The above-entitled matter came on for meeting, pursuant to notice, at 9:30 a.m. with Chairman
Kempthorne presiding.

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CHAIRMAN KEMPTHORNE: Ladies and gentlemen, let me call together this winter meeting of the National Governors Association and say what an honor it is to preside over this gathering of the governors of the United States of America and her territories.

I think it is significant to note that as we gather here in the nation's capitol, in the next three days 50 governors will be participating in this National Governors Association, which is one of the high watermarks as far as attendance by governors of the United States of America.

Let me also extend a thank you on behalf of all governors and our spouses to Ambassador
Thawley and Mrs. Thawley last night as they welcomed
us to the embassy of Australia, where they
demonstrated outstanding hospitality of Australia and
the people of Australia. And Keith Urban, who
provided the outstanding music for us last evening.

Today is February 22nd. This is George
Washington's birthday. We're celebrating the 272nd
year of his birth.

And as I gavel this organization together
today, I want to note that this is a very special
gavel. This gavel was made by Mr. James McVeigh, who
was a 40-year employee of Mt. Vernon, the estate of
George and Martha Washington.

Mr. McVeigh, as you can see, is a
tremendous artisan. And this wood is walnut and it
is made from a tree that had been planted by George
Washington on the estate.

So as we commemorate the birthday of a
founding father of the United States of America, to
have something of this history I think adds to the
significance of this gathering in Washington, D.C.

VICE CHAIR WARNER: Chairman, I might note

a famous Virginian as well.

CHAIRMAN KEMPTHORNE: And as our Vice

Chairman points out -- Governor Warner -- a famous

Virginian.

(Laughter.)

CHAIRMAN KEMPTHORNE: Duly noted.

Let me also acknowledge and welcome the

newest to this organization: from California,

Governor Arnold Schwarzenegger; from Indiana,

Governor Joseph Kernan; from Kentucky, Governor Ernie

Fletcher; from Louisiana, Governor Kathleen Blanco;

from Mississippi, Governor Haley Barbour; and from

Utah, Governor Olene Walker.

And may I also say to Governor Blanco

thank you on behalf of all us for the king cake,

which you provided as a great gesture from mardi

gras. Kathleen, we appreciate that.

To all governors that have been recently
elected, congratulations to you.

(Applause.)

CHAIRMAN KEMPTHORNE: Let me also recognize a very special guest who is with me today. And that is, from Afghanistan, Governor Muhammed Alliyah, who is the governor of the province of Bamiyan. Governor, welcome to you.

(Applause.)

CHAIRMAN KEMPTHORNE: At this time I'd like to take just a special moment to acknowledge a governor who is not among our ranks. And that is governor Frank O'Bannon, who in his seventh term as governor of Indiana passed away.

He and Judy were outstanding additions to the National Governors Association. I think that Frank and Judy were in their prime when last year they were the host and the hostess of the National Governors Association in Indianapolis.

And I think for all of us to remember that beaming of Frank as he was the host and was so proud
to show us his state of Indiana --

I attended his memorial service and I'll always remember what a moving memorial that was. And then as Judy was escorted back up into the capitol, where she turned and with that camera, which Frank had so many times, taking the pictures, she took that one last picture of her friends gathered in the name of her husband, Frank O'Bannon.

Let me call upon Governor Joe Kernan --

Joe, just to make a couple comments about Frank.

GOVERNOR KERNAN: Governor, thank you very, very much. It was, as Governor Kempthorne said, five months ago that we Hoosiers lost our governor and lost our friend.

The fingerprints of Frank O'Bannon are all over our state. After serving in the United States Air Force, Governor O'Bannon returned home, where he gave 18 years as an Indiana state senator, served as our lieutenant governor for eight years and as our governor for seven.
Frank taught us why we serve and showed us how to serve. His vision, his passion, his commitment to our state, particularly to our children, is something that we as Hoosiers all treasure.

He also was honored to serve in the National Governors Association, worked with Governor Thompson in 1997 on welfare reform as the chair and vice chair of our health and human services commission, worked for additional funding for the CHIPS program, and as Governor Kempthorne said, had one of his and Judy's proudest moments in being able to welcome all of you to Indianapolis for last summer's meeting.

I talked with Judy yesterday and she was reminded of how they viewed sitting at this table as being a sobering experience as members of a federation of states and that Frank was humbled and honored to be able to do so.

Our thanks to all of you for your prayers.
for Judy and the O'Bannon family. And we in Indiana are proud and grateful for all of the offers of support and assistance that we receive from you in the aftermath of Governor O'Bannon's death.

Thank you all very much.

(Applause.)

CHAIRMAN KEMPTHORNE: Governor Kernan, thank you very much. I'd like to just acknowledge and thank the first lady of Idaho, my wife Patricia Kempthorne, who heads up the spouses' organization for the National Governors Association.

I acknowledge her because of the role that spouses play in the support of all of us as we carry out our duties. So, Patricia, just a personal thank you to you.

(Applause.)

CHAIRMAN KEMPTHORNE: I now officially call to order the 2004 winter meeting of the National Governors Association. May I have a motion for the adoption of the rules of procedure for this meeting.
There's a motion. Is there a second?

There's a second. All those in favor, please say aye.

(Chorus of ayes.)

CHAIRMAN KEMPTHORNE: Part of the rules require that any governor who wants to submit a new policy or resolution for adoption at this meeting will need a three-fourths vote to suspend the rules.

Please submit any proposal in writing to David Quam of the NGA staff by 5:00 p.m. tomorrow, Monday. I'd also like to acknowledge my partner, in addition to all of you, who are my partners, but the Vice Chairman of the NGA, who was recently elected to that post, a tremendous governor of Virginia, a state that is rich in history and that history continues with a great future.

So, Governor Warner, thank you for your partnership and welcome aboard.

(Applause.)
CHAIRMAN KEMPTHORNE: Now, before we begin
the business program, I'm going to invite to the
podium Governor Romney and Governor Easley because
they have a super bowl bet which they need to settle.
(Laughter.)

GOVERNOR ROMNEY: We could let this wait.

CHAIRMAN KEMPTHORNE: Yeah, this was
doubly pleasing. I got to tell you. I got to get
you to take your coat off now. Show us those pecks,
you know. You've got to look good here.

We're got jerseys here. We had a little
bet, not only involving food. I did have some
delicious barbecue. Thank you so much, Mitt. That
was delicious.

But also part of the bet was is he gets to
wear Tom Brady's jersey, the home jersey for Tom
Brady, all right? What an honor. What an honor.
(Applause.)

CHAIRMAN KEMPTHORNE: Welcome to the
patriot nation. I'm going to put on the home jersey
here and join him.

(Laughter.)

CHAIRMAN KEMPTHORNE: I know my Democratic friends may be hoping for another victory for Massachusetts this fall.

(Laughter.)

CHAIRMAN KEMPTHORNE: Actually I'm hoping for one, too. You watch the Redsox. We're going to win it this time. Thank you guys.

(Applause.)

GOVERNOR ROMNEY: We're going to win some concession, right?

CHAIRMAN KEMPTHORNE: Exactly, right.

Well, I'm not sure how we've got to wear it, but I'll wear it proudly as long as I can, as long as Tom Brady lets me. Thanks, you guys.

(Applause.)

GOVERNOR EASLEY: We'll see you in Jacksonville next year. And somebody's going to be
wearing Jake Delone's jersey. But we'll be back.

Thank you. We've enjoyed it all the way through. Hey, Ed Rendell, thanks for the Phili cheese. We just got that --

(Laughter.)

CHAIRMAN KEMPThorne: I don't think you got those yet. Did you get those?

GOVERNOR EASLEY: I got his. There's several other governors who I will not mention who have not paid up yet. But since they're my party, we won't bring that up.

(Laughter.)

CHAIRMAN KEMPThorne: These unfunded mandates have got to stop, right?

(Laughter.)

GOVERNOR EASLEY: Exactly.

(Applause.)

CHAIRMAN KEMPThorne: Well, I know that many of us as governors, that we're proud of our respective teams. There are a lot of college bowl...
I want to thank Governor Lingle for the case of pineapple. The Boise State Broncos enjoyed those.

And also, Governor Perry, I want to thank because at the El Paso bowl our two teams vied and again Boise State came out on top. So nothing like good Texas beef. Well, there is something like Texas beef and that's Idaho potatoes.

(Laughter.)

CHAIRMAN KEMPTHORNE: All right. I'd like to turn to an issue that I know is of great interest and importance to all governors, especially during these difficult budgetary times.

As governors we're aware that one-fifth of all general revenue spending goes to Medicaid with a significant share of that funding going to spending on institutional long-term care.

We also know as sons and daughters, as husbands and wives, that our loved ones want to age
with health and with dignity in the homes and communities in which they have lived.

More importantly, we must consider what governors can do to encourage best practices in home and community-based care while inspiring our citizens to maintain lifelong health and preparing to meet their own long-term health-care expenses.

That's why this year I have convened a taskforce of governors. And the taskforce is a lifetime of health and dignity to work on these issues.

This morning session, which I'm very excited about, will address the issue of lifelong health through the lens of chronic disease.

Healthy aging issues are further addresses in the CD Rom situated on the table that's in front of each governor. This CD Rom, which we have here, contains the taskforce's first publication, called Healthy Aging and the States: Making Wellness the Rule and Not the Exception.
It also includes clips from the taskforce’s December 10th taping on the PBS Broadcast Living Better, A National Conversation on Aging, in which taskforce governors Bredeson, Lingle, Purdue, and I participated. Mort Kondracke was our moderator. Now, I'd like to take just a moment to provide you with a brief of what you will find on this CD Rom if we look at the screen.

The CD Rom is interactive so that you can click on various links to view portions of the report, clips of the PBS program, and useful background materials.

I'd like to share just a few of the CD highlights with you. For example, these CD maps show state-by-state aging trends over the next two decades.

And as you look at this, you'll be able to determine that in the next 25 years there are dramatic differences that will be taking place in our states.
Next we have highlights on preventing chronic diseases and injuries, which is a fundamental aspect of living well.

In our PBS broadcast we talked about these issues and the importance of physical activity came up repeatedly.

(CD Rom is played.)

SPEAKER: Physical inactivity was directly responsible for nearly $76 million in medical costs in the year 2000. Studies clearly show that the more active people are, the less likely they are to develop high blood pressure, diabetes, osteoporosis, and other chronic conditions.

(End of snippet from CD ROM.)

CHAIRMAN KEMPTHORNE: And again, we thank Mort Kondracke for his participation with us on that broadcast, which is now already in 60 percent of the television audiences throughout the United States. Here we also showcase several programs in your states. There are examples of programs such as
Exercise and also in-depth descriptions of programs such as the health promotion initiative in New Jersey and also promoting physical activity for people with arthritis in Georgia.

Now, it's my hope that you and your staffs will be able to utilize these CD's as you work to make your state elder-ready. This information is accessible on the NGA website at www.nga.org.

Copies of the CD are available to everyone who is here at this conference today. The CD Rom that you just saw is the first of two. In July we will provide the second volume on this issue.

The taskforce publication center will be centering on the following issue areas: encouraging community-based care, which is led by Governor Lingle and Governor Bredeson; supporting care givers and in-home workforce, led by Governor Guinn and Governor Baldacci; promoting wellness and disease management, led by Governor Purdue and Governor McGreevey; and encouraging personal financial planning, led by
Governor Sebelius and Governor Sanford.

A fifth area that the taskforce is examining is utilizing technology in providing cost-effective long-term care. This issue, which is led by Governor Napolitano and Governor Perry, will be explored extensively at the annual meeting in Seattle in July.

Additionally, on May 20th and 21st, a lifetime of health and dignity taskforce will convene a 50-state policy forum in Chicago, designed to assist governors and their state in formulating action plans to tackle these important issues.

Furthermore, with support for the U.S. Department of Health and Human Services we're working on an NGA center for best practices policy academy and rebalancing state long-term systems away from institutional and toward community care. It will be held this summer.

While the emphasis of the taskforce is on older Americans, we hope that our efforts will
benefit people of all ages confronting long-term care challenges.

In addition to the U.S. Department of Health and Human Services I would also like to thank the Robert Wood Johnson Foundation, AARP, and the Commonwealth Fund for their support of the taskforce's work.

So now we're ready for a discussion by an outstanding panel and moderator. Let me begin by introducing the members of the panel.

Kenneth H. Cooper, M.D. Dr. Cooper published his first best seller, Aerobics, in 1968 and introduced America to a new word that started a worldwide fitness revolution.

Earlier during his military service Dr. Cooper served as director of the aerospace medical laboratory in San Antonio and worked with NASA in conditioning America's astronauts for space.

Two years later he opened the world-renowned Cooper aerobics center. Dr. Cooper is the
author of 18 books. From the time of his first book he has advocated revolutionizing the field of medicine away from disease treatment and toward disease prevention.

With books translated into 42 languages Dr. Cooper is credited with motivating more people to exercise in pursuit of good health than any other person.

We're honored to have you here, Doctor.

Bill Novelli is Chief Executive Officer of AARP, a membership organization of over 35 million people, half of whom remain actively employed.

Prior to joining the AARP he was the president of the campaign for tobacco-free kids, where he now serves as chairman of the board.

Previously Bill Novelli served as executive vice president of CARE, the world's largest private relief and development organization.

Earlier he cofounded Porter Novelli, now one of the world's public relations agencies. Porter
Novelli was founded to apply marketing to social and health issues.

Bill Novelli has been named one of the 100 most influential public relation professionals of the 20th century. We congratulate you for that, Bill. And thank you for being here.

Joe Coughlin, Ph.D., is director of the MIT AgeLab, a partnership between business and MIT to improve the quality of life of older adults and those who care for them.

His research focuses on how the demands of aging baby boomers and technological innovation will converge to create new markets and policy opportunities in health care, financial services, retail, and consumer products.

Dr. Coughlin is co-editor with Dr. Cafferson, of a forthcoming book on measuring quality of life in an aging society, addressing issues such as pain management, cognitive function, fatigue, mobility, et cetera.
He is offering a second volume on business innovation, technology, and aging. Dr. Coughlin consults and speaks frequently to business and government audiences in Europe and North America.

And, Doctor, thank you for hosting me when I visited the MIT AgeLab. I was absolutely impressed with the technology and the devotion that's taking place there.

Now, to moderate today's discussion we're pleased to be joined by Jackie Judd, an emmy-award winning journalist and senior visiting fellow with the Kaiser Family Foundation.

At Kaiser she's helping to design a new initiative to educate journalists worldwide about public health issues.

She's also assisting the foundation of other nonprofit organizations to utilize the Kaiser Family Foundation's broadcast and webcast studio in its new Washington, D.C., building.

Previously Jackie served as special assignments correspondent for ABC News and as an
Considered. She also received an emmy award for Nightline’s coverage of the Iraq invasion of Kuwait.

Jackie, I welcome you. And I now turn the program over to you for your tremendous talents.

(Applause.)

MS. JUDD: Good morning, everyone, and thank you for inviting here, Governor.

A couple of days after I did get the invitation to be here with all of you this morning, I was in a variety store with one of my kids. It wasn’t even a pharmacy. It was a variety store.

And there was something you could make a quick purchase of at the cash register that I thought was so illustrative of this sleeping giant, as the governor has called it, this problem we’re all facing with the aging baby boomers hitting retirement.

It’s this. A jumbo pill holder.

(Laughter.)

MS. JUDD: I estimate each day can hold
about 25 pills times 7. That's a lot of pills in the
course of a week. And I think that more baby boomers
than we would like to consider are going to be using
these jumbo pill holders.

As this largest generation ever speeds
towards retirement and older age, as the governor
mentioned, our life expectancy is longer than ever.
Our chance of facing a chronic disease is well over
50 percent. The nation already spends
$750 million on managing and treating chronic
disease. That's about 75, 78 percent of the total
health care budget.

So these are some of the questions we want
to talk about today.

And after the brief presentations by our
panelists I want you -- and I know I don't have to
encourage governors to do this -- but to all jump in
with your ideas, disagreements, agreements, et
cetera.

But these are some of the questions. How
do we stay healthier? And if we don’t stay healthy,
who’s going to take care of us? I include myself in
this. I’m a baby boomer.

How much is it going to cost? Who’s going
to pay the bill? And what are some wise investments?

We’re going to start first with Kenneth
Cooper. Dr. Cooper, if you could talk to us about
aging with dignity and health through wellness and
the management of chronic disease. Thank you.

DR. COOPER: Thank you, Ms. Judd, Chairman
Kempthorne, governors. I’m honored to be here and to
speak to you for just a very few minutes on the
subject of aging, which, of course, is very dear to
my heart and should be of great concern to all us.

As mentioned in the introduction I did
publish my first book in 1968 -- in fact introduced
the word “aerobics” to the world. At that time
according to Gallup polls, we had less than 24
percent of our adult population exercising. We had
less than 100,000 joggers.
People started jogging everywhere. And by the year 1984 we had an estimated 34 million people claiming to be jogging. And we had 59 percent of our adult population exercising on a regular basis.

There was great concern about my medical colleagues because when I was in medical school back in the 50s we were taught that people past 40 years of age should not exercise vigorously. And many of those people started exercising after 1968 were over 40 years of age. I would even see titles in medical newspaper articles that said the streets are going to be full of dead joggers as more Americans followed Cooper.

(Laughter.)

DR. COOPER: What happened? From 1968 until 1990, instead of there being an increase in deaths from heart attacks, there was a 48 percent decrease in deaths from heart attacks in this country.

Only three countries had a comparable
statistic. Those countries were Australia, Canada, and New Zealand.

To the contrary, most countries around the world had an increase in deaths from heart attacks in that time.

For example, in 1990 I was invited to speak behind the old Iron Curtain. And I spoke in Moscow, Leningrad, and Kiev, Russia. I spoke in Warsaw in eastern Poland. I spoke in Budapest, Hungary.

The reason I was invited to speak behind the old Iron Curtain is because from 1968 until 1990 in Russia they had a 31 percent increase; Poland, a 36 percent increase; Hungary, a 40 percent increase. And the record was Romania with a 60 percent increase.

Yes, they said, Dr. Cooper, it's because of your modern technology. We don't have coronary care units in our hospitals. We don't have angioplasty in bypass surgery. We don't have those
expensive medications you have in your country.

I said, "Hold the phone," because in a study that was published in Harvard in 1990 it showed that that 48 percent reduction of deaths from coronary heart disease could be broken down as follows:

One-third was because of modern technology. Two-thirds was because Americans changed their lifestyle, that it counted for that unprecedented decrease in deaths from coronary heart disease. Along with that we saw quite a change as far as our aging was concerned.

I don't know whether you realize this or not, but Chancellor von Bismarck from Germany first introduced social security in 1888 for the German people. It was effective at age 65. The average life expectancy of a German during those times was 45 years. Social security kicks in 20 years later. In 1900 our average life expectancy was 47; by 1935, 61.4 years. And by the way, that's
when America made effective at age 65. By 1960 it was 69 years. By 1970 it was 70 years. And prior to the decade of the 70s, you could expect only one year increase in longevity each decade.

But if you could reduce your number one cause of death by 48 percent, it's going to affect your longevity.

So in 1990 the life expectancy should have been 72 years, but it wasn't. It was 76 years -- three times what we expected.

Did that continue? No, it didn't.

Because you see the baby boomers were the ones who led this exercise of the 60s and 70s and 80s. And after 90 they burned out. They stopped exercising.

