NATIONAL GOVERNORS ASSOCIATION
2008 CENTENNIAL MEETING
PHILADELPHIA, PENNSYLVANIA

- - -

PLENARY SESSION
JULY 13, 2008
CREATING A DIVERSE ENERGY PORTFOLIO

- - -

VERITEXT NATIONAL COURT REPORTING COMPANY
KNIPES COHEN
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Governor Tim Pawlenty, Chair

Robert A. Malone,
Chairman and President, BP America, Inc.

Vijay V. Vaitheeswatan,
Award-Winning Correspondent, The Economist

Distinguished Service Awards

Corporate Fellows Tenure Awards
CHAIRMAN PAWLENTY: Good morning, everybody; good morning, distinguished guests.

I now call to order the 100th Annual Meeting of the National Governors Association. I would like to begin by saying what a privilege it has been to serve as the National Governors Association Chair over these past 12 months.

We also want to welcome all of our governors here. We would like to have one of our new governors here this morning as well, Governor Paterson from New York, but I think he was called back to New York on state business, but we certainly welcome him and are excited to get to know him better and work with him as one of our colleagues.

At this session, along with hearing from two notable speakers on creating a diverse energy portfolio, we will recognize our Distinguished Service Award winners and our 15- and 20-year Corporate Fellows, but first we need to do a little housekeeping and procedural business, and I need to have a motion to adopt the Rules of Procedure for the meeting, and I
understand Governor Rendell has been carefully studying this motion and is prepared to make a... 

GOVERNOR RENDELL: So moved.

CHAIRMAN PAWLENTY: All right.

The motion has been made.

Just as a quick reminder, 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, and please submit any proposal to that effect to David Quam by 5:00 p.m. today.

Now we will vote on Governor Rendell's inspiring motion. All those in favor say aye.

GOVERNORS: Aye.

CHAIRMAN PAWLENTY: Opposed say no.

(No response.)

CHAIRMAN PAWLENTY: The motion prevails, and the rules are adopted.

Now I'll announce the appointment of the following governors to the Nominating
Committee for the 2008-2009 NGA Executive Committee. The Nominating Committee will consist of Governor Rounds, Governor Henry, Governor Rell, Governor Gregoire and Governor Minner, who will serve as the Chair.

I also want to announce the presence today of some distinguished guests we have, from, first of all, the National U.S.-Arab Chamber of Commerce, the Japan Global Government Center, as well as Dean Del Mastro, a member of the Canadian Parliament, Senator Jeramiehl Grafstein, and the British Ambassador to the U.S., Sir Nigel Sheinwald. We also have with us Mr. Kuse, who is a former member of the Japan House of Counsellors.

Please join me in welcoming all of our special and distinguished foreign guests.

I also think it's important that we recognize and appreciate the incredible and really spectacular hospitality of Governor Rendell and the Honorable Judge Midge Rendell. I think you have all enjoyed their hospitality, and I know behind the scenes how hard Ed worked
to make this a reality, both in terms of the planning and the fundraising and the like. An event of this magnitude doesn't happen easily. Let's once again thank Governor Rendell for his tremendous hospitality.

We will hear from our speakers in just a moment, but I want to just share a few overview thoughts and reflections about the initiative for this year, which is Securing a Clean Energy Future. We kicked this off at last year's summer meeting in Traverse City, Michigan, which Governor Granholm graciously hosted. It had four and continues to have four areas of focus. The first is recognizing the notion that the cheapest and cleanest energy we have is the energy we don't use, and while we are all anxious to move on to the important topics of technology breakthroughs and fundamental shifts in the current energy platform, we shouldn't overlook the low-hanging fruit and relatively easy-to-obtain success and progress we can make in energy conservation and efficiency. Second, we want to make sure the initiative focused on promoting and encouraging
a movement towards alternative fuel and alternative energy more broadly. The third area was to try to clean up our emissions, and the fourth was to try to encourage best practices as it related to research and development.

The activities surrounding the initiative included a series of summits across the country. We had one in Florida hosted by Governor Crist regarding alternative fuels and next generation vehicles. Governor Gregoire hosted a summit in the State of Washington relating to research and development and technological breakthroughs. Governor Sebelius hosted a power generation summit in Kansas, and we are grateful for that.

This initiative also focused on a series of public-private partnerships, including a partnership with Google and Intel on climate savers, which related to energy efficiency and conservation, particularly as it related to technological appliances like computers. We partnered with the Discovery Channel and many of their sister outlets and channels to promote these issues across their
airwaves, and they have been tremendous partners with us. WalMart stepped up as part of a public-private partnership to offer energy audits for state capitals across the country, and in just a moment we will be saying more about a new partnership with General Motors as it relates to their willingness to help us promote alternative fuels and E-85 pumps.

I also want to remind you that there are a series of publications that have been finalized and now are available to you in front of the governors, and to our guests and members of the press here, these are available to you as well. The initiative started out last year with a call to action, which kind of framed the initiative and the challenge and the opportunity that we are facing. There was also an earlier publication on biofuels and greener fuels.

Today in front of you are four more publications that I hope that you or your staff will find to be of interest and beneficial. One relates to research and development best practices from around the
country, another relates to power generation, a third relates to the best practices of the states and activities of the states over the last year--that's the thicker one, I think you will find interesting materials in there--and last is a conservation and efficiency publication that we think will be of help to you also.

I also want to thank the Secretary of Energy, Secretary Bodman, and his staff, Assistant Secretary Andrew Karsner, who is with us here this morning. They have been generous partners with us in the interest of a federal-state partnership, providing an $850,000 grant over the past year to fund some of these activities and the grants that will be part of the follow-on activities of this initiative.

Assistant Secretary Karsner announced this morning that they are going to double down that amount for the next year for another $850,000, and he also announced this morning at an earlier press conference that the department is going to sign up for an up to
$5 million commitment to sustain these activities through the NGA over the next five years, and they view that as binding regardless of who wins the office of presidency and which administration will come forward. They feel it's that important from a structural and sustainability standpoint.

Then before we introduce our speakers this morning, in terms of kind of the tone and attitude of this nationally, obviously, when this started a year ago in Traverse City, Michigan, I think oil was about $80 a barrel, maybe a little less, and as we gather here today just one year later oil has increased to nearly ... well, it bounces around a little bit but say $140 a barrel on average.

Our nation experienced a very severe and acute energy crisis in the 1970s. Many of these same concerns, many of these same problems and pressures were experienced by our citizens over 30 years ago. The prices subsided after that, and I think it's fair to say the country did not move as boldly and as strategically forward as it relates to energy
policy, as it should have or could have, and we do not want to make that same mistake again now.

In part, we have a supply-and-demand problem. We have a world that is continuing to consume more and more energy, and that's particularly pronounced as we watch the rise of places like India and China. Those forces and trends are unlikely to subside any time soon and so we need to create more supply as part of the solution. And what that supply looks like and how affordable it is becomes very, very important, but I think it's in our best interests as states and as a nation to Americanize and diversify our energy portfolio and to make sure we increase the supply as much as possible.

There are very exciting new breakthroughs evolving and becoming more and more available in the energy economy, both here and abroad, but there are also some fundamental realities that we have to face in the near term. And in the near term, for example, if you look at a pie chart of the base load energy of
our country, it's about 50 percent coal, it's about 20 percent nuclear, it's about 20 percent natural gas, and the rest falls into what you would call other categories, including alternative energy. We want to grow the part of the pie chart that is Americanized and diversified and clean as rapidly as possible, but in the meantime we still have the opportunity to transition and use our traditional sources of energy.

For example, coal, we have got a 250-year supply or so of coal in the United States of America. I think we all hope for a day where that clean coal technology will be able to be deployed in a way that's clean and commercial and economical. But it still is going to have to account for a significant part of our energy future in this country, particularly in the near term.

In my view, as we look at the nuclear energy issue, it is clean from an emissions standpoint, and I think we would be well served as a country in my opinion to advance and reopen the nuclear issue as well. Natural gas continues to be part of that
portfolio, but we are already a net importer of natural gas and, like oil, it’s price volatile. And then we need to grow the rest of that pie chart as rapidly and as aggressively as possible, but it also needs to be economically feasible.

We have a lot of work to do and in the area of biofuels and vehicles, which are such a big part of this equation as well. We started out with a biofuels initiative in places like Minnesota that has served us well in Phase One, but I think everybody now realizes that needs to transition to Phase Two, that the future sources of biofuels are going to have to be more products that are waste products from agricultural or marginal products, things like switch grass, things like municipal waste, things like other aspects of byproducts of agriculture rather than food, cellulosic ethanol, cellulosic biofuels, which are under development and we are hopeful for breakthroughs on that front to allow our biofuels future to be based on a more efficient process. And we are hopeful for those
breakthroughs, but all of this is in a period of transition, and we have two speakers with us today who are going to talk to us a little bit about the current platform, about the transition area period that I think we all understand that we are in, and what the future might look like in this energy future.

I want to though first just announce and thank General Motors again for this partnership on this E-85 State Pump Partnership. They are going to be willing to work on a very concentrated basis with states who are interested in expanding, developing and building out their E-85 infrastructure. They view it as kind of a chicken-and-the-egg problem, that more people won't use biofuels like E-85 unless the infrastructure is in place, and the infrastructure is not going to be in place unless there are people who are demanding that that be available for the types of cars that they want to drive and purchase. And so we have Ed Wallace here from General Motors who is the Director of State Relations.

Where is Ed? Somewhere in the
room. Ed is over here.

Ed, thank you for this partnership. And if you are interested as a state in working on this initiative and with GM's help in building out the E-85 infrastructure, they are going to be willing to work up with 12 states on this topic, so see Ed now or down the road and he will be happy to work with you on it.

We also want to thank and acknowledge the presence and support of a number of others who have been so generous with this initiative over the past year, they include American Electric Power, Dominion Resources, the Ford Motor Company, the Rockefeller Brothers Foundation, and again the U.S. Department of Energy. Would you join me in thanking all of them as well for their support.

Before we get to our speakers, I am going to have a short video from the Discovery Channel that I think captures some of the work that's been done over the past year and some of the opportunities and challenges
that lie ahead. So if we can go ahead and play
the video from the Discovery Channel.

(Whereupon, the video was
shown.)

CHAIRMAN PAWLENTY: Let's thank
Discovery and Jim Gordon, the Vice President of
Marketing, for their great partnership.

As we talk about the Securing A
Clean Energy Future, one of the considerations
of course is how much does all of this cost,
and with the energy price run-up that we have
seen in recent months and years, all of these
things have to be balanced about making sure
that they don't unfairly or unduly burden the
people who are struggling to pay grocery bills,
who are struggling to fill up their gas tanks,
and so cost balancing the improvements that we
all seek with making sure that they do not
burden our citizens with additional costs is an
important balance and consideration to bring
into the picture.

Our speakers today are going to
address that issue as well as other aspects of
the opportunity and challenge, and they are two
kind of leading writers and thinkers on these
issues. They are Robert Malone and Vijay
Vaitheeswaran. Following each of their remarks
there is going to be time for questions.
We are going to start with Robert
Malone. He is the Chair and President of BP
America, which is based in Houston, Texas. He
of course is involved with oil and gas
exploration issues at a very deep and
significant level, including production and
refining and supply and trading, alternative
energy development as well, but it's also
important to note that BP, while it's an oil
company, has also embraced a full universe or
continuum of alternative energy opportunities
in order to pursue a more balanced, more
diverse, more Americanized energy portfolio.
They are working on biofuels;
they are working on solar and hydrogen and wind
energy resources that will help meet future
demand. He also, I think, has agree to answer
the question, how come oil went up so fast over
the last 12 months, right, Bob; is that right?
What happened in the last 12 months that would
take it to go that far that fast?

But please join me in welcoming
somebody who has been very gracious in coming
to spend some time with us on a Sunday, Robert
Malone. Thank you.

MR. MALONE: Well, good morning,
and thank you, Governor Pawlenty, for that kind
introduction.

What wasn't in the bio is that I
am actually the son of a ranger from Virginia,
Minnesota, and even though a lot of people
assume that I am a Texan, I was four years old
when I arrived there but at least I started out
in Virginia, Minnesota.

Let me also wish all of you a
very Happy Birthday, 100 years.

Congratulations, and also I want to thank you
for inviting me to join you here today to share
BP's views on what we think is required to
diversify U.S. energy supply and to meet this
nation's growing energy needs and demands.

The price of oil, the impact on
consumers at the pump and the ripple effect that we are seeing across our economy has everyone talking about energy. It's difficult to turn on the television, to listen to the radio or to pick up a newspaper without seeing a story about the need for a coherent national energy policy. At gatherings like this there is always a lot of talk about reducing the nation's dependence on foreign oil, through conservation and the use of alternative forms of energy, but, Ladies and Gentlemen, this conversation is not new.

When the 1973 oil embargo caused rationing and pushed the oil price from $3 to $11 a barrel, President Richard Nixon launched "Project Independence," and he had launched it with these words: "Let this be our national goal, at the end of this decade, in the Year 1980, the United States will not be dependent on any other country for the energy we need to provide our jobs, to heat our homes and to keep our transportation moving."

Even before the embargo had been announced, a program to produce an
unconventionally powered, virtually pollution-free automobile, the goal was within five years. After the Iranian Revolution and the oil price spike that followed, Jimmy Carter, then President, called on Americans to turn down their thermostats. He put forward a $142 billion energy plan that was designed to deliver energy independence by 1990. The plan included steps to attain the crucial goal of 20 percent of our energy coming from solar power by the Year 2000. President Carter assured the nation that, "Beginning this moment, the nation will never use more foreign oil than we did in 1977, ever."

President George Herbert Walker Bush established a $260 million effort to develop lightweight battery systems for electrical vehicles, and he put forth an energy policy that, yes, designed to reduce U.S. dependence on foreign oil.

President Clinton followed with a $1 billion effort to produce a super-efficient 80-mile-per-gallon prototype car by 2004. He also proposed a tax on energy to drive
conservation and reduce the federal deficit and he signed the Kyoto Protocol, only to see the U.S. Senate vote 95 to 0 in favor of a resolution opposing ratification.

Now shortly after taking office, President George W. Bush said the nation was running out of energy and needed to do a better job at finding [a] new supply. He warned that we couldn't conserve our way to energy independence, and two years later he announced a $1.2 billion effort to develop a hydrogen fueled vehicle.

So what do we have to show for all these efforts? First, renewable forms of energy have not displaced or materially reduced the use of fossil fuels. Today solar power accounts for less than one-tenth of one percent of the nation's energy supply, not the 20 percent that President Carter predicted, and while biofuels hold great promise, even with the ethanol mandates that have been enacted by Congress, production of renewable energy in the U.S. has increased just 10 percent in the last 20 years, and this during the same time period our
consumption has increased by 30 percent. However, in most areas of the economy we are using energy more efficiently. Since 1970, the energy required to produce a dollar of gross domestic product has been cut almost in half, but even so, total energy consumption has increased with U.S. population growth and with the expansion of the U.S. economy.

We might have done a better job if high mileage, pollution-free vehicles . . . if we had been working as hard to develop them. Researchers are still working to perfect fuel cells and light, high capacity batteries. Other nations have made the most of existing technology and achieved significant gains in fuel economy. The average fuel efficiency for light duty vehicles in Europe is 40 miles a gallon, in Japan it's 45, and in this country it's 22.4, down from 26 in the mid 1980s.

Despite all the talk about reducing U.S. reliance on foreign oil, the most promising oil and gas prospects in the United States are closed to exploration and production. As a result, U.S. oil production
has declined 40 percent since 1985. To satisfy a
30 percent increase in U.S. demand, imports have more
than tripled from 3 million barrels a day to
10 million barrels a day. We now rely on the
global oil market for 60 percent of the oil that we
need; its markets in which prices are at record
levels because the cushion now between supply
and demand has been squeezed very thin by the
growth of the world economy and the failure of
the world's biggest oil consumer to curb its
appetite or maximize production of its own
natural resources.

The U.S. accounts for just 5 percent of
world oil production, yet we consume 25 percent, and
rather than open up new areas to exploration
and production, U.S. Presidents periodically
swallow their pride and ask foreign oil
ministers to increase oil production on foreign
lands.

Make no mistake, the high price
that U.S. consumers are now paying for gasoline
and other forms of energy is the consequence of
decades long failure of U.S. energy policy.
The United States is the biggest debtor nation.
The trade deficit is now running more than $60 billion a month, with most of that, $35 billion, the price that we are paying for foreign oil.

Whole industries are struggling. The airlines, trucking and auto industries in particular are facing severe financial distress. As Governor Granholm knows, and many of the others can attest, the U.S. auto industry had its worst June in 17 years, with significant impact on families and communities in Michigan and in other manufacturing states.

General Motors is shutting down four sites that manufacture trucks and SUVs in response to plummeting sales. Compacts and hybrids are flying off the lot but supply and manufacturing capacity are limited and waiting lists are common.

The public sector is straining as well. School districts around the country are shortening or eliminating bus routes. Houston has reset thermostats in its city buildings, increasing the summer setting from 72 to 78 degrees. State offices in Utah have gone to a
four-day work week, and one Georgia Police Department is even adding a fuel surcharge to the cost of every speeding ticket. Families are paying almost twice as much to heat, to cool—sorry; I thought it was pretty innovative, Governor . . .

Families are paying almost twice as much to heat, to cool and light their homes than they were just eight years ago. The cost of refueling the family minivan three times in a month has increased from $60 to $200. Of course, the impact of high energy prices is not the same for everyone. Poor Americans, older Americans, those on fixed incomes, those with long daily commutes, and those living in remote areas have been especially hard hit.

Almost no one, almost no one expects this situation to get better in the near term. Eighty-six percent of the respondents in a recent CNN poll said gasoline is going to hit $5 a gallon by the end of the year, but polls are also showing increasing support for energy conservation and for energy development, whether it's solar, wind, offshore drilling or
nuclear. People want a balanced, comprehensive national energy policy, and as one of the nation's biggest energy investors, so does BP. As a nation we can't afford to get it wrong again.

BP does not have all the answers. By far we don't have all the answers. But we do have some ideas about how we can create a future in this country where energy supply grows as it becomes cleaner, more diverse and more secure.

First, we have to take energy conservation as a national priority. There is no question the price is huge. Some believe greater use of mass transit, higher mileage cars and green building standards could save enough energy to offset growth in U.S. energy demand for the next decade.

People will make the right decision if they are provided the right incentives. Consider how the price of gasoline is changing consumer behavior right now. Americans traveled 11 billion fewer miles in March of 2008 than they did in March of 2007.
It's the biggest single monthly drop in more than 70 years. Use of mass transit is at record levels. People are changing jobs because their commutes are no longer affordable.

Secondly, we must ensure continued supply of the energy we use today while encouraging the responsible development and wise use of this nation's incredible resource endowment.

As the world's largest oil consumer, our nation has a responsibility to use the oil that it consumes wisely. We also have a responsibility to produce a greater share of the oil we consume. Political unrest and production declines in Iraq, Nigeria and Venezuela have tightened the global oil market and pushed prices to record levels, but so--over time--have rising U.S. consumption and declining U.S. production.

Despite our growing reliance on imported oil, the search for new sources of domestic crude has been constrained by the lack of access to promising areas. The resource
estimates for the places now off limits exceed 100 billion barrels of oil in place with 30 billion barrels believed to be recoverable. There could be more and no doubt there could be less, but we are not going to know until we have the opportunity to explore.

Today, a fourth of all the U.S. oil production comes from the 15 percent of the U.S. outer continental shelf that is opened to exploration and production. We believe it's time to open the rest. Something good could happen, as it has in the deep-water Gulf of Mexico, where oil production has increased 15 fold in the two decades since government began encouraging exploration there, 15 fold.

The deep water now accounts for one of every six barrels produced in this nation. Now, that deep water production is having a beneficial impact on the global oil market, and if you want proof, just think back to what happened to the oil and gas price in 2005 when production from the Gulf of Mexico was curtailed due to the hurricanes Dennis, Katrina and Rita.
Our coal resources are among the largest on earth. We have a 100-year supply and there is little doubt that 30 years from now we will be using clean coal technology to light our homes and hopefully to fuel our electric vehicle. That use will have less environmental impact if we can perfect carbon capture and storage.

Third, we must create the financial, regulatory and physical infrastructure needed to kick-start the growth of alternative energy. BP owns and operates the largest integrated solar panel manufacturing facility in the United States. We are doubling its capacity to meet worldwide demand, but if you can believe it, 75 percent of its production is for export. The only market really for us in this country is California, where state incentives have caused an increase in demand. I think that should tell all of us what we need to do around solar.

We are also moving into wind in a big way. We have projects progressing, some operating in California, Texas, Kansas,
Colorado and Indiana. Texas is now the nation's biggest producer of wind power and thanks to a can-do approach to the construction of transmission lines needed to move the wind power to market. Lack of transmission capacity is the single biggest barrier that's slowing wind development in this country, but it is clearly a barrier that we can overcome.

U.S. ethanol production is booming thanks to a federal mandate and a subsidy of 51 cents a gallon. This year about a third of the nation's corn crop is going to be used to produce ethanol. Corn-based ethanol, as we have all said, is a great start, but for biofuels to be successful we must make them from nonfood crops. BP is investing over a half a billion dollars over the next 10 years in developing a better plant, better biofuels and better processes for producing them, but we are going to have to be realistic about the contribution alternatives can make towards our energy needs. We can't oversell them again.

Although the latest Department of Energy data shows a rapid growth of renewable
energy over the next 25 years, the contribution they say to total U.S. energy supply is expected to remain very small.

Fourth, we must expand the use of nuclear power. It's one of the few options that we have for generating power at scale without emissions. We were once the world's leader in this area but not anymore.

I was recently at a nuclear conference and a gray-haired executive with a nuclear plant in the design phase told me that 85 percent of the components used in his project would come from overseas. Twenty years ago, he said, they would all be made in America. More than 100 nuclear power plants have been operating safely for decades in this country, and I believe it's time to build more.

And, finally, we have to address the challenge of climate change. Until energy producers and consumers know the cost of carbon, the uncertainty associated with planning and investing in all kinds of energy projects are going to remain high. Pricing carbon will make energy conservation far more
attractive, and wind, nuclear and solar power more cost competitive. It's going to also allow informed investment in fossil fuels and the technology that's going to be necessary to reduce the carbon emissions that are associated with its use.

Now, the cost of carbon is going to find its way to the pump, to the monthly utility bill and to the grocery store, but I think the revenue that's produced by carbon taxes or the sale of carbon credits in the national cap-and-trade could be used to soften the impact on those Americans less fortunate. They could also be used to make investments in energy conservation and alternative forms of energy.

In closing, I want to say thanks once again for allowing me to be here with you today and sharing our views on issues that are vitally important to BP--but I believe to all Americans. Energy is a basic human need and is fundamental to life, just as food or the water we drink or the air that we breathe. For decades energy in the United States has been
inexpensive and it's been abundant and most
Americans have taken it for granted; but, as we
all know, the world has changed around us.

Ladies and gentlemen, we need--we
have to have--a comprehensive national energy
policy that addresses the challenges of climate
change, mandates energy efficiency and
encourages increased domestic production of oil
and gas, solar and wind, biofuels, coal and
nuclear, and it's not going to be easy. The
issues are complex, the choices are difficult,
and the results are not going to be
instantaneous. It is going to require, as I
saw last night on C-Span from you governors . . .
it's going to take real leadership and it needs
to be bipartisan.

When I was 21, Richard Nixon
promised me a different energy future. When my
son was 21, President Clinton promised him a
different energy future. I have a 9-month-old
grandson, and I can only wonder now what our
energy future will be if we don't act now.

We have a responsibility to do a
better job than we have in the past because
history has shown us that the choices that we are going to make today are going to have an enormous impact on this nation and its people tomorrow. Thank you.

CHAIRMAN PAWLENTY: We are going to take a few questions, and we will get on to our next speaker, but let me just start, Bob, by thanking you on behalf of the NGA for taking your time again to travel and to be here. We appreciate it.

