CHAIRMAN ENGLER: Good morning, Governors, former Governors who are here, distinguished guests, ladies and gentlemen, good people of Idaho, the C-SPAN audience, citizens of the world. Welcome to the opening plenary session of the 94th annual meeting of the National Governors Association.

Now that you've all found your seats, would you please rise for the posting of the colors by the Idaho State Police Honor Guard.

(The colors were posted and the Pledge of Allegiance was led by Governor Keating.)

CHAIRMAN ENGLER: Thank you to the Idaho State Police Honor Guard. Great honor to have the Idaho State Police here today.

This session this morning is going to start with a discussion on technology and education. And we've got two outstanding speakers. They're both terrific leaders in the field of technology. I think there's going to be a lot of interest in their words this morning.

We're also going to be recognizing
National Governors Association Distinguished Service Award winners from several states and some of our departing Governors. You'll find during this meeting that we'll recognize some of the departing Governors sort of at each session. That's because there are so many Governors departing that we didn't want to save it all until the Tuesday session at the close of business.

There will also be a quick update on the activities achieved, and we'll close our formal session and follow that immediately with an NGA executive committee business meeting. It will be a brief meeting. We've got an important topic on the sales tax to talk about.

During the course of this entire annual meeting, I think there are issues of critical importance to states that are going to be on the agenda. Particular focus on technology and education, state policies for global economic success, governance in the 21st Century, and the critical role of the states.

On Monday our session actually will be on state leadership in the global economy which has been part of an initiative over this past year that I've been excited about as chairman of the
Governors Association. The discussion is going to be moderated by Duane Ackerman, who is the chairman and CEO of BellSouth Corp. He's co-chair of the NGA Competitiveness Task Force, one of the leaders on the U.S. Council on Competitiveness.

We also have as a guest speaker sort of to stir things up a little bit the former Secretary of Education Dr. Bill Bennett, who's currently co-director of Empower America. That ought to be a lively session.

At our closing plenary on Tuesday, we're going to talk about governance in the 21st century, and again, governance with an emphasis certainly on federalism and the interplay of the states and the national government. And we'll have the CEO of the Democratic Leadership Council and the founder actually of the DLC, Al From, as well as the former Speaker of the House, Newt Gingrich. Those two no doubt will be very lively and will get everybody going.

The goal of the agenda through these three days of formal meetings is to enlighten and challenge the Governors and to begin to lay the foundation for all the new Governors who will arrive after November's election.
With that out of the way, I want to formally call to order the 2002 annual meeting of the National Governors Association. The first order of business is to have a motion for the adoption of the rules of procedure for the meeting.

VICE CHAIRMAN PATTON: So move.

CHAIRMAN ENGLER: Governor Patton moves, supported by Governor Kempthorne. All in favor, say aye. Motion is approved.

Part of the rules require that any Governor who wants to submit a new policy or a resolution for adoption at this meeting will need a three-fourth's vote to suspend the rules. You all know Frank Shafroth. He's the director of State and Federal Relations. He's got to have those policies or resolutions should there be any by 5 p.m. tomorrow, 5 p.m. Monday.

We also as is custom at these annual meetings have a nominating committee put together the 2003 NGA Executive Committee and Leadership, and I have some appointments to make to that. Governor Patton has considered them carefully since he will be the chairman who should be on the nominating committee.

The recommendations are as follows:
Governor Knowles to chair that committee; Governors Geringer, Wise, Almond, and Warner to participate on the committee. So the five of you are charged with coming back with a very wise set of recommendations to lead this organization next year.

Now, it's my privilege to again thank publicly Dirk and Patricia Kempthorne for their leadership. Governor Kempthorne, you and your staff are just marvelous. I know the custom is for you to make some welcoming remarks. Let us introduce you by giving you a round of applause to thank you for your hospitality and your great service to the people of Idaho.

GOVERNOR KEMPTHORNE: Mr. Chairman, thank you very much. And may I just say on behalf of the people of Idaho how extremely proud we are to have the nation's Governors here in Idaho. I hope that you've seen the countless hours that our Idaho volunteers have put into this to make sure that you feel welcome, to make sure that the events are properly planned, and that all of your needs are taken care of.

I thank you for your adaptability last night when the weather changed on us and we had the
windstorm. I will just note that last night as we
saw that storm come through this area that in this
region of the state we had 400 lightning strikes,
resulting in ten fires that ignited. We believe
that all of those will be contained by this
afternoon. But one of those is currently in both
Oregon and has come over into Idaho. So while many
of you have your hurricane seasons, your tornado
seasons, we have the fire seasons in the west. And
the Western Governors understand that.

You have seen, too, and I appreciate
those of you that are spending a few extra days in
Idaho to experience one of our great industries
here which is tourism. The untold number of
whitewater rivers, the magnificent mountains, and
the forests, etc., that you can enjoy, and we
invite you to do so.

We are an agriculture state. That is
our key industry. As I indicated, with just the
commodities we raise, if we did not export those to
your states or to other countries, then in Idaho
every man, woman, and child each and every day
would have to consume 65 potatoes, 286 slices of
bread, 29 glasses of milk, and eight
quarter-pounders. So we're in the business of
We also, though, are diversifying, and we're very proud of the high tech industries that have come into this state. Idaho currently ranks seventh fastest growing in high tech. And we see these clusters, these corridors of innovation that are taking place.

We're very proud of Steve Appleton and all that he has done for Micron Technology and what a tremendous corporate citizen that he is and his corporation. We look forward to his comments with Mr. Chambers here in just a few moments.

I will also note that we are very proud of our communities and all of our local officials. Forbes Magazine this year named among the small communities throughout the United States Pocatello as one of the top ten. Then it named Boise, Idaho, our capital, as one of the top ten cities in America this year to do business and to prosper in a career. We're very proud of that.

We're very proud of the leadership here at the local level and in our Mayor Brent Coles, who is the past chairman of the U.S. Conference of Mayors. So again, you've given me some very nice compliments about downtown Boise. I'm very proud.
of the fact of having been a former mayor of Boise, but I want to give accolades to the current Mayor of Boise, a great friend of mind and a great leader for all of Idaho, Mayor Brent Coles, to bring us a welcome to the city.

MAYOR COLES: Governor Kempthorne, thank you. Governor Engler, Governor Patton, and again to Governor Kempthorne, thank you for bringing the Governors of America to Boise, Idaho. And the citizens of Boise appreciate the opportunity to host you, to observe the work of the nation's Governors, and to work together with you.

I might just indicate that Governor Kempthorne while he was Mayor Kempthorne, as you walked across those bricks this morning and across that plaza, as a city council member and Governor Kempthorne as mayor we were out there selling those bricks one brick at a time to rebuild the city in our downtown. This downtown did not exist at the time he took office. But based upon those bricks one brick at a time, one building at a time, the convention center in which you're in today did not exist at that time, but it began in his term of office as mayor. And as Governor he is leading us and directing and guiding the state just as he did
as the mayor of this great city.

I appreciate the opportunity I've had for the last nine years to build upon that foundation, to build the cities of America and Boise being one of the great cities in America.

I think as the past president of the U.S. Conference of Mayors I would like to extend the opportunity it is and appreciate the fact that we work together as mayors and Governors to build this great nation. We know that this nation is no stronger than its great states. The states are no stronger than its great cities. Its cities are no stronger than its neighborhoods, the families, and the people and the businesses which prosper within those cities.

So as we work together, mayors and Governors with the Congress and with the president, to continue to maintain this as the greatest nation on earth, we appreciate the opportunity to work with you and to host you. And as mayor of the City of Boise, welcome, and may you have a fruitious and a great meeting here that we will prosper together.

Thank you.

CHAIRMAN ENGLER: Thank you very much,

Mayor Coles. And Mayor, we are enjoying the City
of Trees. We expect to enjoy it a good deal more
before we depart for our respective states later in
the week.

Governor Kempthorne, also, let me just
say to your legislative leaders and to you, the
state capitol looked very nice this morning as we
had an opportunity to enjoy that. And your
hospitality there also was appreciated.

And to Governor Huckabee, who delivered
the spiritual message this morning at the
cumenical service, we congratulate him. It was
described at least by the Episcopal leadership of
the church as sort of taking a risk bringing this
Southern Baptist preacher up to the podium, but he
did a beautiful job. I must say it appears now,
Mayor Coles, that Governor Huckabee may be a guest
lecturer here from time to time in Boise, given the
reception at the church this morning. So Governor,
congratulations to you.

Let me take just a moment before we move
to our speakers and highlight the NGA initiative
that I referred to in my opening comments, state
leadership in the global economy. The reason I
want to do so is the initiative involved a number
of successful events around the country. And it
culminates here in Boise with the release of several guides for Governors on building 21st century economies. And we put these documents at your places.

And the Center for Best Practices, which is something that really goes back when Governor Thomson was part of this organization, and he and Governor Patton and Governor Dean was part of that, Governor Leavitt, in looking at how do we best take advantage of the association to try to share some of the best practices. And we literally created or changed the name and developed a Center for Best Practices.

I think it takes on even greater significance when the economy gets a little tougher, and states all have to have long-term comprehensive strategies to help build and retool and strengthen economies. There are a limited number of economic development tools that Governors have relied on in the '80s and '90s. And we know that some of those aren't well adapted for a knowledge-based economy that we continue to transition to in the 21st century. This is sort of relevant to the discussion we're going to have this morning with these technology leaders.
But our guides actually will cover every aspect of economic development discussing trade and global competitiveness, building science and technology capacity, and also creating, training, and preparing a 21st-century work force.

So there will be a guide on cluster-based economic development, which continues the work that we began at our winter meeting with the Council on Competitiveness and Dr. Mike Porter from Harvard University. So we think that's helpful.

We had regional competitiveness forums. Governor Owens hosted us in Denver, Governor Barnes in Atlanta. We were joined by Governors Leavitt and Patton. We had 16 states I think were actually present. These were pretty productive sessions. Several of the participants have now asked that we come to their state or that the Center for Best Practices follow up and have an NGA meeting in their respective states. That's in the works. That's something that will become part of next year's staff agenda, if you will, at the Center for Best Practices.

I can't thank enough -- I'll get a chance to do this later in the week -- but I
mentioned Duane Ackerman. Also, Dr. Chuck Vest, the President of the Massachusetts Institute of Technology. Having an IT president and the CEO of BellSouth roll up their sleeves and go to work really helped to make this project I think successful. And it is that kind of key leadership that makes a difference.

Now, it's my great privilege to sort of move to the keynote speaker for this session, another great leader, John Chambers, who's president and CEO of Cisco Systems Incorporated, a worldwide leader of networking for the Internet. Since January of '95 when John Chambers took his current position, he's grown the company from $1.2 billion to $20 billion a year in annual revenues. John Chambers is considered one of the most innovative and dynamic leaders in global business today.

In February of 2002, Fortune Magazine recognized Cisco as one of the best places to work in America and one of the most admired network communications company in the world. John is a real visionary. I've heard him speak before, and I think he's perhaps the most optimistic CEO in America regarding the role of
technology and its potential to raise the standard
of living for all Americans. So it is a privilege
to have him here today and take time from his
family to join us in Boise.

And so without further ado,
John Chambers, the podium is yours. Welcome to the
National Governors Association meeting.

MR. CHAMBERS: Thank you very much.
Governor Engler, Governor Patton, the rest of the
Governors, it's truly an honor to be here today.
And you were kind to say me taking part of my
schedule to be here. I want to thank you for truly
being committed. We've all heard the comments
about the difference between being committed and
involved. You are committed. I'm involved. And I
clearly understand that.

I'd like to share with you what we see
going on in technology, how I believe it will
change people's lives, what I believe the
implications will be for productivity and therefore
standard of living in our country, what are some of
the challenges that we face, and how in many ways
it is back to the basics in this new economy we're
going to see over the next decade. Not just about
market share but about profits, cash, and
productivity. Not just about speed, but about brand and culture and teamwork.

When we travel around the world, we have a unique opportunity to talk to most of the government leaders and most of the business leaders. When you meet with that many people, you ought to be able to get it right. So when I often start off presentations, people say what are you really hearing about the economy? And that I will talk about.

I also will talk about the role that technology will play in education. I think that countries and states that have the best infrastructure and have the best education will attract the jobs looking over the next decade. The problem is it won't be California versus Michigan versus Idaho versus Massachusetts. It will be the U.S. versus China versus India versus Spain. And so understanding the implications of that.

The reason I'm the optimist is because of productivity and the waves of applications that will occur in government and business that will raise our standard of living. Many people say well, John, you're in love with technology. I'm not. I'm in love with what technology can do for
government and business and average citizens.

People forget that 15 months ago I was a pessimist in the industry. I said we are headed for prolonged downturn. It isn't going to be small. It's going to be a hundred year flood. And while we got a lot of constructive criticism on that, unfortunately we turned out to be right.

But as the people around this table probably know more than any other group, how you build out your infrastructure including the education system determines the health of a state or of a country. We're falling behind in our infrastructure build-out in terms of broadband. I want to spend some time on that because broadband and education I think is our future.

When many people talk about ideas, they say you can take this from one state government, this from another or from another company. I'm going to talk about an example at Cisco and talk about what it means productivity wise and give you a feel for how fast you can move versus your global competitors and the implication of that as you move forward.

When I talk around the world and talk to key economists, whether it's in Washington or the
key economists in the largest financial
organizations or the business leaders, you feel
great when you talk to them. Productivity is up.
All the indicators are right. Service indices are
up. The manufacturing index is up which led us to
the downturn. It's now been up five months in a
row. Consumers are holding up remarkably well.
Housing starts up 11 percent. Inflation is under
control. I feel great.

And then the president of the company to
whom the chief economist reports to or the
government gets up and says I just don't feel good.
And what is causing that uncertainty is visibility.
The business leaders are probably more conservative
now than I saw them 18 months ago when they knew we
were headed into an economic downturn.

Now, for the benefit of the press in the
room, I wanted to say very strongly that no
comments I make today should be implied either to
Cisco being on a very strong quarter or any
concerns on that. If I'm feeling good, it's
because I'm talking about the topics I love. If I
look a little bit tired, it's because I've been in
seven time zones in seven days.

But when you look at what is occurring,
the CEOs have less visibility. While none of them
around the world are predicting a downturn, they
see it kind of flat. It's an only until you show
me-type of economy. Until they see it turn up,
they aren't going to hire back or spend the money
on capital spending.

The issue in terms of some of the
economies, Japan is much weaker, and unfortunately,
I think that's a three- to five-year phenomena. I
wish I could tell you that I was optimistic in the
short run about fixing some of the basic underlying
issues. Germany, France, a little bit softer than
we expect. And all of us have read the issues on
Latin America.

The service-provider industry, which
accounts for 30 to 40 percent of high tech
spending, has been decreasing if you can imagine at
25 percent per year in terms of capital spending.
Imagine if your tax revenues were dropping at 25
percent per year like many of the companies in our
industry are seeing for their revenues in this
segment.

There also is a deserved lack of
confidence in corporate America, which we as the
business leaders have to address and have to
address quickly in terms of the implications.

Those are coming together to create an uncertainty in terms of where we're going. When this uncertainty originally started to occur almost 18 months ago, the business and government leaders in Europe felt like they could help pull the U.S. out. They just said we'll be okay.

Now I think there's a clear understanding that until the U.S. economy starts to come out that the other economies cannot. That's pretty much uniform on a global basis, that understanding.

My view is that we'll have to start with small to medium business. So when I watch what is occurring in hiring or technology consumption, I think we'll be led by small to medium business followed by enterprise business, then medium-to large-size business, if you will, but that will be very vertically based.

Many areas such as retail or retail banking are doing fine. Investment banking. Energy audits are very challenged. The one that I'm watching that's most important is manufacturing. And unfortunately, two to six quarters in my opinion after the average large
company starts to recover, then you'll see the
surge of others to recover.

It is unfortunately in terms of hiring a
type of attitude by CEOs. Very hesitant
about spending or adding head count or adding
capital spending till they see their business turn
up for a period of time.

What caused the original explosion in IT
and the interest dated back to people worried about
survival. A Wal-Mart being concerned about an
Amazon.com. Getting dot com'd. Or companies in
one industry moving into another by leveraging
technology and looking at new revenue
opportunities.

That was nice. But what is redriving us
over this next decade will be back to the basics,
an interest on productivity, profit. You can't
have profits without cash flow, and that's
something in hindsight we all should have seen was
the issue.

The reason that I'm optimistic about
this future is not because of my love of technology
as I said earlier. It's because of this. And
every major business and government leader around
the world understands it. During periods of
economic expansion you usually have higher productivity when you first come out. Steve and I as business leaders don't add many head count until we see the economy start to turn. But then it goes down progressively over the next multiple years of economic expansion.

What you saw in 1995 that Mr. Greenspan worded as an permanent elbow in the economy I believe is here to stay, not at 2 percent like many people are accepting today, but I think at 3 to 5 percent. We've been saying this for five years we thought within the decade during normal economic times you can grow your economy at 3 to 5 percent increase in productivity per year with huge implications in terms of the standard of living for all of our citizens of our various states.

And this is what you're seeing for the first time in economic history. You're seeing during the latter stages of an expansion for productivity to increase. And it increased into the recession.

When I met with the key government leaders and economists in Washington on both political parties, the federal reserve, and also the advisors to the president, we said we think
you're going to see productivity increase during
the economic slowdown. And people were a little
bit surprised we said that. I can tell you on a
sensitive note, two weeks later the numbers came
out on productivity, and it hit a number that is
unbelievable, 8.4 percent for the U.S. And of
equal importance in terms of manufacturing it went
to 9.7.

Now, remember, I'm watching
manufacturing personally as the key indicator that
will really help to get us a handle on where we're
coming out of this economic slowdown. So you're
seeing productivity numbers that our country's
never seen before. Remember, we averaged only 1
percent productivity growth for decades. And the
implications are that therefore that your standard
of living only doubles every 70 years.

Every government leader around the
world, whether it's Jiang Zemin in China, who I met
with multiple times, the prime minister of
Australia, the prime minister of the United Kingdom
or Schroeder in Germany or Anzar in Spain
understands this. And having met with many of you
around this room, I know you understand it as well.
The implications are how do we get at this
productivity.

Now, take a step back. The average life expectancy of a CEO is extremely short, even shorter today. So if my CIO were to come to me and say John, I can increase your productivity at 1 to 2 percent per year, what kind of attention do you think I'd give to my chief information officer? One to 2 percent is below what my peers are all growing at. If you talk about two and a half, they've got my attention. If you're talking 5 percent or 10 percent, 5 percent you double productivity every 14 years or standard of living every 14 years. At 10 percent you double it every seven years. I believe that the best-run companies in America will grow between 5 and 10 percent. And with GE, Cisco, Dell, and others, we believe we will grow ours at 10 percent plus per year.

I think the best-run government organizations over time have a chance to grow in the 5 percent plus number. With all of us facing the deficits that we face, the implications are huge if we can do that effectively in terms of continuing to provide very good or even expanded service to our citizens at the same or lower cost than what we were experiencing before.
So it is this type of understanding we're seeing. And what you're talking about, and I'm going to talk about an industry I'm familiar with in terms of ways of application. But they absolutely apply in government or business around the world in terms of wave after wave of application.

Again, going back to my reason for optimism at this time is most governments and most businesses are just getting started in these application areas. Everybody talks about E-commerce. It has a lot of sizzle. It was only a 50-percent increase in productivity for me for a small segment of my work force. It was customer support, you think about interfacing to your citizens, where I saved 800 million a year at eight cents a share in terms of earnings per share and work force optimization where we save hundreds of millions a year. Now, remember, my budget before was only 2 billion. So to put it in perspective, these numbers are huge.

Then there's another way, areas such as virtual manufacturing. I talk about the implications for government or business later about what I'm going to call the network virtual
organization. Huge implications for it. But I have 35 plants around the U.S. and around the world. Less than five of them I own, but I run them off my systems, my inventory. And my gross margins are 15 points higher, not 1.5, 15 points higher than my key competitors, half of which is my manufacturing process.

Virtual close, something's that going to be required of businesses in terms of full and open disclosure. I can close my books the good news and bad news is every 24 hours. I know exactly where we are. It's not a crystal ball for the future, but I know what my earnings per share were as of last night.

Now, you understand being leaders of your state what that really means. It's nice to know where you are versus budget, but once you understand that in Massachusetts or you understand that in West Virginia, you can then make decisions and empower your organization to affect it not two to three months later after you get surprised but right at the moment the trend starts to change. You can empower to your leaders even a first-line manager to make decisions, but you used to have to come all the way up to the governor or the business
leader.

Then you move it on to the education. The education I was not optimistic about. The reason is two years ago it kind of E commerced. The consumer was always a year too late. And in the last year it's really taken off. And I'll talk about that.

And portal capability at the state or government level is huge. I saved 1.7 billion a year off these applications and generate four to six billion dollars in cash flow. My industry is in debt. Last quarter the industry lost 1.3 billion. I made about 800 million.

I got knocked on my tail very hard, very hard. I wish I would have seen it coming 15 months ago. But how we adjusted was through systems and the implementation of those systems.

Now, one of the first things to share with you, whether you're a business or a government, I would argue many of the implications are very, very similar. You have to design the way you order things to tie to your customer support system that ties to your manufacturing system that ties to your virtual close. So if you don't design a common architecture for your data and for your
infrastructure build-out, you can't move from an
application area to another one when you support
the citizens differently. Or put it a different
way, where there's a problem or an opportunity in
terms of security as an example, you might have the
data in seven different databases, but if you don't
design in common, you can't pick up the issue in
terms of a security challenge.

And so this is one of the few things I
really believe must be dictated from the top in
terms of a common architecture for the
implementation. And over time perhaps a common
architecture across the states to share common
information either on taxes or in citizens as they
move.

Today very often when you all present at
town meetings, et cetera, it looks like business
leaders going around. Many people walking around.
I then moved to E-mail being my primary
communication vehicle. As you probably already
figured out, I speak about 200 words a minute with
a West Virginia twang, which I'm very proud of. I
type 15 words a minute, which my team will tell me
is almost unreadable. My communication is going to
be over the network. Not in terms of just
broadcast to large employee groups, which we do
every quarter multiple times, but to put it up in a
video-on-demand capability where the employees can
look at it any time they want, which I love because
they often do it at home over high speed
connection.

I was sure they'd listen to me about an
hour a night, same they would citizens in
government. An hour at night, Governor Patton,
right? Well, the average duration is about ten to
12 minutes. So not only do you put up a video that
people can watch when they want, you break it into
segments so they can see which questions to ask and
you can see what really hits.

A decade from now I believe this will be
the primary way that you can hear the citizens of
your state and to your employees, the ability to
get information out in a very fast fashion.

I only have 37,000 employees in the
company, and yet within two weeks of this meeting,
we have 37,000 hits. I can see what messages get
through, what questions people are interested in,
et cetera. It allows us to really be in touch.

You begin to think about corporate
policy. Many people would say we have one of the
best government affairs group in the world, and you
would say John, to cover this many countries and
this many states and localities you've got to have
a staff of a hundred. I have 14 people. We have a
half million hits a quarter on our web base where
we put up most of our issues, most of the
information sharing as it relates to government
affairs off the group.

This applies to any department within
state government when you think about it. Think of
how many questions are commonly asked questions
that you can put up on the system and give them a
better answer or have your very good employee
answer the question once and put it on the system
rather than answer the same question 20 times a
day, which is not a high motivator in terms of
morale.

The same thing in terms of getting news
out about the state or about the company. We have
16 people in our PR organization at corporate. Yet
we had a million hits per month off of our PR
website, where we put up the information,
commonly-used applications, et cetera. You can do
the math quick as I can in terms of the number of
people that you have just to answer the phone. Not
to get the information out. And using your employees of state government or business to add value as opposed to asking the routine question, answering it again and again and again, which doesn't motivate hardly anyone.

Productivity implications are huge for states or for business as this evolves. And you begin to think about the application. So much of it has to do, and I've lived in eight of your states during my professional career, but has to do with how do you interface the systems? How do you make it very easy to gain access to information?

Or how do you when you basically think about the Department of Motor Vehicles view a citizen once? Not have five different databases that you have to interface to. And how are you going to save when you apply for a license not standing in line for two hours where the cost of processing is somewhere between 7 and $10 per person that you deal with each day. Doing it over the mail, probably $4. Or doing it over the Internet, 81 cents. But saying how do you allow that citizen to occur in getting access to that type of capability?

It is also understanding which
applications are going to be hot buttons. One of
the Governors that I was talking with one time
understood the productivity very quickly. I said I
used to live in your state, and the only thing that
bothered me more than the productivity increase
was, Governor, I had to stand in line for two hours
the other day waiting to get a license plate when I
was there. And you know, I looked at your picture
for the two hours.