The 76 million people born between 1946 and 1964.

And even more of a tragedy -- they didn't bring their kids along with them. And now our kids are fatter and less fit than they've been in the history of this country.

Yes, my answer to this is I think that we
have to really embrace the concepts of preventive medicine because my feeling is we spend way too much of our health service dollar on desperate measures, which often prolongs death, not life, if only for a few days.

In 1950 we paid $12 billion for health care; in 1970, $70 billion; in 1997 $100 billion. And last year I'm told we paid right at $1.6 trillion for the cost of health care. Too much care too late.

Over the past 33 years that our center -- we've been conducting research over 80,000 people come to our clinic from 1 to 33 times.

We measure the level of fitness objectively by time on the treadmill and place them into 5 categories of fitness -- the bottom 20 percentile to the top 20 percentile.

In front of you you'll see some charts. And you'll see first of all the survival rates by cardio-respiratory fitness among the people that have been coming to our clinic. These are men. A study
beginning back in 1970.

You find that first line is actually for people in the bottom 20 percentile, the low fit.

Their average life expectancy is 73 years. What's the average life expectancy of a -- male in America today? And the answer is 73 years.

The next line. Those who avoided inactivity moved up one block on the 5-block fitness scale and increased their life span by 6 years -- so it's 79 years.

Those who made the top 40 percentile, the final line there, are living an average lifetime of some 82 years -- increased their life span by 9 years.

But if you turn it over you find that it is not just the extension of life, it is the quality of life.

You see in looking at a group of men from 40 up to 70 plus years of age, classifying them into their fitness from the bottom 20 percentile, the next...
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40 percentile, the top 40 percentile, and you find
that a man 40 to 44 years of age in the bottom 20
percentile, totally sedentary, they have at least one
self-reported limitation. They can't take care of
themselves. They can't do something to be
independent.

You have to go all the way out to 65 to 69
years to find a man who keeps himself in shape that
has the same number of limitations as the other man
40 to 44 years of age that is in poor condition.
So it's not just extending life. It is
the quality of life.

Now, if you look at the chart that says
"age-specific all cause death rates by fitness" and
you find in this group of men from 20 to 39 up to 60
plus, people who came to our clinic between 50 and 59
years of age and came back for at least 10 years
during this period of time -- a total of 19 years.
And you find those that never got the message, never
got out of that bottom category of fitness. You
might ask why did they come back? It's because
they're sponsored by corporations and their CEO
insists they come back.

But they're defiant they're not going to
be doing anything. Look at their death rate for
10,000 man years: 470.

But those who came to our clinic after 50
years of age, changed their lifestyle over the next
19 years -- as you can see they dropped their death
rates from 470 down to 129.

Let's compare those men 50 to 59 years of
age in the top category of fitness. Even the 80
percentile it wasn't that hard. They dropped their
death rate all the way down to 62.

I think even more exciting is those past
60 years of age who decided to change their
lifestyle, get out of that bottom category of fitness
and over the next 10 years at least they dropped
their death rate in half.

Now, I've said so many times I don't care
how long I live. I just want to live until that
final moment. I hope to square off the curve, live a long healthy life to the fullest and then die suddenly, just as my mother and father did.

My father was a practicing dentist in the state of Oklahoma for some 50 years. He practiced dentistry all day on Friday. He died on Monday. He was 77 years of age. What a way to go.

My mother went to the presidential elections back in 1984, went home that night to watch the election returns on television. We found her the next morning stretched out on the sofa. The television was still on. She had a lapel pin on that said "I voted today."

She was living in her own home. She was totally independent, driving her own car. She was 82 years of age. And I can assure you that what she feared worse than death was losing her independence.

That's what you have to keep in mind. It's not just quantity of life. It's quality of life. I'm happy to say with 33 years' experience
in Dallas taking care of patients I've seen some
phenomenal things -- when we're writing books as far
as the textbook on aging and find people 65, 70, 80
years of age are performing like we never dreamed was
possible.

But I agree with health and human services
when we set the record in WHO regarding the obesity
problem. It's an individual responsibility. We
cannot rely on the government. We can't rely on our
physicians for our health. We're going to have to do
it ourselves.

Thank you, Ms. Judd.

(Applause.)

MS. JUDD: Thank you, Dr. Cooper. I want
to set the record straight on something I said
before. I think I said $750 million on chronic care.
I'm sure all of you wish it really was that. But
it's billion. I apologize for that.

Bill Novelli is next. Bill will talk to
us for a bit about community-based care -- what that
means, what you think the public understands that to
mean, and the financing arm of it.

MR. NOVELLI: I'd like to begin by

thanking Governor Kempthorne for championing health

and long-term care issues during his term as NGA

president.

And I want to thank you, the nation's
governors. We appreciate the partnerships that we
have with you in a number of states to expand home
care to pilot innovations and financing and delivery
and to reform the whole system.

We want more partnerships in more states
to improve the quality of life for our members and
for your constituents.

Now, at AARP we have a 10-year social

impact agenda. You have it at your table. It's this

right here. And our goal, as you see at the top, is

for people 50 and older to have independence, choice,

and control in ways that are beneficial and

affordable for them and for society.

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And you'll see there where we intend to spend our resources, our human and our financial resources over the next 10 years. And down at the bottom you'll see that we say we intend to do this in partnerships and in coalitions with others.

And independence in choice and control are exactly what's missing today in long-term care. More than anything, as we just heard, people want independence in their daily lives. And they nearly all want to remain in their own homes and receive care there.

But they and the families who care for them are often frustrated by the absence of a coherent and an easily accessible and affordable system to help them. Most of these people are living with multiple chronic disease.

Now, with the demographic changes ahead of us that Jackie referred to, on top of the immense needs that we already have today we've got to build a consumer-friendly system that serves people who
require long-term care and their families.

We should begin with creating a single point of entry for people seeking health care and long-term care services so that we can provide the best information and choices from the beginning and then follow through with plain directions once a choice has been made.

And we at ARRP intend to put a lot of our emphasis into this area that we call navigation.

We need services that assist with the activities of daily living and are available and affordable and are of high quality everywhere, especially through home and community-based services and assisted living.

By giving those with disabilities the power to direct spending to meet their own needs, the home and community-based care sector will grow.

This idea, which is called “the money follows the people” is still fairly new, but it's been successfully piloted here in the U.S. and
implemented abroad.

Now, as you know, we also have a serious quality problem. It's related to financing and to staffing. Reimbursement rates vary substantially from state to state. And some states have inadequate financing. And as you also know, staff turnover in nursing homes exceeds 100 percent a year.

And these two factors create a very difficult problem for delivering quality care. Many older people with disabilities and their caregivers need support services and assistive equipment in their homes and communities.

Only about half of people 50+ with disabilities report receiving any help with daily activities. And nearly all that help is from family and other informal caregivers.

Community-based services, although limited, are available. But only one out of three used them. And that's because people don't know about the sources of support or how to find them or
if they are eligible for publicly funded services.

More than a third of homeowners, we find, want to make simple home modifications to make their lives easier. Simple things like installing grab bars in the bathroom.

But most of them cannot do so, largely because of cost. For most the needs are relatively modest and could be met if modest assistance equipment and other new technologies were more widely available.

This all leads to a number of areas where we can make change. We need to insure individuals against the high costs of long-term support services and find ways to lesson their financial burdens.

And as more and more Americans want to age in place, we need to create more livable communities for people with disabilities and for everyone else. And accessible housing is a key part of this.

Medicaid continues to spend most of its long-term care dollars on nursing homes, not home
We need to balance the Medicare -- I'm sorry, I meant Medicaid. We need to balance the Medicaid system between nursing homes and home care.

And I'm not talking about nursing homes versus home care. It's really about reforming the whole financing and delivery system. We need to educate people to plan for long-term care. And federal policy should also promote more consumer choices and types of services and settings.

Providers should focus more on functioning and health-related quality of life and the management of chronic disease, not just on acute and curative care.

And we certainly, as we just heard from Dr. Cooper, need more emphasis on health promotion and disease prevention.

We need better tools to select quality service providers, better measures of provider performance, and very importantly an increased supply of workers providing front-line services.
Finally, family caregivers and many of whom we know are the backbone of our system, providing 80 percent of the care without pay and often with little support.

They need respite services such as adult day care, tax credits or stipends, and emotional peer group support. Nearly half of Americans 50+ are now involved in caregiving at some level. And 13 percent have substantial physical, financial, or emotional burdens as a result.

In all of this we need a system that offers choices to those who need the most care and those who need the least and everybody in between.

Now, we've been working with a number of you in the states to reform long-term care systems. Just last week in Boston AARP Massachusetts stood with Governor Romney as he unveiled the "helping our Massachusetts elders initiative" to help seniors maintain long-term independence in their communities.

And we're proud to support it.
Virginia, Nebraska, Idaho, Ohio, Michigan, Tennessee, and North Dakota are other examples of states where we're working together. We want to expand our partnerships to more and more and states. By working together we can help people achieve independence and a lifetime of better health and dignity. And in the process we will improve health outcomes and reduce health-care costs for our states and for the nation.

Thank you very much.

(Applause.)

MS. JUDD: Thank you, Bill.

Joe Coughlin, now the director of the MIT AgeLab.

DR. COUGHLIN: Good morning and thank you for inviting me. And being from Massachusetts it's great to see the home team colors in more than just one-quarter of the room.

(Laughter.)

DR. COUGHLIN: So you know it's funny.
When policy makers get together or those who comment on policy tend to get together, what do we focus on? We focus in on the policy problems.

Well, what Dr. Cooper identified, we should really think about something we leave off the table.

Do you remember about two or three years ago we were trying to figure out what the successes were of the past 100 years? We named the Internet. We did space travel. We did medical technology.

But that 30-year longevity dividend between dying at 47 in the year 1900 and in your 70's -- and some might even argue in your 80's on average -- by the year 2000 was a great policy success.

And I think what happens is that when we make those investments in sanitation, medical technology -- whatever it is -- we rarely are around long enough, we rarely think we're going to have the discussion of what if a policy actually works.
Well, now we're left with the success of longevity and what to do with it as an opportunity. And yes, it's a challenge. But it's an opportunity. Now, I'm going to cite not an academic or some great piece of research, but Sarah Knotts, who I believe was from Governor Rendell's state before she passed away December 31st, 1999, at 119 years old. If she had lasted one more hour, she would have spanned three centuries if you can imagine. Now, she framed our challenge and our opportunity far better than I could ever and I would suggest many others. She enjoyed her longer life, she said, because she had her health and she could do things.

That's what we need to talk about today. How do you maintain the health? But how do you do things? And that's the essence, if you will, of quality of life. So I want to use that as a guiding format, if you will, as to what we are talking about. But also how it's changing -- how that definition, how that political definition is changing
and then indeed, as promised, how technology is going to actually give you some options that you may not have thought about, but also bring some new partners to the table.

First, health and aging I want to define for you as an expectations game. Therefore it is fundamentally political.

This is not just something that we measure in quality of life and how much it's costing and how many disabilities that we can count out there. But the boomers, which we like to cite. And, you know, as one we all like to say they're the "me generation." Well, in fact, yeah, it is all about me if 76 million people say so.

They expect not just to live longer. They expect to live better. So whether you want to call them boomers or zoomers or whatever it might be, they have the expectation of living longer and living better.

Therefore that makes it political. People
are never angry with you for not giving them something they didn't think was promised. They get very angry if they don't get what they think they have coming to them.

And this generation, whether they're exercising or not, are going to be demanding and depending on that living better part.

Secondly, as we know that it’s the living longer, living better, but they're also doing some things about it.

For instance, a little cited study, at least in the policy literature, but much in the medical literature, is that these folks are already spending $20 billion out of pocket disposal income on alternatives to what's currently out there in health care.

Now, what does that mean?

Well, yes, in some cases they are spending on everything from acupuncture to special mattresses and the like. But that means there's another revenue
stream that I think we really need to think about in terms of bringing innovation to health and aging -- that people are willing to put their money down, for those who have it, to live longer and to live better.

Secondly, who else is, shall we say, watching and very interested? Dr. Cooper brought this up. Employers. And it dovetails very nicely with what Bill Novelli was saying with caregivers.

One in four families in the United States are already providing caregiving to an older adult.

Now, one study suggests that $29 billion is lost in productivity from employers for people coming to work late and leaving early, taking a long lunch to take care of mom, dad, whoever it might be -- a spouse.

Now, I get a little nervous, especially in this town when you start using the numbers like billion. There was a guy named Dirkson up the road that suggested that pretty soon it's real money.

Let's just say it's a lot of money -- 29 or whatever number of billion we're talking about.
Bottom line is: It's not just the boomers who are willing to invest and showing indication that they are willing to put money into their own well being.

But there's also now the employer is at the table fundamentally, not just talking about lost productivity of their own employers; but the

Conference board reported that nearly half, if not more than half of the people today in Fortune 1000 companies are more concerned with elder care than they are with day care.

So we're starting to see an alignment of not just money, politics, and interest, but a real alignment of something that I think each of you can tap in an agenda-setting way.

Third, and I'll leave this because you are all intimately involved with it, is that between 20 and 25 cents on the dollar now is being spent in this area.

And you need to get that under control, as
well as the rest of us who are essentially either enjoying it or paying for those benefits.

But here's the rub. Politics moves by trigger events, things that you can really galvanize attention and momentum around. Now, even though I spend my life studying these things, demographics are inherently boring. They move very slowly.

I can't tell you though we should get excited about something in 20 years or 30 years. You can't get a political coalition together to do that.

But there is now an alignment of fundamentally transforming something that was once personal -- aging and health -- into something that is now public. Employers are interested. Families are interested and the like.

And the reason why it's a possibility is, none of you ever gets re-elected and none of us ever gets promoted for picking up problems you can't solve.

There is now a convergence of technology
that is available. Let me give you a couple of trend lines.

Technology is getting cheaper. It's getting more easy to use or more useable, if you will. It's also showing up in places you don't even think about -- for instance, your cell phone.

Most of you don't know that your cell phone in many cases has a global positioning system chip that is satellite technology that will be able to track you anywhere on this planet within a few meters. You have to decide later on if you want me to do that, but it's there.

It's not only cheaper and useable, but here's the big innovation. There's now becoming a blur between technology and services. That is, it's not about the widget.

So when I talk about technology, don't think I'm going to give you a silver bullet. I'm not. But what's happening is there are now new technologies from the cell phone to a health-care
monitoring in the home that are being developed and
provided by companies and by agencies you may never
have thought about before.

In a moment I'll give an example. Can you
imagine getting your health care from the local
utility company or the local cable provider.

The fact is, that's not something that's
20, 30 years in the future that you would expect us
to talk about when we speak of technology. That's
here today and it's something you might be able to
leverage later on.

So we all go back to our original
profession. And mine, of course, is teaching. Class

participation question: 10 percent of your grade.

Does technology help you do what you do better?

Oh, don't give me this stare. I do call
on people and I can tell you --

(Laughter.)

DR. COUGHLIN: Does it make you -- does it
help you do your job better? Or whatever it might
PARTICIPANT: Sure.

DR. COUGHLIN: And the answer is yes.

You're all wrong.

Technology fundamentally changes what you do. If you use technology and if you use the public's money to invest in technology to help your agencies, your bureaus, and the like do their job better, you're losing your investment on the dollar.

Technology fundamentally does a few things. One, it changes fundamentally the definition of what you're doing. Secondly, it should really change what your goals are.

And third, here's the political dimension.

Technology is now inviting new partners and players at the table and into the definition of the debate of health and aging that were never there before.

So as we think about these different technologies, I want you to really think about really
what's happening now is that there's a fundamental realignment of not just what's being done, but who's there and who you can leverage at the table to talk about.

Let me give you three quick snapshots of technology and what's happening that you might find of interest. And then I'll leave you with something that hopefully you can have as a take-away.

One, the idea of retail health. Have you ever thought about your grocery store, your drug store, if you will, as being part of your health-care provision?

Do you know that drugstores in some parts of this country, as well as overseas, are now going to start planning on seeing more revenue coming from screening services and health services than moving toothpaste and toilet paper? And we had that quoted to us by one CEO of a major drug chain out there.

So for instance, one technology that Governor Kemphorne was using in our lab is the connected
And one of our partners, Computerized Screening, Incorporated, develops these kiosks that you see frequently in drug stores -- your blood pressure, your weight, perhaps glucose monitoring, and the like.

What if you were able to connect that with, say, a telemedical provider, a Mayo Clinic, and a mass general hospital or something like that, where you're able not just to get a checkup, but able to collect the data as to how well you are.

And by the way, what sort of purchases should you make in the store to not only maintain that wellness or to manage that disease? So the idea of the technology is the sensors, the kiosk.

The real impact is the business model and the policy model that all of a sudden tomorrow your pharmacy next door and that kiosk is going to be linked to a health-care provider that provides another outlet of service overall in that first -- as Dr. Cooper was saying, towards prevention rather than
simply managing wellness -- or illness.

So really what we're talking about in that case with another device that we've been working on is the personal smart advisor impacting people at the point of decision.

Now, face it. All of you pretty much know what you should eat, right? But as you're going through the store, there's the paradox of choice. Do you remember when we were growing up, there used to be two or three tomato sauces. Now there are 50. Now there are 1,500.

What would happen if I could take your personal diet, not some generic -- you're 45; you've got diabetes; this is what you should eat -- but your personal diet that enables you to go down the hall with your shopping cart and say, "You know, I'd like this stuff, but it's it says, gee, Joe, a little in the sodium. Try this one." Because I've got news for you, once it's in my cart, I'm eating it.

So if I can catch you before you put it in your cart, you're not going to put it in your mouth.
Third -- I’m sorry, second vision or hallucination, depending on your level of kindness this morning.

(Laughter.)

DR. COUGHLIN: Checkup a day. We can, and in some quarters we do, provide a checkup a day -- not at the doctor’s office. Not a Dr. Wellby. I’m sorry, he’s passed on. In your house.

What would happen if I made the possibility of a telehealth telemonitoring station in the house as ubiquitous as your microwave oven? What would that do?

Well, today for those people who are managing diabetes, congestive heart failure, and very soon now obesity, they are collecting data and they are reporting it up to a doctor or nurse and they are triaging it.

But what’s happening very quickly is that they are going to start giving you information back, not just collecting what your status is and helping you decide -- or your caregiver, which by the way,
guys sitting around the table, it's mostly a 47-plus-year-old woman, who is a caregiver. So that's who the technology is aimed for -- to help mom, dad, a spouse eat well, care, whatever it might.

So fundamentally moving health care from the emergency room, from the doctor's office into the house, into the workplace, where we can not only manage cost, but manage health and aging on everyone's agenda all the time.

So the retail health idea, which is already being done in some places -- in Germany, in Clemmons Markets in the United States. The checkup a day now -- for instance, do you know that Tokyo Electric Power is providing congestive heart failure monitoring to 60,000 people in metropolitan Tokyo with Panasonic hardware? They give you the hardware. They charge for the service.

Because it's a lot cheaper for the Tokyo metro area to manage people in their homes and to have them decide at home that it's indigestion and
not a heart attack and charge upwards of $1,500 for that emergency room visit than it is to have everyone use the emergency room as their first line of defense.

Well, that's Japan. They like technology.
They're really good at it.