And I know a lot of people in the room are curious about, again, the last 12 months. We know these forces have been in place for many years and many decades, but what is it that caused this kind of quantum leap that we have seen over the last year, year and a half, in energy prices?

MR. MALONE: Well, you know, there is a couple of things that have been at work, and I mentioned a few of them in my talk. In the past we have had a cushion of three to four million barrels between worldwide demand and our production. In other words, there was about four to five million barrels excess
production. And why the market was comfortable with that is that that would then allow if you had any disruption—a hurricane in the Gulf or if you had an issue say in Nigeria with production—there was enough slack in the system to pick it up; but with the demand and growing demand that we have seen now in China in particular and in India, that cushion has decreased. That's due partially to the oil is getting harder and harder to get . . . and more difficult and demand has increased that much, and without that cushion now our gas prices become extremely volatile, and it's been edging up because Nigeria, Venezuela and areas like that . . . and those uncertainties in the market is driving it up.

CHAIRMAN PAWLENTY: Governor Sanford.

GOVERNOR SANFORD: I mean this with all due respect, but I think you described the ethanol program, corn-based ethanol, as a "Great Start." Why wouldn't you describe it as just a totally bogus government mandate? I mean, I just think that when you look at the
tariff system on, you know, Brazilian ethanol where they can produce it cheaper without the environmental degradation that you see in the United States, you know, we won't let that stuff come in. We have this monopoly set up with corn based, I mean, I just think it's a bogus system. Why wouldn't you see it as such?

CHAIRMAN PAWLENTY: Bob.

MR. MALONE: Governor, if you want to answer--

CHAIRMAN PAWLENTY: I was just going to say, we should also keep in mind that Brazil nationalized a big part of their energy infrastructure, so I don't think you would be for that. But go ahead, Bob.

MR. MALONE: You know, Governor, I understand your question behind that. You know, the incentives that we put behind ethanol actually grew in industry right now and it has brought a supply that's actually needed in the fuel supply in this nation right now. It's the same as the wind incentives the government put out. We wouldn't be developing these wind farms now if it weren't for the subsidy. That
has caused this industry to take off.

GOVERNOR SANFORD: But, respectfully, I mean, you know, if you have a subsidy with wind, the byproduct of it is it costs a little bit more to produce wind power. The subsidy in this case though has substantial environmental degradation, it has substantial additional costs with regard to other consumer products that I think are a problem and you don't see that spill off with the other subsidies that exist with other power forms.

MR. MALONE: Governor, I wouldn't argue that point with you. I think, you know, it's needed, it's helped, but it's also in our mind--given the impetus now to begin to develop that next generation, which is what everybody is trying to do.

I won't argue the point about the energy content, what it's done to the food market and in the world actually, but it's clearly had a role to play in helping balance out the gasoline supply in this country.

CHAIRMAN PAWLENTY: Governor Granholm.
GOVERNOR GRANHOLM: So the oil companies now, as I am sure you experience on a regular basis, are sort of being viewed like the tobacco companies because the price of oil and gas being so much, and I think it is terrific that BP is investing in alternatives, and that's great leadership.

In the past, you know, under President Carter and under President Nixon, I don't think people were aware--I am sure they were not--of the effects of carbon dioxide emissions, and so there is a new reason to make a sustained effort on this. I think that because the oil companies are viewed as being so--and they are in fact so--profitable, that there is just such a moment here for you all to be taking the lead in this alternative energy space, and I think that next generation ethanol is really a huge moment.

One of your competitors helped to invest in a biofuel plant in Michigan, we announced last week, Mascoma, in partnership with General Motors, where we take wood waste and through a biologic process convert it into
cellulosic ethanol. To me, because of the vast
forest resources of this country and the desire
for sustainable and wise use of the forest
system, there can be a huge investment in this
country and lots of jobs created if the oil
companies were to take very seriously the use
of wood waste and convert that to ethanol.

So I only say this because

Michigan has the largest amount of
publicly-owned forest land of any state in the
country, that to the extent that BP or any of
the oil companies who may be watching are
listening and want to really take that charge . . .
to change the frame in which you are viewed, to
be able to produce fuel that does not cause
global warming, I think this is a moment, and I
know that all of the governors who have those
sources would love to invite that investment in
their states as well.

CHAIRMAN PAWLENTY: Bob, a
reaction?

MR. MALONE: Just a couple of
comments, governor, believe me, I am painfully
aware of the reputations of big oil and had the
pleasure of a number of congressional hearings, which is partially why I like coming back home. I have lived in a lot of these governors' states for many years.

Just a couple of points I would like to make that are very, very important—and I can only speak today to my own company—but in the last five years our net income in America has been $35.5 billion—net income—I paid $11 billion in taxes, and my net income was $35 billion and we invested $35 billion in American's energy supplies, and I think a lot of companies will tell you that. The difficulty is how expensive it is. I mean, to develop an offshore platform 150 miles off shore is billions of dollars and investments in New Mexico and even on-shore gas in New Mexico and Colorado is $2 to $3 billion; it's huge expenditures right now, and we are investing in traditional. My point would be on the renewables; although, we are not into wood-based renewables. We put ours into that next generation. If it ends up coming out of the
research we are doing to be the way we should
go, . . . but our hope is that we can develop a plant
that can be harvested multiple times a year.
As you well know, that still helps the farmer
and gets more energy out of that individual
harvesting and it's less impact on the
environment, and that's where we are putting
our bet right now . . . is to develop that next
generation. And so we are investing in that
solar and wind; but really on the biofuel side
that's where our focus is right now, the
bio-butanol that we are doing with other
companies.

CHAIRMAN PAWLENTY: We have just
a short amount of time left, but we do have
Governor Barbour, Governor Manchin, Governor
Palin--we will try to squeeze in Governor
Huntsman, but if we can ask and answer the
questions quickly, otherwise, we are going to
fall a little behind.

Governor Barbour.

GOVERNOR BARBOUR: Bob, thank you
for you candor about the need for more
exploration production, about the availability
but lack of access.

I want to ask you a question about price. President Clinton made a point yesterday that when carbon is taxed, it will make renewables and alternatives much more affordable. Today with $4 gasoline that my people can't afford and 12-cents-a-kilowatt-hour electricity because natural gas has tripled in the last five years, how high does the carbon tax have to be if $4 gas and 12-cent kilowatt hour electricity won't make these economic?

CHAIRMAN PAWLENTY: Go ahead, Bob.

MR. MALONE: The direct answer is, I don't know. We are right at that point right now, but I don't know the answer to that, governor.

CHAIRMAN PAWLENTY: Governor Manchin.

GOVERNOR MANCHIN: Just a follow-up on that--but also the trading of energy the way oil or coal or gas is traded on the market--how much of an inflation does that
add to the price? We hear all different, it could be $30 a barrel, it could be $40. And then I wanted to follow-up also the credits--we hear so much about the profits in the oil companies and unheard-of profits at this point in time, but yet credits are still flowing. I think you explained a little bit about the cost factor, and I wanted to follow-up on these, if you will just take that.

MR. MALONE: Well, you know, the issue of speculative trading has been all over Congress and all in the media. I know for my company, we have got some of the best economists we are working with. We can't see that big of a push in the oil price due to speculative trading. You know, all of us know how that market works. We know that it's an enormous market. Eighty-five million barrels a day are traded around the world, 85 million barrels at least, and so the speculation is there giving it the liquidity that we need in the market.

The other day I was talking and the example I use is, you know, the airlines
are very concerned about it and I respect them for that, but they are actually buying forward in the market their fuel. And if you don't have a speculator on the other side of that who thinks that it's going to keep going up, or they're betting that it's not going to go down, and so you have that liquidity in that market and I think it's a very dangerous place for us to go if we begin thinking that speculative trading . . . we need to curtail it, because I think it will just move elsewhere. It will go underground.

GOVERNOR MANCHIN: Just very quickly, the cap-and-trade, to follow-up on what Haley was asking. I know you said you did not know as far as what the costs may be.

MR. MALONE: Yes.

GOVERNOR MANCHIN: Is it fair to say that the initial will be an increase across the nation and you are hopeful for a decrease later but you acknowledge it will be an increase?

MR. MALONE: Absolutely. And as I mentioned in my comments, I think we will see
it in the general public across America, a
number of our goods and services.

GOVERNOR MANCHIN: Thank you.

CHAIRMAN PAWLenty: Governor Palin.

GOVERNOR PALIN: I thank you, Mr. Malone, for being here, and I look forward also
to hearing from our other speaker.

And I will call you, sir, when I
ask you a question. I won't even try your last
name there.

Mr. Malone, I implore you to

speak more about the access issue. When you
consider that in my state alone we have the
billions of barrels of oil, we have the
hundreds of trillions of cubic feet of clean,
safe natural gas up there, and for Congress to
have locked up those lands . . . and we asking
Congress to unlock those lands, allow that
domestic supply to be tapped. When I think
every governor here can recognize that direct
link between domestic energy and security,
domestic energy supplies and independence,
domestic energy and clean healthy communities,
what can this group do as governors to help educate Congress, to help educate even our presidential candidates to that need for more access?

MR. MALONE: Thank you, Governor Palin. The big reason that--well, I am always happy to be here with the governors, but part of the reason I am--I can't help myself with the emotion that comes out on this one because I often am asked . . . they say, "Yes, but you are an oil executive." Well, I wasn't born an oil executive but I was born an American and I am very concerned with the lack of that comprehensive energy policy. And, governor, we need to get this message out.

The public is hearing it. The polls are moving rapidly that they understand that we need access because it's a supply and demand and we have got to work on conservation, as I have said, and we have got to increase--so we work on the demand and work on the supply side.

We believe that, as I mentioned, hundreds of billions of barrels of oil are out
there as an opportunity, and we believe we can
develop it safely, as we have in your state,
which is a huge, abundantly rich state. And,
you know, under your leadership, governor, you
have got the gas pipeline moving now and we are
finally seeing that for the first time in years
and years. So what I would ask of the
governors is if you could help us in your
states and with your delegations to continue to
push this message because your public is
getting it, but I just left Washington and they
are not getting it yet. They don't get it.
It's still politics as usual.

CHAIRMAN PAWLENTY: Well,
unfortunately, I have time for just two more
and then we are going to have to move on. But
Governor Huntsman and Governor Baldacci, and
I'll wrap up this session.

GOVERNOR HUNTSMAN: Thank you,
Bob, for being here. Enlightening
presentation.

BP is Beyond Petroleum, but for
many of us it's "Beyond Politics," which I
think our next move has to be, all of us,
beyond politics. And you say the change is in
the air; I totally agree and I think my
colleagues here feel that something will be
done, but we have talked about Nixon and Carter
and Bush and Clinton and Bush, I mean, the last
Bush . . . 1.2 billion bucks for hydrogen. Give me
a break--1.2 billion bucks. I mean, that's one
B-2 bomber. I mean, this is going to require a
moon shot of sorts.

So as we prepare policy
recommendations to the next president, whoever
that is, I just have to put you on the spot
here. What is the one thing that you would
recommend as we begin to draft these policy
papers that would allow us to avoid these
mistakes of history so we don't have to look
back in 20 years and add the next president to
this list of failed energy programs?

MR. MALONE: Governor, I will
tell you, as like some in this room, as a
product of the '60s and '70s, it's got to be
renewables. We need to conserve and we need
access to supply and the demand. Where we keep
getting it wrong is we don't do anything in the middle, so if prices do come down, there is no incentive and we stop the Manhattan Project to get the next fuels, the next wind and the next solar. That is going to be critical for this generation.

CHAIRMAN PAWLENTY: Our last questioner, Governor Baldacci.

GOVERNOR BALDACCI: Thank you very much, and thank you, Mr. Malone, for your presentation.

Let me just a couple of points. Have you seen T. Boone Pickens' plan?

MR. MALONE: I haven't seen the plan. I have certainly heard about it, from him and others.

GOVERNOR BALDACCI: Well, he claims to be an oilman, and he claims that drilling isn't the solution and comes forward with a plan in regards to renewables and natural gas and the effort. But one of the things that I would like you to also expound upon is, that I understand there is a lot of capped wells in this country already that have
been drilled and capped and there is a lot of
leased land that the oil companies have in this
country, and I would like you to explain to us
the oil in Alaska and where that oil goes and
is it a direct beneficiary to this country or
does it go on the world oil markets and
developed the speculators and the commodities
traders to kind of handle that pricing
mechanism?

MR. MALONE: I can tell you that
Alaska oil, although the law still allows it to
be exported, there hasn't been any export of
Alaskan oil I believe since 2000. It all comes
to the West Coast and to the refinery system
there on the West Coast and, to the best of my
knowledge, no one is exporting it.

Well, let me be clear in there, there was a comment about speculation, so if we
are holding at domestic I believe--

GOVERNOR BALDACCI: Right, if the
supply can stay domestically and it's not
subject to the traders and the speculators and
the world markets, are they able to do that or
does it have to be plugged to the world
MR. MALONE: Well, it's always going to be priced at a world price. So when Alaska crude leaves, it will be discounted for the quality, but it will be based on a world price, but it still comes into the U.S.

GOVERNOR BALDACCI: But if we don't crack down on the commodity traders, then it seems like we are going to be drilling and it's going to be on the world speculators' marketplace and it may not really alleviate the price crisis that's out there in energy . . . but for further discussion.

What about the capped wells and the leased land in this country?

MR. MALONE: I can't . . . I can speak for my own company and what knowledge I have from what I have heard and read, and that is, why would you ever hold a lease if you thought you could sell it for $145 a barrel right now?

The issue that you have is just because you have a lease, doesn't mean there is anything there, and, secondly, it may not be
across that whole lease. And the other thing
is . . . is the time, and if you could just use an
dexample, we were able to obtain a lease in the
deep water Gulf of Mexico. It sits in 7,000
feet of water and goes down four to five miles
to the wells. It took us 12 years from
acquiring the lease until the first production
came out. There is huge lead times and each
time they go through development . . . so you first
drill it to find out if anything is there, then
you prove it up, then you have to design the
system, then you have to put the infrastructure
in place, you have to get all your permitting
done, and finally it goes into production, and
it's not uncommon for a lot of these to take 10
to 12 years.

I can tell you, I am not aware of
any of our wells that are plugged, not at
today's prices. All our leases are active in
one form or another.

GOVERNOR BALDACCI: Well, I
appreciate that, and in closing, Mr. Chairman,
the opportunity to work together with the
national governors and develop a bipartisan
approach to this issue. It's in our county's interest and I appreciate your concern.

MR. MALONE: Thank you.

CHAIRMAN PAWLENTY:

Unfortunately, we are going to have to wrap up this session, but it was very informative—I think enlightening—and thank you, again, Bob, for sharing your time with us this morning.

Our next speaker is Vijay Vaitheeswaran, who is a correspondent for The Economist Magazine on the environment and energy, as well as on global health and biotech and innovation. He has been an advisor to the Davos World Economic Forum on innovation, clean energy; he teaches at NYU's Stern Business School; his latest book, *Zoom: The Global Race to Fuel the Car of the Future*, was named the Book of the Year by the Financial Times, and we want to thank him for joining us this morning and we look forward to his remarks.

Vijay.

MR. VAITHEESWARAN: Good morning, ladies and gentlemen. Thank you so much for the kind introduction. It's a tremendous honor
to be here, and I am grateful to you for the
opportunity.

I propose to talk about our
nation's energy future. Before I do, I thought
I would start actually by turning to the past.

More than half a century ago, Mahatma Gandhi
asked a question of relevance to our energy and
environment discussion today. Now, this was a
time when India was a newly independent
country, the great hope of Asia. Britain had
been the great colonial power of the previous
200 years.

As India contemplated its future,
he asked, "How many planets?"—"How many
planets will it take," he asked, "if India
follows the same path of industrialism that
Britain has taken that has already consumed
half the world's resources? How many planets?"

Now, if we were to recast that
question to capture some of today's concerns,
of course China being the rising Asian economy
today, the United States, the great economic
superpower, we might ask, "How many planets
will it take if China industrializes, urbanizes
and motorizes in the same path that the United States has taken?" In other words, how many planets if every Chinese jumps into an SUV, as we have loved to do in America, and takes to the open road.

This captures in some sense the fears and anxieties about the energy and environment system, because what I argue is that the current energy system, which has served us very well in the 20th Century, is not going to serve us into the 21st Century. In particular, there are three pillars of instability that argue for change. Now these pillars were already evident before the rise of China and with it India, Brazil, South Africa, the BRICS economies, the emerging giants.

We are living through an economic phenomena after all of such significance, the arrival of a billion people up from subsistence poverty into the middle classes within one generation. We haven't seen anything of this magnitude since the discovery of the New World and the implications, both positive, in terms of trade and alleviation of human suffering,
economic potential for the United States and
economic stability for the world must be
counterbalanced with the competition for
resources, the impact on global warming and the
issues we are grappling with in terms of energy
prices.

So this only puts into sharper
relief what I would consider the reasons why
the energy system was already beginning to look
unstable and just makes it much more urgent
that we address the problem.

These three pillars, in brief
order: The first, the link between energy and
poverty; second, the link between energy and
environment; and, third, the link between
energy and geopolitics.

I start with poverty because I
think that's the one that doesn't get enough
attention in the headlines. Now we know back
in our own states, at the $4 gasoline and
higher, this is a tremendous issue, access to
energy, fuel poverty, what will happen in the
wintertime as heating bills rise, what is
already happening today as people are beginning
to make difficult economic choices because of
the cost of driving. This is something we feel
right here in the United States and around the
world. The energy system has even failed 2
billion people.

The modern energy system does not
even reach a third of humanity, where, mostly
in Africa, parts of Asia, and right close to
home in the Caribbean and Latin America; it's
mostly women and girls that have to walk miles
a day because they have no access to
electricity, no modern fuels of the kind that
we are used to. They walk to pick twigs,
agricultural residue, cow dung, I mean,
whatever they can get their hands on. They
come back to their huts and they burn it in
makeshift cook stoves with little children in
the huts usually.

This releases such dirty and
unhealthful indoor pollution that the World
Health Organization considers this one of the
leading preventable causes of death on earth,
on par with malnutrition, but when was the last
time you heard a Live Aid concert to stamp out
the cow dung fires in India? Even Angelina
Jolie doesn't care. It's not a sexy issue.

But if we think about the human
condition, we should care; and if we think about
pillars of instability going forward, this is
an energy system that is breeding instability
and discontent. It's not reaching a third of
humanity, and right here at home we are
beginning to feel the impact and the connection
between energy prices and poverty.

The second pillar of instability,
energy and environment . . . I won't belabor this
point because we are all very well aware of the
impact of burning fossil fuels on the local
environment. Indeed, many of you have taken
the lead in helping deal with issues of local
pollution, but of course the great challenge for
the 21st Century with energy is going to come
from climate change. This is a very difficult
problem to come to grips with, of course,
because we are often acting on behalf of voters
who haven't even been born yet, and the
greatest impacts might be displaced in time and
place. There may be other parts of the country
or other parts of the world that will be most affected by our consumption here at home, but this is one that calls for vision, courage and leadership of the sort that I have seen expressed of course by your leadership here, but it's going to pose one of the great challenges in how we transform to a low carbon energy system, one that makes best use of the available resources but with advanced technologies, including sequestration, IGCC, advanced renewables and a combination of these portfolios leading towards advanced transport fuels that can move us and give us the things that we aspire to.

Nobody wakes up dreaming about electrons or--I'm sorry to say, Bob--nobody wakes up dreaming of gasoline, right? What consumers want are a cold beer, hot showers; they want personal mobility, right, the things that energy makes possible, and it's the conversion technologies that we are stuck with that are rather outdated--in some cases 100-year-old technologies, as with gasoline and the internal combustion engine--that we need a
burst of innovation to move us to the 21st Century. So the second pillar, I argue, of instability is the link between energy and environment.

The third and increasingly concerning one is the link between energy and geopolitics. This is a particular problem for oil. Why? For two reasons. One, because it has a virtual monopoly grip on transportation. We know this. Our cars and buses are essentially powered by oil with only small substitutes today at a commercial scale. That's not true for electricity obviously, where we have ready commercially-proven substitutes. So that creates a vulnerability problem of economic shock.

The second problem is the concentration of the world's remaining oil. The world isn't running out of oil, despite suggestions of peak oil. The problem with oil is concentration, and the concentration is in the hands of five countries in the Persian Gulf. Two-thirds of the world's remaining reserves of conventional oil are in the hands
of Saudi Arabia, which has a quarter share, and its four immediate neighbors, Kuwait, UAE, Iran, Iraq. Each of them have about a tenth share. Taken together, we have nearly two-thirds of the world's proven reserves of conventional oil and almost all the oil that's cheap and easy to get at to, and that's the essential point, in the hands of a problematic part of the world. And this has tremendous implications for our foreign policy, and you don't have to be an environmentalist to see the connections with our national security and the implications for foreign policy, and in particular the rise of China on the world markets, and behind it again the other emerging giants, has become a clear force. Why? Because if you look ahead to the next 10 to 20 years, two things are clear--and these are not controversial arguments--these economies are going to demand more energy, particularly oil, and that incremental barrel of oil is going to come from the Persian Gulf. Why? If you just look at a business-as-usual scenario, without significant
change to public policies, according to the Department of Energy, the Saudi Arabian share of the world market is going to increase dramatically over the next 10 to 20 years.

Now, if you think $140 barrel is a dangerous world to live in, you ain't seen nothing yet. When we get to a world 10 to 20 years from now where on every official forecast we are going to have a much greater market power held by a few producers in the Middle East, unless again we look towards enlightened progressive policies to move our country in a different direction and with it the global energy economy, and the competition for resources that may come from an emergent China and an insecure India looking to secure their own energy assets, this is something that, again, I don't like to forecast gloom and doom, but I think a realistic assessment of geopolitics would say one of the great flashpoints between China, the aspiring superpower of the 21st Century, and of course our country's own interest and ambitions, if there were ever to be a conflict over Taiwan or
Korea or one of these other flashpoints, the Chinese know that they don't have a blue water Navy to defend their oil assets. That's in fact what is driving a lot of their domestic policy, pushing them towards energy efficiency and alternatives.

Don't buy the hype you see in the newspapers about them being so concerned about climate change. In my opinion, they are not. They are principally concerned about clean air, that is, local environmental issues, and they are principally concerned about reducing their reliance on Middle East imports because the hard men of their military see this as a strategic vulnerability to the United States, and so they see this as a potential geopolitical flashpoint.

Why do I mention these three pillars of instability? Because I think these argue for change. I hope I have made the case that we need to move to a different energy paradigm.

Now, some of you might think having stated these problems that I am a
pessimist. I assure you I am not. The *New Yorker* reviewed my new book, *Zoom*—available at good bookstores everywhere—and in going through and seeing the vision of the future that I put forward and the potential for change, including a renaissance right here in the heartland of America, creating clean new technologies for the car of the future and alternative fuels, it said through gritted teeth, "He is an optimist."

Yes, I stand accused of being an optimist, and I want to explain to you three megatrends, very briefly, that give me hope and, in fact, that I would argue make this in the midst of crisis the moment of greatest opportunity in energy in 100 years, and that's a big statement, so let me back it up.

The three megatrends that I see unfolding over the past few decades, when you take a broader long-term systems view of energy . . . what you see, first of all, you see the liberalization of markets, and I will explain why that matters in just a moment. The second, we see a smarter, more pragmatic bottom-up kind
of environmentalism bubbling up from the states, from provinces, and even from environmental groups that differs from the wave of environmentalism we saw back in the '70s. And the final point is there is a wonderful confluence of technologies leading to a very golden moment, a golden age of innovation, technology-led innovation in energy technology, clean tech and related industries that are just coming together.

First, why do I talk about market liberalization? Well, you might say, "Well, you are the guy from The Economist. Obviously you are going to preach to us about free markets," and you know what, I do think competitive markets are better than the alternative generally speaking. Over the long-term they lead to more efficient outcomes, but that's not why I am here to talk about the move in fits and starts as to why competitive markets have been better for energy.