So sometimes understanding the emotional
issue that goes with the business case really helps
and being able to provide that in a very positive
basis is obviously what I'm saying, as well. But
if you think about it, what you'll see in big
government is wave after wave of applications, but
you've got to design a common architecture for how
you view your citizens, how you view your business,
and use your state employees where they add
sustainable advantage, not in repetitive things
that the system can handle much more effectively.

This might surprise you, but you've
probably got the same issue I do. I have very
strong functional groups in my company. Often the
strongest culturally are the most difficult to get
to move. So when you put in applications, go to
those groups who really are buying into it.

My engineering group and my sales group did not buy into it as quickly. So I went to my finance, my manufacturing, my HR, and other groups, got my systems really working, and then took it to the other groups. At first encouraged them and then required them. Nice thing about being a dictatorship.

How much of this productivity we saw over the last seven years was as a result of systems? A lot of people talk about it conceptually. A study was done by the University of California at Berkeley and by the Washington think tank, Brookings Institution by two of the top economists. They studied 2,065 companies in the U.S. They found out that the productivity increase they were getting and expected to get, increase now, 48 percent was due to web-based applications, 48 percent.

Now, there's a reason that many people in this room, if you were to look back a decade ago and being pretty candid, would have viewed IT as an expense. Why was it? Because it was. Business had moved from spending 5 percent of its capital investment on IT in 1965 to 45 percent in the early
'90s, and our productivity as business leaders had not increased at all. It was about 1 percent. There were exceptions, the Wal-Marts of the world, et cetera. But they were the exception. It was only in '95 that you see this elbow where web-based application suddenly became a huge leverage. And at the same time, it's like most things. If you don't change business process and merely putting in the network and the application gets you no productivity increase. You have to change governmental process and business process at the same time to really get the leverage.

So we can argue is it a 40-percent increase or is it a 60-percent increase, but in the time period that we're all being pressured to do more with less, the implications on productivity are pretty huge.

The other reason I'm among the optimists is when we studied the 2,065 companies, only 45 percent of them even started through that first wave of applications we talked about. Only 10 percent have moved into wave two. And only 3 percent were halfway through the first group, which is a very nice way of saying we've got this
productivity. Not only was business not really
doing it aggressively yet but very few
implementations. This is the reason I'm the
optimist. You just start to scratch the surface in
terms of what that really means.

This is why, and time will tell, you can
grow at 3 to 5 percent per year in productivity.
When we first said that five years ago, people said
nice market. It's never going to happen. We were
able to see our own company drive productivity at
over 10 percent per year and use that productivity
to move into new markets very aggressively. And
over the next five years, we had twice the
productivity of our industry average large
competitors and were able to drive up productivity
by a minimum goal of 50 percent in the next five
years. My goal is to do it by a hundred. All with
the understanding the applications for citizens or
for business or for profits if that were to occur.

But even the best economists are
suddenly saying 2 to 3 and a half percent looks
pretty real. Most people thought we could not even
approach those numbers.

Now, you take GDP growth, you can
probably run one to two points above that if our
education system re-educates workers quick enough
to realign them and they implement them in terms of
the way this is going. But do the math and think
about it for your state. If it's a 3-percent
number, you double the standard of living for the
citizens of your state every 24 years, which is a
nice way of saying every generation. Our children
do twice as well as we did. Their children do
twice as well as their parents did. If you get to
5 percent, which is pushing it a little bit, the
implications are even larger.

The other reason that I'm the optimist
on this, and it's something that surprised me, I
would describe it different than Mr. Greenspan.
Mr. Greenspan says we're getting a lot of
productivity increase because of the investments we
made before and the latency effect. We invested
several years ago. We're now seeing part of the
results.

Our experience has been a little bit
different on that. Productivity tends to increase
with applications. More in years four through six
after they've been implemented in one through
three. And seven through nine more than four
through six. That shocked me. Maybe it shouldn't.
Because I thought you'd make the change, you'd learn how to put in an application in Kentucky or Massachusetts or wherever, and then once you kind of change the process, you'd get your maximum productivity in three years and it wouldn't change.

What shocked us is how much it went up in years four through six and seven through nine. Half of this is due to volume. But when you look at those numbers, they're huge. And I thought well, that's just a mistake. It's unique to this one area called customer support. My term for customer support, yours for constituency or citizen support. Huge savings in terms of providing it.

So we looked at the other applications. We found the exact same thing, and it's the virtual manufacturing system I talked about. It increased dramatically, going from 12 million to 74 million to 280 million. And E-learning a similar approach. But this is the best example of how to talk about changes in process.

I thought that they would listen to a CEO talk for at least a half an hour. Rude awakening. It's ten to 12 minutes. I also thought my sales force would take a 40-hour course or your employee base within your state would, particularly
if I gave them a raise or a different level based
upon passing courses. You know what they do? They
take the test, try to pass out of the course, or
they more realistically realize they've got to take
only six hours out of that 40 hours to do it. We
just got rated as the best-trained sales force in
the world of any industry. Nobody would have given
that distinction two to three years ago. The
leverage is huge.

I saved the money initially, however, by
people not traveling to a given hotel or
transportation, and my productivity actually went
down for the first five years I implemented that.
It was only once we changed the process that you
really begin to get the productivity increase. I
just cannot overemphasize that. Merely putting in
the application and the network infrastructure
doesn't get it unless you change the underlying
given process.

I can rule out qualification of training
at a cost of perhaps 16,000 where it used to cost a
million and a half to roll it out. And we found
that our whole organization when I put it out for
the sales force training, we had another 10,000
employees logging on every month just to learn what
our sales force training was doing, which is a nice
way of saying we weren't developing our other
employees.

Internet and education. I think we look
back a couple decades from now, we're all retired.
We'll realize those are probably the two equalizers
both within states and within countries.

In the first industrial revolution you
had to be in the right city, in the right country,
often in the right state to participate. But what
the Internet and education will allow you to do
over time is the jobs will go wherever the best
educated work force is, with the right
infrastructure, with the right supportive
government. It is inevitable.

Now, it will probably take between one
to two decades to learn how to do this socially,
but the jobs will go not just which states within
this room but which countries across the board.

And this is why I'm so patient about
education. Our university systems are the best in
the world that you have in the various states, the
best in the world. But our K-12 if not improved is
non-competitive. We all know where we stand in
terms of global competitors. Probably 19th in
math, 21st in science. And I applaud everybody with the efforts that have been made, but we've got to realize if we don't move faster, we won't leave behind 5 percent of our population. We'll leave behind 30 to 40 percent in terms of the implementation.

That's why I'm so patient about getting back to education. We started networking academies because of one state saying with an idea of a local employee when we empowered through E-rate the ability to connect a school district, we thought we solved the problem. The real issue as any CIO would tell you is who's going to maintain the network, who's going to take care of it?

So we started doing network academies to train people to maintain the network and take care of it in the high schools and the colleges and saying that's how they'd also learn. Some of these students will get 50 percent higher pay than people who graduate in their graduating class.

And we've now expanded this, if you look across the U.S., as an example, to over 4500 network academies with 13,000 instructors in every single state in this room with the average being 70 network academies in each of the states represented.
around this room. And in the U.S. 115,000
students. Global basis, 141 countries with 268,000
students. And you know, there's no difference
between the toughest empowerment zone in the middle
of New York City and one of the richest cities in
the nation like Palo Alto. You give young people a
chance, they participate. The challenge is there's
no difference in scores between China, the U.S.,
and Romania, either.

So understanding how do we do this and
how we drive it all through. Corporations I think
that are particularly successful have to be best at
giving back. Those are not opposites. In fact, I
would argue they go hand in hand.

Governor Engler was kind enough to talk
about Cisco being one of the best places to work.
One of the reasons is how our employees view the
company in terms of the balance that goes with
that. We have over 200 network academies in 33
empowerment zones. We have 19 academies in Native
American communities.

We found that in juvenile halls or
homeless shelters, et cetera, you can really begin
to train those who want to be trained. In fact, we
had some of the students say in the juvenile halls,
we haven't completed our coursework yet. We'll commit a minor crime so we can come back and complete it. We said no, we'll teach you somewhere else to complete it.

The point is when you give people a chance to participate they really want to. This is more on the overall scope of giving back, which I think all American corporations have to be much more visible on and much more practical in terms of doing.

How do you drive that through? How do you impart that with government? Because until each of the Governors in the states really put your emphasis on it, it didn't take off in the various states. Same thing is true with the united nation in terms of driving across the united nation. The implications were with netting where we combined with the Hollywood entertainment industry, which I never dreamed would work. I knew who Bono was. I had no idea who Puff Daddy was. My kids told me who they were. And we came up with a program where you could give a hundred percent to a receiving location and cut out the well-meaning people in the middle where most of the costs are often taken up and get to see the results back. The ability to do
that has helped charitable giving. Changing the
process but at the same time you change the other
issues.

National broadband policy, I feel
tremely strong on this. Out of the G-7, we're
the only country without a national policy. We
used to be the No. 1 country in terms of broadband
build-out per capita run rate wise. We're now at
seventh on the way to 15th. All of us understand
the implications looking out at a decade about
healthcare to the original American at home, about
the ability to do education, et cetera. Remember,
when you put in an infrastructure and in and of
itself, broadband doesn't solve the problem.
You've got to get the applications and change the
process. But the implications are huge if we don't
speed up.

There isn't a single silver bullet here
as most of you know. Many of you have been very
aggressive in terms of your states. But I do think
it starts with a national policy of seeing
broadband in every home by the end of the decade at
an affordable cost; that there's a consistency in
state regulations and an ability on the regulations
not to determine the winners and losers ahead of
time. As many of you have done very effectively, you understand what can be done in terms of consistency and creating the easiness to build it out and the encouragement within the states and just to mention a few of you around the room in terms of how your leadership has made a difference.

But I think it's huge. You think of this much like you think of your highway system or your railroad system or your airports or your harbors or your electricity or your water flow. Whoever builds out the best flow is going to attract the jobs and citizens and leverage that goes with it.

This concept is very complex. I'm just going to kind of introduce it today and follow up. But I believe it will be the most fundamental change in business and government in the last half century. That is very simply you do what you can to add sustainable advantage to either as government or business. And what is either very redundant or what can be done more effective by others you outsource and put in the systems as well.

It's what many management thinkers are calling core what you do yourself very well in the
context of what others can do to put in the systems. What you do is you use technology to implement this in the application. So if you look on the one side in terms of the concept, it's an infrastructure using core in the context of applications, but what you're really talking about is using technology to change business government process to be implemented by people. I think if that is really carried through it goes way beyond that virtual manufacturing or virtual government.

Our American military is an example, gets this cold. It really understands the implications in terms of what does it mean for various organizations around the world. Again, something we'll talk about more over time. Culture's very, very strong.

Cisco is just an example. We believe it can be 100-percent customer driven. That's how de develop our products. We don't think we're smarter than you. You're going to tell us what your business problems are, and we can say how do we help solve those.

Catching market transitions in business, very key. This is when you lose or gain market share at tremendous speed as Steve and I know. I
wish I could tell if you're getting it in good
times you're getting it during the tough times.
The economics, the consolidations that are going on
in the industry, et cetera.

And then in culture. Cultures stretch
goals. If I asked a member of my team to improve
by 5 percent, what do they do? They work a little
bit harder. Then I go away. And they fall back
into the prior mode. If I asked Cathy to improve
by a hundred percent, remember, she can't tell me
no because I'll change her. That was a joke.
She'll think it's impossible and then she'll say
not without changing the process.

It's that mentality that stretches
goals. I believe in employee ownership. Think
about it. How many of you have ever owned an
apartment? How did you take care of that
apartment? How did you take care of the
neighborhood and the schools? How many of you have
ever owned a house? How do you take care of that
house, the neighborhood, and the schools?

I believe you ought to always seek
shareholder approval for all stock option plans.
And the executives have to be realistic. They
should be tied absolutely to performance. But the
difference in ownership, a nation of owners or a nation of renters, is huge in terms of the implication for where we're going.

And adapting to change. How many of you like change? Let me ask you. Are you married, by chance? Isn't change nice when you change spouses? Not to mention expenses. Isn't change nice when you've got to face a reelection every four years? Isn't change nice when we combine two companies and we're not sure if we've got a job? Isn't change nice when we just understood one thing and we've got to learn something else?

The point that I'm making is change makes everyone in this room uncomfortable. And yet your ability to deliver better services or improve productivity is all based upon change. And how do we learn to build this into our culture? And how do we learn to really measure the satisfaction level of our citizens in terms of customer satisfaction? We have the highest customer satisfaction of any player in the IT industry. It shouldn't surprise anybody that ties one to one with profitability in terms of the implication.

And where are you going in terms of how do you handle downturns and upturns? When a
downturn occurs, it's No. 1, don't get away from
your strategy on the downturn. So many people,
your strategy was working fine, then it turns down,
and it wasn't your strategy that got you there,
don't make fundamental changes in strategy.
Determine how long the downturn is going to last,
how deep it's going to be, adjust your plans to
that, and then as simple as it sounds, get ready
for the break, the upturn. That very simply is
what Cisco did in terms of the implementation.

The results in terms of market cap were
huge. I've faced four generations of competitors
in the last ten years. We'll face another four in
the next ten years. But here's where we were
versus very good companies, Lucent, Nortel,
Juniper, Extreme Foundry, all companies I
respected, well leaders, this is the market cap
just about a year and a half ago during this
downturn. Here's where it is today. It's been
good for Cisco, but the changes have been so
fundamental. That's happened to each of one of our
businesses around the country.

The same thing will happen. A new wave
of competitors will come in, but your ability to
survive as a business is based upon your ability to
adjust to competition and your ability to leverage it as it occurs.

Now, if you're already leading in terms of productivity and profitability, you're leading as a state in terms of the effectiveness in delivering your services. Then I'm saying on top of it we're going to try to drive productivity up by another 50 percent and ideally 100 percent. I think all of us understand what that means in terms of business or government in terms of leverage.

Here is a projection we made five years ago. Just to give you an idea, by listening, we hit them pretty good. This was in a major conference called Comdex November 1997. We said the data communication companies were going to consolidate. You could say but John, that had already started. We said all in one data with video networks. Pretty controversial but most every business and most of your CIOs will tell you within definitely ten and probably in five you only have one network in state government that's data voice video combined. After you did that, there's no reason for the 5,000 service providers across the U.S. There would be a rapid consolidation. And to have them grouped by geography makes no
sense at all to business or the consumers. So there's going to be consolidation within that. Same thing in Europe. Same thing in the Asian Pacific.

Voice, we can commoditize. I wasn't very popular with that statement. But I said voice will become free. But it will.Basically with such a small load on networks that over the next decade it will become commoditized and free and so will other forms of transporting time. And once that occurred, people who manufactured voice equipment and people who manufactured network equipment were going to collide.

The Internet and education, the equalizers. Here's where we are today. That chart people thought was extremely unlikely to occur within a decade. Here you are five years later and it's obsolete. It is a given now that we send all in one data and voice video networks to your constituency at home. You'll receive a TV over the same thing that you will your data feeds over the same thing your phone will occur. Huge efficiencies in terms of implications.

But the next point is real interesting. The things that we build, they will get cheaper
forever. The reason being, all of a sudden you're not going to just use the Internet to look at your two retail stores around the corner that you buy from. You're going to look at maybe a hundred or a thousand options. And the two retail stores around the corner will have to price to this new competition we're seeing.

When productivity increases 3 percent per year and each of your peers see the same productivity increase, that no longer translates into profits. It flows straight through to the consumer. Huge implications that this is right in terms of where we see it going.

You will see wave after wave of applications in terms of the implementation. And you will also see an involvement in business and government that I think is going to be pretty dramatic for us. But the underlying thing has not changed. The Internet and education being the equalizers.

I hope I've done a reasonable job of sharing with you what we're seeing economically, why I'm the optimist in the industry now versus being a pessimist in terms of what was going to occur 15 to 18 months ago, and how I believe it can
change our states and our country. I do want to
thank you for the opportunity to share with you
today. I hope this has been constructive.

CHAIRMAN ENGLER: Thank you very much, John.
I thought maybe what we can do is maybe just a
couple of immediate questions to John, and then I
can go to Steve next here is how I'm going to try
to do this. I've got Mike Leavitt and Jim
Geringer. Let me do those two, and I want to bring
Steve out.

GOVERNOR LEAVITT: Thank you. It was an
excellent presentation. I'm interested to know as
you have gone through the process of integrating
and creating enterprise-wide integration in large
complex organizations, what are the most important
lessons you've learned?

MR. CHAMBERS: The most important lessons
that I've learned in terms of creating large
integration-wide systems is first, you have to set
the stage at the top. And second is something I
did not think I would do, but I'm a huge believer
in empowerment. You have to have a common data
architecture in transport. Third, as alluded to
earlier, go to those organizations first that have
the leader who really wants to accept it. And
fourth, take the time to explain to others what is the benefit from it, and then have your operational reviews of your leaders of your various agencies and departments report it to you. Not the CIOs but the agency groups. And then at the top, you've got to walk the talk. I can't say one thing and go a different direction. So those would be probably the five that come immediately to mind.

CHAIRMAN ENGLER: Jim.

GOVERNOR GERINGER: Thank you. John, your points are well taken. They've hit very well with what our technology task force has worked on for the last several years. The challenge that we see today and one focus I would like to give would be given the fiscal challenges that the states are facing today, most states, maybe I should say Governors all know they get it but maybe the legislature doesn't. In other words, let's put the blame on someone else for the moment, even though it all comes back to us.

MR. CHAMBERS: CEOs occasionally do that.

GOVERNOR GERINGER: That's right. The same deal. The temptation is always to characterize information technology and the very thing that you point out up here as a separate line item. It
becomes very vulnerable. If you have to fund education, fund healthcare, fund public safety, those are all very important. Take out IT because that's just too expensive. It's an add-on. Our committee has tried to provide the integration concept of saying this is so integral in terms of the success and process and productivity. The productivity gains are misunderstood in terms of the integration of technology into a network virtual government. Business is going to have to show government how to do that.

Is there one thing that we could point to with our fellow legislators, Governors, whatever it might be to say this is the ah-hah, this is why technology can't be considered independent of the other services that are high priority challenging fiscally this time?

MR. CHAMBERS: I have to think a little bit more about the answer. Let me follow up with some detail. But the initial reactions are I think the physical implementation and the network-based implementation that web applications are so intertwined you can't separate the two. So educating people on how they're intertwined,
whether it's security versus terrorism, in protecting infrastructure or others.

The second is to get a couple groups that really understand it within your state and get them to be successful. And then you put them up on a pedestal and get others to see how it was successful and sharing this very openly across the states. There's no reason the states couldn't share not only the common data architecture but common applications and sharing back and forth, not just between the governors or the agency groups or your IT people, but equally important what did not work.

The third is a little bit of education, and we're learning even with the companies like a GE, which I think is one of the best-led companies in the world, Jack Welch and now Jeff Immelt will tell you they brought us in to help them change the business process and we had 15 engagements going.

We do that with states at no cost. Now, we do it at no cost very simply. If it really works, you'll buy either my competitor's infrastructure or my own, and I'll win my fair share of those battles just showing people how they do it. I think if there's one fundamental, it's
how do you educate them? Because most people want
to get educated in this.

Secondly, you should have in my opinion
a separation between an IT budget and the business
budget, not where you do everything centrally. I
have an unlimited IT budget, unlimited. I gave it
to each functional group once they understood it.
They can spend money on bricks and mortar or on
people, or they can spend it on systems. And then
I do regular reviews every three to four months
with the business leaders presenting, not the IT
person on the payback.

So I pay for about a fourth of the costs
of the IT system centrally. And then I fund it.
Within each one of the functions, they can either
spend the money one way or the other. But I do
insist on a common data architecture so the
applications in the Department of Motor Vehicles
can tie together with other applications you put in
place to share common information.

That would be my initial reaction, and
if I could, I'd have the honor of getting back to
you with a little bit more detail, I'd appreciate
it.

CHAIRMAN ENGLER: Governor, I'll put you on
the list after Governor Musgrove. I want to bring
Steve Appleton up. John Chambers, thank you.
That's terrific. And John's going to stay on here
for a little bit here. We'll open it up. We've
got both CEOs here. We'll try to squeeze as much
time for questions as we can out of our session
here this afternoon.

So let's move right to Steve Appleton,
who is a local leader, indeed a national and
international leader, as well. He's chairman of
the board, CEO, and president of Micron Technology,
Incorporated. He's been president and chief
operating officer or was appointed present chief
operating officer back in 1991. His current
position he took on in 1994. He's seen a lot of
change in the past decade.

Serves on the board of the directors of
the Semiconductor Industry Association. He also
received a presidential appointment to serve on the
Semiconductor Technology Council.

Steve Appleton has some deep roots in
the Boise area. He's a graduate of Boise State
University and serves very actively on a number of
important local community boards and I know is a
good ally of Governor Kempthorne.
So at this point, ladies and gentlemen,
Steven Appleton, the chairman, CEO, and president
of Micron Technology.

MR. APPLETION: On a lighter note,
Governor Kempthorne, you'll be happy to know that
the Shakespeare Festival as the tornado came
through, a number of Governors mentioned to me they
definitely provided a unique experience. In
particular some of the props unintentionally moved
their way around the stage with no assistance.

Well, I listened to John say a couple of
times how people will only listen ten to 12
minutes, so I'm going to condense my two-hour
presentation down into ten minutes.

I will focus a little more on education.
I think for most of us, there is little doubt that
technology has changed the way that we live and
work. But in this context, we rarely think of
technology as personal. However, I think there is
one exception to this, and it involves our
children.

This point is illustrated by the
perspective that many of us in this room could do
without a lot of the technology today, particularly
certain aspects of it. However, I think when it
comes to our own children, we believe it is critical for them to have access.

How many of you have acquired a PC, a notebook, a digital system, signed up for broader band access through a higher speed Internet access, all of it because you felt that your child might be left behind without it?

On a broader scale this is also what occurs in almost every school district around the country. These same arguments, these same types of discussions. Fifty years ago a high tech classroom featured a slide ruler and a manual pencil sharpener. Today kids think a slide ruler works at the waterpark. And when I talk to them about looking something up in the encyclopedia, they act as though I'm speaking some foreign language. But that's okay. It's okay because we have created better ways to accomplish the same goal, the education of our children.

Today's classrooms are filled with all sorts of technology. Information as John described is at their fingertips. Children in Boise can talk to students in Italy or Singapore, unheard of a decade or two ago. They can conduct research on the polar ice caps or rain forests in the Amazon.
Technology has truly changed the way our children are educated. (Power point presentation.)

MR. APPLETON: A little lighter way of looking at technology. So I hope we all agree technology has changed the way kids think and learn. As Governors, you are directly involved with the budgeting and spending for areas that will improve the way our children will learn.

Where does the funding for technology come from? We had a discussion a little earlier about the spending of technology. I won't try to cover whether it's enough or not. I will simply say there is technology funding, and where does a lot of it come from?

If you look in the schools, about 90 percent of it comes from some relationship to the state. In particular, you look at the local school district. There's a large percentage of it, about 72 percent of the schools say they also get funding from the federal level. So there is funding that exists for the schools.

The thing is we want to be smart about that funding. And here's a look at how it breaks down. If you look at where the various sources
are, you can see that about 53 percent of it comes from the local school districts. Now, the legislature, which was mentioned earlier, accounts for about 29 percent of it. Then you have 11 percent from the private sector and 7 percent from a variety of programs at the federal level like the Federal Technology Literacy Challenge Fund and the Goals 2000 Program in the form of competitive grants. This means that nearly 90 percent of the funding for technology in Idaho, and I would guess the numbers are similar in other states, is provided by the decision makers within those states.

Governors and legislators can and do have a real impact on how technology decisions are made. As you consider how to best spend those technology dollars, I want to leave you with a few ideas to consider. As I mentioned earlier, we need to be smart about the funding. I would suggest that we would employ the use of R and D in the schools.

As many of you are aware, technology companies place a percentage of all of the money they receive, their revenues, into R and D. I think put simply, we want to first develop and then
prove out what works before we take it into broad production. Schools should do the same. Let's face it. All technology is not created equal, and sometimes we come up with bad ideas.

If you look at this next slide, would anybody want to buy this PC as their next portable unit? Not that good of an idea. There are lots of ways to implement technology, so we would recommend the expanded use of these competitive grants to encourage really one school's or classroom's project to pilot an innovative project.

