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BOISE, IDAHO

2

Sunday, July 14, 2002, 11:24 a.m.

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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.

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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.

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

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

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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.

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We're also going to be recognizing

1 National Governors Association Distinguished
2 Service Award winners from several states and some
3 of our departing Governors. You'll find during
4 this meeting that we'll recognize some of the
5 departing Governors sort of at each session.
6 That's because there are so many Governors
7 departing that we didn't want to save it all until
8 the Tuesday session at the close of business.

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

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

22 On Monday our session actually will be
23 on state leadership in the global economy which has
24 been part of an initiative over this past year that
25 I've been excited about as chairman of the

1 Governors Association. The discussion is going to
2 be moderated by Duane Ackerman, who is the chairman
3 and CEO of BellSouth Corp. He's co-chair of the
4 NGA Competitiveness Task Force, one of the leaders
5 on the U.S. Council on Competitiveness.

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

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

21 The goal of the agenda through these
22 three days of formal meetings is to enlighten and
23 challenge the Governors and to begin to lay the
24 foundation for all the new Governors who will
25 arrive after November's election.

1 With that out of the way, I want to
2 formally call to order the 2002 annual meeting of
3 the National Governors Association. The first
4 order of business is to have a motion for the
5 adoption of the rules of procedure for the meeting.

6 VICE CHAIRMAN PATTON: So move.

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

10 Part of the rules require that any
11 Governor who wants to submit a new policy or a
12 resolution for adoption at this meeting will need a
13 three-fourth's vote to suspend the rules. You all
14 know Frank Shafroth. He's the director of State
15 and Federal Relations. He's got to have those
16 policies or resolutions should there be any by
17 5 p.m. tomorrow, 5 p.m. Monday.

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

25 The recommendations are as follows:

1 Governor Knowles to chair that committee; Governors
2 Geringer, Wise, Almond, and Warner to participate
3 on the committee. So the five of you are charged
4 with coming back with a very wise set of
5 recommendations to lead this organization next
6 year.

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

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

24 I thank you for your adaptability last
25 night when the weather changed on us and we had the

1 windstorm. I will just note that last night as we
2 saw that storm come through this area that in this
3 region of the state we had 400 lightning strikes,
4 resulting in ten fires that ignited. We believe
5 that all of those will be contained by this
6 afternoon. But one of those is currently in both
7 Oregon and has come over into Idaho. So while many
8 of you have your hurricane seasons, your tornado
9 seasons, we have the fire seasons in the west. And
10 the Western Governors understand that.

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

18 We are an agriculture state. That is
19 our key industry. As I indicated, with just the
20 commodities we raise, if we did not export those to
21 your states or to other countries, then in Idaho
22 every man, woman, and child each and every day
23 would have to consume 65 potatoes, 286 slices of
24 bread, 29 glasses of milk, and eight
25 quarter-pounders. So we're in the business of

1 doing business.

2 We also, though, are diversifying, and
3 we're very proud of the high tech industries that
4 have come into this state. Idaho currently ranks
5 seventh fastest growing in high tech. And we see
6 these clusters, these corridors of innovation that
7 are taking place.

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

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

21 We're very proud of the leadership here
22 at the local level and in our Mayor Brent Coles,
23 who is the past chairman of the U.S. Conference of
24 Mayors. So again, you've given me some very nice
25 compliments about downtown Boise. I'm very proud

1 of the fact of having been a former mayor of Boise,
2 but I want to give accolades to the current Mayor
3 of Boise, a great friend of mind and a great leader
4 for all of Idaho, Mayor Brent Coles, to bring us a
5 welcome to the city.

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

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

1 as the mayor of this great city.

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

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

16 So as we work together, mayors and
17 Governors with the Congress and with the president,
18 to continue to maintain this as the greatest nation
19 on earth, we appreciate the opportunity to work
20 with you and to host you. And as mayor of the City
21 of Boise, welcome, and may you have a fruitful and
22 a great meeting here that we will prosper together.
23 Thank you.

24 CHAIRMAN ENGLER: Thank you very much,
25 Mayor Coles. And Mayor, we are enjoying the City

1 of Trees. We expect to enjoy it a good deal more
2 before we depart for our respective states later in
3 the week.

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

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

20 Let me take just a moment before we move
21 to our speakers and highlight the NGA initiative
22 that I referred to in my opening comments, state
23 leadership in the global economy. The reason I
24 want to do so is the initiative involved a number
25 of successful events around the country. And it

1 culminates here in Boise with the release of
2 several guides for Governors on building 21st
3 century economies. And we put these documents at
4 your places.

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

14 I think it takes on even greater
15 significance when the economy gets a little
16 tougher, and states all have to have long-term
17 comprehensive strategies to help build and retool
18 and strengthen economies. There are a limited
19 number of economic development tools that Governors
20 have relied on in the '80s and '90s. And we know
21 that some of those aren't well adapted for a
22 knowledge-based economy that we continue to
23 transition to in the 21st century. This is sort of
24 relevant to the discussion we're going to have this
25 morning with these technology leaders.

1 But our guides actually will cover every
2 aspect of economic development discussing trade and
3 global competitiveness, building science and
4 technology capacity, and also creating, training,
5 and preparing a 21st-century work force.

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

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

24 I can't thank enough -- I'll get a
25 chance to do this later in the week -- but I

1 mentioned Duane Ackerman. Also, Dr. Chuck Vest,
2 the President of the Massachusetts Institute of
3 Technology. Having an IT president and the CEO of
4 BellSouth roll up their sleeves and go to work
5 really helped to make this project I think
6 successful. And it is that kind of key leadership
7 that makes a difference.

8 Now, it's my great privilege to sort of
9 move to the keynote speaker for this session,
10 another great leader, John Chambers, who's
11 president and CEO of Cisco Systems Incorporated, a
12 worldwide leader of networking for the Internet.

13 Since January of '95 when John Chambers
14 took his current position, he's grown the company
15 from \$1.2 billion to \$20 billion a year in annual
16 revenues. John Chambers is considered one of the
17 most innovative and dynamic leaders in global
18 business today.

19 In February of 2002, Fortune Magazine
20 recognized Cisco as one of the best places to work
21 in America and one of the most admired network
22 communications company in the world.

23 John is a real visionary. I've heard
24 him speak before, and I think he's perhaps the most
25 optimistic CEO in America regarding the role of

1 technology and its potential to raise the standard
2 of living for all Americans. So it is a privilege
3 to have him here today and take time from his
4 family to join us in Boise.

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

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

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

1 productivity. Not just about speed, but about
2 brand and culture and teamwork.

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

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

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

1 government and business and average citizens.

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

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

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

24 When I talk around the world and talk to
25 key economists, whether it's in Washington or the

1 key economists in the largest financial
2 organizations or the business leaders, you feel
3 great when you talk to them. Productivity is up.
4 All the indicators are right. Service indices are
5 up. The manufacturing index is up which led us to
6 the downturn. It's now been up five months in a
7 row. Consumers are holding up remarkably well.
8 Housing starts up 11 percent. Inflation is under
9 control. I feel great.

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

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

25 But when you look at what is occurring,

1 the CEOs have less visibility. While none of them
2 around the world are predicting a downturn, they
3 see it kind of flat. It's an only until you show
4 me-type of economy. Until they see it turn up,
5 they aren't going to hire back or spend the money
6 on capital spending.

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

15 The service-provider industry, which
16 accounts for 30 to 40 percent of high tech
17 spending, has been decreasing if you can imagine at
18 25 percent per year in terms of capital spending.
19 Imagine if your tax revenues were dropping at 25
20 percent per year like many of the companies in our
21 industry are seeing for their revenues in this
22 segment.

23 There also is a deserved lack of
24 confidence in corporate America, which we as the
25 business leaders have to address and have to

1 address quickly in terms of the implications.

2 Those are coming together to create an
3 uncertainty in terms of where we're going. When
4 this uncertainty originally started to occur almost
5 18 months ago, the business and government leaders
6 in Europe felt like they could help pull the U.S.
7 out. They just said we'll be okay.

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

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

20 Many areas such as retail or retail
21 banking are doing fine. Investment banking.
22 Energy audits are very challenged. The one that
23 I'm watching that's most important is
24 manufacturing. And unfortunately, two to six
25 quarters in my opinion after the average large

1 company starts to recover, then you'll see the
2 surge of others to recover.

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

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

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

21 The reason that I'm optimistic about
22 this future is not because of my love of technology
23 as I said earlier. It's because of this. And
24 every major business and government leader around
25 the world understands it. During periods of

1 economic expansion you usually have higher
2 productivity when you first come out. Steve and I
3 as business leaders don't add many head count until
4 we see the economy start to turn. But then it goes
5 down progressively over the next multiple years of
6 economic expansion.

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

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

22 When I met with the key government
23 leaders and economists in Washington on both
24 political parties, the federal reserve, and also
25 the advisors to the president, we said we think

1 you're going to see productivity increase during
2 the economic slowdown. And people were a little
3 bit surprised we said that. I can tell you on a
4 sensitive note, two weeks later the numbers came
5 out on productivity, and it hit a number that is
6 unbelievable, 8.4 percent for the U.S. And of
7 equal importance in terms of manufacturing it went
8 to 9.7.

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

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

1 productivity.

2 Now, take a step back. The average life
3 expectancy of a CEO is extremely short, even
4 shorter today. So if my CIO were to come to me and
5 say John, I can increase your productivity at 1 to
6 2 percent per year, what kind of attention do you
7 think I'd give to my chief information officer?
8 One to 2 percent is below what my peers are all
9 growing at. If you talk about two and a half,
10 they've got my attention. If you're talking
11 5 percent or 10 percent, 5 percent you double
12 productivity every 14 years or standard of living
13 every 14 years. At 10 percent you double it every
14 seven years. I believe that the best-run companies
15 in America will grow between 5 and 10 percent. And
16 with GE, Cisco, Dell, and others, we believe we
17 will grow ours at 10 percent plus per year.

18 I think the best-run government
19 organizations over time have a chance to grow in
20 the 5 percent plus number. With all of us facing
21 the deficits that we face, the implications are
22 huge if we can do that effectively in terms of
23 continuing to provide very good or even expanded
24 service to our citizens at the same or lower cost
25 than what we were experiencing before.

1 So it is this type of understanding
2 we're seeing. And what you're talking about, and
3 I'm going to talk about an industry I'm familiar
4 with in terms of ways of application. But they
5 absolutely apply in government or business around
6 the world in terms of wave after wave of
7 application.

8 Again, going back to my reason for
9 optimism at this time is most governments and most
10 businesses are just getting started in these
11 application areas. Everybody talks about
12 E-commerce. It has a lot of sizzle. It was only a
13 50-percent increase in productivity for me for a
14 small segment of my work force. It was customer
15 support, you think about interfacing to your
16 citizens, where I saved 800 million a year at eight
17 cents a share in terms of earnings per share and
18 work force optimization where we save hundreds of
19 millions a year. Now, remember, my budget before
20 was only 2 billion. So to put it in perspective,
21 these numbers are huge.

22 Then there's another way, areas such as
23 virtual manufacturing. I talk about the
24 implications for government or business later about
25 what I'm going to call the network virtual

1 organization. Huge implications for it. But I
2 have 35 plants around the U.S. and around the
3 world. Less than five of them I own, but I run
4 them off my systems, my inventory. And my gross
5 margins are 15 points higher, not 1.5, 15 points
6 higher than my key competitors, half of which is my
7 manufacturing process.

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

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

1 leader.

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

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

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

18 Now, one of the first things to share
19 with you, whether you're a business or a
20 government, I would argue many of the implications
21 are very, very similar. You have to design the way
22 you order things to tie to your customer support
23 system that ties to your manufacturing system that
24 ties to your virtual close. So if you don't design
25 a common architecture for your data and for your

1 infrastructure build-out, you can't move from an
2 application area to another one when you support
3 the citizens differently. Or put it a different
4 way, where there's a problem or an opportunity in
5 terms of security as an example, you might have the
6 data in seven different databases, but if you don't
7 design in common, you can't pick up the issue in
8 terms of a security challenge.

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

16 Today very often when you all present at
17 town meetings, et cetera, it looks like business
18 leaders going around. Many people walking around.
19 I then moved to E-mail being my primary
20 communication vehicle. As you probably already
21 figured out, I speak about 200 words a minute with
22 a West Virginia twang, which I'm very proud of. I
23 type 15 words a minute, which my team will tell me
24 is almost unreadable. My communication is going to
25 be over the network. Not in terms of just

1 broadcast to large employee groups, which we do
2 every quarter multiple times, but to put it up in a
3 video-on-demand capability where the employees can
4 look at it any time they want, which I love because
5 they often do it at home over high speed
6 connection.

7 I was sure they'd listen to me about an
8 hour a night, same they would citizens in
9 government. An hour at night, Governor Patton,
10 right? Well, the average duration is about ten to
11 12 minutes. So not only do you put up a video that
12 people can watch when they want, you break it into
13 segments so they can see which questions to ask and
14 you can see what really hits.

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

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

24 You begin to think about corporate
25 policy. Many people would say we have one of the

1 best government affairs group in the world, and you
2 would say John, to cover this many countries and
3 this many states and localities you've got to have
4 a staff of a hundred. I have 14 people. We have a
5 half million hits a quarter on our web base where
6 we put up most of our issues, most of the
7 information sharing as it relates to government
8 affairs off the group.

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

18 The same thing in terms of getting news
19 out about the state or about the company. We have
20 16 people in our PR organization at corporate. Yet
21 we had a million hits per month off of our PR
22 website, where we put up the information,
23 commonly-used applications, et cetera. You can do
24 the math quick as I can in terms of the number of
25 people that you have just to answer the phone. Not

1 to get the information out. And using your
2 employees of state government or business to add
3 value as opposed to asking the routine question,
4 answering it again and again and again, which
5 doesn't motivate hardly anyone.

