could not be a more open minded group and a more serious group of addressing these issues. And I don't disagree with many or any of the solutions that Larry Summers presented here except for one proviso. That proviso is you are all elected people. You know you have to live in a political environment.

It does not help a political leader to be confronted with solutions that undermine his political viability. At any rate, it does not
produce enthusiasm for the solutions. And so there is a gap in my view between the intellectual approach and the politically feasible approach.

First as a layman I want to state what I believe to be the biggest systemic weakness of the current system. There is -- there has never been a period in the post-war period, in the post-war era, where the economic growth depended so largely, almost exclusively, on private capital. There has never been a period when private capital was so fungible. There has never been an information system by which resources could be shifted around the world with such speed and in such quantity.

Now, you might say that these are all positive elements. But it has created a category of investments that are heavily and maybe exclusively speculative. And it has created a series of financial possibilities that are geared to very short-term profits controlled by people who have an extraordinarily sophisticated understanding of financial markets that cannot be shared by the central banks of smaller and middle sized countries.

If you look at the Southeast Asian
crisis, for example, it is not true that these
countries conducted poor economic policies. They
had more or less -- they had their deficits under
control, they had their inflation under control.
They were privatizing. They were welcoming
investment, and investment was flowing in.

What they did not understand was the
impact of the differential currency rates as the
dollar was appreciating, the yen was
depreciating. Their currency being tied to the
dollar gave in many of these countries a
possibility to borrow in the American market, then
lend it in their own market and make a windfall
because interest rates in their own market were
higher than in America. This threw in capital
with many very sophisticated instruments. And the
result of it was a series of bubbles, especially
in the real estate market, especially in
Thailand. My point is that the Southeast Asian
crisis started as a speculative crisis.

Now, I know people tell me, and it's
probably true, that it's very hard to separate
speculative capital from other capital, and it's
very hard to find mechanisms for doing it. On the
other hand, I do not believe that it will be
indefinitely tolerated, that there will be periods of boom followed by IMF programs that impose enormous posterity followed by another period of boom.

Some way Euro political leaders, some way will be found. I may not know how to find it. And if it isn't found on a national basis which is probably impossible, it may well be found on a regional basis. At any rate, this is one fundamental problem. And I recognize that it is hard to separate speculative from equity investment. But equity investment will do all the things Larry says. Equity investment ties the fate of the countries together because the well-being of the investor is tied to the well-being of the country. And this will indeed help the whole economy.

This is not true of pure speculative measures. This is a systemic problem, the political problem that I feel very strongly about. It is that the IMF programs have only put a tremendous political burden on the countries involved. The IMF was never designed to restructure the whole world. The IMF is not staffed by people who are competent fundamentally...
to judge the political evolution of the countries
that they're trying to help.

   And the result is that we find, for
example, that in Russia an essentially political
problem is dealt with by economic means. And in
Indonesia an essential economic problem has been
dealt with by stressing political objectives with
the risk in Russia that 12 months from now we will
face exactly the same problem that we are facing
now. And in Indonesia that we may have started a
revolutionary process in a country of 200 million
whose end -- which is the key to Southeast Asia,
whose end is not yet foreseeable.

   In Russia the real problem is that the
economy in many respects is a virtual economy.
The virtual prices, virtual taxes. None of the
programs are really ever fully carried out.
People say that Russians don't pay taxes. That
isn't exactly true. About 32 percent of the GDP
goes to taxes. But only 8 percent of it is paid
in cash, and 92 percent is paid, they pay their
taxes in barter arrangements requiring the
government then to resell what they have acquired
in the payment of taxes which is an unbelievably
inefficient system and means in effect that many
of these things don't have the value in which they are listed.

They have wages, wage agreements that are not paid, and one could go on through a whole list. Until these issues are settled, and until there is a real economy, until there are real reforms, none of these funds are going to help.

And yet I must tell you frankly, if I was Secretary of State and Yeltsin called up and said this country is going to go to pieces if you don't help me, would I have the nerve to say first change your political system, and after you've done it, come back to me? I don't know. At some point it will have to be done.

I make this qualification only to point out that I have sympathy for Washington. But 12 months from now when this thing blows up again if these reforms aren't really carried out, it will be election year in America and election year in Russia. So the likelihood of making this tough choice is unlikely. My basic point is it is a political problem.

Let me talk about Indonesia. Indonesia was one of those economies that was doing fairly well. When the IMF tried to address its problems,
it dealt with real issues, that is it had -- there
was corruption, there was crony capitalism, there
were monopolies, all those things that needed to
be changed, except they had not produced a
crisis. They were independent of the crisis over
a longer period.

The crisis was mostly a speculative
crisis. The attempt to fix all of them
simultaneously led to a flight of capital that was
greater than anything the IMF could possibly
provide. In fact, greater than the IMF had
provided up to now. So it had the contrary
effect. And now we face in Indonesia a problem of
a disintegrating governmental legitimacy and the
old question, what comes first, the economic
stability or political progress, and how do you
define political progress in a country of 13,000
islands that has had a one-party government for
its entire history.

And I must say, when I read that we have
sent our Secretary of Defense there to tell them
not to suppress rioters, I wonder whether there
isn't a subtler way of doing that that does not
turn into a possible invitation to riots.

But that isn't my key issue. My key
problem is we have to bring the economic and political requirements into some balance. We cannot impose huge drops in standards of living with the prospect of three, four, five years down the road they will return to some degree of normalcy and not be prepared for significant political upheavals.

I do not think it is wise to cut off the IMF now, but I do believe that a way should be found to reform the IMF, either to limit its activities to strictly economic issues or to broaden its composition so that it can handle political issues.

Secondly, I believe that it is in general a necessity to look at the long-term problems that America faces. We are now so powerful that we may have the illusion that foreign policy is not a key problem and that we can focus entirely on domestic issues. And it is said that that's what our public wants. And you, ladies and gentlemen, are better judges of knowing what the public wants than I am.

But I want to remind you of one thing. Historically democratic publics have not forgiven their leaders for disasters that occurred even
when they resulted from policies the public seemed
to want. Chamberlain was the most popular man in
England in 1938 and was finished in 1940.

So in many respects, in all respects I
would say, America is the hope of the world. But
one of our challenges is expressed in a proverb
that a Chinese once laid on me. I would say laid
on me because I'm not sure there are as many
Chinese proverbs as they tell us. I think they
make them up as the situation develops.

And that proverb goes like this. When
there is turmoil under the heaven, little problems
are dealt with as if they were big problems, and
big problems are not dealt with at all.

When there is order under the heavens,
big problems are reduced to little problems, and
little problems should not obsess us.

My point is let's make sure A, that
we're dealing with big problems and secondly, that
we're reducing them to little problems. Thank you
very much.

(Appause.)

GOVERNOR VOINOVIČ: Thank you, Doctor
Kissinger, for putting things into perspective for
us. Doctor Kissinger indicated that he would be
willing to take several questions. Tommy.

   GOVERNOR THOMPSON: Doctor Kissinger, I hope your trip to Wisconsin this time was not as eventful as the last time you went to Marshfield and hit the deer and ended up hitchhiking. You may want to reveal that story to the people. It was very funny.