This is an industry taken as a whole that has had dinosaurs, old ways of doing business, very high barriers to entry, a role
as strategic industries. That's often a language that's used that deters newcomers and innovators.

If you look at oil and the internal combustion engine, although Bob's company and his rivals have a great record of coming up with new ways, smart ways of coming up with oil and there is a lot of innovation at that incremental level, the essential combination that powers our transportation, the internal combustion engine and gasoline, this is 100-year-old combination, older than...

In fact, you know, I was a mechanical engineer at M.I.T. and what I studied about how the automobile works was not very different from what my father, who also studied mechanical engineering back in India 50 years ago, ... he was looking through my texts and saying, "This hasn't changed very much, has it," just to give you an idea. And if you ... look at electricity, [which] is perhaps one of the least innovative businesses on earth, and I will give you a statistic to back that up. And I say this because liberalization of markets is the
essential enabler of innovation in this industry that is in desperate need of innovation.

Electricity, to give you a statistic to back up my big claim about lack of innovation, the U.S. electricity sector reinvests less than one-half of one percent of its turnover into research and development. You might say, "What is that?" In the context of other industries, a normal industry might reinvest 3, 4, 5 percent, if it's a very highly innovative industry, biotech, computer science, some of the other fledgling industries, you might see 15, 20 percent reinvestment rates, but according to the industry's own research body, EPRI, for the last 30 years the figure has been less than one-half of one percent. Now I am not picking on the industry. This is how we chose to regulate it. The industry was discouraged from innovation. We used to reward utilities for just, you know, keeping it keeping over, put some duct tape on it, keep it going. In fact, given the challenges that have emerged over time,
especially environmental but also those of
national security related to energy, I think we
should reward the two guys in the garage who
came up with Hewlett Packard or Google. I want
those guys working in clean energy. They
should know they are going to get the rewards
in the American marketplace for that ingenuity
for coming to market with new technologies, new
innovative business models that will help
explain why the earlier attempts at renewables
failed and why today's attempts will succeed.

That's the role of liberalization
of markets and that, again, California got it
wrong with its power crisis but, you know what,
lots of other states got it right, including
Pennsylvania, that did much better right here
at home. If you look at Britain or Scandinavia
or other parts of the world, they got it right.
So let's learn from best practices.

The second point, the second
great megatrend that I talked about is a smart
pragmatic kind of environmentalism. Back in
the '70s we had of course the Clean Air Act,
the Clean Water Act, and a great legacy of
success. We did a lot to clean up since the
days when the Kleahoga River spontaneously
burst into flames. We are not there anymore
and you all know, you have done great work in
the states cleaning up air, water, ensuring a
better future for our populations, but getting
out the last 5 percent of a pollutant can often be
much more expensive at the margin than getting
at the first 50 percent. It requires more nuance, it
requires smarter pragmatic tools like
cost-benefit analysis, like some of the trading
instruments that we used in SO₂, the acid rain
program that America pioneered, which is now
being used as a model around the world but at
the time was opposed by almost every single
environmental group save one.

So I say, you know, this is a
move—of course, to give credit—Europeans
have pioneered the use of things like
externalities taxation, dealing with smart
market friendly instruments that provide the
right incentives for changing behavior without
picking specific technologies, which has always
been the pitfalls of governments. So we are
seeing a smarter, pragmatic kind of
market-based environmentalism, even from the
bottom up, even from environmental groups. And
I am seeing this as much in Beijing and
Bangalore as I see it in Boston, and I think this
really bodes well for a transformation of the
energy sector than the old approach, which was
mandate, regulate, litigate, right? Sue the
pants off them.

That's how it was described to me
by a founder of NRDC, who now says, you know
what, we have got to get prices right, and
that's actually a different way of thinking
about environmentalism that's more pragmatic,
and states have been the pioneers here.

The third point, which I have
hinted at already, and I won't belabor it, the
confluence of technologies like energy storage,
material science, command and control systems,
smart electronics, and, you know, what I talk a
lot about in my book, which is the
electrification of the car, not only focusing
on fuels, which is important, what I call the
juice, but the jalopy, the change of the
fundamental infrastructure of the vehicle is actually going to be a disruptive change, I argue, like what we saw when the personal computer challenged the main frame or when we saw cellular telephony challenge main line telephones, and assets that industries had thought would be legacy assets could very quickly become stranded assets, and we discovered this in other industries as the economic rules change and new technologies disrupt these industries.

We are in that kind of an era, of potential disruption and change, which has historically come very slowly in energy... with good reason, right, the petrochemical refineries and coal plants the last 50, 60 years, right? Well, that's what people thought also about the infrastructure for fixed line telephones and you can suddenly see your main frame computing, the model wouldn't change. We are at a moment of such change, and it's the confluence of forces that are coming together, political, economic and cultural even that are changing this.
So that's why I argue, we are at the verge of an energy revolution that can be quite traumatic, but this won't happen magically; although, the forces are unleashed. What do we need to do? This is the question that people ask and when people who take the issue seriously come to me, and I have already heard some hint of this so I am certain to offend, for which I apologize in advance, people say, "We need a moon shot, we need a president who has vision and like we did with, you know, John F. Kennedy saying we are going to put a man on the moon, a blank check for NASA, you know, enlightened, brilliant government thinkers who can make it happen and if we had a moon shot, we could solve the climate crisis in a decade or--fill in the blank--hydrogen fuel cell cars or cellulosic ethanol, we could make it happen if only we had that leadership, vision and the sort of focus from the top down, a Manhattan Project."

I think that is fundamentally the wrong way to think about this problem, and, again, I may give offense and I anticipate your
brick-bats and tomatoes, but here is why I think this is the wrong way to think about the problem. Vision is essential and I think both potential presidential candidates, both candidates, have shown important attention, paid attention to climate, energy issues. Money matters but the solutions will emerge from the bottom up. They always have.

To see why, if you will indulge me for just a moment, Mr. Chairman, let me give you a small example also drawn from history, Winston Churchill. A hundred years ago he took a decision that appeared to be a moon shot that changed not only the energy world but the future of the 20th Century. Now, 100 years ago a young Winston Churchill, long before he was Prime Minister, was First Lord of the Admiralty—what we would call Secretary of the Navy—and he saw the looming German threat coming before World War I. He decided to transform the British Navy from burning coal to burning oil.

Now, this was a huge risk because Britain had lots of coal but they had no oil,
they hadn't discovered the North Sea and they wouldn't for another 50 years . . . the oil under the North Sea. But he took the decision because he knew that oil fired ships would have a decisive advantage in terms of speed, maneuverability and how quickly they could reload fuel and so on. Military historians credit that decision with being one of the key turning points in World War I, but it also set off a century of prosperity, the oil-fired century in which we saw 20th Century economic expansion as well as the foreign policy adventures in the Middle East that came with it of course, but undoubtedly set the course for the age of oil.

Some might see this as a moon shot. In fact, if we actually look at the context in which it happened, you see that Churchill was not a lone gunman. What you see was, you know, oil had been discovered here in Pennsylvania in fact back in the 1860s but it wasn't used for transportation. Back then it was used as a substitute for whale blubber in lighting because that was the need of the day.
The Germans had come up with the diesel engine, and other Europeans had come up with good gasoline engines but those didn't take off. In 1900 there were five times as many electric cars on the roads of New York as there were gasoline cars.

So what happened? Well, what happened: First, we saw Rockefeller, through his Standard Oil empire, ensure there was nationwide distribution of oil, so infrastructure became ubiquitous. Henry Ford, with the innovation of the assembly line, created a new business model that made affordable cars powered by gasoline available to the whole population at a decent price. So you saw a business model innovation.

In the great San Francisco fire at the early part of the century, it was the gasoline-fired engines that got there first and got the popular acclaim as the reliable engines. You saw Spindletop, the tremendous Texas gusher that ushered in an age of the Texas oil industry in the early part of the 1900s, and you even had cultural factors, great
races held between the various steam, gasoline and electric cars, and in a key race the gasoline car won, the crowds were heard shouting to the other competitors, "Get a horse; get a horse."

You saw this swirl of forces, and that explains why and how Churchill was able to make that decision. It wasn't a moon shot; there were forces in play already. And that's what I would argue today when we look at today's energy world. Rather than picking specific technology winners, let's look at this great awakening that's coming up from the bottom up, from the states, municipal utilities, from nongovernmental groups, evangelical groups, coming together saying the climate concerns, the national security concerns demand clean energy, reliable energy, low carbon energy.

While the next president, while the next set of policies that we need to come across will require vision, the role for government is important, not only that vision, but to level the playing field, remove the
perverse and distorting subsidies, which are
tremendous--and make me very unpopular when I
say this in Washington--but a level playing
field would be the greatest advance that clean
energy innovation technologies could have
because they would ensure that the incumbents
don't have an unfair advantage. The newcomers,
like the two guys who created Google, coming in
to clean energy will have a chance to have a
successful business model and to create the next
great empire.

What is the role for the bottom
up? State innovators like you folks,
entrepreneurs, the combination of those things
with the marketplace and consumer demands,
that's how you find business models that win.
That's the difference between how and why Nixon
and Carter and the earlier moon shots in energy
failed, because government bet big on synthetic
fuels or one particular kind of wind
technology, then the oil price collapsed in
'86, right? We can't afford that again.

We need a combination of smart
policies in Washington that level the playing
field without picking winners, . . . but the bottom-up, robust innovation that you folks have provided at the state and local level and ultimately from the marketplace of innovators. If we do that, then we can give Gandhi an answer to his great question, "How many planets?"

We have only one planet. We have to find a way to reconcile the legitimate concerns about jobs, economic growth and energy prices and energy poverty on one hand with the equally legitimate concerns about sustainability, having an energy future that leaves a planet worthy of our grandchildren.

The only way to reconcile these two things is if we tap that one natural resource that we have in endless capacity, and that's human ingenuity. Thank you very much.

CHAIRMAN PAWLENTY: As I listen to Vijay's comments, I am reminded of the skeptic's view of emerging public policy which has three phases to it as the story goes; the first is, that will never work; the second is, that's too expensive; and the third is, hey, I was for that all along.
So I think we are in this debate somewhere between Phase Two and Phase Three as a nation and hopefully moving down that transition.

But we do have some time for questions. Governor Manchin again wants to ask some questions.

GOVERNOR MANCHIN: Just very quickly, Vijay, I enjoyed your presentation immensely. Economic trigger mechanisms to protect the innovation that we need as you talked about and with so few countries or entities controlling the supply, what will make sure that there is an economic mechanism, a trigger, if you will, that allows us to continue to make sure we make those innovative changes that are needed for us to have energy independence?

MR. VAITHEESWARAN: Our innovative capacity is robust. We really are the most innovative economy on earth, but there are reasons how and why in energy that has not been the case, and so I would focus, I mean, broadly speaking, the challenges to our
innovation capacities are investments in education, our research funding of course, which needs to be maintained. Energy R&D, if you combine government spending, is at a 20-year low. So those are broad points about how we need to reinvest in innovation.

GOVERNOR MANCHIN: But if the price of oil drops off to $25--

MR. VAITHEESWARAN: Exactly. But the specifics of energy, there is one significant factor above all others, and that's the price of oil, and because as I argued and perhaps we can talk about why, I don't believe the scarcity thesis. There is plenty of not only oil but things that can be made into gasoline--tar sands in Canada, heavy oils in Venezuela--and the oil industry is working very, very hard and diligently to get those things to become gasoline and blending.

So in my view that competitive threat of the oil price dropping down to a level that would wipe out a lot of energy investments remains very real and in that kind of environment I think only a public policy
floor, and that can be done through ... at somehow--
the carbon price.

Now, you know, every academic economist would say a carbon tax is the right way forward. You mention the word "tax" in Washington, you are drummed out of town obviously. We are probably going to embrace a cap-and-trade system of some kind. Both candidates have talked about that.

I think you can't let the ideal be the enemy of the good. I think a policy-driven carbon price would make sure that whatever happens, even including an intentional malicious engineering of low prices--which the Saudis have played a roll, back in '86 and again in '98, as the kingpins of oil with a quarter of the world's remaining oil and the cheapest oil, occasionally, and I have spent a lot of time with the Saudis and their oil minister talking about issues, including this one, they have every potential over time to pull the rug out from underneath alternative energies.

I think, you know, the great
anti-OPEC that we have right here at home is
our own public policies, our ability to
influence demand, efficiency, and the
alternatives, and we need to exercise the power
as a sleeping giant.

CHAIRMAN PAWLENTY: I should
mention also, at tomorrow morning's Plenary
Session, as a commercial for our speaker, Dr.
Richard Lester, who is Director of Engineering
at M.I.T., is going to come and provide his
overview of the current state of technology,
both emerging and available, so that may give
you some additional insights as to what there
most likely needs to be.

Governor Corzine.

GOVERNOR CORZINE: Thank you very
much, . . . exciting and I like your optimism.
Let me say, I was going to ask
this question of Bob and I want to try to merge
it a bit, it seems to me that if we are to
break the paradigm, for the life of me I don't
understand why we should take high risks on 10
to 12-year projects on additional drilling
where we don't have proven reserves when that
same resource could be going to innovation, but
I will leave that for another discussion.
There are proven reserves in other places that
we could tap.

But why is it--do you analyze that?--
we have seen a market price go from--and I
know you are a free market man--go from $65 a
barrel to $140 and we are at risk, at least
markets tell us, of seeing an explosion beyond
where we are? That doesn't strike me as
consistent with free market activity. There is
no continuum. And when the kind of risk that
you talk about . . . it puts at ultimate risk our
ability to invest in these alternatives and
breakout situations. So what is the cause of
going from $70 oil or $65 oil to $140 from your
perspective?

MR. VAITHHEESWARAN: Sure,
governor, thank you for the question. While I
am a big believer in markets, I want to be very
clear, in oil there has never been a free
market. Even when America was the Saudi Arabia
of oil back in the early part of the last
century, the Texas Railway Commission did work
to control prices, and we have the OPEC oil
cartel manipulating prices, and so, you know,
the market is one that's--

GOVERNOR CORZINE: OPEC could be
considered a speculator in and of themselves.

MR. VAITHEESWARAN: Oh,
absolutely, and the most powerful kind of
speculator, one that controls two-thirds of the
reserves or even greater percentage.

Yes, and Saddam Hussein
explicitly used to do this, use his turning on
and off of the pipeline to play games on the
market to enrich himself, and that's been
shown. So this is the kind of marketplace we
are dealing with.

My long-term answer to this is
the only way--because, let's remember, at the
end of the day, they got the oil, we are the
ones who are using it, they have the power--the
only real solution is to get off of oil all
together. That's the ultimate solution.

Now the real question is, what's
the path from here to there and along the way
how do we minimize the risk of oil price drops
or occasional collapses that completely wipe out the economics of all the alternatives? And I think that's where, you know, even inconsistent with my editor's free markets, I have written editorial after editorial arguing for government role in energy specifically. Carbon pricing or externality pricing, there is a significant role for government, in leveling the playing field in an energy market where you have a politicized actor disrupting prices. We can't rely on the oil market price signal alone. One-hundred-forty-dollar oil makes everything look good; but do you know what, as Buffett has said before, "When the tide goes back, you see who has been swimming naked," we will quickly find out when the price comes down which projects don't make any sense.

CHAIRMAN PAWLENTY: I should mention, we do have to, and we are looking forward to, giving out some Distinguished Service Awards to some of our best partners with the NGA, so we are going to have to wrap this up, but we can squeeze in two quick ones, Governor Sebelius has been waiting patiently,
Governor Granholm, I don't know if you would be willing to defer to Governor Beebe, he has had his hand up for quite some time, if that's all right.

Governor Sebelius, you wanted to ask a question?

GOVERNOR SEBELIUS: Thank you, and thank you both for being here this morning.

Could you just talk a little bit, particularly to us as governors, in the area of the liberalization of markets, what do you see us able to do at the state or do most of these have to be driven at the federal level? That's an intriguing idea, and I am just trying to figure out what the state role is.

MR. VAITHEESWARAN: Sure, happy to.

I think that when it comes to power markets of course, you have much greater leeway than with transportation, simply because of the nature of regulation; although, you know, given California's interesting moves of late, perhaps the dynamic there is shifting too, with CO₂ regulation out of tailpipes.
I think that the difference with electricity, and here is where the coordination will have to come with the federal government, one of the great failings of the power crisis in California was the neglect by the Federal Energy Regulatory Commission. While I was tough on the really badly designed rules in California, that was not a proper liberalization under any terms of reference. It was a textbook case of what not to do.

The chapter in my book that deals with that I call "Why California Went Bananas," build absolutely nothing anywhere near anybody, right? In fact, equal blame lies with defer, which under both President Clinton and President Bush, the commissioners—and I spoke with them very closely at the time—took a very laissez-faire view, as though there is no role for the federal regulator. On the contrary, electrons don't stop at the border. No; actually this is a different issue than school boards or healthcare systems where you could really have a state alone taking a very novel approach, as you folks have.
Here you do need important and willful participation between the federal government and states on electricity particularly and transport policies. So I think here I would argue that we need a little more hands-on from the two sides coming together for pursuing the liberalization.

CHAIRMAN PAWLENTY: Governor Beebe, if I could ask you to be brief and Vijay to be brief in your response, we will squeeze in one more.

Did you have a question, Governor Beebe?

GOVERNOR BEEBE: No, I didn’t have a question.

CHAIRMAN PAWLENTY: Oh, maybe it was Governor Beshear.

Oh, Governor Beshear.

GOVERNOR BESHEAR: I wanted to bring the governors a question about the marketplace a little bit closer to home and give you an example of what we recently found in Kentucky. We found that in Louisville, Kentucky, our biggest urban area, people were
paying 30, 40 cents more per gallon of gasoline
than anywhere else in the state. You could
drive right over the county line and you could
buy your gasoline for 30 to 40 cents less.
The first response was that,
well, you are required to consume reformulated
gasoline and that accounts for the difference.
Obviously, that's 5 to 8 cents of the
difference. We went to Northern Kentucky,
where they are required to purchase
reformulated gas, and they were paying at least
20 cents less than the folks in Louisville for
the same gasoline, and so we are asking the
questions and trying to get to the bottom of
why this free marketplace is requiring our
folks in Louisville, Kentucky, to pay 30 to 40
cents more per a gallon of gas.
I have found that since we raised
the question publicly, that that gap seems to
be narrowing a little bit, and so I am wondering
if perhaps a governor's voice is part of the
free marketplace here.

CHAIRMAN PAWLENTY: Vijay.

MR. VAITHEESWARAN: In a sense
this is a question more directed at oil, since
I don't sell oil, but I will answer your
question in the following way: One of the
lessons I took away from the FERC fiasco
involving California was, competitive markets
do[es] not mean having no role for the government
or for the regulatory supervisor. On the
contrary, as Britain has shown with its very
successful electricity liberalization, as
Scandinavia, a number of other countries have
done, it actually requires a more vigilant but
more carefully circumscribed role for the
supervisor. That is, you can't have the
policeman asleep on the beat. You need a
vigilant policeman with competitive markets
because companies will tend towards collusion.

Adam Smith himself said so and
wrote about it and it's common sense, if you
don't have a cop on the beat, people are going
to try to get away with stuff, right? So I
think you are absolutely right in the idea of
transference and vigilance and proper
supervision is actually even more important as
you liberalize but the role needs to be
carefully circumscribed, looking at anti-trust issues, not telling you what you should build, when you should build, using what scrubber and what technology.

If we move away from that very command-and-control approach thinking about markets to one that lets the innovative capacity of companies and entrepreneurs come together but keep the proper supervisory role for government, then I think we really can achieve the goals that you are hoping for, that is, innovation at reasonable prices for your consumers.

CHAIRMAN PAWLENTY: Let's once again thank our speakers.

Our next order of business, and we do look forward to this each year, is to present the NGA awards for Distinguished Service to State Government and the Arts. This award offers governors the opportunity to recognize their state's most valuable civil servants and private citizens in these areas. Each of the honorees has made invaluable contributions to state government and public
service. On behalf of the National Governors
Association, we want to commend these
individuals for their work.

We also want to thank all the
governors who submitted the nominations and did
the screening, in particular we also want to
thank our private sector partners, Lee Anderson
of Minnesota, who chaired the selection
committee, the First Lady of Minnesota, who
chaired the Review Panel, and the many others
who helped go through the applications and
nominations for these awards.

They will be presented in three
categories, the first is state official, the
second is private citizen, the third is the
arts category. As I announce each winner, we
will ask that they come forward along with
their governor, if present, and I ask each of
the governors to step to the podium and make
brief remarks recognizing the recipient.

We will start first with the
state official category, the first is Chris
Cummiskey, Chief Information Officer for the
State of Arizona. We will ask Governor
Napolitano to come forward to make this presentation.

GOVERNOR NAPOLITANO: Thank you, Governor Pawlenty. I am pleased to introduce Chris Cummiskey for this award, which is so well deserved. He has been in public service in Arizona for 17 years.

When I became governor, he became the Chief Information Officer for Arizona, and we consolidated all information technology into one central office, the Arizona Government Information Technology Agency, or GITA. During his more than five years in that position he has formed powerful coalitions with business, education, nonprofit, government and community stakeholders to really use GITA to transform government service delivery and implement innovative technology strategies.

We have under his leadership created a statewide 211 system to offload from 911. I believe we are the first state to have accomplished that statewide. We are moving to total e-prescribing statewide through the e-health connection with the stakeholders,
including the healthcare providers, hospitals and others. He has managed the project management certification program. He has started a statewide information security and privacy office as well.

Prior to his position as GITA director, Chris served in the Arizona Legislature from 1991 to 2003. He was the Assistant Senate Floor Leader, Senate Assistant Minority Leader, and Chair of the Senate Democratic Caucus. Throughout his work in public service he has been inspiring innovation and creativity in the way we deliver services and in so doing has also helped us reduce costs.

So it's my pleasure to introduce Chris Cummiskey.

CHAIRMAN PAWLENTY: Our next award winner is Lisa Webb Sharpe, Director of the Michigan Department of Management and Budget, and we call upon Governor Granholm to present this award.

GOVERNOR GRANHOLM: Thank you, Governor Pawlenty. I nominate Lisa with a
little bit of trepidation because the last time
I nominated one of my state directors, Arnold
Schwarzenegger poached the head of our
Department of Informational Technology, so I am
going to tell you how fantastic she is, but
hands off, all right?

GOVERNOR GRANHOLM: So Lisa--

GOVERNOR GRANHOLM: So Lisa--

GOVERNOR GRANHOLM: So Lisa--

come stand next to me, Lisa--has been the
Director of Management and Budget and so as the
director she has been charged in this time of
great contraction of our economy with saving
money. So since Lisa has been director, 2005,
she has been director, she has saved $1.6
billion for our state government based upon her
efforts on tightening up contracting policies,
selling off the state fleet, et cetera.

She has also implemented this Buy
Michigan First initiative where now 93 percent of our
state taxpayer spend is spent on Michigan
companies. We bid them all out but there is a
preference given for our Michigan companies,
and so she has saved all this money while still
allowing the taxpayer dollars to circulate in

Michigan. And, third, this is the last thing I
am going to say because she has got a whole slew of things, but here is what we just announced this past week, and this all is in keeping with what we have been talking about, in 2005 I issued two executive directives about saving energy. Since 2005, Michigan buildings, Michigan state government employees under Lisa's direction, have saved 18 percent on our energy costs. That means $45 million saved by powering down, replacing bulbs with, you know, CFL or LED. We actually unscrew every third bulb. I look up here and I think, "Oh, my gosh, how much energy is being used on here?" We are obsessed with it. We use vehicles that are alternative fuel vehicles. You name it, we are doing it and having saved the taxpayers the money.