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

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

25 It is also understanding which

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

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

21 This might surprise you, but you've
22 probably got the same issue I do. I have very
23 strong functional groups in my company. Often the
24 strongest culturally are the most difficult to get
25 to move. So when you put in applications, go to

1 those groups who really are buying into it.

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

9 How much of this productivity we saw
10 over the last seven years was as a result of
11 systems? A lot of people talk about it
12 conceptually. A study was done by the University
13 of California at Berkeley and by the Washington
14 think tank, Brookings Institution by two of the top
15 economists. They studied 2,065 companies in the
16 U.S. They found out that the productivity increase
17 they were getting and expected to get, increase
18 now, 48 percent was due to web-based applications,
19 48 percent.

20 Now, there's a reason that many people
21 in this room, if you were to look back a decade ago
22 and being pretty candid, would have viewed IT as an
23 expense. Why was it? Because it was. Business
24 had moved from spending 5 percent of its capital
25 investment on IT in 1965 to 45 percent in the early

1 '90s, and our productivity as business leaders had
2 not increased at all. It was about 1 percent.
3 There were exceptions, the Wal-Mart's of the world,
4 et cetera. But they were the exception.

5 It was only in '95 that you see this
6 elbow where web-based application suddenly became a
7 huge leverage. And at the same time, it's like
8 most things. If you don't change business process
9 and merely putting in the network and the
10 application gets you no productivity increase. You
11 have to change governmental process and business
12 process at the same time to really get the
13 leverage.

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

19 The other reason I'm among the optimists
20 is when we studied the 2,065 companies, only 45
21 percent of them even started through that first
22 wave of applications we talked about. Only 10
23 percent have moved into wave two. And only
24 3 percent were halfway through the first group,
25 which is a very nice way of saying we've got this

1 productivity. Not only was business not really
2 doing it aggressively yet but very few
3 implementations. This is the reason I'm the
4 optimist. You just start to scratch the surface in
5 terms of what that really means.

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

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

24 Now, you take GDP growth, you can
25 probably run one to two points above that if our

1 education system re-educates workers quick enough
2 to realign them and they implement them in terms of
3 the way this is going. But do the math and think
4 about it for your state. If it's a 3-percent
5 number, you double the standard of living for the
6 citizens of your state every 24 years, which is a
7 nice way of saying every generation. Our children
8 do twice as well as we did. Their children do
9 twice as well as their parents did. If you get to
10 5 percent, which is pushing it a little bit, the
11 implications are even larger.

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

20 Our experience has been a little bit
21 different on that. Productivity tends to increase
22 with applications. More in years four through six
23 after they've been implemented in one through
24 three. And seven through nine more than four
25 through six. That shocked me. Maybe it shouldn't.

1 Because I thought you'd make the change, you'd
2 learn how to put in an application in Kentucky or
3 Massachusetts or wherever, and then once you kind
4 of change the process, you'd get your maximum
5 productivity in three years and it wouldn't change.

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

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

21 I thought that they would listen to a
22 CEO talk for at least a half an hour. Rude
23 awakening. It's ten to 12 minutes. I also thought
24 my sales force would take a 40-hour course or your
25 employee base within your state would, particularly

1 if I gave them a raise or a different level based
2 upon passing courses. You know what they do? They
3 take the test, try to pass out of the course, or
4 they more realistically realize they've got to take
5 only six hours out of that 40 hours to do it. We
6 just got rated as the best-trained sales force in
7 the world of any industry. Nobody would have given
8 that distinction two to three years ago. The
9 leverage is huge.

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

20 I can rule out qualification of training
21 at a cost of perhaps 16,000 where it used to cost a
22 million and a half to roll it out. And we found
23 that our whole organization when I put it out for
24 the sales force training, we had another 10,000
25 employees logging on every month just to learn what

1 our sales force training was doing, which is a nice
2 way of saying we weren't developing our other
3 employees.

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

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

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

20 And this is why I'm so patient about
21 education. Our university systems are the best in
22 the world that you have in the various states, the
23 best in the world. But our K-12 if not improved is
24 non-competitive. We all know where we stand in
25 terms of global competitors. Probably 19th in

1 math, 21st in science. And I applaud everybody
2 with the efforts that have been made, but we've got
3 to realize if we don't move faster, we won't leave
4 behind 5 percent of our population. We'll leave
5 behind 30 to 40 percent in terms of the
6 implementation.

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

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

21 And we've now expanded this, if you look
22 across the U.S., as an example, to over 4500
23 network academies with 13,000 instructors in every
24 single state in this room with the average being 70
25 network academies in each of the states represented

1 around this room. And in the U.S. 115,000
2 students. Global basis, 141 countries with 268,000
3 students. And you know, there's no difference
4 between the toughest empowerment zone in the middle
5 of New York City and one of the richest cities in
6 the nation like Palo Alto. You give young people a
7 chance, they participate. The challenge is there's
8 no difference in scores between China, the U.S.,
9 and Romania, either.

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

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

22 We found that in juvenile halls or
23 homeless shelters, et cetera, you can really begin
24 to train those who want to be trained. In fact, we
25 had some of the students say in the juvenile halls,

1 we haven't completed our coursework yet. We'll
2 commit a minor crime so we can come back and
3 complete it. We said no, we'll teach you somewhere
4 else to complete it.

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

11 How do you drive that through? How do
12 you impart that with government? Because until
13 each of the Governors in the states really put your
14 emphasis on it, it didn't take off in the various
15 states. Same thing is true with the united nation
16 in terms of driving across the united nation. The
17 implications were with netting where we combined
18 with the Hollywood entertainment industry, which I
19 never dreamed would work. I knew who Bono was. I
20 had no idea who Puff Daddy was. My kids told me
21 who they were. And we came up with a program where
22 you could give a hundred percent to a receiving
23 location and cut out the well-meaning people in the
24 middle where most of the costs are often taken up
25 and get to see the results back. The ability to do

1 that has helped charitable giving. Changing the
2 process but at the same time you change the other
3 issues.

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

18 There isn't a single silver bullet here
19 as most of you know. Many of you have been very
20 aggressive in terms of your states. But I do think
21 it starts with a national policy of seeing
22 broadband in every home by the end of the decade at
23 an affordable cost; that there's a consistency in
24 state regulations and an ability on the regulations
25 not to determine the winners and losers ahead of

1 time. As many of you have done very effectively,
2 you understand what can be done in terms of
3 consistency and creating the easiness to build it
4 out and the encouragement within the states and
5 just to mention a few of you around the room in
6 terms of how your leadership has made a difference.

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

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

24 It's what many management thinkers are
25 calling core what you do yourself very well in the

1 context of what others can do to put in the
2 systems. What you do is you use technology to
3 implement this in the application. So if you look
4 on the one side in terms of the concept, it's an
5 infrastructure using core in the context of
6 applications, but what you're really talking about
7 is using technology to change business government
8 process to be implemented by people. I think if
9 that is really carried through it goes way beyond
10 that virtual manufacturing or virtual government.

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

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

23 Catching market transitions in business,
24 very key. This is when you lose or gain market
25 share at tremendous speed as Steve and I know. I

1 wish I could tell if you're getting it in good
2 times you're getting it during the tough times.
3 The economics, the consolidations that are going on
4 in the industry, et cetera.

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

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

22 I believe you ought to always seek
23 shareholder approval for all stock option plans.
24 And the executives have to be realistic. They
25 should be tied absolutely to performance. But the

1 difference in ownership, a nation of owners or a
2 nation of renters, is huge in terms of the
3 implication for where we're going.

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

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

24 And where are you going in terms of how
25 do you handle downturns and upturns? When a

1 downturn occurs, it's No. 1, don't get away from
2 your strategy on the downturn. So many people,
3 your strategy was working fine, then it turns down,
4 and it wasn't your strategy that got you there,
5 don't make fundamental changes in strategy.
6 Determine how long the downturn is going to last,
7 how deep it's going to be, adjust your plans to
8 that, and then as simple as it sounds, get ready
9 for the break, the upturn. That very simply is
10 what Cisco did in terms of the implementation.

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

23 The same thing will happen. A new wave
24 of competitors will come in, but your ability to
25 survive as a business is based upon your ability to

1 adjust to competition and your ability to leverage
2 it as it occurs.

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

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

1 sense at all to business or the consumers. So
2 there's going to be consolidation within that.
3 Same thing in Europe. Same thing in the Asian
4 Pacific.

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

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

24 But the next point is real interesting.
25 The things that we build, they will get cheaper

1 forever. The reason being, all of a sudden you're
2 not going to just use the Internet to look at your
3 two retail stores around the corner that you buy
4 from. You're going to look at maybe a hundred or a
5 thousand options. And the two retail stores around
6 the corner will have to price to this new
7 competition we're seeing.

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

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

21 I hope I've done a reasonable job of
22 sharing with you what we're seeing economically,
23 why I'm the optimist in the industry now versus
24 being a pessimist in terms of what was going to
25 occur 15 to 18 months ago, and how I believe it can

1 change our states and our country. I do want to
2 thank you for the opportunity to share with you
3 today. I hope this has been constructive.

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

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

17 MR. CHAMBERS: The most important lessons
18 that I've learned in terms of creating large
19 integration-wide systems is first, you have to set
20 the stage at the top. And second is something I
21 did not think I would do, but I'm a huge believer
22 in empowerment. You have to have a common data
23 architecture in transport. Third, as alluded to
24 earlier, go to those organizations first that have
25 the leader who really wants to accept it. And

1 fourth, take the time to explain to others what is
2 the benefit from it, and then have your operational
3 reviews of your leaders of your various agencies
4 and departments report it to you. Not the CIOs but
5 the agency groups. And then at the top, you've got
6 to walk the talk. I can't say one thing and go a
7 different direction. So those would be probably
8 the five that come immediately to mind.

9 CHAIRMAN ENGLER: Jim.

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

21 MR. CHAMBERS: CEOs occasionally do that.

22 GOVERNOR GERINGER: That's right. The same
23 deal. The temptation is always to characterize
24 information technology and the very thing that you
25 point out up here as a separate line item. It

1 becomes very vulnerable. If you have to fund
2 education, fund healthcare, fund public safety,
3 those are all very important. Take out IT because
4 that's just too expensive. It's an add-on.

5 Our committee has tried to provide the
6 integration concept of saying this is so integral
7 in terms of the success and process and
8 productivity. The productivity gains are
9 misunderstood in terms of the integration of
10 technology into a network virtual government.
11 Business is going to have to show government how to
12 do that.

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

19 MR. CHAMBERS: I have to think a little bit
20 more about the answer. Let me follow up with some
21 detail. But the initial reactions are I think the
22 physical implementation and the network-based
23 implementation that web applications are so
24 intertwined you can't separate the two. So
25 educating people on how they're intertwined,

1 whether it's security versus terrorism, in
2 protecting infrastructure or others.

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

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

20 We do that with states at no cost. Now,
21 we do it at no cost very simply. If it really
22 works, you'll buy either my competitor's
23 infrastructure or my own, and I'll win my fair
24 share of those battles just showing people how they
25 do it. I think if there's one fundamental, it's

1 how do you educate them? Because most people want
2 to get educated in this.

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

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

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

25 CHAIRMAN ENGLER: Governor, I'll put you on

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

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

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

21 Steve Appleton has some deep roots in
22 the Boise area. He's a graduate of Boise State
23 University and serves very actively on a number of
24 important local community boards and I know is a
25 good ally of Governor Kempthorne.

1 So at this point, ladies and gentlemen,
2 Steven Appleton, the chairman, CEO, and president
3 of Micron Technology.

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

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

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

22 This point is illustrated by the
23 perspective that many of us in this room could do
24 without a lot of the technology today, particularly
25 certain aspects of it. However, I think when it

1 comes to our own children, we believe it is
2 critical for them to have access.

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

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

20 Today's classrooms are filled with all
21 sorts of technology. Information as John described
22 is at their fingertips. Children in Boise can talk
23 to students in Italy or Singapore, unheard of a
24 decade or two ago. They can conduct research on
25 the polar ice caps or rain forests in the Amazon.

1 Technology has truly changed the way our children
2 are educated.

3 (Power point presentation.)

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

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

16 If you look in the schools, about 90
17 percent of it comes from some relationship to the
18 state. In particular, you look at the local school
19 district. There's a large percentage of it, about
20 72 percent of the schools say they also get funding
21 from the federal level. So there is funding that
22 exists for the schools.

23 The thing is we want to be smart about
24 that funding. And here's a look at how it breaks
25 down. If you look at where the various sources

1 are, you can see that about 53 percent of it comes
2 from the local school districts. Now, the
3 legislature, which was mentioned earlier, accounts
4 for about 29 percent of it. Then you have 11
5 percent from the private sector and 7 percent from
6 a variety of programs at the federal level like the
7 Federal Technology Literacy Challenge Fund and the
8 Goals 2000 Program in the form of competitive
9 grants. This means that nearly 90 percent of the
10 funding for technology in Idaho, and I would guess
11 the numbers are similar in other states, is
12 provided by the decision makers within those
13 states.

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

22 As many of you are aware, technology
23 companies place a percentage of all of the money
24 they receive, their revenues, into R and D. I
25 think put simply, we want to first develop and then

1 prove out what works before we take it into broad
2 production. Schools should do the same. Let's
3 face it. All technology is not created equal, and
4 sometimes we come up with bad ideas.

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

12 The next is assessment. I think John
13 mentioned earlier how important it is to measure
14 whether it's productivity or some other measurement
15 that you're trying to gauge on the impact. We need
16 to have assessment. And I think this is really a
17 hot topic around the country is whether it's
18 educational program and the employment of
19 technology, is it having the impact that we think?
20 Pilot projects only have benefit if we set up a
21 system to determine whether they had a positive
22 impact on student learning. This follow-up is
23 missing in many of our schools. Schools should
24 spend some time on that technology, on data
25 management, in particular data management systems

1 that allow teachers to see the results. Companies
2 certainly spend a lot of money in this very
3 important category. Schools have been reluctant to
4 do so historically. It's fruitless to spend a lot
5 of money on high tech devices for the classroom if
6 we don't assess the impact.