Well, even in this country Phillips and Comcast are now starting to think about how they can provide a coalition around the technology, around the service, and who owns access to your access to provide that service in a way that you would have always thought, "Well, I've got to go the doctor, the hospital, or maybe I'll just wait." Wait until it's too late or wait until it costs the rest of us way too much.

And then finally the third, if you will, technology area that I'd like you to think about. And this is -- you'll probably think, "Well, I can see the retail health. I can see the checkup a day.

Now, why is he talking about transportation?"
And the bottom line and the reason why I want to talk about transportation is -- one last question before I start to wrap up. What is transportation?

I can wait a long time. What is transportation?

PARTICIPANT: The movement of people and goods.

DR. COUGLIN: Excuse me.

PARTICIPANT: The movement of people and goods.

DR. COUGLIN: Moving people and good.

You're pretty good. I'm going to put you in my civil engineering class.

(Laughter.)

DR. COUGLIN: Well, it is moving from point A to point B. But let's go back to Sarah Knotts. Remember, she set this up. The idea of maintaining your health and doing things.

Before you can do anything, you've got to
get there first. And transportation -- and in this
country it's driving -- is the very glue that hangs
all those little things that you call life together:
window shopping; yes, going to the doctors; yes,
going to the store; visiting your grandchild.

And the bottom line is is that there is
demonstrated evidence that as people choose to not
get out because of driving issues or because they
can't drive, not only do they emotionally decline,
but they physically greatly.

So there's lots of technology that we are
now developing and we're starting to see in cars.

But it's fundamentally a state issue in
terms of education of how to use these devices and
the like as to how to make the car safer and better
for a lifelong driving experience -- whether it's
collision warning, night vision, and the like.

But there will come a day for some where
they will not feel comfortable or able to drive. And
for those, each of you are spending incredible sums
of money on alternative transportation for older adults: anywhere from a $1 ride paid by the user going upwards of -- ready? $17 to $44 a ride for that paratransit trip to get to the doc or whatever it might be.

The feds estimate that they are spending at the federal level upwards of $8 billion at Health and Human Services just on alternative transportation alone.

But there are new technologies out there to help you run those vans better, more efficiently, more effectively to squeeze both the health-care dollar.

But my emphasis is to get Sarah Knotts and others to get out of the house to stay healthy and engage in doing things.

Let me wrap up and leave you with something. You know, what can I leave you with? Think about it. What does government do? And I'm not asking you. You live it every day.
The power of government is three things really: identifying issues, setting the agenda, directing money or spending money. I want to leave you with, three, if you will, P's to think about.

One, in the spirit of Dr. Cooper, focus on prevention. How can we get people to really start thinking more about preventing not just illness in the future, but thinking about how to stay well for a lifetime?

Discussions like this usually spiral down into the glass is half empty. I want to tell you the glass is actually three-quarters full.

If we can focus on that three-quarters of the population that is aging fast and keeping them well and investing a little bit of money now, we're going to save a lot of money down at the other end, which is coming a lot faster than the usual 20-, 30-year scenario.

Secondly, focus on public empowerment and public responsibility. That is, encourage people and
find ways to establish legitimate, accepted, trusted sources of information to guide their health decisions, their eating decisions, their exercise decisions so the idea of using the technology, if you will, to actually put the responsibility generally where it is is not only most felt, but where it is most powerfully adjusted -- in the home.

And then lastly -- and this is the one that you can act on that should not cost as much money as some of the others -- and that is partnering.

Focus on partnering, encouraging retailers to be more innovative on how to adopt a lot of these technologies in their stores in your states to encourage health -- not just for health and aging.

But here's the kicker. If you can help somebody decide what to eat because they're 70 and managing blood pressure, you just helped a little kid who's managing a peanut allergy as well. So health and aging is about aging and health throughout the
life span.

So encouraging retailers to take a better look, helping employers either with tax incentives or at least agenda-setting legitimacy to get into the business of wellness in a more aggressive way.

And then finally, here's the backside of the spending the money. Tax incentives -- much to what Bill was talking about with technologies in the home -- tax incentives for adults to actually buy things for their home today as they are aging as a lifestyle choice, not as something that's an assistive device. Tax incentives for companies to do R&D to get these devices developed, deployed, and into your home.

I'll leave you with one last thought.

Does anyone here think that the microwave oven is a piece of assistive technology? No, it's a lifestyle.

But if you're an older woman typically and you now live alone because your spouse is deceased,
your kids live too far away, it is no longer a joy to
prepare a meal. That microwave oven is probably the
best piece of assistive technology we have in many of
our homes to provide a convenient meal to insure that
she eats.

We want to develop technologies, services,
and programs that make these things a lifestyle
choice so that people don't come to you when they are
75 and say, "Gee, I need this. You should reimburse
it."

But I would like you to leave thinking
that the glass is three-quarters full. You're 45,
55. We'll help you make the choice and spend it now
so it's in place when you are 75 and 80.

On that note, I'm going to close with this
one comment and then we can go to discussion.

What has been missing in an area that we
know has been coming for many years -- aging, health,

aging and technology -- is a policy entrepreneur, if
you will.
That is, this is not an issue that benefits from a massive trigger event of an accident or a disaster or something that galvanizes political power and coalition building.

We are now at the point where we have the demands from the public. We have the availability, the technology.

And I would like to submit that Governor Kempthorne and the National Governors Association are now seizing this as an option as an area that we need to pursue.

Let's see if we can maintain that momentum and have it spread throughout the 50 states and seize the opportunity today before it becomes the crisis that we'll wake up to 20 or 30 years from now.

And by the way, 20 or 30 years from now, it will be too late. Thank you.

(Applause.)

MS. JUDD: Thank you, all. I'm going to ask one quick question to get our conversation
rolling. And I guess I would direct it to Bill Novelli.

I felt like I was hearing a slightly different message from Joe and from Dr. Cooper. Dr. Cooper said in the 90s a lot of baby boomers stopped exercising. Joe Coughlin said he has seen surveys suggesting that baby boomers are willing to spend money on their well-being. So are we looking for the silver bullet?

MR. NOVELLI: I don't think we are looking for the silver bullet. It is interesting to see what exercising and physical activity really look like in this country right now.

You probably know that the most sedentary population in America are people 50+. So those boomers who were jogging around when they first Dr. Cooper's first book -- some of them are keeping it up, but many of them have stopped.

And what we need to do is we need to say to ourselves, how do you get people active? And it doesn't have to be really extensive exercise. CDC
shows us that moderate exercise helps a great deal.

Now, in part based on Dr. Cooper’s work, we've got two test sites going -- one in Madison, Wisconsin, and one in Richmond, Virginia. And in both those two test sites, we have been promoting physical activity among 50 and older. And in both cases we've changed behavior.

Now, this is on a fairly large level. These are two metropolitan areas. But we spend a lot of money to do it.

And now we're going to try to replicate this program in other sites and try to make it at an affordable level so that we can bring it to national scale.

We think if we have partners to do this, we can make a real difference. And you don't have to make a huge a difference. Ten percentage points -- you know, the -- I think it's about 33 or something like this -- 28 percent of people claim they do regular physical exercise.
If we got that up 10 or 15 points, it would make a huge difference. And I believe very strongly that it’s doable.

MS. JUDD: Dr. Cooper, what could you tell the governors to go back to their home states and tell the baby boomers there how to get more active? How can they do it?

DR. COOPER: First of all, our studies published in 1989 show that if you just go out and walk briskly for 30 minutes 3 times a week, covering 2 miles in that period of time, you can reduce death by small causes by 58 percent and increase your life span by 6 years. It doesn’t take that much.

That’s why the surgeon general in 1996, former Surgeon General Satcher, said collectively we should get 30 minutes of activity most days of the week. That’s number one.

Number two, with the explosion of obesity -- and I have the latest chart here from 2002 showing the number of states that have more than 15
percent, more than 20 percent, or more than 25 percent of their people obese --

We now have 3 states that now have more than 25 percent of their population above 30 pounds overweight -- the states of Mississippi, Louisiana, and West Virginia.

You find primarily the western states are still keeping their weight down. The eastern states have all gained weight.

But if you just lose 10 percent of that body weight, you'd get an exponential return on your investment as far as your overall state of health is concerned.

Our studies in Dallas over the last 33 years have been quite successful to the extent that we have motivated people to start lifestyle changing programs and keep them up.

Along with that we have seen that you're going to have to go through a four-step approach to do that. Number one is an evaluation.
Number two is an education motivational experience.

Number three, give them implementation progress for losing weight, change their lifestyle, quitting smoking -- whatever it may be that is safe, effective, and realistic.

And number four, get them back. That's the four-step approach that we use with great success.

I noticed and I was very pleased to see in the current issue of the Archives of Internal Medicine they are encouraging physicians to do two things when a patient comes to the office:

Number one, get their body mass index. You take your body weight in pounds and multiple it by 703, divide it by your height in inches squared. Are you less than 25, which is normal weight? Are you 25 to 30, which is overweight? Are you above 30? You are obese. That's number one.

The second thing that the Archives
recommended is measure the waist circumference of the individual. Because we know if that man's above 40, that woman's above 35 inches, that's typical of a metabolic syndrome that carries with it a marked increase risk of diabetes and also a risk of heart disease.

And thirdly is to give that patient a prescription for exercise. That's recommended by my medical colleagues. That's brand new.

I'm afraid that for far too many years preventive medicine has been the center of the medical specialties because there's no profit in health. The profit is in disease.

Is it -- finally, on one of those charts that I didn't show you, look at the cost of health-care, which happened to our people, once they embrace the concept of fitness and wellness.

In a period of 10 years those who remained in the bottom category of fitness, average cost:

$419,000.
But those even past 40, past 50, past 60 years of age, who got out of the bottom category of fitness -- just one block on the five-block fitness scale -- reduce the cost of hospitalization by 53 percent to $229,000.

But it is your responsibility. And keep in mind, as I said, you grow healthier as you grow older, not necessarily the reverse. Who's responsible for that? You are.

How do you slow down the aging process?

Number one, eliminate cigarettes smoking. Number two, eliminate inactivity. And number three, eliminate obesity.

MS. JUDD: Governor Sanford.

GOVERNOR SANFORD: Yes, ma'am, the follow-up on the statement of Dr. Cooper. Your initial -- I think you closed your initial statements with the words, "We spent too much on desperate measures that prolong death, not life." A pretty strong statement.

My question, I guess, to you is, given
what you've just walked through, which is it's fairly clear what would help with health. My question really is on the system itself and that is, what do we incentivize?

Can we get those things that you're talking about -- whether it's cigarette smoking changes, changes in terms of people's eating or exercise habits? Can you get that in the current system?

Or is the system really designed to, in essence, subsidize inactivity and all those things that you are arguing against?

Can you get there without medical savings accounts or some other very substantial change to the healthcare delivery system at the state and federal level?

DR. COOPER: I don't believe so. In the state of Texas the Commissioner of Agriculture, Susan Colmes, has developed a program whereby they would give to the schools those children who meet a
standard as far as fitness and weight -- will give
them $30 per year for that student -- a subsidy of
some type.

As some of you know, I was a candidate to
become surgeon general since the President has been
my patient since 1988. I proposed a monetary
incentive to the American people to keep themselves
in shape.

To the extent that if their body mass
index was under 25, give them a $250 deduction off
their income tax. If their blood pressure is less
than 140/90, $250 more. If they didn't use tobacco
in any form, $240 -- no, $250 more. If their
cholesterol is less than 200, another $250. That's 1
$1,000 deduction off your income tax, the equivalent
to having one child.

I can assure you, with those four factors
being major factors in disease, in chronic disease in
America today, if we could implement those programs,
I think the return in your investment would be
unbelievable.

There was a column on that in the
Washington Post and it was headlined, "The Cooper
Plan Would Cost the Internal Revenue Service $60
Billion" -- "B" as in "boy."

It went on to point out we have 100
million Americans who are overweight. We have 60
million Americans suffering from high blood pressure.
50 million Americans are smoking. At least 40
million Americans have high cholesterol.

He also said that in 1990 we paid $700
billion for healthcare and in 2002 we paid $1.4
trillion. He said this: "80 percent of the diseases
that we have in America today are the result of an
unhealthy lifestyle."

Putting all this together, the big
headlines at the bottom of the column said:

"Considering the above, $60 billion is a real
bargain. A monetary incentive is one of the best
things we can do."

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I've used that in my clinic in Dallas for the last 12 years. It's called the life links program. And we award our employees $400 at the end of the year if they meet a standard, a standard of fitness -- attending sessions on health, whatever it may be -- $400.

It's not discriminatory because you can attend lectures -- wear your seatbelt, have a smoke detector in your home, all the basic things. $200.

Meet a standard as far as their weight, their blood pressure, their cholesterol -- whatever it may be -- another $200.

The first year I started that was in 1991.

I gave to the 187 -- my 350 employees $37,000 in money in bonuses. Compare the previous two years.

We reduced our healthcare claims $119,000.

I think the incentive that has continued the last 12 years is equally successful. I think the incentive of some type has to be monetary.

MS. JUDD: Governor Huckabee.
GOVERNOR HUCKABEE: Dr. Cooper, I was very happy to hear you talk about the incentive program because we're trying to do some things in Arkansas that would be just that -- starting with state employees and then moving to the Medicaid population and ultimately into private sector.

And if you could share that data -- or if it's available to us to go back and to use that as a justification -- whether it's tax incentives, reduced health-care costs for employers.

Even the thought that we know that cigarette smoking on the part of an employee -- just giving them smoke breaks and the additional health cost and their time out being sick is a month a year in productivity loss. So if we can get them to quit smoking, we can see dramatic increases.

We last year passed a body mass index for every student in the school. It was very controversial. And we had to fight to keep it in place because a lot of parents thought we were going to post the BMI on a board and every kid would be
embarrassed, which is not the way it goes.

But I think what we've heard you say today is that this has got to start with the families and with kids. And that's certainly something we want to do.

Give us some tips on -- if you were a governor today -- and you're probably very fortunate you're not --

(Laughter.)

GOVERNOR HUCKABEE: But if you were a governor today, particularly how do you move this down to the children's level because if they can grow up with a healthy lifestyle, then we don't have to correct their behavior when they're in their 40s, which obviously would be a big boost.

DR. COOPER: I appreciate your comments there. Last week, 10 days ago I was asked to give a testimony before the House Subcommittee on Education Reform, looking at this subject of childhood obesity and looking at the school lunch
alarmingly fat as far as our children. We've had a
two- to threefold increase in obesity since 1980 and
our children are 6 to 19 years of age. We are now
seeing unprecedented diabetes in these children and
even -- hepatitis. This is already -- because of
obesity.

The study said, too, that every child born
after the year 2000 -- 1 out of 3 will come down with
adult-onset diabetes before they are 14 years of age.
If you come down with diabetes before you're 14 years
of age, you're shortening your life span by 17 to 27
years.

The studies are now saying that this may
be the first generation in which the parents outlive
the children.

We do feel that the school lunch program
is some place we should start. We know that you
should be consuming 5 to 7 servings of fruits and
vegetables every day. Average American adult, 3.1.
American teenager, 1.6.

We need to concentrate on the school lunch program. We need to concentrate on physical education programs in the schools, have incentives for them -- whatever it may be.

In the state of Texas we passed a law in 2002 so that children K through 4 must have 30 minutes of exercise 5 days a week. We made it mandatory -- the first time in 8 years that it had been mandatory. But then we found we had 800 elementary schools that had no PE teachers. We don't have the funding for that.

We've got to go back and regroup. What's most important for our kids? Education? Computer technology? Or the fact that when the child spends $900 per year in school but 1,100 hours watching television, playing video games. That's the problem.

But a point, too, I'd like to make along the line of what you said is we are finding that
corporations are finding the -- physical fitness a good business. And we find more and more corporations are developing a worksite wellness program.

Here's a chart I brought with me that showed in corporations from 50 to 59 employees up to

750 employees -- this is 1985 versus 1992 versus a target by 2000 -- I want you to see that in those that had 750 or more employees, the target for 2000 was up here. By 1992 they had already met that challenge. Why?

Because for these reasons. If a corporation becomes involved in a worksite wellness program, they found, number 1, it reduces the cost of health care due to disease. Number two, reduces absenteeism due to disease. Number three it increases productivity of your employees.

Number four, by offering the worksite wellness program -- whether it's at the state level or whether it's at the school level, the corporate
level -- it helps you recruit the best employees in
the marketplace if you offer them a worksite wellness
program. And number five, reduces turnover among
employees.

Those are five proven facts. And I'm
delighted to see that in some states already the
governors are implementing worksite programs for
their employees to try to keep the cost of health
care down.

Our Texercise program we're very proud of.

I'm the honorary state chairman of that, which was
concentrating on senior citizens and trying to get
them involved.

We've got a movement going. In my 33
years in this field, I'm surprised to see that just
now the government is beginning to embrace this
concept and try to follow through.

Because if we don't, once those baby
boomers start turning 65 years of age in 2011 and 67
years of age 2013, what effect is it going to have on
Social Security and Medicare? We won't be able to afford it.

MS. JUDD: We can't have this conversation without talking about retirees' financial planning. If they don't save enough, they become a greater burden on the state.

Bill Novelli, the National Governors Association estimates that half of all workers have saved less than $50,000 for retirement and that the cost of a semi-private room in a nursing home exceeds $57,000 a year.

If baby boomers haven't started saving in a substantial way already, is it too late for them?

MR. NOVELLI: You're absolutely right about those abysmal statistics. Baby boomers do have terrible savings habits, certainly compared to their parents.

But we certainly can't consider that it's too late. I call your attention back to this 10-year social impact agenda that I was talking about. And
under "economic security" you'll see that we're talking about "Americans accumulate and effectively manage adequate retirement needs." We can focus there and we can make some differences there.

It goes into savings. It goes into educating people about buying long-term care insurance -- also making sure that their pensions are adequately protected. And I'm talking here, of course, about their corporate pensions.

About half the companies in this country have payroll deduction savings plans, 401's and so forth. We can expand that.

But then for those who, in essence, want to work longer or have to work longer -- and not everybody is unhealthy. More and more people today are more healthy than their parents were.

And so what we need to do is, again, focus on the workforce, make it possible for workers to work longer. Many of them have to. Many of them want to.
In this country we've already reversed the process so that there are more older workers in the workforce today than there have been in earlier years.

And the retirement age is beginning to inch upwards. If we can get employers to really value older workers -- and I believe we can do this -- and we put all these things together in terms of savings, pension understanding, long-term care insurance, and a focus on older workers, we can make differences -- and it's not too late.

MS. JUDD: Governor Kempthorne, I think you've talked about the idea that once people have stopped saving for their children's college education, they think I'm done. That's enough. In fact it's just the start of what should be another fund for their own retirement.

CHAIRMAN KEMPTHORNE: Jackie, you -- incentives so that young families can begin their children's college tuition fund. And there are
financial incentives, tax deductions.

I have heard different families say that when they've made the last payment to their children's college fund, they now have new disposable income and they then wonder what they will do with it.

I am suggesting that when you make your payment to your college tuition fund for your children, you should make your first payment on your own private, personal long-term care program.

And therefore I've recommended to the Idaho legislature that we now provide a 100 percent tax deduction for a long-term care premium payments on your policies.

I think that we should all look at what we're currently providing for the college fund and duplicate that on long-term care financing. And they should go hand in hand.

Because when you consider this demographically, we now see a lot of families that
are waiting later in life to have their children.
And so that when you may need as a parent to have
your children help you, they may not be of income-
earning age.