Our ability to have saved all this amount of money would power 8,500 homes for a year. It would take essentially 16,000 vehicles off the street. Not that we would want to do that of course being the automotive capital of the world, but we do want them to be fuel efficient or electric, so we want to
continue that effort.

So I am so pleased to be able to give Lisa this award in partnership or announce in partnership with the NGA that Lisa Webb Sharpe has been such a tremendous public servant for the State of Michigan. Thanks.

CHAIRMAN PAWLENTY: Our next winner is Dr. Veronica Garcia. She is the Secretary of Education for New Mexico. Unfortunately, Governor Bill Richardson is not able to be with us today, so I have the honor of presenting the award to Dr. Garcia.

She was appointed New Mexico's first education secretary in November of 2003. She has worked for 35 years to revolutionize and improve education in New Mexico. Her ability to build coalitions has resulted in the development and implementation of an accountability system and higher standards for education from early childhood through college and career readiness in New Mexico.

Under her leadership, New Mexico has become nationally recognized for stronger standards and assessments and accountability
systems. She has forged partnerships with other state agencies, tribal nations, pueblos and community representatives through advisory councils and committees for Indian education. These partnerships have led to a breakthrough in standards and accountability for revitalization and preservation of native languages.

Governor Richardson says that:

"Secretary Garcia is a tireless and selfless public servant. She has worked closely with me as we invested classroom innovations, while holding schools accountable for improving student achievement."

Join me in welcoming Dr. Garcia.

Our next category is in the private citizen category, and the first recipient is from Colorado. The winner is Bill Lindsay. Unfortunately, Governor Ritter is not with us today, but I would like to call on Mrs. Ritter to join me at the podium to make this presentation.

MRS. RITTER: I am proud to be here on behalf of our governor, Bill Ritter,
and I can boast 20 years that our recipient here, Bill Lindsay, has been--really it's been his heart to work on healthcare reform, and I know Vijay stepped out but I wanted to say, Vijay, if we were looking for innovative thinking, for people with vision and for change from the bottom up, Bill Lindsay is our man for health care reform.

Bill back to the '80s was working with the Robert Wood Johnson Foundation coming up with innovative ways to provide coverage for people. He was very instrumental in the '90s with our S-CHIP program for children in Colorado and, with all due respect to the people in this room, I thought, who wants to sit on a--I mean, let's imagine, sitting on a commission, okay, sitting on a commission with an incoming freshman governor and sitting on a commission that deals with health care reform. What a remarkable thing, Bill Lindsay. I want to thank the National Governors Association for giving us this opportunity to acknowledge him, not just his family here, I know Lana is very proud, our
community in the metro area, our state, but now nationally we honor you, Bill Lindsay. So thank you very much. Welcome.

CHAIRMAN PAWLENTY: The next winner in the private citizen category is Governor Bill Anoatubby of Oklahoma. I would like to call on Governor Henry to make this presentation.

GOVERNOR HENRY: Thank you very much, Governor Pawlenty. It's an honor and a privilege for me to be here to present this Distinguished Service Award to a Great American, but first just a tad bit of background and history, as I think most of you know, Oklahoma has a proud Native American heritage and, in fact, Oklahoma is unique in that we have more Native Americans per capita living in our state than any other state in this great nation. We, in fact, have 39 federally recognized Indian tribes within the boundaries of the State of Oklahoma.

Now what you have to understand is, that means we have 39 sovereign governmental nations within the border of the
State of Oklahoma, and as you might imagine, from time to time that presents some difficult and dicey issues. Well, given the historical treatment that the tribes received from the federal government as well as our state government over time many, many years ago, you can understand that there is a natural tension between our sovereign tribal nations and our state government in Oklahoma, and that's where Governor Bill Anoatubby comes in.

Among many, many other things, he has been a champion for cooperative partnerships between the Chickasaw Nation as well as other tribal nations in the State of Oklahoma. He has been a creative and innovative leader.

Just a little bit of background on Governor Anoatubby, he was elected Governor of the Chickasaw Nation in 1987, so he served as governor for over 20 years and they continue to reelect him time and time again. When he took office, the Chickasaw Nation was essentially an $11 million corporation. Today it is nearly a $400 million entity with more
than 10,000 employees in the State of Oklahoma. So you can imagine the economic impact and benefit that this tribe and other tribes have in Oklahoma.

Governor Anoatubby though has used his substantial influence throughout the state, not just in tribal circles but in business circles and public and in academia, to really form partnerships to invest in infrastructure throughout the state, healthcare infrastructure, education infrastructure, transportation infrastructure, economic development infrastructure, housing infrastructure, and his tribe became the first tribe last year to enter into a cross-deputization agreement with Oklahoma law officials. So suffice it to say that he has been a great governor of the Chickasaw Nation but even more important to me is he has been a great citizen of the State of Oklahoma, who every single time I have called him to serve, whether it's on the Centennial Commission, as we celebrated our Centennial last year, or the
Oklahoma Healthcare Authority that administers all the federal health programs, or a whole host of other activities, he has single-handily almost spearheaded the creation and construction of the Native American Cultural and Educational Center in the State of Oklahoma that when finished, when completed, will be the largest of its kind in the country and will have a great economic benefit to the State of Oklahoma.

So without further ado, let me introduce to you my dear friend, Governor Bill Anoatubby.

CHAIRMAN PAWLENTY: Governor Huntsman is going to present the award to our next recipient, Scott Anderson.

GOVERNOR HUNTSMAN: Because we are an extra good state, we have two recipients, and I am honored and delighted to be here to roll them out for you. We have our First Lady from Utah here and her daughter Abbey, who just graduated from a great school right down the street, University of
Pennsylvania, having passed Professor Rendell's political science class; that was of course the most important part of it.

GOVERNOR RENDELL: An important pass.

GOVERNOR HUNTSMAN: I think she did--an A student right there.

Scott Anderson is here. Now I could go on and on and tell you all the great things about Scott Anderson, you know, like the fact that he runs one of the most important financial institutions in the country, like he is a graduate of Columbia and Johns Hopkins, like, you know, he has lived in San Francisco and Tokyo in financial services industry work for 17 years, but the fact of the matter is, I took such great pride in telling him he had won this award because he always takes such great pride in recognizing others and doesn't like to be recognized himself. So putting him on stage here just gives me great glee.

Now to summarize all of this, let me just tell you that, you know, in our state anyone can be governor, but there is only one
person who can be Scott Anderson, the kind of person who is everywhere and their influence is felt widely in all that we do. He impacts the way we live, he impacts the way that we educate our kids, he impacts the way we do business, he helps us express ourselves through the arts and sciences and of course helps us prepare for the future based on our efforts in the area of competitiveness.

So it is a great honor and privilege in the all important area of Distinguished Service Award in the private citizen category to recognize someone who our state could not do it without, Scott Anderson.

Scott, if you would come up here please and be recognized.

We also have another great citizen from our state here, Beverly Taylor Sorenson, who is here with her daughter Carol, granddaughter Liz, Liz' husband Mike Mauer and perhaps others, but it is a great honor and privilege to be able to hand over this Distinguished Service Award in the Arts on behalf of the National Governors Association to
Beverly Sorenson because she has done something that so few people do, she believes that arts really do have an important part in the way that we educate our young people.

Now everybody talks about this and everybody tries to find the results in the way this impacts our overall test scores, the way that our young kids learn, but Beverly has been the most determined and effective advocate for introducing the arts into elementary education.

So after working for 13 years and donating more than $45 million of her family's money, in 1995 Beverly created a very innovative program called Art Works for Kids that has impacted more than 80,000 of our young kids in our state and has become a model for elementary school education in the arts, and as if nobody was paying attention, just last year--in fact, earlier this year at our recent legislative session, spring of this year--a major milestone occurred, and that was the achievement of the Utah legislature funding Beverly Sorenson's arts learning program to the
tune of $16 million to increase the outreach and the overall quality of arts education that exists in our schools for our schoolchildren.

So, Beverly Sorenson, we thank you for being a pioneer in this very, very important area. We thank you for the investment that your great family has made, perhaps the most generous family in our state, but most importantly we greatly respect and appreciate the way in which this is leaving a lasting legacy for so many young people in our state, and it's an honor and privilege to be able to recognize you with this wonderful award. Beverly, come on up.

CHAIRMAN PAWLENTY: We have one more in the arts category, and that is the next winner, who is Las Artes, who is the Arts and Education Center leader in the State of Arizona. Governor Napolitano will say more, Governor Napolitano.

GOVERNOR NAPOLITANO: Well, like Utah, Arizona was fortunate to have two winners this year, and I couldn't be more delighted. The other winner in the arts category is the
Las Artes Arts and Education Center. It's in Tucson, Arizona. Alex Garza is here, he is the lead artist for the project.

It has been a powerful catalyst for individual and community self-improvement through public art, making a highly visible statement about culture and pride, particularly in the South Tucson area. Las Artes creates ceramic tile murals which beautify the inner city and rural communities and at the same time the creators of the murals are youth who have dropped out of school. It gives them a second chance to earn their GED and to participate in arts education simultaneously.

Its intensive instruction with support and artistic engagement of 428 out-of-school youth have benefited from Las Artes. More than 70 large public works arts projects throughout Pema County have been produced by Las Artes students. So we are very proud of Las Artes, the model it is and the model it continues to be. So it's my pleasure to have them recognized today.

CHAIRMAN PAWLENTY: We also have
the recognition of some Corporate Fellows. We will have them come forward as a group. We will recognize them as a group. We will adjourn the meeting, we will take the pictures with the individuals after the meeting is adjourned, but if the Corporate Fellows will come forward at this time, we want to recognize you as a group.

We have awards for people in entities who have been supportive of the NGA for 15 and 20 years. Again, if they could just come forward at this time, that would be helpful.

In addition to the Centennial, we are marking the accomplishments and milestones of another significant anniversary, and that is the 20th anniversary of the Corporate Fellows Program, which was founded in 1988. The NGA Corporate Fellows promotes an exchange of information between the private sector and public sector, governors and their staffs on emerging trends and factors and opportunities challenging both business and state government.

Corporate Fellows share their
experiences and expertise and insight with governors and their staffs, particularly through the Center For Best Practices. That's a way for state policymakers to have an efficient kind of warehouse of information of ideas and that exchange is very, very helpful. Through their support, Corporate Fellows demonstrate a commitment to improving cooperation with the public sector and government and industry, through developing collective approaches and bipartisan approaches, and we recognize today in particular an inaugural member of this group.

AT&T has been a member and supporter of the program for 20 consecutive years to the Center of Best Practices. Accepting and being recognized today on behalf of AT&T is David Condit. David, where is David?

Thank you so much, 20 years inaugural member of the Corporate Fellows Program.

I will briefly just list off the 15-year members. Then we will adjourn the
meeting, we will take the pictures with each of the members and our remaining governors can be on their way.

Accenture has been a 15-year member, Rick Wood is here; American Electric Power, Mr. Anthony Kavanaugh is here on behalf of American Electric Power; Charlie Sorrells is here on behalf of Eastman Chemical Company, another 15-year Corporate Fellow; FMC is represented by Judy Smeltzer; Ford Motor Company by Curt Magleby; and Merck & Co. is represented by Charles Grezlak; and also Unisys, Camille Fleenor, who had been part of this program for 15 years.

We are grateful to each and every one of them. NGA relies substantially on them to support the Center for Best Practices, and we are grateful to them, and we will have a picture with each of them, but let's join in a round of applause for them as a group.

Okay. With that, we are going to adjourn the meeting, encourage our remaining governors to go to their committee meetings, and we will see you all at the governors only
this afternoon. Thank you very much for coming.

(Whereupon, the hearing adjourned at 11:40 a.m.)

Reported by: Denise A. Ryan

Professional Shorthand Reporter
NATIONAL GOVERNORS ASSOCIATION
2008 CENTENNIAL MEETING
PHILADELPHIA, PENNSYLVANIA

- - -

PLENARY SESSION
JULY 14, 2008
CLEAN ENERGY TECHNOLOGY:
WHAT'S HERE AND WHAT'S COMING
- - -

VERITEXT NATIONAL COURT REPORTING COMPANY
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<table>
<thead>
<tr>
<th>Index</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governor Tim Pawlenty, Chair</td>
<td>3</td>
</tr>
<tr>
<td>Dr. Richard Lester, Director of Industrial Performance</td>
<td>5</td>
</tr>
<tr>
<td>Dr. Richard Lester, Director of Industrial Performance</td>
<td>5</td>
</tr>
<tr>
<td>Center and Professor of Nuclear Science and Engineering, Massachusetts Institute of Technology</td>
<td></td>
</tr>
<tr>
<td>Recognition of Outgoing Governors</td>
<td>39</td>
</tr>
<tr>
<td>Consideration of Proposed Policies</td>
<td>44</td>
</tr>
<tr>
<td>Remarks by the 2008-2009 NGA Chair</td>
<td>62</td>
</tr>
</tbody>
</table>
CHAIRMAN PAWLENTY: Well, good morning. Thank you for coming. During this last year as part of our discussion regarding Securing a Clean Energy Future for America, we have had a chance to discuss a number of topics that are very timely, including energy conservation and moving the country towards cleaner and alternative energy sources, as well as reducing emissions and the need to have additional research that will lead to technological breakthroughs that will help address this issue. These are not just matters to be debated by governors; this discussion is unfolding over kitchen tables, across homes and with families in America. It has impacts in almost every aspect of society, including as people are challenged to pay for their gas they are putting into their cars or trucks and certainly heat their homes or businesses; it's impacting food and grocery bills and many, many other aspects of our society. We all recognize that one aspect of moving forward is developing the new
technologies, the new applications and commercializing them so that we can have a better, cleaner energy future, and our guest today is somebody who can give us a definitive update about the state of some of these technologies and some of these opportunities.

We all are fond of talking about a particular company or project at our university or in our state, and those are always very interesting, but we want to move beyond the anecdotal and actually hear from somebody who has the science quite mastered, I would say, and he is Dr. Richard Lester, and he is somebody who has been gracious to come with us and be with us this morning. He is the Professor of Nuclear Science and Engineering at the Massachusetts Institute of Technology. He is the Founding Director of MIT's Industrial Performance Center.

His research focuses on industrial innovation and private and public management of technology with an emphasis on energy and the manufacturing sector. He has led several major studies, on both the national
and regional competitiveness and innovation performance that have been commissioned by governments and industrial groups around the world. He is viewed as a seminal expert and author of a number of works, and I think you will find his insights and his comments very helpful on the technology that we hope will be commercialized and available to our citizens in the not too distant future.

Please welcome Dr. Richard Lester.

DR. LESTER: Well, thank you, governor, and thank you for the really great privilege of speaking at this historic meeting. It's truly an honor for me to join you here.

I would like to discuss the role of technological innovation in solving our energy problem and especially the important role for policy at the state and federal level in accelerating the innovation process, and I want to begin with three simple messages, progress in the clean technology field has been substantial, new kinds of generating capacity are being added, in some cases, notably wind,
at an impressive rate, costs are coming down, albeit it sometimes more slowly than was promised, investment in next generation technologies is increasing, and the strong interest of the venture capital community is particularly welcome.

Ambitious targets are being set. Some of the most effective policy interventions are occurring at the state and local levels. California has been a leader; in my own state of Massachusetts important clean energy legislation was enacted just this month, and other states are on a similar path.

That said, and here is my first message, these activities aren't remotely close to the scale of the effort that will be required to solve the problem.

My second message concerns the future of nuclear power and of coal-fired electricity with carbon capture and storage. These two options won't win any popularity contests, and some would fiercely dispute that they belong in the clean technology category at all, but without large scale deployment of
both, especially in the critical 2020 to 2050 period; it's unlikely, to the point of implausibility, that the world will be able to avoid serious and perhaps even disastrous ecological and economic damage from climate change.

Coal is an abundant, relatively low-cost energy resource that's widely distributed around the world, and in the U.S. we depend on it for half of our electricity. We cannot continue to burn it as we have but we cannot afford to turn our back on it either. We must therefore find ways to capture carbon emissions from coal-fired power plants and to store the carbon dioxide safely underground at reasonable cost.

Nuclear power is the only carbon-free energy source that's already contributing on a large scale and that is also expandable with few inherent limits. Public opinion has been gradually shifting in its favor, but the failure to demonstrate and implement an effective final disposal strategy for high level waste remains a tremendous
barrier to public acceptance, no matter how many expert panels and commissions opine that this is a technically feasible task.

The Yucca Mountain Project may or may not meet the regulatory criteria that will eventually be applied to it, but there is no doubt that we can do better and doing better should be a high priority. No serious person would dispute the importance of these two innovation goals, affordable carbon capture and storage and safe implementable high level nuclear waste disposal, but my basic message here is that in both cases current U.S. policies are putting our nation at least partly on the wrong track and that this is almost certain to cause further delays in the availability of viable coal and nuclear power, delays that we can ill afford.

My third message is best conveyed by the poet Wallace Stevens, born not far from here in Reading, Pennsylvania. Stevens wrote of the "lunatics of one idea in a world of ideas." He was referring to ideologues and fanatics who, blinded by their single idea,
couldn't see the world around them, but he
might as well have been talking about the
energy debate, where such lunacy has
unfortunately been all too common.

The fact is that there is no
single idea, no silver bullet that will solve
the problem. First and foremost, we need new
ways to use energy more efficiently, but very
likely also much bigger contributions from
solar, wind, biomass, nuclear and also advanced
fossil fuel technologies.

In our current circumstances we
can ill afford the self-indulgence of those
who, however well intentioned, like to tell the
world that they are anti- this or anti- that.

So far I have been talking about
our energy problem, but this is incorrect,
because we really have three separate problems,
each on its own very difficult to solve, and
because the solutions to one will sometimes
make the others worse; the overall difficulty
is more than additive. The whole is greater
than the sum of the parts.

The first problem is the
projected increase in the use of energy.

Unless the world goes into a deep and prolonged recession, by the middle of this century global energy use will likely have doubled and electricity use will have tripled, placing great pressure on energy supplies and prices. And in case there is any doubt, whatever role speculators may be playing in the current oil price spike, the underlying issue here is growing demand.

This is an era in which hundreds of millions of people, maybe even billions, are lifting themselves out of poverty into what we in this country might recognize as at least a way station on the road to a middle class standard of living, all within the span of a few decades. This is an economic accomplishment that has no precedent in all of human history, and we should celebrate it.

One of the consequences is sharply increased energy use, but in case anyone thinks that a tripling of electricity demand by mid-century implies irresponsible profligate consumption, I point out that this
would mean, roughly speaking, that the richest billion of the world's population at that time would be using electricity at about the same rate that the average American uses it today; the middle 7 billion would be using it at a rate that the average Chinese is likely to reach in just a few years, or a bit more than a third of the average American's usage today; and the poorest billion would still have no electricity at all. That's what a tripling of electricity demand by mid-century will mean.

The second problem is that for at least the next several decades, the world will remain heavily dependent on the Persian Gulf for its premium fuels. More oil and gas will certainly be found and produced in other parts of the world, though perhaps not at a rate sufficient to offset the decline in existing fields.

In any case, these new supplies will generally be more costly and because of the twist of geological fate, which led much of the world's low-cost oil and gas resources to be deposited in the Gulf region, that volatile
area will continue to dominate the global supply picture for the foreseeable future.

The third problem is of course that of climate change. This may or may not be the most serious problem of all, but it is certainly the most complex when we consider the scientific, technological, economic and political aspects together, as of course we must.

Much is now being learned about this problem, but many major uncertainties remain, so when the question is asked, "How fast should we move to slow climate change?" the answer isn't obvious. Figuring it out will mean finding a strategy that strikes a balance between the increased economic cost of actions to reduce emissions on the one hand and the benefits of those actions in terms of ecological and economic damage averted in the future on the other.

Unfortunately, almost every element in that equation is uncertain. What is certain though is that the longer we wait to take action, the more costly the consequences
will be. The clock is ticking and it won't stop ticking simply because we can't or won't decide what to do.

The best chance we have, perhaps the only chance of solving these problems of breaking out of this triple straightjacket of price, climate and security pressures is to accelerate the introduction of new technologies for energy supply and use and deploy them on a very large scale.

Accelerate relative to what?

Relative to what would happen if we left the innovation process entirely to the forces of the marketplace. This may be an obvious point, but it is still worth emphasizing. Energy innovation is different from other kinds of innovation for a very important reason. The major impetus for it comes from outside the marketplace.

Two of our big three problems, energy security and climate change, are not now factored in to the great majority of the millions of decisions made in the marketplace every day by suppliers and consumers of energy.
So even if innovation can help solve these problems—and there is no doubt that it can—the economic incentives created by the play of market forces alone won’t be enough to bring it about. The question is not whether to augment these forces, but how.

Some are calling for a crash program by the federal government, a Manhattan Project or an Apollo Project for energy innovation. These calls helpfully communicate the urgency and scale of the challenge, but in another sense they are a distraction because if we take them literally, we are going to end up solving the wrong problem.

In both the Apollo and Manhattan Projects there was a single, clearly defined, although high-risk technical goal. There was also just one customer, the federal government. Success meant achieving a single implementation of the new technology. In both cases, this took just a few years to achieve and cost was essentially no object.

Not one of these things applies to the case of energy. Here we have multiple
and sometimes conflicting goals, lower prices, reduced carbon emissions, increased security. We have many different kinds of customers, individual, tenants and homeowners, giant industrial energy users. We have multiple time scales, from a few years to several decades. Success will come not from a single implementation but only if the technology is adopted by many firms or by many more individuals.

And, finally, energy is a commodity, so cost is crucial, and in this sense the upcoming energy revolution is not only not like the Manhattan Project, it isn't even like the digital revolution, to which it's sometimes also compared. It's actually much harder, because energy innovations, unlike many digital technologies, usually must compete against an incumbent technology in an existing market and this imposes tough, nonnegotiable requirements on cost competitiveness, on quality, and on reliability from the very beginning.

So if we don't need a Manhattan
Project for energy innovation, what do we need?
One thing we surely need is a strategy for energy prices. Many experts argue that the greatest spur to innovation would be to make sure that the full costs of energy provision and use are incorporated in the market price paid by consumers, including the cost of mitigating greenhouse gas emissions or their consequences and the full cost of ensuring uninterrupted flows of oil from the Middle East. Some argue, in fact, that if only we could get the price right, the market will do the rest, that a properly adjusted energy price will call forth the necessary innovations by making new technologies more attractive in the marketplace.

Well, price is very important but it won't be sufficient on its own. Partly, this is because we are not likely to get the price right in that sense. For example, while the U.S. will probably get a carbon price at some point, perhaps even quite soon, this is sure to have escape ramps, exemptions for critical sectors and other loopholes that will
make it fall well short of what the economic models prescribe; that is, a uniform price across the economy which ramps up at the economically optimal rate. Even more elusive of course will be the ideal of a carbon price that is harmonized across the globe.

But equally important, a pricing approach won't be sufficient because it won't address the rest of the energy innovation system, by which I mean the entire complex of indirect incentives, direct support, regulations, public and private research and educational institutions, codes, standards and markets, within which new technologies are developed and taken up by energy suppliers and users.

In the coming decades this system will be called upon to deliver hundreds of billions of dollars of mostly private investment in innovative technologies, make hundreds of sites available for the construction of controversial new energy facilities, and every year train tens of thousands of young people with a strong
background in energy systems engineering.

The evidence of the last three decades tells us that the current innovation system has fallen short and yet the demands on it going forward will be much greater than anything we have seen. This system is in need of a major overhaul.

This effort must address the entire innovation process, including obstacles to commercial demonstration, to early adoption, and to large scale deployment. This is not just about research and development. Of course, funding on a much larger scale will be needed for fundamental research and technology development. Both government and private investment in energy R&D are far below where they should be. But the whole point is to achieve scale in technology applications and without attention to critical bottlenecks downstream of the R&D stage, including commercial technology demonstrations, which have often been poorly handled by the federal government, many of the potential benefits of more R&D funding simply won't be realized.
In short, we must be as creative and rigorous about how to redesign the institutions for innovation as we will need to be about the innovations themselves. For example, we must find a way to overcome the obstacles to sound innovation strategies created by the annual government appropriations process by federal procurement regulations and by shifting political winds.