7 Finally, we need to look at scalability.
8 We need to look for projects that can expand and
9 are scalable. Fund pilot projects that if proven
10 to work can be implemented across the school
11 district and eventually across the state.

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

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

1 to comment on a single question.

2 Governor Musgrove. Then Governor Turnbull.

3 GOVERNOR MUSGROVE: Thank you, Mr. Chairman.
4 John, what's the real reason we don't have a
5 national policy on broadband?

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

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

23 I think momentum is building. I think
24 part of it was high tech was too slow to come to
25 the market with why you needed this. And I think

1 many of us were looking for a single silver bullet.
2 If the president said do it, it's done. It
3 requires a large group of organizations working
4 together such as the SEC and Congress, as well.
5 That would be my answer.

6 CHAIRMAN ENGLER: Governor Turnbull.

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

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

14 GOVERNOR TURNBULL: Yes, it's for John.

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

1 national level and how important that was.

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

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

21 And the same thing for education. Any
22 young person ought to be guaranteed a good
23 education, regardless of income level or geographic
24 location with an option if the school isn't
25 providing that.

1 CHAIRMAN ENGLER: Let me ask Steve Appleton a
2 question. I'm just curious from the position of
3 Micron in the world as a major chip manufacturer,
4 what's going to determine whether or not you'll put
5 your factories and build those products in the U.S.
6 when you look ahead? Are we still going to be
7 competitive at chip building?

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

14 And just a derivative of what John
15 mentioned earlier, higher education is a privilege,
16 not a right. And K through 12 in many respects is
17 a right, not a privilege. There's just a
18 tremendous amount of competition from almost every
19 country around this world to go to universities
20 here in the United States. And it puts a lot of
21 pressure on the services that are being provided or
22 the quality of that education. And a lot of that
23 comes down to assessment because if you don't
24 achieve at the university level, then you don't get
25 to continue. And that is the case in many other

1 countries. I'm not suggesting that for our
2 country. But that is the case in lots of other
3 countries. Somehow we have to have assessment and
4 accountability for achieving results in this
5 country at the K through 12.

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

17 As an example of that, almost all of our
18 research and development is done here in Boise,
19 Idaho. You might find this interesting that of all
20 companies receiving patents in the world and all
21 companies applying for patents in the United States
22 in general because we have such strong protection
23 of IP laws, of all companies receiving patents in
24 the world, Micron was No. 4 last year, and we were
25 No. 2 in the United States, only second to IBM.

1 And almost all of that technology is generated
2 right here in Boise, Idaho. So we do have the
3 caliber of people that we need. We need to make
4 sure we take advantage of that.

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

12 CHAIRMAN ENGLER: Governor Kempthorne and
13 Governor Schweiker.

14 GOVERNOR KEMPTHORNE: Yes, Chairman, thank
15 you. Mr. Chambers, if you could address this, too.
16 As we talk about the role of government, and
17 everyone agrees that we have to have a
18 well-educated work force but as importantly
19 well-educated citizens, what is the role of tax
20 policy? You talk about the fact that we currently
21 lack a national strategy on broadband. In Idaho we
22 have a 3-percent investment tax credit. But if
23 it's broadband, we double that to 6 percent.
24 Because of that we have 12 rural telephone
25 companies that have band together, and now the

1 southern part of this state is having broadband
2 brought to a variety of communities throughout the
3 state.

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

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

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

20 MR. CHAMBERS: Starting at 30,000 and coming
21 down very quickly, companies are going to locate
22 their work force wherever the best educated work
23 force is with the right infrastructure with the
24 right supportive government. Tax policy is one way
25 of sending that message very strongly.

1 Secondly, as you correctly articulated,
2 and many Governors around this room have very
3 active programs on broadband build-out, without
4 help from the state government, international
5 government, it doesn't pencil. So we've got to get
6 consistency so people can learn how to make money
7 there. But you're not going to get the build-out
8 without that. And you're also going to have the
9 predictability because the infrastructure, whether
10 it's the 12 local organizations or three or four of
11 the nationals, they won't build out until they are
12 pretty sure about predictability. If they make the
13 investment and then the rules change, they get
14 wiped out as a company or otherwise.

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

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

25 Having said that, I do not want to hide

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

12 CHAIRMAN ENGLER: Governor Schweiker.

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

1 all that kind of stuff, but blue sky, what do you
2 see?

3 CHAIRMAN ENGLER: Steve, go ahead and start.

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

12 And one thing that we're finding as a
13 challenge because I think most companies like
14 Micron are involved in these communities, and
15 remember, we're all parents, too. We're all
16 parents, as well, and that the ability to assist
17 the children in whatever environment it happens to
18 be, whether it's at school or whether it's at home,
19 that we also have to learn. We also have to learn.
20 And I think that it's difficult when you're a
21 parent working to spend a lot of time coming up to
22 speed on what new technology has to offer. And as
23 a result we must continue to emphasize the
24 accessibility from home or from wherever you happen
25 to be, the accessibility of these learning tools so

1 you can participate with your own child as they
2 come up through the system.

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

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

20 I think this is also an area, however,
21 where business must be more aggressive. As a
22 parent, I try to make a difference in a single
23 school. I lived in eight states. You can't as a
24 parent. You can as a business leader, however. As
25 a business leader, you're in a position where

1 you're not subject to specialty interest groups.
2 You're able to say frankly, if we don't have kids
3 graduating from high school that are able to read
4 at a reasonable level, I'm not going to be able to
5 be located in the state. And you can get behind
6 people from both political parties very strongly
7 who are very pro education.

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

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

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

23 MR. CHAMBERS: I think it's important to
24 combine because the parent's involvement in the
25 school system will always be the strength, but it's

1 got to be the two put together. It's got to be a
2 local effort and the state and national effort.
3 And I think business leaders can and should play a
4 much more aggressive role in helping that to occur.
5 We've done that as a technology group as an
6 example.

7 CHAIRMAN ENGLER: Governor Mike Leavitt.

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

14 MR. APPLETON: That's a great question,
15 Governor. And I think related to that, by the way,
16 is those students that we have in higher education
17 and where they come and where they go because I
18 think that in general what happens is that
19 companies are very much involved with their
20 universities and where they work and exist. And
21 that's I think pretty consistent around the
22 country. So I think that if they're not aligned,
23 they get aligned through the relationship that they
24 end up with those businesses that are in the
25 communities where the universities are.

1 And the only thing that I can say is we
2 obviously believe that there's somewhat of a
3 shortfall with respect to science and math. That's
4 in particular because when you look at the amount
5 of positions that are available around this country
6 and around the world in those fields, they're not
7 being met. There's a very large shortage. So even
8 though we talk about economies being weak, in
9 general most people that come from those fields can
10 easily get a position or a job, almost no matter
11 what country they're in.

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

19 And there we see quite a disconnect.
20 The disconnect is related to the amount of children
21 that are moving through at a competence level in
22 the math and sciences because I think as many
23 people know, by the time that they get to their
24 high school years, if they haven't achieved some
25 level of competency in those fields, then there's

1 no way the university can accept them in those
2 fields. That's why a large percentage of our
3 universities today are actually students from other
4 countries, not from this country. It's unfortunate
5 because we need better alignment there in order to
6 make sure that we continue to have the type of
7 people from our educational system that will fuel a
8 lot of the technology industry, which is obviously
9 a key part of this country.

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

18 I think many of the classes and some of
19 the teachers that we all attended in universities
20 are the same as when we went through, and yet
21 everything has changed. Whether you're in Beijing
22 or West Virginia University or Stanford or
23 Cambridge in the United Kingdom, it's always the
24 same when you talk to schools. You have the
25 student up front that's really pushing the

1 envelope. You have the dean and the president of
2 the school in the back going good boy. You have
3 the professors over here to the side scared to
4 death. Part of what we have to do is educate our
5 leaders both in universities and in colleges but
6 also in the K through 12 so they cannot have the
7 fear but more importantly to know how to really
8 leverage the capability that that does occur.

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

19 So I think we've got to do a much better
20 job of getting our educational experience up
21 because I share with Steve, we are not going to
22 have enough engineers five years out. We might
23 have a temporary good year, but we're going to have
24 the same problem. We ought to be developing this
25 for American jobs, but you've got to have the skill

1 set.

2 CHAIRMAN ENGLER: I was going to stop with
3 Governor Leavitt's question. All of a sudden
4 there's a flurry of activity. Steve and John,
5 you've both got going again here. But Tony, you
6 didn't have a chance, and Judy, both, if they're
7 brief questions, why don't we put both questions on
8 the table and get the responses together perhaps if
9 we can if they're not too wildly variant.

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

19 And you as two very successful corporate
20 leaders, not only in the comments of your customers
21 but the respect of a broad number of people in the
22 public, do you believe that we can work our way out
23 of the economic problems that we have without
24 addressing the crisis of confidence that we have in
25 the ethical leadership of corporate America?

1 CHAIRMAN ENGLER: Judy, go ahead.

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

23 I'm just one person with an idea, and
24 I've got some extended ideas about that, but I
25 would like to have you maybe put that in your bank

1 of things that I think we're missing in America.
2 And this is a population that's really not in touch
3 with what's going on. I think it's a healthcare
4 issue. Once they start connecting with their
5 families, I think their health improves in that,
6 too.

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

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

19 And while I think all of us would agree
20 it was a very small minority who made this mistake,
21 I think we should be held a hundred-percent
22 accountable and put in jail if they did violate the
23 law, and I think undoubtedly some of them did.
24 Every business leader has to deal with this and
25 step up to it very aggressively.

1 I think as you do this you almost need
2 to break it into four categories. I think you've
3 got to restore the confidence in our financial
4 statements. That's both an issue the auditors have
5 to own because they really have to be the
6 watchdogs, and the companies have to make it easier
7 to read. I've got multiple degrees, but I would
8 have trouble reading a corporate report looking
9 back a year or two ago, and I'm really good with
10 numbers.

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

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

1 we have to adjust, and the best companies have to
2 lead.

3 I think you have to seek shareholder
4 approval for all major options. I have very strong
5 personal views about not repricing, but that's a
6 separate item, but I think the shareholders should
7 not be taking different risks than the community.
8 We've done that at Cisco. Our profitability is up
9 24,000 percent for the original investors in Cisco.
10 Since 1995 even though our stock was clobbered last
11 year, it's still up 600 percent. So really asking
12 the shareholders for approval and driving it down
13 through the organization.

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

18 But the real issue in ethics as you know
19 in state government or in business or in a country,
20 it starts at the top. You have to walk the talk.
21 This isn't something that you can enforce. You've
22 got to create the atmosphere. It starts with the
23 CEO and CFO. They have to today be even more
24 visible to really walk the talk. And you're going
25 to see that occur across corporate America.

1 My worry is we've got to make some
2 fundamental change, but also, like I talked about
3 in terms of what we did during the economic
4 downturn, you don't overreact and cause a whole new
5 set of problems. I think we're headed the right
6 way. I think what the president and others are
7 recommending I strongly am supportive of. And I
8 think you will see those changes take place.

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

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

22 My dad never used a computer when he was
23 a doctor, nor did my mom. Once he retired, he
24 suddenly began to use the computer to trade stocks.
25 Then he learned to shift from one organization to

1 another that saves him \$5, which drives me
2 absolutely crazy. Then he learned to do the
3 reviews of how I was doing and how my competitors
4 were doing. So now when we talk each week, or
5 really three or four times a week, he tells me how
6 to run my company better, as well.

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

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

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

23 MR. CHAMBERS: Governor, you've hit exactly
24 on the issue. Once parents get an application, the
25 seniors, that they can really use, whether it's

1 pictures to their children, et cetera, then they
2 get the next application and the next application.
3 Same thing's true in business and state employees.
4 Once they get one or two applications to work, they
5 drive it all the way through.

6 CHAIRMAN ENGLER: Steve.

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

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

20 And really you don't have to call it
21 corporate crisis. You can call it leadership
22 crisis. We have leadership crisis that occurs in
23 the church. We have leadership crisis in the
24 government at times. We have leadership crisis in
25 business. There's just a lot of visibility right

1 now with business. I think it's warranted. I
2 think that we will have to continue with we need to
3 have accountability, and equally important that
4 John's already mentioned, we need to have
5 transparency and we need to have disclosure because
6 that's really I think at the heart of what exists
7 right now is not enough disclosure as to what's
8 going on inside of these companies for frankly the
9 people that own the company. The shareholders own
10 the company. We need to recognize that, and they
11 need to have the information.

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

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

25 The awards focus attention on the

1 commitment of state administrators, the importance
2 of the contribution of private citizens in the
3 state government and to the arts. So today again,
4 keeping with this tradition, we recognize just some
5 outstanding individuals who do represent the best
6 of the state-level service and this is public
7 service activism and service for the arts.

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

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

22 First up it looks like so you can get
23 ready will be Governor Huckabee and Governor Foster
24 will be on deck. We're going to start with the
25 state official category.

1 The first award winner being recognized
2 today is Dr. Fay W. Boozman, director of the
3 Arkansas Department of Health. Governor Huckabee,
4 I suspect you'd like to make some remarks on this
5 outstanding state official, and if Dr. Boozman
6 would come forward, as well.

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

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

23 He's distinguished in terms of his
24 academic background, graduating first in his
25 medical class and having residencies in both

1 pediatrics and ophthalmology. He served as a
2 flight surgeon in the Arkansas Air National Guard,
3 achieving the rank major.

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

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

18 One of the first goals that he had was
19 not simply to administrate the department from the
20 office in Little Rock, and he went out into the
21 field, and his goal was to meet every single one of
22 the 2800 employees of the Department of Health.
23 That's exactly what he did. He and my wife
24 literally toured 96 health departments in all 75
25 counties promoting childhood immunization, moving

1 our state from a ranking below the national average
2 to well above the national average in the number of
3 children who were immunized. More importantly, he
4 won the total loyalty and respect of those 2800
5 employees. In fact, the reality is those health
6 department employees love him. They don't care
7 much for me, but they love him.