Why saddle them with that? If you're
going to provide a college fund to educate them, give
them additional freedom -- and that is to have your
own financial planning for long-term care so that
they don't have to be burdened with that.

MS. JUDD: Questions? Yes.

GOVERNOR PAWLENTY: No, but I imagine that
if we were gathered here 10 years ago, at least in
certain states, some of the same themes would have
been emphasized. Exercise is really important; it
has profound benefits. We need to get ready for the
baby boomers and get ready with adaptive strategies
and new technologies. And they'll have tremendous
health benefits and in the long run we'll save money.

In Minnesota -- and we were one of the
first states to institute HMO's -- we have the most
HMO'ized health-care market in the country.

And the promise of that health-care delivery approach was we were going to put great emphasis on preventive. We were going to, you know, capitate payments and the prevention effects were going to be wondrous.

And of course they took the low-hanging fruit and health measurements and particularly cost measurements have not subsided. They continue to increase at unsustainable pace.

So if you accept the premise that people know what you're talking about -- they agree that healthy lifestyles are good, exercise is good, we need to prepare for our retirement and the effects of the baby boom generation retiring -- what explains the fact that the actions that you're proposing don't take place?

Do we have to incentivize with money? Is it cultural?

These are not new concepts. If you go ask
Americans do you think exercise is good and should you do it? Unless they, you know, recently returned from Pluto, they would all say yes, they know this. They know what you're talking about, but they don't do it.

So what can you say about the cultural or promotional elements to getting some progress?

DR. COOPER: I'd like to comment on that. There was a study done a few years ago and they were asking parents if they thought their children were overweight? These are primarily elementary schools.

And 95 percent of the parents said no, my child is not overweight, because either the parent is comparing that child with their weight or the weight of Little Johnny down the street.

We must have a more sophisticated evaluation to determine who is and who is not overweight. I think the government should be involved in that -- in evaluations of body mass index, percent body fat. And then along with that, as we've said, some type of financial type of
But I firmly believe, Governor, that the program we’ve used very successfully in the last 33 years in Dallas -- there were over 80,000 patients -- has been that four-step approach: evaluation, education, motivation, implementation, and re-evaluation.

For example, our physicians see only four patients a day. They spend an hour and a half with each patient. When does the average patient spend an hour and a half with a patient (sic)? They pay big dollars for this.

And 80 percent of this is not paid for by insurance. But 60 percent of our patients are corporate sponsored. Those corporations realize that that investment that they make -- and that employees is one of the best investments they can make or that they can invest in their health.

I challenge the insurance companies. And it’s beginning to change. Medicare is beginning to
change. They're beginning to allow this due to their reform. It's the prescription drugs and all.

Well, a lot of people past 65 years of age to have that physical examination. That's the first time it's ever happened. They've been approving colonoscopies. They've been improving mammographies. They've been improving the PSA.

We've gradually added that over the years because that first step has to be an evaluation. It's amazing to me, if I can demonstrate how a person compares with their level of fitness compared to other people their age and their sex how motivational that is.

It's the same with the children. It's called the fitness-gram test. We have over six million kids involved in this now. We test six different things. It's a computerized test of aerobic capacity to strength, flexibility, percent body fat. That report goes home to those parents. And once those parents see how their
child compares to another child the same age, it's very impressive.

One point that has been ignored. I know Governor Schwarzenegger isn't here. I know him quite well. But in 2001 they did a study in California looking at levels of fitness measured by our fitness gram versus a Stanford academic achievement score, the middle capacity of these children.

They looked at fifth graders, seventh graders, and ninth graders. Along the horizontal they had the 6th test of fitness they had to pass. On the horizontal was their academic achievement.

And they found math and reading a perfect relationship between measured levels of fitness and academic achievement. Those who could pass only one fitness test ranked the lowest in the achievement. Those who passed all six ranked the highest.

And that was true in fifth graders, seventh graders, and ninth graders. And there were 953,000 students in that study.
But the other thing they discovered, too - those kids who could pass only 1, 2, and 3 of the fitness test were the fat kids.

So what are we -- not only a generation that's going to be susceptible to diabetes and high blood pressure and all the various things, what about the academic achievement of our children in the future if we don't start concentrating particularly on getting our kids in shape?

MS. JUDD: Thank you, Governor Walker.

GOVERNOR WALKER: (Inaudible.)

MS. JUDD: Can you turn your mic on, please.

GOVERNOR WALKER: Is there any governor that has sponsored a model program in your view that has worked?

And is there correlations of success in that program compared to other states where they have not had those programs?

DR. COOPER: Yes, in fact the only state
that has a mandatory K through 12 requirement for
physical education historically has been the state of
Illinois. And I would say the best PE program in
America today is in Naperville, Illinois -- a program
by Bill Lawler.

And I've had that man go to physical
education programs in schools around the country,
trying to share with them the program that's he's
developed, which is without a question the best PE
program in America.

So the only state has been Illinois. We
do have the Texercise program. It's sponsored by the
Department of Age in the state Texas, in which we
concentrate on having older people get involved in a
program. But that's just scratching the surface.

And I'd say that the only state today that
has any sophisticated program would be Illinois.

MS. JUDD: Governor Gramholm.

GOVERNOR GRANHOLM: Just a suggestion for
some of the governors who may be faced with financial
difficulties and want to get something like this going.

We have appointed for the first time in Michigan's history -- and I don't think any other state has this -- a state level surgeon general. And we've done that with the help of the hospitals. They've funded her. And she is -- her three goals this year are smoking cessation, obesity, and I've asked her to look at teenage pregnancy prevention as well.

It is a great way for this item to get high on your list. And while we go through these tough budgetary times, it's a way to use the hospitals as a partner, who all have the exact same agenda.

MS. JUDD: Thank you. Governor Wise.

DR. COOPER: Let me comment on that just one second, please, because she said the concentrating on the three things. You said smoking and then obesity and childhood pregnancy. I would
strongly encourage you to consider in your state that
you add inactivity to that as an evaluation, okay?

GOVERNOR GRANHOLM: That's in obesity.

DR. COOPER: Because our studies clearly
show you're better off being fat and fit than skinny
and sedentary. I am in no way endorsing obesity.

(Laughter.)

DR. COOPER: I usually get applause for
that.

MS. JUDD: Everybody feel better?

(Laughter.)

MS. JUDD: Governor Wise.

GOVERNOR WISE: Thank you. Dirk, having

heard this discussion and being what's known now as
an early bloomer -- that means right at the forefront
-- I move that we adjourn the governors only lunch to
the health club here in the hotel.

(Laughter.)

GOVERNOR WISE: But on baby boomers let me
make an observation and then ask a question. The
observation is, as the governor of the state with the highest age median in the country -- about 38 years old -- we have observed and we're getting ready to release shortly a report on the status of the baby boomer.

The concern I have is that while so much of our discussion focuses on the baby boomer as we move through this demographic pipeline and what happens when we're 60, 65 and the needs there, we're learning that our baby boomers in many ways -- and I don't think this is unique to West Virginia -- our baby boomers are experiencing a series of events right now that may make it much difficult for them to be prepared in the ways that we're talking about.

Jackie Judd talks about savings. But because of downsizing in various industries, if you were in the airlines industry, a white-collar employee after 9/11, you probably lost your job. Because of what has happened in the steel industry, you've seen your retirement go into the
The PBGC in the last three years, because of the economic situations it has faced, has gone from a $5 billion surplus to an $11 billion deficit because of all the new entries into this.

And when you go into the PBGC, yes, you get a reduced pension, but you lose your health-care benefits entirely.

So all of a sudden we’ve got a group that’s somewhere between 50 and 62 that were at the height of their income-earning potential and thought they were the most secure, and now they find themselves at the weakest part.

What I have learned as well as one who will be going out on the job market myself is we’re not as attractive at 55 as we were at 25, either from a healthcare standpoint of being able to get insurance or even from employability.

And, Bill, you talked about the aging worker. And, indeed, many of these are productive
jobs, but then many of them are people that have been
downsized or seen their economic security reduced so
significantly that they're working at the fastfood
restaurant or they're working someplace else.

So it seems to me that we also need to be
focusing on the boomer who exists today as, yes,
they're moving along.

And whether they're the white collar
worker, the steel worker, the whomever, the low
income worker -- I really am concerned that we have
an increasing number of our generation out of the 76
million who are not going to be prepared to even make
this transition that we're already talking about.

The problem today for many of our boomers
-- it's not in the future. And I just wonder, we
spend a lot of time studying the boomer who is going
to be retired as opposed to the boomer who is right
there right now facing incredible economic pressures.

One final note. I learned a new

phenomenon: the sandwich boomer.
The sandwich boomer is the one who has his or her parents living in the home or is supporting the parents and yet at the same time now has the kids, who are having trouble making it now that they're out of school or out of college. They are living -- they want to come home too.

And so this is a boomer who is supporting a generation on either side and often faced -- and up against it themselves.

I just wonder where we're going in terms of dealing with the boomer today.

MS. JUDD: Bill.

MR. NOVELLI: Thank you, Governor, for bringing that up because it is a really significant problem across the country. First of all, there are plenty of baby boomers, let us say, between 50 and 64 years old, who are underemployed or unemployed who are downsized.

And this relates to the older worker issue that I was talking about a little while ago. There are -- you know, we can talk in generalities.
are fewer younger workers coming into the American workforce, into the pipeline.

And so it's almost inevitable that older workers are going to have more opportunities and be more valued.

And yet a lot of employers have not come to grips with this. Many employers are developing strategies to keep older workers. And at the exact same time a lot of employers are trying to kick them out the door.

So it's a very fluid situation right now. And it's something that really has to be dealt with.

We have developed an insurance program for people 50 to 64. It's very difficult for people in that age group to get health-care insurance if they are unemployed or underemployed. And we're trying to do something about that.

In addition, again I go back to our agenda. We are trying to expand our program to train low-income older people to go back into the
And we'll place a fair number of people this year. And we can use that as a way to be a catalyst.

So it's an important problem. It's something to deal with. And when he talked about the sandwich generation, we even talk about the club sandwich, which is boomers who not only have kids at home, but sometimes grandchildren, and not parents, but sometimes grandparents. So this is a big issue.

MS. JUDD: Haley Barbour, a quick question?

GOVERNOR BARBOUR: For Jack I just -- on behalf of Governor and myself I just wanted to thank Dr. Cooper for saying it's better to be fit and fat.

(Laughter.)

GOVERNOR BARBOUR: I don't know what Governor Richard is laughing about over here.

(Laughter.)
GOVERNOR BARBOUR: Anyway I --

MS. JUDD: I could put you all into this ring here if you want.

(Laughter.)

GOVERNOR BARBOUR: But I think a point that really needs to be emphasized for people is the age -- is the point you made to me a few years ago. And that is it doesn't really take much to improve your lifestyle, to improve your health status.

If you go from the bottom quintile to the second quintile, if you -- as you said a while ago, if you walk 3 times a week 30 minutes that the health improvement -- well, why don't you explain that to people because I think a lot of people think they have to go back to running 30 miles a week.

DR. COOPER: I appreciate that.

Congratulations, by the way. I've known you for many years.

GOVERNOR BARBOUR: Thank you.

DR. COOPER: Our studies clearly show --
we published this first in 1989 and it's been

classified as the landmark study of this century. It

actually questioned how much exercise is necessary.

It was published in the Journal of the American

Medical Association.

We did have a group of 13,400 healthy men

and women we followed for 8.6 years and looked at

their levels of fitness versus all causes of

mortality, divided them, as you said, into quintiles

based upon their objective measure of fitness by

time on the treadmill, a highly repeatable test.

And we found those that in the bottom

category of fitness versus the top category of

fitness, they reduced their deaths from heart

attacks, strokes, and diabetes, and deaths from

cancer by 65 percent and increased their life span up

to 9 years.

But those who just went from the bottom

quintile, as you said yourself, one quintile, they
reduced death small causes by 58 percent and
increased their life span by 6 years.

And by the way, that article -- anytime an
article is published in the peer review journals, if
it's referenced 50 times, it's considered a classic.
That article has been referenced over 1,000 times.
So it is a standard of what is enough.
Yes, and as I said, it's dependent upon
the intensity and -- of the activity. If you don't
get that bottom category of fitness up just one block
on the fitness scale, you walk your 30 minutes and
cover 2 miles. That's pretty fast.
Slow it down. Walk 2 miles in 35 minutes.
Do it 4 times a week. Or even slower -- standard
speed of walking 2 miles in 40 minutes and do it 5
times a week.
Let me elaborate on something too.
Published in 1997 -- in the year 2000 rather, the
Harvard nurses study. And they were able to show
those 84,000 women, who were followed for 14 years -
- if they met these 5 standards: body mass index under 25; they didn't smoke over the 14 years; followed an American Heart Association type of diet, not an Atkins diet, a high protein diet; consumed no more than one-half a drink of alcohol per day, and walked three hours a week at 20-minute-per-mile pace -- over the next 14 years they reduced deaths from heart attacks by 75 percent and reduced deaths from strokes by 82 percent.

That's lifestyle. That's proven. That's fact. That's published in the scientific literature. That wasn't a medication. It wasn't statin drugs to control their cholesterol or control their blood pressure. It was lifestyle. It was very, very important.

I'd like to change the subject just a second there if I could.

MS. JUDD: Dr. Cooper, we're racing to the finish here. We're running out of time. Can I recognize one more governor? Governor Riley.
GOVERNOR RILEY: Dr. Cooper, I read in one of these little pamphlets total long-term care is $172 billion a year. And then on the corresponding page it says, "The cost for diabetes alone is $105 (sic)."

If you changed your lifestyle in this country today, how much effect would it have on diabetes? How much of it is genetic? And how much of it is just totally lifestyle?

DR. COOPER: Of the 17 million diabetics that we have in America only 5 percent are type I's. 95 percent are type II's; that's adult onset.

In the vast majority of cases we can take an adult onset diabetic who is overweight and out of shape and get them in shape. We can control their diabetes even without medication.

So to answer your question I would say that 95 percent of the diabetics are the primary result of lifestyle; 5 percent are genetic.

MS. JUDD: Okay, thank you all very, very
And it was an important and interesting conversation. I hope you all go home with ideas.

(Applause.)

MS. JUDD: Bill Novelli, Joe Coughlin, and Ken Cooper, thank you.

(Applause.)

CHAIRMAN KEMPTHORNE: Let me thank Jackie for doing an outstanding job as our moderator.

(Applause.)

CHAIRMAN KEMPTHORNE: Before we conclude this panel, I would like to ask one more question. And, Dr. Coughlin, I believe you brought this up and made this point that by facing this issue head on as we now have done as the National Governors Association, that we must now maintain the momentum.

My question for each of our three panelists -- and Jackie if you wish to respond, I would certainly invite you -- but if based upon the knowledge that you have now shared with us, plus the additional information, if the 50 governors of the...
states plus the territorial governors -- if we recognized the power that we have that next January, when we give we give our respective state of the state messages and we include some component piece to deal with long-term care, that's powerful.

But if instead we choose to walk away from this issue and it is just lost because there's something else that comes on the radar screen, what are the implications of that?

How important is it for the governors of the United States of America to deal with this in their upcoming sessions?

Bill, let me start with you.

MR. NOVELLI: I would argue that dealing with long-term care is one of the single most important things that the governors can do. And most especially it's this idea of balance and of really trying to focus on home and community-based care.

And I say this not just because of quality of life, as important as that is for all Americans,
but I say this because I really believe that there are some very substantial costs to be saved. And in this era of deficits and tight budgets there is no better way to really examine cost and quality of life by really trying to refocus and reformulate the long-term care opportunities that we have.

CHAIRMAN KEMPTHORNE: Okay, thank you very much. Joe.

DR. COUGHLIN: I'd put this on two levels. One, I mean, fundamentally government is here to take the long view because as individuals, as corporations, long-term vision is not really part of the job description. And so in that part I think it's not just something that you should do in terms of economic priority or political priority.

But as an elected official you have the obligation to take the job as trustee -- not just as delegate as to what the people are excited about at
the moment -- but to take the trustee position of
what is the long-term vision and good for whatever
state you are governing.

And so not to make this part of, say, the
state of the state in January or a priority that
touches people in every place they live -- their
home, their car, their workplace, and the like -- is
to really forego an opportunity that your future
governors will have to live with and will make
today's discussion look like a trip to the park in 20
years. Okay?

CHAIRMAN KEMPTHORNE: Very good. Dr.
Cooper.

DR. COOPER: Governor, I would hope that
we can motivate more older people, people past 65, 67
years of age to continue working, paying taxes,
income tax -- whatever it may be.

Because along with continuation of regular
work and some goals and objectives in their lives,
their health stays at a much higher level. Once a
person stops working and retires, they almost invariably go into retirement syndrome and then start having medical problems.

Even the possibility of some type of financial incentive, reduction in taxes, whatever it may be, to keep them working, keep them paying income tax, keep them paying Social Security taxes, keeping paying Medicare taxes as I'm doing at 73 years of age, working 60 to 70 hours a week. And I haven't had to miss a day from illness since 1956.

But again, the point is you need more people doing what I'm doing if we help to control that cost of health-care in the future.

CHAIRMAN KEMPTHORNE: Very good. And, Jackie, I know you're working to enlighten journalists throughout the world. Your thoughts on this?

MS. JUDD: Well, I would say that as a former health-care reporter that health care and controlling health care costs are the issues of this decade and probably going into the next decade.
And one thing that struck me as I heard the discussion today is that a lot of what has been discussed, suggested, proposed doesn't require regulation. And it doesn't require huge amounts of money.

What it requires is the use of the bully pulpit and use of public awareness campaigns in reminding people that there is a considerable amount in their own power that they can do.

CHAIRMAN KEMPTHORNE: Very good. Thank you so much.

As we conclude this discussion, again an outstanding panel and moderator. I think you have helped us immeasurably.

When we think about Dr. Cooper and his plan of incentives, again that's the sort of thing that we will then incorporate in the next CD that will be presented to all of us in July so that you can take that to your policymakers back in your respective administrations.
We talk about the Texercise program, but that's aimed at the older generation. And I think all of us need to begin thinking about the younger generation.

I know that when I visited with the Administration on Aging, the representatives of the Center for Disease Control in Georgia, and I asked them what was the age of their constituent target, they said in all likelihood by statute it's age 60 and older.

But I said, "What are some of the chronic diseases that you're dealing with?"

And they said, "Well, type II diabetes."

And I asked them, "Do you really think that type II diabetes starts at 60?"

"No, it doesn't."

And Dr. Cooper I think you'd affirm, it's the little 10 year old that's sitting on the couch. We have these opportunities in different grocery stores and drug stores where you can go in

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and have a bone density test. I would suggest that probably those who are taking the test have waited too long before they started taking the test.

You can, through supplements, increase your bone density. But if you wait until you think you're a senior citizen to begin being aware of this issue, it's too late.

If we can prevent the falling of elderly - because often with the elderly there is a frailty and there's the breaking of a bone. Then there's hospitalization. And unfortunately with hospitalization too often there is pneumonia.

And so I think the figure I saw is that just this aspect of Americans falling and breaking a bone among the elderly is a $7 to $8 billion proposition. We can deal with that.

Dr. Coughlin, you talked about the partnerships. And, again, the kiosks that I experienced at your AgeLab were very impressive.