Here is one idea, suppose we adopted the principle that the public good part of the energy innovation system beyond basic research—which is actually quite well managed by DOE—should be directly funded by industrial sales rather than by general tax revenues. Suppose that these funds were collected in the form of a small fee applied to all end-user sales in a given industry segment, electricity service, for example, or gas service. If the majority of the firms in that segment voted to do so, Congress probably would have to approve this. A fee of less than three-tenths of a cent per kilowatt hour or about 60 cents per week for the average household would generate
an annual revenue stream five times larger than the total annual DOE budget for applied research, energy research, development and demonstration.

Suppose then that the firms in this industry organize themselves into interest groups or innovation boards which would each be responsible for a different technological pathway, smart grid technologies, carbon capture and storage, next generation photovoltaics and so on. Each board would request proposals to fund work in its domain from businesses, public research laboratories, universities and others. To qualify to receive these funds, bidders would have to agree to put the resulting intellectual property into the public domain, available to everyone.

At the beginning of each cycle every firm in the industry would distribute the fees collected from its customers among these boards based on their work programs and its own priorities. If, say, a utility was particularly eager to see progress in carbon capture, it might allocate funds to the carbon capture
board or if it was concerned about skilled manpower shortages, it would allocate funds to the energy, education and training board, which might have an ongoing scholarship program for power engineering students. If a utility was unhappy with the progress being made by one board, it could redirect its funding to another or it could itself decide to form a board in a new area and fund that, perhaps in conjunction with other firms. It would in any case have to commit all of its innovation fees to one board or another.

Such a scheme would create a guaranteed stream of revenues for energy innovation while avoiding both the federal appropriations process and the problem of underinvestment by private free-riders. It would ensure that the decisions on what to do and who should be funded to do it would be made by those closest to the energy marketplace, and by requiring IP to be shared it would avoid unfair competitive advantage.

Another idea, there is great potential for small entrepreneurial firms to
contribute to innovation in the energy sector as they do in other industries, but the energy industries are dominated by large incumbent providers who are often slow to embrace transformative or disruptive innovations. These firms typically have tightly integrated supply chains and close ties to government regulators, and they rely on highly regulated pipelines or wires to deliver energy services to end-users. This creates a formidable barrier between entrepreneurial newcomers and end-users and tends to force innovation towards the upstream end of the value chain. But many opportunities for innovation lie right at the interface with the end-user.

Most consumers are indifferent to energy itself; that is, to BTUs or kilowatt hours. What they care about are the services that energy enables, affordable comfort, mobility, lighting and so on. The provision of energy is almost always just one part of a larger setup in which a value-added service is delivered to the consumer.

Finding opportunities to combine
energy services in creative new ways with other services and products is exactly where smaller entrepreneurial firms can be expected to shine, and we need to find ways to let these firms compete and grow in this important innovation space.

So what role for the states in all of this? Decisive progress on the major energy issues will require decisive action at the federal level. It cannot be achieved by the states alone, and the longer the delay in serious leadership at the federal level, the more difficult it will be to harmonize conflicting policies. But many of the relevant authorities, to regulate utilities, to make land use decisions, to set building codes and zoning requirements, to support public education and so on, reside at the state and local level; so the task will require a partnership of federal, state and local governments.

There is more than enough to do here for everyone. Whole new industries are likely to develop in support of the energy
transition and state level policies promoting innovation takeup and the development of a skilled work force will be crucial. Jobs will be generated at every skill level, not just the top end of the range, and because many of these jobs must be located close to the point of energy use, they are at less risk of outsourcing to lower wage economies.

Just as one example, and it's a small one, let's suppose that by the Year 2030 the U.S. was generating 5 percent of its electricity from small scale photovoltaic installations, which is an ambitious goal, although not as ambitious as some recent targets. A rough estimate is that this would create 20 years of steady local work for 45,000 to 50,000 installers, mostly electricians and construction workers, and perhaps double that number if we include indirect labor. That doesn't include the couple of hundred thousand jobs that would be created upstream in the PV value chain, some of which, although not all, would be located here in the U.S., and of course it doesn't include the other 95 percent of the
power sector where large numbers of new jobs
are also likely to be created, not only in
connection with supply but of course also in
connection with more efficient use.

In conclusion, it's long past
time for serious federal leadership on energy
innovation, but it's also time to move beyond
the Manhattan Project metaphor. A better
metaphor might be a domestic Marshall Plan for
energy innovation.

The original Manhattan Project
involved a relatively small number of people
working in secret. The original Marshall Plan
took everyone working together to rebuild the
broken European economy. Let us recapture that
inspired exercise of American leadership at
home. As we did once before on foreign soil,
let's combine a vision of what can be with a
command of hard facts and data to build an
effective system for energy innovation in every
one of our United States.

Mr. Chairman, thank you again for
the honor of being with you this morning

CHAIRMAN PAWLENTY: Thank you,
sir.

Great, Dr. Lester is available to take some questions. I think that was a very piercing and clear-eyed view of a lot of the challenges that we face, and we appreciate your time, doctor, for being with us this morning. Let's start with Governor Rendell.

GOVERNOR RENDELL: Doctor, that was a great presentation but let me ask you, to put you on the spot a little bit, if you woke up tomorrow morning and found yourself president-elect, what is the first thing you would get started on to build the type of energy infrastructure the country needs?

DR. LESTER: Could I do two things?

GOVERNOR RENDELL: Sure, two things. You are the President, you can do anything you want.

DR. LESTER: I think this may be smaller than you would like, but I think I would focus, first of all, on getting a program for commercializing carbon capture and
sequestration that would be substantially larger and, I would hope, more effective than anything we currently have in place.

The second thing I would do is to take a new look and a fundamental new look at our program for high level waste, nuclear waste disposal. I think I would do those two things right away.

CHAIRMAN PAWLENTY: Governor Granholm.

GOVERNOR GRANHOLM: In light of your comments about trying to encourage innovation and have energy production potentially close to where the user is or at least some of the solutions close, what is your opinion of feed-in tariff as a method of distributed generation like they are doing in Germany?

DR. LESTER: I think clearly the evidence from Germany is that if you make the feed-in tariff large enough, you can get a lot of distributed energy, particularly photovoltaics. I think it's equally clear that that's not, at least at those levels, a
sustainable strategy. It would simply cost too much to continue to provide that kind of subsidy once the penetration of the technologies that it is supposed to help gets above a certain level. So it would have to be--and may in fact be being--dailed down when you get above a certain level.

But I think this is certainly a promising way of encouraging deployment at scale, which is an important part of our problem. It's certainly not the only way, but it is demonstrably an effective way up to a certain point based on the German experience.

CHAIRMAN PAWLENTY: Governor Palin.

GOVERNOR PALIN: I thank you, Dr. Lester, for being here. I appreciate this. And I want to ratchet this down just a little bit because you got me with your comments suggesting continued reliance on foreign sources of conventional energy, and as you are recognizing a tripling of energy demands by mid-century, why is it a supposed given that the U.S. must and will depend on dangerous Persian
Gulf petroleum sources with the known reserves domestically, with explorers wanting to explore for more and new technology—like the far-reaching directional drilling and newer injectables and more and more Americans demanding energy security—why is it assumed that we are going to have to keep, for instance, sending our president over to the Saudis asking him to ask them to ramp up production for us?

My question is, is it political, in your opinion, is it unfounded fears of too large a footprint, for instance, is it warehoused resources by maybe the multinationals? Because we know that we need the conventional sources in this transitional period bridging the gap between where we are today and where we are when this new innovation and alternatives can come online.

CHAIRMAN PAWLENTY: Dr. Lester.

DR. LESTER: Let me first say that my projection—it's not my projection, it's others—is for a doubling of energy demand by mid-century. The tripling applied more
specifically to electricity demand.

Also I should say that my comment about the dominance of the Middle East or the Persian Gulf region was really about its dominance in the global supply picture, and I think we have to think about energy security and the supply of oil and gas in particular as a global matter because the markets for these commodities are obviously global.

What are the prospects you ask for the United States to achieve independence in our oil and gas use, and I would say two things about that: First, even if we were able to achieve full matching of domestic production with domestic demand, it wouldn't address the energy security issues because we are talking about a global market for the supply of oil and interruptions even in that situation would certainly affect the American domestic fuel market. But I think the bigger point I would make is that I don't see any chance for us in the long run, certainly not in the short run but not even in the long run, to achieve a balance of domestic consumption with domestic
production.

I do think that we can produce more. We will produce more. Maybe we will produce enough to offset the decline of our existing fields. I don't know enough to be able to predict that with confidence. But I don't see any realistic prospect of filling the gap, which now amounts to 70 percent—more or less 70 percent—of our consumption of oil coming from overseas. I simply don't see any realistic prospect of closing that gap with domestics supplies.

CHAIRMAN PAWLENTY: Governor Corzine.

GOVERNOR CORZINE: Could you inform a little bit more about the current status of our ability to deal with nuclear waste and try to take us down a path of what are some of the alternatives? You know, a number of us are considering the development of additional plants, and if we don't have both identification of a path of change, of innovation of some sort, some of that might just be identifying a location, but we will continue to store on site
and where is the status of that as a vehicle to allow us to substantially expand and is it viable?

DR. LESTER: I don't think there is any way we can put a gloss on the accomplishments of the federal government in the area of nuclear waste management and disposal. We are not in a comfortable situation at the moment, looking ahead as you point out to the prospect of new orders for nuclear power plants and without yet at least a demonstrated workable solution for disposal.

It's possible, and I don't think that we should try to anticipate the outcome, it is possible that now that the application for a construction license has been submitted to the Nuclear Regulatory Commission for Yucca Mountain, it is possible that that site will in due course meet the technical criteria that still are being developed for its long-term performance. But given the pressure to move ahead on new nuclear power plant construction and the possibility that the Yucca Mountain site, whether for technical reasons or for
political reasons, will not go ahead, it is
time it seems to me for us to be thinking
seriously about alternatives. And I think that
when we look at the alternatives, we can think
about four categories of alternatives: one,
which you mentioned, is to think in a more
serious and integrated way about extended
storage of the spent fuel, probably at a few
central locations rather than leaving it at the
sites of the existing reactors for some period,
which on technical grounds could, without
unreasonably stretching the capabilities of the
technology, be several decades or more in dry
surface storage facilities.

A second possibility or a second
group, category of things to do would be to
begin--and this is not of course something
that would be welcomed by anyone with
responsibility for this, but we have to
recognize that a second possibility would be to
begin again the search for alternative disposal
sites.

A third possibility, which is
being pursued and has been pursued for the last
few years by the federal government, has been to look at alternative technologies prior to the disposal stage that are designed to ease the disposal task, and these collectively, we can talk about them as being reprocessing based, and these approaches are claimed to have a number of advantages with respect to reducing the volume of nuclear waste, reducing its lifetime, its toxic lifetime, and other advantages.

Of course, on the negative side of the ledger, these approaches have some disadvantages too. They will increase the costs of the nuclear fuel cycle significantly and they will also create a need to site new facilities, perhaps quite a lot of new fuel cycle facilities that may be not much more popular than spent fuel disposal facilities.

Then the final set of things that we might include in our list would be to explore alternative disposal strategies for spent fuel. And here the unfortunate matter . . . the unfortunate thing is that the United States Congress, in its wisdom, decided about 20 years
ago that there should be no significant expenditure on anything other than the characterization of the Yucca Mountain site, and so for 20 years in the United States the exploration of other options has basically been frozen.

My own view is that there are alternatives, and in fact for the last decade at M.I.T. we have been exploring on our own nickel alternatives to the current approach, which is the building, as you know, of mined geologic repositories a few hundred meters underground. In fact, our own research has focused on very deep disposal, several miles below the earth's surface, at which level you actually avoid some of the near surface problems we have encountered at Yucca Mountain.

And I am afraid I took too long to answer your question, I apologize, but that's the range at least of possibilities that we have in front of us.

CHAIRMAN PAWLENTY: We have just a couple minutes left, so we will try to squeeze in two more quick questions and quick
answers, then we will wrap up. We do want to 
say farewell to a couple of departing governors 
who we won’t see at least in this context yet 
again this year, and we also have some policies 
to adopt, so we want to finish up our agenda 
with some dispatch here.

Governor Huntsman.

GOVERNOR HUNTSMAN: Thank you, 
Dr. Lester, just very quickly, any sense of 
emerging technologies that might make tar sands 
or shale viable over the short-term; and, 
second, how might one go about putting a value 
on carbon, not only domestically but, because 
it's a global problem, internationally?

DR. LESTER: Briefly, yes, I 
think there are interesting new developments 
with respect to oil sands, shales. Those 
developments generally will entail greater or 
could entail greater production of carbon 
dioxide per unit of energy consumed, and so 
that's a real concern. I think the real Holy 
Grail, if you like, there is to figure out how 
to do this without generating more carbon 
dioxide, and there are some interesting ideas
that have been proposed actually involving nuclear power as a heat source for the recovery of those systems.

Pricing carbon, clearly—or at least I think it's clear that we have to do it. We have two alternatives that are on the table, one is a cap-and-trade system, which is probably the direction that we are going to move in this country, the other is to apply a tax directly. Each has its advocates. Each has its pros and cons.

I think probably if you were to back me against a wall, I would probably advocate the tax approach for a number of reasons, mainly that I think it is a more transparent approach and probably easier to administer.

CHAIRMAN PAWLENTY: Governor Freudenthal.

GOVERNOR FREUDENTHAL: You mentioned the kilowatt tax as a fund, but the numbers I have seen on that don't generate an immense amount of money, depending on what level you set it at, but acceptable levels seem
to keep it relatively small.

Have you given thought to what
would be the mechanism for deployment at scale
to these technologies until you get to the
tenth or eleventh plant, whether it's clean
coil or any of the rest of them, what is the
right mechanism to get us to the point at which
we are essentially technology neutral in some
form of program to allow for deployment at
scale until they reach efficiencies where the
market will support them?

CHAIRMAN PAWLENTY: Dr. Lester.

DR. LESTER: I think you are
absolutely right, the kilowatt hour tax is not
going to generate a revenue stream that matches
the scale that you are talking about or that we
are talking about when we are talking about
deployment of commercial scale facilities. I
think there . . . look, the key issue for many, if
not the majority, of these big facilities is
financial risk and so we have to think in terms
of not direct subsidies necessarily but
structures that allow that risk to the extent
that it is appropriate to do this, to be
distributed between the private owner of the
disutility and the public, to the degree that
some of the contributors to the risk come from
aspects of the public policy environment, and I
think we have in place or almost in place a
loan guarantee program that is targeted to
certain kinds of technologies and systems. But
I think that's the kind of scale of policy
approach that we will need to address what I
agree is the absolutely fundamental problem of
getting initial deployment of new technologies.
We are not going to be able to rely on a
kilowatt hour tax to do that.

CHAIRMAN PAWLENTY: Let's again
thank Dr. Lester for sharing his insight and
perspective with us. Thank you, doctor.

We now want to take a few moments
to acknowledge and express appreciation for the
service of a departing colleague who won't be
back at our winter NGA meeting by her own
choosing, and of course we are speaking about
Governor Ruth Ann Minner, the 72nd governor of
Delaware.

Governor Minner is completing her
second term, having begun with the Class of 2000. She has served on NGA's Executive Committee, as Vice Chair of the Natural Resources Committee, Chair of the Public Safety Task Force, she performed duties and services as the lead governor on homeland security task forces and committees, served on the Economic Development and Commerce Committee.

Her involvement in the NGA really mirrors her priorities and her successes as governor in many ways. During her first term, Governor Minner steered the state through what experts called the worst fiscal crisis for states since World War II. She has retained the state's AAA bond rating. She has also added 69,000 jobs since she took office. She has expanded opportunities for small businesses, especially for women and minority-owned businesses.

She has championed a comprehensive fight against cancers, devoting millions and millions of dollars from tobacco settlement funds for increased education, screening and treatment of cancer, as well as
the creation of a registry for cancer cases or
hot spots related to environmental causes
around her state. Delaware remains the only
state in the nation to offer free cancer
treatment for the uninsured, and its cancer
mortality rate is decreasing at twice the
national average.

Governor Minner, along with a
number of her fellow governors, also signed the
Regional Greenhouse Gas Emissions Agreement,
which is the first regional cap-and-trade
program in the country, to help control carbon
dioxide emissions in the nation. She is an
example of perseverance, hard work and her
family and all of us express our appreciation
to her.

Her life story--her personal
story--is very compelling as well. She left
school at the age of 16 to help work on the
family farm. At 32 she was left alone to raise
her three sons after the sudden death and
passing of her husband. She returned to school
to earn her GED while working two jobs to
provide for her family. She began her
political career in 1974, serving four terms in
the House of Representatives, three terms in
the State Senate, and two terms as Lieutenant
Governor before becoming Governor.

As you can see, she has devoted
almost her entire life to service to family and
to community and to her state and to our
nation. We are going to miss her and her
strong participation in NGA, and I think it's
fair to say your state and all of us are going
to miss your friendship and your vision and
your passion for service and we hope that you
won't be a stranger to us in the future. I am
sure you are going to treasure the extra time
with your children and grandchildren.

Governor Minner, we would like
for you to come forward and share a few
thoughts.

GOVERNOR MINNER: Thank you very
much. It is with a bit of concern that I am
leaving the state at a time when we are not
doing as well as perhaps we could. However, I
am leaving my state in good hands, having
accomplished a lot in education by way of
things from early childhood, kindergarten through the elementary, middle and high schools, to free scholarships for all students graduating from a Delaware high school, and so I feel like the future of the State of Delaware will be in good hands because we will have better educated employers and employees in the future.

I will treasure the memories and friendships that I have made with this group. Thank you all very much for allowing me to steal some of your ideas to make Delaware a better place for the future and for all of our citizens. Thank you.

CHAIRMAN PAWLENTY: Also not rejoining us after the summer meeting and after the end of this calendar year will be of course Governor Easley and Governor Blunt from Missouri. They are not able to be with us this morning but we also want to acknowledge their great service to their respective states and the NGA, and at least in absentia let’s join in a round of applause as well.

We will make sure they get their
plaques by Fed Ex or UPS or some such service. I will now begin the adoption of the proposed policy positions, alphabetically by committee. The policies were sent out to all governors on June 27th. The packet that is in front of you bound by a rubber band reflects those policies as adopted by the standing committees at yesterday's committee meetings. These of course require a two-thirds vote for adoption.

To expedite each matter, I will ask each committee chair to move the adoption of their committee policies en bloc. We will start with Governor Granholm, who is the Chair of the Economic Development and Commerce Committee.

Governor Granholm.

GOVERNOR GRANHOLM: Thank you, Governor Pawlenty.

I am the Chair of the Economic Development and Commerce Committee. Along with Mike Rounds, we considered a number of items yesterday, great speakers regarding the current conditions of the United States economy and the
state responses to market disorder.

We recommended adoption by the
NGA membership of five policies, four are
amendments, one new policy, EDC-1, 3, 7, 8 and
14. On behalf of the committee, I move
adoption of these recommendations.

CHAIRMAN PAWLENTY: Is there a
second?

GOVERNOR MANCHIN: Second.

CHAIRMAN PAWLENTY: Governor
Manchin seconds the motion. Any discussion?

(No response.)

CHAIRMAN PAWLENTY: Seeing none,
all those in favor of the motion say aye.

GOVERNORS: Aye

CHAIRMAN PAWLENTY: Opposed say
no.

(No response.)

CHAIRMAN PAWLENTY: The motion
prevails, and the motion is adopted. Thank you,
Governor Granholm.

For the Committee on Education,
Early Childhood, and Workforce, Governor
Baldacci.
GOVERNOR BALDACCI: Thank you very much. Chairman Carcieri had to leave and discharged the responsibilities to myself, but these are his words and my words together, and I want to thank you, governor.

The Education, Early Childhood and Workforce Committee discussed human capital, the innovative business and state strategies for K-12 educators. The governors heard from Ted Hoff, vice president of IBM, Andrew Rotherham, co-founder and co-director, Education Sector, and Timothy Daly, president of the New Teacher Project.

The committee adopted two policies, all without changes. We recommend to the NGA membership the reaffirmation of ECW-14, Public Charter Schools, and an amendment in the nature of a substitute for ECW-11, Employment Security System Policy, and on behalf of the committee I move the adoption of our policy recommendations en bloc.

Thank you.

CHAIRMAN PAWLENTY: Governor Baldacci moves adoption. Is there a second?
GOVERNOR MANCHIN: Second.

CHAIRMAN PAWLENTY: Governor Manchin seconds the motion. Any discussion?

(No response.)

CHAIRMAN PAWLENTY: Seeing none, all those in favor say aye.

GOVERNORS: Aye.

CHAIRMAN PAWLENTY: Opposed say no.

(No response.)

CHAIRMAN PAWLENTY: The motion prevails, and the motion is adopted.

Next we have Governor Douglas from the Chair of the Health and Human Services Committee.

Governor Douglas.

GOVERNOR DOUGLAS: Mr. Chairman, thank you. We had a very provocative and informative discussion yesterday about reintegration of our troops from deployment overseas into our communities. We heard from Secretary Peake of the Department of Veterans Affairs, Deputy Assistant Secretary Lynda Davis from the Defense Department, and Paul
Rieckhoff, who is the founder and executive director of a new organization called Iraq and Afghanistan Veterans of America.

I don't think there is a more important topic on the minds of all of our colleagues at this point than to be sure that those who have worn the uniform of our country have a chance of success as they come back to our communities, and we will certainly be following the progress of the Defense Department and the private organizations in offering suggestions to the governors on how we can maximize those opportunities.

We proposed amendments to five existing policies, reaffirmation of one dealing with maximum flexibility in the Deficit Reduction Act as it deals with Medicaid and TANF reforms, and on behalf of Vice-Chairman Governor Corzine and my colleagues, I move their adoption.

CHAIRMAN PAWLENTY: Governor Douglas moves adoption.

GOVERNOR GRANHOLM: Second.

CHAIRMAN PAWLENTY: Governor
Granholm seconds. Any discussion?

(No response.)

CHAIRMAN PAWLENTY: Seeing none, all those in favor say aye.

GOVERNORS: Aye.

CHAIRMAN PAWLENTY: Opposed say no.

(No response.)

CHAIRMAN PAWLENTY: The motion prevails. Thank you, Governor Douglas, we appreciate that.

We also want to take a moment to once again thank our tremendous hosts, Judge Midge Rendell and Governor Ed Rendell. I think again all of you know the amount of work both in terms of logistics and security and finance and just plain old hard work, and I know from firsthand accounts to get this meeting ready in all of those areas, Governor Rendell personally was involved at a fever-pitched pace and really extended himself, and I know Midge did as well, so let’s thank the Rendells again for their tremendous hospitality.

And we will get to hear from him
momentarily as he takes over the chair of this organization and as we pass the gavel.

Governor Manchin, we do need to hear the report from National Resources. I know you have been working on a few last-minutes things. I presume you are ready, and if you are, go ahead.

GOVERNOR MANCHIN: First of all, let me congratulate and thank both you and Governor Rendell for a tremendous job and leadership. I think Securing a Clean Energy Future was right on and we can see how difficult it is and how cumbersome it can be but we all are depending on finding solutions. The real leadership is in this room, and it's in the state houses around this great country and I think that leadership shows forth.

With that, Governor Palin and I were happy to work through some of these problems and concerns that we had and challenges, but let me say that, first of all, we had six policies before us, five policies that we have that were as recommended without change, we had one that we had a minor change
to; it was our climate, global climate, and the
only change in the amendment was basically that
the cost must be made public of any changes in
any direction in policy. We adopted that, so I
would move that all six be adopted with the one
as amended.

CHAIRMAN PAWLENTY: Thank you,
Governor Manchin. Is there a second?