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

19 And one of the chief architects of that
20 plan, along with the president of the medical
21 school, was Dr. Fay Boozman. In May 2000, after
22 only a year as the director of the Department of
23 Health, he was awarded the Southern Health
24 Association's Charles G. Gordon Award for
25 outstanding service in public health. In addition,

1 he was the recipient of the 2001 Compassion Award
2 by the Arkansas AIDS Foundation.

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

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

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

25 GOVERNOR FOSTER: First, let me thank the

1 National Governors Association for honoring
2 Louisiana three years in a row. This is the third
3 year that we've had one of these, and they mean a
4 lot to us. I could tell you a lot about Mark, but
5 I'm going to condense it down and give you a couple
6 of quick thoughts.

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

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

22 I went to Mark and said Mark, would you
23 consider under any circumstances coming over here
24 and putting into play what you've told everybody to
25 do for the last few years. He said well, I'm going

1 to think about it. And I said if you think about
2 it, I'm going to tell everybody that you don't know
3 what you're talking about, and you've been given an
4 opportunity to do exactly what you've been talking
5 about. He says I accept.

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

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

23 Just like what Mike said, not only do
24 you end up with your employees being proud of them,
25 but you also end up being very good friends.

1 Mark's a very good friend and a great financial
2 manager. Mark, congratulations and thank you for
3 allowing us to have these honors.

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

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

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

25 It was during that encounter with

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

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

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

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

23 Something that Van Richey has in common
24 with John Chambers is that Van Richey's company has
25 been also selected in Fortune's top 100 companies

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

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

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

25 So Governor Huckabee, congratulations.

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

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

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

21 I think it's also important to note
22 something. Her family is very political. Her son
23 is a current state senator. Her grandson was
24 recently just a couple years ago elected Governor
25 of Arkansas Boys State. Many of you will know her

1 son-in-law, Rodney Slater, former Secretary of
2 Transportation during the administration of
3 President Clinton.

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

16 But her commitment to women's health
17 didn't stop when she left the legislature. She's
18 conducted numerous health seminars throughout the
19 state, earning the Governor's Volunteer Excellence
20 Award in March of 2001. She urges women to take
21 care of their health and take charge of their
22 health. And her tireless efforts in this regard
23 resulted in her being awarded the National
24 Conference for Community and Justice National
25 Humanitarian Award in April 2001.

1 The Arkansas Breast Cancer Control
2 Advisory Board named their annual award after
3 Dr. Wilkins and presented the very first award to
4 her in 1999. Her work to help the needy resulted
5 in the Arkansas Martin Luther King, Jr., Commission
6 creating the Josetta Wilkins Courage Award in 1998.
7 The award recognizes those who dedicate their lives
8 to helping the less fortunate. The award is aptly
9 and appropriately named.

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

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

24 CHAIRMAN ENGLER: Next, the winners in the
25 arts categories. The winner in the Artistic

1 Production Category is Dr. Charles R. Davis.
2 Chuck Davis is the founder and artistic director of
3 the African American Dance Ensemble.

4 Unfortunately, Governor Easley is not
5 going to be with us in Boise, so I do have the
6 distinct pleasure of honoring this outstanding
7 individual. Just a little of Dr. Davis's
8 background. Most impressive, widely known for
9 entertaining audiences of schoolchildren in rural
10 communities and urban centers to residents of
11 assisted living centers to major performance venues
12 of the nation.

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

20 The African American Dance Ensemble has
21 a long and active history of delivering
22 professional dance experiences and quality cultural
23 education. And the ensemble's programs enrich and
24 educate audiences through celebration and
25 preservation of traditional and contemporary

1 African and African American culture, music, dance.
2 And their activities are wide ranging, not only
3 their touring in concerts but also residency
4 programs, workshops, and community service. And
5 remarkably, 40 percent of this activity is
6 concentrated in rural and low income urban
7 communities.

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

15 So Dr. Davis, come forward.
16 Congratulations.

17 CHAIRMAN ENGLER: Governor Easley in the arts
18 support category is also a second winner. I want
19 to congratulate him. And this recognition goes to
20 the Arts and Science Council of Charlotte, one of
21 North Carolina's true success stories. This
22 council has assumed the primary responsibility for
23 curriculum-based arts, science, and history
24 activities in the Charlotte/Mecklenburg school
25 systems and community.

1 Those of us who follow education
2 matters, that's a school district long cited as one
3 of the top districts. So the council has more than
4 55,000 programs, engaged more than 2.9 million
5 North Carolinians in the arts last year alone. The
6 foundation of the work of the council has been
7 attention to citizens' interests, courting
8 residents' opinion and feedback, and strategic
9 planning.

10 And a lot of ways to measure the payoff,
11 but here's one that I thought was most impressive
12 when I was given this award to present. More than
13 34,000 individuals have contributed this past year
14 to their annual fund drive. That generates more
15 than \$10 million in community support of the arts,
16 heritage, and humanities in the Charlotte area.
17 Collectively, it's estimated that the cultural
18 partners of the Arts and Science Council generate
19 something like \$95 million in impact to the local
20 economy, and 1700 people are employed.

21 Again, Governor Easley was kind enough
22 to send along a comment. He said, "The Arts and
23 Science Council has transformed the city of
24 Charlotte. Thanks to the council's contributions,
25 Charlotte is a community where culture thrives and

1 where the arts help prepare our children for the
2 future."

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

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

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

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

1 right? Oleska?

2 GOVERNOR KNOWLES: Oleska.

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

7 GOVERNOR KNOWLES: Thank you, Mr. Chairman.
8 It's a real privilege to be able to accept this
9 award of recognition for Father Oleska. One, it
10 gives me the opportunity to tell you a little bit
11 about this extraordinary individual. He certainly
12 would have been here. He would have loved to have
13 been here himself, but he had made a promise over a
14 year ago to be at his godson's wedding in Poland.

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

24 As Governors, we all know that one of
25 our most important and perhaps one of our most

1 troubling situations is when there is intolerance
2 shown between people of different races and
3 cultures. Father Oleska, along with other
4 distinguished Alaskans, served on a group that I
5 called when it became apparent to Alaskans that
6 there were acts of intolerance being committed that
7 were more symptomatic than isolated.

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

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

1 spiritually, and yes, eventually die physically.

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

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

23 Let's ladies and gentlemen give these
24 winners a round of applause. We thank them and
25 certainly praise them.

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

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

23 I'm going to ask several of them -- I
24 should have just had Tony stay right up here
25 because Governor Tony Knowles gets our first

1 tribute today. He's finishing his second term,
2 started with that class of 1994, eight years ago.
3 An active participant in our National Governors
4 Association. Always a challenge for
5 Governor Knowles, given the trek that it takes to
6 get from Alaska to wherever we're meeting somewhere
7 in the 48 states.

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

17 Governor Knowles has been a standing
18 Committee on Natural Resources member for his eight
19 years. He's been a tireless advocate for
20 developing Alaska highway gas line to provide
21 energy to America, and thanks to his legislation to
22 protect Alaska's marine waters, the state of Alaska
23 is now considered a worldwide model for regulation
24 of the cruise ship industry. So his leadership has
25 made a significant difference for the people of his

1 state.

2 He is a veteran himself, a Vietnam
3 veteran. He's championed the needs of veterans in
4 Alaska. Those efforts were recognized by the
5 national VFW with their awarding to
6 Governor Knowles the Silver Medal of Merit for
7 exceptional service rendered to country and
8 community.

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

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

25 Now I'd like to ask Governor Bill Graves

1 to join me at the podium. Governor Graves was
2 reelected in 1998. He achieved something -- it's
3 hard to impress fellow Governors. I have to say
4 that. But he did something in 1998 that made
5 everybody take notice. He had the largest
6 percentage of votes for any Governor in the 1998
7 election. He got the cup.

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

18 Governor Graves has also been an
19 outstanding leader in terms of long-range
20 transportation and planning and also the funding of
21 the infrastructure related to planning, a ten-year
22 program that was passed in 1999. Graves has been a
23 leader in campaign finance and ethics reform,
24 making Kansas laws among the toughest in the
25 country.

1 Also, kids have been a focus of the
2 Graves administration, and no doubt First Lady
3 Linda Graves has some influence in this area.
4 There was the creation of the Health Wave Program,
5 providing physical health and dental care for more
6 than 50,000 previously-uninsured children. And a
7 champion of adoptions, dramatically increasing the
8 rate of adoptions of children in the Kansas foster
9 care system.

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

14 He had excellent roots, let's say, in
15 the family trucking business. In January, it's not
16 a secret so we can talk publicly, that
17 Governor Graves has been really honored by his
18 selection already which has been announced, he'll
19 take over the leadership of the American Trucking
20 Association as their CEO come January of next year.
21 So he gets to go back to that business where his
22 family has been so successful. We wish Bill and
23 Linda all the best in the future and congratulate
24 him on just an outstanding tenure in public service
25 because that did include service as secretary of

1 state before becoming Governor. So he's got a
2 long, long record of service. Bill, come forward,
3 if you would, please.

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

17 She's been just a tiger when it comes to
18 education, a stalwart supporter championing
19 legislation to improve the Massachusetts adult
20 education system as well as increasing funding for
21 extra help programs, revisions in the state's
22 bilingual education programs, and all of this will
23 further increase Massachusetts' recent dramatic
24 gains in the MCAST testing program. And those
25 gains have come as Governor Swift has just been

1 unrelenting in her commitment not to retreat from
2 high standards that have been established in
3 Massachusetts. That was part of the work she had
4 done during her tenure, both as Governor and
5 previously as Lieutenant Governor.

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

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

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

20 Now I'd like to ask Gary Johnson to join
21 me at the podium. And as we bid farewell to
22 Governor Johnson, we are losing the fittest
23 Governor in the history of the Governors
24 Association, going all the way back to the
25 beginning. There's no question about that. He has

1 many achievements. Not just in that area as a
2 Governor nonetheless but achievements as Governor
3 in the office in New Mexico, where he became a
4 history-making Governor as the first Governor to
5 serve two consecutive four-year terms.

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

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

20 Governor Johnson's been an active and
21 productive member of our association. He served on
22 each of the three standing committees during his
23 eight-year tenure. We appreciate that service. He
24 has been a plain-spoken and very outspoken at times
25 advocate for his beliefs for New Mexico, and we're

1 going to miss Gary and Dee Johnson. We certainly
2 wish you all the best.

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

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

18 Next up is Governor Frank Keating of
19 Oklahoma. Frank Keating has also been a very
20 active member of this association. And indeed very
21 early in his first term, Governor Keating came to
22 the nation's attention when we saw Frank and Kathy
23 Keating dealing with the Oklahoma City tragedy of
24 1995. That was just months literally into his
25 first term. Yet he set a standard that inspires

1 Governors and public servants and I think it proved
2 decisively that leadership does make such a
3 difference.

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

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

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

22 So as we begin this new century he's not
23 done. He led an effort to raise the private funds
24 to finally build the dome on the Oklahoma capitol
25 building. And that dome means literally and

1 figuratively you're leaving your mark on the
2 Oklahoma landscape for the eons.

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

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

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

25 Thank you, Grandpa and Grandma, Frank

1 and Kathy. They recently on July 4th became
2 grandparents for the first time.

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

12 But Governor Schweiker was prepared. He
13 had extensive public service in state government
14 showing that he was the right person at the right
15 time for the job. From day one he started off with
16 an aggressive legislative agenda that's led to
17 several landmark reforms in Pennsylvania.
18 Certainly since September 11th he's been in charge
19 of homeland security in Pennsylvania and dreamt up
20 the winning legislation to put more state troopers
21 on the beat on patrol, investing an unprecedented
22 \$2 million to continue the development of one of
23 the nation's strongest emergency response plans.

24 He also has attracted national attention
25 for pursuing a bold plan to turn around the failing

1 Philadelphia school district. That really has led
2 to one of the nation's largest education reform
3 initiatives that we've ever seen. His budget is
4 investing a record \$9 billion in education
5 statewide.

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

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

23 Our next tribute goes to the other
24 federal prosecutor who's a Governor,
25 Governor Lincoln Almond of Rhode Island.

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

12 Governor Almond is a distinguished
13 citizen of Rhode Island. He brought stability to
14 Rhode Island when he assumed the governorship in
15 1994, again part of that large class. He acted
16 quickly to privatize the state's Department of
17 Economic Development and at the same time created
18 an Economic Policy Council, which really positioned
19 Rhode Island to enjoy fully the economic prosperity
20 of the '90s, and so early success in attracting
21 major developments by Fidelity Investments and
22 Fleet Bank to recent investments, more than \$1
23 billion in biotech by Immunex and Dow Chemical. And
24 recognizing Rhode Island, the aging parts of towns
25 like Providence, the Brownfields issue was one that

1 was important to the Governor, and this year he
2 signed tax credit legislation, which when coupled
3 with other state environmental quality initiatives
4 is creating and will leave a legacy of
5 redevelopment that will clean up the environment
6 and help further spur the Rhode Island economy.

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

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

21 Now, as you're watching your watches,
22 you're saying we're way over time. We are. One
23 more tribute, though, that I want to present today
24 was to the senior Democratic Governor at this
25 table. As I said, there were two of us that came

1 in in 1991. I'm speaking of Governor Howard Dean
2 of Vermont. I could use up a significant amount of
3 time going through all of Governor Dean's
4 involvement with the National Governors Association
5 because he's a former chair of this organization.
6 He's a former host. He took us all to Burlington
7 in 1995 for an annual meeting, which was I think
8 the first time the Governors had ever met up in
9 Vermont.

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

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

1 lake. It's actually the senator that was doing
2 that, not the Governor.