But just think of the partnership, whether
it’s a grocery store or a drugstore, which may become
the weekly location where you go and check your
latest statistics. But you may have an insurance
company that will then partner with that store.

And if in six months you’ve been able to
bring your blood pressure down, you may get a $25
gift certificate. That will be incentives from the
insurance company that’s trying to keep rates down.

Incentives.

Bill Novelli. Think of AARP’s 35 million
members, the network that you can utilize as you do
with good information and by partnering as you have
allowed us to do with the National Governors
Association, with the research that you conduct,
combining that with our center for best practices,
how we can continue to get that good information that
is pragmatic and very straightforward?

To the governors, this is what we will
continue to work on. We will include in the next
product that is given to you at the end of July an
inventory of some of those best practices. It may be Michigan, where we talked about a state surgeon general. It's a whole host of things that you are doing in your respective states.

I'd also like to then put in, for example, if there's an executive summary of the report that Dr. Cooper referenced that has been published not 50 times but 1,000 times.

And we're going to give you the most straightforward, pragmatic information so that we as governors of the states can begin to impact this positively, this issue.

And we'll give you the top 20 suggestions, again, that we will collectively be developing. Very straightforward, but again have an impact.

So I want to thank all of my partner governors for your participation in this discussion and for those governors that have throughout my tenure as chairman been active in giving me suggestions with regard to this issue.
So I think we are definitely onto a critical issue. We're on target. And we're going to deliver.

So to our panelists and to Jackie, thank you very much.

(Applause.)

CHAIRMAN KEMPTHORNE: Let me -- we're going to go into an executive committee meeting, but I want to make a couple of reminders to the governors who are here.

We will go into the governors only luncheon at 12:00. And you all know where that is located. But directly across from there is Salon J.

And in 1908 is the last time that there was a photograph taken of the governors of the United States of America and the territories. So we're going to update that.

(Laughter.)

CHAIRMAN KEMPTHORNE: So when we leave
this ballroom, if you would go in there so that we
can do one quick photograph of today’s governors.

The committee sessions will follow the
luncheon at 2:30.

And also I want to say that we have, as
you know, been invited to the White House tonight for
a wonderful evening with President Bush and Mrs.
Bush, a state dinner. And everyone is providing
their own transportation for that.

Monday morning we depart the hotel at 9:15
a.m. sharp from Pennsylvania Avenue to go to our
meeting with the President and with a number of
members of his cabinet.

Now, let me convene a meeting of the
executive committee. All governors are welcome.
This is not going to take long. But I will ask that
just members of the committee cast votes.
May I have a motion and a second to
approve the minutes of the November 20th, 2003,
executive committee meeting?
PARTICIPANTS: So moved.

CHAIRMAN KEMPTHORNE: There's a motion and a second. Those in favor please say aye.

(Chorus of ayes.)

CHAIRMAN KEMPTHORNE: Opposed nay?

(No response.)

CHAIRMAN KEMPTHORNE: The ayes have it.

So carried.

We'll now move approval of the executive committee's proposals. Let's begin with the proposed amendments to executive committee 4, public pay and pension plans. Is there a motion and a second?

PARTICIPANT: Moved and seconded. Is there discussion?

Hearing none, those in favor please say aye.

(Chorus of ayes.)

CHAIRMAN KEMPTHORNE: Opposed nay.

(No response.)

CHAIRMAN KEMPTHORNE: The ayes have it.
Next we'll consider the amendments to policy executive committee 9, federal tax policy. A motion and a second.

PARTICIPANT: So moved.

CHAIRMAN KEMPTHORNE: Moved and seconded.

Is there discussion?

Hearing none, those in favor please say aye.

(Chorus of ayes.)

CHAIRMAN KEMPTHORNE: Opposed nay.

(No response.)

CHAIRMAN KEMPTHORNE: The ayes have it.

So carried.

We now have a proposed amendment, executive committee 11. This is representation in Congress for the U.S. citizens of the Northern Islands. Juan, would you like to address this?

GOVERNOR BARBAUTA: Mr. Chairman, I
appreciate my fellow governors and the executive committee's continuing interest in the Northern Mariana Islands and the territorial governments.

In amending the executive committee number 11 in support of a National Guard unit for the Northern Mariana Islands, it also extends to two years to executive committee's sunset policy provision, which supports giving the U.S. citizens of the Northern Mariana Islands representation in the Congress.

As you know, we are not now represented in the Congress from the Northern Mariana Islands.

CHAIRMAN KEMPTHORNE: Governor, if you'll hold this for a moment, please.

(After three strikes of the gavel) May I ask all of our guests and dignities, as you're moving outside the ballroom, if you would hold your conversation until you exit the ballroom so that we can hear.

Governor.
GOVERNOR BARBAUTA: As you all know, we are not now represented in the Congress. And we do not have a voice in the conduct business of our government, both at the national -- here at the national and especially in the Congress.

With respect to, Mr. Chairman, to the National Guard unit, the Northern Mariana Islands seek only to have the same kind of security as other parts of our country do, especially in this time of heightened security.

And so the support of my fellow governors on these two issues is appreciated. And I urge for the committee to approve the change in the amendments.

CHAIRMAN KEMPTHORNE: Thank you, Governor. Very good. Thank you very much.

And to just note for the record, the representation is a non-voting member in Congress.

GOVERNOR BARBAUTA: Yes.

CHAIRMAN KEMPTHORNE: Okay. Thank you.

Is there a motion and a second?
PARTICIPANT: Moved.

CHAIRMAN KEMPTHORNE: Motion and second.

Discussion? Those in favor please say aye?

(Chorus of ayes.)

CHAIRMAN KEMPTHORNE: Opposed nay.

(No response.)

CHAIRMAN KEMPTHORNE: The ayes have it.

So carried.

All right, let me call upon Governor Warner, who will give us a report on the financial.

GOVERNOR WARNER: Thank you, Mr. Chairman.

The NGA's financial statements are found on page 11 to 13 of your executive committee report.

The good news is midway through 2004 fiscal year we have a small operating surplus. And with total revenue and expenses slightly under budget at 45 percent, respectively, both the NGA and the center endowment have benefitted a little bit from run-up in the market in the last year.

So all in all, I think you'll find in the
financial report that we're in pretty good shape.

CHAIRMAN KEMPTHORNE: Very good. Any comments or questions?

(No response.)

All right. We have one final policy before us. And that is executive committee 1, state grant programs. Is there a motion and a second?

PARTICIPANT: So moved.

CHAIRMAN KEMPTHORNE: Moved and seconded.

Discussion?

Hearing none, those in favor please say aye.

(Chorus of ayes.)

CHAIRMAN KEMPTHORNE: Opposed nay?

(No response.)

CHAIRMAN KEMPTHORNE: The ayes have it.

So carried.

Is there anything to come before the executive committee?

May I just compliment to the executive
committee for your involvement throughout the year.
Again, when we had our teleconference about three
weeks ago I appreciate the fact that of nine
executive committee members eight participated in
that. It's truly appreciated.
So with that, if there's nothing else to
come to force in this plenary session, we stand
adjourned.
(Whereupon, at 11:25 a.m., the meeting was
adjourned.)
The meeting commenced, pursuant to notice, at J.W. Marriott Hotel, Grand Ballroom, on Monday, February 23, 2004, in Washington, D.C., at 3:00 p.m., Governor Dirk Kempthorne, Chairman, and Governor Mark Warner, Co-Chairman, presiding.
CHAIRMAN KEMPTHORNE: Good afternoon ladies and gentlemen and good afternoon to all of the governors of the National Governors Association.

This afternoon we have an outstanding session. We are going to talk about productivity and the economy, manufacturing and we have very dynamic individuals who are going to be addressing us here this afternoon.

Four outstanding individuals will have a panel discussion which will be led by world-renowned journalist and (inaudible) are all going to be very recognizable to you and they have accomplished tremendous things.

We will begin with an overview by an economist who has received tremendous acknowledgement from his peers. This is going to be an opportunity following
three key note address by our economist. We then
turn to a gentleman who knows how to ask effectual
invigorating questions and keep this afternoon
session moving right along.

In the next entire issue technology productivity
change, globalization, they are all powerful forces
driving economic change. Together, they are bringing
about a new economy characterized by different
sources of wealth, interdependencies among
businesses, dynamic markets, consumer choice, and
venture investment.

One of the most important forces is the convergence
of computing and telecommunications. The Internet,
which is a major component of this new digital
revolution is eclipsing most other technology that
preceded it.

Radio existing for 38 years before 50 million people
tuned in, while television took 13 years for 50
million people to tune in. The Internet have 50
million users in only four years. Throughout most of
the last century, productivity in the United States increased a little over 2% per year and over the last decade however, it averaged well over 3% per year. Productivity change is a double-edged sword. In one hand, it is the source of all increases in real income. Essentially, it is the basis of our increasing standard of living. On the other hand, when you need less labor to produce the same amount of output, job growth will be less, particularly in transition periods.

Manufacturing has arguably suffered through the most wrenching period through the great depression. Since peaking in the late 1990's manufacturing payrolls have dropped by nearly 20%. We all know that we have lost significant numbers of manufacturing jobs. Now there are many factors for this, including, the increased productivity of U.S. manufacturing plants and increased import competition. Today job growth is at a cross roads and there is uncertainty in the path that it will
On the one hand, some economists foresee continued tough times ahead for the manufacturing sector and continued stiff competition from global producers. In addition, global competition is hitting other sectors of the economy and we may be losing as many as 500,000 jobs each year to off-shoring. On the other hand, economists also tell us that the world economy will adjust and globalization will allow us to create more jobs than we lose. Indeed America is beginning to show stronger job growth. The President of the Federal Reserve Bank of Philadelphia recently projected that domestic job creation should accelerate to 200,000 jobs each month, are more than enough to absorb new entrance into the labor force, and begin reemploying those who have lost their jobs. Moreover, although a portion of domestic jobs will continue to face potential off-shoring to overseas producers. The Institute for International
Economics, predicts that the U.S. economy will continue to create many more jobs each quarter than are projected to be lost over the next decade. Nevertheless, workers will need to continually upgrade their skills for job security and to meet the demands for the fastest growing occupations in the United States.

Global competition shows no signs of abating and it seems that skilled and educated labor force is key to winning the race.

To begin this session, I'm first going to acknowledge our moderator. Mr. Lou Dobbs. Mr. Dobbs is the Anchor and Managing Editor of CNN's Lou Dobbs Tonight. He has won virtually every major award for television journalism, including the Horatio Alger Association Award for Distinguished Americans in 2000. He graduated from Harvard with a degree in economics. And as I indicated, this is the right man to moderate this topic, to stimulate the discussion. We are going to begin this session with a White Paper
by an outstanding economist. Following that key note address, I'm then going to turn to Governor Granholm and Governor Doyle to introduce our two special panelists. Because of bragging rights, they've asked that they introduce the outstanding citizens from their states.

To begin, we have with us David Hale, the founding Chairman of the Hale Advisors. He formerly served as Chief Economist of Kemper Financial Services. In September 1998, the New York Chapter of the National Association of Business Economists conferred upon Mr. Hale the William F. Butler Award, which is given annually to the business economist who has made an outstanding contribution to the field.

Other past recipients include Paul Volker and Alan Greenspan. Mr. Hale has written extensively for the Wall Street Journal, the Financial Times of London, the New York Times and the Harvard Business Review.

He is a graduate of the Georgetown University School of Foreign Service and has a masters of Science
degree in economics from the London School of Economics. It is a great pleasure to introduce to the Governors of the United States, Mr. David Hale.

APPLAUSE.

MR. HALE: Thank you very much. It's a great pleasure to be here today to entrust you on this very important topic where I spend most of my time talking to global fund managers and to people in the global investment business. I would just tell that I was for many years I was on Vermont's counsel of economic advisors.

So in that capacity I was often addressing issues which determine the competitive position of the State. Taxation issues, regulatory issues and so on. So I fully understand that you, as Governors, play a very, very important role in shaping the economic policies that affect our manufacturing industry, indeed affect the economy in general.

My focus today is on American manufacturing with all employers in the economy and the challenges that
we’ll face in the years ahead. Needless to say, in manufacturing, despite the fact that it shrunk from being 40% of our labor force in 1940 to only 12% today, it’s still a very, very important part of the economy. It accounts for 14% of GDP. It’s the dominant force driving R&D spending. This country spends every year about $300 billion in R&D, manufacturing is responsible for $140 billion of that. If we didn’t have the manufacturing sector, we would not have our technological leadership, which plays a major role in America’s overall global economic supremacy. I should also add that the manufacturing sector has, over the last 20 and 30 years, greatly outperform the growth rate of the economy as a whole. If we look at the last 25 years, manufacturing outputs 109%, output in the economy in a whole is up 53%. Manufacturing has also been hyper competitive in cutting prices. The inflation rate for the manufacturing sector in the last quarter century has
been 60%, for the economy as a whole is 140%.

Manufacturing also gives American workers the opportunity to have a higher level of compensation they get in other sectors. Wages are only modestly higher, but benefits, healthcare, pensions, and so on are significantly better in manufacturing than elsewhere in the economy.

The difference is very striking. The benefits for the manufacturing worker on average are worth $8.89 per hour compared to $5.90 for the rest of the economy. People in the manufacturing sector get more per hour in terms of healthcare, pension benefits than workers elsewhere.

So this is very, very critical to our personal income growth, very critical to our overall sense of prosperity.

And finally, the American manufacturing sector has, over the last 20 and 30 years retained a very dominant position in the global economy. Last year our share of total global exports was about 13.50%,
compared to 12% 10 years ago, 13% 25 years ago.

Despite all the concern about the trade deficit,
despite all the concern about America's competitive
position, the fact is, we've held our own. Other
countries, Japan, some European countries have seen
their market shares fall quite significantly,
especially because of the wise of China and other new
countries in East Asia, but this country has held its
market share overall.

It's also important to note that our manufacturing
jobs are very broadly distributed. We have
manufacturing in every American state. It's not the
same, it varies greatly. The number one
manufacturing state is Indiana. Indiana has 20.5% of
its employment in manufacturing. The smallest is
Wyoming, 3.7%.

But if we look at the major states, we'll see
typically the manufacturing is somewhere between 12%
and 18%. Four years ago, we had actually six states
that was close to 20%. Buy because of the
manufacturing recession in the last four years, that
number shrunk and now the big states, after Indiana, are Wisconsin, 18.8%; Arkansas, 18.3%; Michigan, 16.6%; and Mississippi got 16.2%.

In terms of just raw numbers, the big states of course are the large states. Number one is California with 1.6 million manufacturing jobs; Texas with 925,000; Ohio, 863,000; Illinois, 740,000; and Michigan, 735,000.

But the bottom line is, all of you do have manufacturers in your state and for most of you, the number is somewhere between 12% and 16% of your employment.

The great concern we've had here in recent months has been the very significant manufacturing job loss that this country has experienced since 2000. Since the peak of the summer of 2000, our manufacturing employment is down 16%, almost three million jobs.

We've had previous periods in our history of recession when we lost two million jobs or more.

But what's unique and distinctive about this business
cycle, what separates it from all the previous cycles since World War II, is how even after the economy began a recovery in the late 2002, manufacturing kept contracting.

This is the first time in the modern history of this first country that we've had job losses continue for three or four years in a row. And indeed George Bush, our President, faces a very unique challenge in this upcoming election. He is the first American President since Herbert Hoover, 70 years ago, to preside over job losses for the whole of his administration. This President is down two and half million jobs since January of 2001. Herbert Hoover was down eight million jobs.

Every American President since Herbert Hoover has had reasonable job gains, even the Presidents we associate with recession or crisis, have outperformed out current President.

Gerald Ford had a terrible recession in 1975, he still got two million new jobs. Jimmy Carter had
This current period is truly unique and very distinctive. What's going on? Well first, we lost a lot of jobs during the recession in 2001 because there was a huge boom in the late 1990s in the information technology and the telecom sector. And as that boom unraveled, we naturally lost jobs in the technology area. And indeed, we have lost in the last four years, almost 500,000 jobs in the computer sector, 125,000 in electrical equipment, 125,000 in machinery in general. So it's partly just the unraveling of the boom we had in the late 1990s. Another important factor though, and the critical factor is that American firms have been striving here in recent times to significantly bolster their profitability and their productivity. The price of this productivity growth has been job
losses and weak employment growth.

For the last two years, we have had the highest rates of productivity growth in living memory. Annual growth rates were four and five percent. We've not seen numbers like that ever before.

The consequence has been, we've had job losses. So we are looking at a period here of very profound structural change. There is a broad consensus on Wall Street that in the year ahead, productivity growth will slow and employment will improve. But the fact is, there are no guarantees.

I should also add that these job loses are not just occurring here in America. The fact is, we are seeing a contraction of manufacturing employment on a global basis. In the last few years, Germany has lost 500,000, Britain has lost 600,000 jobs, Japan is down 2,000,000, and the biggest job looser of all is China, the country many Americans are terrified of. In the last seven years, China has lost 25,000,000 manufacturing jobs because of the restructuring of
its economy to also enhance productivity, the conversion of state-owned companies into privately owned companies, and a wave now of foreign competition because of (inaudible) which is subjecting Chinese companies to unprecedented levels of foreign competition.

So this is not just an American phenomenon, it's very much a global phenomenon. And I would draw some analogies to what happened previously in our history with Agriculture.

In 1940, 20% of the American people worked on the farm. By 1970, that number was down to 4%, yet at the same time, farm output increased by 60%. The fact is, we are finding ways all the time to produce more and more with fewer people because of the impact of technology. And what's happening in manufacturing, is very much a continuation of this process.

Now what should your agenda be as Governors in focusing on this issue of manufacturing and our
competitive position as a country? There are many issues which loom large potentially for Governors as we look out over the next five years.

The first important issue is healthcare. One of the major problems facing American business in global competition is the very high cost of healthcare in this country. We spend 13% or 14% of GDP on healthcare, most other industrial countries spend 6%, 7% of 8%.

This is a burden and it falls very, very heavily on American firms because they pick up the liability, pick up the cost for most of these benefit programs.

Second very unique American issue is tort lawyers. The cost of tort litigation in this country now exceeds 2% of GDP. It is $223 billion. There is no other industrial country where tort costs are even 10% of ours. I realize this is a very difficult political issue for you because many of you get your money from tort lawyers when you are out campaigning.
The bottom line is, this is a very, very severe problem for America, it's a very, very big cost for doing business and we must do all we can to try and reduce it and the national association of manufacturers I know regards Wisconsin as a very useful role model for how states can address the issue of tort reform.

The third concern is the cost of regulation in general. The federal government produced a study just a few years ago suggesting the cost of regulation for U.S. business is $150 billion a year, now it's probably $180 billion. Half of this is simply for environmental compliance but there are other costs as well. This is a very, very severe burden on small business. This study shows that the average cost for environmental compliance in small companies is $16,000 per employee compared to $7,000 for large companies. So please be very, very sensitive to the
regulatory burden you impose on your firms.

This is a greater problem before because we're now in an era of relative deflation. Because of competitive pressures in the world economy, we actually have following prices now in many of our goods producing industries.

So regulatory costs they could pass on to the consumer 15 and 20 years ago, they can no longer pass on. Now it comes out of profit margins.

The fourth very important area for policy focus is that education. And a special concern of the manufacturing sector is, it tends to have a much older workforce than the rest of the economy. Only 19% of the people in the manufacturing industry of this country are under the age of 30. The economy as a whole, the number is 30%.