GOVERNOR PALIN: Second.

CHAIRMAN PAWLENTY: Governor Palin seconds.

Any discussion?

(No response.)

CHAIRMAN PAWLENTY: Seeing none,
all those in favor say aye.

GOVERNORS: Aye.

CHAIRMAN PAWLENTY: Opposed say
no.

(No response.)

CHAIRMAN PAWLENTY: The motion
prevails. Thank you, Governor Manchin.

GOVERNOR MANCHIN: Also,
governor, as you know, we had discussions on
where and the direction we should be going
individually and as a collective body. We are
totally in agreement to send a letter . . . and
hopefully that all 50 governors will sign on a
letter extending immediately the tax credits
for renewables of wind and solar for a minimum
of five years. That will be separate and I
want to see if that would be accepted by the
body.

GOVERNOR BALDACCI: So moved.
GOVERNOR GRANHOLM: Second.
CHAIRMAN PAWLENTY: Governor
Baldacci so moves, Governor Granholm seconds.

This again is the tax credit
issue we discussed and the governors only
extended for five years--

GOVERNOR MANCHIN: A minimum of
five years.
CHAIRMAN PAWLENTY: A minimum of
five years.

Any discussion of that motion?

(No response.)

CHAIRMAN PAWLENTY: If not, all
those in favor say aye.

GOVERNORS: Aye.
CHAIRMAN PAWLENTY: Opposed say no.

(No response.)

CHAIRMAN PAWLENTY: The motion prevails. And that will be circulated as a hopefully 50-governors-sign-on letter or very close to that as possible.

GOVERNOR MANCHIN: The second letter that we would recommend from our committee and . . . requests respectfully our consideration that all 50 governors, knowing the challenges that we have in energy and knowing also the realistic approach that we must take to use what we have, knowing that coal is 49 percent of the energy and it's going to be used for some time, that it must be used in a cleaner manner with the research and technology that is needed, also noting for the base load that's going to be nuclear and the new nuclears that are going to be needed to be developed, that we as governors from our committee recommended an approach that the federal government should be looking very strongly at securing these two avenues.
Thank you.

CHAIRMAN PAWLENTY: Is that something you want feedback on, Governor Manchin, or is that just an announcement?

GOVERNOR MANCHIN: Feedback or a recommendation, we move forth with a separate letter on that because we also recognize that the credits are coming due and that's why we wanted to keep that one separately. This letter here is a movement of a direction we should be going.

CHAIRMAN PAWLENTY: Governor Baldacci.

GOVERNOR BALDACCI: I was going to second that as an amendment for us to be able to do collectively or individually, whichever--

CHAIRMAN PAWLENTY: Governor Manchin has made a motion as stated. Governor Baldacci has seconded it. Any discussion?

GOVERNOR RENDELL: The only thing I would say, Joe, is that—and I am in favor of that, particularly with the addition on
nuclear--the addition of we have to find a way
to solve the waste problem, but I think that
letter should go maybe a month later or after
the summer recess. We ought to make the letter
on extending the renewable tax credit--

GOVERNOR MANCHIN: No problem.

GOVERNOR RENDELL: Because that
may be voted on . . . hopefully will be voted on
before the recess.

GOVERNOR MANCHIN: The suggestion
by Governor Rendell would be accepted as far as
part of the motion.

CHAIRMAN PAWLENTY: Great, thank
you. Incorporates Governor Rendell's suggestion
to the motion.

Any further discussion?

(No response.)

CHAIRMAN PAWLENTY: Seeing none,
all those in favor say aye.

GOVERNORS: Aye.

CHAIRMAN PAWLENTY: Opposed say
no.

(No response.)

CHAIRMAN PAWLENTY: The motion
prevails. Thank you.

Before we wrap up our meeting, we want to recognize again the great service of somebody who has been with NGA and has dedicated a great deal of his life to our organization and the issues that we care about, and that is the resignation and the retirement of Dr. Nolan Jones, who has been NGA's Deputy Director of Federal Relations. After 30 years of service, three decades, he has announced he is retiring.

He is viewed as a leading authority nationally on criminal justice and emergency management issues, a long-time champion and advocate for the National Guard, which is so important to our states. He has testified before Congress on many, many occasions. He has written dozens of books and articles and other matters on behalf of the NGA. He is viewed as an expert on a variety of topics, including executive clemency, defender reentry, helping children with respect to reintegration issues when their mom or dad is in the military.
For this work he has been honored with a Walter Beech Pi Sigma Alpha Award for public service as a political scientist, he has received the Distinguished Service Award from the National Center of State Courts, and the Federal Emergency Management Agency Award for Excellence in Emergency Management. He has also been the recipient of the Patrick Henry Award from the National Guard Association. He also was singled out by the National Guard Bureau for his support of the National Guard throughout his career.

His expertise is matched by his commitment to help and serve others. He teaches political science at Howard University. He chairs the Center for Child Protection and Family Support at that institution. He has served on the National Center for State Courts Research Advisory Council and the National Crime Prevention Counsel.

More importantly, those of us who have had the privilege of working with him over the years know that he is somebody who is going to be very difficult to replace. He has a
skill set and experience and perspective, a collaborative nature that, like I said, is going to be very, very difficult to replace.

We have only words and a plaque to give to him, but we also want to express our appreciation by inviting him forward and giving him a round of applause.

Nolan, thank you so much for your years of service to the NGA.

DR. JONES: Wow, I didn't expect this, and thanks, governor. I started in July 1, 1978, as the director in doing some research. I had been a teacher at the University of Michigan in Ann Arbor and a dear friend of mine had come to Washington to work with NGA and he called me and said, "Why don't you take a leave of absence, come and help us on some issues at the Governors Association," and those issues were helping governors develop a cadre of staff on public safety and other kinds of issues, and needless to say 30 years later I am still trying to get it right, working with states and things.

I really appreciate this. I look
forward to retiring, to the process of going
back to teaching, and continuing my commitment
to working with communities around Washington,
D.C. Thanks again.

CHAIRMAN PAWLENTY: I just want
to conclude by saying I certainly have enjoyed
chairing this organization over the last year.
I think the topic that we have discussed has
been timely and hopefully impactful in terms of
your thinking and attitude and approaches
towards public policy. I hope the speakers and
the information that we have had has informed
your process or your thinking about how you
might contribute or advance or lead these
efforts in your respective states.

I do think the issue of energy is
going to be with us for the foreseeable future
and almost a crisis level. I think as a nation
our ability to successfully address this issue
is going to be a big part of whether we succeed
strategically and economically and otherwise.
I continue to believe governors can play a huge
role in this issue, both in terms of advocating
before Congress and what we can do regionally
and locally as well.

I think next year is going to be a very busy year for NGA as you think of all the opportunities that are going to come with a new president and that agenda that will unfold in a robust way in the first 100 days of the next administration, as well as reauthorization of things like No Child Left Behind and the transportation bill and real ID and on down the list. We are going to have a very, very busy next year for all of those reasons and more, and I think we are going to be well served by the leadership slate that is coming into NGA and that will lead and guide this organization in the coming 12 months.

It has been an honor to work with my friend Ed Rendell. He has been really supportive and helpful on a collaborative basis on so many things. I think he is going to be a great chair for this organization.

With that I would like to call on Governor Minner to report the results of the nominating committee for the 2008-2009 Executive Committee work.
Governor Minner.

GOVERNOR MINNER: Thank you, Mr. Chairman.

On behalf of the Nominations Committee, it is my privilege to nominate the following governors to serve on the 2008-2009 Executive Committee and move for their acceptance: Governor Tim Pawlenty, Governor Janet Napolitano, Governor Sonny Purdue, Governor Kathleen Sebelius, Governor John Hoeven, Governor Mike Easley, Governor Jon Huntsman, and as our Vice-Chair, Governor Jim Douglas, and of course Chair, the great leader and good friend, Governor Ed Rendell.

CHAIRMAN PAWLENTY: Thank you.

Is there a second?

GOVERNOR RELL: Second.

CHAIRMAN PAWLENTY: Governor Rell seconds. Any discussion?

(No response.)

CHAIRMAN PAWLENTY: All those in favor say aye.

GOVERNORS: Aye.

CHAIRMAN PAWLENTY: Opposed say
(No response.)

CHAIRMAN PAWLENTY: The motion prevails, and, Governor Rendell, I want to invite you forward to accept the gavel and take over the leadership of the National Governors Association.

Thank you, everyone.

GOVERNOR RENDELL: Thank you all.

Thank you all very, very much.

Our first order of business is to present a gift of appreciation to Governor Pawlenty for his great service, and I think Tim has been a great leader for us not only because of his foresight in choosing Securing a Clean Energy Future as his initiative. Let me remind you when Tim made that choice, oil was less than $75 a barrel. I think he showed great predictive abilities of the crisis to come and he has laid the groundwork for us to examine this issue, and my guess is that a decade from now that will be an issue that still resonates and is still of great importance to the NGA.

So, Tim, we appreciate your
foresight there.

Secondly, I think Tim has been a great leader because he has been able to bring us together. He is extraordinarily reasonable and a great builder of coalitions. We have had some great success, as we did recently on the health care cost bills, and we have had some things where we just missed the mark, like on S-CHIP, but he has had an extraordinarily successful term. We have been very impactful down in Washington, and he has advanced the cause of this organization in so many different ways.

So, Tim, we thank you for your successes and your leadership. This is a gavel that you can keep, unlike this gavel.

Tim and I both share a number of things in common, including wives who have been or are currently judges, and I have always wanted to have a gavel to match my wife's, and now, Tim, this is for you.

CHAIRMAN PAWLENTY: Thank you.

GOVERNOR RENDELL: And I also want to thank Tim for those kind words about
the work that Midge and I did on this conference. Let me say that it was a labor of love and it was a lot of fun for us. Midge and the spouses are out viewing the Barnes Collection right now, which is not tough duty for Midge. So we had a great time in doing this. And I can report to those of you who couldn’t join us last night, that Governor Palin was the first governor to dance, the only governor to do the electric slide, thereby scratching her from the McCain vice presidential list. But she did a great electric slide.

Tim is exactly right when he talks about the challenges that will face the country and us in the next year, not only because a new administration and a new Congress will be taking office but because of the timing, the reauthorization of so many things that are important. First, the debate about energy, which will be a dominant factor in this presidential election, will carry over to the new administration and certainly we must and
should and must have impact on that debate and
hopefully the letter that all 50 of us will
sign on extending the renewable energy tax
credit will be just the first of many different
issues in the overall energy spectrum that
we'll be weighing in on.

Second, the reauthorization of No
Child Left Behind. Who else but governors and
state education leaders should weigh in and
tell the Congress what went right about No
Child Left Behind and what went wrong, how it
should be amended, how it should be changed,
and how its status as the greatest unfunded
mandate in the history of the United States
should be once and for all ended.

Next, healthcare, healthcare is
obviously again a huge issue in this
presidential campaign and the federal
government should and must act on healthcare.
The experiences that the 50 of us, including
the territories, the 55 of us, have had in
dealing with cost containment issues, in
dealing with extending access, the challenges,
the successes, the failures that we have had,
serve as a terrific model for any federal experience and federal answer to this solution.
And interestingly, if you looked at the three major candidates' proposals, Senator McCain, Senator Obama, Senator Clinton, all of them involved setting up a national healthcare system that relied on a strong partnership with the states. So I think it’s incumbent upon us to play a strong role in that area as well.

And, lastly, the subject that I have chosen to be my initiative for the next coming year, which probably will be the first of the major challenges to be discussed because of the timetable involving the reauthorization of SAFETEA-LU, is how are we going to rebuild, repair and extend our nation's infrastructure. It is not the sexiest of issues, it certainly doesn't compete with healthcare and energy on the radar screen and in the public's importance, but in many ways it's as important as any single thing we can do.

Many people have said, and I was just handed an article by Donna Cooper, my policy director, where the writer said that
unless we rebuild our infrastructure and do it now and do it quickly and do it comprehensively, the United States is in danger of becoming a third-rate economic power 50 years from now, and I don't think that is much of an exaggeration. We need to use our collective voice and, again, we are part and parcel of the infrastructure solution. In fact, in many ways we are the main part right now.

We need to use our collective voice to establish a number of principles: One, that infrastructure revitalization, reform and buildout has to be paid for somehow and we have to bite the bullet and find a viable and usable and workable way to pay for what we need to do to rebuild our infrastructure; two, that we must make sure that this subject, rebuilding our infrastructure and revitalizing our nation is taken out of the political process to the extent that that process has provoked incredible public skepticism and cynicism about the whole subject of infrastructure.

When I was chair of Rebuild
America in the 1990s, we took a poll, a poll done by Frank Luntz, and the poll established that overwhelming numbers of Americans, 65 to 75 percent, would pay 1 percent more on their federal income tax for better infrastructure in seven major areas, road building, railroads, water, wastewater, et cetera—willingly pay 1 percent more taxes. I would hazard a guess that if you took that poll today, about 10 or 11 years later, the numbers would be far less supportive. The reason, the bridges to nowhere. The reason, the view of the public that infrastructure has become just a pork barrel process where it's who you know and who are the most powerful congressman or senators that matter more than the cost-benefit analysis of individual projects.

We have got to find a way to structure our infrastructure revitalization program in a way that eliminates that and builds back public confidence that infrastructure spending is something that can and will provide a tangible benefit for themselves.
Secondly, we have got to look to the private sector. We have had good experience in our states in partnering with the private sector in many different areas. I think infrastructure, almost more than anything, lends itself to a working partnership with the private sector to come up with some of those solutions we need, whether it be financing or how we build out our infrastructure. Whatever the issue, we should align and partner with the private sector.

Lastly, we have to deal with the problem of building out our infrastructure, doing the repairs necessary, consistent with building sustainable communities and of course reducing greenhouse gas emissions.

These are subjects that are almost inexorably entwined together. We have to find a way, for example, to increase the rail freight in this country. There is no question that the shipping of freight by rail is so much more environmentally sound than by highway and over bridges and we have to find a way to do that. We have to cease the
circumstance that this country is the only
developed country in the nation that doesn't
have real passenger rail transportation, high
speed passenger rail.

Mayor Bloomberg, who was one of
the triad chairs of the organization Building
America's Future, along with Governor
Schwarzenegger and myself, told us about flying
into Shanghai's airport and the airport in
Shanghai is about 28, 29 miles outside of the
city, and hopping on a high speed bullet train
and from the time he got on the train until he
was in downtown Shanghai was about 19 minutes.
That train goes over 200 miles an hour. We
have got to find a way to do that for our
country and we have got to find a way to do it
soon and quickly. It is a daunting challenge.

The American Society of Civil
Engineers says that the infrastructure deficit
in this country is $1.6 trillion, and I want
you to understand, that's a deficit that if we
spent $1.6 trillion, according to them, it
would only rebuild what we have and put it in
top flight condition; it wouldn't extend
anything. That wouldn't account for building a passenger rail system, for example.

I asked my cabinet secretaries and department heads to give me an idea of what they thought it would take to rebuild Pennsylvania's infrastructure, whether it would be water and sewer, wastewater, transportation or the like. They gave me a figure of $80 billion. And I'd ask each and every one of you to ask your crew the same question, what would it take to make Kentucky's infrastructure A condition? What about Connecticut? What about Mississippi? What are the cost factors? And you will see the daunting challenge that lies ahead of us. It is enormously significant.

Costs are going up dramatically. In Pennsylvania the cost of road building because of the increase in steel and concrete has gone up 34 percent in the last three years. For X miles of roads, to rebuild those roads right now costs 34 percent more than it did three years ago. Is that going to stop? No. It's going to increase. And I think infrastructure is very much like the old Fram Oil Filter commercial
where the mechanic points to the Fram Oil Filter and says, "You can pay me now" and the screen flashes $7.98, "or you can pay me later," and he points to the dilapidated car, $4,721.

It's the truth; if we start now,
now is the time, especially with interest rates being low, now is the time when we can repair this nation's infrastructure for significantly less than it's going to cost us five or ten years down the road.

Now, I believe, and I think all of us share that belief, that the federal government has to do more. States and local governments right now pay for 75 percent of the costs of maintaining this nation's infrastructure. When Dwight David Eisenhower left office as President in 1961, the federal government was spending 11.5 percent of its domestic, nonmilitary spending on infrastructure. Today we spend 2.5 percent. Just 10 years ago we were paying 1.17 percent of our GDP on infrastructure. Ten years later, we are paying half that amount, less than six-tenths of a single percent on
To give you a frame of reference, we are paying less than six-tenths of a percent, China is paying 9 percent of its GDP on infrastructure, India 8 percent. And you can say, "Well, that's not a very fair comparison, governor, they are new nations, developing nations, they are building out their infrastructure." Well, fine. The EU averages 3.5 percent, seven times greater percentage of their GDP spent on infrastructure than we do. These things have to change.

Congress commissioned the National Surface Transportation Reform Commission, and they came up with a report that says the $81 billion we spend today--the federal government spends today on infrastructure--has to be almost tripled to $225 billion. So the big question here is, how are we going to do this? How are we going to radically increase spending? One of the things I hope we look at over the next 12 months is funding alternatives, and there are many,
public-private partnerships, tolling existing
roads that aren't tolled to develop
transportation as a sort of user fee type
arrangement and the one that I favor most
strongly, but we are going to have to explore
this is for the federal government to have a
capital budget.

Each and every one of the 55 of
us have a capital budget. Every borough, every
municipality, every county has a capital
budget. The only political subdivision in this
country that doesn't is the federal government.
The federal government buys paper clips, which
have a 30 or a 60-day half life, the same way
they finance road building and bridge building
that exists for 50 or 60 years. It makes no
sense, no business would do it, and neither
should we.

Governor Corzine, when he was the
managing partner of Goldman Sachs, chaired a
commission established by President Clinton to
examine whether a federal capital budget made
sense and just recently Speaker Pelosi
indicated her approval for the concept of a
federal capital budget. I think it's something that we need to explore because to me it is an extraordinarily realistic avenue for trying to accomplish what we need to accomplish and what we need to accomplish right now.

You know, infrastructure is viewed as a public safety issue, it's viewed as a quality of life issue, but, my fellow governors, it is also an economic competitiveness issue. When Governor Schwarzenegger, Mayor Bloomberg and I announced at a press conference announcing the formation of Building America's Future, we did it in an island right in the middle of one of California's freeways, a truly frightening experience, and each of us had a little bit of a visual aid, and I chose for my visual aid a map of China and a map of the United States, and on those maps I put dots where the ten largest ports in each country were located.

The 10 largest Chinese ports handle a throughput of three times as much freight as the 10 largest U.S. ports. Only two U.S. ports, LA Long Beach and New York,
New Jersey would even break the top 10 in terms of the Chinese ports. The ability to handle freight and to move it quickly and efficiently into our country and out of our country is a key economic development issue.

We have to begin addressing this problem. In the long run it will do so many substantive things, so many good things for our state's infrastructure, but what will it do in the short run? I think we know the answer to this because when the Congress and President Bush were talking about an infrastructure repair program, I remember when we were down in Washington, we almost spoke with one voice and said, "The best type of economic stimulus is infrastructure repair." Why? Because it creates tens of thousands of jobs that can't be outsourced, that have to be done on location, it creates orders for steel and concrete and timber and electrical supplies that will be serviced by Pennsylvania companies or Mississippi companies or Connecticut companies or Iowa companies. It's the best way to get our economy juiced. In my judgment far better
than just giving people a $600 or $700 rebate check.

But a long-term infrastructure revitalization program—and every one of the other G-7 nations have had it in the last 20 years—Japan and Germany, countries a fraction of ours in size, have spent over a trillion dollars repairing their infrastructure. A long-term infrastructure repair program like that would be the best answer to revising and rejuvenating the American economy, in the short run and in the long run.

So I am looking forward to making that initiative part of our work. I am hoping that you will all be of enormous help in getting that done with your ideas and with your energy and with the impact we can have in Washington. My belief is that SAFETEA-LU will be decided about this time next year, so we don't have a long time to go. We have to make sure that SAFETEA-LU is a true long-term infrastructure plan for America, not just a patchwork on what is going on currently.

So I thank you in advance for the
cooperation that I know we are going to receive. I am looking forward to being Chair for this year on all of these different issues. I know Governor Douglas will be a great partner and he has always had the capacity to work together in a bipartisan way. I think we will speak with a strong voice in Washington, but as always we will need your help; as always, each and every member of this organization when we all help, we are that much the stronger, when we all sign, the impact is absolutely dramatic down in Washington.

So, Tim, again, thanks to you for all of your great work and this has been a great conference. I am proud of what we did here for our 100th Anniversary, and thanks everyone.

CHAIRMAN PAWLENTY: The meeting is adjourned. Travel safe.

(Whereupon, the hearing adjourned at 11:10 a.m.)

Reported by: Denise A. Ryan, Court Reporter
NATIONAL GOVERNERS ASSOCIATION

CENTENNIAL CELEBRATION

"LEGACY OF LEADERSHIP"

(Transcribed from provided CD)
INDEX

Introduction of Governors and Former Governors

Opening Remarks

Panel Discussion with Dr. Richard Norton

Smith
(Music playing.)

ANNOUNCER: Live from Philadelphia's Kimmel Center for the Performing Arts, Minnesota Governor Tim Pawlenty and Pennsylvania Governor Ed Rendell welcome you to the Centennial Meeting of the National Governors Association.

NGA, celebrating 100 years of leadership.

Ladies and gentlemen, in order of their state's admission into the Union, please welcome our nation's current and former governors.

(Introduction of Governors and former Governors)

ANNOUNCER: From Delaware, Governor Ruth Ann Minner.

(Applause.)

ANNOUNCER: Former Governor, Congressman Mike Castle.

(Applause.)

ANNOUNCER: From Pennsylvania, NGA Vice Chair and Centennial Meeting Host Governor Ed Rendell.
(Applause.)

ANNOUNCER: Former Governor Mark Schweiker.

ANNOUNCER: From New Jersey, former Governor Brendan Byrne.

(Applause.)

ANNOUNCER: From Connecticut, Governor M. Jodi Rell.

(Applause.)

ANNOUNCER: Former Governor John Roland.

(Applause.)

ANNOUNCER: From Massachusetts, Governor Deval Patrick.

(Applause.)

ANNOUNCER: Former Governor Michael Dukakis.

(Applause.)

ANNOUNCER: Former Governor Jane Swift.

(Applause.)

ANNOUNCER: Former Governor William Wells.

(Applause.)

ANNOUNCER: From Maryland, former Governor
ANNOUNCER: Former Governor Marvin Mandel.
(Applause.)
ANNOUNCER: From South Carolina, Governor Mark Sanford.
(Applause.)
ANNOUNCER: Former Governor James Hodges.
(Applause.)
ANNOUNCER: From New Hampshire, former Governor John Sununu.
(Applause.)
ANNOUNCER: From Virginia, Governor Timothy N. Kaine.
(Applause.)
ANNOUNCER: Former Governor Gerald Baliles.
(Applause.)
ANNOUNCER: Former Governor Linwood Holton.
(Applause.)
ANNOUNCER: Former Governor Mark Warner.
(Applause.)
ANNOUNCER: From North Carolina, Governor Michael Easley.

(Applause.)

ANNOUNCER: Former Governor James Hunt.

(Applause.)


ANNOUNCER: From Vermont, Governor Jim Douglas.

(Applause.)

ANNOUNCER: From Tennessee, former Governor Winfield Dunn.

(Applause.)

ANNOUNCER: Former Governor Don Sundquist.

(Applause.)

ANNOUNCER: From Ohio, former Governor Bob Taft.

(Applause.)

ANNOUNCER: Former Governor Senator John Voinovich.

(Applause.)