   You did not mention what might happen in Japan if the new Japanese government does not deal with its economic problems. And that has such a tremendous impact on our national economy. And I'd like to have your observation. What do you think the new government is going to do and what impact it's going to have on the world's economy.

   DR. HENRY KISSINGER: Well, first of all, I think it is generally a mistake to believe that Japanese governments, it's generally a mistake to believe that Japanese governments operate like American governments. I mean the new group comes in and can just make decisions and order new approaches. The Japanese operate generally by consensus which means that they have to bring a lot of people along.

   American presidents for as long as I can observe it have been frustrated when they meet
Japanese prime ministers because they think the
Japanese prime minister has agreed to something
when he says yes. All he has said is yes, I've
understood you, and I'll take it home and discuss
it.

Now, then there is a second question
which is a personal concern I have which is this.
I know all these leaders. The finance minister
who is in my view more important than the prime
minister on this issue is an old veteran of
Japanese politics who has been prime minister,
foreign -- he's had every job you can imagine.
And he has had of a faction which means about a
third, more than a third of the liberal democratic
party votes as he orders which gives him some
muscle. But he's been around a long time.

And so you ask yourself why didn't he do
it before. And I asked myself another question,
the Japanese when American ships came in in 1860,
solved that problem by reforming their country.
They overcame the condition and surrendered. They
overcame the energy crisis. What has happened
that they don't get it. And I'd like to see
somebody make an analogy of what a rational
Japanese, what they say to each other when they
refuse or when they don't carry out all the things we are recommending.

For example, maybe they think that a tax cut will be saved. That maybe with a tax cut you -- they increase their deficit without increasing their consumption because what is it you can buy and put into a small apartment or there are no cars, you can't buy cars because there are not enough roads or parking places. This is just what I wanted --

Nevertheless, I would say, I have great confidence. If any Japanese leader can do it, it would be somebody like Miyazawa who is at the end of his political career, who doesn't have to worry about what the consensus will do to him when he finishes. And so I'm actually fairly optimistic. And I've all along believed that by maddening procedures, the Japanese will pull out of this. They certainly will not go down in my view. How they will do it, I don't know.

GOVERNOR VOINOVICH: Thank you.

Governor Shaheen.

GOVERNOR SHAHEEN: Doctor Kissinger, I appreciate, I think we all do, what you said about the need for a long-term approach to foreign
policy in this country. But given political realities and your comments about the gap between an intellectual approach and a politically acceptable approach, how do you propose we develop that long-term approach to foreign policy within the structure of our democracy as it exists?

DR. HENRY KISSINGER: First of all, the British had a pretty consistent foreign policy for several hundred years with a democracy. And we until the Vietnam War had a pretty coherent foreign policy with tactical disagreements. What happens now is when a new administration comes in, they start a review of every conceivable policy. They create unbelievable insecurity everywhere. They bring in new people who have to learn everything. I don't know.

I think it's really the task of both parties to try to get a dialogue started to settle some fundamental issues intellectually so that the people who come in, they will still argue about tactics, and that's healthy. But when you come in with the sudden shifts, if you look at this administration, almost every policy they started with they have reversed.

Now, usually tort is a policy that I
favor. But it's a long learning process. And it's not something that is healthy, especially when a new administration then comes in and the same process starts.

But we do not have now within our political, if you look at the debates prior to the President's trip to China, for example, there is no settled view nor can you really say it's been settled by the trip to China because so much of it was public relations. I strongly favored the trip, and I've been in favor of good cooperation with China. But the fundamental issues need more discussion.

GOVERNOR VOINOVICH: Thank you. Governor O'Bannon and then Governor Miller.

GOVERNOR O'BANNON: When you talk about it's taken us 300 years to really become a democracy and free market under capitalism and at the same time we're getting kind of proud of the way we've done it or where we are, whether we did a very good job or not, and yet at the same time when we look at how we treat other countries, we in a sense say we'll really deal with you when you're just like us.

And we watch Russia try to become just
like us with free elections, and they sort of go into chaos, and we see China, it's not like us and kind of moving forward with more investments and so forth. How do we continue our policy with different nations and even the underdeveloped nations who don't have the middle class or the approach to even get to democracy and have free elections that make sense. And yet, we see I think politically in this country look at the simplistic view of that.

DR. HENRY KISSINGER: Being who we are, we will always prefer democracies, and we will always have to be on the side of human rights. But we also should develop some comprehension of what is feasible in any given society at any given moment. And we have to understand that if we create enormous turmoil, then economic progress will be set back. Nor is it always clear that when you generate turmoil that who will appear at the end of it is not the most ruthless rather than the most convincing.

Now, you can make general rules about this. In Korea, democracy seems to have worked very well. In Indonesia we have to be careful not to create a situation that repeats some of the
experiences of Iran where there was a corrupt regime, but the American pressures created so much dislocation that the most radical element appeared in the end. And this is something that should not be dealt with on a doctrinaire basis of democracy versus dictatorship but on the basis of some historical understanding.

At this moment I think almost the best thing we can do in Indonesia is send some food in. Nobody would have thought that possible last year when we attacked the food monopolies. But one of the results is that now there is a food shortage. And this is not the best situation in which to promote democracy.

GOVERNOR VOINOVICH: Governor Miller.

GOVERNOR MILLER: Thank you. Thank you for being here, Doctor. I recently attended an American assembly gathering on the western hemisphere, so let me focus on a couple policy questions that are similar to what Governor O'Bannon has said in the imposition of our will. Do you think our national policy is appropriate or should be modified as it relates to drug certification and/or the -- not and/or but and the Cuban embargo. Do we have the right
policies at this point in time in that regard?

GOVERNOR VOINOVICH: Pardon me, Doctor Kissinger. I would really appreciate that those here in the room would if you want to talk, if you can do it outside because the din is getting so loud in here that we can't hear the governors and Doctor Kissinger. I would appreciate it. Doctor Kissinger.

DR. HENRY KISSINGER: We have to be careful not to become the international scope that lectures everybody. Now, on drug certification, in principle I favor it. But when you then look at a situation like Columbia in which the drug people have their own armies and such huge resources, the position of the government is unbelievably complicated. And, of course, as you know, when you go down there or to Mexico, they will tell you that American consumption is as much of a problem as their production.

I am in favor of opposing the introduction of drugs. You cannot have a society that tolerates drugs even though some people say that legalizing them would be a way to deal with it. Our tactics have sometimes been crude, but my handicap is that I don't know any better tactics.
And until I can think of some, I'm reluctant to criticize people who have an impossible job where a Latin American policeman can get it in one day, three year's salary, and when his own standard of living is so poor.

So there are all kinds of remedies you can think of of increasing their salaries. The best would be if some inter-American military force could be created that is authorized to go after the production centers. But that would be considered at this moment such an invasion of sovereignty. But I think that would be in many ways the most helpful approach.

GOVERNOR MILLER: And Cuba, Cuba whether the embargo is really serving at this point in time to encourage or discourage the advent of democracy.