In the next 10 years, four of five million workers will retire from the manufacturing sector. And firms have to replace these workers and the great concern they have is finding people who have got the skills,
the education, the confidence to master what is now required to be a worker in modern manufacturing. And 40 years ago, you didn't need a lot of education or technical confidence. But the fact is, now because of technology, there is a much greater premium on education than skills. Needless to say, we have to have our state governments and our local governments provide a well-trained labor force, a well-educated labor force to meet this challenge, to replace these workers who will be retiring in very large numbers over the next 5 or 10 years.

The final challenge I want to focus on is not so much a policy challenge as an intellectual challenge. And that is this whole issue of global trade and open markets. There is no doubt in my mind that America has the capacity to be a dominant player in many industries because of its technological supremacy, because of its core competitive values, its confidence in management, its confidence in a wide
range of areas that are important to business performance.

But over the last 12 or 18 months, we have seen in this country a great crisis of confidence about the issue of global trade. Here, a few months ago, I testified before Congress on the issue of China's exchange rate policy. As the hearing began, several members of Congress came to blame all the manufacturing job losses of the last four years on China.

The ridiculous suggestion is that China is responsible for us losing two and a half or three million jobs. This sounds good to some people. There is no doubt some firms which are suffering from competition with China, so it's blown up into a big political issue.

I want to stress to you that in fact these concerns were very exaggerated. There is no doubt we do face a competitive challenge from China as we did with Japan 10 and 15 years ago, but we are always going to
face a competitive challenge because the world's economy is constantly evolving. 25 years ago China was a communist country. It was poverty stricken. Now it has rapidly rising incomes of living standards. It is turning into the world's best market for a whole range of products. Indeed, China itself is now running a small trade deficit because while its exports are booming, its imports are growing by even more. This is an opportunity for us. It's not something we should fear. But I would encourage all of you as Governors to use your offices, to use your bully pulpits as it were to promote policies of open markets and free trade and to try and position your states to benefit from what's happening in the global economy. My firm state of Illinois has trade-offices around the world. We work very hard in Chicago to have a very open door to the wide range of global companies to come to trade, to invest, to use the financial services we make available in the City of Chicago.
would encourage you to have a similar theme to
provide similar opportunities for the companies in
your own state.

The fact is, we have got out there tremendous
opportunities as living standards rise in all the
developing countries. And the fact that we can
access low cost goods elsewhere in the world is a
great opportunity for American consumers to reduce
their cost of living.

Last year Walmart bought $40 billion of goods from
China. They bought $14 billion from Chinese
companies, $26 billion from American, Japanese, and
Korean companies using China as an export base. They
brought these goods back home, there is no doubt in
my mind that these imports that Walmart gave us
provided cost savings worth tens of billions of
dollars for American consumers.

Foreign firms are also very attracted to this market.

Over the next two years, Toyota, Nissan, and Honda
are going to create in this country 70,000 new jobs.
The fact is, Toyota now earns two-thirds of its
profits in the United States. Far more than it earns in Japan, and China is going to respond to its success here, its opportunity here by investing a great deal more and employing far more Americans. The fact is, Toyota has become, in recent years, the world's dominant auto company. Its market capitalization is $130 billion. GM, Ford and Chrysler combined aren't even at $60 billion. So having this contribution from Toyota is very much a positive for U.S. manufacturing and the U.S. economy in general. So again, to finish up, we face great challenges but we also have great opportunities. The manufacturing sector has had a rough four years. We've had some very rough adjustments with employment losses. The counterpart to this has been major gains in productivity and major gains in profitability. If U.S. firms can earn high profits, if they can achieve high levels of productivity, here is no doubt they can also dominate in global markets, look forward to new growth and this will in time, I think later this
year, lead to some, at least modest gain, some modest
recovery in America's level of manufacturing
employment. Thank you very much.

APPLAUSE.

CHAIRMAN KEMPTHORNE: Mr. Hale, thank you
very much. Tremendous information and insight and
much that I think we can review and discuss. Now as
we continue this, I'm going to ask our two governors
if they would introduce the members of the panel and
then I'm going to turn this over to Lou Dobbs who
will begin the discuss.

He will then turn to the panelists for their comments
and we're underway. Thank you Governor Granholm.

GOVERNOR GRANHOLM: Thank you Governor
Kemthorne the opportunity to make this introduction
which I view as a personal privilege, given that Dick
Dauch is from Michigan and a great citizen and a
great advocate for manufacturing. I also want to
thank you for holding this panel to begin with
because it is such an important topic for all of us
who have manufacturing facilities in our states.

Dick Dauch is the larger than life Chairman of the
National Association of Manufacturers. He is the Co-
founder and Chairman and Chief Executive Office of
American Axle and Manufacturing in Detroit, Michigan.

As most of us know, the National Association of
Manufacturers is the nation’s largest industrial
trade association serving manufacturers and employees
in every industrial sector in all 50 states. He has
a wide constituency.

Dick has been a strong advocate national and in
Michigan. His focus has been on global competition,
global pricing, and domestic cost as the driving
forces that are changing the face of American
manufacturing. In addition, his priorities are to
educate the American people about the importance of
U.S. manufacturing to our standard of living, to our
economic, and military leadership, and to get a
handle on the runaway cost of manufacturing, and to
demand, as we’ve all been discussing here, throughout
in this conference, a level playing field with our international trading partners.

In 1994, Dick Dauch founded American Axle and Manufacturing but teaming with two investors to purchase General Motor’s Axle Forge and Drive Shaft Drive Line assets. Today, American Axle is a Fortune 500 company, one of the top 25 automotive suppliers in the world and is traded on the New York Stock Exchange and I know some of the original equipment manufacturers, Ford and Chrysler and GM are here in the audience today and, of course, we welcome them as well.

Dick has outlined his passion for manufacturing in a book called Passion for Manufacturing, which is distributed in 80 countries in several languages and is used as a textbook as well in numerous colleges and universities, and I am personally, especially grateful to Dick for his partnership with the State of Michigan and our manufacturing matters summer where we brought together business and labor together.
to say while we know there are things that we disagree with on the margins, we have a whole array of common ground in the center and we came up together with a nine point agenda that is a common ground agenda that we want to pursue in Congress. So I want us all to welcome Dick Dauch to Washington and, of course, to this dialogue.

APPLAUSE.

GOVERNOR GRANHOLM: Very good. Mr. Dauch we come. Just a few moments we look forward to your comments and we're delighted to have you here. It's wonderful. Governor Doyle.

GOVERNOR DOYLE: Governor Kempthorne thank you for giving me the chance to introduce a good friend of mine. You know, in most of our states, we have an employer or some organizations that really define the character of the state. And in Wisconsin we have a few, the Green Bay Packers and others, of which we are enormously proud. That's right, the most winning team over the last 10 years in the NFL.
GOVERNOR DOYLE: But we certainly have a company that we believe characterizes the values and spirit of the State of Wisconsin and it is Harley Davidson. And I am honored to introduce the Chairman of the Board and the CEO, Jeff Bleustein.

The Harley story is an incredible story. A company that was struggling in the 1980s that had to make strategic difficult decisions decided that it was going to compete at the high end, continue to make the very best bike in the world. It has -- and under Jeff Bleustein's leadership it has done that and has maintained its position as the leading heavyweight motorcycle manufacturer in the United States.

But as you know Governor, it is more than just a company. It's a way of life. Jeff Bleustein has certainly help develop Harley as one of the great trademarks, not only for the State of Wisconsin, but for the United States.

He is a man of extraordinary accomplishments, holds a
masters of science and PhD degrees in engineering mechanics from Columbia, a bachelor of science in mechanical engineering from Cornell, and has served as associate professor of engineer and applied science at Yale University.

Like a Harley, which is not only a great manufacture but great citizen of the state, Harley let me say not only manufactures in the State of Wisconsin, it has maintained its primary manufacturing site right in the middle of the City of Milwaukee and we are enormously thankful to Mr. Bleustein for that, as well as a major site in Northern Wisconsin, which is the economic base for quite a region of Northern Wisconsin as well.

And Mr. Bleustein as well is a great citizen of Wisconsin. Now, you probably wouldn't expect this from the CEO of Harley, but he is on the Board of Directors for the Milwaukee Florentine Opera, the Milwaukee Jewish Federation, the Greater Milwaukee Committee, the Medical College of Wisconsin, a recent
emeritus of the Milwaukee of Engineering, serves on the Board of Brunswick Corporation and Cola Company.

He has been a tremendous citizen of the State of Wisconsin of the United States and he has been a great friend and advisor to me as we have really worked to try, in Wisconsin, improve our climate for manufacturing.

He has helped me, advised me on things like what we do with China, what we do with manufacturing in this State and I am just very, very honored to present to you Jeff Bleustein.

GOVERNOR GRANHOLM: Very good. Mr. Bleustein, welcome. You know I am an avid Harley Davidson fan. Love being there with you for your 100th anniversary and the Harley Davidson story is a story that needs to be heard, so we look forward to your comments. And it doesn’t surprise me that you belong to the ballet organization. Being a motor cyclist, I think when you enter a curve at just the
right angle, there is nothing more beautiful than the outlay on the road.

So with that, I'm now going to turn to the gentleman who we are going to put at the helm here and again, one of the most highly regarded television journalist, we're just honored to have, Lou Dobbs.

APPLAUSE.

MR. DOBBS: Governor thank you very much and I want to complement you and myself for this topic. You couldn't have picked a more timely topic, one with greater urgency and one that appears set to be a significant part of the debate in this presidential election this year.

That said, I know this is a bipartisan organization and I will not offer any tilt one way or the other towards a preferred policy outcome. We'll I might offer a couple of subtle thoughts along the way.

At this point, Jeff Bleustein and Dick Dauch, if we could, hear from you gentlemen just your opening comments and then we will open into the governors for
the session. I know they have more than one or two
questions for you and for Mr. Hale. What are we
doing, in alphabetical order Jeff? Okay, Jeff says
we're going to do it in reverse alphabetical order.

Mr. Dauch.

MR. DAUCH: First of all thank you Lou,
honorable Governor Granholm, thank you very kindly.
Governor Doyle, Governor Kempthorne. I'm delighted
to be here with my peer and colleague Jeff Bleustein.
We feel for America. We are on the foreign line, the
CEOs that run manufacturing corporations that are
presently listening to a lot of discussion and
dialogue that we have to execute.
So I am honored to be here as part of this forum and
to give an opportunity to address this aghast group
of governors and leaders of state government.
We are here to review the challenges facing American
manufacturers and I've been in this battle for 40
straight years. I want to be certain that
manufacturing remains at the forefront of the minds
of the leaders in this room. We need you and we need your policies.

We must never lose sight of the importance of manufacturing and what David said before, still a very significant part of our GDP and still about 15 million men and woman work directly every day in that with another 8 million that are also related to those 15 million.

As we look to your leadership ladies and gentlemen. The most important thing is playing a strengthening U.S. manufacturing hand. Not giving up. I've seen the powerful aghast discussions in '79 through '89 when the Japanese bubble was going to destroy us. I saw the NAFTA thing when it was going to destroy us, and today it might be China or anything else you want to discuss. It's just another chapter of the game we have to adjust to but this time it's not cyclic, it's definitely structural and it's has to be approached with objective data.

In my brief time with you today I'd like to cover five basic points. First and foremost, I must stress
that manufacturing is critical to our economy. This is not yesteryear tech. Manufacturing is very sophisticated and needed. It's a fact that every few Americans are aware of or respectful of. And we need to work harder on that education process.

As we look at the seedbed of innovation, that David talked about earlier, maybe my numbers and his are a little bit different but when you look at about 60% of RND of America, it's generated by manufacturing for innovation and creativity and which keeps us very, very sophisticated in the global market.

It's by far and away the pace-setter for U.S. productivity gains and that's hard measurable data and auditable. Manufacturing is our largest exporter. We export about 50 billion in agriculture products every year. We do that much every month in manufacturing recurring.

Manufacturing is how we pay our way in the world. It's how we pay our bills. We cannot sustain a prosperous economy and a strong powerful nation.
without a viable and vigorous manufacturing sector.

Even during the recent downturn, the United States remains the single largest producer and exporters of manufactured goods in the world. I've seen sicker dogs get well. I've been part of that process when it occurred. Standing alone, America's manufacturing sector would be the world's fifth largest economy.

That's quite a powerful statement.

Manufacturing has long been the very heartbeat, the engine of the U.S. economy. It needs immediate attention however and repair with a new prescription to bring it back to health. History is nice, but this is a totally different structural environment. There are several factors that have dramatically changed in the face of manufacturing in America.

That leads me to my second point that I want to cover, and that's global competition. We are facing relentless foreign competition like we've never faced before and for most part, worldwide trade borders have been erased.
Manufactured goods are transferable and thus they compete globally. Unlike retain and service industries that compete with the competitor down the street, we compete with everybody in the world.

Today, the major competition is China, Japan, South Korea, Canada, Mexico, Indian, Brazil, you name it, they're all over the place.

Relentless and often times ruthless, international competition makes impossible for raising prices and past increase cost. If anything, we are actually in a deflationary pricing era. And make no mistake, the world is determined to rest our manufacturing leadership away from us and without a doubt, they want the jobs that are in you, men and women states and that will get you reelected or dismissed.

That leads me to my third point. Customer demands for global pricing. The customers are as demanding as I've ever seen in 40 years. They want to get anything in the world where they can get the lowest price. They want U.S. made quality at the lowest
cost of any country in the world. Manufacturing

customers are leveraging global pricing as a

benchmark.

Yet U.S. manufacturers are challenged to maintain
solid financial business cases for each of our
services and product programs. Remember, we're

business men and woman also. We have to reach those
hurdles of return investment capital, cash flow,
et cetera.

That brings me to my fourth point, escalating
domestic production cost and you ladies and gentlemen
can help along with the leadership at the national
level. The intense and often times unfair
competition that I have eluded to makes it impossible
for the manufacturers to raise prices, with rare
exception.

In recent years, the prices of manufactured products
have been declining. Manufacturers are caught
between a rock and a hard spot. The ships are
passing in the night and you wonder why your
companies or your people are in harm's way. It's non-production cost that are rising in America and they are coming from policies at state national levels

I extend my very sincere thanks to Governor Bob Taft of Ohio for sending us and every Governor in this room, a copy of the new NAM study, "How Structural Cost Impose on U.S. Manufacturers Harm Workers and Threaten Competitors." I hope you will study it, review it and do something with it.

The report concludes that external overhead costs from items such as tax, health and pension benefits, tort litigation, regulatory, rising energy prices, add over 22.5% to the price of production for U.S. firms, relative to major foreign competitors. Even more startling, is that these added costs are nearly equal to the total production cost in China. These add about five bucks plus change per hour, and that's about what they get in China.

So school is out if we don't do something about this.
We need national policy to help remove this unnecessary economic burden. The playing field for manufacturing is by no means level, not by a long shot. I remember when Lee Iacoca and I in Chrysler coined those words in 1979 and ’80, when we had an unleveled playing field and we had to have the most massive one-business recovery in 200 years of American history. And the Chrysler loan guarantee helped us do that.

But it was the people in America in those factories that pulled that off and paid you back seven years early and at 17% return, not bad.

A level playing field means we all play by the same rules and right now that is not happening. Some of our trading partners impose illegal barriers to U.S. products. Some of them engage in rampant piracy of our patents and copyrights. And some of them engage in currency manipulation, keeping the currencies undervalued to make their exports cheaper and ours more expensive.
Our government must do a better job and we'll be delighted to work with the government administration on enforcing international trade agreements. So what are we to do? Obviously most of this is a national problem demanding attention from Washington, DC. You can help with that. You are a powerful influence, first in your state and secondly in our nation.

Our first task is to get attention for the issue, putting it on the front burner. Manufacturing has been downgraded for so long, it's sad. A collaborative effort from our governors would be a powerful influence on national policy. And I'm asking for you to consider that.

Our policymakers must address the cost drivers that are beyond the controlled manufacturers and severely inhibit our ability to compete globally. I am asking you to take a leading role individually and as a group on raising the awareness and action of Congress and the administration. Everyone needs to be aware of the importance of manufacturing and the vital role
it plays in the long-term prosperity and security of
the nation that you and I call home.
Without a doubt, we are facing monumental challenges.
They are like no other in my automotive career in
manufacturing. It's an economic war that must be won
by you, me, and our team, the home team.
You can also go out in your home state to help
raining escalating costs. I was very proud of our
governor, the Honorable Jennifer Granholm. She
poll ed about 50 of us, men and women together from
different walks of life and that was business, labor,
education and government. And as she indicated
earlier, she created, with our assist, a nine point
plan, just like President Bush has a six point plan.

At least there is a game plan, an action plan. The
gut result then is to execute it. That's what's
facing manufacturers. Our NAM President, Jerry
Jazanowsky, attended a similar session in Columbus,
Ohio, convened by Governor Taft. Governor
Schwartzenegger of California has invited

manufacturers to meet with him very soon. We are encouraged by all of this. There is hope.

I respectfully challenge the policymakers in this room, the aghast group of governors that lead our country, to take similar actions in their respective states. Develop solutions to abolish this 22.5% disadvantage that U.S. manufacturers are saddled and burdened with. Let's pursue trade policies that are fair and ensure American manufacturers are able to compete on this high level playing field.

When somebody has a 50% tariff and we have a 2% tariff, that's not fair. Things have changed. It's time for us to step up and realize that we have to adjust to the times that we're in. I hope each and every one of you will take an active role in manufacturing, help us make manufacturing a high level national priority.

It's a very noble profession which most Americans don't understand or respect the expression of our industrial strength. It gets its very foundation
from the manufacturing sector. Listen to the
manufacturer leaders in your state, our Governor did.
Help us get runaway costs under control.
Make no mistake, there is no such thing as a
prosperous nation without a vigorous competitive
manufacturing sector. The greatness of our nation,
and it is a great nation, and the quality of our life
that we enjoy is a direct expression of our
industrial strength.

Ladies and gentlemen, thank you for allowing me to be
here with you today. We need your help. We will be
there to also help in the process. I am inviting all
leaders in this room to do what is best at your state
level and the national level to strengthen
manufacturing, preserve our nation's legacy for
future generations, manufacturing is a great
contributor to the wealth of America. I hope that we
can ensure it stays that way. And yes, these men and
women need jobs and they are not entitled to them.

Thank you sir.
APPLAUSE.

MR. DOBBS: Mr. Bleustein.

MR. BLEUSTEIN: Thank you Mr. Dobbs and thank you Governor Doyle for that kind introduction.

I just wished my mother-in-law were here to hear it.

LAUGHTER.

MR. BLEUSTEIN: Thank you Governor Kempthorne for allowing me, inviting me to participate in this forum and as for that dichotomy between -- the apparent dichotomy between opera and motorcycles, it all comes together in the fact that we both make great sound.

LAUGHTER.

MR. BLEUSTEIN: The vitality of the U.S. manufacturing sector is clearly an important issue.

But also clearly, it's not an easy one to solve.

There is no magic recipe that will ensure success.

However, we can be fairly confident that we know some of the key ingredients.