The next is assessment. I think John mentioned earlier how important it is to measure whether it's productivity or some other measurement that you're trying to gauge on the impact. We need to have assessment. And I think this is really a hot topic around the country is whether it's educational program and the employment of technology, is it having the impact that we think? Pilot projects only have benefit if we set up a system to determine whether they had a positive impact on student learning. This follow-up is missing in many of our schools. Schools should spend some time on that technology, on data management, in particular data management systems
that allow teachers to see the results. Companies
certainly spend a lot of money in this very
important category. Schools have been reluctant to
do so historically. It's fruitless to spend a lot
of money on high tech devices for the classroom if
we don't assess the impact.

Finally, we need to look at scalability.

We need to look for projects that can expand and
are scalable. Fund pilot projects that if proven
to work can be implemented across the school
district and eventually across the state.

So in summary, money is being provided
to our children across this country. I think we
can feel good about that. We can debate whether
it's enough or not, but we are making progress.
It's having a profound impact on the way our
children learn. If we consider a few basic
concepts in the technology funding process, we'll
make even greater use of those resources. Thank
you for the opportunity to share some of my
thoughts.

CHAIRMAN ENGLER: Thank you very much, Steve.
Now, ladies and gentlemen, let's just open it up to
questions. And feel free to direct them, and I'll
try to watch both Steve and John if they both want
to comment on a single question.

Governor Musgrove. Then Governor Turnbull.

GOVERNOR MUSGROVE: Thank you, Mr. Chairman.

John, what's the real reason we don't have a national policy on broadband?

MR. CHAMBERS: I think there's a hesitancy regardless of which political party you represent to do what business does regularly, which is outline a goal, not having all the pieces in place, and then say how do you work backwards? One of the reasons we broke away so much at Cisco is we outlined what most people thought was an unreasonable goal. We weren't sure how to get there, but we broke it into pieces and then worked backwards.

Secondly, it requires unusual coordination and confidence in the state implementing a similar equally as consistent type of approach. I would be very disappointed and shocked if we didn't have that at most of the state levels by the end of this calendar year and a national policy by the end of the year.

I think momentum is building. I think part of it was high tech was too slow to come to the market with why you needed this. And I think
many of us were looking for a single silver bullet. If the president said do it, it's done. It requires a large group of organizations working together such as the SEC and Congress, as well. That would be my answer.

CHAIRMAN ENGLER: Governor Turnbull.

GOVERNOR TURNBULL: My question, Mr. Chambers, is why is higher education in general so much better than K through 12 in your assessment in America today? What are the schools doing wrong in K through 12?

CHAIRMAN ENGLER: I think John Chambers will start with that.

GOVERNOR TURNBULL: Yes, it's for John.

MR. CHAMBERS: I think there again you think of it as an equation like an economy. There isn't one single silver bullet that accomplishes the goal. I think higher education, we realized early on in the country how important it was, and we had great competition among the state universities -- I'm real proud to be a graduate of multiple state universities -- but also among the private universities as well. So there was competition with a huge amount of emphasis with leadership of the various Governors within the states at the
national level and how important that was.

I think our K through 12 education started off as one of the best and often the best in the world in many areas. Then I think we got sidetracked a little bit. Part of it's funding. Part of it's class size. Part of it I believe, and I'm a little bit radical here, you've got to create competition. So I think we've got to spend more money. I think we've got to pay teachers more. I think we've got to have more of a consistency on programs, et cetera.

I wish there was a single issue just like the national policy that could resolve it. I think many of you around this table understand that issue far better than I do. I do think it's something just like putting a person on the moon that we ought to put every American home and every territory home with an Internet connection high speed by the end of this decade at an affordable price.

And the same thing for education. Any young person ought to be guaranteed a good education, regardless of income level or geographic location with an option if the school isn't providing that.
CHAIRMAN ENGLER: Let me ask Steve Appleton a question. I'm just curious from the position of Micron in the world as a major chip manufacturer, what's going to determine whether or not you'll put your factories and build those products in the U.S. when you look ahead? Are we still going to be competitive at chip building?

MR. APPLETON: I think that, yes, a lot of thought process in particular in the semiconductor and I think in general this goes for a lot of the IT world that the cost of labor is not that big of an issue for us in our business. And it's really focused on education.

And just a derivative of what John mentioned earlier, higher education is a privilege, not a right. And K through 12 in many respects is a right, not a privilege. There's just a tremendous amount of competition from almost every country around this world to go to universities here in the United States. And it puts a lot of pressure on the services that are being provided or the quality of that education. And a lot of that comes down to assessment because if you don't achieve at the university level, then you don't get to continue. And that is the case in many other
countries. I'm not suggesting that for our country. But that is the case in lots of other countries. Somehow we have to have assessment and accountability for achieving results in this country at the K through 12.

And I think that the education piece more with respect to the question that you asked, Governor, is we have to have a highly-educated work force in order for us to succeed in our business. And if we cannot achieve that, then we have to go where we can achieve that. I think, fortunately, despite a lot of the negative reports, I suppose, around the country, we do have a great university system, and we have very high-caliber people coming through what we consider to be our system and into our company.

As an example of that, almost all of our research and development is done here in Boise, Idaho. You might find this interesting that of all companies receiving patents in the world and all companies applying for patents in the United States in general because we have such strong protection of IP laws, of all companies receiving patents in the world, Micron was No. 4 last year, and we were No. 2 in the United States, only second to IBM.
And almost all of that technology is generated right here in Boise, Idaho. So we do have the caliber of people that we need. We need to make sure we take advantage of that.

The concern I think that a lot of us as leaders have is the refilling, if you will, of that glass of educated talent as we move forward. Because ultimately obviously people retire, and we have to have new people in the work force in order to continue to create that kind of intellectual property.

CHAIRMAN ENGLER: Governor Kempthorne and Governor Schweiker.

GOVERNOR KEMPTHORNE: Yes, Chairman, thank you. Mr. Chambers, if you could address this, too. As we talk about the role of government, and everyone agrees that we have to have a well-educated work force but as importantly well-educated citizens, what is the role of tax policy? You talk about the fact that we currently lack a national strategy on broadband. In Idaho we have a 3-percent investment tax credit. But if it's broadband, we double that to 6 percent. Because of that we have 12 rural telephone companies that have band together, and now the
southern part of this state is having broadband
brought to a variety of communities throughout the
state.

They tell me that that additional tax
incentive made it finally pencil. So as we look at
all of this, how do we also factor in tax policy
for incentives?

Research and development, I remember
last year, Steve, when you opened your new R and D
facility, but I think because we have an R and D
tax credit that was instrumental, a clean room tax
credit, and I remember, Steve, you said to the
educators in the audience, it's been ten years
since we have built an R and D facility in Idaho.
Send us your engineering graduates.

Well, if you fast forward ten years,
those graduates you need are sixth-graders today.
So somehow we balance so that we can still have you
successful. So what role does tax policy play?

MR. CHAMBERS: Starting at 30,000 and coming
down very quickly, companies are going to locate
their work force wherever the best educated work
force is with the right infrastructure with the
right supportive government. Tax policy is one way
of sending that message very strongly.
Secondly, as you correctly articulated, and many Governors around this room have very active programs on broadband build-out, without help from the state government, international government, it doesn't pencil. So we've got to get consistency so people can learn how to make money there. But you're not going to get the build-out without that. And you're also going to have the predictability because the infrastructure, whether it's the 12 local organizations or three or four of the nationals, they won't build out until they are pretty sure about predictability. If they make the investment and then the rules change, they get wiped out as a company or otherwise.

The incentives do say very crisply what you think is important. I will not underestimate how you can send a message very strong to businesses or others.

I showed you my customer satisfaction slide. Best in the industry, but it improved dramatically in 1994 when I tied compensation to the customer satisfaction. Got it across to all my customers for every manager in the company. It's amazing how that sometimes worked.

Having said that, I do not want to hide
behind saying we expect the state and national government to fund the majority of broadband build-out. I don't think that's necessary at all. I think if you create the right environment, the vast majority, and I'm not smart mathematically to say that 75 percent or 85 percent can be achieved by private implementation if it's predictable and if reasonable incentives are there, and then we can do universal service for the last 10 to 20 percent with an understanding of how to go after it. So kind of a generalized answer to your question.

CHAIRMAN ENGLER: Governor Schweiker.

GOVERNOR SCHWEIKER: Dirk asked and raise the idea about a tax policy in all of this. Let me ask your reactions to the role of parents as it relates to the K to 12 education, John and Steve. I looked at the video just moments ago, and I saw adults and probably parents struggle with just what is good and do they understand its role. In light of those remarks and your comments today, what technology advances do you see coming at K to 12 education that perhaps we should understand that enhance the role of parents or help parents? I'm not just talking about PC tax-free holidays or what we've done in Pennsylvania with further acquisition and
all that kind of stuff, but blue sky, what do you see?

CHAIRMAN ENGLER: Steve, go ahead and start.

MR. APPLETON: Okay, thanks. That's obviously a very difficult question. I think that one thing that we haven't spoken as much about, although John touched on it a little bit, is that the parents often are no different than the teachers in the system today in that they have to have the ability to understand in order to assist their children.

And one thing that we're finding as a challenge because I think most companies like Micron are involved in these communities, and remember, we're all parents, too. We're all parents, as well, and that the ability to assist the children in whatever environment it happens to be, whether it's at school or whether it's at home, that we also have to learn. We also have to learn. And I think that it's difficult when you're a parent working to spend a lot of time coming up to speed on what new technology has to offer. And as a result we must continue to emphasize the accessibility from home or from wherever you happen to be, the accessibility of these learning tools so
you can participate with your own child as they
come up through the system.

MR. CHAMBERS: I agree with Steve's comments
completely. I would take it a step further. I
think we want to remember, you all know the
statistics better than I do, almost half of our
American children come from single parent homes.
The amount of time parents have with kids is giving
more and more pressure upon that.

I think realistically, if we do the job
in our schools, the kids will actually teach the
parents. I teach my dad. I hate to admit it, my
daughter and my son teach me, even though I'm in
this business full time. It's much like you're
doing in other parts of the world, where in certain
parts of the Arab world we're actually training the
female member of the family to educate the rest of
the family in terms of the implementation. That is
ture in many other areas, as well.

I think this is also an area, however,
where business must be more aggressive. As a
parent, I try to make a difference in a single
school. I lived in eight states. You can't as a
parent. You can as a business leader, however. As
a business leader, you're in a position where
you're not subject to specialty interest groups.
You're able to say frankly, if we don't have kids graduating from high school that are able to read at a reasonable level, I'm not going to be able to be located in the state. And you can get behind people from both political parties very strongly who are very pro education.

I think the major thing the business leaders can actually do is say we've got to fix this now because a decade from now it will be too late and really drive it through.

I think parents play a key role in creating an environment that is so much easier if you have the broadband option at your home in every state in this room for the parent to say then I will connect. I think business and government leaders working together is the only way that can really be accomplished.

GOVERNOR SCHWEIKER: A kind of broader, bigger perspective kind of effort, not so much the school system proffering a niche or particular role for parents.

MR. CHAMBERS: I think it's important to combine because the parent's involvement in the school system will always be the strength, but it's
got to be the two put together. It's got to be a
local effort and the state and national effort.
And I think business leaders can and should play a
much more aggressive role in helping that to occur.
We've done that as a technology group as an
example.

CHAIRMAN ENGLER: Governor Mike Leavitt.

GOVERNOR LEAVITT: I would like to ask
Steve Appleton and I'd love to have John comment as
well, specifically how well do you believe our
higher education system is aligning its priorities
with the needs of industry, specifically the
technology industry in the future?

MR. APPLETON: That's a great question,
Governor. And I think related to that, by the way,
is those students that we have in higher education
and where they come and where they go because I
think that in general what happens is that
companies are very much involved with their
universities and where they work and exist. And
that's I think pretty consistent around the
country. So I think that if they're not aligned,
they get aligned through the relationship that they
end up with those businesses that are in the
communities where the universities are.
And the only thing that I can say is we obviously believe that there's somewhat of a shortfall with respect to science and math. That's in particular because when you look at the amount of positions that are available around this country and around the world in those fields, they're not being met. There's a very large shortage. So even though we talk about economies being weak, in general most people that come from those fields can easily get a position or a job, almost no matter what country they're in.

We need to do more of that. I think that that's slowly evolving. The problem is that the question really is how well aligned is K through 12 with what the universities believe they need to provide to their constituents, which are obviously either the communities or the companies that they work with.

And there we see quite a disconnect. The disconnect is related to the amount of children that are moving through at a competence level in the math and sciences because I think as many people know, by the time that they get to their high school years, if they haven't achieved some level of competency in those fields, then there's
no way the university can accept them in those fields. That's why a large percentage of our universities today are actually students from other countries, not from this country. It's unfortunate because we need better alignment there in order to make sure that we continue to have the type of people from our educational system that will fuel a lot of the technology industry, which is obviously a key part of this country.

MR. CHAMBERS: I think the university and college system, and I include community colleges because they are tremendously valuable to the education of the work force, but all that we draw from are the best in the world. I think the tendency is when you're very, very good, you don't change. All of us are comfortable with not changing, especially when we are good.

I think many of the classes and some of the teachers that we all attended in universities are the same as when we went through, and yet everything has changed. Whether you're in Beijing or West Virginia University or Stanford or Cambridge in the United Kingdom, it's always the same when you talk to schools. You have the student up front that's really pushing the
envelope. You have the dean and the president of the school in the back going good boy. You have the professors over here to the side scared to death. Part of what we have to do is educate our leaders both in universities and in colleges but also in the K through 12 so they cannot have the fear but more importantly to know how to really leverage the capability that that does occur.

I would echo, however, what Steve said. If the K through 12 system does not produce the number of engineering candidates and we are particularly struggling with gender and minority where we actually without realizing it turn young people off in the third, fourth, and fifth grades. Joe Bartz (phonetic) will tell you, one of the top high tech leaders, that if you actually watch the schools, we turn off the young women towards math very, very early on in a number of schools.

So I think we've got to do a much better job of getting our educational experience up because I share with Steve, we are not going to have enough engineers five years out. We might have a temporary good year, but we're going to have the same problem. We ought to be developing this for American jobs, but you've got to have the skill
CHAIRMAN ENGLER: I was going to stop with Governor Leavitt's question. All of a sudden there's a flurry of activity. Steve and John, you've both got going again here. But Tony, you didn't have a chance, and Judy, both, if they're brief questions, why don't we put both questions on the table and get the responses together perhaps if we can if they're not too wildly variant.

GOVERNOR KNOWLES: Thank you very much. This has been an obviously very exciting and enlightening discussion on how through productivity and the increase in productivity and technology that we really can work our way out of what has been a setback economically and build a bright future. There was also, though, today a lot of discussion about the crisis of competence that the public has in corporate leadership.

And you as two very successful corporate leaders, not only in the comments of your customers but the respect of a broad number of people in the public, do you believe that we can work our way out of the economic problems that we have without addressing the crisis of confidence that we have in the ethical leadership of corporate America?
CHAIRMAN ENGLER: Judy, go ahead.

GOVERNOR MARTZ: Mine doesn't match that at all, but can I just throw this in because you are visionaries I think in what you do. Sometime ago I thought about a program that I really believe fits into what you're doing but it's a niche that we're really missing in America, perhaps in the entire world, with computers and information technology in our older population. And I thought about the program. I'd call it connecting families where we put computers in the homes of all retired people using students to mentor, connecting, also encouraging elderly then to be involved in education. Once they see like the lady that was on here that didn't understand what a computer is, elderly who are retired people who really don't have a place that they want to help or they want to help society in some way but they can give then, they can help us with mill levies then because they too are learning and they can connect to their families, see their grandchildren, and we can help them with line hookups however we have to do that.

I'm just one person with an idea, and I've got some extended ideas about that, but I would like to have you maybe put that in your bank
of things that I think we're missing in America.
And this is a population that's really not in touch
with what's going on. I think it's a healthcare
issue. Once they start connecting with their
families, I think their health improves in that,
too.

CHAIRMAN ENGLER: John, why don't you comment
on Judy's and Tony's question as well. Then Steve,
I'll come to you for comments on Governor Knowles'
question, as well, and then we'll wrap this session
up.

MR. CHAMBERS: I think it doesn't matter
whether our economy can recover or not with the
questions about business ethics. We have to solve
that one. Even if you've got the economy to come
back without it, this is something we cannot deny.
It's the responsibility of every business leader to
step up to it.

And while I think all of us would agree
it was a very small minority who made this mistake,
I think we should be held a hundred-percent
accountable and put in jail if they did violate the
law, and I think undoubtedly some of them did.
Every business leader has to deal with this and
step up to it very aggressively.
I think as you do this you almost need to break it into four categories. I think you've got to restore the confidence in our financial statements. That's both an issue the auditors have to own because they really have to be the watchdogs, and the companies have to make it easier to read. I've got multiple degrees, but I would have trouble reading a corporate report looking back a year or two ago, and I'm really good with numbers.

So we've got to make it so the average person can understand what does cash flow mean, what do profits mean, how do we crossfoot between various actions, and be able to explain the effects on pollution, et cetera, and do that very quickly. We can close our books within ten days after we finish our business. I'm sorry. Immediately within doing it. And we will report seven to ten days later. We show our cash flow in all of the statements.

I think all of us have to adjust quicker to the proposals of the NASDAQ and the New York Stock Exchange and what will come out of Congress. I think, for example, we're already pretty much complying on those in all the material issues, but
we have to adjust, and the best companies have to lead.

I think you have to seek shareholder approval for all major options. I have very strong personal views about not repricing, but that's a separate item, but I think the shareholders should not be taking different risks than the community. We've done that at Cisco. Our profitability is up 24,000 percent for the original investors in Cisco. Since 1995 even though our stock was clobbered last year, it's still up 600 percent. So really asking the shareholders for approval and driving it down through the organization.

And I believe in stiffer enforcement and more budgeting. We've been asking and strongly recommending for almost 45 months now stronger budgeting of the SEC and implementation.

But the real issue in ethics as you know in state government or in business or in a country, it starts at the top. You have to walk the talk. This isn't something that you can enforce. You've got to create the atmosphere. It starts with the CEO and CFO. They have to today be even more visible to really walk the talk. And you're going to see that occur across corporate America.
My worry is we've got to make some fundamental change, but also, like I talked about in terms of what we did during the economic downturn, you don't overreact and cause a whole new set of problems. I think we're headed the right way. I think what the president and others are recommending I strongly am supportive of. And I think you will see those changes take place.

Summarizing back to the economy, either way, I think it's the right thing to do, and I do think it's necessary for the long-term confidence this country has.

On the comment about the elderly, the majority of our population is going elderly. If you look at it, the life expectancies I don't think are going to be in the 70s. I think they're going to be in the 90s. If we don't learn how to tap into that resource and make them even more productive, but I think given the chance it would surprise you how quickly elderly will learn. I use myself as somebody approaching that category.

My dad never used a computer when he was a doctor, nor did my mom. Once he retired, he suddenly began to use the computer to trade stocks. Then he learned to shift from one organization to
another that saves him $5, which drives me absolutely crazy. Then he learned to do the reviews of how I was doing and how my competitors were doing. So now when we talk each week, or really three or four times a week, he tells me how to run my company better, as well.

The point that I'm making is that seniors can adjust remarkably quick to technology if you give them a chance. You've got to give them some applications they know they're interested in and make it much easier to use. You don't have to be a typist as an example to use the computers.

The second most aggressive users of age groups in using computers? The seniors, after the young people. So I think it will happen, but we need to create that environment. We need to think about how we do that in terms of what their capability to access it. We've got to make it easier to use. And I think it will come.

CHAIRMAN ENGLER: Another argument for broadband, you can download pictures of your grandchildren, too, faster.

MR. CHAMBERS: Governor, you've hit exactly on the issue. Once parents get an application, the seniors, that they can really use, whether it's
pictures to their children, et cetera, then they
get the next application and the next application.
Same thing's true in business and state employees.
Once they get one or two applications to work, they
drive it all the way through.

CHAIRMAN ENGLER: Steve.

MR. APPLETION: Thanks. Governor Martz, just
real quickly, the person that knows the most in my
family including my extended family is my mother.
She knows more about computing the Internet and
networking that I can only dream of. So I
definitely agree with John's comments.

With respect to the corporate crisis, I
think that there's a lot that's already been said
about it. I think the positive in the environment
they're in right now is that it's bringing an
incredible amount of visibility to ferret out what
I consider to be the negative is that we're all
being lumped into the same category.

And really you don't have to call it
corporate crisis. You can call it leadership
crisis. We have leadership crisis that occurs in
the church. We have leadership crisis in the
government at times. We have leadership crisis in
business. There's just a lot of visibility right
now with business. I think it's warranted. I think that we will have to continue with we need to have accountability, and equally important that John's already mentioned, we need to have transparency and we need to have disclosure because that's really I think at the heart of what exists right now is not enough disclosure as to what's going on inside of these companies for frankly the people that own the company. The shareholders own the company. We need to recognize that, and they need to have the information.

CHAIRMAN ENGLER: John Chambers and Steve Appleton, thank you very much for a very productive session this morning.

Next on the order of business, a very special time for us, the National Governors Association Distinguished Service Awards are to be presented. This is an awards program that goes back now I believe a quarter of a century, established in 1976 by the National Governors Association Executive Committee. It's a way that the Governors can bring national recognition to some of your states' most valuable civil servants and private citizens, as well.

The awards focus attention on the
commitment of state administrators, the importance of the contribution of private citizens in the state government and to the arts. So today again, keeping with this tradition, we recognize just some outstanding individuals who do represent the best of the state-level service and this is public service activism and service for the arts.

And many of the Governors submitted nominations. The selection committee tells me that there were very outstanding and difficult choices to be looking at. I want to thank Tim Ward, who chaired the selection committee, as well as other members of the committee: Francis Owens, First Lady of Colorado, who chaired the arts review panel and did an excellent job and her committee members.

So we'll present awards in the state official private citizens in arts categories. What I'll do is announce the winner, and if you'd come forward along with your Governor, I'm going to ask each of the Governors to step up to the podium and make remarks honoring their award winner.

First up it looks like so you can get ready will be Governor Huckabee and Governor Foster will be on deck. We're going to start with the state official category.
The first award winner being recognized today is Dr. Fay W. Boozman, director of the Arkansas Department of Health. Governor Huckabee, I suspect you'd like to make some remarks on this outstanding state official, and if Dr. Boozman would come forward, as well.

GOVERNOR HUCKABEE: Mr. Chairman, thank you very much. First of all, let me say that I've known Dr. Boozman for a number of years, but I really got to know him well during my tenure as Lieutenant Governor when he was elected as an Arkansas state senator and began serving in 1995. I asked him to take the role of the Department of Health director in 1999, and he did so. He took on one of the largest departments of state government with 2800 regular colleagues and some 2500 contract workers.

During his already brief tenure, Arkansas has moved from a national health ranking of 50th, which we weren't very proud of, to 42nd, which is our best in 12 years. His goal to make us the healthiest state in the union.

He's distinguished in terms of his academic background, graduating first in his medical class and having residencies in both
pediatrics and ophthalmology. He served as a flight surgeon in the Arkansas Air National Guard, achieving the rank major.

Then after he was appointed the Department of Health director, he went back to school at the Tulane University School of Public Health, receiving his master's degree. He became the very first Arkansas public health director ever to have achieved such a distinction.

During his four years in the state senate, he was seen as a true leader. Most importantly, he was a person who was able to build real relationships across all kinds of lines and win the respect of everyone in state government. He's got a can-do attitude and a terrific ability to bring people together and to serve the people of our state.

One of the first goals that he had was not simply to administrate the department from the office in Little Rock, and he went out into the field, and his goal was to meet every single one of the 2800 employees of the Department of Health. That's exactly what he did. He and my wife literally toured 96 health departments in all 75 counties promoting childhood immunization, moving
our state from a ranking below the national average
to well above the national average in the number of
children who were immunized. More importantly, he
won the total loyalty and respect of those 2800
employees. In fact, the reality is those health
department employees love him. They don't care
much for me, but they love him.

The Tobacco Master Settlement was a
crucial opportunity for a lot of states including
ours. I charged him and the director of our
state's medical school with the responsibility of
coming to us with a plan for using those funds that
Arkansas would receive to benefit the health of our
state. I know that many states have used those
monies for a variety of things that they felt were
necessary. But in a state where health needs were
so critical, we devoted every dime of our money
back to the health of the people of our state.

And one of the chief architects of that
plan, along with the president of the medical
school, was Dr. Fay Boozman. In May 2000, after
only a year as the director of the Department of
Health, he was awarded the Southern Health
Association's Charles G. Gordon Award for
outstanding service in public health. In addition,
he was the recipient of the 2001 Compassion Award by the Arkansas AIDS Foundation.