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

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

21 Howard has been a great credit to the
22 state of Vermont. He's been an asset to this
23 association and a very active member of this
24 association, always willing to raise issues and to
25 get the debate going on topics at both the state

1 and federal level. So to Howard Dean, we'll miss
2 you, and to Judy, we want to extend our
3 congratulations. Thank you very much, Howard Dean,
4 for your remarkable service on behalf of Vermont
5 and to this association.

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

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

17 I'm supposed to do an update on Achieve.
18 I will tell you this. I will do that later. There
19 is some news relative to that and some important
20 changes. But one thing that I want to mention is
21 that Phil Condit is going to be taking over as the
22 industry chair for Chief Lou Gercer. Lou, as you
23 know, is going to step down as CEO at IBM and at
24 the end of this year will step down from Achieve.
25 I'll give you a report on this later. I'm excited

1 about Phil Condit. He's really reaching out to the
2 Governors as Lou Gercer has done. I think some of
3 the opportunities we have at Achieve are quite
4 remarkable. I won't take the time today to do
5 that.

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

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

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

21 Moved by Dean, supported by Musgrove.
22 Everybody on the Executive Committee say aye?
23 Opposed? They are approved.

24 And at each of the Governor's places we
25 have an agenda book that's got summaries of six

1 legislative updates and they're major issues:
2 state fiscal relief, prescription drugs, and
3 driver's license. We're going to do those at the
4 Governors-only session tomorrow.

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

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

23 Moved by Governor Leavitt, supported by
24 Governor Huckabee. Discussion? All in favor say
25 aye. Opposed? All right. The ayes have it.

1 That's all set.

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

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

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

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

1 standing.

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

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

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

18 (Meeting concluded at 1:59 p.m.)

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BOISE, IDAHO

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

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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.

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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

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

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

20 So after eight years, the work of
21 Governor Sundquist is pretty remarkable. His
22 Families First Program brought some 40,000 families
23 off welfare and into the work force during
24 Governor's Sundquist tenure. Tennessee was a
25 national leader, was one of the first states to see

1 that all children had access to health insurance.
2 Children have been throughout the Sundquist
3 administration a top priority. And the
4 reorganization efforts of the Governor brought
5 together vital services for children that were
6 scattered in agencies and departments of state
7 government into a new streamlined Department of
8 Children Services.

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

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

21 Recently Governor Sundquist announced
22 that working with Secretary Thompson and the Bush
23 administration, they had one approval of a new
24 five-year waiver for Tenn Care, which is the state
25 of Tennessee's ground-breaking healthcare program

1 now that really has been setting the pace for some
2 time.

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

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

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

24 And I must say on a personal note that
25 I'm deeply grateful for his leadership on welfare

1 reauthorization on Medicaid funding. He's been on
2 the board of the Center for Best Practices, twice
3 been the lead Governor on these health issues.

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

10 Next up is Governor Jim Geringer of
11 Wyoming. And Jim also was part of that class of
12 '94 after a decade of service in the Wyoming
13 legislature. Jim Geringer's fingerprints and
14 footprints are all over Wyoming I would have to say
15 when I look at the number of initiatives, the
16 wiring of all of Wyoming's public schools to the
17 net, Wyoming's equality network, 92,000 students
18 broadband linked to the web. Jim Geringer has been
19 an avid promoter of wiring. A lot of Wyoming
20 government with a one-stop service. It's on-line.
21 And he's also been a champion of the telehealth
22 initiative in Wyoming with the digital network
23 carrying health services statewide.

24 Governor, I can say, again, just having
25 recently driven across the state of Wyoming, I'm

1 impressed with your efforts to get broadband out to
2 your communities. I'm trying to do that in
3 Michigan. I was thinking you've been doing that in
4 Wyoming. These communities are far flung and
5 they're not that big. I'm saying we need to get
6 more done in Michigan, be more like what you've
7 been able to accomplish.

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

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

22 In addition to Governor Geringer's
23 leadership in the NGA, and he has just headed our
24 technology and E-Government Committee now, he's
25 just a permanent chair, really. I don't know,

1 Governor, if it's possible for you to keep coming
2 back and just continuing to chair that even in your
3 new status as former Governor. But we will
4 certainly notice the difference as you step down in
5 that capacity. But he's also served on all of our
6 standing committees.

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

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

19 From the class of '94, we've got
20 two-term Governors: Carl Gutierrez of Guam;
21 Benjamin Cayetano of Hawaii; Angus King, Jr., of
22 Maine; Parris Glendening of Maryland, my
23 predecessor, the immediate past chair of the
24 National Governors Association; John Kitzhaber of
25 Oregon; and Bill Janklow of South Dakota.

1 Now, Governor Janklow has also served
2 two previous terms. He's been through this
3 retirement business before. He served from '79 to
4 '87 and then was out and under South Dakota's
5 constitutional provisions was able to come back and
6 serve two more terms. And of course he's not done
7 yet. He's off to Congress. I think those of us
8 who know Bill Janklow can't wait for the moment
9 that Bill Janklow walks into the House caucus or
10 conference I guess they call it in Washington in
11 January and announces he's there to play a role on
12 behalf of the states and behalf of his own state of
13 South Dakota. It will be a fun, fun experience,
14 I'm sure.

15 We also have other Governors who came
16 into office at various points. Governor Jane Dee
17 Hull of Arizona, who succeeded Governor Fife
18 Symington in 1997 and reelected in her own right in
19 1998 with that great team of hers in Arizona.

20 Governor Jeanne Shaheen of New Hampshire
21 who actually won three gubernatorial elections, but
22 like Governor Dean with the only two states with
23 two-year terms, so she served six years beginning
24 with her first election in '96.

25 Then we have from the class of '98

1 Governor George Ryan of Illinois and Governor Jesse
2 Ventura of Minnesota. We know Jesse has been
3 having a little health problems, so Jesse, if you
4 happen to be home recuperating, I doubt you're
5 watching us, but if you are, good wishes on your
6 recovery, and God speed as you go forward.

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

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

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

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

22 Governor Mike Leavitt, who will become
23 in January -- I've been kidding Mike about this.
24 He looks real good for the nation's senior
25 Governor, but that will be him, the penultimate in

1 terms of his tenure as Governor. Governor Mike
2 Leavitt.

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

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

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

1 John Engler.

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

17 Now, the state of Michigan will long
18 remember the 32 tax cuts that he has been able to
19 bring to the taxpayers, the 800,000 jobs, the
20 300,000 people who have been able to leave welfare.
21 May I also suggest that there are things for all of
22 us to remember about John Engler.

23 When the people of Delaware, the people
24 of Connecticut and Rhode Island realize that we
25 have had welfare reform in this country that has

1 allowed all of us to reduce the number of people
2 who are dependent upon the government, they need to
3 remember John Engler because in 1994 when there was
4 a vast opportunity awaiting the states, John Engler
5 stepped up and led the Governors along with
6 Tommy Thompson in a process of defining welfare
7 reform, wrote the first bill, brought his staff,
8 brought things to the Congress that they both
9 needed and wanted.

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

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

24 There's a great personal side to John
25 that I've had a chance to see and to value. He and

1 his wife, Michelle, during the course of their
2 Governorship had triplets. One of the fondest
3 moments I have as Governor was that I by
4 happenstance happened to be in Michigan on the day
5 after they were born. And I went to the hospital
6 with John Engler and went into a room, and there
7 were babies everywhere. And I had a chance to hold
8 those triplets, along with John and Michelle. It
9 was a bonding moment for me. I've watched them
10 grow in this Governorship.

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

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

23 Now, as a sort of personal indulgence on
24 all of your behalf, may I also say that during the
25 course of the last six months, America in our state

1 experienced the 2002 Winter Olympic Games.
2 Preceding that, there was a ritual that began in
3 Greece in November of 2001 where the Olympic flame
4 was lighted. And it set off a relay that went
5 across nations, across oceans, across 46 states.

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

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

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

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

25 The capacity to lift is what the Olympic

1 flame brought. That's one of the things that I
2 have seen in John Engler, the capacity to lift.
3 And as a personal gesture, John, I have a
4 presentation I'd like to make to you that I believe
5 is symbolic of the things that you have done over
6 the course of time as Governor, the capacity to
7 lift.

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

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

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

24 GOVERNOR GERINGER: Chairman, I sure will do
25 that. The Committee on Economic Development and

1 Commerce met to hear the president and CEO of
2 Verizon Wireless, Mr. Dennis Strigl, who spoke to
3 the committee about several concerns. First of
4 all, the promise and prospect of wireless
5 telecommunications in our country and then his
6 concerns about the burden of federal and state
7 regulation and taxation, what he viewed as an
8 uneven playing field relative to other Internet
9 activities.

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

17 I would note two significant items that
18 we discussed that ought to be followed up by our
19 NGA activities over the next year. One deals
20 specifically with the person who was absent from
21 our meeting who had been called away unexpectedly.
22 That was Michael Powell, chairman of the Federal
23 Communications Commission. Our implementation of
24 intraoperable public safety network in our states,
25 a very challenging task financially as well as

1 otherwise, needs to have some direction and the
2 assignment of broadband spectrum, the particular
3 spectrum that we can use in public safety
4 telecommunications needs to be taken with all
5 expediency. We asked that the Federal
6 Communications Commission move as quickly as
7 possible rather than waiting the five years that
8 they have scheduled. We can't afford to wait even
9 six months. So we'd ask that that be followed on
10 immediately.

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

25 Mr. Chairman, I move the proposed

1 changes in policy and the adoption of the economic
2 development commerce report in block.

3 CHAIRMAN ENGLER: Any discussion? Seconded
4 by Governor Kempthorne. All in favor say aye.
5 Opposed? The report is adopted. Congratulations,
6 Chairman Geringer. Once again, a report
7 unanimously adopted that you prepared. Thank you
8 very much.

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

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

20 We continue a rapid transition to a
21 service-oriented high technology economy that's
22 fully integrated into the global marketplace. The
23 implications indeed are profound, and they affect
24 us as Governors. And hopefully our work today as
25 Governors at this annual meeting in preparing the

1 states for the challenge of the 21st century are
2 going to be helpful, some of the reports that we've
3 put together.

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

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

19 The rate of return, John Chambers talked
20 about this, the highly-educated knowledge worker,
21 there's never been more of a premium today for that
22 highly-educated knowledge worker. And frankly,
23 never been really more of a penalty for a
24 low-skilled, ill-prepared worker. So it makes
25 education and education choices critical issues in

1 every family in everyone's life.

2 The economic development of states, it
3 isn't just tax incentives to traditional
4 manufacturing firms but a wide array of resources,
5 partnerships, and strategies, training, all
6 designed to build an unlimited supply if we could
7 get there of knowledge workers. And jobs now
8 follow productive workers instead of workers
9 following jobs.

10 The public is demanding government
11 providing services and that they be available on
12 line all the time 24 hours a day, seven days a
13 week. You can arrange your travel on the Internet
14 24 hours a day. You probably ought to be able to
15 renew your license or permit that state law
16 requires you to have on the same basis.

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

23 Government has strategic investments
24 that it must make to build the intellectual and
25 physical infrastructure that's needed in a new

1 economy. A report that we just adopted is an
2 example of that. Speeding up broadband deployment
3 that we've talked about is very much a part of
4 that.

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

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

18 Our first guest will be Al From. Al is
19 the founder and CEO of the Democratic Leadership
20 Council, the DLC, and its companion think tank, the
21 Progressive Policy Institute. These are two
22 organizations that provide an action agenda and
23 ideas for new Democrats that have helped redefine
24 much of the Democratic party and certainly been
25 helpful in winning elections.

1 Before founding the DLC, Al From was
2 executive director of the House Democrat Caucus
3 from '81 to '85. He spent two years in the White
4 House during the Carter years. Worked for
5 Senator Muskie for eight years. So he's a rare
6 combination I guess of a policy wonk, of a
7 visionary, and he also has this uncanny ability to
8 sort of take that policy expertise and brilliance
9 and put that together with the practical politics
10 of what actually can be accomplished.

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

16 But there's no question that Al From's
17 had a major impact on American politics here as the
18 20th century ends and the 21 century gets underway.
19 So it's a delight, ladies and gentlemen, to
20 introduce Al From to you.

21 MR. FROM: Thank you very much,
22 Governor Engler. I'm delighted to be here.
23 Governor Patton, I wish that all elections were as
24 rigged as yours is going to be. And it's terrific
25 to see Governors here. Governor Leavitt, I did

1 visit your state for the Winter Olympics. I wish I
2 could get one of those torches, too. I'm also glad
3 I see Governor O'Bannon, who was my birth state
4 Governor. Governor, I'm glad to see you have those
5 little Indy racer cars to remind people of the
6 great state of Indiana.

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

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

22 He went a lot further than I did after
23 that, but one time Newt called me to put an
24 economic speech I gave in the record. He called me
25 and told me he hoped he didn't embarrass me too

1 much by putting it in the record. But it is
2 terrific to be able to share a podium with Newt.

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

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

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

22 In the last ten years, we've elected as
23 many Governors president as we have sitting
24 senators in the whole history of the republic.
25 There's a reason for that. Governors live in

1 America. You live out in the real world, and you
2 deal with real problems that ordinary people face
3 every day. You can't just position. You've really
4 got to deliver.

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

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

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

21 Third, the information age, which
22 Governor Engler talked about just briefly, demands
23 a new political approach. I think it demands a
24 modern political philosophy that will define the
25 vital center of the political spectrum.

1 And fourth, as great as our country is
2 and as much as we have accomplished, we have a lot
3 to do because we can do a lot better if we have the
4 vision and courage to do it.

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

11 The cumulative vote for the U.S. House
12 of Representatives over the last three
13 congressional elections has been 49/49, 48/49, and
14 49/49. As my friend, political analyst
15 Michael Barone always says, we are a 49-percent
16 country.

17 In the year 2000 the presidential
18 election was a virtual tie. The U.S. Senate split
19 50/50. There was a five-seat difference in the
20 U.S. House. As we meet today, control of the
21 legislatures that you have to deal with in
22 legislative houses is equally divided between the
23 two parties. Only among Governors do the
24 Republicans have a substantial advantage, and some
25 of us think maybe that will change this year.