DR. HENRY KISSINGER: When I was Secretary of State, I meant to end the embargo. I at one point offered a discussion with Castro if he would confine himself to his island and permitted free visits into the island of Cuban Americans, and he turned it down.

I don't think Castro is a threat anymore. And I think this is almost exclusively
now a political question. I don't think it will
do an enormous amount of good to lift the embargo,
but I don't think the embargo is doing him -- it's
really a political question in America whether we
feel that we want to do it. It might do some
margin of good if it were lifted, but I don't deal
with it in my mind as a foreign policy question.

GOVERNOR VOINOVICH: Governor Nelson,
and then this will be the last question. Doctor
Kissinger has been very, very generous with his
time today. Governor Nelson.

GOVERNOR NELSON: Thank you. Doctor
Kissinger, your analysis of the Asian markets in
terms of the politics and the economics is very
enlightening. And in part do you believe that the
privatization of the market moving away from the
government monopoly and the government control
market is adding a good deal of the uncertainty
and the deterioration of currency in those
markets, in those countries?

And if that's the case, are we looking
at a bump in the road, or are we looking at a
lengthy journey over a bumpy road that will seem
more permanent than temporary?

DR. HENRY KISSINGER: I think the
privatization is very positive.

GOVERNOR NELSON: I do too.

DR. HENRY KISSINGER: It's a key development toward both democracy and towards developing of the populations. We have to be careful in some of the transitions. I am, for example, worried about a country like Korea in which business was based on market share and full employment, suddenly being thrown into a situation with large unemployment and different criteria by which you judge progress of business, whether that over a period of years may not create so much political instability.

Secondly, I would think that wise American companies would make sure that they have local partners and not insist on appearing there entirely or largely at foreign entities. But as a principle I think it is essential to privatize the economies. And it is important to do away with crony capitalism.

But I do call again attention to the speculative aspects. Because if you look at China, for example, one reason they have avoided the crash is because they make speculation in portfolio investment very difficult.
GOVERNOR VOINOVICH: Doctor Kissinger, thank you very much for being with us today. We thank you for what you've done for our country, and we thank you for what you've done for the world.

(Applause.)

GOVERNOR VOINOVICH: After hearing those presentations, we're now going to talk about our policies. And it's kind of a real come down. We will begin the adoption of our proposed policy positions alphabetically by committee. These policies were sent to all of you in July. The packet in front of you reflects the policies and the amendments by the executive committee and the standing committees. And they will require a two-thirds vote of those present and voting.

To expedite the matters, we'd like each committee chair to please move the adoption of all of your committee policies in block by -- and letting us vote aye or nay on them.

Governor Schafer, chairman of the Committee on Economic Development. Governor Schafer.

GOVERNOR SCHAFER: Mr. Chairman, this past year has been very active for the Economic
and Development Committee. Transportation, internet commerce, Fast Track have all been lively issues for the NGA in Washington and here.

The Economic Development and Commerce Committee yesterday voted to reaffirm the existing employment security system policy and to amend the following three policies, state priorities in telecommunications, air transportation and governors' principles in international trade.

I would now move these four policies in block.

GOVERNOR VOINOVICH: Is there a second?

GOVERNOR O'BANNON: Second.

GOVERNOR VOINOVICH: Been moved and seconded. All those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: Motion is passed.

Governor Carper, can I call on you for human resources?

GOVERNOR CARPER: Mr. Chairman, I'm pleased on behalf of Governor Ridge, the chairman of the Human Resources Committee and Governor...
Locke, the vice chairman, to just report briefly that the focus for the Standing Committee on Human Resources for the past year has been to draw attention to the need for fathers to take responsibility for the children that we are bringing into this world. And yesterday's presentation and focus that included heavyweight champion of the world, Evander Holyfield, I thought was an eloquent statement and testimony and inspiring time of sharing with us what individuals are doing and what states are doing as well to better insure that little boys and girls have a responsible father involved in their lives.

The committee presents today a number of amendments to existing resolutions and some proposed policy positions that are -- have been summarized and distributed for our membership. And on behalf of the chairman and vice chairman and the Human Resources Committee, I would like to present those today in block for the consideration by the full plenary.

GOVERNOR VOINOVICE: Thank you. Did somebody second that? Governor Thompson.

GOVERNOR THOMPSON: Second.
GOVERNOR VOINOVICH: It's been moved and seconded. All in favor of the policy, indicate by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed.

(No response.)

GOVERNOR VOINOVICH: The ayes have it.

Thank you. Governor Nelson, chairman of the natural resources.

GOVERNOR NELSON: Thank you, Mr. Chairman. Yesterday the Committee on Natural Resources had a very productive meeting with Secretary of Agriculture, Dan Glickman, in which we discussed the severe crisis that's afflicting many farmers today.

As an aside, you should know, and this is for everyone's information, that Governor Keating of Oklahoma is hosting, and Governor Schafer and I will cochair a farm crisis summit in Oklahoma City on Friday of this week. If any of you are interested in being there or sending staff there, please let us know as soon as you can.

Mr. Chairman, the committee recommends the adoption of amendments to four existing NGA policies and two new policy positions. These
include NR-3, water resource management, NR-6, risk assessment and cost benefit analysis in the development of environmental regulations, NR-9, farm policy, NR-11, global climate change, NR-22, managing invasive plant and animal species, and NR-23, the restoration of abandoned mined lands.

I would note for everyone's information that farm and agriculture policy was amended by the committee, and that the revised version is before the governors under the yellow cover.

Mr. Chairman, I move the adoption of these positions in block.

GOVERNOR UNDERWOOD: Second.

GOVERNOR VOINOVICH: It's been moved and seconded. All those in favor signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed.

(No response.)

GOVERNOR VOINOVICH: The ayes have it.

Thank you very much, Governor Nelson.

Next we will vote on suspensions. And I want to remind the governors the proposals that are considered under suspension of the rules require a three-fourths vote for suspension and
then a three-fourths vote for passage.

I'd now like to call on Governor Thompson to move a resolution on cost allocation.

GOVERNOR THOMPSON: Thank you, Mr. Chairman. As a lot of us governors have been fighting this issue for a long time, we as governors in our states have been penalized by the federal government as it relates to the administrative cost on food stamps. And this is a resolution that I'm asking for a suspension of the rules on which calls upon the Department of Health and Human Services to have a meaningful consultation with states on the development of those cost allocation guidance. And we hope the adoption of this resolution is going to lead to productive dialogue on this issue.

We're facing cuts as I've indicated on food stamps, and we need to insure that the administrative costs on welfare and on Medicaid don't happen. And so I'm sponsoring this resolution along with Governors O'Bannon, Voinovich, Carper, Ridge and Chiles. And I would hope that the delegation will support it. And I move this resolution, Mr. Chairman.

GOVERNOR O'BANNON: Second.
GOVERNOR VOINOVICH: Been moved and seconded. Is there any discussion?

(No response.)

GOVERNOR VOINOVICH: There being no discussion, all those in favor of the resolution, say aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed.

(No response.)

GOVERNOR VOINOVICH: The ayes have it.

It's passed.

I'll call on Governor Schafer to move resolution on section 110 sponsored by Governor Schafer and Patton and myself.