He's recently been appointed as a professor in the Department of Health Policy and Management in the brand-new College of Public Health started in Arkansas as a result of the monies that we have used with our tobacco settlement funds.

His commitment, his professionalism, his compassion, his spirit, and his deep humanity are many of the reasons that I'm very proud not only to call him one of our great public servants but also a very dear friend. It's a real honor today to join with all of you in recognizing the outstanding public service of Dr. Fay Boozman, Department of Health director in the State of Arkansas.

CHAIRMAN ENGLER: Congratulations, Dr. Boozman and Governor Huckabee. Our next winner in the state official category is Mark C. Drennen. Mark is the commissioner of administration in Louisiana, and Governor Foster will have a couple of words about Mark Drennen. Then we'll hand him his award, and then Governor Siegelman, you'll be up next.

GOVERNOR FOSTER: First, let me thank the
National Governors Association for honoring Louisiana three years in a row. This is the third year that we've had one of these, and they mean a lot to us. I could tell you a lot about Mark, but I'm going to condense it down and give you a couple of quick thoughts.

Thought No. 1, when I was first elected Governor, I realized that the most important talent you could have as a Governor is picking good people. I've been blessed with the ability to find good people. But particularly in the area of money it is important to pick the best.

Basically what I did, I said who can I find that not only understands money but understands government? And I said by gosh, there's one operation out here, the Public Affairs Research Council in Louisiana spends all their time criticizing government, and they have an executive director who said you do this wrong and you do this wrong and you do this wrong, and here's how you fix it. So I said that's the man I've got to go find.

I went to Mark and said Mark, would you consider under any circumstances coming over here and putting into play what you've told everybody to do for the last few years. He said well, I'm going
to think about it. And I said if you think about
it, I'm going to tell everybody that you don't know
what you're talking about, and you've been given an
opportunity to do exactly what you've been talking
about. He says I accept.

Anyway, I can go on and on. I can
condense it into one simple thing. Louisiana is
one of about eight states that's not having any
problem with its budget. And you know what that
means. It doesn't just happen. We've had a net
decrease in taxes over the six years I've been
Governor. We've cut our debt more than any state
in the union. We've got our bond rating to go up
for the first time in 20 years.

We started to build a complex of
buildings instead of having a patronage where
everybody gets a deal to rent a building to the
state. We've built a huge complex of the new
buildings that the state's going to eventually pay
off in 20 years and make money on. Anyway, I think
just the fact that we were one of the seven or
eight tells the story.

Just like what Mike said, not only do
you end up with your employees being proud of them,
but you also end up being very good friends.
Mark's a very good friend and a great financial
manager. Mark, congratulations and thank you for
allowing us to have these honors.

GOVERNOR ENGLER: Now, these are award
winners in the private citizen category. First
from Alabama, Van L. Richey. Van is president and
chief executive officer of American Cast Iron Pipe
Company. He's been a strong advocate for children
in that state. Governor Siegelman will say a few
words about this outstanding award recipient.

GOVERNOR SIEGELMAN: Thank you. After I was
elected, I said I wanted to dedicate my
administration to children. I immediately
established a cabinet-level position, the
Department of Children's Affairs, and charged the
commissioner with the responsibility of coming up
with a master plan for early learning.

We had a series of retreats involving
all the stakeholders, and at the end of that
process we led a group of business leaders and
policy makers and caregivers to North Carolina to
visit with former Governor Jim Hunt to study and to
learn from their extremely successful Smart Start
Program.

It was during that encounter with
Governor Hunt that he emphasized that what we
needed was a business leader to pull together the
top businessmen and women from around the state and
to charge them with the responsibility to develop a
plan for Alabama's children. He said it wouldn't
work unless you had a strong, committed leader.

Van Richey was part of that group that
went with us to North Carolina. For me there was
no better choice than Van Richey. He took control
of our Early Learning Commission, selected 12 of
Alabama's top businessmen and women, a very
broad-based and diverse group, and put together a
comprehensive plan for Alabama's children, a road
map for us for the next 15 years.

I've shared this with each of you on a
couple of occasions. That plan now is in place and
is being implemented. Van Richey did not stop.

He has continued to spend his time, his
energy, his efforts, and put his heart and soul
into promoting the well-being of Alabama's
children. He has set a wonderful example as a
corporate leader.

Something that Van Richey has in common
with John Chambers is that Van Richey's company has
been also selected in Fortune's top 100 companies
to work for, not just this year, but every year

Fortune has given that award. His own company has
an on-site healthcare clinic that has doctors and
dentists, they provide pediatric care, not only for
the 2500 employees and their dependents but for all
of their retirees, a total number of 10,000 people
and their dependents. He's won a number of
family-friendly work environment awards and has
contributed again so much more than just his name
to this important project.

It is a great privilege for me to
nominate Van Richey for this award, and I want to
thank my colleagues for selecting him for this
award today.

CHAIRMAN ENGLER: Next, again from Arkansas,
Dr. Josetta Wilkins, a tireless advocate for
women's health issues. So health is getting great
focus here in Arkansas. And again, I'll ask
Governor Huckabee and congratulate him on having
two winning candidates this year from Arkansas. To
my knowledge he had no inside person on the
selection committee, either, that could have made
this happen, so this was done completely by the
committee.

So Governor Huckabee, congratulations.
GOVERNOR HUCKABEE: I know that some of you probably wonder if I'm a little bit embarrassed about having two persons from our state receiving these awards. Well, I'm not. I'm very proud of both of them.

Let me introduce you to a remarkable lady by the name of Dr. Josetta Wilkins. She truly embodies the very spirit of this award. She grew up in Jefferson County, Arkansas and then received her doctoral in higher education administration from Oklahoma State University. Frank, you can be proud you can share in some of this, perhaps.

Her late husband, Henry Wilkins, III, was a long-serving state legislator. Her brother, Senator Gene Edwards, was a long-time member of the state Senate. And Dr. Wilkins herself served in the House of Representatives for four terms. She and her brother are the only brother-and-sister team ever to have served in the Arkansas state legislature in 162 years.

I think it's also important to note something. Her family is very political. Her son is a current state senator. Her grandson was recently just a couple years ago elected Governor of Arkansas Boys State. Many of you will know her
son-in-law, Rodney Slater, former Secretary of Transportation during the administration of President Clinton.

During her long time in the Arkansas house of representatives, Dr. Wilkins was the lead sponsor of a life-saving legislation that became the Arkansas Breast Cancer Act of 1997. Dr. Wilkins herself is a breast cancer survivor. And this landmark piece of legislation provides funds for research, mammography, diagnosis, and treatment of breast cancer for Arkansas women. Her legacy lives in the 430 women who have been diagnosed and treated with breast cancer as a result of that act and the almost 12,000 women who have received a mammogram each year with the funds.

But her commitment to women's health didn't stop when she left the legislature. She's conducted numerous health seminars throughout the state, earning the Governor's Volunteer Excellence Award in March of 2001. She urges women to take care of their health and take charge of their health. And her tireless efforts in this regard resulted in her being awarded the National Conference for Community and Justice National Humanitarian Award in April 2001.
The Arkansas Breast Cancer Control Advisory Board named their annual award after Dr. Wilkins and presented the very first award to her in 1999. Her work to help the needy resulted in the Arkansas Martin Luther King, Jr., Commission creating the Josetta Wilkins Courage Award in 1998. The award recognizes those who dedicate their lives to helping the less fortunate. The award is aptly and appropriately named.

She continues her public service on the Arkansas Minority Health Commission, the Delta Rural Systematic Initiative Governing Board and the Advisory Council, the Martin Luther King, Jr., Commission, and the Arkansas Cancer Research Center Foundation Board of Directors. She truly is a model for all of us. She's a great lady, a heroic person who never let her own personal challenges of breast cancer do anything other than challenge her to make life better and to make life itself a reality for thousands of Arkansas women.

It's a real honor for me to be able to present along with our chairman this award to Dr. Josetta Wilkins.

CHAIRMAN ENGLER: Next, the winners in the arts categories. The winner in the Artistic
Chuck Davis is the founder and artistic director of the African American Dance Ensemble. Unfortunately, Governor Easley is not going to be with us in Boise, so I do have the distinct pleasure of honoring this outstanding individual. Just a little of Dr. Davis's background. Most impressive, widely known for entertaining audiences of schoolchildren in rural communities and urban centers to residents of assisted living centers to major performance venues of the nation.

He does this and when you've seen him perform, you see people coming away with a deeper understanding of the power and the beauty of dance and how it can change people's lives. He is absolutely one of the world's most accomplished and charismatic choreographers and teachers of the traditional techniques of African dance.

The African American Dance Ensemble has a long and active history of delivering professional dance experiences and quality cultural education. And the ensemble's programs enrich and educate audiences through celebration and preservation of traditional and contemporary
African and African American culture, music, dance. And their activities are wide ranging, not only their touring in concerts but also residency programs, workshops, and community service. And remarkably, 40 percent of this activity is concentrated in rural and low income urban communities.

So Governor Easley, while he couldn't be here, did offer this comment. He said this, "That through his hard work, Dr. Davis galvanizes our communities. His choreography and teachings have inspired the people of North Carolina. Dr. Davis embodies North Carolina's motto, 'Esse Quam Videri,' to be rather than to seem."

So Dr. Davis, come forward.

Congratulations.

CHAIRMAN ENGLER: Governor Easley in the arts support category is also a second winner. I want to congratulate him. And this recognition goes to the Arts and Science Council of Charlotte, one of North Carolina's true success stories. This council has assumed the primary responsibility for curriculum-based arts, science, and history activities in the Charlotte/Mecklenburg school systems and community.
Those of us who follow education matters, that's a school district long cited as one of the top districts. So the council has more than 55,000 programs, engaged more than 2.9 million North Carolinians in the arts last year alone. The foundation of the work of the council has been attention to citizens' interests, courting residents' opinion and feedback, and strategic planning.

And a lot of ways to measure the payoff, but here's one that I thought was most impressive when I was given this award to present. More than 34,000 individuals have contributed this past year to their annual fund drive. That generates more than $10 million in community support of the arts, heritage, and humanities in the Charlotte area. Collectively, it's estimated that the cultural partners of the Arts and Science Council generate something like $95 million in impact to the local economy, and 1700 people are employed.

Again, Governor Easley was kind enough to send along a comment. He said, "The Arts and Science Council has transformed the city of Charlotte. Thanks to the council's contributions, Charlotte is a community where culture thrives and
where the arts help prepare our children for the future."

And to accept the award are two representatives of the council, their president, Harriet Sanford, and Nancy Astrowski. She's the chair of the board of directors of the council. So we want to thank them.

And we in Michigan are also grateful to Governor Easley. He sent 2,002 Krispy Kremes up after the Detroit Red Wings won the Stanley Cup. He has paid off. I want to say the fact that we got 2,002 Krispy Kremes did not have anything to do with his constituents winning these awards. But they were enjoyed by all as you might suspect, looking at one of the recipients here.

So thank you very much. Let's have these two award winners, they're not here. They're right behind me? I'm sorry. We've got two award winners who were not here. Let me get my plaque.

Sorry. Got distracted. Two award winners couldn't be here today. We do want to recognize them. They were winners in the private citizen category. Governor Knowles, you have one you wanted to make a couple comments I think about Reverend Dr. Michael Oleska. Am I saying that
right? Oleska?

GOVERNOR KNOWLES: Oleska.

CHAIRMAN ENGLER: Oleska. If you would want
to say something about Father Oleska, we're going
to give you the proclamation and you can deliver it
to him back in Alaska.

GOVERNOR KNOWLES: Thank you, Mr. Chairman.

It's a real privilege to be able to accept this
award of recognition for Father Oleska. One, it
gives me the opportunity to tell you a little bit
about this extraordinary individual. He certainly
would have been here. He would have loved to have
been here himself, but he had made a promise over a
year ago to be at his godson's wedding in Poland.

The picture you see, though, and we have
it up here on the screen, I'm the guy with the
necktie on. The picture you see is of
Father Oleska in between the Lieutenant Governor,
Fran Olmer, and myself, and the occasion was just
before a state of the state message at which I was
privileged to give him recognition to the people of
Alaska for his significant contribution in making a
more just society in Alaska.

As Governors, we all know that one of
our most important and perhaps one of our most
troubling situations is when there is intolerance shown between people of different races and cultures. Father Oleska, along with other distinguished Alaskans, served on a group that I called when it became apparent to Alaskans that there were acts of intolerance being committed that were more symptomatic than isolated.

I formed a commission on tolerance, and through their extensive work, they made great progress in broadening the understanding of the issues with Alaskans and deepening the resolve to address it in some very positive ways through both public policy as well as personal responsibility.

Secondly, an issue of primary importance to so many Alaskans is the subsistence rights of Alaska's native peoples. Father Oleska, who has served 32 years as pastor in many remote Alaskan communities, primarily lived in by Alaskan Indians, Eskimos, and Aleuts had an important understanding that he was able to pass along at a summit that we held of leadership, where he elevated the discussion from something other than fish and game allocation to one of a higher level where he made the point that without subsistence that the Alaska native peoples would die culturally, would die
spiritually, and yes, eventually die physically.

With that leadership, I know he himself with natural humility and modesty, he was in fact stunned to receive the award and had no idea why he would be recognized. But he wanted me to pass on his profound appreciation to the National Governors Association for having such awards as a way of inspiring others to perhaps also make significant contributions to public service. So on his behalf, a profound thanks to NGA for recognizing this extraordinary individual.

CHAIRMAN ENGLER: Thank you, Governor Knowles. And finally, the award winner who could not be here, and Governor Taft has not been able to join us, is Dr. Michael F. Hogan, director of the Department of Mental Health in Ohio, and he was a winner in the state official category. And he in Ohio spearheaded reform in their mental system and is nationally recognized as an outstanding leader in the field of mental health and of course now is recognized also by the National Governors Association.

Let's ladies and gentlemen give these winners a round of applause. We thank them and certainly praise them.
Now, we've got another group to praise.

Part of the program that's always a bit touching in one respect is saying farewell to our colleagues who depart after the fall elections. As I said, we're going to do some of this at each of our sessions because frankly, we have so many departing Governors this year. Twenty-one new Governors will be in statehouses come January. That's a major change for this nation. Of those 21, 13 were elected in the class of 1994, so a big departure from the class of '94. Six became Governor later than that in the 1990s. Then there's two old-timers that started in 1991, Governor Dean and myself. So way back then.

But there's no question to have been a Governor in America in the 1990s and to make the transition into the new century has been an experience that all of us, all of us will certainly never forget. And we don't want to forget our colleagues and friends. Frankly, we don't want those of you who are staying behind to forget us.

So we want to recognize our departing Governors.

I'm going to ask several of them -- I should have just had Tony stay right up here because Governor Tony Knowles gets our first
tribute today. He's finishing his second term,
started with that class of 1994, eight years ago.
An active participant in our National Governors
Association. Always a challenge for
Governor Knowles, given the trek that it takes to
get from Alaska to wherever we're meeting somewhere
in the 48 states.

So we've enjoyed your presence and
certainly that of Susan, who by the way this year
hosted I think perhaps according to Michelle the
greatest seminar ever for Governor spouses in
Alaska. She loved it. And they, the Governor
spouses, thoroughly enjoyed their time in Alaska.
I hope that some day soon that the annual meeting
is going to be there when we get the Governors up
there.

Governor Knowles has been a standing
Committee on Natural Resources member for his eight
years. He's been a tireless advocate for
developing Alaska highway gas line to provide
energy to America, and thanks to his legislation to
protect Alaska's marine waters, the state of Alaska
is now considered a worldwide model for regulation
of the cruise ship industry. So his leadership has
made a significant difference for the people of his
He is a veteran himself, a Vietnam veteran. He's championed the needs of veterans in Alaska. Those efforts were recognized by the national VFW with their awarding to Governor Knowles the Silver Medal of Merit for exceptional service rendered to country and community.

And while he leaves office at the end of this year, the Governor's office, he will continue to serve on the National Pew Oceans Commission, which is an important independent group of scientists, business leaders, fishermen, and elected officials. They're taking on some of the thorniest issues that face America's oceans. Their report is due to Congress in 2003.

Governor Knowles, you leave Alaska with the lowest unemployment in a generation. And your mantra of doing development right obviously has paid off. And the Governors Association will miss you and Susan, in the strong participation you've brought on behalf of the Alaskan citizens to the National Governors Association. If you'd come forward, we've got a tribute to present to you.

Now I'd like to ask Governor Bill Graves
to join me at the podium. Governor Graves was reelected in 1998. He achieved something -- it's hard to impress fellow Governors. I have to say that. But he did something in 1998 that made everybody take notice. He had the largest percentage of votes for any Governor in the 1998 election. He got the cup.

Probably no wonder. You look at Governor Graves' record in Kansas, a pretty well-known common sense approach to efficiency in government, skillful handling of state finances allowed the Graves administration to provide the Kansas citizens the largest tax cut in their history. Tax relief now during his term of office approaching $5 billion. So you can see why his popularity was as high as it was in that '98 election.

Governor Graves has also been an outstanding leader in terms of long-range transportation and planning and also the funding of the infrastructure related to planning, a ten-year program that was passed in 1999. Graves has been a leader in campaign finance and ethics reform, making Kansas laws among the toughest in the country.
Also, kids have been a focus of the Graves administration, and no doubt First Lady Linda Graves has some influence in this area. There was the creation of the Health Wave Program, providing physical health and dental care for more than 50,000 previously-uninsured children. And a champion of adoptions, dramatically increasing the rate of adoptions of children in the Kansas foster care system.

Governor Graves served on our Governors Association Resource Committee for the past six years, also been a key leader on our Economic Development Commerce Committee.

He had excellent roots, let's say, in the family trucking business. In January, it's not a secret so we can talk publicly, that Governor Graves has been really honored by his selection already which has been announced, he'll take over the leadership of the American Trucking Association as their CEO come January of next year. So he gets to go back to that business where his family has been so successful. We wish Bill and Linda all the best in the future and congratulate him on just an outstanding tenure in public service because that did include service as secretary of
state before becoming Governor. So he's got a
long, long record of service. Bill, come forward,
if you would, please.

Next, today we want to recognize
Governor Jane Swift. Lieutenant Governor
Jane Swift became Governor Swift of Massachusetts
in April of 2001 when Governor Cellucci, our
current U.S. Ambassador to Canada, departed for his
post. And the Lieutenant Governor upon becoming
Governor Swift just plunged right in in typical
Jane Swift style. Full speed ahead. A no new
taxes pledge that was prepared with an earned
income tax credit for low income families. She
soon added to that by implementing a circuit
breaker tax credit for Massachusetts' senior
citizens.

She's been just a tiger when it comes to
education, a stalwart supporter championing
legislation to improve the Massachusetts adult
education system as well as increasing funding for
extra help programs, revisions in the state's
bilingual education programs, and all of this will
further increase Massachusetts' recent dramatic
gains in the MCAST testing program. And those
gains have come as Governor Swift has just been
unrelenting in her commitment not to retreat from
high standards that have been established in
Massachusetts. That was part of the work she had
done during her tenure, both as Governor and
previously as Lieutenant Governor.

She'd been an important member of the
National Governors Association Committee on Human
Resources. She's left her mark.

And as parents of multiples, we note
with pride the mother of multiples while in office,
the first time that's been done anywhere in the
history of our nation. So she's left her mark in
many, many ways.

Jane Swift is too young to be finished
with public service, so we, Jane, recognize you for
your service to-date as Governor of Massachusetts
and wish you and Chuck all the best and your family
in the years ahead. And I certainly personally
look forward to your next stint in public service.

Now I'd like to ask Gary Johnson to join
me at the podium. And as we bid farewell to
Governor Johnson, we are losing the fittest
Governor in the history of the Governors
Association, going all the way back to the
beginning. There's no question about that. He has
many achievements. Not just in that area as a Governor nonetheless but achievements as Governor in the office in New Mexico, where he became a history-making Governor as the first Governor to serve two consecutive four-year terms.

Under Governor Johnson's leadership, an additional one-half billion dollars has been invested in the education of New Mexico's children. That directly as a result of Governor Johnson's fight for reform in the state schools through his For the Children's Sake plan, a plan that I know full well he was involved in taking literally to every community in New Mexico as he traveled relentlessly on the road to sell this program.

Then recently approval was achieved for a $1.2 billion highway improvement plan that is the culmination also of a three-and-a-half-year effort to build the highway infrastructure needed for safety and economic development of New Mexico.

Governor Johnson's been an active and productive member of our association. He served on each of the three standing committees during his eight-year tenure. We appreciate that service. He has been a plain-spoken and very outspoken at times advocate for his beliefs for New Mexico, and we're
going to miss Gary and Dee Johnson. We certainly wish you all the best.

Again, he's somebody that given his youth is going to continue to play a role I think in public life and in public service even after he leaves the Governor's office at the end of this year. So we're going to miss Gary and Dee. You've been active and great friends. Come forward, please, and let us make a presentation, Gary.

CHAIRMAN ENGLER: I think there's no doubt that Gary Johnson's mantra for a long time is skiing, his marathoning, his climbing, and unfortunately we've got two Governors around here who have been specific witnesses. The Western Governors Association also will probably have its own little chapter in its history of Gary's role there.

Next up is Governor Frank Keating of Oklahoma. Frank Keating has also been a very active member of this association. And indeed very early in his first term, Governor Keating came to the nation's attention when we saw Frank and Kathy Keating dealing with the Oklahoma City tragedy of 1995. That was just months literally into his first term. Yet he set a standard that inspires
Governors and public servants and I think it proved decisively that leadership does make such a difference.

His work these past eight years in creating nearly 200,000 new jobs in Oklahoma, a remarkable education reform school choice, charter schools, accountability, benefits for the people of Oklahoma and the children of Oklahoma far into the future.

He also did something that I would have to say the cynics, the opponents, and frankly a lot of his supporters thought couldn't be done. They said it couldn't be done. He actually took a right-to-work measure to the vote of the people and passed it, becoming the first to do that in a very long time in the nation.

In 1995 he also led the way in the passage of the Welfare Reform Act that saw state welfare rolls reduced now by more than 75 percent and in 1998, the largest single year tax reduction in Oklahoma state history.

So as we begin this new century he's not done. He led an effort to raise the private funds to finally build the dome on the Oklahoma capitol building. And that dome means literally and
figuratively you're leaving your mark on the Oklahoma landscape for the eons.

So we want to thank you for your service in all the NGA standing committees during your tenure, for your many years of service on our Legal Affairs Committee. And Frank Keating's history of public service is going to continue. Recently he accepted a major challenge to head the National Review Board for the Catholic Bishops National Office for Child and Youth Protection. So once again they've reached to an outstanding lawyer and a great diplomat in Frank Keating to take on that role.

We also want to extend our best wishes to Frank and Kathy as they return to Washington where, again this is also public, so I can talk about this, where he takes on an impressive, important new post following another Governor, Carol Campbell, as the CEO and president of the American Council of Life Insurers in Washington, D.C., beginning in 2003.

So Frank, congratulations. If you'd come forward and Kathy, we have a presentation for you.

Thank you, Grandpa and Grandma, Frank
and Kathy. They recently on July 4th became grandparents for the first time.

Next is Governor Mark Schweiker, Pennsylvania. I think it's safe to say about Mark that he took office under the most trying of circumstances. Governor Mark Schweiker not only replaced a popular sitting Governor, but he had to do it literally overnight, becoming the only Governor really to have to assume office as a direct result of the terrorist attacks of September 11th.

But Governor Schweiker was prepared. He had extensive public service in state government showing that he was the right person at the right time for the job. From day one he started off with an aggressive legislative agenda that's led to several landmark reforms in Pennsylvania. Certainly since September 11th he's been in charge of homeland security in Pennsylvania and dreamt up the winning legislation to put more state troopers on the beat on patrol, investing an unprecedented $2 million to continue the development of one of the nation's strongest emergency response plans.

He also has attracted national attention for pursuing a bold plan to turn around the failing
Philadelphia school district. That really has led to one of the nation's largest education reform initiatives that we've ever seen. His budget is investing a record $9 billion in education statewide.

Governor Schweiker didn't stop with education and homeland security. He's worked hard to improve Pennsylvania's job creation climate by winning historic tort reform, streamlining work force development, and aggressively marketing Pennsylvania to the life science sector through the establishment of what Pennsylvania calls greenhouses, three life sciences greenhouses.

So Governor, you stepped in, a smooth and seamless transition almost the way you moved from the Lieutenant Governor's job to the Governor's role. We thank you for your involvement in the National Governors Association and your leadership in Pennsylvania. And we offer to you and Kathy our best wishes. And again, given the relative youth of this man, his continued involvement in public service.