1 Now, Newt and I have had an important
2 role in forging this parity. When we started out
3 in the new Democrat movement, the Democrat party
4 was a 43-percent party in presidential elections.
5 I like to think we've helped move it to a
6 49-percent party in presidential elections.

7 I remember when I was staff director of
8 the House Democratic Caucus, Newt was driving
9 leadership on both sides crazy with something he
10 called the Opportunity Society. But his efforts to
11 build the Republican caucus in the House broke 40
12 years of Democratic control and moved on average
13 the Republican vote in the House from the mid-40s,
14 44-45 percent to 49 percent.

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

24 I'm going to go through a lot of data
25 rather quickly. But just to give you a sense of

1 what I'm talking about, the new economy is creating
2 a new citizenry. Today's electorate is more
3 affluent, more educated, more suburban, more
4 diverse, more wired, older than it was just two
5 decades ago. It includes more families with
6 two-parent workers, more nonmanufacturing workers,
7 and more workers who change jobs every few years.

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

14 In 1980 when Ronald Reagan was elected
15 president, there was six times as many low income
16 voters as upper middle class voters. In the year
17 2000 there were more upper middle class voters than
18 low income voters using constant dollars. That is
19 also reflected in the voters' self perception.
20 When voters were asked which economic class they're
21 part of, most said middle class. You'd expect
22 that. But 50 percent more said upper middle class
23 than working class. Think about what that means.

24 Sixty-four percent of the voters last
25 year said they regularly use the Internet. When

1 Clinton ran in '92, there was virtually no
2 Internet. Seventy percent said they own stocks,
3 which tells you why this current crisis is such a
4 big issue.

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

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

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

22 When the 1990s began and ended, we had
23 about the same amount of manufacturing jobs in the
24 country, but we created over 22 million new jobs.
25 Those people are working somewhere. When you all

1 have to go meet workers today, you're just as
2 likely to meet them in suburban office parks as you
3 are in factory gates. This is a very different
4 electorate.

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

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

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

23 I'm glad, Governor Engler, when you
24 introduced me you didn't tell people that my job
25 with President Carter was his deputy advisor on

1 inflation. We got the inflation rate up higher
2 than the president's positive ratings in the polls.

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

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

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

22 When Reagan ran in 1980, 40 percent of
23 the voters were conservative and only 36 percent
24 identified as moderates. Today, and this has been
25 going up through the '90s, half of the voters

1 identify as moderate. Conservatives are still more
2 than liberals. They were 29 percent in 2000, and
3 liberals have decreased from 24 percent in '80 to
4 20 percent in the year 2000.

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

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

23 Hearing that are what I think are the
24 principles that are going to define that center: a
25 commitment to equal opportunity for all and special

1 privilege for none, sort of Andrew Jackson's credo.

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

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

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

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

21 And a dedication to self government.
22 Government has to play I believe an important,
23 positive role in national life. But as
24 Governor Engler indicated, it has to be a
25 constantly-modernizing role that's modernized for

1 the information age, and it should equip our
2 citizens with the tools to solve their own problems
3 in these fast-changing times.

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

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

1 long look ahead."

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

23 Much has changed since President Clinton
24 laid out those goals. Today we're at a war in
25 terrorism, and our security is at greater risk than

1 at anytime in recent history. Our economy is
2 shaky. And as you all know only too well, those
3 surpluses have turned into deficits, and you've
4 really felt the brunt of it at the state level.

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

13 Our job creation machine has stalled,
14 and unemployment is two points higher than it was
15 at its low point a year and a half ago. A
16 corporate crime wave has created a scandal that
17 together with the return of red ink has undermined
18 investor and consumer confidence in the stock
19 market, resulting in a free-fall in stock prices.
20 And to this point at least, neither the president
21 or the Congress has been capable of restoring the
22 confidence in the market that is essential to turn
23 it around. I hope that some of the actions the
24 Senate took yesterday which the president indicated
25 he'd support will help to do that.

1 We did a survey earlier in the year.
2 We're going back into the field again this week I
3 believe on this question. But earlier in the year
4 more people were concerned as the economy was
5 turning down with the decline in stock prices than
6 losing their jobs. That's really a fascinating
7 thing.

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

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

25 We should champion a security agenda

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

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

23 It's also very important to understand
24 that this current economic crisis is twofold.
25 There's a short-term crisis of investor confidence

1 based on the ever-broadening revelations of
2 corporate misconduct. While there's plenty of room
3 for disagreement about how exactly to respond to
4 that misconduct with public policy, we should all
5 agree that we need to respond immediately,
6 decisively, clearly, and consistently.

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

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

23 The 1990s economic boom was not a fluke
24 or a bubble, despite the overvaluation of some
25 stocks. The explosion of innovation and

1 entrepreneurship was no hoax, despite the excesses
2 of some companies and executives. The
3 technology-based new economy is real, despite a
4 short-term crisis in the technology sector. And in
5 the broadening gains in productivity, which
6 Governor Engler said are continuing, real incomes
7 and standards of living in the 1990s were no
8 illusion regardless of our current troubles.

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

18 I'll let you judge for yourself whether
19 the current policies are following that formula.
20 That's probably a subject for good debate. But
21 making America safe and fixing the economy are not
22 all we have to do. But they're the foundation,
23 the essential steps we must now take to put our
24 country back on course so we can set our sights
25 once again on the big challenges we must tackle.

1 We've got a lot to do. We need to deal
2 with the aging of America. To be sure of that
3 means that we've got to modernize Social Security
4 and Medicare to take care of the baby boom
5 retirement. But it means a lot more than that.
6 The enormous baby boom quadrant has reshaped our
7 institutions as it has proceeded through every age
8 level. It's not likely to stop doing that as it
9 reaches its mature years.

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

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

24 Despite all the progress that you have
25 made, and the Governors have really been the

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

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

22 I personally believe that what makes
23 America so special is that we aren't connected by a
24 religion or a race, but we're connected instead by
25 a civic creed, by a civic culture, and we have to

1 constantly nourish that to reinvigorate our
2 Democracy.

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

17 Seventy years ago in my favorite speech
18 of Franklin Roosevelt to the Commonwealth Club in
19 San Francisco, he said, "New conditions impose new
20 requirements on government and those who conduct
21 government." We'll have plenty of new conditions
22 in the 21st century, probably many that we can't
23 even imagine today. And Roosevelt's words I think
24 ring as true today as the day he spoke them. Thank
25 you very much.

1 CHAIRMAN ENGLER: Thank you very much,
2 Al From. What I'll do next is bring our next
3 speaker, Newt Gingrich. He is a leader who has
4 changed America in the '90s, as well. Newt today
5 is CEO of the Gingrich Group, the Atlanta-based
6 communications and management consulting firm, but
7 he's also very busy, a senior fellow at American
8 Enterprise Institute in Washington, D.C., and a
9 distinguished visiting fellow at the Hoover
10 Institute at Stanford University.

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

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

1 belongs in the category of the exceptional.

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

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

10 Personally, I'm proud to call Newt a
11 friend and certainly proud of the work he did with
12 our association, the Governors Association, in the
13 1990s. That's why, Newt, the National Governors
14 Association is so interested in hearing about your
15 vision for the future of governance in the 21st
16 century.

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

19 MR. GINGRICH: Let me first of all thank you
20 for allowing me to come and share some ideas with
21 you and say that I do look back on how closely we
22 worked, particularly in '95-96. I remember being
23 invited to a meeting, I think it was in October or
24 November rather of '94 where we sat down in a very
25 practical way and began working together. I think

1 welfare reform, which was very controversial when
2 we passed it and finally got it signed into law and
3 is now I think pretty widely regarded as having
4 been successful, I think it would not have happened
5 without the National Governors Association. And I
6 think that the renewal of welfare reform has to
7 include input from the Governors on what's
8 practical, what isn't, what are the next steps.

9 So I saw this as an opportunity to come
10 and really share with a very practical group of
11 people who had played a major role. We could not
12 have balanced the budget without the support of the
13 Governors Association. We couldn't have passed
14 welfare reform. I think in that sense you continue
15 to play a major role.

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

24 I want to cite as a continuing part of
25 this bipartisan interest in new ideas, one of the

1 books I want to recommend to all of you is actually
2 by an Al Gore speech writer, Andrea Churney, who
3 wrote a book called "The Next Deal: Public Policy
4 in the Information Age." It is a brilliant book.
5 And really I think anybody interested in the
6 opportunities created by modern technology will
7 find that Andrea Churney's work is worth reading,
8 and it's the kind of thing that's coming.

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

21 I think it does not get the intellectual
22 effort it deserves. We have huge fights over
23 financing. We have remarkably little effort to
24 really rethink the system, although I do want to
25 cite Governor Patton recently testified in front of

1 the Congress. I thought it was extraordinarily
2 helpful testimony on a whole range of issues that
3 involved long-term care and Medicare and Medicaid.
4 I want to commend you for the quality of that
5 testimony.

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

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

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

25 Second, while politicians and the news

1 media focus on money and financing, it is the
2 entire system of health and healthcare that has to
3 be rethought. Americans die unnecessarily, get
4 sick unnecessarily, and money is spent
5 unnecessarily, and we need to think about the
6 entire system of health and healthcare.

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

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

20 I want to emphasize this. We have this
21 argument we can't try something new because it's
22 untested or it hasn't been tested long enough or
23 whatever. You can see this on page one of the Wall
24 Street Journal this morning in an infuriating
25 report on the Center for Medicare and Medicaid

1 Services managing to rescind itself on allowing
2 senior citizens with eye disease to get appropriate
3 medication. And you read this thing and you just
4 know it's not right.

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

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

22 This is a principle I want to suggest to
23 you. Big problems require big solutions. This is
24 the largest problem in American domestic policy
25 today, and it ain't going to be solved by 30 small

1 ideas. I say this in part having helped create a
2 majority for the first time in 40 years, having
3 helped balance the budget consecutively for the
4 first time since the 1920s, having helped pass
5 welfare reform after 61 years. So maybe it's just
6 my pattern to look for big things that look for big
7 solutions, but I went into health when I stepped
8 down as Speaker because I am convinced that 14
9 percent of gross domestic product and life and
10 death for every American, it has to be profoundly
11 rethought.

12 Now, in that context, let me just give
13 you some illustrations. I served on the Aviation
14 Subcommittee, and I was stunned because in the
15 Aviation Subcommittee if one airplane goes down,
16 the National Transportation Board immediately goes
17 to the crash. We look at the loss of 20 lives or
18 50 lives or a hundred lives with horror.

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

25 OSHA has standards designed to protect

1 workers. We have endless regulations that we argue
2 over. The Firestone story became a page one story,
3 and yet the danger from Firestone tires was
4 mathematically stunningly small compared to
5 healthcare.

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

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

18 Two, the Center for Disease Control
19 reports that there are an estimated 2 million
20 hospital-induced illnesses a year and an estimated
21 1,500,000 nursing home-induced illnesses. What
22 does this mean? This means if you're in the
23 hospital longer than four days, the odds are even
24 money the hospital will give you a disease. By the
25 way, they will then charge you for curing the

1 disease they gave you. I thought this will not
2 happen.

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

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

13 Let me just say to you, for a country
14 that prides itself on stunning levels of
15 manufacturing quality, for a country that prides
16 itself on being able to invent automatic teller
17 machines that you put a plastic card in and punch a
18 four-number code and get the exact amount of cash,
19 for a country that has gas stations now that are
20 smart enough that they recognize who you are when
21 you wave a wand, allow you to pump your gas, and I
22 ask student groups regularly how many of you no
23 longer get a receipt, over half of them don't get a
24 receipt anymore. They stipulate the gas pump's
25 right.

1 To then turn and say however when it's a
2 matter of life and death, you can't expect us to
3 have that level of quality because after all, the
4 doctors would feel uncomfortable or the hospital
5 doesn't really want to do that kind of work. We
6 have a standard rule in the airline industry. If
7 you would like not to follow procedure, you don't
8 have to be a pilot. But to be told by airline
9 pilots we don't like using this plastic card and
10 having this checklist because hey, I've been flying
11 for years, we'd say that's it.

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

23 And we have no system for delivery of
24 information. Let me carry it a step further. I
25 believe our goal ought to be a 90-percent

1 improvement in medical error and a 90-percent
2 improvement in hospital- and nursing home-induced
3 illness. I think that is a rational goal certainly
4 for a country that landed at Normandy within less
5 than three years of the Japanese attacking us. We
6 know how to mobilize. We know how to focus.

7 And none of this is new technology.
8 Normally in a different setting I walk audiences
9 through how many people use automatic teller
10 machines and go through a whole number of items
11 like this. They all get it. You get outside of
12 healthcare, we use information technology every
13 day. It's an intimate part of our lives.

14 You arrive in healthcare and we're told
15 40 percent of all prescriptions require a call back
16 by the pharmacist. First of all, they can't read
17 the writing. Now, in the age of palms you have to
18 say to yourself, why do we tolerate a single
19 handwritten prescription anywhere in America? But
20 that by the way requires changing government
21 funding because we don't currently fund any capital
22 investment for information technology.

23 So we set up a highly socialist,
24 centralized bureaucratic model at the state and
25 federal level. We underpay nursing homes. We

1 underpay hospitals. We underpay doctors. We then
2 further cause them costs because we require so much
3 paperwork that they now have to hire people they
4 didn't used to have to have. So whatever we're
5 paying them, you now deduct the cost of the staff
6 they hire. We then don't pay them in a timely
7 manner, so they then try to find a way to charge us
8 for the time value of money. And by now you've got
9 a game going that is exactly what we used to tell
10 the Russians not to do. Why would you think large,
11 centralized, paper-ridden bureaucracies work in
12 America any better than they work in Moscow? And I
13 have a simple rule. If it doesn't work in
14 principle, it probably won't work in practice.