GOVERNOR SCHAFER: Mr. Chairman, yesterday at the Economic Development and Commerce Committee meeting we heard from Ambassador Gordon Giffin and Ambassador Raymond Chretien who both emphasize the importance of fixing the section 110 problem.

If Congress doesn't act within the next two months, the INS will be forced to implement an exit entry control system at the Canadian and Mexican borders which would seriously disrupt legitimate cross border traffic. This resolution
reiterates the policy we passed last February by calling on the federal government to immediately suspend plans to implement section 110 by October 1998.

I move the adoption of this resolution.

GOVERNOR VOINOVICH: Okay. As you know, we moved to suspend the rules, and we're now moving to resolution. And Governor Engler has brought to my attention a friendly amendment that he would like to share with us.

GOVERNOR ENGLER: Mr. Chairman, if I might. I've given it to Ray and the staff up there. But in the second paragraph where it talks about governors support efforts to stop illegal border traffic, but they fear the implementation of section 110.

I want to say instead of they fear, but we oppose the implementation of Section 110 since it will create major delays at land borders. All that is in the resolution. It's really as opposed to saying we fear something and having Congress pat us on the back and say well, don't you worry, we'll make it very clear. 110 is completely unworkable the way it's written. I'm hoping instead of suspending it, they will actually...
repeal 110.

I would move that amendment.

GOVERNOR THOMPSON: I'll second it.

GOVERNOR VOINOVICH: Without objection, we'll approve the amendment. Any objection?

(No response.)

GOVERNOR VOINOVICH: The amendment is approved. So we will now consider the resolution as amended. Is there any discussion?

(No response.)

GOVERNOR VOINOVICH: There being none, all those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed.

(No response.)

GOVERNOR VOINOVICH: The motion is passed. I'll now call on Governor Schafer to move a resolution sponsored by the Committee of Economic Development and Commerce commending Congress and the President on the reauthorization of federal highway and transit programs.

GOVERNOR SCHAFER: Mr. Chairman, perhaps the single greatest legislative success for governors this past year in Washington has been the passage of the federal highway and transit
reauthorization or T-21.

18 months ago NGA chairman Nevada Governor Bob Miller appointed a governor transportation task force and named Kentucky Governor Paul Patton and myself to be cochairs of that task force.

When the task force first met in early 1997, Congress and the President were planning on holding transportation investment down in future years as dedicated revenues being collected from motorists were increasing dramatically.

As a result, the unspent balance in the Highway Trust Fund was projected to quadruple from $20 billion to $80 billion dollars. Governor Miller, Governor Patton and other governors on the task force and I set out an ambitious goal of achieving a guarantee that in the future these user tax dollars would be all invested in their intended purpose. We've achieved that ambitious goal. And as a result, the federal investment in highways and transit will increase by more than 40 percent over the next six years.

I would like to recognize the work of the governors on the task force and my cochair Governor Patton, especially Governor Miller who
has been a leader in this issue over the past
decade. It is fitting that this at Governor
Miller's last NGA meeting as Governor of Nevada,
we have finally secured stable, increased federal
transportation investments for our nation's
future.

While this year's legislative
achievement is impressive, governors must remain
vigilant to insure that Congress and the President
honor the guarantee in T-21. And each year as the
annual transportation appropriation is being
drafted, governors must remind Congress of the
commitment in T-21 that all dedicated taxpayers'
funds be spent for their intended purpose each and
every year.

Mr. Chairman, I move the adoption of the
resolution under suspension of the rules. The
resolution appreciates the President and Congress
for their effort as well as recognizing the
important trust coalition of business, labor and
local governments in our effort.

GOVERNOR NELSON: Second.

GOVERNOR VONOVICH: Thank you. It's
been moved and seconded. I think that before we
pass this resolution, we ought to give Governor
Patton and Governor Schafer and Governor Miller and the committee a big hand for their outstanding job.

(Applause.)

GOVERNOR VOINOVICH: You don't know the number of people that said to me that when the governors got involved, something got done. And I think there are a lot of people in this country that are grateful to the National Governors' Association for the leadership that we exercised on this very important matter to our country.

All those in favor of the resolution, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed.

(No response.)

GOVERNOR VOINOVICH: Ayes have it.

Motion is passed.

All right. We're going to move on now to consideration of amendments to the NGA's Center for Best Practices articles. First, I'd like a motion from Governor Carper to adopt the proposed changes in the NGA articles of the organization.

GOVERNOR CARPER: Mr. Chairman, I so move.
GOVERNOR VOINOVICH: Is there a second?

GOVERNOR PATTON: Seconded.

GOVERNOR VOINOVICH: All those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed.

(No response.)

GOVERNOR VOINOVICH: Motion is passed.

Now, I'd like to convene the Center membership for consideration of the proposed changes to the Center articles of incorporation. Governor Miller.

GOVERNOR MILLER: Mr. Chairman.

GOVERNOR VOINOVICH: The Center articles to amend them so we change the way the board is constituted.

GOVERNOR MILLER: The present constitution of the board is for the past chairman to become chairman of the Center of Best Practices. And since frequently as occurs the past chairman might be expiring their office, it seems more desirable to have the vice chairman serve in that capacity in the future. So I would so move.

GOVERNOR VOINOVICH: Okay. It's been
moved and seconded. Any discussion?

GOVERNOR THOMPSON: Mr. Chairman, I'm opposed to it. I think it's the wrong thing to do, but I'm not going to make a big fight about it. I just think that the past chairman, immediate past chairman has dealt with the policy in his or her issues. And then the Center for Best Practices, the way we set it up, could have a real continuity of leadership.

The incoming chair, the vice chairman, is in charge of the finances and raising the dollars for the National Governors' Organization. The current chair then runs the organization. And the immediate past chair would take over the Center for Best Practices.

That's the way we set it up. And I think it should be left the way it is and with the understanding that the chairman of the National Governors' Organization if the outgoing chair isn't going to be there can appoint whoever he wants to and can appoint the vice chairman if that be the case.

But I really think the way it was set up and the way we argued for it, there was a big discussion when we set up the Center for Best...
Practices, that was the way that we unanimously on a bipartisan agreed to it. And I don't think we should change that policy. That's my personal opinion. And I think it's the wrong mistake going through this change right now.

GOVERNOR VOINOVICH: Okay. Is there any other discussion? Tom.

GOVERNOR CARPER: I don't want to complicate this further as somebody who hopes to be a past or immediate past chairman in a year or so. I know personally the idea of doing what Tommy has done in providing some leadership to the Center for Best Practices is something that I would be very much interested in just for myself and hopefully for the organization.

So I -- and again, I don't mean to complicate things here at this late date, but what he's saying resonates with me.

GOVERNOR VOINOVICH: Any other discussion?

GOVERNOR MILLER: Mr. Chairman?

GOVERNOR VOINOVICH: Yes.

GOVERNOR MILLER: I would respectfully disagree with Governor Thompson not only for the continuity component, and this year is a very good
example as the fact that you will be leaving in January and would only be able to serve in that capacity for six months, but also because the Center for Best Practices is the instrumental arm of the association. And I think as the vice chairman comes in, their involvement in that helps them structure what they can do prospectively as chairman.