First of all, U.S. manufacturers must do everything
they can do to help themselves compete in this global marketplace. To begin with, we need to relentlessly pursue operational excellence in our factories and in our offices, in every facet of our business. This means things like adopting the principles of lean manufacturing throughout our companies. It means educating employees in using process redesign and capital investment to enhance productivity and to improve quality on a continuing basis. And it means breaking down some of the traditional barriers between management and unions and learning to work together as partners in the enterprise. U.S. manufacturers have come a long way during the past two decades. Significantly, we do see the large gap that used to exist between U.S. and Japanese manufacturers. But operational excellence is a never ending pursuit and we must continue. However, we can do more than just improve operational excellence. Wherever possible, we need to pursue new business models or business strategies that allow us to compete on dimensions other than low cost.
For example, we can develop and leverage new technologies for products and services or create innovative designs or different marketing approaches that are not easy to duplicate, or combine products and services in unique ways. The possibilities are endless. We must find ways to de-commoditize our businesses.

Now for a second ingredient. Even if U.S. manufacturers are doing everything they can do to help themselves, they still need a level playing field if they are going to compete globally. And we are far from a level playing field. What do we need? First of all, we need to keep markets open around the world and to remove both tariff and non-tariff barriers wherever they exist. Some of these can be quite subtle but they need to be uncovered and eliminated. Mr. Dauch eloquently laid out the challenge we face in the U.S. with structural costs that put U.S. manufacturers at a large disadvantage. We need your help in addressing that
challenge on a nationwide basis. But you can also
address many of these issues in your own states.
Meet with your manufacturers, find out what their
priorities are.
Governor Doyle has done that in Wisconsin, and there
is an agenda for action. Governor Doyle carried the
eball on the single factor tax law, which makes it
more appealing for multi-state companies to do
business in Wisconsin. And together, we are starting
to address the major issue of escalating healthcare
costs.
And in Pennsylvania, another state where Harley
Davidson does business. Assistance on access road
development made it possible for us to construct a
new 350,000 square foot factory and preserve hundreds
of jobs for our growing business.
Something else you can do is to continue to attract
more new businesses to your states. But don't
neglect the businesses that already call your state
home. At Harley Davidson, we believe that our
existing customer is our most important customer.

Maybe that concept will work for you as well.

We can keep manufacturing alive and vibrant in the U.S., but it will take creativity, cooperation, and most of all, determination to make that a reality.

Thank you.

APPLAUSE.

MR. DOBBS: Mr. Bleustein thank you very much. It is a great privilege for me to be here as your moderator and to have an opportunity to say just a few words in the subject before turning this review, gentlemen into the willing subjects of the interrogatories that are about to hit you.

The subject of productivity manufacturing capacity, capital investment in this system, this economy and this country, the importance of technology and driving prosperity. It's my privilege to be involved in these discussions for quite some time. Out of curiosity, intellectual curiosity as a journalist, and one of the things that's so important about what
you're doing here today is this public debate over our trade deficits, our productivity, the loss of jobs, whether it be to outsourcing, or to the advances of technology itself. We find some limitation, if not outright pollution of the public debate in the two bipolar extremes that are trying to be insisted upon the debate in public policy. On the one hand, we are told that only free trade is an acceptable option. On the other extreme, the only option that exist is that of protectionism. In point of fact, we have neither free trade nor protectionism in this country. We have a wide range of policy issues, as each of you in this room knows and I just want to say in a bipartisan sense, that if we can eliminate the artificial Hobson's Choice of either free trade, which does not exist, or protectionism, which is not on anyone's agenda that I'm aware of, and talk about managing public policy toward a desired outcome, I think that the country
will be well served as well as each of your states or 
in each of your industries or in companies.

One of the -- it's interesting to me to hear Dick 
Dauch describe the international competition against 
which manufacturers in this country have to contend, 
he used the words relentless. He used the words 
ruthless. Jeff added another word, unfair. And that 
to me is unfair competition and that to me is an 
interesting statement about free trade, the trade

system that we are going through today.

David Hale with your insightful comments if, I'll 
turn the first question to you. You covered a wide 
range of issues but you did not mention a trade 
deficit or the absence of a surplus for more than two 
decades in our international trade. How important is 
that to what these men and woman have to contend with 
and their analysis in moving toward policy judgments?

MR. HALE: The reason we have a trade 
deficit is very simple. We have a fundamental 
imbalance in our level of savings and our level of
investment. America has one of the lowest investment rates in the world. Our personal savings rate is down to 1% or 2%, almost all of our savings now are in our corporate sector.

We, at the same time, have a high level of investment and a high level of consumption and the result is, we have this trade imbalance. We also have now, compared to four years ago, a very large federal budget deficit, almost $500 billion, which has as its counterpart, the so-called current account deficit, the external deficit and our balance and payments, that's mostly the trade deficit, but can also include the deficit on things like investment income.

Is this a problem? It's not a problem as long as you can finance it. The new development of the last year and a half though was, we no longer financed this deficit primarily through private capital flows, we've also become in the last year and a half very dependent on the Central Bank Intervention of Japan and China and Taiwan. They're all trying to maintain
stable exchange rate against the American dollar, so
they have been intervening massively to try and
prevent their exchange rates from appreciating.
Last year, Japan provided $200 billion for funding
for our budget deficit. China did $100 billion.
Taiwan did $20 or $30 billion. We've been able to
keep our interest rates down at very low levels, very
moderate levels in part because of these very large
capital flows from the East Asian central banks.
In fact, the whole financial underpinning of the Bush
administration's foreign economic policy is one
simple fact and that fact is the East Asian central
banks now have foreign exchange reserves at $2 trillion and they keep 90% of this money in the U.S.
government bond market. Because of these guarantee
capital flows, we are able to co-exist with these
very large fiscal deficits.
So the bottom line is, the trade deficit is a
concern, but so long as you can fund it, it doesn't
get in the way of economic growth, it doesn't drive
up interest rates, it doesn't create any shocks. But if we lose those foreign capital flows, if money doesn't come to this country on a large enough scale, that trade deficit will set the stage for both a big dollar depreciation and also higher bond yields, higher mortgage rates, and a different composition of growth in our economy.

MR. DOBBS: Dave, just a quick follow-up question and then I'll turn to the governors. One, the fact that we are now a net importer of capital, that the dollar has declined 35%, how significant are those in the vulnerabilities to our account?

MR. HALE: Again, one of the most remarkable features of the global financial market in the last year and a half is how we've had a big dollar decline against the currencies of Europe and the floating exchange rates in the British Commonwealth, 50% against the South African rand, 20%, 30% against the Canadian dollar and the Australian dollar but there is no shock effect on our account.
bond market.

In the 1980s when we had falling dollars, we often had big increases in bond yields and we had in 1987 a stock market crash. This time, because of this massive central bank intervention of Asia, we've not had any shocks, so far. Could that change? Yes, if we keep running massive fiscal deficits, if we are complacent, there will be a time in the next two or three years when that dollar decline won't just be against Europe and the Commonwealth, but it could also being a big way against Asia. And if that happens, and these capital flows might stop, we'd have mortgage rates not at 5.5%, but at 7%. We pay a price for the weaker housing market and less domestic consumption.

MR. DOBBS: Thank you Dave. If anyone of you has a question of Mr. Dauch or Mr. Bleustein or Mr. Hale, just please signal and I will get to you instantly, I promise. In the interim, I would like to you Governor Kernan. On the issue of outsourcing,
you have recently had to contend with this issue both in terms of policy and politics, which somehow seem to go together with economics in making the judgment to really discontinue outsourcing overseas to a cheap labor market. Can you give us just basically your sense of the parameters for your policy decisions and your thoughts?

GOVERNOR KERNAN: We had a contract that had been bid through an RFP process for some technical information technology systems and the award was made to one of the three companies that ending up bidding proposals.

It was an overseas company. The other two bidders that were part of that were U.S. companies that also is a part of their proposals was going to do a significant amount of the outsourcing out of the country and obviously out of the state.

I made the determination that the request for proposal was flawed in that the way that it was drawn up, had effectively eliminated any Indiana companies
from being able to participate. And as we were looking to complete this work, it was not inconsistent for our responsibilities to purchase goods and services to be consistent with their policies to encourage job growth in Indiana.

And therefore rescinded the contract and it called together a group from around the state to form what we are calling "Opportunity Indiana" which is to make sure in circumstances like this and others where we are purchasing goods and services, that we give Indiana companies every opportunity to be able to participate successfully.

For instance on a contract like this, for them to do know what is in the pipeline, not just two months from now but also two years from now, so that they can make the judgment as to whether to create additional capacity to be able to deal with the kinds of challenges that we are looking at, to collaborate with other companies, to work with our universities and by giving more notice and giving more information, that we are encouraging our Indiana
companies to be able to participate.

We, among other things, sent out letters to every Indiana company, inviting them to sign up as vendors for state work, be it goods or services. Have now had almost 2,000 companies that are registered, additional companies that are registered to be able to do this.

So for me, it was maximizing the opportunity for Indiana companies to be able to participate, not to eliminate competition that may come in from outside of Indiana or outside the country, but instead to make sure that by additional lead times, opportunities for collaboration, more notice and assistance in helping to pull together other ways to do business to draw up a request for proposals that we could involve more Indiana companies.

And I would just add that Indiana is a state that, as David said, we make a lot of things and had forever, and manufacturing is a critical part of Indiana's economy today. We are the smallest state west of the
Alleganys and yet we will shop more than $16 billion forth of goods to international destinations last year.

Manufacturing is an important part of Indiana's economy in the future as well and I think just as we made the determination that we weren't going to throw up our hands and say, the competition from overseas, from other places is inevitable, we can't compete with it, that we aren't going to do the same thing on the manufacturing side either.

MR. DOBBS: Governor thank you very much.

GOVERNOR PAWLENTY: Thank you Mr. Dobbs and thank you for seeing and facilitating this discussion today. In the spirit of your comments of just a moment ago that most of us, like all of us support free trade but we always say it has to be fair trade and recognizing we really don't have fully free trade, nor do we fully have fair trade at the moment.
I'd like to ask our panel members, if they had to triage the challenges that we face with respect to unfair trade, or as I say stupid trade, you know you mention things like currency manipulation, you mention the more aggressive protection of intellectual property rights. There are political considerations that advantage certain commodities or countries relative to the United States. If you could pick just one or two things, on a triage basis, where you would want the federal government, or those of us who want to present some voices of change, to focus on as a priority, what one thing would you pick?

MR. DAUCH: The first thing I would look at would be tax code. We have got ourselves taxed to the hilt by far higher with the exception of one country of the nine major trading block countries that we deal with and a lot of discussion has occurred here today with China, you could put Taiwan in there or others. And they are 15% different on tax.
code. So that's an expense, so it would be one.

I think the other thing Mr. Dobbs and others have already discussed, and that is on the employee benefits. The benefits is a structural, non-production cost that basically is on the back of the manufacturer in our nation and isn't with most of the other countries that you compete with, there would be a couple and I would defer to other thoughts to Jeff.

MR. BLEUSTEIN: I guess I'd like to say a few more words about this tariff and non-tariff barriers. Because we can say those words but maybe if we illustrate it with a few real examples you'd get the flavor of what we are talking about. And they'll come from motorcycling but they can come from any place.

Harley Davidson does compete around the world. We do have the major market share in large motorcycles in the United States but we also happen to have the largest share of large motorcycle sales in Japan, which is the home of our four largest competitors.
So we are not afraid to compete and it's particularly gratifying to be able to do well in their backyard.

But it hasn't been easy, and let me give you an example of a couple of kinds of non-tariff barriers that we have had to deal with in Japan.

One of them was the very stringent test requirements for someone to get a motorcycle operator's license to operate a motorcycle that is greater than 400 CCs in size. One of the test was basically to ride a motorcycle across a balance beam. And you see the difficulty a gymnast have in doing that, imagine trying to ride a large motorcycle on a balanced beam. You are never quite as far off the ground but if you fell off that, it was a special experience.

LAUGHTER.

MR. BLEUSTEIN: The result was, only about 2% of the people who took that test could ever pass it. And obviously, although it was couched as a safety requirement and all of that, its real purpose was to keep Harley Davidson motorcycles, and I'm sure
before that, other motorcycles out of that market.

Fortunately, after many, many years of lobbying, we got that change and it led to a very big increase in sales, not only of our own, but other motorcycles as well.

Another example from Japan, one that we’re still fighting is, a ban against tandem riding on limited access highways, which means, you cannot have two people riding on a motorcycle.

What that does is force people who want to ride two up, to have to go on these back roads and streets if they ever want to go any place and as a result, people who tend to ride together, people who ride larger motorcycles, found these husbands and wives, guys and gals, who want to go some place together and so the highways are open to, you know, young kids riding super high performance motor cycles out on the freeways but more responsible riding is limited to the back roads and the city streets.

MR. DOBBS: It sounds like a marketing
opportunity where you'd be able to sell twice as many motorcycles.

LAUGHTER.

MR. BLEUSTEIN: We're trying. China has some of their own and it's not important to particularly to into them, but wherever you go around the globe, you find these things happening and I'm sure, I'm giving you the ones in motorcycling, but I'm sure there are examples in every field. So they are around and I don't mind competing to sell motorcycles in Japan. But let's have it a level playing field.

Same thing in China. We cannot sell a motorcycle in China today unless we are willing to manufacture it there and frankly, I don't think Harley Davidson with its Americana image and the kinds of quality and special features that we put into a motorcycle would have the same cachet even in China, if it were built in China.

When we go to China and see the motorcycles that have
appeared in China really through the gray market or
the black market, people riding them, they want the
authentic U.S. experience. So, they don't want one
that was made in their country, they want the ones
that were made where Harley Davidsons are made.
So that whole area is ripe with opportunities, and
that's where we say level playing field. That's what
I mean. Just one last little thing and I will go on
-- I did not use the word unfair. I did use the word
relentless pursuit of operational excellence and that
was a requirement for U.S. manufacturers, something
we had to do for ourselves.
Fair and unfair, I try to avoid those kinds of
classifications because they are so laced with
cultural implications and, you know, in come cultures
you may think something is very fair, someone else
may characterize it as unfair and so I just rather
avoid that whole issue.

MR. DOBBS: It was very unfair of me to
misquote you.
LAUGHTER.

MR. DOBBS: But I assure you I will review the tape. Thank you very much. Governor Rendell.

GOVERNOR RENDELL: I just have a quick question to Mr. Bleustein. When we even think of letting our prison clothing be required to be produced by a Pennsylvania company, so much as up, violates the world trade organization. On the three things you just stated, particularly the last one, that doesn't violate WTO rules or does WTO rules only apply to U.S. companies? Only toward us, that should violate WTO rules if -- I mean it's unfathomable.

MR. BLEUSTEIN: There are some things that really surprise you when you get into them but when it gets down to the politics of the negotiations, sometimes the decision is made to avoid a big conflict with, you know, an important political ally for some small commercial benefit for some small group of companies.

GOVERNOR RENDELL: So you're saying maybe
that was a political choice on your path. Does any
of the panel elude, do you know, with a third thing
especially violate WTO rules requiring that they be
made in China, to be sold?

MR. BLEUSTEIN: That would violate WTO
rules?

GOVERNOR RENDELL: And where is the
government? Where is the government banging the heck
out of them?

MR. DOBBS: I'm trying to stay a neutral
moderator here. Governor Rendell is going to --

MR. BLEUSTEIN: With China coming into the
WTO, those rules are set to go away and I think in
two or three years, we would be able to do it. But
you know, what happens in two or three years? We try
to do business every day and waiting a couple years
is not pleasant.

MR. DOBBS: I've never seen Governor
Rendell on any capacity, ever want to get into it
before. Governor let me as you this, Dick Dauch just
said this is all about jobs. But no one is entitled
to jobs. I was with you all the way until you got
right there. No one is entitled to jobs and if this
is not about jobs, if it's not about quality of life,
what's it all about?

MR. HALE: Can I answer that Mr. Dobbs?

First of all, the issue is competitiveness. And on
the broader scales, we discussed this about global
competition. As I've also indicated, it's not
cyclical like has been in the past, it's structural.
And all these things are re-hashed, but they are
facts.

If we look in maturity here, in the late 1990's for
whatever reasons America took a position of allowing
the dollar to become strong. And from '97 to 2002,
our dollar strengthened to the point that it hurt
severely, structurally our exportation. And that had
an impact on deficit, that had an impact on
capacitization (phonetic), that had an impact on
jobs, that had an impact on the financials that you
have to have for your Boards, your governors, your
investors, and the shareholders, because we have
fiduciary responsibility to all those different
c constituency.

So we are at a cost price squeeze. We are in a
talent squeeze. We've got an unfair playing field.

We talked about basically our market is open. Why do
we have these different trade agreements? Because we
are trying to restrict these burdens that we are
carrying that are unfair, going back to that
fair/unfair treatment.

I said to my people, about the only two things that I
know are truly fair is you get 24 hours a day and you
get 7 days a week. It doesn't matter where you live
in the world. The rest of this is just real and you
have to adjust to it.

We in manufacturing, basically have been put in a
very difficult squeeze because of that fiscal policy,
which there has been a new direction in 2002 to let
the exchange float to the market. But it takes for
time for policy to dig in and we are encouraged by
those policy directions that there is improvement occurring.

The same way with tax. Of course, you've got the conjecture with that tax reduction, the three in the last couple years, will be repealed or not. Those are issues that you governors and the national administrative have to deal with but there costs that are hurting our manufacturing competitors.

If you have the tax issues, if you also have the environmental issues, you also have the employee benefit issues and you come up to 22.5% structural cost. You can't hide from it. It's real. So we have to deal with those things. And yet jobs is or course, but economics is what it's all about.

MR. DOBBS: Economics is what it's all about and I take your point. But let me pose the questions, if I may, to you Mr. Bleustein, as well as Mr. Dauch and to David Hale. The men and women in this room are facing policy choices and indeed up the street, on international trade competitiveness. In
one instance we're hearing you say that it's not a level playing field, in terms of world competition.

We are hearing you say it's unfair, that it is ruthless, that it is relentless.

We're talking about structural change and barriers to competitors on the part of manufacturers. What are the structural challenges for labor, for the men and women who make up your companies, whether it be on the manufacturing floor, or it be on the executive side. And I'm going to come back and restate my question David.

I know that we all have a tendency to look at some things in the abstract. But this is a very real, real issue for those people who are losing jobs, who've lost jobs and for young people who are trying to prepare for jobs. If it's just economics, that this country is a marketplace before it's a nation or that there is our lives before there is quality of life, I would just like to have you address those issues, and from your own perspectives, if I could
David.

MR. DAUCH: May I start David?

MR. DOBBS: I think Dick Dauch would like to start.

MR. DAUCH: Yes. To me the most important asset any manager has to manage is the human resource, which we'll call that labor. And the most important thing to do is to be truthful and to discuss with your men and women, tell them the truth and tell them what are the issues. The issue is about competitiveness, it's globally competitive and if we're not competitive, we have to adjust to that.

The American people, if given the straight scoop, we'll respond positively, remarkably, resiliently.

I've had the privilege to see that over four decades, going into five decades.

We are a Michigan based company. Michigan is basically a blue collar, union, auto-focused state, and there is not a better actual producing plant in
the world than the state of Michigan, in the city of Detroit with unionized labor. And those are plants that, for 75 years, were in difficult harms way or troubled plants.

We have run 165 million man hours without a lost second of labor and management strife. Not because there is a love there but because there is an openness, there is honesty and everybody is adjusting and labor is one of the seven or eight most crucial factors but it is one of seven or eight factors and we have to balance all of that.

It's going to be about economics and labor will have a powerful view and I've seen labor have a very flexible, positive response from mature contribution. But it's a process, it's not an event.