Our next tribute goes to the other federal prosecutor who's a Governor, Governor Lincoln Almond of Rhode Island.
Governor Almond is going to be remembered for lots
of reasons. Certainly last year's NGA annual
meeting which he hosted in Rhode Island, the first
ever time the Governors went there was one good
reason that Marilyn and Lincoln Almond earned the
gratitude of the Governors. The fireworks down in
Newport and the whole event was just a terrific
sort of end to the summer. It was sort of the last
bit of normalcy because September 11th followed not
long after. It seems like things haven't quite
been the same since then.

Governor Almond is a distinguished
citizen of Rhode Island. He brought stability to
Rhode Island when he assumed the governorship in
1994, again part of that large class. He acted
quickly to privatize the state's Department of
Economic Development and at the same time created
an Economic Policy Council, which really positioned
Rhode Island to enjoy fully the economic prosperity
of the '90s, and so early success in attracting
major developments by Fidelity Investments and
Fleet Bank to recent investments, more than $1
billion in biotech by Imunex and Dow Chemical. And
recognizing Rhode Island, the aging parts of towns
like Providence, the Brownfields issue was one that
was important to the Governor, and this year he
signed tax credit legislation, which when coupled
with other state environmental quality initiatives
is creating and will leave a legacy of
redevelopment that will clean up the environment
and help further spur the Rhode Island economy.

Governor Almond's been on the NGA
Economic Development Commerce Committee throughout
his tenure, also served stints on the Legal Affairs
Committee including time as chair.

Linc, he's also a successful conqueror
of prostate cancer. He's had to deal with it all
during his tenure. We certainly wish you and
Marilyn all the best as you enter private life
again in your great state. Thank you for what
you've done for the citizens of Rhode Island, for
your lengthy career of public service, and for the
many contributions and wisdom you imparted to your
colleagues here at the National Governors

Now, as you're watching your watches,
you're saying we're way over time. We are. One
more tribute, though, that I want to present today
was to the senior Democratic Governor at this
table. As I said, there were two of us that came
in in 1991. I'm speaking of Governor Howard Dean
of Vermont. I could use up a significant amount of
time going through all of Governor Dean's
involvement with the National Governors Association
because he's a former chair of this organization.
He's a former host. He took us all to Burlington
in 1995 for an annual meeting, which was I think
the first time the Governors had ever met up in
Vermont.

But he has been eight terms on the
Executive Committee of our association, a lead
Governor on children's issues, on Indian gaming,
been the finance chair, been involved with health
issues throughout. The only medical doctor
currently among the ranks of Governors, I believe.

In Vermont during Governor Dean's tenure
of nearly 12 years -- and by the way that's a
two-year term, so that's five elections, so he is
the one who's won more gubernatorial elections
around this table than anyone -- 41,000 new jobs
helped to expand the state economy. Made sure
every child in Vermont has healthcare coverage.
The natural beauty of Vermont has been protected,
despite Lake Champlain not becoming a great lake
during his tenure. But it's still a very wonderful
lake. It's actually the senator that was doing
that, not the Governor.

The Vermont economic growth has been
such that when Governor Dean took office, the state
was facing nearly a $70 million deficit back
beginning in 1991. Of course that's now gone. And
I'm told this is the only state in the union that
doesn't require a balanced budget because that's
the Vermont Yankee tradition to make sure the
budget has to stay in balance and at the same time
has to be passed. Governor Dean has focused his
budgets on healthcare and is very proud of the
achievements that have dealt with such
controversial issues as how do you lower the costs
successfully of prescription drugs.

And he's also been able to achieve one
of the toughest managed care consumer protection
programs in the nation and at the same time
dramatically increased immunizations for Vermont
children.

Howard has been a great credit to the
state of Vermont. He's been an asset to this
association and a very active member of this
association, always willing to raise issues and to
get the debate going on topics at both the state
and federal level. So to Howard Dean, we'll miss
you, and to Judy, we want to extend our
congratulations. Thank you very much, Howard Dean,
for your remarkable service on behalf of Vermont
and to this association.

That's phase one. There are more of
these to come later. So there are Governors here
who are retiring who I think everyone's planning on
being here on Tuesday because we're going to finish
up on Tuesday. If somebody's slipping away and I
don't know that, don't do so without talking to me.

We are past our time that we're supposed
to go over to the Governors-only session. We had a
busy morning. I think it was probably worthwhile
to let John Chambers and Steve Appleton go over a
little bit and take some extra questions.

I'm supposed to do an update on Achieve.
I will tell you this. I will do that later. There
is some news relative to that and some important
changes. But one thing that I want to mention is
that Phil Condit is going to be taking over as the
industry chair for Chief Lou Gercer. Lou, as you
know, is going to step down as CEO at IBM and at
the end of this year will step down from Achieve.
I'll give you a report on this later. I'm excited
about Phil Condit. He's really reaching out to the
Governors as Lou Gerger has done. I think some of
the opportunities we have at Achieve are quite
remarkable. I won't take the time today to do
that.

We do have an executive meeting, which
we have to do very quickly, I hope. So what I'd
like to do is to close the session of this meeting.
I think we can move right to the executive meeting.
So we'll just call the opening session of the
annual meeting closed and move right to the
Executive Committee business if we could.

So we'll do that and now convene
immediately the meeting of the NGA Executive
Committee meeting. Everybody is welcome to
participate, just you all can't vote. That's only
the members of the Executive Committee.

What we need first is a motion to
approve the minutes of the May 7th, 2002 Executive
Committee meeting.

Moved by Dean, supported by Musgrove.

Everybody on the Executive Committee say aye?

Opposed? They are approved.

And at each of the Governor's places we
have an agenda book that's got summaries of six
legislative updates and they're major issues:
state fiscal relief, prescription drugs, and
driver's license. We're going to do those at the
Governors-only session tomorrow.

We do have one Executive Committee
policy proposal that's before us, streamlining
state sales tax systems. We have two other
policies, state fiscal relief and Medicaid
flexibility. That's Executive Committee two. And
Executive Committee three, the Medicaid drug rebate
program. We already approved those on May 7 as
interim policy. So they come before the full
association on Tuesday. We don't need to do them
here.

But on streamlining state sales tax
systems, we've got amendments to the policy. We
called for action by Congress to either approve the
streamlining state sales tax and use agreement or
authorize states under the agreement so we're
pretty consistent. But we want to open it for
discussion if there need be any. If not, I'd just
take a motion to approve that policy.

Moved by Governor Leavitt, supported by
Governor Huckabee. Discussion? All in favor say
aye. Opposed? All right. The ayes have it.
That's all set.

Now, Governor Patton, year-to-date financial update, do you want to do that as people are filing out here?

VICE CHAIRMAN PATTON: Yes. I've got a brief update on both NGA and Center for Best Practices. They're in the process of closing out the books, and the financial statements will show that operating funds are down like states, down maybe to about 88 percent of what we had expected, but then expenses are also down to about 86 percent of what we had anticipated. And that has a lot to do with some staff vacancies and other efforts to reduce costs.

The endowment fund income shows a net loss. No great surprise there. Declines from the value for investments. Three investment managers have performed adequately against their benchmark indexes, while one manager was replaced due to poor results.

Finally, the Center continues to add to its temporarily-restricted net assets through increased foundation contributions, which now stand at 128 percent of budget. So overall both organizations will end the year in good financial
standing.

CHAIRMAN ENGLER: That's a good report. I'd like more money, but it will work. We can work with that. Any comments on the finances?

Well, I think we can adjourn this. I do have one announcement. Governor Turnbull will replace Governor Knowles as chairman of the nominating committee. Governor Turnbull, we appreciate you being willing to do that. Governor Knowles is unable to make the meeting time, so we'll do it this way.

Governors-only session is 1:45 in the Aspen and Cedar rooms in the Grove Hotel, just out across the way. Lunch is being served. So if you go directly, we've got a busy session, and we'll try to get that ended on time. Thank you very much. The executive meeting is adjourned.

(Meeting concluded at 1:59 p.m.)
BOISE, IDAHO

Tuesday, July 16, 2002, 9:27 a.m.

CHAIRMAN ENGLER: I'll call the meeting of the annual Governors meeting to order. The 2002 annual meeting can conclude at the close of business this morning. We've got a wonderful plenary session coming up with a focus on governance in the 21st century. We've got two very distinguished guests that are with us. And we have some policies that need to be affirmed, and in a couple of cases the policies need to be adopted. We've also got the very important business of electing the new chairman of the National Governors Association, so I'd like to get started now.

One of the things that I want to maybe just begin this morning with while we're getting completely organized here is a continuation of something that we started when we opened on Sunday, and that is the recognition of departing colleagues. We have so many Governors leaving office this year, 21 in all, that we said we're going to have to spread the tributes out over a couple of the sessions.

So what I would like to do this morning
is now recognize and pay tribute to the remaining
Governors that we didn't talk about who will be
leaving office this year and provide them with a
little bit of a memento from their fellow
Governors. As I announce each Governor, the
procedure will be somewhat the same. I'd like them
to come to the podium.

And first, we've talked a lot about the
class of 1994. It was a big, talented class of
Governors. They've had quite an impact. First
this morning I'd like to recognize Governor Don
Sundquist of Tennessee. Don when he was elected
Governor had been a veteran public official, served
six terms in Congress and had reached a
self-imposed term limit in that role, been long
active in the public arena, but he came back to
Tennessee, ran for Governor, had a hard-fought
race, and then in 1998 achieved a record margin of
victory in his reelection.

So after eight years, the work of
Governor Sundquist is pretty remarkable. His
Families First Program brought some 40,000 families
off welfare and into the work force during
Governor's Sundquist tenure. Tennessee was a
national leader, was one of the first states to see
that all children had access to health insurance. Children have been throughout the Sundquist administration a top priority. And the reorganization efforts of the Governor brought together vital services for children that were scattered in agencies and departments of state government into a new streamlined Department of Children Services.

The K-12 basic education program in Tennessee has also been a funding priority, over a billion dollars invested in increased funding there, accompanied by greatly-advanced standards for classroom accountability.

In 2001, Tennessee was dubbed state of the year in recognition of the job creation investment efforts. And Tennessee's land, air, and water, the cleanest they've been in 25 years. Under the Sundquist administration, some thousands of acres have been added to Tennessee's already-beautiful natural areas.

Recently Governor Sundquist announced that working with Secretary Thompson and the Bush administration, they had one approval of a new five-year waiver for Tenn Care, which is the state of Tennessee's ground-breaking healthcare program
now that really has been setting the pace for some time.

Governor Sundquist has also worked very diligently I would have to say and tenaciously to bring stability to the Tennessee state budget process with a lot of reform and discipline efforts. And I think the one thing you can say about Don Sundquist, he has never shied from making some of the toughest, hardest decisions imaginable that a Governor will face and that the state of Tennessee has benefitted greatly from his leadership.

On the issues like tax reform, he has really stepped out there at great cost really to put Tennessee on a path of long-run fiscal stability and trying to avert year-to-year crisis management.

Governor Sundquist's eight years at the National Governors Association also has seen him serve on all three of our standing committees, Economical Development and Commerce, Natural Resources, and Human Resources. And he's chaired that committee this past year.

And I must say on a personal note that I'm deeply grateful for his leadership on welfare
reauthorization on Medicaid funding. He's been on
the board of the Center for Best Practices, twice
been the lead Governor on these health issues.

So when Don and Martha Sundquist leave
the Governor's office next year, Tennessee will
lose an outstanding leader. And we want to say to
Don and to Martha, congratulations on a job very
well done, and we applaud you, Governor, for your
leadership.

Next up is Governor Jim Geringer of
Wyoming. And Jim also was part of that class of
'94 after a decade of service in the Wyoming
legislature. Jim Geringer's fingerprints and
footprints are all over Wyoming I would have to say
when I look at the number of initiatives, the
wiring of all of Wyoming's public schools to the
net, Wyoming's equality network, 92,000 students
broadband linked to the web. Jim Geringer has been
an avid promoter of wiring. A lot of Wyoming
government with a one-stop service. It's on-line.
And he's also been a champion of the telehealth
initiative in Wyoming with the digital network
carrying health services statewide.

Governor, I can say, again, just having
recently driven across the state of Wyoming, I'm
impressed with your efforts to get broadband out to your communities. I'm trying to do that in Michigan. I was thinking you've been doing that in Wyoming. These communities are far flung and they're not that big. I'm saying we need to get more done in Michigan, be more like what you've been able to accomplish.

I think with your departure, it will be sort of the blackberry battle will have to go to Governor Leavitt and Governor Huckabee, I think, around the table with who's the most individually skillful and enthusiastic in using different personal technology tools in their job as Governor.

Governor Geringer's also been very adept at balancing economic development and natural resources protection in his state. Wyoming, of course, is known for its richness in its mineral resources and just the stunning beauty of its natural environment. Wyoming was the first state to receive a cooperating agency status with the National Park Service at Yellowstone National Park.

In addition to Governor Geringer's leadership in the NGA, and he has just headed our technology and E-Government Committee now, he's just a permanent chair, really. I don't know,
Governor, if it's possible for you to keep coming back and just continuing to chair that even in your new status as former Governor. But we will certainly notice the difference as you step down in that capacity. But he's also served on all of our standing committees.

Jim and Shari Geringer have just been tremendous friends of so many of us and leaders in this organization. And when Wyoming elects a new Governor, we know they're replacing a man who's done a tremendous job for their people. So Governor Gary, we'd like to pay tribute to you and Shari for the tremendous leadership you've provided.

We have ten colleagues also who were not able to be at this annual meeting who I would just like to recognize from the podium at least and then we'll be following up with them.

From the class of '94, we've got two-term Governors: Carl Gutierrez of Guam; Benjamin Cayetano of Hawaii; Angus King, Jr., of Maine; Parris Glendening of Maryland, my predecessor, the immediate past chair of the National Governors Association; John Kitzhaber of Oregon; and Bill Janklow of South Dakota.
Now, Governor Janklow has also served two previous terms. He's been through this retirement business before. He served from '79 to '87 and then was out and under South Dakota's constitutional provisions was able to come back and serve two more terms. And of course he's not done yet. He's off to Congress. I think those of us who know Bill Janklow can't wait for the moment that Bill Janklow walks into the House caucus or conference I guess they call it in Washington in January and announces he's there to play a role on behalf of the states and behalf of his own state of South Dakota. It will be a fun, fun experience, I'm sure.

We also have other Governors who came into office at various points. Governor Jane Dee Hull of Arizona, who succeeded Governor Fife Symington in 1997 and reelected in her own right in 1998 with that great team of hers in Arizona. Governor Jeanne Shaheen of New Hampshire who actually won three gubernatorial elections, but like Governor Dean with the only two states with two-year terms, so she served six years beginning with her first election in '96.

Then we have from the class of '98
Governor George Ryan of Illinois and Governor Jesse Ventura of Minnesota. We know Jesse has been having a little health problems, so Jesse, if you happen to be home recuperating, I doubt you're watching us, but if you are, good wishes on your recovery, and God speed as you go forward.

We certainly have enjoyed all of them. And to each of them their contributions and their input has been valuable. We've enjoyed having them as colleagues, and we wish them all the very best in the future.

So that, ladies and gentlemen, really sort of completes our list of colleagues who are leaving office.

Now, before we move to our program here, I do want to recognize Governor Leavitt for some brief remarks. And Governor Leavitt, why don't you come forward. And then we'll kind of move on.

Hopefully Newt will be here. If not, we may squeeze in a little bit of our business, get that done before he arrives.

Governor Mike Leavitt, who will become in January -- I've been kidding Mike about this. He looks real good for the nation's senior Governor, but that will be him, the penultimate in
terms of his tenure as Governor. Governor Mike
Leavitt.

GOVERNOR LEAVITT: Thank you. It is my
pleasure on behalf of my fellow Governors to pay a
tribute to our chairman, who is also a departing
Governor. May I tell you briefly about the first
moment I remember meeting John Engler. It is a
moment that I have fond memories of.

It was in Colorado Springs in November
of 1992 at the new Governors conference. There was
a lake at Colorado Springs we had to walk around.
I had heard about John Engler. I was anxious to
meet him and all of the other Governors. I
remember just kind of picking up my pace so that I
could catch up with John Engler and walk from the
hotel over to the conference center we would have.

I found him to be engagingly friendly to
me as a new Governor. As I asked him about his
background, I discovered that in fact he had been
the majority leader of the legislature from the
time he could vote. He is a person who had won an
unexpected victory but had gone on to define
himself in a very real way in his first legislative
session. In fact, I think the experience of that
first legislative session tells a lot about
John Engler.

His legislature had handed him a bill that completely eliminated the property tax in the state of Michigan, thinking that this new Governor would be required to veto it as one of his first acts. Well, to their surprise, Governor Engler signed the bill, completely doing away with the property tax and throwing the state into what had to become a very productive rethinking of the entire tax policy of the state of Michigan. He then laid out a visionary plan for restructuring and took it to the people. The state of Michigan will not be the same, not just because of that but because of the vision that he has been able to bring to the state of Michigan in the last 12 years.

Now, the state of Michigan will long remember the 32 tax cuts that he has been able to bring to the taxpayers, the 800,000 jobs, the 300,000 people who have been able to leave welfare. May I also suggest that there are things for all of us to remember about John Engler.

When the people of Delaware, the people of Connecticut and Rhode Island realize that we have had welfare reform in this country that has
allowed all of us to reduce the number of people
who are dependent upon the government, they need to
remember John Engler because in 1994 when there was
a vast opportunity awaiting the states, John Engler
stepped up and led the Governors along with
Tommy Thompson in a process of defining welfare
reform, wrote the first bill, brought his staff,
brought things to the Congress that they both
needed and wanted.

The transportation, when the states of
Montana and Idaho and Utah and New Mexico realize
we have more transportation funds, it's because
John Engler was there on behalf of the states
fighting to make certain we had it. Medicaid
reform, unfunded mandates, you can go all the way
through the last half decade and in each of those
cases John Engler was there.

May I also say that I know from personal
experience that John has made hundreds of trips to
Washington on our behalf. There have been no less
than a thousand phone calls over that time. That
sounds like a big number, but I feel confident he
has met that standard.

There's a great personal side to John
that I've had a chance to see and to value. He and
his wife, Michelle, during the course of their Governorship had triplets. One of the fondest moments I have as Governor was that I by happenstance happened to be in Michigan on the day after they were born. And I went to the hospital with John Engler and went into a room, and there were babies everywhere. And I had a chance to hold those triplets, along with John and Michelle. It was a bonding moment for me. I've watched them grow in this Governorship.

I want to make certain that we all acknowledge Michelle as such an important part of this team. She has led the spouses organization and brought a sense of perspective to all of them. So many times Jackie has said to me how much she appreciates the level of common sense and the balance that she has been able to bring to their discussions. Michelle, we want you to know how much we care and love you, too.

On behalf of my fellow Governors, John, it's my pleasure to present you with the same picture you've been presenting everyone else.

Now, as a sort of personal indulgence on all of your behalf, may I also say that during the course of the last six months, America in our state
experienced the 2002 Winter Olympic Games.

Preceding that, there was a ritual that began in
Greece in November of 2001 where the Olympic flame
was lighted. And it set off a relay that went
across nations, across oceans, across 46 states.

All of you had a chance to see and to
feel the power of that moment. As that flame
passed from hand to hand 11,500 times it changed
the lives of people along the way.

A little boy in Louisiana, the person
who was in charge of the relay went to a school,
said we need a runner. We have a gap. Who could
we get? She said I don't want the student body
president. I want somebody who this will lift.
She said I know just the boy.

She brought a little boy out who didn't
have any friends who had been struggling in school.
They announced on the PA system that he would be
running the torch. The entire school went out to
the sidelines of the school and watched him run.

The following week an E-mail from the
school secretary. You'll never believe the
difference it's made. And her E-mail ended with he
doesn't sit alone anymore.

The capacity to lift is what the Olympic
flame brought. That's one of the things that I
have seen in John Engler, the capacity to lift.
And as a personal gesture, John, I have a
presentation I'd like to make to you that I believe
is symbolic of the things that you have done over
the course of time as Governor, the capacity to
lift.

I'd like to present you with this is an
Olympic torch, and you will note that it is
blackened at the top because it has carried the
Olympic flame. And I would like you to have this.

CHAIRMAN ENGLER: Well, thank you very much,
Mike Leavitt, and thank you to all my colleagues.
What a great thrill all of this has been.

Speaker Gingrich is just a few moments
out. Jim Geringer is going to have to leave a
little early. I said he has so many roles. He
chairs our committee on Economic Development and
Commerce. He's got that report. What I'd do is
maybe ask him just to give us his report of his
committee. We'll take that out of order so I can
get that adopted while you're still here, Jim, and
then we can get right back to Al and to Newt.

GOVERNOR GERINGER: Chairman, I sure will do
that. The Committee on Economic Development and
Commerce met to hear the president and CEO of Verizon Wireless, Mr. Dennis Strigl, who spoke to the committee about several concerns. First of all, the promise and prospect of wireless telecommunications in our country and then his concerns about the burden of federal and state regulation and taxation, what he viewed as an uneven playing field relative to other Internet activities.

We did adopt several policy changes, several amendments to marine transportation, priorities in telecommunications, air transportation, economic recovery from disasters. We adopted a new policy on the rural economy and also amended rail transportation and employment security system policy.

I would note two significant items that we discussed that ought to be followed up by our NGA activities over the next year. One deals specifically with the person who was absent from our meeting who had been called away unexpectedly. That was Michael Powell, chairman of the Federal Communications Commission. Our implementation of intraoperable public safety network in our states, a very challenging task financially as well as
otherwise, needs to have some direction and the
assignment of broadband spectrum, the particular
spectrum that we can use in public safety
telecommunications needs to be taken with all
expediency. We asked that the Federal
Communications Commission move as quickly as
possible rather than waiting the five years that
they have scheduled. We can't afford to wait even
six months. So we'd ask that that be followed on
immediately.

The other aspect is something that we
brought up specifically with the CEO of Verizon as
representing his industry. The wireless sector is
the most fast growing sector of telecommunications
and all technology as far as our communication and
conduct of business along with homeland security.
The industry needs to get their act together and
come up with industry standards. There are
standards out there. They have not been of one
mind, if you will, within the industry. So while
the industry spoke to us about tax burden and
regulation, our message back to them was you need
to do your part about adopting industry standards
so that we can move the wireless sector forward.

Mr. Chairman, I move the proposed
changes in policy and the adoption of the economic
development commerce report in block.

CHAIRMAN ENGLER: Any discussion? Seconded
by Governor Kempthorne. All in favor say aye.

Opposed? The report is adopted. Congratulations,
Chairman Geringer. Once again, a report
unanimously adopted that you prepared. Thank you
very much.

Governor Minner, we'll come back to the
reports then after the program this morning.

We'll move directly to the topic for
today's session we think is a lot of fun and very
tough in some ways and very, very important. If we
think about governance in the 21st century and just
reflect back, over the past decade as the 21st
century came to a close and this new century began,
we've been witness to economic and social changes
that are rather profound. Many of them call out
for a response from those who make public policy.

We continue a rapid transition to a
service-oriented high technology economy that's
fully integrated into the global marketplace. The
implications indeed are profound, and they affect
us as Governors. And hopefully our work today as
Governors at this annual meeting in preparing the
states for the challenge of the 21st century are
going to be helpful, some of the reports that we've
put together.

But think about it. Corporate mergers
now may be made by United States companies, I think
of one announced yesterday, the Pfizer and the
Pharmacia merger. No doubt the European Union will
have to pass on that at some point. Our economy is
virtually borderless. It's difficult to determine
where financial transactions are really taking
place, not just which states but indeed which
nation.

Even during the economic downturn, U.S.
productivity has continued to increase. The
potential is there for even widening gaps in real
wages and real income, while at the same time for
many very significant increases in real wages and
real income.

The rate of return, John Chambers talked
about this, the highly-educated knowledge worker,
there's never been more of a premium today for that
highly-educated knowledge worker. And frankly,
never been really more of a penalty for a
low-skilled, ill-prepared worker. So it makes
education and education choices critical issues in
every family in everyone's life. The economic development of states, it isn't just tax incentives to traditional manufacturing firms but a wide array of resources, partnerships, and strategies, training, all designed to build an unlimited supply if we could get there of knowledge workers. And jobs now follow productive workers instead of workers following jobs.

The public is demanding government providing services and that they be available on line all the time 24 hours a day, seven days a week. You can arrange your travel on the Internet 24 hours a day. You probably ought to be able to renew your license or permit that state law requires you to have on the same basis.