And it's not that the past chairman can't or shouldn't have roles, they should potentially be on the board, et cetera. But I think it's important for a vice chairman to understand what goes on in a day-to-day basis in the association in anticipation of their chairmanship.

GOVERNOR VOINOYICH: The chair shouldn't do this, but I agree with you, Governor Miller. I think that it would give the vice chairman of this organization a portfolio, more of one than the vice chairman usually has. I think the Center of Best Practices is something that is very, very important to this organization. I think that the chairman should really become familiar with it and what's going on and in the process of doing it it also has a wonderful opportunity to get to know
the staff of this organization and get that kind of camaraderie going that I think is so important in a successful group. I think it's a really good change in the Center, and I hope that you approve it today.

GOVERNOR CARPER: Mr. Chairman, if I could, I want to support the motion proposed change. I would hope that we would come back at some point, maybe later in the next 12 months, just to reconsider the concerns that Governor Thompson has raised.

GOVERNOR VOINOVICH: Okay. Any other discussion?

(No response.)

GOVERNOR VOINOVICH: All those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed.

GOVERNOR THOMPSON: Opposed.

GOVERNOR VOINOVICH: The ayes have it.

And we have adopted the articles of incorporation. Okay. I'd now like to call on Governor Carnahan to just tell us about the fun we're going to have next year in St. Louis or you're going to have.
GOVERNOR CARNAHAN: Chairman, Jane and I enthusiastically invite you to St. Louis next year. The host cities have been setting a very high standard for this conference and particularly Governor Thompson, you and Wisconsin have done so this year.

But St. Louis is a great city, and in addition, it's a great convention city. And so we promise you the right blend of fun and business as we invite you to come and visit with us there next year.

To get you started, we've brought Ted Drew's Frozen Custard. I know you've got a great product like that up here as well, Tommy, but we've got a premium product there. It's right outside the door. We've got a lot of young people out there in hats and shirts with the logo for next year's convention. And start out today by enjoying a little of what you will have more of next year. Thank you.

GOVERNOR VOINOVICH: Thank you.

GOVERNOR CARPER: Chairman.

GOVERNOR VOINOVICH: Tom.

GOVERNOR CARPER: I just want to know, during the period of time that we're there, will
the Cardinals be at home?

    GOVERNOR CARNAHAN: We're checking on
that. The schedule is not quite settled. We hope
it is. We want to build something around the
Cardinal game.

    GOVERNOR CARPER: Good. We might have
some interest in going to a ball game. You never
know.

    GOVERNOR VOINOVICH: Thank you. We now
would like to recognize departing governors. And
I'm sorry that a couple of governors had to leave
so they could make their transportation. The
people of America bestow on governors unique
powers and responsibilities that are essentially
reserved for the President. There are those who
argue that governors have a greater impact on the
well being of his or her state's citizens than
even the President or members of Congress. And
I'm one of them.

    Because of our responsibilities and
challenges, the organization, this organization,
binds us together on a bipartisan basis. I think
members of Congress could take a lesson from the
National Governors' Association. We do try to
find issues we agree upon rather than disagreeing,
and we concentrate on trying to fashion a consensus about what will benefit our mutual constituents.

11 of us are leaving office this year, but I know that those of us that are leaving are going to take fond memories and the friendships that we have developed with the people in this organization.

The first governor that I want to recognize is Roy Romer of Colorado. During his three terms as governor, Roy has focused much of his energy on children's issues and economic and educational reforms including his Smart Growth and Develop initiative and standards based education.

Governor Romer is the past chairman of this organization from '92 to '93 as well as the Education Commission of the States and the Democratic Governors' Association. He is a long time member of the National Governors' Association executive committee and co-vice chairman of Achieve.

I would be remiss if I didn't thank Roy for his hand of friendship when I became governor. I will also add that Roy has worked very hard to help keep this organization together.
and above partisan politics which is not an easy task considering that he's a chairman of the National Democratic Committee. But we appreciate what you've done, Roy, to keep everyone together. Your presence in this organization is going to be missed. Our best to you and Bea. If you'll come forward.

(Applause.)

(Award presented.)

GOVERNOR VOINOVICH: Next is Governor Jim Edgar from Illinois. Jim has also served two terms as governor and has accumulated an impressive record. Jim has been on the front lines in lobbying Congress for welfare and Medicaid reforms. In Illinois he has downsized state government by thousands of employees, reorganized Human Services, moved tens of thousands of people from welfare to work, boosted state funding for education by a billion-and-a-half dollars and overhauled the child welfare system.

Governor Edgar currently serves on the NGA Economic Development and Commerce Committee, has served impressively as a member of the Executive Committee. And I would also add that...
Jim is the past chairman of the Midwest Governors' Association.

Jim, congratulations to you and Brenda. Your strong leadership is going to be missed in this organization.

(Applause.)

(Award presented.)

GOVERNOR VOINOVIČH: Next is Brother Branstad of Iowa. Terry is the senior governor in the nation and when first elected was also the youngest governor. Since assuming office he has focused on economic development, education and improving Iowa's quality of life which has obviously paid off since Iowa was rated as the most livable state in America in 1996.

In addition, he has led an aggressive program called the Iowa Communications Network to bring all the schools in his state online. And Terry, I think you were the pioneer in this area. And so many of us have tried to copy what you've done in Iowa. He is a long time member of the NGA executive committee and has served as the association's chairman from '88 through '89 during which time the historic National Education Summit was held.
He has also served as chairman of the Midwestern Governors' Association, the Council of State Governments, the Republican Governors' Association, and he currently serves on the NGA Human Resources Committee.

You can usually tell a person's dedication to an organization by what they have done after they have served as a chairman. In the case of Terry Branstad, his continued commitment to NGA is proof of his love for this organization. Terry, we appreciate all of the dedication and hard work you've contributed to this organization and to our nation, and we wish you the best to you and to Christine.

(Applause.)

(Award presented.)

GOVERNOR VOINOVICH: The next governor to be recognized is Governor Ben Nelson of Nebraska. He was first elected governor in 1990 and then reelected in '94, making him the first Governor of Nebraska to be elected to a second term in two decades. Governor Nelson has been a strong voice in the fight against unfunded and underfunded federal mandates. As governor his accomplishments include major crime legislation, a
welfare reform package and a significant increase in international trade.

Governor Nelson currently chairs the NGA's Natural Resources Committee, and I think you've done an outstanding job, Ben. He's also been my partner on many causes over the years. He has helped galvanize the Big Seven state and local government coalition and was a prime mover in the passage of unfunded mandates relief legislation and improvements to the Safe Drinking Water Act. Ben, we truly appreciate all your efforts on our behalf and extend our best wishes to you and Diane. Would you please come forward.

(Applause.)

(Award presented.)

GOVERNOR VOINOVICH: Our last governor to be recognized today is my predecessor as chairman of the NGA, Bob Miller of Nevada. Governor Miller has always maintained a strong commitment to criminal justice issues throughout his distinguished career in law enforcement. In fact, we look to Bob as our resident expert on criminal justice issues.