15 So the current system's wrong,
16 profoundly wrong. Now, you see glimmerings of real
17 hope. For example, Secretary O'Neill when he was
18 the head of Alcoa launched along with the Jewish
19 Health Foundation in Pittsburgh a quality project
20 which may be the archetype for the whole country.
21 They took the Toyota production model which Alcoa
22 had used. They actually have cardiovascular
23 surgeons who sit down every month and plot what are
24 the outcomes, what are the procedures, what do we
25 need to change. They're applying it to the entire

1 Pittsburgh medical system. It's a voluntary
2 program, but they've got a lot of cultural buy-in.
3 And it is profoundly changing how people in that
4 one community think about what healthcare is and
5 what it should do. It is an example of the future.
6 And Secretary O'Neill there had a remarkable
7 understanding of where they need to go.

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

15 Two examples. There's a firm called
16 Evercare, which is a subsidiary of United Health.
17 They come into a nursing home. They select out,
18 which goes against the CMS model because they don't
19 like cherry picking, but they select out the
20 oldest, sickest people, sort of reverse cherry
21 picking, and they have a registered nurse who takes
22 a full history, puts it on a computer, has a pager
23 and a cell phone, and if anything goes wrong, they
24 have 50 to 70 patients in three or four nursing
25 homes, and if anything goes wrong, that certified

1 nursing aide calls that nurse who knows the
2 patient. The first thing they do -- this is actual
3 statistics. They reduce the number of drugs per
4 patient from 22 to six because it turns out they're
5 overmedicated consistently.

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

12 By the way, Evercare turns out to save 8
13 to 10 percent for the federal government. And I do
14 give Tom Scully a lot of credit. He intervened
15 because as all of you know, CMS actually requires
16 you to file by county for permission to serve so
17 they were going to have to file in 3400 counties or
18 3300 counties to be allowed to serve. Their
19 performance was so good in the first 40, he
20 actually issued a blanket waiver, which is what we
21 should do for all innovations that work. And you'd
22 suddenly have a dramatic increase in the number of
23 new products available and new services.

24 Second example, VISICU. This is a
25 spin-off from Johns Hopkins. They take intensive

1 care units. They feed the electronic data into a
2 common office for three or four different hospitals
3 in a community. They have an intensive care
4 specialist 24 hours a day, seven days a week. What
5 VISICU has done is dramatically changed the outcome
6 pattern.

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

14 Under VISICU the doctor notices as the
15 nurse is leaving the room, calls her on the cell
16 phone and says you need to go back and raise him to
17 35 degrees. This means that at 2:00 in the morning
18 you have a person who's paid to be there watching
19 all the monitors as opposed to calling the doctor,
20 wake him up, and saying you remember Ms. Jones
21 who's in room seven, this is her problem.

22 They've had a dramatic impact in Norfolk
23 where they are the beginning of the future. I
24 would suggest every hospital in the country ought
25 to be required to have -- not VISICU. I'm not here

1 to sell their products -- but a system based on
2 that model where you have a 24-7 intensive care
3 observation. You can have up to 200 rooms being
4 watched by the same doctor. And the difference in
5 qualitative results are stunning. There are no
6 doubts about that.

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

18 Or one of my favorite examples, people
19 who go to Travelocity or Expedia and pull up
20 airline reservations, and you can find every
21 scheduled airline in the world to every city that
22 has scheduled service with its price, and in many
23 cases now you can pull up the configuration of the
24 airplane and you can pick the seat you want to sit
25 in.

1 First of all, it has huge implication
2 for cost. Airtrans figured out they pay \$8.50 to
3 get a ticket sold by a travel agent, and they pay
4 25 cents if you order the ticket yourself. \$8.25
5 per transaction difference. The result is today
6 they have one of the highest rates of the airlines.
7 Forty-six percent of the seats sold on Airtrans are
8 sold on their website. You compute that out by
9 \$8.25 savings per transaction, it begins to be real
10 money. Delta figured out at one point that every
11 one percent they can sell on the website is a
12 hundred million dollar net profit. Just moving one
13 percent of their sales to the website is worth a
14 hundred million bucks.

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

24 I understand this the national fad right
25 now. I'm not blaming any of you for doing it. I'm

1 just saying in the long run it's not how any of you
2 would explain to a Rotary Club you believe free
3 enterprise worked.

4 Why do we do that? We do that because
5 we're caught in a system that is inherently
6 impossible to deal with. The average doctor can
7 remember 55 drugs. This is a statistical fact. In
8 1964 that was terrific because there were about 30
9 drugs. Today it's madness. What does the doctor
10 remember? They remember the newest drug brought to
11 them by the newest detail person who has worked for
12 three weeks to figure out a way to get in their
13 office.

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

21 Second, here are the over-the-counter
22 things. That's something many of you have not
23 looked at. Most states don't pay for
24 over-the-counter medication. There are
25 prescription drugs from the 1970s that are now

1 over-the-counter. What does that mean? It means
2 they cost \$3. Meanwhile there's a generic which
3 cost \$25, and there's the newest brand, which cost
4 \$114. But you ought to start with over-the-counter
5 before you even get to generic. Then you go to
6 generic. Then you go to the latest whizbang
7 perfect thing which may be exactly what you need if
8 you have a particular problem.

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

16 And if every citizen knew that they and
17 their doctor could both look at the same database
18 and they could find the real price and you could
19 find out, by example, if you have a particular
20 ulcer problem, try this drug for \$5, and if it
21 gives you an upset tummy, go to this one for \$16,
22 and if that doesn't work, you can then go to this
23 one for \$109, but don't start at the \$109, you
24 would change all the underlying patterns in the
25 country.

1 I had to start with that as an example,
2 but I think we need a whole new approach to
3 rethinking how we deal with drugs. We clearly are
4 paying more than we should. But it's largely
5 because we're allowing substitution of brand-new
6 high-end drugs which is an information problem and
7 a market problem.

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

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

21 We ought to be doing the opposite. We
22 ought to say to the big drug companies, fine, make
23 as big a profit as you can providing the newest
24 thing, and we're all for the newest thing, but by
25 the way, we are not for our citizens buying

1 something three times as expensive as they need.
2 And I think if our citizens know they have those
3 options and if you rig the right incentive system
4 in there, you'll find people make decisions very
5 quickly in the right direction, but it's a very
6 different model.

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

18 Specific example the American Cancer
19 Society vouches for. If a hospital does fewer than
20 125 breast cancer operations a year, it probably
21 doesn't do them very well. We have clear evidence
22 that for every major procedure there is a number
23 below which you're not going to give the highest
24 possible performance because you don't practice
25 enough. People should know that. They should know

1 if you're going to be the first person this year
2 that this doctor is doing this operation on, you
3 may want to check to see if there's somebody in the
4 neighborhood who's done a lot more of them. It may
5 seem obvious.

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

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

20 Let me just say one or two closing
21 things because I really want to get to your
22 questions. I believe from dealing with rural
23 medicine through telemedicine to dramatically
24 enhance the quality and information available to
25 having electronic learning through systems like

1 Scholar so that doctors are in a position to learn
2 on a regular daily basis what's going on to finding
3 significant litigation reform because you can't
4 expect doctors in hospitals to be honest and to be
5 transparent if they think it's just a hunting
6 ground for trial lawyers.

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

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

1 eligibles by definition ought to have the federal
2 responsibility.

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

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

17 I think, again, it doesn't do
18 politicians any good to just lie to themselves and
19 say gee, go find a way to live with this. The way
20 people live with this is they don't invest in
21 computers, they don't buy new equipment, they can't
22 hire good people, the quality of service declines.
23 So we then get into a new set of scandals where we
24 go out and discover with shock that the system we
25 underfunded didn't do very well so they must be

1 wrong.

2 I would suggest to you that in most part
3 that the federal government today has a big
4 obligation to rethink the whole issue of long-term
5 care I think starting with a long-term care tax
6 credit to get the baby boomers and their children
7 to buy insurance now. If you look at the size of
8 the long-term care funding problem 20 years from
9 now, if we can't get that funded in the private
10 sector, and it will never happen without a tax
11 credit because you're not going to get a 35- or
12 40-year-old to buy long-term care as a matter of
13 prudential behavior. It's too far away. But if
14 you say to them here's a tax credit you only get if
15 you have long-term care insurance, you could
16 probably get to 95- or 98-percent coverage if you
17 had a tax credit for the whole country.

18 Let me just say, the principles apply to
19 the federal government as much as the state. I
20 think you're at the edge of an enormous scale of
21 change that is really worth looking at. And I very
22 much look forward to working with you in trying to
23 think through these things. And the federal
24 government will change in part because of your
25 leadership and giving it better ideas than it will

1 develop on its own in Washington. Thank you for
2 letting me be here.

3 CHAIRMAN ENGLER: Thank you, Newt Gingrich.
4 Let me open it up at this point to questions.
5 Jim Geringer.

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

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

23 MR. GINGRICH: Let me just say first of all,
24 I would argue that if we were serious about having
25 the federal government capitalize information

1 technology, then we ought to have a goal of within
2 three years of having a completely information
3 technology-based medical system, that is, the
4 federal government's the largest single purchaser
5 of healthcare in the world, pays for about half the
6 total cost of healthcare taking Medicare, veterans,
7 Medicaid, DOD, federal employees. And the federal
8 government ought to find a way to have an
9 incentive-based program for every doctor, every
10 nursing home, and every hospital to become fully
11 transparent in terms of electronic capabilities.

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

21 You would then find out that if you help
22 people manage their diseases -- one other example.
23 Diabetes is the largest cost driver in Medicare.
24 Every seventh dollar is driven by diabetes.
25 Diabetes is largely manageable if people are taught

1 early enough and if they have incentives and if
2 they have information systems to help them. This
3 is every seventh dollar. In fact, one study said
4 it was fourth dollar, but the conservative estimate
5 is every seventh dollar.

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

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

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

25 I'll just close with this example of how

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

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

16 CHAIRMAN ENGLER: Governor Minner.

17 GOVERNOR MINNER: You spoke of
18 over-the-counter drugs and doing some of the
19 cheaper drugs and those kinds of things. I know
20 many of my doctors would love to prescribe that.
21 However, and I'll use the example you used, I think
22 an ulcer, and you used some over-the-counter or
23 less expensive drug, and then there's a
24 proliferation and there's a problem with the
25 stomach and other things. A doctor gets sued.

1 Unless we can deal with that problem, how can we
2 ever get to the point you're talking about?

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

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

21 Second, we should have best practices,
22 and best practices ought to have a bias against
23 being sued. The best practice ought to include the
24 least intervention that makes you healthy. This is
25 why I cited earlier both Evercare and in my

1 mother's case we overly medicate people in this
2 country in part because doctors don't know what
3 each other are doing. If you go to multiple
4 doctors, it turns out the pharmacist has been sort
5 of the central point because they're the only
6 person who sees all the prescriptions. And by the
7 way, some people now go to multiple pharmacies or
8 they have mail order plus the local pharmacist.
9 Now you have nobody who's monitoring it, just to
10 know what you put in your body.

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

23 In my mind the litigation crisis is a
24 bigger problem than the cost of drugs. If you
25 look, for example, at the close of the trauma

1 center in Las Vegas, the last trauma center in
2 Nevada, it's a profound problem to have in fact
3 trial lawyers driving doctors out of existence and
4 thereby increasing the medical risk to the
5 community.

6 CHAIRMAN ENGLER: Mike Leavitt.

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

16 MR. GINGRICH: I think the minute private
17 sector functions start to try to do it in the
18 current environment they'll get sued. Just a
19 practical matter. So therefore nobody's going to
20 do it right now. This is probably an inappropriate
21 idea, but I think if one started it up, made it
22 free to their own residents, and charged a nickel
23 for every person who visited their site from
24 outside their state, you'd find yourself with a
25 huge profit center in two years.

1 and to do it so that it's being run by technical
2 experts. It's not being run politically, and it's
3 not being run by bureaucracies. I think you can do
4 it in a way that would almost overnight change the
5 purchasing pattern in your state and would create a
6 doctor-patient team. You don't want the patient by
7 themselves, but the truth is you don't want the
8 doctor by themselves. You want the doctor and the
9 patient to be sharing knowledge to solve a common
10 problem, which is the disease or health challenge
11 they've got.

12 CHAIRMAN ENGLER: Jane Swift.

13 GOVERNOR SWIFT: This is a change here a
14 little, but I'd like to ask Al From with such a
15 huge demographic shift going on in America and
16 therefore in the electorate as reflected in the
17 2000 election, why hasn't the leadership at either
18 the state or the federal role all experienced the
19 same level of diversity as the electorate has? And
20 what should political parties be doing to help
21 incent but not obviously incenting the current
22 incumbent but to incent that we have that greater
23 level of diversity? Will that help us change the
24 political system to address the questions and the
25 concerns that that electorate has?

1 MR. FROM: I think political parties ought to
2 reach out as much as they possibly can to find new
3 talent. I don't think it's going to become a big
4 issue in a number of years because the demographic
5 change isn't going to force it. Gary Johnson in
6 New Mexico has two Hispanic candidates running to
7 succeed him. That is probably a feature of
8 demography.

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

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

20 One of the things that I spent a lot of
21 time doing is traveling around the country and
22 meeting with young state and local leaders. That's
23 how I actually got to meet Governor Engler when I
24 was with Kwame Kilpatrick, the young mayor of
25 Detroit. What I'm finding in our own network, and

1 we were accused of being the southern white boys
2 caucus when we started, our diversity at the state
3 and local level is much, much greater than it is at
4 the federal level.

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

11 CHAIRMAN ENGLER: Governor Kempthorne.

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

21 I'm going to ask you -- you used the
22 foundation of your policy perspective, which is
23 tremendous -- but now to put back on your
24 politician's hat. What is the catalyst? How do we
25 make some of these big solutions which are big

1 changes before we get to the crisis point? The
2 culture of Congress, a society that is prone to
3 litigation. So what's the catalyst?