ANNOUNCER: From Mississippi, former
1 Governor Ray Mabus.
2 \hspace{2em} \textit{(Applause.)}
3 ANNOUNCER: From Illinois, former Governor
4 Jim Edgar.
5 \hspace{2em} \textit{(Applause.)}
6 ANNOUNCER: From Maine, Governor John E. Baldacci.
7 \hspace{2em} \textit{(Applause.)}
8 ANNOUNCER: Former Governor John McKernan.
9 \hspace{2em} \textit{(Applause.)}
10 ANNOUNCER: From Missouri, former Governor
11 Bob Holden.
12 \hspace{2em} \textit{(Applause.)}
13 ANNOUNCER: From Arkansas, Governor Mike
14 Beebe.
15 \hspace{2em} \textit{(Applause.)}
16 ANNOUNCER: From Michigan, Governor
17 Jennifer M. Granholm.
18 \hspace{2em} \textit{(Applause.)}
19 ANNOUNCER: Former Governor James
20 Blanchard.
21 \hspace{2em} \textit{(Applause.)}
ANNOUNCER: Former Governor John Engler.

(Applause.)

ANNOUNCER: From Iowa, Governor Chet Culver.

(Applause.)

ANNOUNCER: Former Governor Tom Vilsack.

(Applause.)

ANNOUNCER: From Minnesota, NGA Chair Governor Tim Pawlenty.

(Applause.)

ANNOUNCER: From Kansas, Governor Kathleen Sebelius.

(Applause.)

ANNOUNCER: From West Virginia, Governor Joe Manchin.

(Applause.)

ANNOUNCER: Former Governor Gaston Caperton.

(Applause.)

ANNOUNCER: Former Governor Bob Wise.

(Applause.)

ANNOUNCER: From Nevada, former Governor
Bob Newman.

(Applause.)

ANNOUNCER: From Colorado, former Governor Roy Romer.

(Applause.)

ANNOUNCER: From South Dakota, Governor Mike Rounds.

(Applause.)

ANNOUNCER: From Montana, Governor Brian Schweitzer.

(Applause.)

ANNOUNCER: From Washington, former Governor Daniel Evans.

(Applause.)

ANNOUNCER: From Idaho, Former Governor Secretary Dirk Kempthorne.

(Applause.)

ANNOUNCER: From Wyoming, former Governor Jim Geringer.

(Applause.)

ANNOUNCER: From Utah, Governor John Huntsman, Jr.
(Applause.)

ANNOUNCER: Former Governor Secretary Michael Leavitt.

(Applause.)

ANNOUNCER: From New Mexico, former Governor Bruce King.

(Applause.)

ANNOUNCER: From Arizona, Governor Janet Napolitano.

(Applause.)

ANNOUNCER: From Alaska, Governor Sarah Palin.

(Applause.)

ANNOUNCER: From Guam, Governor Felix Camacho.

(Applause.)

ANNOUNCER: Will governors and former governors please stand for an official photograph commemorating the NGA Centennial.

(Pause.)

ANNOUNCER: Please rise for the presentation of colors by the Philadelphia Police.
Color Guard, and remain standing for the National Anthem.

(PRESENTATION OF COLORS.)

(NATIONAL ANTHEM PLAYED.)

(Applause.)

(Opening Remarks)

ANNOUNCER: Please welcome the 2007-2008 National Governors Association Chair, Minnesota Governor Tim Pawlenty.

(Applause.)

GOVERNOR PAWLENTY: Thank you. Welcome to the Centennial meeting of the National Governors Association. It's been an honor to chair this Association over the past year.

Let me take this moment to thank our generous hosts and NGA's Vice Chair, Ed Rendell and his spouse, Judge Marjorie Rendell, for working tirelessly to make this meeting a tremendous success.

Thank you.

(Applause.)

GOVERNOR PAWLENTY: We have a lot of important issues to discuss this weekend, but if last
night's Taste of Philadelphia Welcome was any indication of the Commonwealth's hospitality, we know we're in for a great weekend.

Today's event is especially unique because current governors are joined by nearly 40 of the nation's former governors. Together, we span more than 40 years of state leadership.

We're joined by former NGA chairs, current and former members of Congress, and Cabinet secretaries. The gathering includes doctors, teachers, lawyers, business people, and people from every walk of life.

We are Democrats, we're Republicans and independents; yet, we share a common bond that transcends our differences. We are governors. I also want to take this moment to recognize the current spouses and spouses of current and former governors who are with us today. They've been part of this journey with us, and for that we are truly grateful. To the spouses, thank you very much.

(Applause.)

GOVERNOR PAWLENTY: We also want to pay a
special tribute to former Governor Dan Evans of Washington state, who was first elected in 1965, the earliest serving former governor with us today. He was also the chairman of the Association and founded the Hall of States that brought together NGA and Governors' Washington, D.C. offices. Let's thank Governor Evans for his vision and his leadership.

(Applause.)

GOVERNOR PAWLENTY: A century ago, President Theodore Roosevelt hosted the first meeting of the nation's governors at the White House to discuss conserving America's natural resources. He opened the meeting with these words:

"So vital is the question, that for the first time in our history, the chief executive officers of the states separately and the states together forming the nation, have met to consider it."

After meeting with President Theodore Roosevelt, our nation's governors decided that America would benefit from their collective thoughts and ideas. Thus, the National Governors Association
was born. For 100 years now, NGA has served as the collective voice of governors on issues that affect all Americans.

We've demonstrated the commitment and fortitude to tackle the nation's most pressing public policy issues. The initiatives and policy recommendations that have come from NGA have served as a catalyst for change.

Whether focusing on education, welfare reform, health care, fiscal relief or issues like energy, governors have worked together across partisan lines to affect positive changes.

As we began looking through the Association's history--both at the accomplishments of individual governors, as well as the collective body--we realized that ours was a story largely left untold.

We're excited to announce that the National Governors Association has partnered with the Woodrow Wilson Presidential Library and the University of Pennsylvania Press to publish two books. They're entitled A Legacy of Leadership:

These two books, edited by Clayton Brooks and Ethan Sribnick, with essays by journalists, academics and historians, highlight the century of gubernatorial achievements through the decades and through specific policy initiatives.

We also partnered with the Pearson Foundation to create companion study guides for these books that will help students study gubernatorial history. Today, we release these books as part of this historic celebration.

This weekend is an opportunity to look across the decades, reflect on 100 years of successes and challenges, and create a vision for the next 100 years that continues to build on state and federal partnerships.

When I hear the word "vision," I'm reminded of a story I heard about John F. Kennedy. We all remember, of course, President Kennedy's 1961 declaration that this nation should commit itself to
achieving the goal before this decade is out of
landing a man on the moon and returning him safely to
the earth.

It's also been said that he toured the
Space Center in Florida a short time later. At one
point during the tour, the President visited with a
janitor. The young President said to the man "Well
sir, what do you do here at the Space Center?"
Without hesitating, the man answered "I'm putting a
man on the moon by the end of the decade, Mr.
President."
Vision is a powerful thing. It motivates
people because it connects their individual
contributions to a great and noble purpose. Thank you
all for being visionaries in your respective states,
and thank you for helping create the vision for NGA's
next 100 years. Thank you very much.

(Applause.)

ANNOUNCER: Please welcome NGA Vice Chair
and our host for this Centennial celebration,
Pennsylvania Governor Ed Rendell.

(Applause.)
GOVERNOR RENDELL: Two-hundred thirty-two years ago, delegates from the 13 colonies met in Philadelphia to decide what would become of those colonies, and they formed a new nation. That new nation faced extraordinary challenges, a tremendous burden, going up against the strongest army in the history of the world.

No one believed they could be free. No one believed they could earn something that no free people had ever earned before, but they did. Eleven years later, delegates from those 13 colonies met here again to decide what type of country we would have.

Clearly, the young fledgling experience and democracy hadn't worked. The Articles of Confederation were nearly collapsing; eight of the 13 colonies had their own navies, each one of them printed their own currency.

Our country was at a seminal point in its history. What were we going to become? Did we have the courage to form one nation, strong and independent, that could make this wonderful
experiment in democracy succeed?

Well, the answer is those delegates met that challenge, came together, formed a republic and went on to keep it and see it grow and thrive into the greatest nation in the history of this planet.

But our nation today, as we all meet in Philadelphia, faces enormous challenges, challenges that we share with every country and every people in this world, and those challenges are going to need creativity and innovation. They're going to need courage and leadership.

Over the course of the last 100 years, the men and women who make up the National Governors Association have demonstrated that courage, that vision, that leadership, that willingness to roll up their sleeves and tackle serious and challenging problems.

As we meet here today, we're going to do it again. We're going to examine the development of the relationship between states and the federal government, how we got here. It is that relationship that the framers developed in 1787. Is that
relationship still sound? Is federalism still real?

Is there a proper separation between states' rights and federal power?

But we're also going to look at how governors (the states often known as the laboratories for invention) . . . at how they can be the forerunners in charting the path for America that will give us energy independence, that will allow us to maintain our status as the number one leading economic power in the world, that will re-establish so many things that are the key in the heart of the American democracy and this wonderful American experiment.

We want to thank each and every one of you for joining us here in Philadelphia, and although this meeting will probably not have the same profound results as 1787 and 1776, we hope that some real far-reaching policies and vision will come from this meeting, and [that] examination of the roles of states and the federal government together will produce tangible results and benefits.

So we hope everyone has a great time. The First Lady and her staff and my staff have worked
hard to put together a wonderful social program, and
that's important. We want everyone to have a great
time here.

But we want everyone to focus on what's
happening in our states today, on lessons we can learn
from that as we begin a new federal government next
year and try to tackle those challenges. Thank you.

(Applause.)

(Music playing.)

ANNOUNCER: In May 1908, President
Theodore Roosevelt convened the nation's governors at
the White House to discuss conserving America's
natural resources.

His invitation stated, "The gravity of the
situation must appeal with special force to the
governors of the state, because of their close
relations to the people, and the responsibility for
the welfare of their communities."

The President, Vice President, Cabinet
members, Supreme Court Justices and 39 state and
territorial governors attended. The conference, a
milestone in the American conservation movement, was
also the springboard for an organization of governors.

Two years later, New Jersey Governor-elect Woodrow Wilson would lay out his vision for a governors association: "If these conferences become fixed annual events as a habitual means of working towards common ends, this council will at least become an institution. "If it grows into a dignified and permanent institution, it will be because we have found it necessary to supply some vital means of cooperation in matters which lay outside the sphere of the federal government."

In pursuit of Wilson's vision, governors began to hold annual meetings, gave presentations and shared best practices. In 1912, the Governors Conference was formally organized.

(Applause.)

ANNOUNCER: Today, the National Governors Association represents 55 governors of states, territories and commonwealths. The bipartisan association assists governors on domestic policy and
state management issues, and provides a forum for governors to speak with a unified voice to the President and Congress.

MALE PARTICIPANT: "Well NGA, of course, when it speaks with a unified voice--and we almost always do--is a powerful, powerful voice, particularly on Capitol Hill with our federal partners."

MALE PARTICIPANT: "There are always the issues of, you know, the federal-state issues, who pays for what? But I think that we've been remarkably fortunate that the states have functioned over 200 years as laboratories of democracy."

MALE PARTICIPANT: "We take off our hats of partisanship when we gather, and we really put on our hats of practical problem-solving, and share ideas of good policy that can help all of our states, not only as safe taxpayer dollars that serve citizens far more effectively."

ANNOUNCER: So effectively that the federal government has often modeled its programs after the states. In contrast to 1908, when
governors came to the federal table, now federal
officials began to appear at governors’ conferences.
President Eisenhower sent Vice President Nixon to the 1954 Governors Conference, to argue his case for an interstate highway system, and acknowledged it could not be achieved without the support of governors.
Cooperation between states and the federal government proved necessary and vital over the years. The tumultuous ’60s were no exception, bringing major changes to the nation and to the Governors Conference.
President Johnson's Great Society programs provided massive federal funding, while imposing a maze of regulations on its distribution and uses. Realizing the high stakes involved, governors established a permanent office in Washington, D.C. in 1966.
The Association rapidly grew into an influential advocacy organization known as the National Governors Conference, and later the National Governors Association or NGA.
FEMALE PARTICIPANT: "I think what the NGA does is it brings the voices of governors from all over the country of different parties together, and because we are the executives in our states, we can't just rely on platitudes. "We've got to get something done on the ground, and that forces us to find our ways through difficult areas, to see where a consensus is, to build on that consensus and then to advocate for that consensus. That's the process that we use the NGA for."

ANNOUNCER: A process proven successful, and the world began to take notice. Through the association and governors' initiatives, their policy recommendations have served as catalysts for change. NGA's Report, "Time for Results," led to the first education summit in 1989 between governors and President George H.W. Bush.

MALE PARTICIPANT: "We did what governors are. We didn't try to solve every problem. We tried to set an agenda. I think the value of the NGA is first working together, knowing one another, and
second, the collective voice can make a difference."

ANNOUNCER: And two decades of persistent effort by governors and NGA bore fruit in 1996, when the largest overhaul of the nation's welfare system passed Congress, and was signed into law by President Bill Clinton.

FEMALE PARTICIPANT: "When I was first governor, that's when we were doing welfare reform, and it was the governors that really got welfare reform done.

We came down here on at least three different occasions and met together up on the Hill, as governors and with legislative leadership from the Senate and the House, to craft those bills.

"While President Clinton vetoed the first two, he finally signed the third. A lot of that was push from the governors. We were the ones who got the flexibility language in. We're the ones who really made it happen."

ANNOUNCER: The impact governors have on Capitol Hill stems from the successful changes they are making in their states, changes that make an
(Music playing.)

ANNOUNCER: One could say the role of the 21st-century governor has gone global.

MALE PARTICIPANT: "It used to be that we competed against . . . in Pennsylvania we competed against New York, New Jersey, Delaware, West Virginia, Ohio and Maryland. Now we compete against Singapore and China and Japan and India and Germany and France and Italy.

"That forces us to be innovators, and I think you'll see most of the innovation on things like energy or health care or education, are happening in state capitols, not in Washington, D.C."

ANNOUNCER: Whether Democrat, Republican or independent, governors share a critical bond as chief executives of states that overrides partisan differences. For the last 100 years, governors have guided NGA's mission to collectively take action and create change, truly fulfilling Woodrow Wilson's vision of a dignified and permanent institution, an association of governors."
ANNOUNCER: Please welcome to the stage our moderator for this morning, Presidential historian Richard Norton Smith.

Panel Discussion with Richard Norton Smith

DR. SMITH: Good morning and welcome to this unprecedented conversation about the state of the states and the federal idea incubated in the city in the summer of 1787 in the red brick statehouse loaned for the occasion by the Commonwealth of Pennsylvania to a nation that wasn't quite yet a nation.

Now if Alexander Hamilton had had his way, none of us would be here this morning, because it was Hamilton, that great nationalizer, who proposed to do away with the states altogether. He said there was no justification for states--military, commercial or agricultural. Needless to say, his view did not prevail.

In the end there was a compromise between the large states and the small states, and a federal
A republic was created. Sovereignty would be shared between those states and the government that they summoned into being.

We're going to talk about leadership exercised by the states within that federal system and by individual governors within their states this morning. So let me begin with a question that probably no historian should ever ask. It’s a what-if—and it’s a very large what-if—and let me direct it first to our chair, Governor Pawlenty.

What if Hamilton had had his way? What if the United States wasn't the United States? How would our history have been different? How would our democracy be different?

GOVERNOR PAWLENTY: Well, first of all, thank you for being our moderator this morning and taking the time to come and be part of this historic gathering.

I think rather than being negative about the characteristics of a completely federalist system, I'll highlight some of the positive attributes of a state-based system or the important
role that the states have played in our history.

The video touched on a quote from Theodore Roosevelt that said one of the attributes that is important for states is their closeness to people, and [of] governors in their closeness to people. I think if we had an entirely federalist system or an Alexander Hamilton approach, you would have lost a significant connection of people's ability to access their public officials and influence public policy, and democracy would have been lessened as a result.

I used to be on a city council in a relatively modest sized or mid-size suburb. If there was an issue in a particular neighborhood, people very easily and quickly understood how they could access their city council member. If they had an issue in their neighborhood, they showed up. That's somewhat less easy to do at a state capitol, but you can still do it. It's very difficult to do for most citizens in Washington, D.C., in a federal system. So I think that would have been lost or diminished.
Number two, states have played, of course, the role of laboratories of democracy. Characteristics that come with that is that states tend to be quicker, more nimble, more innovative, and we are the ones who tend to bring the ideas forward and try them out first and road test them, so to speak.

I think a lot of that would have been lost, and the nation would have been less better off for it.

A third one, and this isn't exhaustive, but three that came to mind is the ability to scale things in an effective and efficient way. Public policy sometimes is challenged by our ability to scale reform and scale change. You see it in education a lot.

It's much easier to obtain scale as it relates to driving quality and driving reform at a local or state level than it is on a national level in many of these categories. I had a chance briefly and finally to visit with former Governor Sununu about his role as the chair of the NGA some years
ago, and his topic was federalism.

He was talking about the idea, his idea of amending the U.S. Constitution, as it relates to states rights, and his proposal was to add a few words. The words were "this time we mean it."

(Laughter.)

GOVERNOR PAWLENTY: I thought that was appropriate. Those are a few thoughts to get things started.

DR. SMITH: Governor Dukakis, do you want to add anything to that.

GOVERNOR DUKAKIS: Just reflecting. Look, we all know that there are great advantages to the federal system. On the other hand, the issue of race is an issue that we've had to confront for a long time. I'm not sure if we had a single unitary government that we would resolve that issue more reasonably.

But I do have a sense that in that case, the federal system didn't help, and pushed against opening up this country to real equality for the masses.
DR. SMITH: That raises a fascinating question that I want to maybe direct to Governor Holton, because we've all heard the term "states rights." We don't hear it very much today.

Perhaps it's become a pejorative as a result of exactly what Governor Dukakis was talking about, the fact that for a very long time it was synonymous with resistance to racial integration.

You in many ways were a trailblazer in Virginia. You broke with your fellow southern governor and your predecessors, in not counseling that resistance, and indeed you went considerably further than that, in appointing African-Americans to state positions.

I'm interested to know one, you were term-limited then. A governor of Virginia is term-limited today. Do you think you could have been re-elected at the end of those four years? And two, what does states rights mean in the 21st century? Is the term simply to be laid to rest?

GOVERNOR HOLTON: I think the answer to your first question, could I be re-elected after what
I did with respect to race and integration? The answer is yes, of course.

(Laughter; applause.)

GOVERNOR HOLTON: I quote one of my former partners and political colleagues: "You don't get in this business based on your modesty."

(Laughter.)

GOVERNOR HOLTON: The answer to your question about states rights is a little more complicated. States rights, of course, in the period particularly between 1865 and 1965, was used in the South as a shield against the Constitution of the United States. We used states rights to say we are not going to recognize the rights of a certain group of individuals, who by the Constitution and its amendments were entitled to the same privileges as other people.

States rights came to be a code word for white supremacy, to put it in the bluntest terms. I resented it terribly for it being used that way.

Against the background of other Southern governors,
with support of Southern voters using it that way, I had the greatest opportunity that any politician could ask for, when in 1970, in August, eight months after I took office, we had the opportunity to either join other Southern governors who had established a very plain precedent, [and] shake our fist at the Supreme Court of the United States.

I could have done that. Or I could have said, and this was the opportunity, I had an opportunity to reverse the position that Virginia took when it seceded from the Union. It took action then that sought to destroy the United States.

I could have taken action similar to what we did when we wrote the Constitution of 1902, when we repealed the 15th amendment for its application in Virginia. That was the amendment that guaranteed the right of persons who had previously been in conditions of servitude to vote. We repealed that amendment in our constitution of 1902.

In 1954 and subsequent years, after the Supreme Court had decided that separate-but-equal was an unconstitutional concept, we under our then-
political leadership, which was predominant--strongly
predominant--adopted something called "massive
resistance."

We Virginians would not stoop to violence,
of course, but we would use everything short of
violence to defy the decrees of the Supreme Court of
the United States.

I had the great opportunity to say, after
all these years, Virginia is again part of this
republic, and we will comply with its laws.

(Applause.)

GOVERNOR HOLTON: You couldn't ask for a
better opportunity and to me, that was a tangible
implementation of the way states rights ought to work.

DR. SMITH: Governor Warner, how is
Virginia today different because of your predecessor?

Governor Warner? I'm sorry, yes.

GOVERNOR HOLTON: Wake him up.

GOVERNOR WARNER: Virginia is different
today for a variety of reasons. One, because of
actions that Governor Holton and others took, I know
Virginia was the first state in our country that
ellected an African-American as governor, in Doug
Wilder's historic election in 1989.

I just think that Virginia was one of the
holdouts with massive resistance, and then 30 years
later, with the election of Doug Wilder, shows we've
come a long way.

We still have challenges, but the actions
that were taken by Governor Holton and others at that
point took Virginia forward. We are a more diverse,
more vibrant state now under Governor Kaine's
leadership, and an awful lot of us owe a great debt
to Governor Holton for those very, very courageous
actions back in the '60s and early '70s.

DR. SMITH: You know, clearly one of the
things that sets all of you folks apart--perhaps say
from legislators--is that you constantly are making
decisions. Some of them really involve matters of
life and death. Some of them simply involve matters
of political life and death.

Often leadership in the statehouse is
defined by saying "no," no to something that may be
attractive in the short term, and certainly
politically advantageous, but which you decide, for
whatever reasons, is not in the long-term interest of
the state.

I see Jim Edgar back there, and I'd like
to ask Governor Edgar of Illinois, someone who said
“no” a great deal during your eight years in
Springfield, and yet you managed to be handily
reelected, and when you left office and to this day
[you] are regarded as perhaps the most respected political
figure in the state.

How can that be, and why is it relatively
easier to say “no” at the state level than it seems to
be in Washington?

GOVERNOR EDGAR: Well first of all, “no” is
the most difficult word for an elected official to
say, because we want to make people happy. You're
afraid if you say “no,” you're going to make them
unhappy.

Now when I became governor in 1991, we had
an over billion dollar deficit. Then we got hit by a
recession. I had no alternative but to cut hundreds
of millions of dollars, which had never happened
before in Illinois. Everybody that came to see me, I just said “no.” Mayor Daley of Chicago referred to me as "Governor No." I took that as a compliment.

I had every group in the state probably protest outside my office the first two years. But we didn't have an alternative. Now the person on the street understood that. Sometimes we forget, our constituents are pretty smart. Not only did they elect us, they actually understand what's going on.

They knew you can't spend money you don't have. Now what they don't want to hear from politicians is “yes,” and then you don't do it. Now the first time I ran for office in 1990, I barely got elected. After my four years of being Governor No, I got elected by the largest margin in the history of the state.

I think that's because people felt that I was leveling with them, and they understood you have to use the word “no.” Again, I think at the state level, part of the reason why you might see more people willing to say “no” is [that] governor is where the buck stops, as Harry Truman used to say about the
It's very true about the governors, and if we don't say “no,” nobody else is going to. People understand that, and if you are honest with them, you can be re-elected.

DR. SMITH: Well now that's interesting.

Governor Pawlenty talked about the advantage of federalism, because it keeps governors close to the people. Are there ever days when you feel you're too close?

I mean people coming to you. Was anyone ever abusive, Governor Edgar, in terms of taking issue with your . . . ?

GOVERNOR EDGAR: When you're out on the town, people grab you and tell you what they think. Now I have to say most people who came to see me always told me what a wonderful job I was doing, because they wanted something. I loved those meetings before I told them “no.”

(Laughter.)

GOVERNOR EDGAR: But I think, you know, you as governor, much more than I think you'd have
the opportunity as president to know what people think--and people tell you what they think. I love parades, because parades, people would yell out at you.

It's a good way, particularly in a suburban area (which was kind of a hard area to get to sometimes); . . . it was to sample what people thought.

Now hopefully at a parade they were in a pretty good mood, so they didn't yell too many negative things.

But no. I think as governors, we have the opportunity to hear from people on a pretty regular basis, and people are usually pretty candid.

DR. SMITH: How about anyone else? You make tough decisions. Think of the toughest decision you had to make as governor. Governor Sununu?