Government reengineering is critical. We must become more flexible, adaptable, customer focused, and certainly performance driven. So the focus on results, decentralizing decision making using technology to improve our service delivery is of vital importance.

Government has strategic investments that it must make to build the intellectual and physical infrastructure that's needed in a new
economy. A report that we just adopted is an
example of that. Speeding up broadband deployment
that we've talked about is very much a part of
that.

Finally, the reshaping of the economic
environment to facilitate business expansion to
eliminate market absorption caused by outmoded
taxes and regulations and to understand how all of
that affects our variability to fund essential
services of the governments that we head. So it's
no small set of challenges that confront us.

Today we have two speakers I think both
of whom are uniquely qualified to think as they say
out of the box, and in their case it's not because
there's nothing in the box, it's because there's so
much in both of these individuals in their
backgrounds.

Our first guest will be Al From. Al is
the founder and CEO of the Democratic Leadership
Council, the DLC, and its companion think tank, the
Progressive Policy Institute. These are two
organizations that provide an action agenda and
ideas for new Democrats that have helped redefine
much of the Democratic party and certainly been
helpful in winning elections.
Before founding the DLC, Al From was executive director of the House Democrat Caucus from '81 to '85. He spent two years in the White House during the Carter years. Worked for Senator Muskie for eight years. So he's a rare combination I guess of a policy wonk, of a visionary, and he also has this uncanny ability to sort of take that policy expertise and brilliance and put that together with the practical politics of what actually can be accomplished.

I suppose some of the historians might some day credit Al From for Bill Clinton. I don't know. But maybe others will give Bill Clinton the credit for Al From. I'm not sure. I think maybe the former.

But there's no question that Al From's had a major impact on American politics here as the 20th century ends and the 21 century gets underway. So it's a delight, ladies and gentlemen, to introduce Al From to you.

MR. FROM: Thank you very much,

Governor Engler. I'm delighted to be here.

Governor Patton, I wish that all elections were as rigged as yours is going to be. And it's terrific to see Governors here. Governor Leavitt, I did
visit your state for the Winter Olympics. I wish I
could get one of those torches, too. I'm also glad
I see Governor O'Bannon, who was my birth state
Governor. Governor, I'm glad to see you have those
little Indy racer cars to remind people of the
great state of Indiana.

I'm particularly honored this morning to
be here in a program with speaker Newt Gingrich.
Newt and I come from different political parties.
But we share very much in common. We probably have
very different points of views on a lot of issues,
but what we both believe in passionately is the
power of ideas and the ability of ideas to drive
politics.

Back before Newt was speaker and Clinton
was president, we had this little group that was
bipartisan put together by some people who worked
for the DLC and some people who worked in the then
first Bush White House called the New Paradigm
Society. And Newt and I used to be regular
visitors to that.

He went a lot further than I did after
that, but one time Newt called me to put an
economic speech I gave in the record. He called me
and told me he hoped he didn't embarrass me too
much by putting it in the record. But it is
terrific to be able to share a podium with Newt.

Coming to the NGA is a great thrill for
me. Governor Engler mentioned that I worked for
Ed Muskie. I was staff director of the
Subcommittee on Intergovernmental Relations for
eight years. In that capacity I got to work with
the NGA.

One of the things we did back then was
we did a survey in the middle of Watergate on
public attitudes toward government at all levels.
And the most shocking finding for me was that
virtually nobody in that survey ever looked at the
state government for anything. Think how much
things have changed.

In the last three decades Governors have
been really the main innovators in American
politics, and the country is much, much better off
for what you've done. There's one thing that
Americans always look to Governors for, and that's
national leadership.

In the last ten years, we've elected as
many Governors president as we have sitting
senators in the whole history of the republic.
There's a reason for that. Governors live in
America. You live out in the real world, and you
deal with real problems that ordinary people face
every day. You can't just position. You've really
got to deliver.

What I want to do this morning is to
talk about how our country is changing and about
some of the big challenges we face in the 21st
century. I'm not going to be comprehensive. I
won't cover every challenge. And in spite of what
Governor Engler said, I'm not a policy wonk. So
when we get to the questions and answers, save the
tough ones for Newt.

I want to make four points. First, as
we begin this new century, Americans are very
equally divided politically. The two parties are
at political parity.

Secondly, I believe the reason for that
parity is that our country has changed and the
political system has not quite kept up pace with
that change.

Third, the information age, which
Governor Engler talked about just briefly, demands
a new political approach. I think it demands a
modern political philosophy that will define the
vital center of the political spectrum.
And fourth, as great as our country is and as much as we have accomplished, we have a lot to do because we can do a lot better if we have the vision and courage to do it.

My first point, we're at a historic political parity between the two parties. We've now gone three presidential elections in a row with neither party's president winning 50 percent. Now, the last time that happened was in the 1880s. That's no fluke.

The cumulative vote for the U.S. House of Representatives over the last three congressional elections has been 49/49, 48/49, and 49/49. As my friend, political analyst Michael Barone always says, we are a 49-percent country.

In the year 2000 the presidential election was a virtual tie. The U.S. Senate split 50/50. There was a five-seat difference in the U.S. House. As we meet today, control of the legislatures that you have to deal with in legislative houses is equally divided between the two parties. Only among Governors do the Republicans have a substantial advantage, and some of us think maybe that will change this year.
Now, Newt and I have had an important role in forging this parity. When we started out in the new Democrat movement, the Democrat party was a 43-percent party in presidential elections. I like to think we've helped move it to a 49-percent party in presidential elections.

I remember when I was staff director of the House Democratic Caucus, Newt was driving leadership on both sides crazy with something he called the Opportunity Society. But his efforts to build the Republican caucus in the House broke 40 years of Democratic control and moved on average the Republican vote in the House from the mid-40s, 44-45 percent to 49 percent.

Now, why do we have this parity? I think that it's because the country is changing rapidly and the political system hasn't really kept up with the economic and demographic change. The political arrangements grounded mostly in class division that define politics in the industrial age just have collapsed. I don't think we've quite yet figured out the new political arrangements for the information age.

I'm going to go through a lot of data rather quickly. But just to give you a sense of
what I'm talking about, the new economy is creating
a new citizenry. Today's electorate is more
affluent, more educated, more suburban, more
diverse, more wired, older than it was just two
decades ago. It includes more families with
two-parent workers, more nonmanufacturing workers,
and more workers who change jobs every few years.

It's dominated by baby boomers and Gen Xers whose predilection is to be skeptical of
government rather than New Dealers who always look
to government for their solution. And politically,
it is more independent and less partisan and more
moderate.

In 1980 when Ronald Reagan was elected
president, there was six times as many low income
voters as upper middle class voters. In the year
2000 there were more upper middle class voters than
low income voters using constant dollars. That is
also reflected in the voters' self perception.

When voters were asked which economic class they're
part of, most said middle class. You'd expect
that. But 50 percent more said upper middle class
than working class. Think about what that means.

Sixty-four percent of the voters last
year said they regularly use the Internet. When
Clinton ran in '92, there was virtually no Internet. Seventy percent said they own stocks, which tells you why this current crisis is such a big issue.

I campaigned, I traveled in the last election with Senator Joe Lieberman, and we had a stop in Florida. Believe it or not, we spent a lot of time in Florida. At a fire station. And we asked the firefighters what they would be talking about if we weren't there, and their answer was the stock market.

When Reagan was elected, only a third of the voters had college degrees. In 2000, 42 percent had college or postgraduate degrees and three quarters of the voters had gone past high school.

A half century ago in the state in which I lived in, Maryland, Baltimore was 40 percent of the vote. Today it's 9 percent. The biggest vote in Maryland is in the suburbs surrounding Washington.

When the 1990s began and ended, we had about the same amount of manufacturing jobs in the country, but we created over 22 million new jobs. Those people are working somewhere. When you all
have to go meet workers today, you're just as
likely to meet them in suburban office parks as you
are in factory gates. This is a very different
electorate.

And perhaps the most important thing in
terms of how we look at our governing is that even
as the electorate gets older, it is going through
generational change. The New Deal generation is
dying off. They were less than ten percent of the
voters in the year 2000.

You say why is this significant? It's
significant because the New Deal generation was
really an anomaly in American history. It's the
only time that people looked to the strong federal
government, the centralized federal government to
solve their problem. And it's because we had big
problems, a depression, World War II, and the end
of the civil rights movement.

Think about the defining political
experiences of the generations that followed.
Watergate, Vietnam. The most traumatic economic
experience was double digit inflation.

I'm glad, Governor Engler, when you
introduced me you didn't tell people that my job
with President Carter was his deputy advisor on
inflation. We got the inflation rate up higher than the president's positive ratings in the polls.

But think about that. All of those defining experiences make those generations more skeptical of government. Their political outlook was shaped more by Reagan and Clinton than by Roosevelt and Truman.

Now, just think about what's going to happen with the next generation after September 11th. We had a rush of people saying they had more confidence in government right after September 11th. But that quickly dissipated. And when you really look behind the numbers, what you found is there was really never much of an increase in confidence in domestic government. That was all in our ability to win the war. I could go on, but you get the point.

We have a very different kind of electorate, and the question is what it means politically. It means in a word that voters are more moderate.

When Reagan ran in 1980, 40 percent of the voters were conservative and only 36 percent identified as moderates. Today, and this has been going up through the '90s, half of the voters
identify as moderate. Conservatives are still more than liberals. They were 29 percent in 2000, and liberals have decreased from 24 percent in '80 to 20 percent in the year 2000.

The bottom line is this. In the industrial era, working-class voters were the driving force in American politics. In the information age, what we call the rising learning class is going to drive American politics.

My third point, those more affluent and educated voters don't respond to the traditional political arguments, and they demand a new modern philosophy that gets beyond the arguments of the left and the right and I believe defines a vital center of the political spectrum. These voters have repeatedly rejected demands that they choose between a government that tries to do everything and a government that does nothing. The culture wars of the 1990s largely left them cold. They're instinctively moderate and independent minded, and they reward either party when it moves to the political center.

Hearing that are what I think are the principles that are going to define that center: a commitment to equal opportunity for all and special
privilege for none, sort of Andrew Jackson's credo.

An understanding that economic growth in
the private sector is the prerequisite for
opportunity because the private sector, not
government, is the primary engine of economic
growth.

The values that are fundamental to our
country's enduring greatness:  work, family,
responsibility, freedom, faith, tolerance, and
inclusion.

A core ideal of community and an ethic
of mutual responsibility. Government should help
create opportunities for citizens, but every
citizen should give something back to the
commonwealth.

The belief that America has a
responsibility to lead the world toward greater
political and economic freedom by showing that
freedom can benefit all nations and lift standards
of living worldwide.

And a dedication to self government.

Government has to play I believe an important,
positive role in national life. But as
Governor Engler indicated, it has to be a
constantly-modernizing role that's modernized for
the information age, and it should equip our
citizens with the tools to solve their own problems
in these fast-changing times.

In the 1990s President Clinton usually
with bipartisan support, not always, but most of
the time, put into action policies that were
grounded in those principles. The results were
spectacular for America. We had the longest period
of sustained growth in our history; employment at
record highs and unemployment at three-decade lows;
low inflation and under control; the budget was in
balance and the federal debt on a course to be paid
off within ten or 12 years; incomes and wages were
rising and child poverty falling; welfare rolls cut
in half; crime down every year.; teen pregnancies
cut sharply; and the federal government the
smallest since the Kennedy administration.
America's basic bargain of opportunity,
responsibility, and community was reinvigorated.

Now to my final point. In his last
State of the Union, President Clinton cited the
words of Theodore Roosevelt, who said at the dawn
of the 21st century, "The one characteristic more
essential than any other is foresight. It should
be the growing nation with a future that takes a
long look ahead."

For his part, President Clinton suggested we set great goals for our nation. Here's what he said. To the citizens, to 21st century America, let us pledge these things. Every child will begin school ready to learn and graduate ready to succeed. Every family will be able to succeed at home and at work. And no child will be raised in poverty. We will meet the challenges of aging in America. We will assure quality, affordable healthcare at last for all Americans. We will make America the safest big country on earth. We will pay off the national debt for the first time since 1835. We will bring prosperity to every American community. We will reverse the course of climate change and leave a cleaner, safer, and I hope in Idaho at least cooler planet. America will lead the world toward shared peace and prosperity in the far frontiers of science and technology. And we will become at last what our founders pledged us to be long ago, one nation, under God, with liberty and justice for all.

Much has changed since President Clinton laid out those goals. Today we're at a war in terrorism, and our security is at greater risk than
at anytime in recent history. Our economy is shaky. And as you all know only too well, those surpluses have turned into deficits, and you've really felt the brunt of it at the state level.

Those deficits have been caused by a combination of things. I think by the president's tax policies but clearly by a bipartisan spending binge in the war. And they've taken away our ability to finance a continuation of the Social Security benefits at the current level but even more importantly to finance reform of Social Security.

Our job creation machine has stalled, and unemployment is two points higher than it was at its low point a year and a half ago. A corporate crime wave has created a scandal that together with the return of red ink has undermined investor and consumer confidence in the stock market, resulting in a free-fall in stock prices. And to this point at least, neither the president or the Congress has been capable of restoring the confidence in the market that is essential to turn it around. I hope that some of the actions the Senate took yesterday which the president indicated he'd support will help to do that.
We did a survey earlier in the year. We're going back into the field again this week I believe on this question. But earlier in the year more people were concerned as the economy was turning down with the decline in stock prices than losing their jobs. That's really a fascinating thing.

So today as we meet here, those goals seem farther away than they did just two and a half years ago. But there remain as President Clinton said great goals worthy of a great nation. And I believe we can still achieve them in this century.

To get back on course, we need to advance a national leadership agenda that begins with security, opportunity, responsibility, and reform. We need to start with the fundamentals making our country secure and our people safe and growing our economy and saving capitalism from its excesses. We must make America safer at a time when we face the deadliest threat to our domestic peace since the end of the cold war, the rise of anti-American terrorism. And lest we forget, violent crime has begun to turn around for the first time in a decade, to go up.

We should champion a security agenda
that includes an aggressive pursuit of the wider war on terrorism, including multilateral efforts to promote democracy, tolerance, and economic growth in the Islamic world. We should push for a truly comprehensive homeland security strategy, not just a bureaucratic reorganization, that deals with the gaps in our domestic intelligence gathering and provides real leadership and resources for state and local law enforcement agencies, giving them access to the best and latest technology for fighting terrorism and also everyday crime.

The President I believe today issued his strategy, and I hope this strategy moves us toward that goal. One thing is for sure. I think the events of September 11th should forever lay to rest the argument from the 1980s and '90s as to whether domestic security is a national challenge or strictly a matter for states and localities to handle without any involvement from the federal government. For the foreseeable future at least, we must all cooperate in the effort to make our country safe.

It's also very important to understand that this current economic crisis is twofold. There's a short-term crisis of investor confidence
based on the ever-broadening revelations of corporate misconduct. While there's plenty of room for disagreement about how exactly to respond to that misconduct with public policy, we should all agree that we need to respond immediately, decisively, clearly, and consistently.

Our policy makers should at all costs avoid the appearance of reaction, much less overreaction, and should lay out rules of corporate conduct in a way that's designed to instill corporate earnings reports, stock prices, and stock analyses with a maximum reliability across economic sectors.

But there's also a long-term crisis of confidence in economic policies in our country based on the widespread uncertainty about where we're heading. I personally am worried that the short-term crisis is feeding the long-term crisis in no small part because we've forgotten the rules of how we got to the longest period of low inflation, full employment, stable growth in our history just a few years ago.

The 1990s economic boom was not a fluke or a bubble, despite the overvaluation of some stocks. The explosion of innovation and
entrepreneurship was no hoax, despite the excesses
of some companies and executives. The
technology-based new economy is real, despite a
short-term crisis in the technology sector. And in
the broadening gains in productivity, which
Governor Engler said are continuing, real incomes
and standards of living in the 1990s were no
illusion regardless of our current troubles.

Lest we forget, the country managed to
create during the mid-1990s a virtual cycle of more
growth, more income, more investment, and more
productivity. We can return to this pattern by
restoring the economic formula that made it
possible: fiscal discipline, open trade, support
for technology and innovation, and investment in
the knowledge and skills of the American work
force.

I'll let you judge for yourself whether
the current policies are following that formula.
That's probably a subject for good debate. But
making America safe and fixing the economy are not
all we have to do. But they're the foundation,
the essential steps we must now take to put our
country back on course so we can set our sights
once again on the big challenges we must tackle.
We've got a lot to do. We need to deal with the aging of America. To be sure of that means that we've got to modernize Social Security and Medicare to take care of the baby boom retirement. But it means a lot more than that. The enormous baby boom quadrant has reshaped our institutions as it has proceeded through every age level. It's not likely to stop doing that as it reaches its mature years.

That will have tremendous consequences, for example, on the nature of medical research, among other things. I mean, this country barely has any medical schools to study geriatrics. That's going to have to change dramatically. I think we're going to view aging very differently a half century from now than we do today.

Most of us are approaching the age where we would ordinarily be viewed in the old industrial age model as retiring. And even though 21 Governors are leaving their jobs, I believe that they'll probably all wind up being constructive contributors to society probably for decades to come. That's a fundamental shift.

Despite all the progress that you have made, and the Governors have really been the
leaders, we still have the challenge of assuring
every child a world-class quality education. That
will require more than the education reforms we
passed by Congress, which we supported, but as you
know have not quite been funded to the level that a
lot of us think they ought to have been.

I personally think we need to be more
radical. We need to deal with the teacher supply
and quality crisis. I like the bargain that
Governor Roy Barnes struck, more money and no
tenure. But I believe in the end every school
should be a charter school with a performance
contract, and every student should have a choice in
the public school he or she attends.

When having to deal with increasing
pressures of work and family, one of the most
popular things President Clinton ever did, and I
didn't believe this when it happened, was to pass
the Medical and Family Leave Act. With more
families with both parents working, we're going to
have to come up with ways to make sure that they
have the time both to get the job done and to carry
out their most important responsibilities, which is
raising their kids.

Some people may think that such quality
of life issues were a temporary phenomenon associated with the boom years of the '90s. And no one cares now that we have so-called real problems. Governors know a lot better. Problems like balancing work and family and for that matter highway congestion, road congestion, and commuting time are real permanent fixtures in American politics we have to take seriously even at times of war or economic stability.

And I think this is very important. We need to reinvigorate our democracy. It's what makes America special. We have to reverse the low turnouts in voting. I think we're probably going to have to go further even than we have gone to deal with the influence of special interest money in our politics. And I'm delighted that President Bush has supported efforts to expand national service in this country because I think every citizen has an obligation not only to take from this country but to give something back to the commonwealth.

I personally believe that what makes America so special is that we aren't connected by a religion or a race, but we're connected instead by a civic creed, by a civic culture, and we have to
constantly nourish that to reinvigorate our Democracy.

I cite these four challenges. I could have picked others like the ones President Clinton had on his list at the State of the Union. But the point I want to make as I conclude is that our country as great as it is still has a lot to do. We have a lot of big challenges to tackle. We need to tackle them with bold ideas and a willingness to think out of the box. As we take on these new challenges, we need to adapt to the new and changing circumstances. We cannot be trapped by old orthodoxies or old arrangements. The fight against terrorism and the current investor confidence crisis should not obscure the long-range challenges or keep us from working on them.

Seventy years ago in my favorite speech of Franklin Roosevelt to the Commonwealth Club in San Francisco, he said, "New conditions impose new requirements on government and those who conduct government." We'll have plenty of new conditions in the 21st century, probably many that we can't even imagine today. And Roosevelt's words I think ring as true today as the day he spoke them. Thank you very much.
CHAIRMAN ENGLER: Thank you very much, Al From. What I'll do next is bring our next speaker, Newt Gingrich. He is a leader who has changed America in the '90s, as well. Newt today is CEO of the Gingrich Group, the Atlanta-based communications and management consulting firm, but he's also very busy, a senior fellow at American Enterprise Institute in Washington, D.C., and a distinguished visiting fellow at the Hoover Institute at Stanford University.

Newt Gingrich as you know served in Congress for 20 years, was speaker of the United States House of Representatives from 1995 to '99, becoming, after the '94 elections and the Contract of America, the first GOP speaker in 40 years, and in '96 when that majority was retained, becoming the first speaker in 74 years to accomplish that on the Republican side.

Under the leadership of Speaker Gingrich, Congress passed welfare reform, the first balanced budget in a generation, the first tax cuts in 16 years. In 1995 Time Magazine said about Newt Gingrich when they named him man of the year that leaders make things possible. Exceptional leaders make them inevitable. Newt Gingrich
belongs in the category of the exceptional.

During '95 through '99, federalism was on the march forward as the federal government devolved responsibility to the states in welfare in unfunded mandates legislation and tobacco recoupment legislation.

Newt Gingrich was our leader in the people's House. He continues to this day to be a passionate believer in the Tenth Amendment.

Personally, I'm proud to call Newt a friend and certainly proud of the work he did with our association, the Governors Association, in the 1990s. That's why, Newt, the National Governors Association is so interested in hearing about your vision for the future of governance in the 21st century.

And ladies and gentlemen, I present to you Speaker Newt Gingrich.

MR. GINGRICH: Let me first of all thank you for allowing me to come and share some ideas with you and say that I do look back on how closely we worked, particularly in '95-96. I remember being invited to a meeting, I think it was in October or November rather of '94 where we sat down in a very practical way and began working together. I think
welfare reform, which was very controversial when
we passed it and finally got it signed into law and
is now I think pretty widely regarded as having
been successful, I think it would not have happened
without the National Governors Association. And I
think that the renewal of welfare reform has to
include input from the Governors on what's
practical, what isn't, what are the next steps.
So I saw this as an opportunity to come
and really share with a very practical group of
people who had played a major role. We could not
have balanced the budget without the support of the
Governors Association. We couldn't have passed
welfare reform. I think in that sense you continue
to play a major role.

And I'm delighted to be here with
Al From. He is right. As part of our checkered
past, I guess, Jim Pinkerton, when he was in the
Bush White House back in '89 to '93, he would get
us together and we'd sit around and talk about big,
bold ideas and discovered that Washington's not an
easy town for big, bold ideas. But it was a very
invigorating thing.

I want to cite as a continuing part of
this bipartisan interest in new ideas, one of the
books I want to recommend to all of you is actually
by an Al Gore speech writer, Andrea Churney, who
wrote a book called "The Next Deal: Public Policy
in the Information Age." It is a brilliant book.
And really I think anybody interested in the
opportunities created by modern technology will
find that Andrea Churney's work is worth reading,
and it's the kind of thing that's coming.

What I want to do, though, because it's
such a central part of where we're at is I want to
take the general ideas that Al From was describing,
but I want to focus in on health and healthcare.
It seems to me this is the most important public
policy arena in domestic policy, setting aside
national security. There is no area we will
wrestle with more in the next 10 to 15 years than
health and healthcare. This is true of every
industrial country. And as we're learning through
AIDS, malaria, tuberculosis, and others, it's going
to be true of every nonindustrial country.

I think it does not get the intellectual
effort it deserves. We have huge fights over
financing. We have remarkably little effort to
really rethink the system, although I do want to
cite Governor Patton recently testified in front of
the Congress. I thought it was extraordinarily helpful testimony on a whole range of issues that involved long-term care and Medicare and Medicaid. I want to commend you for the quality of that testimony.

I want to give you five large points. There's a hand-out for all of you to have, and if your staff wants it later, it's also at Newt.org, a fairly easy title to remember. But this is on designing a 21st century health and healthcare system. Much of the work for this has gone on at the American Enterprise Institute.

And we have a health room there which has four walls devoted to how would you transform the health system literally put up on the wall. And any of you who want to come to D.C. or any of your staff come to D.C., Dana Pavey, who runs that project, will be glad to show them the room, get their ideas. It's designed to have more people putting in ideas.

I want to start with five large points. Health and healthcare is the biggest public policy challenge in America today. I suspect for every one of you its your biggest budget challenge.

Second, while politicians and the news
media focus on money and financing, it is the entire system of health and healthcare that has to be rethought. Americans die unnecessarily, get sick unnecessarily, and money is spent unnecessarily, and we need to think about the entire system of health and healthcare.

Third, there are solutions to most of the challenges of health and healthcare that either already exist in healthcare but haven't spread very far or clearly exist in other areas of our society but are finding a great difficulty migrating into health and healthcare because of the culture and politics of that system.

Fourth, this is a big change, but it's one I want to argue both in the states and in Washington. The burden should be on the failing old systems to defend their cost in lives and quality of life and in dollars. And when in doubt, we should shift to the new systems.