Governor Miller led an outstanding NGA effort through his chairman's initiative on
children. And how can we forget that just last year he and Sandy hosted the NGA annual meeting in Las Vegas in a very, very spectacular fashion. He currently serves on the NGA executive committee and is chairman of the NGA Center for Best Practices board. Governor Miller was a stalwart in our crusade to change this country's welfare system.

On a personal note, I will always appreciate the friendship, courtesy and input he extended to me as vice chairman of this organization. Bob, your dedication to the citizens of Nevada and to your colleagues at NGA is outstanding. We wish you the very best and also to your wife Sandy.

(Applause.)

(Award presented.)

GOVERNOR VOINOVICh: Prior to passing the chairman's gavel to Governor Carper, I'd like to make a few comments about federalism in my chairmanship of this organization. I had a lot of stuff here, and I'm just going to let it go. Page after page of stuff. It's a little late in the day.

I would just like to say in a couple of
minutes that I really have enjoyed being chairman of this organization. I think that we have made some significant progress over the years on a pet project of mine and that's federalism and devolution.

As many of you know, I was chairman of the National League of Cities, and you don't know that I was very much involved in new federalism during the early years of the Reagan Administration. In fact, I was the interface for the mayors when Ronald Reagan tried to put together a new relationship between the federal government and state and local governments. And it failed because they negotiated with the mayors, the governors and the commissioners and then tried to get everybody together at the end.

But I do remember in those days that we were proposing that the federal government would do Medicaid and the states would do welfare. And it's too bad that we didn't, at that time, the governors didn't take that bargain because that would have been a good deal for us in terms of dollars.

In 1986 I spoke on behalf of this country's mayors on the 200th anniversary of the
constitution, and in that speech said that I was very discouraged about the fact that we just didn't seem to have any respect at all in this country for the 10th Amendment. And in fact we did say that we believed in it, that we did have federalism, and in fact we didn't.

And I think if you just contemplate the changes that have occurred in the last several years because we've worked together to change the system, that everyone should feel very, very proud of what we've accomplished. And I'm not going to get into the litany of things, but the unfunded mandates, unsafe drinking water and welfare reform and Medicaid reform, and how we fought to have a more flexible program in Medicaid for children so that we can now provide Medicaid for those people, for our working poor. And a lot of people forget that because we're not able to do that, a lot of folks who ordinarily would have gone on welfare are going to stay working because they have got health care coverage for their children.

We have made great progress. And I think that we need to really underscore the fact that let's take welfare reform. Tom and I had a news conference last week on it. And it's amazing
the dramatic change that's occurred in the welfare system since we started screaming for waivers and then got that legislation passed and went from an entitlement to a black grant. Fantastic change.

I mean no one would have suspected. In fact, I think Tom, you said that everyone said it would be a race to the bottom and actually, it's been a race to the top. And Tommy, you've been a great leader in that effort. But all of us have a story to tell about what's happened to welfare in our respective dates.

I can tell you in Ohio we've saved, and part of this is that we eliminated general assistance for able bodied people. But we saved about $2 billion dollars a year because of the changes in our welfare system. On Medicaid, Medicaid in our state was increasing about 13-and-a-half percent a year before I became governor.

This last three years it's been about 3.7 percent, and last year we spent less on Medicaid than we did the year before which is just the first time that's happened in Ohio in 25 years. And if you look at the projected savings, it's a little over $9 billion dollars. Now,
that's a tremendous savings for my state, but it's also a tremendous saving for the federal government. And we don't get too much credit for that. But the fact is that this is working.

But I think the most important thing about this devolution business and something that we should really stress and do a better job of explaining and the 10th amendment is the fact that not only are we saving taxpayer money, but the most important thing is that we're really making a difference in the lives of the citizens in our state.

Under the old welfare system in Ohio, people were treated like numbers or agates. Today people are treated with dignity and with respect. And they're looked at as being in the image and likeness of God. And we're sitting down with them, and we're saying who are you, and how can we help, and how can we make a difference in your lives.

And I can't tell you the number of welfare recipients that I have talked to that have been a part of this program who have said to me thank you for the new system. I got my GED. I'm going to community college. I've got a job. I
have a new future. I'm the last generation in my family to be in this welfare system. Thank you for this new welfare system.

And I think we need to do a better job of communicating what this is about to our constituents and I think to our friends in Washington. There is a tendency today on the part of maybe the President, even members of Congress, that somehow they feel that they care more about the people in our states than we do. My contention is we care about the people in our states as much as the President or members of Congress. And I think that not only do we care as much about our people, I think we have a much better idea of how to help the people that live in our respective dates. We're closer to them. The people that work with us are closer to them. They're much more able to make a difference in their lives.

The other thing that I want to leave is this. And it's kind of been what I've been trying to promote during this meeting is that if we're going to get more responsibility, then we have to understand that we have to do a better job. And the only way we can do a better job I think is
with quality management and using leading edge technology.

As Paul Goldberg said, you know, we come in and we deal with the A team, but it's the B team that really makes the difference. And if we can empower that B team, if we can get them involved, if we can get them to participate, we have a much better managed state. And if we can use the technology that so many of you are using, we can do a better job of servicing our customers. And if we do that, there is never going to be another one of these sweeps that say send it back to Washington to get it done. Because we'll be taking care of it on the state level.

And so I want to thank you for all of your friendship and help this last year. A lot of people aren't here, maybe that should be because it's at the end of the meeting. But one of the things that everyone should consider, and I think it's something that we ought to pass on to the next group that comes in is that more governors should participate in this organization.

I think that too often when we have a job in Washington that's just a handful of people
that are there getting the job done. And perhaps it's our fault because maybe we haven't reached out to enough people. But I would hope that Tom and Mike Leavitt who is going to be coming in as vice chairman would think about reaching out to more governors and getting them involved and giving them the thrill of making a difference on something that they're concerned about on the national level.

To those critics of the NGA, I want to say that without the NGA working on a bipartisan basis, we would not have witnessed the dramatic shift of responsibility back to the states from the federal government and the resurrection of the 10th amendment. And I just want to say unfortunately too many of those critics are unhappy that when governors work together with other state and local government organizations, we are a powerful voice in Washington.

And I want to underscore today the importance of our working with the Big Seven. When the Big Seven, the governors, the mayors, the county commissioners and the state legislators go before Congress and say we are for this on a bipartisan basis, it's darn difficult for them to
say no to us. So we need to continue to keep that going.

And too often some of the people who are critical of this organization, some of us have gotten letters from some of them, is a reason they're critical is because they have their own little special interest in Washington that we don't particularly support. And we win.

So I think that this organization is very, very important to the future of the United States of America. And I really hope that you all continue to work on this bipartisan basis that we have established in this organization.

So I'd like to now recognize a few people.

(Applause.)

GOVERNOR VOINOVIČ: The first person that I want to thank is my wife Janet for her love and support. And I'm sure some of your spouses feel the same way as I do. When she signed on as First Lady, she never expected the transformation it would bring to her life. She has risen and grown, and she is truly my partner. I'm very proud of her, and I refer to her as God's greatest blessing. I would like to recognize my wife Janet

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for what she does and the spouses do.