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

12 Ronald Reagan proposed welfare reform in
13 1970 in the Governors Association meeting that
14 year. We finally got it signed into law in 1986.
15 It took a long time, but what happened is he won
16 the argument over time. Let me give you two
17 examples you just talked about.

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

25 I think just making a couple simple

1 assertions. One of the two great parties by 2004
2 ought to say 45- to 90,000 deaths a year from
3 medical error isn't good enough. Two million
4 people getting hospital-induced illnesses isn't
5 good enough. Trial lawyers closing down the trauma
6 center in Los Angeles isn't good enough.

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

19 I think the more you people hear that, I
20 just passed a note to Governor Engler a few minutes
21 ago, I think it is indefensible to argue you pay
22 one price in Windsor and another price in Detroit.
23 So I started with the idea if the drug companies
24 are dumb enough to sell drugs cheaply in Canada,
25 they ought to be selling cheaply in the United

1 States. By the way, that will raise the price of
2 drugs in Canada the next time they negotiate.

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

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

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

24 So my guess is you'd end up with a lower
25 cost per drug sold but in an ideal society, more

1 total consumption of appropriate medications
2 because then people would not go to the emergency
3 rooms. The real losers are the emergency rooms and
4 acute care.

5 CHAIRMAN ENGLER: Governor Sundquist.

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

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

19 I don't think we have a problem with
20 managed care. I think the problem we have is in
21 managed prevention. I hope that before I leave in
22 the next few months that while we've taken on the
23 question of prenatal care and how much that saves
24 in addition to the prevention of agony and
25 problems, but we've also done it with children's

1 asthma, I want to take on diabetes to identify
2 those individuals and put them on a correct
3 lifestyle in the next few months.

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

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

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

20 Would you care to comment on those two
21 items.

22 MR. GINGRICH: Well, again, I think what you
23 get is what in principle those of us who believe in
24 free markets have always suggested, humans tend to
25 pursue the incentives created for their doing

1 better. If you set up a game where a general
2 practitioner doesn't make very much money and a
3 specialist makes a lot more, guess what happens
4 over the following decade? People migrate into
5 being specialists. If you figure out a game where
6 hospitals only get paid for one procedure under the
7 current system or the DRG system that the Medicare
8 has, hospitals tend not to take care of all three
9 problems on one visit because they're only going to
10 get paid for one of the three if they take care of
11 all three. So they bring you back two more times.

12 You have to understand that humans are
13 very clever and they respond to get around any rule
14 that is made to their disadvantage. The same
15 challenge with hospital overcapacity. It will
16 become obvious six months or a year from now that
17 in the last year the big hospital systems have
18 suddenly started doing much better. They're
19 getting substantial increases in profitability.
20 And ironically, the big drug companies are not
21 doing as well. So about the point where the big
22 drug companies' profit margin started declining
23 dramatically, the political system will manage to
24 beat up on them. And about the time the political
25 system figures out it should help hospitals,

1 they'll actually be doing very, very well. That
2 happens because the political system is inherently
3 slower than the speed with which private sector
4 organizations take advantage of loopholes.

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

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

1 absence of information.

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

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

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

21 Now, we've got a couple of policy
22 positions that we need to go through. We've
23 already handled the one committee. I want to move
24 now to Governor Sundquist, chairman of the
25 Committee on Human Resources, for his report.

1 GOVERNOR SUNDQUIST: Thank you, Mr. Chairman.
2 First of all, I want to thank my partner, the
3 co-chairman of the Human Resources Committee,
4 Governor O'Bannon, who just has done a great job.

5 The Human Resources Committee convened
6 yesterday. We focused on a discussion on
7 healthcare balancing act, prescription drugs,
8 access, affordability. We had Tom Scully,
9 administrator of the Centers for Medicare and
10 Medicaid Health and Human Services; Mr. Chris
11 Jennings, president of Jennings Policy Strategies
12 and former healthcare policy advisor to
13 President Clinton; David Beier, partner in Hogan
14 and Hartson, who represented the pharmaceutical
15 industry; and Jake Hanson, representing the Generic
16 Pharmaceutical Association.

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

20 The committee considered and now
21 recommends one new policy position amendment and
22 eight existing policy positions with minor changes
23 and reaffirmation of one existing policy position.
24 The policies are before us under the green cover in
25 our packages.

1 Mr. Chairman, I move for the adoption of
2 these amendments and policy proposals in block.

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

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

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

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

23 The second panel was made up of
24 representatives of two private sector companies,
25 our own Delaware Dupont Company and of course

1 Wisconsin Energy. They were talking to us about
2 how they utilized the green energy approaches in
3 their businesses.

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

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

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

21 At this point I want to call on
22 Governor Kempthorne, who's been so wonderful as our
23 host Governor. And once again, Governor, you and
24 Patricia, everything, a rodeo, ice skating,
25 Shakespeare, we've had it all. We've gotten our

1 business done. We've had a good time. And what an
2 opportunity to enjoy the hospitality of the Boise
3 people and the Idaho citizens. Thank you for
4 having us. Congratulations on a wonderful annual
5 meeting. Thank you.

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

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

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

25 CHAIRMAN ENGLER: Thank you very much. I'm

1 going to go to Governor O'Bannon. But before I do,
2 I do want to make sure we get the Executive
3 Committee policies adopted. So Governor Patton,
4 can give us a quick report on the Executive
5 Committee policies.

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

16 CHAIRMAN ENGLER: Move by Patton, supported
17 by Kempthorne. All in favor will say aye.
18 Opposed? The Executive Committee report is also
19 accepted. Congratulations, Governor. Those are
20 great policies to be working on in the coming year.
21 It's interesting those that came through the
22 Executive Committee in particular have been the
23 subject of a great deal of our meeting and our
24 informal Governors-only sessions and do represent a
25 good deal of challenge for the association, indeed

1 for the Congress who has to respond to some of
2 these.

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

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

21 Our committee is already hard at work.
22 We're looking forward to working with
23 Governor Patton as chairman and Governor Kempthorne
24 as Vice Chairman as we host this meeting next
25 summer.

1 I think the revitalization of downtown
2 Indianapolis as our capitol city is extraordinary
3 and something we'll be anxious to show you. It's a
4 great city to get around in across the street from
5 the state capitol. There are two hotels side by
6 side in which our complete meetings will be
7 handled. It's walking distance to restaurants,
8 shopping, and many of the city's attractions,
9 including Indiana State Park and downtown
10 Indianapolis with its museums and other interests.

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

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

23 To Paul Patton, the Vice Chair, our
24 incoming Chair, I want to thank you in particular,
25 Governor, for your cooperation and your support,

1 the abilities of your staff, and the way in which
2 we've been able to work together. I think on a
3 bipartisan basis this association continues to work
4 for the states. We keep that flame.

5 I wasn't sure when I saw this coming up.
6 I thought maybe this could represent also the
7 flame, Governor Leavitt, of federalism which we
8 need to make sure burns eternally as well and that
9 we keep torches held high because there are always
10 it seems challenges. And in this year the Rhode
11 Island meeting when I took over the chairmanship
12 and it wasn't very many weeks later but September
13 11th happened, and it really changed everything for
14 this association for the country. That tragedy of
15 September 11th and then the worst thing fiscal
16 situation for the states led to some real
17 challenges. Those were on top of the usual things
18 that Governors deal with, the floods, the fires,
19 the natural disasters.

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

25 So the work of the association as it

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

19 For the 21 of us who leave office,
20 Al From had it right. We're not going to be
21 retiring. In fact, some of us with the really
22 young children better get to work. In listening to
23 these long-term healthcare costs the Speaker is
24 talking about, the cost of college, and then
25 Governor Keating was talking about the cost of

1 weddings. So I'm worried about all that stuff. So
2 I'm going to be in the job market.

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

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

19 I've been a Governor during a period of
20 time of ascendancy for Governors in the country.
21 I've had a chance to serve with many of you who
22 just have done such an outstanding job and are
23 wonderful role models for public servants. So I
24 thank you very, very much for all of the
25 cooperation that's been so readily offered and so

1 eagerly accepted on my part. Thank you.

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

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

11 The Nominating Committee recommends the
12 following Governors to serve in the National
13 Governors Association Executive Committee for the
14 year 2002-2003: Governor Mike Leavitt, Utah;
15 Governor Ronnie Musgrove, Mississippi;
16 Governor John Engler, Michigan until January 2003;
17 Governor Parris N. Glendening, Maryland until
18 January 2003, at which time Governor Ruth Ann
19 Minner, Delaware, will replace him on the Executive
20 Committee; Governor Tom Vilsack, Iowa;
21 Governor John Rowland, Connecticut; Governor Mike
22 Huckabee, Arkansas; Governor Dirk Kempthorne,
23 Idaho, Vice Chairman; and Governor Paul E. Patton,
24 Kentucky, Chairman. This concludes the report of
25 the Nominating Committee.

1 CHAIRMAN ENGLER: It's a good report.
2 Governor Turnbull moves the adoption of the report,
3 seconded by Governor Leavitt. All in favor will
4 say aye. Opposed? The report is accepted.

5 Governor Patton, the new chairman of the
6 National Governors Association, come forward.
7 Here's the gavel. It's time for you to go to work.

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

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

24 So on behalf of my fellow Governors, I
25 want to present you with this memorial gavel as a

1 memento of your service to this organization.

2 John, to you and Michelle, thank you.

3 And to Governor Kempthorne, I not only
4 thank you for the hospitality that you and Boise
5 and Idaho have shown to all of us, but I welcome
6 you as a part of the leadership team over the next
7 year that we will work together in a bipartisan way
8 to articulate the needs of the states and their
9 leadership on our national government. John has
10 made me an intimate part of his leadership team,
11 and let me assure you that I hope that we can have
12 the same close working relationship.

13 We have a bipartisan organization and we
14 must maintain that bipartisanship as political as
15 we are, and we're very political, and we believe in
16 our parties, but the cause of our Governorships are
17 much more important. We have a whole lot more in
18 common than we have in differences. And as we talk
19 to our national leaders, Democrat and Republican,
20 we need to emphasize the fact that we come with one
21 voice when it comes to these issues that mean so
22 much to our people, whether it be welfare reform or
23 Medicaid improvement or transportation issues or
24 homeland security or simplified sales tax system.
25 So I pledge to work with you on that area.

1 My initiative is reaching new heights,
2 turning around low-performing schools. I think
3 most of you have been provided a copy of this
4 brochure. We're also establishing a task force on
5 preparing America's children to learn. So we have
6 a very aggressive, specific agenda focused on
7 education, which is in fact our state's most
8 important responsibility, as well as addressing
9 those issues that I've already mentioned that will
10 certainly be very, very important to us this year.

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

24 Eli Broad, would you join us, please.

25 MR. BROAD: Thank you, Governor Patton. I'll

1 endeavor to be brief. First, I congratulate you on
2 taking the helm of this important organization.
3 Second, I want to thank you for your leadership in
4 education.

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

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

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

20 I believe, as you do, that the focus on
21 education is more critical now than it's ever been.
22 As a founder of two Fortune 500 companies, I know
23 firsthand the importance of a well-educated work
24 force in today's economy. With the advent of free
25 trade and our nation having moved from industrial

1 to an information economy, many of the middle class
2 and the lower middle class manufacturing jobs have
3 left or are leaving America. As often as not the
4 shoes we wear, the clothes we wear, the TVs we
5 watch are made outside of the United States.
6 That's not going to change.

7 So as a result we're ending up with a
8 nation that has two types of workers: service
9 workers and knowledge workers. I believe this has
10 resulted in an increasing gap between the poor and
11 middle class. Service workers typically will earn
12 6 to 15 dollars an hour. During downturns in the
13 economy, they face high rates of unemployment.
14 Knowledge workers earn multiples thereof and have
15 longer term, more fulfilling career opportunities.

16 I believe that public education is a key
17 civil rights issue of the 21st century. Our
18 nation's knowledge-based economy demands that we
19 provide people from all backgrounds and
20 circumstances with the education and skills
21 necessary to be knowledge workers. If we don't,
22 we're going to continue to widen the gap between
23 the poor and middle class. I truly believe that
24 that gap is a threat to our economy, our democracy,
25 and our society. So we have to do everything we

1 can to insure that all children receive an
2 education that allows them to become knowledge
3 workers.

4 Three years ago as I stepped down as CEO
5 of SunAmerica, my family created the Broad
6 Foundation. We increased our commitment recently
7 at the foundation to \$400 million because I can
8 think of no more important contribution to our
9 nation's future than a determined long-term
10 commitment to improve our nation's public schools.
11 There are no silver bullets. Class sizes, how you
12 teach English, et cetera, are important.

13 Competition is important. Whether it be
14 in the form of charter schools, parochial schools,
15 Edison schools, vouchers serve a purpose. But when
16 you get all done looking at all of that, you
17 recognize a decade from now 85 to 90 percent of our
18 children will still be in public schools. So our
19 mission at the Broad Foundation is to dramatically
20 improve K through 12 urban education through better
21 governance, better management, and improved labor
22 relations.

23 Earlier this year as you all know,
24 Congress passed and President Bush signed the No
25 Child Left Behind Act. And the act requires states

1 to turn around low-performing schools. We at the
2 Broad Foundation believe that necessary changes in
3 public education will come as a result of
4 leadership of Governors and big city mayors.

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

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

21 Now, we hope to join you in achieving
22 those goals by working with the NGA to host the
23 National Education Summit for Governors to develop
24 strategies to turn around low-performing schools,
25 by producing a guidebook for Governors that

1 provides a policy-free work for best practices, by
2 hosting an Institute for Governors Education
3 Advisors that brings together educational leaders
4 to identify how more effective strategies can be
5 implemented in each state, by publishing papers
6 that outline intervention strategies for
7 low-performing schools. The problem is large. The
8 stakes are high. Together we're not going to leave
9 any school behind. Thank you.

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

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

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

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