I want to emphasize this. We have this argument we can't try something new because it's untested or it hasn't been tested long enough or whatever. You can see this on page one of the Wall Street Journal this morning in an infuriating report on the Center for Medicare and Medicaid
Services managing to rescind itself on allowing senior citizens with eye disease to get appropriate medication. And you read this thing and you just know it's not right.

This is not commenting on Tom Scully, the current administrator, or anything else. It is the core nature of the highly regulated, highly politicized health system to protect dumb things at the expense of human beings. We ought to understand that going in, and the burden every day in every state legislature ought to be to say to the old order, tell me once again why I should tolerate it. And I'll go into detail in a second.

Fifth, I cannot overstate this for those of you who ran for Governor because you had big ideas for your state and who really love being a chief executive. And having tried to recruit a number of Governors in the past to become senators, I understand the distinction between the joy of actually making decisions and being allowed to talk endlessly without anything happening.

This is a principle I want to suggest to you. Big problems require big solutions. This is the largest problem in American domestic policy today, and it ain't going to be solved by 30 small
ideas. I say this in part having helped create a majority for the first time in 40 years, having helped balance the budget consecutively for the first time since the 1920s, having helped pass welfare reform after 61 years. So maybe it's just my pattern to look for big things that look for big solutions, but I went into health when I stepped down as Speaker because I am convinced that 14 percent of gross domestic product and life and death for every American, it has to be profoundly rethought.

Now, in that context, let me just give you some illustrations. I served on the Aviation Subcommittee, and I was stunned because in the Aviation Subcommittee if one airplane goes down, the National Transportation Board immediately goes to the crash. We look at the loss of 20 lives or 50 lives or a hundred lives with horror.

You saw the coverage worldwide the other day when the Russian airplane tragically got the wrong directions from Swiss Air control and collided with a freight carrier. And people worldwide realized that there were young people in that Russian airline. It was a big story.

OSHA has standards designed to protect
workers. We have endless regulations that we argue over. The Firestone story became a page one story, and yet the danger from Firestone tires was mathematically stunningly small compared to healthcare.

Then you come to health and healthcare, where there seems to be a totally different standard. Example, the Institute of Medicine reports that between 44,000 and 98,000 Americans a year die unnecessarily from medical error. Medical error is a very specific term they use very deliberately. The reaction is ho-hum.

Now, if we had one Boeing 747 today crashing, we would have a national emergency. We lose more than a Boeing 747 a day in medical errors in hospitals, not counting outpatient, not counting long-term care.

Two, the Center for Disease Control reports that there are an estimated 2 million hospital-induced illnesses a year and an estimated 1,500,000 nursing home-induced illnesses. What does this mean? This means if you're in the hospital longer than four days, the odds are even money the hospital will give you a disease. By the way, they will then charge you for curing the
disease they gave you. I thought this will not happen.

I do not mean this as public policy, but it's mentally a good exercise. If you simply passed a rule that said hospitals have to pay to fix the diseases they give you, you would find the following morning a crisis meeting in every hospital in the country on finding ways not to transmit disease.

By the way, the most common cause is patients laying flat on their back and getting pneumonia, which I'll come back to in a second.

Let me just say to you, for a country that prides itself on stunning levels of manufacturing quality, for a country that prides itself on being able to invent automatic teller machines that you put a plastic card in and punch a four-number code and get the exact amount of cash, for a country that has gas stations now that are smart enough that they recognize who you are when you wave a wand, allow you to pump your gas, and I ask student groups regularly how many of you no longer get a receipt, over half of them don't get a receipt anymore. They stipulate the gas pump's right.
To then turn and say however when it's a matter of life and death, you can't expect us to have that level of quality because after all, the doctors would feel uncomfortable or the hospital doesn't really want to do that kind of work. We have a standard rule in the airline industry. If you would like not to follow procedure, you don't have to be a pilot. But to be told by airline pilots we don't like using this plastic card and having this checklist because hey, I've been flying for years, we'd say that's it.

Let me give you this specific example. If we find a major error in how we currently maintain an airplane, we have a worldwide system to retrain the mechanics within 48 hours. The estimate by the National Institute of Medicine is a new procedure that saves lives can take up to 17 years to be adopted by doctors. So for 17 years you can go in randomly to a perfectly good doctor who just by the way didn't get around to it or didn't think it was the right thing or wasn't comfortable doing it or hadn't paid attention.

And we have no system for delivery of information. Let me carry it a step further. I believe our goal ought to be a 90-percent
improvement in medical error and a 90-percent
improvement in hospital- and nursing home-induced
illness. I think that is a rational goal certainly
for a country that landed at Normandy within less
than three years of the Japanese attacking us. We
know how to mobilize. We know how to focus.

And none of this is new technology.

Normally in a different setting I walk audiences
through how many people use automatic teller
machines and go through a whole number of items
like this. They all get it. You get outside of
healthcare, we use information technology every
day. It's an intimate part of our lives.

You arrive in healthcare and we're told
40 percent of all prescriptions require a call back
by the pharmacist. First of all, they can't read
the writing. Now, in the age of palms you have to
say to yourself, why do we tolerate a single
handwritten prescription anywhere in America? But
that by the way requires changing government
funding because we don't currently fund any capital
investment for information technology.

So we set up a highly socialist,
centralized bureaucratic model at the state and
federal level. We underpay nursing homes. We
underpay hospitals. We underpay doctors. We then further cause them costs because we require so much paperwork that they now have to hire people they didn't used to have to have. So whatever we're paying them, you now deduct the cost of the staff they hire. We then don't pay them in a timely manner, so they then try to find a way to charge us for the time value of money. And by now you've got a game going that is exactly what we used to tell the Russians not to do. Why would you think large, centralized, paper-ridden bureaucracies work in America any better than they work in Moscow? And I have a simple rule. If it doesn't work in principle, it probably won't work in practice.

So the current system's wrong, profoundly wrong. Now, you see glimmerings of real hope. For example, Secretary O'Neill when he was the head of Alcoa launched along with the Jewish Health Foundation in Pittsburgh a quality project which may be the archetype for the whole country. They took the Toyota production model which Alcoa had used. They actually have cardiovascular surgeons who sit down every month and plot what are the outcomes, what are the procedures, what do we need to change. They're applying it to the entire
Pittsburgh medical system. It's a voluntary program, but they've got a lot of cultural buy-in. And it is profoundly changing how people in that one community think about what healthcare is and what it should do. It is an example of the future. And Secretary O'Neill there had a remarkable understanding of where they need to go.

By the way, simply applying what Deming and Jurand taught Americans for 40 years, what the Japanese actually learned from Deming back in 1953, and what Peter Drucker has described since 1943, these are not new ideas in manufacturing, but they are revolutionary ideas when you apply them to healthcare.

Two examples. There's a firm called Evercare, which is a subsidiary of United Health. They come into a nursing home. They select out, which goes against the CMS model because they don't like cherry picking, but they select out the oldest, sickest people, sort of reverse cherry picking, and they have a registered nurse who takes a full history, puts it on a computer, has a pager and a cell phone, and if anything goes wrong, they have 50 to 70 patients in three or four nursing homes, and if anything goes wrong, that certified
nursing aide calls that nurse who knows the
patient. The first thing they do -- this is actual
statistics. They reduce the number of drugs per
patient from 22 to six because it turns out they're
overmedicated consistently.

My mother at one point was seeing three
doctors and had 17 different drugs. None of the
three doctors went through her whole medical
record. None of them knew what the other two were
prescribing. We shouldn't tolerate this. This is
madness to allow this to continue. We know better.

By the way, Evercare turns out to save 8
to 10 percent for the federal government. And I do
give Tom Scully a lot of credit. He intervened
because as all of you know, CMS actually requires
you to file by county for permission to serve so
they were going to have to file in 3400 counties or
3300 counties to be allowed to serve. Their
performance was so good in the first 40, he
actually issued a blanket waiver, which is what we
should do for all innovations that work. And you'd
suddenly have a dramatic increase in the number of
new products available and new services.

Second example, VISICU. This is a
spin-off from Johns Hopkins. They take intensive
care units. They feed the electronic data into a common office for three or four different hospitals in a community. They have an intensive care specialist 24 hours a day, seven days a week. What VISICU has done is dramatically changed the outcome pattern.

First example I mentioned earlier, if you lay flat on your back in intensive care, you'll probably get pneumonia. If you lay at 35 degrees, you probably won't. The nurse always put you flat on your back in order to change your clothes, clean the bed, et cetera. And a fair number of times they forget to raise you 35 degrees.

Under VISICU the doctor notices as the nurse is leaving the room, calls her on the cell phone and says you need to go back and raise him to 35 degrees. This means that at 2:00 in the morning you have a person who's paid to be there watching all the monitors as opposed to calling the doctor, wake him up, and saying you remember Ms. Jones who's in room seven, this is her problem.

They've had a dramatic impact in Norfolk where they are the beginning of the future. I would suggest every hospital in the country ought to be required to have -- not VISICU. I'm not here
to sell their products -- but a system based on
that model where you have a 24-7 intensive care
observation. You can have up to 200 rooms being
watched by the same doctor. And the difference in
qualitative results are stunning. There are no
doubts about that.

I think that a key part of this whole
issue is how do we create an integrated electronic
information system because this I think will change
virtually everything. We know we can create
integrated secure electronic systems. Again, think
about how many people you know who get money out of
ATMs, which means you are sending a code across the
system. Think about how many people who send their
credit cards through a gas pump for Pete's sake or
who send their credit cards in any store or
restaurant in the world.

Or one of my favorite examples, people
who go to Travelocity or Expedia and pull up
airline reservations, and you can find every
scheduled airline in the world to every city that
has scheduled service with its price, and in many
cases now you can pull up the configuration of the
airplane and you can pick the seat you want to sit
in.
First of all, it has huge implication for cost. Airtrans figured out they pay $8.50 to get a ticket sold by a travel agent, and they pay 25 cents if you order the ticket yourself. $8.25 per transaction difference. The result is today they have one of the highest rates of the airlines. Forty-six percent of the seats sold on Airtrans are sold on their website. You compute that out by $8.25 savings per transaction, it begins to be real money. Delta figured out at one point that every one percent they can sell on the website is a hundred million dollar net profit. Just moving one percent of their sales to the website is worth a hundred million bucks.

Now, let's apply that back to healthcare. One of the biggest problems is the cost of drugs. But I want to suggest to you we're approaching it exactly wrong. Everybody is trying to figure out how to be more like the French, that is, how do you cheat the drug company, how do you get the lowest possible price, how do you control it centrally, how do you set up a formula, how do you get the drug companies to bid?

I understand this the national fad right now. I'm not blaming any of you for doing it. I'm
just saying in the long run it's not how any of you
would explain to a Rotary Club you believe free
enterprise worked.

Why do we do that? We do that because we're caught in a system that is inherently
impossible to deal with. The average doctor can remember 55 drugs. This is a statistical fact. In
1964 that was terrific because there were about 30 drugs. Today it's madness. What does the doctor
remember? They remember the newest drug brought to them by the newest detail person who has worked for
three weeks to figure out a way to get in their office.

First piece of advice, create the equivalent of Travelocity or Expedia. There should be a system that any citizen in your state can go
to that says if you have this problem, first of all, have you looked at nutrition? For example, if you're a diabetic, here are the things you
shouldn't be eating.

Second, here are the over-the-counter things. That's something many of you have not looked at. Most states don't pay for
over-the-counter medication. There are prescription drugs from the 1970s that are now
over-the-counter. What does that mean? It means they cost $3. Meanwhile there's a generic which cost $25, and there's the newest brand, which cost $114. But you ought to start with over-the-counter before you even get to generic. Then you go to generic. Then you go to the latest whizbang perfect thing which may be exactly what you need if you have a particular problem.

When you discover that the minute Prozac goes off patent, it also goes off prescription, there's a hint here. The hint isn't to coerce people. Coercion doesn't work very well. It doesn't work very well if you're the KGB, and it sure doesn't work very well if you don't have the KGB. What works is incentives and information.

And if every citizen knew that they and their doctor could both look at the same database and they could find the real price and you could find out, by example, if you have a particular ulcer problem, try this drug for $5, and if it gives you an upset tummy, go to this one for $16, and if that doesn't work, you can then go to this one for $109, but don't start at the $109, you would change all the underlying patterns in the country.
I had to start with that as an example, but I think we need a whole new approach to rethinking how we deal with drugs. We clearly are paying more than we should. But it's largely because we're allowing substitution of brand-new high-end drugs which is an information problem and a market problem.

But it shouldn't be a coercion problem for this reason. I don't want any bureaucrat to tell me what my granddaughter can get if she's truly sick. This goes back to where the health maintenance organizations just were totally wrong. You cannot tell people that for dollar reasons you're going to risk their life. Because health is a values-driven system, not a money-driven system.

We are drifting into a problem that the Europeans now already have and the Canadians already have, which is people literally can't get the newest thing, and they just die, or they lead a quality of life that's miserable.

We ought to be doing the opposite. We ought to say to the big drug companies, fine, make as big a profit as you can providing the newest thing, and we're all for the newest thing, but by the way, we are not for our citizens buying
something three times as expensive as they need.

And I think if our citizens know they have those options and if you rig the right incentive system in there, you'll find people make decisions very quickly in the right direction, but it's a very different model.

Just a couple more steps. All of these relate to what I would call patient-centered care. Because my premise is the same as it was with welfare reform, give people the right options, give them the right incentives, and by definition of democracy you have to believe in people. I think that we want to look at the notion of creating for patients a wide range of information. What kind of drugs are available including over-the-counter and again generic, what's the record of your doctor or hospital?

Specific example the American Cancer Society vouches for. If a hospital does fewer than 125 breast cancer operations a year, it probably doesn't do them very well. We have clear evidence that for every major procedure there is a number below which you're not going to give the highest possible performance because you don't practice enough. People should know that. They should know
if you're going to be the first person this year
that this doctor is doing this operation on, you
may want to check to see if there's somebody in the
neighborhood who's done a lot more of them. It may
seem obvious.

Those of us who believe in free markets,
you can't have a free market without information.
We don't have hospital ratings. We don't have
doctor ratings. We don't have information about
these things. We're often I think browbeaten by
the medical professions and the hospital
association and their lobbyists to say gee, this is
different. It's not different.

You have the right to know how many
malpractice suits there are. People are
sophisticated. They figure out after a while how
to sort the information. But today people are
asked in ignorance to risk their lives in ways they
shouldn't.

Let me just say one or two closing
things because I really want to get to your
questions. I believe from dealing with rural
medicine through telemedicine to dramatically
enhance the quality and information available to
having electronic learning through systems like
Scholar so that doctors are in a position to learn on a regular daily basis what's going on to finding significant litigation reform because you can't expect doctors in hospitals to be honest and to be transparent if they think it's just a hunting ground for trial lawyers.

I think there are a major range of reforms. Some have to be done at the state level. Most have to be done at the federal level. In the short run, let me just say the federal government that I think it faces some very significant challenges where I think that they have to rethink their entire approach to the way we approach it.

Let me say my personal bias would be in terms of your immediate short-term Medicaid crisis that the federal government would do two things that would change everything. I think it is better for you to get them to take on the dual eligibles than it is to try to change the percent that they match. First of all, because politicians are not very thrilled about helping other politicians out, and I don't think you have the same moral base if you just say you would like 53 percent this year because we're having a bad year with the recession. I think you're in much better shape to say dual
eligibles by definition ought to have the federal responsibility.

And in Governor Patton's testimony he noted I think 35 percent of the cost of Medicaid is now a function of the dual eligibles. So you change everything for the short run and buy the breeding time to do the fundamental change.

Second, it's very clear that in specialized nursing facilities the Balanced Budget Act never intended the level of cuts that occurred the way the formulas were applied and given extraneous things that happened in the economy. I think it's very, very important that the federal government in the short run take significant steps on the nursing facilities in order to make sure that they don't go broke.

I think, again, it doesn't do politicians any good to just lie to themselves and say gee, go find a way to live with this. The way people live with this is they don't invest in computers, they don't buy new equipment, they can't hire good people, the quality of service declines. So we then get into a new set of scandals where we go out and discover with shock that the system we underfunded didn't do very well so they must be
I would suggest to you that in most part that the federal government today has a big obligation to rethink the whole issue of long-term care I think starting with a long-term care tax credit to get the baby boomers and their children to buy insurance now. If you look at the size of the long-term care funding problem 20 years from now, if we can't get that funded in the private sector, and it will never happen without a tax credit because you're not going to get a 35- or 40-year-old to buy long-term care as a matter of prudential behavior. It's too far away. But if you say to them here's a tax credit you only get if you have long-term care insurance, you could probably get to 95- or 98-percent coverage if you had a tax credit for the whole country.

Let me just say, the principles apply to the federal government as much as the state. I think you're at the edge of an enormous scale of change that is really worth looking at. And I very much look forward to working with you in trying to think through these things. And the federal government will change in part because of your leadership and giving it better ideas than it will
develop on its own in Washington. Thank you for letting me be here.

CHAIRMAN ENGLER: Thank you, Newt Gingrich.

Let me open it up at this point to questions.

Jim Geringer.

GOVERNOR GERINGER: Question for Newt, and it has to do with the relative cost of various categories of coverage. Under Medicare about two-thirds of our clients are families of especially young children, but two-thirds of the cost goes to the elderly, and much of that cost is to fund those heroic efforts in about the last three months.

In other words, could there be under the description you had with VISICU and Evercare a rethinking of how those dollars are applied? They are applied simply because they're reimbursable as much as anything, not necessarily because -- in other words, they could have been applied in different fashion under a different culture earlier, extended the life of that patient, and probably cost less. How do we change that culture?

MR. GINGRICH: Let me just say first of all, I would argue that if we were serious about having the federal government capitalize information
technology, then we ought to have a goal of within
three years of having a completely information
technology-based medical system, that is, the
federal government's the largest single purchaser
of healthcare in the world, pays for about half the
total cost of healthcare taking Medicare, veterans,
Medicaid, DOD, federal employees. And the federal
government ought to find a way to have an
incentive-based program for every doctor, every
nursing home, and every hospital to become fully
transparent in terms of electronic capabilities.

If you did that, you could then
realistically set the goal in parallel of reducing
hospital- and nursing home-induced illness and
reducing medical error. I've talked with a number
of medical experts who believe you actually will
get a 20-percent reduction in the total cost of
healthcare, which is 2.8 percent of GDP, almost the
size of defense budget. This is an enormous amount
of money we're currently throwing away.

You would then find out that if you help
people manage their diseases -- one other example.
Diabetes is the largest cost driver in Medicare.
Every seventh dollar is driven by diabetes.
Diabetes is largely manageable if people are taught
early enough and if they have incentives and if
they have information systems to help them. This
is every seventh dollar. In fact, one study said
it was fourth dollar, but the conservative estimate
is every seventh dollar.

Diabetes alone will lead to more health
costs by 2020 than any projected deficit in the
federal government. Just by getting diabetes under
control, you balance the federal budget. It's that
big a difference.

I think we overfocus on the heroic
medicine piece because it turns out if you have
preventive care and wellness, people live longer
and die very inexpensively. The people who are
really expensive for you are people with chronic
disease and people who have multiple disease
problems that last a long time.

One last comment. The current federal
structure doesn't design a system. There ought to
be a Medicare for people with ongoing diseases
which is totally different than Medicare for the
average person. Because we know that you have a
series of co-morbidities, that is, you have several
diseases, we should take care of you.

I'll just close with this example of how
backwards it is. Because of scandals in the 1970s, if you go to get kidney dialysis, you cannot have a doctor's visit on the same visit. Apparently back in the '70s some doctors were charging you a doctor's visit every time you showed up for dialysis, so the answer for the central bureaucracy was got it, we'll just block this.

But what it means is a person with dialysis almost always has multiple diseases, and they're almost always exhausted by the process of getting dialysis. So they just don't treat the other diseases until they have to be hospitalized. That is just so backwards, so anti-human, and in the end so expensive that it's amazing it has survived for 25 years as the model in Washington.

CHAIRMAN ENGLER: Governor Minner.

GOVERNOR MINNER: You spoke of over-the-counter drugs and doing some of the cheaper drugs and those kinds of things. I know many of my doctors would love to prescribe that. However, and I'll use the example you used, I think an ulcer, and you used some over-the-counter or less expensive drug, and then there's a proliferation and there's a problem with the stomach and other things. A doctor gets sued.
Unless we can deal with that problem, how can we ever get to the point you're talking about?

MR. GINGRICH: Well, I would say three things. I think your point's exactly right. Let me start with this. Most people including most doctors don't have the information today. If you were to go out and ask almost any doctor, I don't care how smart they are, tell me the 50 most relevant drugs for X, the odds are pretty good if they're not a specialist in that area, they don't know. They may not know the three newest ones. And they almost certainly forgot the four that went off prescription and are now OTC.

It's really an enormous challenge in information handling. So my first point, the reason I suggested either individual states or as a group that you create a site that both citizens and doctors can go to is because the volume of information's handleable on a website, but it's not handleable by human memory.

Second, we should have best practices, and best practices ought to have a bias against being sued. The best practice ought to include the least intervention that makes you healthy. This is why I cited earlier both Evercare and in my
mother's case we overly medicate people in this
country in part because doctors don't know what
each other are doing. If you go to multiple
doctors, it turns out the pharmacist has been sort
of the central point because they're the only
person who sees all the prescriptions. And by the
way, some people now go to multiple pharmacies or
they have mail order plus the local pharmacist.
Now you have nobody who's monitoring it, just to
know what you put in your body.

Third, I agree with you and I would say
my personal bias is we ought to create health
courts that are intermediary stages that are very
fast that you could get to with a complaint, and if
you didn't like the outcome of the health court,
you could then go and file regular litigation. But
by the way, you'd have to take the judgment of the
health court with you in your lawsuit. I think if
you had a system like that where you have a
relatively sophisticated first line of arbitration,
you would find that people would assert a level of
common sense that we just don't have right now.

In my mind the litigation crisis is a
bigger problem than the cost of drugs. If you
look, for example, at the close of the trauma
center in Las Vegas, the last trauma center in Nevada, it's a profound problem to have in fact trial lawyers driving doctors out of existence and thereby increasing the medical risk to the community.

CHAIRMAN ENGLER: Mike Leavitt.

GOVERNOR LEAVITT: Newt, you may have just answered part of my question. I'm quite interested in this idea of a database that would provide available information to a lot of the market about prescription drugs. My question was from an operational standpoint who takes charge of building and maintaining that? Do you see that as a public function, or do you see it primarily as a private sector function?

MR. GINGRICH: I think the minute private sector functions start to try to do it in the current environment they'll get sued. Just a practical matter. So therefore nobody's going to do it right now. This is probably an inappropriate idea, but I think if one started it up, made it free to their own residents, and charged a nickel for every person who visited their site from outside their state, you'd find yourself with a huge profit center in two years.
GOVERNOR LEAVITT: Is the information available? What is the source? From the drug companies?

MR. GINGRICH: If you wanted to do it, what I would do is I'd go to the American Diabetes Association, the American Cancer Society. Then I would go to the professional organizations, for example, the endocrinologists. And I'd put together a package. The people who created Scholar, which is a spin-off from Stanford, which has a very, very good electronic database for educating doctors and was the first system that the AMA allowed to be continuing medical education on-line for doctors, they have a pretty good model for how you can do this and how you can create an expert system like this.

It's being done in very tiny areas. If you look at Laurel Andrews' book "Survivor," which is about a bone marrow transplant. She's a Wall Street Journal reporter who went through the process. Even though the book's now about four years old, she cites places you can go to to get information about bone marrow transplants from patients themselves.

So there are ways to design this project
and to do it so that it's being run by technical experts. It's not being run politically, and it's not being run by bureaucracies. I think you can do it in a way that would almost overnight change the purchasing pattern in your state and would create a doctor-patient team. You don't want the patient by themselves, but the truth is you don't want the doctor by themselves. You want the doctor and the patient to be sharing knowledge to solve a common problem, which is the disease or health challenge they've got.

CHAIRMAN ENGLER: Jane Swift.

GOVERNOR SWIFT: This is a change here a little, but I'd like to ask Al From with such a huge demographic shift going on in America and therefore in the electorate as reflected in the 2000 election, why hasn't the leadership at either the state or the federal role all experienced the same level of diversity as the electorate has? And what should political parties be doing to help incent but not obviously incenting the current incumbent but to incent that we have that greater level of diversity? Will that help us change the political system to address the questions and the concerns that that electorate has?
MR. FROM: I think political parties ought to reach out as much as they possibly can to find new talent. I don't think it's going to become a big issue in a number of years because the demographic change isn't going to force it. Gary Johnson in New Mexico has two Hispanic candidates running to succeed him. That is probably a feature of demography.