(Applause.)

GOVERNOR VOINOVICH: To the Milwaukee host staff and particularly Bill Hanbury, Mary Sheehy. And Tommy, you know what a great woman Mary is, not only helping you in the organization but right here in Wisconsin.

(Applause.)

GOVERNOR VOINOVICH: Barb Candy and Maggie Jacobus, Chris Martinick, Mary Cannon, the security detail and, of course, all the volunteers who have helped make our stay here so memorable. Let's give them a big hand.

(Applause.)

GOVERNOR VOINOVICH: To Ray Scheppach.

I've been working with Ray Scheppach since I was involved with the National League of Cities. I really believe that there is no one that's an executive director that believes more that the future of America is in the hands of our states than Ray Scheppach.

Ray has done an outstanding job in this organization for the last 15 years, and I believe he's the most outstanding executive director of any of our organizations in Washington. Ray, I
just want to thank you very much for what you've done for this organization.

(Applause.)

GOVERNOR VOINOVICH: And Ray has put together an outstanding team. And I'm not going to mention each and every member of that team, but will the National Governors' Association folks that are here at this convention just stand up and be recognized. You do a super job.

(Applause.)

GOVERNOR VOINOVICH: And then I'd like for the staffs of the state offices in Washington of our respective states to stand up. Because one of the really great things about this organization is that not only does Ray have a good staff, but Tom, your people work with them, my people work with them, all of us have state offices. It's a unique thing. They work together as a team. And that just reinforces our clout in Washington.

Let's have all of the staff people from the governors, come on, get up and stand up and be recognized. Come on.

(Applause.)

GOVERNOR VOINOVICH: And then I'd like to just recognize, is Jackie still here or did she
There she is. Jackie Sensky is someone that's worked very closely with NGA staff over the years on children and families issues. And Jackie, I refer to her as the mother of Ohio's Family and Children First initiative. Jackie, I just want to recognize you.

(Applause.)

GOVERNOR VOINOVICH: Ted Hollingsworth who has worked so closely with Ray Scheppach for the great job that he has done and with the great job that he's done for Ohio. Ted.

(Applause.)

GOVERNOR VOINOVICH: And last but not least, Tom Needles who has been with me from the beginning and has once ran our Washington office and now interfaces with all of the organizations that I belong to and is our education guru. Tom.

(Applause.)

GOVERNOR VOINOVICH: Tom Carper. You've been a great partner. And we've really worked together to keep partisanship at a minimum and use our collective clout to make a difference. You notice we didn't have too much controversial stuff here? We worked at that.

Having a former member of Congress who
was so highly regarded has really made a
difference with the White House and with
Republicans and Democrats in Congress. Most
importantly, we've become good friends. You may
not know this but we're both Ohio State Buckeyes.
And I think we're the first chair and vice chair
who attended the same university.

And Tom, as a memento of our work
together on the playing fields, I would like to
present this authentic Ohio State letter jacket as
a reminder of our one year together and that
you're always welcome to Ohio any time and that we
Ohio Buckeyes are proud of you.

(Jacket presented.)

(Applause.)

GOVERNOR CARPER: O-H.

GOVERNOR VOINOVICH: I-O. Great. I'd
now like to call on Bob Miller to give the report
of the nominating committee. Bob.

GOVERNOR MILLER: Mr. Chairman, with
appreciation to you and to Governor Carper for
your outstanding leadership this year, I'm pleased
to be able to present the recommendations of the
nominating committee which consisted of Governor
Rowland of Connecticut, Governor Chiles of
Florida, Governor Edgar of Illinois, Governor Nelson of Nebraska and myself as chairman.

The nominating committee moves the adoption for the executive committee for the '98-'99 year of Governor John Engler of Michigan, Governor Mel Carnahan of Missouri, Governor Bob Miller of Nevada to be succeeded in January of '99 by Governor Paul Patton of Kentucky. Governor George Voinovich of Ohio to be succeeded in January of 1999 by Governor Frank Keating of Oklahoma. Governor David Beasley, Governor Howard Dean, Governor Tommy Thompson, and Governor Mike Leavitt of Utah as vice chairman and Governor Tom Carper of Delaware as chairman. So moved.

GOVERNOR VOINOVICH: Second?
GOVERNOR BRANSTAD: Second.
GOVERNOR VOINOVICH: All those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed.

(No response.)

GOVERNOR VOINOVICH: Motion is passed.

Congratulations, Tom.

(Applause.)

GOVERNOR CARPER: Well, thank you very
much. Before I make some closing remarks, I'd like to just say a word or two about George. And George has been gracious in his presentations and his remarks on others who are departing. And let me just add to that.

We're losing some terrific talent. The people who have led this organization, in some cases as chairs of the organization, in other cases as chairs of standing committees and served in other capacities, we value you, we value you as individuals and as friends, and we will sorely miss you.

It is incumbent on the rest of us to step up big time in order to fill the shoes of those who are going to be departing in some cases at the end of the year and in some cases serving in other capacities. But it's incumbent on all of us to reach in within us and to give more.

I want to make a couple -- I have a number of pages of prepared comments that have been given me. I think I would be more comfortable talking right from the heart and ask you to bear with me there.

I first heard about George Voinovich when I was -- actually before I went to Congress,
I was a state treasurer of Delaware. When I lived in Ohio, in Columbus, Ohio to Ohio State, I used to think Delaware was a little town about 30 miles north of Columbus. It was only later that I found out it was an entire state, in moving there after I finished my time in the Navy.

But I watched with some interest as a fellow named Voinovich was elected Lieutenant Governor and served for a short while. And I watched with greater interest how a fellow named Voinovich was elected mayor of Cleveland, in a place with I think about an eight to one Democratic margin, that a Republican governor -- a Republican mayor was elected, and helped to turn a place which was in disrepair and disregard into a city that we all now certainly claim as much as a renaissance city as Milwaukee, Wisconsin.

A person who provided the leadership then who was a fellow who subsequently became the governor of his state eight years ago, and that is George Voinovich. He was reelected after four years of service with a 72 percent majority. That is -- that bears testimony to the terrific work that he has done in job creation and welfare reform and enhancing the quality of life, his
commitment to quality on the job and really his commitment and dedication to children.

You don't have to know this man for very long to understand and to fully appreciate how much he cares about kids. Not only does he pay lip service to his care about those children, he puts his money and money of Ohio taxpayers to that task. He believes that every child can learn, and he is determined to make sure that they all have that opportunity to be as successful as they can possibly be.

It's my pleasure to present on behalf of all of us here today, George, several tributes. I'm going to ask Janet to join us in the acceptance of these tributes because as he's suggested, it's certainly true there is probably no more of a team of any governor and spouse in this country than we see in George and Janet.

The first tribute that I want to present to you is a photograph. And if someone would -- if you could both come forward. This photograph is a photograph that was taken I think of the convening of the first session of governors in 1908. And the only one among us who currently still serves in this picture, I think right there,
is Governor Branstad. He looks as young now as he
did then.