MR. HALE: I'd like to make just one overall comment about the labor market of this country because it's not a well understood fact that this country loses every year 7.5% to 8% of all its jobs. The recently unemployment rate is 5.5% and its
declined in the years is that our job creation in general over the last several years, has exceeded job destruction. The last two years being the exception but not by very much.

So we actually have, in our country an extraordinary amount of turnover in employment and in jobs. We have to get used to that fact. Now the challenge I think for workers in the manufacturing sector is very simple.

They have to collaborate with their employers, they have to collaborate with their companies, maximize productivity, maximize profitability. Because it's a strong company, a profitable company that gives us investment, give us R&D, gives us new employment opportunities.

And that means flexibility on work rules, flexibility on all they things which influence productivity. If we have that, we will have more employment growth. If we don't have that, we may protect one or two jobs in the short term but will lose them later because we...
just won't be as competitive, we won't have the
profitability, we won't have the ingredients, the raw
materials for economic growth to give us employment
guarantees to compensate for the fact that we lose
7.5% of all of our jobs every year.

MR. DOBBS: Yes sir.

MR. BLEUSTEIN: I'd like to just add my
comments to that. I think I mentioned in my remarks
before, the importance of management working together
with labor and unions in partnership in the
enterprise because it works better for everybody.

And we have really worked hard on that as Mr. Dauch
has in his factories to get people to realize that
labor and management are really on the same side and
the real key is to stay competitive.

But I would like to give a slightly different
perspective on productivity because I don't think
that improved, increased productivity necessarily
leads to job loss.

This would be to describe our own experience starting
in the early '80s we started to focus on improving productivity. At that time, we employed about 2,000 people. We have increased our productivity at a very high rate since the mid-'80s every year, so for two decades and today we employ 9,000 people. So productivity doesn't lead to job loss necessarily. Now a lot of people have different jobs that they had before, but they are still employed by the company. They needed to be retrained, they had to learn new skills and we continued to grow our business.

So the real enemy of jobs is lack of competitiveness, not improving productivity.

MR. DOBBS: Governor Kempthorne.

GOVERNOR KEMPTHORNE: Lou, thank you very much. Mr. Bleustein, first an observation which will lead to a question and then I'm going to broaden the question. But you used the term the Americana image and that is so successful overseas. It's also successful here in the United States. And that's part of the Harley heritage that's America's
motorcycle, it's an icon.

I purchased an article of clothing, I bought a bunch of Harley clothing. But this one in particular, I paid a little more for this particular article than I did for the one hanging next to it. The reason perhaps, it cost more is because, on the inside, was the American flag that was sown in there. It was made in the USA.

The one next to it was not. And so, I'm interested at what point marketing plays a role, and also consumer loyalty. And if manufacturers need to bring that element into this.

And then also, if you and Mr. Dauch could address tort reform. Because I heard some positive things said about Wisconsin, I don't know if Wisconsin has undertaken tort reform. I know that Texas has. I know that we have in Idaho. So, how important is tort reform and why and what form should it be?

MR. BLEUSTEIN: Let me deal with the marketing issue and I'll let Mr. Dauch handle the
tort reform. I'll be happy to chime in as well. The market is important and as I said there, it's really helpful if you can create a business model or a business strategy that allows you to choose a different battlefield if you will, for the competition.

If you allow your products and whatever you are producing to become commoditize so that anyone could make the same thing and deliver the same experience, then the winner is going to be, you know, the person, to company with the lowest cost.

And I think no matter how hard we try, it take a while before we are going to be able to compete. I think there is always going to be someone who will be able, from a commodity product to have a lower cost than we are going to have in the U.S. because there are just some things that our society will not accept, that are accepted in other places around the world.

So it's helpful to find something else, you know, if...
it's marketing, if it's a particular proposition for your product or your service, that distinguishes you from other manufacturers who are in the same area, but maybe have a different business proposition. And marketing comes in in a very important way there. It is just -- it's pretty fortunate that you actually had a choice by a similar product made in the U.S. clothing product made in China or Korea or Thailand, or any one of the number of countries in Asia. We fodder a losing battle for many years trying to prop up the U.S. clothing manufacturing industry at least as it related to our products, leather manufacturers and things like that, unsuccessfully. I mean they just couldn't. Our business was not enough to support them. Now as our company has grown and we are a fairly large clothing distributor, as far as distributors go, we have been able to bring some companies back from the dead and in fact create some companies now, who actually will produce, you know, a garment in the U.S. but it's very difficult
for them to get to the same quality levels and so forth. It's still is a higher cost product but some people are willing to pay that price and some demand it. So we try to please our customers.

MR. DAUCH: So in manufacturing that relate eventually to marketing on my response to your point. What I discuss with my people on the day we took over, whereas it's a firm that was terrible neglected, everybody was high anxiety. Nobody thought they would ever have a job, and we fast forwarded in 10 years and we've elevated their education 5 years.

We've elevated their diversity dramatically and the genders of female, about 300%. On the hard core things, you can market quality from 13,000 parts per million to less than 10 by far better than anybody else in the world. That you can market. Otherwise it's not very sexy or sizzling to look at steel or gear or an axle or a driveline. But when you put it into a crucial industry, the auto industry, which is still the biggest bell cow in the world, a driveline,
a drive train, a power train is what the guts of it
is all about, because you have to have tort delivery.

Whether it's a motorcycle or it's a car or a truck, I
don't think anybody rode a horse here to Washington,
DC. So you got here by a car, a truck, or a bus and
you don't want to hear our business, you want to be
quite. I can market quiet, NBH.

I can also market warranty protection. If one person
say 100,000, I say 200,000, that's twice as good.

That's marketable. I can sow in a red, white, and
blue flag, it's not going to do any good to my
customer today. If I don't have measurable math
data, a fundamental value added work, which is what
manufacturing is all about and we balance that with
marketing.

On the other piece on tort reform, it is one of the
top five big boys that make up this structural cost
impediment that we've got. If I put that into the $5
an hour, it would be over 80 and almost 90. Well
if we are in negotiation and somebody wanted 80 per
hour and I've got 20 million hours per year, well,
that's an economic issue. That's $16 to $20 million.
So multiple that times however many manufacturer we
have, we of NAM represent 14,000 manufacturers and
let's say there is maybe 20,000 total in our country.
Tort reform is a very critical issue. It needs to be
addressed by the men and women in power at the state
level and the national level.
So, I think those are very salient points and that's
sir how we try to respond to that. Thank you.
MR. DOBBS: Governor.
GOVERNOR CARCieri: Thank you. I spent
most of my career doing what you're doing, which is
competing against the Japanese and the Chinese and
trying to -- all of the non-tariff barriers that you
referred to, I saw time and time again.
I think that what strikes me in the conversation that
I would be completely supportive of Governor Rendell,
you know, if we got unfair situations, we should be
pursuing those and making sure that's not happening, because it does. I saw it time and time again.

The issue though what I'm interested in is healthcare cost, you talk about healthcare cost, tort reform and expended on a little bit, but healthcare costs is just an enormous issue, some of which we can deal with at the state level, much of it at the federal.

I'm trying to bring this back to, as a governor, having a businessman my whole life, now as a governor, I'm only interested in one thing, economically, which is jobs.

Because if we are producing jobs and employing people in our states then we produce the revenues, etcetera, etcetera, and we're producing a quality of life. So I'm trying to ask myself what's absence. I haven't heard yet in this kind of a discussion, is getting away from tariffs and barriers as Lou said, you know, protectionism versus free trade. And bring it back down to issues that as governors, we can have some impact on.
And there are a few that I would tick off that I would be interested in your thoughts on. One is technology development. What kinds of incentives are there. Are there enough incentives for technology development.

I'm an absolute believer of that's the future for our nation, it's the future for my state. We are going to stay ahead of the curve competitively as long as we continue to innovate and produce the products without commoditizing them. And we've got to do that with a sense of urgency.

Beyond that, and arriving back to my business days and see issues like worker's comp cost, unemployment cost, energy cost, workforce training and development cost and so forth. And those are the kinds of issues that we as governors can actually have some impact on and I know things I'm trying to work on in my little state. But I'd be interested because sometimes we get into this whole, you know, competitive situation. We cannot affect what they are paying wages in China.
There is no way we are going to be able to ever compete against that. That's a reality. The question is, what do we need to do to position ourselves competitively, and what can we as governors do in the kinds of areas that I've talked about -- and we didn't talk about energy, but I'm just saying some of your thoughts on that. Because worker's comp is a big issue, unemployment cost, because we've got great support systems nationally and statewide, I'm not convinced at all we're doing a good job getting people back to work, fast and make them -- because anybody who's been out of work for a long time, doesn't feel very good about it. We support them, we've got a good support network, but we're not doing them a favor by keeping them out of work. So I'm interested in your thoughts.

MR. DOBBS: Chairman, can I ask for it to be very succinctly there. We've got just a few minutes left and we have two more governors with
questions and I promised they'll be able to get them in. So if you would.

MR. DAUCH: Let me take energy first. I think you man and women can really help us on energy. We as a manufacturing profession use about one-third of the energy in the United States of America, so that's huge.

Secondly, an energy bill is stuck somewhere in Congress. We need help. What happen in the millennia we're in is, we had an abundance of natural gas just a few years ago. And today, because of flawed policies in our nation, we are being raped on energy at the natural gas level, and these are costs that have to be burdened onto the unit cost, whether you're selling a Harley or whether you're selling a driveline system.

So I would really ask for energy policy to be a priority of the governors and however you interface with your national colleagues.

MR. BLEUSTEIN: Just let me say a few
words on healthcare cost because that's a really
tough area. There are some obvious things like
medical malpractice awards and things of that sort,
but there is really a more fundamental problem for
you politically.
The reality is, is that the healthcare industry has
not undergone the kind of self-examination and
productivity improvements that manufacturing has been
going through for 20 years.
They just haven't started and the problem for you
politically is -- not you, but collective you -- is
that healthcare, because of the fact they haven't
gone through all this productivity analysis and
thinking about how to do things lean and how do you
deliver the high quality experience at the lowest
possible cost, they are adding people at a fabulous
rate. And that's where all the jobs are being
created.
So how can you tackle this issue of healthcare that's
giving you all these jobs when the problem is, is
that it's giving you all the jobs. So that's one
that's too big for me to solve, so I'll just stick to
manufacturing.
I want to say one more thing Lou if I could to the
governor on energy. In my hat in NAM, I was
absolutely stunned sitting in an aghast group like
this with those folks and this particular executive
was representing the chemical industry, which is the
largest user of all professional manufacturing in
energy and natural gas.
And they indicated they were going to put a billion
and a half dollar plant in the Middle East. And we
said isn't that quite risky? He says no it's more
risky to put it in the United States with lawyers and
tort reform and no natural gas.

MR. DOBBS: Governor Granholm.
GOVERNOR GRANHOLM: I was going to ask
this question of David Hale but he's gone. So I'm
going to ask it of you Lou, since you are now the
expert in the house.

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MR. DOBBS: We can quickly go catch him and bring him back.

GOVERNOR GRANHOLM: You may or may not want to answer these but I have two questions for you. One is in light of the fact that we do want to level the playing field and everybody has said that and one of the suggestions has been made to ensure that in trade agreements, that we do adopt in the future that we do have core labor and environmental standards in them. Is that one way to assist in the multi-tiered way of assisted manufacturers, that's number one.

Number two, the issue that Ed Rendell raised about enforcing trade agreements at the WTO. The data demonstrates it -- and I really don't want to make this partisan, this is just a data piece of information, you tell me whether it's relevant -- the last three years of the former administration, there were 27 matters -- cases -- brought before the WTO.

In the past three years there have been 7 cases
brought. Is that a factor that is relevant to leveling the playing field?

MR. DOBBS: I think I can keep this bipartisan if I'm relatively careful. One is the mess that have in terms of our trade agreements whether bilateral in some instances, but in most issues, most instances, multi-lateral. Both Republicans and Democrats can claim equal credit for the problems that we are facing today.

The WTO represents, as governor Rendell, or Mr. Dauch or Mr. Bleustein, and even David Hale have eluded to, some special issues. We are not enforcing treaties, whether it be under WTO, whether it be under NAFTA, or whether it be more than multi-lateral treaties and we do not have a level playing as Mr. Bleustein and Mr. Dauch referenced.

And it is in some measure, the fault not only of obviously of the treaty makers themselves, our national policymakers, but also, if I may, gentlemen, it is the fault of some of the corporations, U.S.
based multi-nationals themselves. Because they've looked at that risk as the cost of doing business.

And I would submit to you that the cost of doing business on a price level, that is at the corporate level is one thing, but the cost of free trade to this country right now to be summed up under the term "trade deficit." And there is nothing surprising about this, there is nothing new to any of us.

We have not run a trade surplus in this country for over two decades. That takes care of Republican administration and Democratic administrations and as you suggest governor, it's time for people to start talking straight, quit worrying about the partisan nonsense because those sort of reflected mirrors, the partisan shift and ideology do very little to serve as a clear window for you all to help set policy and to lead. Governor Easley.

GOVERNOR EASLEY: Thank you. I think I can speak for about everybody around the table that the governors support free trade but free trade is in
America's interest but I'm not sure we've always got those agreements.

I see our challenges as two, one is reduced cost in America for business as much as we possibly can. You don't get employees without employers, we recognize that. We've got to do it without doing away with healthcare and worker's comp and environmental protection and those sort of things that distinguish America as a great country and dominance in the world.

The second is dealing with the reality, not the theory that if we do this everything is going to work out in 10 years, everybody's going to have better jobs and standard of living will be up and all that. And that may very well be true but in 2002 when China came into the WTO, we had special China safeguards recognizing it was a very unique circumstance.

As a result of that, we lost in North Carolina, for example, 14% of our textiles, those jobs. In '05, we lose all the quotas and the estimate is we lose 75% to 80% of what's left. Now, what do we do with the
5,000 Pillotex workers who were laid off in Kanapolis, a town of 29,000? We've got 2,000 of them back in community colleges, but what do we tell them about 10 years from now, things will be better? You know, 500 houses foreclosed on during Christmas. There is a reality out there of people losing jobs who are our least educated citizens, whose basic skill levels we know we have to get up. Everybody is committed to that, everybody has an infrastructure and place to do that, but we can't do it so rapidly and get them jobs, otherwise we end up, as Bob Taft pointed out, supporting them.

So how do we as governors deal with that, given the current circumstances in foreign trade?

MR. DOBBS: Mr. Dauch.

MR. DAUCH: I have no expertise in textile so I can't respond directly to that. But I have a hell of a lot of expertise in manufacturing and I had a much bigger problem. I had 97,000 people working for me while I was Executive Vice President of
manufacturing at Chrysler and we had to close or
mothball 20 plants and I went and talked to each of
those people when those plants met their waterloo.

And four years later, we reopened or brought those
people back because we learned how to be competitive.

I agree with this governor, we learned how to advance
technology because technology is a differentiator,
and instead of saving our way into bankruptcy, which
so many people do, we had to spend selectively,
intelligently on the right product so somebody would
pay a premium on the price instead of the distressed
merchandise.

So that was one example, real with the Chrysler
Corporation in the '80s. It wasn't a lot different
than that in the '90s when we took over this inner
city Detroit, inner city Buffalo, New York core
business of General Motors that was a true epitome of
rust bucket, which I detest that term, but that's
what it was and we have, just like my esteem
colleague here next to me, we had 7,000 people, we’ve added 5,000 people, because we learned how to become productive, how to engage technology, product price system.

With concurrent raining and take the education up five years and 10 and have no strikes, no slowdowns, no sabotages and eliminate scrap, eliminate waste. We can compete. How you apply that in the textile industry? Somebody else would have to respond but how you respond to it in heavy manufacturing or auto or steel or forging or casting or stamping or metal bending or whatever you might want to call it, we can compete in America, but we need policy help. And we are not trying to eliminate employee benefits, we’re trying to reduce the overhang, the 22.5% overhang.

Thank you sir.

MR. DOBBS: Governor Granholm we’re down to two minutes. You get the last questions and we’ve got two minutes.

GOVERNOR BLANCO: Well Mr. Dauch you said
something earlier about the energy policy, the failed energy policy and certainly in Louisiana, we are one of the high energy producers and now the cost of natural gas is driving our chemical plants out. We are also one of the highest users.

Do you have any ideas on how to address this situation. The energy bill as something that was supportive but our congressional delegation until the administration cheapened it and took out the benefits that Louisiana needs to restore our coastline. You know we'd be happy to get back on that energy bill ban wagon if the administration would help us restore our coastline.

There is a lot of talk right now of restoring Iraq's coastline that Saddam Hussein destroyed, but not our own. I mean, you know, we are in this crazy kind of situation in this country right now and we've got to do something. We're losing jobs. It's a vital situation.

MR. DAUCH: Well miss, the issue, you and
I agree, is a major issue for our nation and you've also indicated that there has been recommendation to the Congress and somewhere between the two factions, we haven't gotten it done.

If we sat and do nothing, we're doomed. We have to get the issue back to high priority and nobody is going to get an idealistic solution. We have to find some solution that's reasonable with some kind of balance and get it on. Otherwise we're all going to be hurt and the employer, the associate that we as leaders represent, we owe that to them to give them a chance at hope. At a chance for future employment, whether it be in textile or whether it be in energy, or whether it be in auto or wherever it might be. We will reach out to help anyway we can.

We know our nation went through a short-term recession, 9 to 12 months, that conjecturable but we in manufacture went through a three plus year recession and one of the things that drove that was the spikes in energy, and we are not over it yet.

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Obviously, in your home state of Louisiana you're not over it yet. So we of manufacturing will be participatory and be part of the solution. We will let the process of leadership at the state and national level also do their responsibilities and I think we will lose good leadership. There is going to be a lot of discussions on these points. We'll be here to help. Thank you.

MR. DOBBS: Thank you very much. And Governor Blanco thank you very much for your question, which unfortunately have to be our last question of the afternoon. It has been a great pleasure to be with you. Richard Dauch and Jeff Bleustein, thank you gentlemen for being with us.

APPLAUSE.

MR. DOBBS: And I turn it back over to Governor Kempthorne. Thank you very much.

GOVERNOR KEMPTHORNE: Well to Mr. Dobbs and to Mr. Hale, Mr. Bleustein, Mr. Dauch, I hope that you found this afternoon worthwhile because you
had a forum with the nation's governors.

APPLAUSE.

GOVERNOR KEMPTHORNE: And we certainly did. This is very beneficial because all of us are critically interested in jobs and manufacturing and productivity and technology and we all converge. I want to thank everyone who has participate. I will mention Micron Technology which is located in Idaho but they have actually now brought jobs now over from overseas and they now produce the camera in a pill for certain procedures, where you, instead of more invasive procedures, you may now swallow a little pill that has a camera and it will give you the images that you need.

So again, this has been worthwhile. I think we need to sustain this. Governor Granholm thank you too for your comments. We also received a call from Secretary Tommy Thompson and he has indicated that his Medicaid Director, Dennis Smith will be available to meet with governors tomorrow. So any governor who
will like to have a personal meeting with the Medicaid Director, if you will just contact NGA staff, they'll work it with your schedule. That would conclude this afternoon's session. I want to thank all the governors for your participation and again for an outstanding panelists. Thank you.

APPLAUSE.

(Meeting adjourned at 4:45 p.m.)