If you look, just to give you a sense of the change, in 1980 there weren't enough Latino voters nationally to even register on the exit polls. Now, there's 7 or 8 percent. Our projections are there will be 25 percent in 50 years. I think a lot of the demographic change will force more diversity.

The other thing that's happening and Governor Swift, you're an example of this. More women are getting into politics at the local level, the legislative level.

One of the things that I spent a lot of time doing is traveling around the country and meeting with young state and local leaders. That's how I actually got to meet Governor Engler when I was with Kwame Kilpatrick, the young mayor of Detroit. What I'm finding in our own network, and
we were accused of being the southern white boys
caucus when we started, our diversity at the state
and local level is much, much greater than it is at
the federal level.

And so I think it's going to work its
way. The demographic change is going to force it
and it's going to work its way up through the
ranks. But it's critically important that the
parties be open to candidates who aren't always
white males.

CHAIRMAN ENGLER: Governor Kempthorne.

GOVERNOR KEMPTHORNE: Mr. Speaker, welcome to
Idaho. Newt, you stated that big problems need big
solutions, and you've truly addressed a big
problem, the healthcare system today in the
country. We have been implementing different
reform measures in Idaho, things on prescription
drugs, for example. We are seeing exactly what
you're talking about. People have been
overmedicated in many, many instances.

I'm going to ask you -- you used the
foundation of your policy perspective, which is
tremendous -- but now to put back on your
politician's hat. What is the catalyst? How do we
make some of these big solutions which are big
changes before we get to the crisis point? The culture of Congress, a society that is prone to litigation. So what's the catalyst?

MR. GINGRICH: Well, I'm a naive optimist. I really believe that the most successful politicians of the 20th century, you can argue that two of them are Franklin Delano Roosevelt and Ronald Reagan, who had been an FDR Democrat when he was young, understood that if you articulate in very simple language a clear goal that makes sense to people that you break the special interest over time.

Ronald Reagan proposed welfare reform in 1970 in the Governors Association meeting that year. We finally got it signed into law in 1986. It took a long time, but what happened is he won the argument over time. Let me give you two examples you just talked about.

I find every audience I go to except one like this where we're compressed for time, I really spend about five minutes on ATMs, gas stations, and Travelocity because I want the audience to realize how much convenience they get and accept, how much accuracy they get and accept every day and then apply that to health.

I think just making a couple simple
assertions. One of the two great parties by 2004 ought to say 45- to 90,000 deaths a year from medical error isn't good enough. Two million people getting hospital-induced illnesses isn't good enough. Trial lawyers closing down the trauma center in Los Angeles isn't good enough.

Now, the country will rally around whichever party is that clear. I think with the notion paying an unnecessary amount for drugs you don't need is just disgusting. I'm for a high profit, high research, entrepreneurial drug industry. I'm very worried we're going to crush it by bureaucratizing it out of our anxiety. So we're going to end up in some kind of a bureaucratic mess to control the drug companies. When what we ought to do is find a way for individual citizens and doctors to control the drug companies by not buying it if you don't need it.

I think the more you people hear that, I just passed a note to Governor Engler a few minutes ago, I think it is indefensible to argue you pay one price in Windsor and another price in Detroit. So I started with the idea if the drug companies are dumb enough to sell drugs cheaply in Canada, they ought to be selling cheaply in the United
States. By the way, that will raise the price of
drugs in Canada the next time they negotiate.

But this idea that the only place in the
world that ought to have a semi-free market is the
U.S. while all these other governments rip off our
consumers because we do all the research and they
get all the drugs is just dumb.

But the answer is not to adopt a French
or a German or Canadian model. The answer is to go
to a genuine free market where you have real
information, you'll increase OTC sales, and you'll
increase generic sales. But the real breakthrough
drugs will do really well because they save your
life and you won't mind paying for them.

Just one last point along that line. I
think it's important to understand the distinction.
I'm not certain overall costs will go down because
in a really good system we'd have much more
compliance. Half the drugs that are prescribed
today are not taken. That's not an advantage.
Because the person ends up in the emergency room
and we pay nine or ten or 15 or 20 times as much
because they didn't take the drug.

So my guess is you'd end up with a lower
cost per drug sold but in an ideal society, more
total consumption of appropriate medications
because then people would not go to the emergency
rooms. The real losers are the emergency rooms and
acute care.

CHAIRMAN ENGLER: Governor Sundquist.

GOVERNOR SUNDQUIST: I want to thank Al and
the Speaker both for a very challenging
presentation. Newt, remember back in the '80s, I
don't know if you were on Veterans Affairs then,
but there was an analysis made because everybody
wanted their veterans home to have heart facilities
for operations, open heart surgeries. It was
proven without a question that that availability
was not the answer. It was experience. And the
point you make there is well taken.

I agree with you also on the dual
eligibles. That would be of huge assistance to us
in terms of managing our healthcare.

I don't think we have a problem with
managed care. I think the problem we have is in
managed prevention. I hope that before I leave in
the next few months that while we've taken on the
question of prenatal care and how much that saves
in addition to the prevention of agony and
problems, but we've also done it with children's
asthma, I want to take on diabetes to identify
those individuals and put them on a correct
lifestyle in the next few months.

So I think managed prevention is
critical. We can reduce the high medical cost by
prevention. I don't think we're doing enough of
that in any of our managed care operations.

Now, a couple questions, two questions
quickly. One is, have you given any thought to the
cost of specialist sharing? Specialists are
wonderful. They're saving lives. They're helping
us. But there seems to be a custom that when you
get your hospital bills and somebody came in for
five minutes and somebody came in for ten minutes,
huge costs are there. I think that probably there
possibly is some abuse there.

The second part is the overcapacity of
hospitals that we have huge capacities that aren't
needed because people aren't staying as long.

Would you care to comment on those two
items.

MR. GINGRICH: Well, again, I think what you
get is what in principle those of us who believe in
free markets have always suggested, humans tend to
pursue the incentives created for their doing
better. If you set up a game where a general practitioner doesn't make very much money and a specialist makes a lot more, guess what happens over the following decade? People migrate into being specialists. If you figure out a game where hospitals only get paid for one procedure under the current system or the DRG system that the Medicare has, hospitals tend not to take care of all three problems on one visit because they're only going to get paid for one of the three if they take care of all three. So they bring you back two more times.

You have to understand that humans are very clever and they respond to get around any rule that is made to their disadvantage. The same challenge with hospital overcapacity. It will become obvious six months or a year from now that in the last year the big hospital systems have suddenly started doing much better. They're getting substantial increases in profitability.

And ironically, the big drug companies are not doing as well. So about the point where the big drug companies' profit margin started declining dramatically, the political system will manage to beat up on them. And about the time the political system figures out it should help hospitals,
they'll actually be doing very, very well. That happens because the political system is inherently slower than the speed with which private sector organizations take advantage of loopholes.

I just think we have to have a much different kind of approach to how we deal with this. And I think that the best gatekeeper you can have is the patient or their family. And if they had more information, they would rapidly -- we don't think we have to have a federal gatekeeper when you go to McDonald's or we go to Wal-Mart because you figure you'll know whether or not they charged for a cheeseburger you didn't order.

I think today we have a system where people don't know what's being done to them. They don't know who's doing it. They don't know what's a reasonable fee. None of that information is available, but we talk about free markets. And you can't have it both ways. If you want a free market, people have to have the knowledge to make informed choices. You would rapidly find if you build in the right systems that patients would pay much more attention about whether they're getting ripped off or not. I think they'd be much better users of the system than they are in the current
absence of information.

CHAIRMAN ENGLER: Thank you, Newt Gingrich and Al From. It's with great restraint I haven't asked a question. You guys have been great. Thank you for being here.

Very lively discussion. Excellent presentations. A lot to think about. We'll move along and I think we can wrap the rest of this meeting up quickly.

I did want to make one introduction. I noted in the audience today Eli Broad, a man of many different responsibilities and obligations, but the Broad Foundation in particular has been a great friend of education, and Eli in particular has been personally vested in this and is helping on one project I know we're involved with in the state of Michigan in trying to train the next generation of educational leaders. So Eli, thanks for joining us today. We're honored to have you sitting in on our session. Thank you.

Now, we've got a couple of policy positions that we need to go through. We've already handled the one committee. I want to move now to Governor Sundquist, chairman of the Committee on Human Resources, for his report.
GOVERNOR SUNQUIST: Thank you, Mr. Chairman.

First of all, I want to thank my partner, the co-chairman of the Human Resources Committee, Governor O'Bannon, who just has done a great job. The Human Resources Committee convened yesterday. We focused on a discussion on healthcare balancing act, prescription drugs, access, affordability. We had Tom Scully, administrator of the Centers for Medicare and Medicaid Health and Human Services; Mr. Chris Jennings, president of Jennings Policy Strategies and former healthcare policy advisor to President Clinton; David Beier, partner in Hogan and Hartson, who represented the pharmaceutical industry; and Jake Hanson, representing the Generic Pharmaceutical Association.

It was a very involved and complex subject, but our speakers did a great job. We appreciate that time.

The committee considered and now recommends one new policy position amendment and eight existing policy positions with minor changes and reaffirmation of one existing policy position. The policies are before us under the green cover in our packages.
Mr. Chairman, I move for the adoption of these amendments and policy proposals in block.

CHAIRMAN ENGLER: Moved by Governor Sundquist, supported by O'Bannon. All in favor will say aye. Opposed? The report is adopted. Thank you for a great job at chair.

Next to Governor Minner, the vice chair of the Committee on Natural Resources, for her report.

GOVERNOR MINNER: Thank you, Mr. Chairman. Our chairman had to be in his home state today and asked me if I would fulfill his duties for him. But we thank him for his diligence and hard work on our committee.

The Natural Resources Committee met and heard a set of interesting and informative presentations on the theme of energy and air quality. The first panel discussed their views on the administration's clear skies proposals and included Jeff Holmstead from EPA, David Hawkins from the Natural Resources Defense Council, and Quinlan Shea from the Edison Electric Institute.

The second panel was made up of representatives of two private sector companies, our own Delaware Dupont Company and of course
Wisconsin Energy. They were talking to us about how they utilized the green energy approaches in their businesses.

Our committee also had the opportunity to hear from Energy Secretary Spencer Abraham about the current policies and the debates in the energy bill that's in conference.

Mr. Chairman, the committee considered four amendments and four existing policy positions. One was water resources, the second global climate change, the third was invasive species, and the fourth environmental cleanup at federal facilities. These policies were accepted unanimously by the Natural Resources Committee, and I move their adoption in block.

CHAIRMAN ENGLER: Very good report. Motion for the adoption is made and seconded again by O'Bannon. All in favor will say aye. Opposed? The report is adopted. Thank you, Vice Chairman Minner.

At this point I want to call on Governor Kempthorne, who's been so wonderful as our host Governor. And once again, Governor, you and Patricia, everything, a rodeo, ice skating, Shakespeare, we've had it all. We've gotten our
business done. We've had a good time. And what an
opportunity to enjoy the hospitality of the Boise
people and the Idaho citizens. Thank you for
having us. Congratulations on a wonderful annual
meeting. Thank you.

GOVERNOR KEMPThORNE: Mr. Chairman, thank you
so much. Patricia joins me in just thanking all of
you for coming. It was a delight for this year
that it took to put together the details. I'm so
proud of the Idahoans that volunteered and spent
countless hours, the Idaho State Police and their
counterparts both at the federal, state, and local
levels that have worked so well on this. I hope
that you've had a most enjoyable time. You know
the welcome mat is now out.

We all look forward to Frank and Judy
O'Bannon's great opportunity next year in
Indianapolis. It's been a great joy for us.

One of the common things I've heard from
all of our guests is the fact that they found the
people of Idaho so friendly. Well, it's a genuine
friendliness. So please know that the chemistry
was tremendous. So you all come back because your
friends are here.

CHAIRMAN ENGLER: Thank you very much. I'm
going to go to Governor O'Bannon. But before I do,
I do want to make sure we get the Executive
Committee policies adopted. So Governor Patton,
can give us a quick report on the Executive
Committee policies.

VICE CHAIRMAN PATTON: The Executive
Committee recommends the adoption of two new policy
positions and amendments to one existing policy
position. Policy proposals are time limited to two
years unless otherwise noted. One is state fiscal
relief and Medicaid flexibility, new policy
position EC2, and Medicaid drug rebate program, new
policy position EC3, and streamlined sales tax
systems amendment to EC12. That concludes my
report.

CHAIRMAN ENGLER: Move by Patton, supported
by Kempthorne. All in favor will say aye.

Opposed? The Executive Committee report is also
accepted. Congratulations, Governor. Those are
great policies to be working on in the coming year.
It's interesting those that came through the
Executive Committee in particular have been the
subject of a great deal of our meeting and our
informal Governors-only sessions and do represent a
good deal of challenge for the association, indeed
for the Congress who has to respond to some of
these.

Hopefully when we gather in 2003
Governor O'Bannon will have some success to be
reporting, and I'd like to call on you at this
point to talk about that next annual meeting.
Governor Frank O'Bannon, the great state of
Indiana.

GOVERNOR O'BANNON: Thank you, John, and
certainly I'll be brief. We all certainly thank
Dirk and Patricia and their staff for putting on a
great event here in Idaho. It really will be a
tough act to follow. But Judy and I certainly look
forward to the opportunity to host you and to
certainly invite everyone to Indianapolis next year
from August 16th to the 19th for our annual
meeting. I think Indianapolis has earned the
reputation over the last 15 years of hosting
first-class events. Certainly our meeting will be
one.

Our committee is already hard at work.

We're looking forward to working with
Governor Patton as chairman and Governor Kempthorne
as Vice Chairman as we host this meeting next
summer.
I think the revitalization of downtown Indianapolis as our capitol city is extraordinary and something we'll be anxious to show you. It's a great city to get around in across the street from the state capitol. There are two hotels side by side in which our complete meetings will be handled. It's walking distance to restaurants, shopping, and many of the city's attractions, including Indiana State Park and downtown Indianapolis with its museums and other interests.

If you haven't, stop by our booth as you go out the door and pick up further information. We are so excited to have you in Indianapolis for the first time since 1931. We'll really be trying to put on a great event. Thank you very much.

CHAIRMAN ENGLER: Thank you, Governor. Well, we're rapidly coming to a close. This is the point where I'm supposed to say something about my tenure. I'll just say this very briefly that I'm going to leave the chairmanship of the National Governors Association with very pleasant memories. This has been a great group to work with.

To Paul Patton, the Vice Chair, our incoming Chair, I want to thank you in particular, Governor, for your cooperation and your support,
the abilities of your staff, and the way in which
we've been able to work together. I think on a
bipartisan basis this association continues to work
for the states. We keep that flame.

I wasn't sure when I saw this coming up.

I thought maybe this could represent also the
flame, Governor Leavitt, of federalism which we
need to make sure burns eternally as well and that
we keep torches held high because there are always
it seems challenges. And in this year the Rhode
Island meeting when I took over the chairmanship
and it wasn't very many weeks later but September
11th happened, and it really changed everything for
this association for the country. That tragedy of
September 11th and then the worst thing fiscal
situation for the states led to some real
challenges. Those were on top of the usual things
that Governors deal with, the floods, the fires,
the natural disasters.

We have truly one of the most
interesting jobs in the country being a chief
executive of states. At this point in our nation's
history, I think never really has the role of the
Governor been more important.

So the work of the association as it
goes forward under Governor Patton will continue to be important. To that end I also want to acknowledge the contributions made by Ray Scheppach and the members of the NGA staff because they too have been just stalwarts in terms of the work they've done. And because of the budget restraints, we've frozen that staff. It's a little bit smaller. It means everybody has to work a little bit harder, do a little bit more. Yet they've carried on. And they and the tremendous supporters that we've had, the fellows, the corporate members, the real network of the NGA is important. And I think we leave this at a time when there are many challenges but great strength. And there's some great talent in the Governors who will be returning next year. I think with the record size class coming in in January all kinds of potential.

For the 21 of us who leave office, Al From had it right. We're not going to be retiring. In fact, some of us with the really young children better get to work. In listening to these long-term healthcare costs the Speaker is talking about, the cost of college, and then Governor Keating was talking about the cost of
weddings. So I'm worried about all that stuff. So I'm going to be in the job market.

I suspect that all of us will be continuing our level of activity in public affairs in some respect. But we'll also take advantage I think of an opportunity as we've given in public service now maybe there will be an opportunity to give more back. That time and energy and attention to family matters, to the personal side, which as Governors I think all of us recognize are sacrifices that get made, and the challenges that are very difficult.

So I leave with no regrets but with a great deal of satisfaction and pride. As every Governor I think says, the thing you miss most when you leave the Governor's office is the camaraderie and the friendship of the men and women you serve with. Truly I've been blessed.

I've been a Governor during a period of time of ascendancy for Governors in the country. I've had a chance to serve with many of you who just have done such an outstanding job and are wonderful role models for public servants. So I thank you very, very much for all of the cooperation that's been so readily offered and so
eagerly accepted on my part. Thank you.

My last responsibility is to call on Governor Turnbull for the report of the Nominating Committee for the 2002-2003 Executive Committee. Governor, if you're ready, we'll receive the report now.

GOVERNOR TURNBULL: I'm ready. I want to thank Governor Kempthorne for a very happy and delightful stay here, Governor Kempthorne and Mrs. Kempthorne.

The Nominating Committee recommends the following Governors to serve in the National Governors Association Executive Committee for the year 2002-2003: Governor Mike Leavitt, Utah; Governor Ronnie Musgrove, Mississippi; Governor John Engler, Michigan until January 2003; Governor Parris N. Glendening, Maryland until January 2003, at which time Governor Ruth Ann Minner, Delaware, will replace him on the Executive Committee; Governor Tom Vilsack, Iowa; Governor John Rowland, Connecticut; Governor Mike Huckabee, Arkansas; Governor Dirk Kempthorne, Idaho, Vice Chairman; and Governor Paul E. Patton, Kentucky, Chairman. This concludes the report of the Nominating Committee.
CHAIRMAN ENGLER: It's a good report.

Governor Turnbull moves the adoption of the report, seconded by Governor Leavitt. All in favor will say aye. Opposed? The report is accepted.

Governor Patton, the new chairman of the National Governors Association, come forward.

Here's the gavel. It's time for you to go to work.

CHAIRMAN PATTON: Thank you. Thank you, my fellow Governors, for placing this responsibility on me. I certainly accept it and pledge to work just as hard as I know how to work with you, your staffs, and the staff of NGA to implement your agenda.

John, let me echo the thoughts of my fellow Governors in what great leadership that you provided this year as our chairman and what an inspiration that you've been to me at least and I'm sure the other Governors for the six and a half years that I've been participating in this group. You've had a very difficult year, very unusual year, but certainly you've kept us focused on what's really important, and we've made progress as an organization and as a nation.

So on behalf of my fellow Governors, I want to present you with this memorial gavel as a
memento of your service to this organization.
John, to you and Michelle, thank you.
And to Governor Kempthorne, I not only thank you for the hospitality that you and Boise and Idaho have shown to all of us, but I welcome you as a part of the leadership team over the next year that we will work together in a bipartisan way to articulate the needs of the states and their leadership on our national government. John has made me an intimate part of his leadership team, and let me assure you that I hope that we can have the same close working relationship.

We have a bipartisan organization and we must maintain that bipartisanship as political as we are, and we're very political, and we believe in our parties, but the cause of our Governorships are much more important. We have a whole lot more in common than we have in differences. And as we talk to our national leaders, Democrat and Republican, we need to emphasize the fact that we come with one voice when it comes to these issues that mean so much to our people, whether it be welfare reform or Medicaid improvement or transportation issues or homeland security or simplified sales tax system. So I pledge to work with you on that area.
My initiative is reaching new heights, turning around low-performing schools. I think most of you have been provided a copy of this brochure. We're also establishing a task force on preparing America's children to learn. So we have a very aggressive, specific agenda focused on education, which is in fact our state's most important responsibility, as well as addressing those issues that I've already mentioned that will certainly be very, very important to us this year.

I want to introduce the gentleman that John talked about, Eli Broad, and I'd like to ask him to come to the podium and say a few words to us. Eli Broad is the American dream come true, a successful American businessman that has realized that the secret of his success and the future of our country depends upon our educational system. And he has concerns as we have concerns about the problems with our major urban city schools and the leadership that it takes to make those schools work effectively. And he's been very, very active nationally in promoting better leadership in our school systems, our urban school systems.

Eli Broad, would you join us, please.

MR. BROAD: Thank you, Governor Patton. I'll
endeavor to be brief. First, I congratulate you on taking the helm of this important organization. Second, I want to thank you for your leadership in education.

The Broad Foundation is truly proud to be your partner in the Governor's initiative. Your success in education is well known, particularly the track record you have in turning around low-performing schools.

I also want to take a moment to congratulate my friend, Governor John Engler, for his distinguished tenure as chairman of the NGA. We're pleased at the Broad Foundation to be Governor Engler's partner as he mentioned at the Broad Center for Superintendents.

The Broad Center is an executive leadership development program to recruit, train, and support the next generation of the school district superintendents.

I believe, as you do, that the focus on education is more critical now than it's ever been. As a founder of two Fortune 500 companies, I know firsthand the importance of a well-educated work force in today's economy. With the advent of free trade and our nation having moved from industrial
to an information economy, many of the middle class
and the lower middle class manufacturing jobs have
left or are leaving America. As often as not the
shoes we wear, the clothes we wear, the TVs we
watch are made outside of the United States.
That's not going to change.

So as a result we're ending up with a
nation that has two types of workers: service
workers and knowledge workers. I believe this has
resulted in an increasing gap between the poor and
middle class. Service workers typically will earn
6 to 15 dollars an hour. During downturns in the
economy, they face high rates of unemployment.
Knowledge workers earn multiples thereof and have
longer term, more fulfilling career opportunities.

I believe that public education is a key
civil rights issue of the 21st century. Our
nation's knowledge-based economy demands that we
provide people from all backgrounds and
circumstances with the education and skills
necessary to be knowledge workers. If we don't,
we're going to continue to widen the gap between
the poor and middle class. I truly believe that
that gap is a threat to our economy, our democracy,
and our society. So we have to do everything we
can to insure that all children receive an education that allows them to become knowledge workers.

Three years ago as I stepped down as CEO of SunAmerica, my family created the Broad Foundation. We increased our commitment recently at the foundation to $400 million because I can think of no more important contribution to our nation's future than a determined long-term commitment to improve our nation's public schools. There are no silver bullets. Class sizes, how you teach English, et cetera, are important. Competition is important. Whether it be in the form of charter schools, parochial schools, Edison schools, vouchers serve a purpose. But when you get all done looking at all of that, you recognize a decade from now 85 to 90 percent of our children will still be in public schools. So our mission at the Broad Foundation is to dramatically improve K through 12 urban education through better governance, better management, and improved labor relations.

Earlier this year as you all know, Congress passed and President Bush signed the No Child Left Behind Act. And the act requires states
to turn around low-performing schools. We at the Broad Foundation believe that necessary changes in public education will come as a result of leadership of Governors and big city mayors.

You know, today there's no real credible single source of information that Governors can turn to to meet the new federal standards. Governor Patton has an initiative and that is to share what has worked across the country in his state and other states so that Governors can learn from each other as they face the difficult challenges of turning around their low-performing schools.

And fortunately there are a number of places to look for guidance. Although some schools continue to struggle, many have responded successfully to reform efforts of a group of Governors. It is imperative that we learn from your success in some of the mistakes so that children in all states receive a quality education.

Now, we hope to join you in achieving those goals by working with the NGA to host the National Education Summit for Governors to develop strategies to turn around low-performing schools, by producing a guidebook for Governors that
provides a policy-free work for best practices, by
hosting an Institute for Governors Education
Advisors that brings together educational leaders
to identify how more effective strategies can be
implemented in each state, by publishing papers
that outline intervention strategies for
low-performing schools. The problem is large. The
stakes are high. Together we're not going to leave
any school behind. Thank you.

CHAIRMAN PATTON: Thank you, Eli, and we
welcome you in our quest to improve education.

Well, Judy, come on up here. Let me
introduce my wife Judy that I think most of you
know. We certainly enjoyed working with Patricia.
I know she's enjoyed working with Patricia and the
other spouses of the Governors. We recognize how
important they are to the success of our work and
how important our work is to the success of the
nation.

So with that, we're having a news
conference at 12 o'clock in the lobby, and we'll
have an Executive Committee meeting at 12:45. And
I now declare this 2002 session of the Governors
Association adjourned.

(Meeting adjourned at 11:45 a.m.)