I think the real significance of this
photograph is this is an organization that's been
around for a long time. This is the 90th meeting
of the nation's governors. And we are as
effective, maybe more effective today than
certainly we were all those years ago. And it is
in no small part because of the leadership of this
man and one terrific lady.

(Applause.)

(Award presented.)

GOVERNOR CARPER: And I don't have any
Ohio State or University of Delaware letter jacket
to present to you, but I will treasure the one you
gave to me. I would like to present to you as you
leave a commemorative gavel that is traditionally
given to the departing chairman of the NGA. The
inscription on this gavel reads presented to
George V. Voinovich. What does that V stand for?

GOVERNOR VOINOVICH: Victor.

GOVERNOR CARPER: Victor. And he is.

George V. -- and we'll find, probably have another
expression of that in November I suspect in the --
from the voters of Ohio. The inscription reads
presented to George V. Voinovich, Governor of Ohio, for his outstanding leadership as chairman of the nation's governors from 1997 to 1998 on the occasion of the 90th meeting, annual meeting, of the National Governors' Association on August 4th, 1998. May I have the gavel.

And I might also add, Janet, if he gets out of line, you may want to keep this close by, and every now and then just pull it out and threaten him. I don't think you'll have to bop him on the head or anything with it. But you may want to use this to threaten him to say George, get back, particularly if he forgets about unfunded mandates in federalism, that's their job down on the Potomac. Here you go.

(Applause.)

(Award presented.)

GOVERNOR CARPER: Last thing I want to say about George. And George, just remember, flattery won't hurt you if you don't inhale. So just bear with me for one more moment.

The last thing I want to say about George, I remember asking a bunch of my colleagues in the Congress back in the 1980s, people like Denny Eckart, Ed Feighan, Lou Stokes. And I would
say to them, tell me about this fellow Voinovich. How can a guy, a Republican, be elected mayor of Cleveland, Ohio and apparently be so well accepted and well regarded. And what they told me is that he's a straight shooter. He's just a decent guy. He has good values and his word is his bond.

And that is exactly what he has been. I always like to talk about four rules that I seek to live my own life by and they're one, to do what's right. Two, to be -- to do my best, to be committed to excellence. To treat other people the way that I would have them treat me. And finally, just to never give up. And I just want to say this is a guy that I've had a chance to see up close and personal. He does what's right. God knows he's committed to doing things well, to excellence.

He treats other people, he certainly has treated me, he treats every Democrat and Republican just the way that he would want them to treat him, and he doesn't give up. And he doesn't give up. And we've had a good record of performance and success over the last year because of those characteristics and those traits.

And I want to say thank you again for
being our leader. For me, more importantly, thank you for being my friend. Thank you so much.

(Applause.)

GOVERNOR CARPER: Folks, that brings us to the end, and I'm going to be mercifully brief. I am grateful for the opportunity to serve you. I'm grateful for the opportunity to serve Delaware, and I'm grateful for the opportunity literally to work with you, as my friends and my colleagues. This is an honor that I hope might come to me somewhere along the line, but we've all heard the notion of triumph of man's hope over experience. In this case that hasn't been the case.

I'm just delighted to have a chance to work with you and to help lead this organization in the year to come and especially to have a chance to work with my friend Mike Leavitt. How lucky can a guy be to be sandwiched in between George Voinovich and Mike Leavitt. And I do not take these gifts for granted. I'm delighted to have had a chance to work with George and very much look forward to working with Mike. And I know my bride, Martha, shares the same enthusiasm about your spouse and your partner, Jackie.
I said to the governors already in closed session what my plan would be for focusing our energy and our attention as an organization over the coming year. I never imagined that Larry Summers, our deputy director, Deputy Secretary of the Treasury would come before us today and in his own comments would reiterate again the importance of the theme and focus of -- that I have proposed for this organization for the year to come.

And back and forth and it was in response to a question Governor Romer had asked. Larry Summers indicated, he said you know, we have the best post-secondary schools in the world. Where we need to focus our attention is K to 12, kindergarten to grade 12.

Every one of us, whether we come from the north or south, the east or the west, whether we're Democrats or Republicans, know that among the greatest challenges that we face is that of raising the achievement of the students in our schools.

And for the last several years we have focused on doing that by focusing on the development of children early on, from birth until the ages of three or four. And those are
important priorities. For however long that any of us are around and in this organization, we will continue I'm sure to focus on early childhood development as we should.

What I propose to do in the year to come is to grow those kids up though, to grow them up, get them in school and to focus a bit more on raising student achievement within our schools by one, harnessing technology in those schools, by two, demanding accountability, accountability on the part of students and schools and school districts, politicians, parents and teachers. And three, to provide extra learning time for children who need that.

Virtually every state that's represented around this table, we have raised the academic requirements, the standards, put in place more rigorous academic standards in math and science and English and social studies for our children going forward.

Not every child learns at the same speed as we all know. None of us do either. And some kids simply need extra time, that extra learning time. Could be a longer school day, a longer school year, could be Saturday academies, it could
be a tutor, it could be a mentor. Just the chance to learn. And they can learn.

And what I propose to do as your chairman over the next year is to reach out across America and for us to find those pockets of excellence where states and where school districts and schools are literally lifting student achievement through better use of technology, additional learning time and accountability systems that do demand a lot and provide for real consequences. And I'm convinced that to the extent that we do that, that a year from now when we leave, when I leave and step down as your chairman and Michael succeeds me, we will have students that are achieving at a higher level in every state throughout America. And I very much look forward to doing that.

Let me just say as a PS, I wrote down something that Henry Kissinger said, and I'm going to paraphrase it a little bit if I could. He said we shouldn't be surprised that solutions to difficult problems which undermine political leaders, sometimes those political leaders don't always face the solution of those problems with enthusiasm. Let me sort of say that again.
Remember when he said that?

When you have a political solution, a problem that you face and the solution undermines the political support of an elected leader, don't be surprised if the elected leaders don't embrace that solution with enthusiasm.

I'm convinced that raising student achievement, particularly with the focus in the three areas I have, will not undermine anybody's political leadership in your state. And I think it will do -- it's the best of both worlds.

We're going to strengthen that political leadership I believe and more importantly, we're going to strengthen the ability of our students, your students, to graduate from high school, prepare for college, prepare to go to work, and to make sure that this nation remains as strong in the next century as we are as we close this century.

Thank you so much.

(Applause.)

GOVERNOR CARPER: I note as we adjourn here, I say to Governor Peterson, former governor of Delaware, that Governor, I not only get the gavel, but somebody left their watch for me too.
So it's a pretty good day. Thank you very much.

(At 12:20 p.m., the proceedings concluded.)

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I, VICKY L. ST. GEORGE, RMR, Registered Merit Reporter with the firm of Schindhelm & Associates, Inc., 606 E. Wisconsin Avenue, Suite 250, Milwaukee, Wisconsin, do hereby certify that I reported the foregoing proceedings had on August 4, 1998, and that the same is true and correct in accordance with my original machine shorthand notes taken at said time and place.

________________________________________
Registered Merit Reporter
Dated this 5th day of August, 1998.

Milwaukee, Wisconsin.