GOVERNOR SUNUNU: Well, I had a lot of interesting decisions, but I had one major issue that was the hottest political issue for my three terms as governor, and that was Seabrook Power Plant. I had my good friend, Michael Dukakis in Massachusetts opposing it. But it was important for New Hampshire, it was important for New England. In
a way it parallels the situation today. People were waiting, I think, for the tooth fairy to solve the energy problem.

We had the magic solution of hydropower going to come from Quebec. Quebec can't even get hydropower today. The fact is that Seabrook was a hot political issue. I had people doing candlelight vigils around my home where we were living.

When I ran in 1986, the opposition party in every office, from governor, to state legislators to state senators, to the selectmen in every town, to the school boards in every town that we were running in that same year, the opposition party had virtually no candidate that was supporting Seabrook, and Seabrook was becoming an issue even in school board elections.

So it was a really hot political issue.

But you know, with hindsight, it's easy to see that it was the right decision. It was important for New Hampshire, it was important for New England, and frankly, in an odd way, because it was so clearly a right decision in my view, it was really an issue
decision to make. But it was rather emotional politically.

I had opposition running independent TV ads with concerned mothers holding dead chickens in front of the camera, and saying that Governor Sununu is going to do this to your children, and it was emotional. But --

DR. SMITH: Were the chickens plucked?

GOVERNOR SUNUNU: They were.

(Laughter.)

GOVERNOR SUNUNU: But you have -- you know, you decide what the right thing is, and you do it. The surprising thing is, as Governor Edgar said, the people are smarter than you give them credit for. They understand; I think most people do not understand how receptive the public is to an official that is making a decision that is controversial but important, explaining why they're doing it.

I think one of the roles of leadership is informing, and we worked very hard to inform what the benefits were, and in the long run, I think, as I wander through airports around the country, people
quite often come up and tell me they opposed what I was doing at the time, but thank you for having done it.

DR. SMITH: Governor Culver, you're from a political family. Is there any way to be adequately prepared for this sort of thing, and what kind of -- in your first time in office -- what kind of tough decisions are you grappling with?

GOVERNOR CULVER: Well, I don't think you can ever be too in touch with the people. I think it's the only way to do the job, to get out there. It actually, as a result, makes the decision process a lot easier.

As Governor Edgar said, his focus was on what are the people saying, not the special interests, not the editorial boards. What do the people feel or what do they think about a particular issue?

Gas tax in my case. I have said absolutely no increase in the gas tax right now.

It's just not even an option, given the record prices that we're paying right now at the pump. However,
there are some that believe, I feel fairly, for
whatever reason, that we should do it.
I've talked to the people about that
repeatedly, and that was a decision that I made,
based on what I was hearing directly from my
constituents. I think governors or elected officials
generally get into a lot of trouble when they lose
touch with their constituents.
That's one of the aspects of the job that
I enjoy the most, . . . is getting outside of the golden
dome and getting out there with the people. It makes
our decisions easier, and it makes our response much
more effective.
In my case recently with the flood
challenge in Iowa, I've spent a lot of time out there
assessing the damage, talking to local leaders,
hearing directly from the people in terms of what
their challenges are specifically. We need a road,
we need a temporary levee fixed, and then it allows
me to quickly respond with our state resources by
staying in touch and engaged with the challenge.
DR. SMITH: Well that also brings up the
fact that all of you also, at one time or another, at
least run the risk of being crisis managers. I see
Governor Sebelius back there. I mean we think of a
Hurricane Katrina or an outbreak of Midwest tornadoes
or a West Virginia mine collapse.

That creates a kind of artificial
environment, doesn't it, that for a short period of
time, maybe you know, politics as usual as a gerund--
people come together. Are there any lessons from
that experience that can be applied to the day to day
process of persuading the electorate that something
that you regard as critical, but that the public and
the media don't see as a crisis with pictures? Do
you want to speak to that?

GOVERNOR SEBELIUS: Well, there's no
question that unfortunately a disaster does compel a
response, an immediate response. We've watched
Governor Culver deal with unimaginable statewide
disasters. We've had our challenges in Kansas, and
every governor here deals with that.

But it strikes me that those same
opportunities to bring communities together, to bring
people together around sort of a common mission, are
really how we get things done day to day.

So the challenge is how do you make it
compelling? How do we remind folks that they really
do have more in common than is different? How do we
put that urgency on the table? I think governors
have an easier job of that than Congress. Moving the
ball forward is something people expect. I mean they.expect you to pass a budget and deal with school
issues and tackle health care issues.

We don't get to put things off budget. I
don't even know quite what that means, but I keep one
set of books, not two sets of books. So there is a
sense of that. But you know, we had a challenge,
which, as you might remember because I think it was
when you were in Kansas.

We were trying to bring people together
around resolving school finance issues, and it had
been pending for years. Part of the challenge was a
sense of urgency and a sense of how you bring people
together.

A disaster creates the urgency, and I
think it's an effort of leadership to remind folks visiting constituents across the state, compelling citizens to then put that message to their legislators, that there's an expectation that they come to work and get the job done. That really creates the kind of momentum that a disaster brings with it.

But I am always overwhelmed by the generosity of spirit--folks who show up from across the state to open their hearts and pocketbooks and work efforts to really help people they've never seen before, and continue to do it.

I mean we're rebuilding this little town in the middle of Kansas, and actually it's been a remarkable experience because the townspeople--1,400 of them--chose to make themselves the greenest rural community in America.

Every public building will be built to platinum standards. It will be the only city in America that can say that at the end of the day. They are intending to . . . you know, they're taking a little more time, spending a little more money for
something that they think is a great legacy for the future.

It's been a remarkable way to engage an energy policy discussion for the rest of the state. The kind of reverberations of that experience have been very powerful across Kansas.

DR. SMITH: Governor Kaine, you had to deal with a man-made disaster, probably unimaginable to you on the day that you took the oath of office. What was that like? How has it affected your governorship? How has it affected you?

GOVERNOR KAINE: Well, the shooting at Virginia Tech in April of 2007 is going to be thing 50 years from now, when I think about being governor, that will be the most vivid memory of my time. My wife Anne and I had left to go on a two-week trade mission in Asia and had just landed in Japan, had dinner and gone to bed, and we were woken up an hour later and told that there had been this horrible shooting. Our first thought was we needed to be home immediately, but the next flight wasn't for another
10 hours. So we sat in the hotel room and the coffee shop in the airport watching the news back from home, just wanting to be back with folks.

I've been a mayor in a tough environment in Richmond, where we were the second highest homicide rate in the United States during the time I've been in local government.

I learned there that while there's a natural human reaction to shrink back from painful situations, it is a humbling honor to be with people in really tough times, and be an official representative of government, showing that there is some, not just chaos or randomness to the situation, but that the official government cares about you.

I learned as mayor, and I know Ed dealt with this when he was mayor of Philadelphia, the same thing, there's nothing magic you can say or do, and yet being there with people, and particularly people that are going through these tough times, helps get them out of the situation of just confusion and chaos.

So we came back and we were at campus
immediately and spoke to the students and families.

I've had now, you know, nearly a year and a half of interaction with these families. It's made me think a little bit about leadership.

In the aftermath of the crisis, I pledged to these families we're going to learn everything we can about what went right, but also what went wrong, and then we're going to fix everything we can.

Many of the family members wanted to join together in an effort to change the state's mental health system. We did. We made changes to privacy laws. We made changes to campus security protocols.

But I worry sometimes that in government we are great reactors. You know, if something happens that's a crisis, boy, we come together in such a wonderful way, and we fix what needs to be fixed.

But I'm dealing with another challenge in my state that I've been dealing with for two and a half years, a transportation challenge. I've got the most vulnerable coastal population in the United States—next to New Orleans—in Hampton Roads for hurricane evacuation, and I don't have enough
hurricane evacuation routes.
I've been working with my legislature to try to find the will to do something, and I'm just a little bit nervous that they will act, but they'll only act after . . . after a significant catastrophe or the collapse of some critical infrastructure.
So when you're in these times of crisis, you need to first be with people, and then you need to move quickly to fix what you can fix because people get behind you to do it. I wish we were better at pro-acting before a crisis occurred, and that's something that I--and I suspect everybody up here . . . we continue to wrestle with.

DR. SMITH: Governor.

GOVERNOR MANCHIN: During the Sago mine disaster. And speaking of the different challenges that we've all had as governors, . . . but my challenge, we were at the Sugar Bowl at the time, and I heard that there was a problem, and we heard the seriousness of the problem and came back home.
I lived through that, being born and raised in a coal town, Farmington, in the 1968 mine
explosion. Literally nothing had been done as far as
mine safety since the ’70s, when major reform was in
mining.

You can sit as governor or any other
person and say why hadn't something been done, as Tim
just said? Why aren’t we more pro-active? Human nature
is basically change-is-not-needed-until-there's-a-
crisis, and that seems to be the human nature.

So rather than dwell on that, I said we
had to change. We had the Sago mine disaster. We
lost 12 miners, and we were with them 45 hours--their
families--so I knew the pain and suffering. But we
made a commitment to them that they would not have
died in vain. We're going to make changes, to make
mining safer for the energy this nation needs.

Three weeks later, we had the Alma mine.

Same absolute conditions, and I arrived at that mine
and I told my staff to start drafting legislation. I
said we only need three parts. I don't need a blue
ribbon committee.

We have to have rapid response to get the
proper people moving; we have to have tracking, so
we know where we're going to go find our miners; and
we have to have life-saving oxygen.

Now that didn't take any type of committee
to tell me that. They started drafting legislation
over the weekend while we were trying to rescue the
other two miners that we lost. Monday . . . when I came
to the legislature that Monday morning, we were in
session, I was going to introduce legislation that
day, and I was asking both sides to suspend the rules.
It takes four-fifths of the votes.

It's never been done in a major piece of
legislation. So I attended both caucuses. I asked
both the House and the Senate and Democrats and
Republicans to caucus. I went into both caucuses and
explained to them the conditions we were . . . it wasn't
there was more that needed to be done, but we
needed to start now.

Then I called a moratorium and stopped all
mining in the state of West Virginia to make sure
that everyone knew that basically the emphasis on
safety, the human factor, the value of the human
being, and [that] you couldn't put a price on that.
So everything we must do would be towards keeping them safe. We came back, and we had everyone to a T vote unanimously, House and Senate, Republican and Democrats, to vote to suspend the rules, pass legislation, which we took to Washington Tuesday. Now in the same year, we have major reform in mine safety around the country. I'm so proud of that, and with the tragedies that came out of something, we as governors have a chance to really do something. I think the satisfaction is that you can make something happen, and you can bring people together. It's just a shame it takes a crisis, and we should be more pro-active, and as we're dealing with the energy, and we'll be dealing with energy tomorrow, and we know that that's something that this nation, [that] my little state's not geared for five-dollar, four- or five-dollar-a-gallon fuel. We say in West Virginia you have to drive to survive, and it's making it very, very, very difficult. We've got to find answers. I believe in this room is where the answers will be found.
DR. SMITH: It's interesting. We've heard from Governor Kaine about government's tendency to react. Governor Weld, you talked a lot and you didn't just talk, but you practiced in Massachusetts what you call preventive government.

I know, because I remember working on a speech or two about the subject with you. What was that? What do you mean by that term, and how applicable is that?

GOVERNOR WELD: To me, the most fascinating issues were the ones with relatively high intellectual content, an analysis and reorganization of how the government interacts with the welfare issue, health care, education, even transportation. Those are not zero sum games at all. If you change the way things are done, you can save a lot of money and deliver more results. The famous book here was David Osborne, Laboratories of Democracy, which I kind of took as a bible when I came in.

You talk about prevention. Obviously, in the health care area, to the extent you have more
prevention, you're saving money that can be dedicated
to other uses.

So going back to your first question,

Rick, at the beginning, about what do we gain with a
system with states, instead of having Hamilton
abolish them all, I think one of the answers is
intellectual.

You know, the reason we have 12 people
on a jury instead of one is 12 heads are better than
one. Fifty centers of decision-making are vastly more
enriching than a single head, particularly if that
head is in Washington.

We're no dumber than those guys in
Washington. In fact, sometimes I think we're even
smarter because of being closer to the hustings.

It's like our legal system. You have all these cases
from all over the country being decided, and then
coming up the flagpole to the Supreme Court, and
that's the system of the common law.

I consider that much more enriching than
the continental civil system, which is more
dirigiste, if you will, and relies less on ideas from
all over.

DR. SMITH: Well, here's an idea that the classic notion as the states as laboratories of change, something tested at the state level before being applied to Washington, and that is term limits. How have term limits affected your job as governor? Will you repeal them if you could? Would you apply them nationally if you could? Governor Rounds?

GOVERNOR ROUNDS: Well, in South Dakota, we have term limits for legislators. We don't have . . . and then we also have term limits for the governor. I have no problem with term limits at the gubernatorial level, but I would highly recommend eliminating term limits for the legislature, where literally once you get leaders trained and once they get experience, they're gone. It's not just the leaders themselves but they're chairs in different committees. So suddenly where you may have the people who have taken the time to gather the expertise, they've been the individuals that their folks have elected back home, to come into
our capital city of Pierre to represent them, and

they do it in 40 days, in a long session and 35 days

in a short session, thank goodness... I know that I'm

now being... folks are saying, “I wish that was in my

state as well.”

(Laughter.)

GOVERNOR ROUNDS: But the bottom line is

that they're very, very good people. They come in

and they get the job done and they go home again. But

if I could, I'd love to have them stay for more than

the term-limit amount of four two-year terms, because

at that stage, they are mature, they are experienced,

and they could pass that on.

We tried, we've looked at it in the past,
in terms of making other changes. It's going to be

on the ballot again this year for us.

DR. SMITH: Governor Sanford.

GOVERNOR SANFORD: Let me respectfully

take the other opinion. I think that term limits are

of tremendous value. For the most part, they're

imposed on the governorships, and I think that part

of the value is that which is short is that much more
If we all lived forever, I suspect we'd get less out of each day than we do, based on the fact that we don't have forever. This notion of a limited tenure forces prioritization that wouldn't exist if it was unlimited tenure.

I would also say that part of the human spirit seems to be adaption, and I remember as a freshman back in Congress they had what are called suspension votes on Monday, and they are non-controversial votes. I was going to vote no on one of them.

Whoever it was that was sitting beside me said "You know, you don't look like a wacko. You're going to look like a nut if you vote that way, you know. You can't do that." I said no, it costs a bunch of money. He said "No, it doesn't cost anything." No, it costs a bunch of money. No, it doesn't cost anything.

We went back and forth, and finally we went down to the well of the House and we pulled the open ledger and the thing cost about $30 million. I
said "See, it costs a bunch of money." He said "See, it costs nothing."

(Laughter.)

GOVERNOR SANFORD: It's all a matter of perspective. In a way, he was absolutely right, because in light of the size of the federal budget, 30 million bucks is truly a rounding error and nothing. But in light of the perspective of a neighbor or a neighborhood paying taxes for a year, 30 million bucks is a whole lot of money.

So that same human spirit that would allow, let's say, John McCain to survive or other POWs to survive in an unimaginable situation for six years, and yet they adopt, becomes very corrosive in the political system, in that people ultimately get used to lots and lots of zeroes behind numbers, begin to think of them as rounding errors, and over time I think that's tremendously disruptive in terms of debt and deficit and things like that.

DR. SMITH: Anyone else? Yes.

MALE PARTICIPANT: I'd take just the opposite position. We all have term limits. They're
called elections, and we ought to pay more attention
to elections, and that's how you get rid of the bad
and endorse the good.

It just seems to me that we're . . . by
putting limits on, we're not giving the electorate
the word that their vote is important, and it's
important at every election and they ought to pay
attention. It seems to me that that's what we ought
to be doing. We all do have term limits, and that's
what they ought to be, is elections, which occur
every two to four years.

GOVERNOR BLANCHARD: Yes, I would agree
with you. In Michigan, term limits were adopted
after my time, and Governor Grandholm has had to live
with it.

But in the legislature, people arrive.
They have six years. They can have three two-year
terms. They are immediately worrying about what
other offices they're going to run for.

They're running back home for county
commissioner. They view each colleague as a
potential opponent for the state senate. They are
and yet it's a talented group of people. '

But no one is there long enough to have a sense of history or continuity, and I fear they're more invested in finding another political job than they are invested in the future of the state. It is a disaster in Michigan, and everyone in Lansing knows it.

DR. SMITH: (Gestures.)

GOVERNOR VOINOVICH: I was one of the big supporters of term limits for the legislature. It was one of the biggest mistakes I made as governor of Ohio in supporting that. From a public policy point of view, it might be interesting for the National Governors Association to work with the National Conference of State Legislators to just see how these term limits of the legislative body have impacted on the ability of states to do the job that they're supposed to do. It seems to me that things are becoming a lot more complicated than they were before. We need people that really know what they're talking about in the legislature, and from my observation, it has not
helped in terms of governors in the states in solving some of those problems.

So I think--I've volunteered on several occasions--that I would work with a group of people to change the constitution back to . . . to get rid of them, and nobody seems to want to take it on.

But perhaps if National Governors [Association] and others would look at this, they might be able to come back and do some research work and say, you know, we've observed what's happened since this has gone into effect in many states, and from our perspective, things were better under the old system.

MALE PARTICIPANT: Yes. I believe that every election, of course, is a term limit. If you've done a good enough job, you will succeed in getting re-elected. If not, the people will replace you.

It does take time to accomplish the initiatives of your agenda, and in one or two terms it's quite difficult to see it through to succession.

Whoever succeeds you, it's a question of whether or not they will continue your initiatives, and more
than likely they will not.

But I say this all with the understanding that the responsibility and the legacy of leadership is to develop new leaders and those that would follow and succeed you. Thank you.

MALE PARTICIPANT: Could I respectfully fill in one more counterpart though here?

DR. SMITH: Sure.

MALE PARTICIPANT: Which is if you look at the obvious advantages that go with incumbency, there's in essence less turnover in the United States Congress than there is in the Soviet Duma. So this whole notion of everybody getting an open shot. . . .

Yes, everybody could run, but there are a lot of advantages that go with incumbency. It's tough to beat an incumbent. This country -- I mean this city that we're in, Philadelphia -- was made great by a series of different citizen legislators who pledged their lives, their fortunes and their sacred honor, to making a difference in the forming of this republic.

It wasn't necessarily a career track that
they were on. So I would like to make this final point. What you trade off with term limits is in some cases legitimately some level of expertise for a different perspective and, I think, the larger notion of will.

In the stock world, there's a thing called Beta, and it correlates the risk of an individual stock to the rest of the market. So what I think term limits do is they change the Beta of an individual political decision.

If you think that this decision's going to impact the totality or entirety of your career, it's a very heavy decision. If you think it might impact the next four, six or eight years of your life, it's not quite the same decision.

DR. SMITH: Now it's interesting.

Governor Voinovich did something a few minutes ago that's rare for a politician. He admitted a mistake.

I wonder if I could put that question to all of you.

Maybe it's easier for the formers than it is for the currents.

(Laughter.)
DR. SMITH: Anyone want to--you know, the water's fine--anyone want to follow Governor Voinovich into the water, and maybe we could put it in the context of you learning something as a result of your vast experience in the state house. Anyone make a mistake?

MALE PARTICIPANT: Let me just say I would associate myself with his remarks. But I think as somebody who is obviously--I know well my colleague in South Carolina and served with him and roomed with him, and had also supported--I volunteered term limits on myself. I served four terms in Congress, and I have no problem moving up or out or whatever. But I think what's happened is that you end up losing the opportunity to make relationships.

I mean when somebody's limited to four two-year terms, they're not around long enough to build relationships. I think one of the problems that we have today is where Democrats and Republicans don't work together; one the ingredients, and there are pluses and minuses with term limits or no term
But one of the ingredients that you lose is the ability to build relationships. I think when you're trying to make tough decisions in fragile, difficult, controversial times, those relationships matter. I just think that one of the things you do is when they turnover all the time they're never around long enough, and they've got to make a mark, and they end up getting, you know, in a situation where it ends up being more ideologically driven than being of a more consensus development. It's difficult.

So I would just say that I think the problem has been is that one of the downfalls to term limits is this cleaning out the old and bringing in the new is a good thing. But at the same time, you lose the opportunity to develop that relationship. I think that's been one of the downsides, and I think it should be re-evaluated.

DR. SMITH: Governor Engler.

GOVERNOR ENGLER: Well, I would certainly echo what Governor Blanchard said about Michigan. To
make this very bipartisan, I think it's been a
complete disaster there. Mark, I appreciate some of
the points you're making, but I think Michigan has
six years in the House of Representative, three
terms, and I'm offended by people running for the
legislature for the first time and also running for
their first leadership post.
I mean we're getting speakers of the House
that have got two years in the legislature. They
don't even have a clue what a Medicaid formula is.
They don't understand school finance. They couldn't
tell you what a SIP program is or transportation
funding and these complexities.
You know, and they work at this all the
time. I just think it's too quick, and I think that
we've seen legislatures around the country that have
become less courageous, less competent because of
term limits, and they simply can't come in and they
come in --
Also, I think too often today, is they're
supposed to be state legislators or state senators,
and they come in as local delegates to maybe try to
do something for the community they're going to go
right back to. A whole bunch of them kind of get a
taste for what they think is the good life or the
better life, being hard to believe. But I mean they
come from the local community, kind of like the
capitol life.

So then they try to figure out “how can I
hang on here.” They're much less independent than I
think they used to be. They're less able to say “no,”
and two, I think susceptible to the inducements of
the lobbying corps.

For the most part, I would also say that
they've failed, George, with the . . . they haven't
professionalized the staff. At least the Congress
has still got a . . . I think, a residual corps of staff
that's kind of there regardless of who's there and
helps run the place.

Legislatures now, instead of--at least
the Michigan experience I'll say, because I won't be
generalizing--what they've done is they've said, “Well,
these are spots for my friends for two, four or six
years,” so you're getting, you know, a staff weakness
and that's very vulnerable, and that often is the launching point for the next candidacy for somebody. It is getting a lot more legislative spouses elected, I will say that, because they often run for the term. But I think the legislative experience with term limits has been largely a disaster, and so I'm ready to sign up with Governor Blanchard of Michigan and Governor Voinovich just generally on the whole topic.

DR. SMITH: Well, okay. I guess on the subject of term limits, we'll put you down as undecided.

(Laughter.)

DR. SMITH: Now we'd like to broaden the conversation a little bit. Earlier, you heard from Governor Edgar that a great way to find out what's on people's minds is to go out to a parade somewhere, and talk to them. That's exactly what we did. Took some cameras to Washington, out on the mall on the 4th of July and asked them for their opinions about state governors.

(Video playing.)
FEMALE PARTICIPANT: I'm from Kentucky.

MALE PARTICIPANT: We're from California.

MALE PARTICIPANT: Greenville, Wisconsin.

FEMALE PARTICIPANT: I'm from Florida.

MALE PARTICIPANT: Michigan.

MALE PARTICIPANT: York, Pennsylvania.

FEMALE PARTICIPANT: We're from Cleveland.

FEMALE PARTICIPANT: New Orleans originally.

MALE PARTICIPANT: It has to do with the souring of the national mood, and the fact that people are just overwhelmingly dissatisfied with the way things are going in the country.

MALE PARTICIPANT: Our biggest concern right now is the economy.

MALE PARTICIPANT: The war is my top issues.

MALE PARTICIPANT: Probably the economy.

FEMALE PARTICIPANT: The economy.

MALE PARTICIPANT: I think it's education.

MALE PARTICIPANT: Immigration is one of the bigger issues.
MALE PARTICIPANT: Education, health care.

MALE PARTICIPANT: Jobs in the country.

MALE PARTICIPANT: The gasoline. Four dollars a gallon is kind of . . . .

MALE PARTICIPANT: We haven't seen negative views like this in nearly 20 years. Thirty-seven percent have a favorable view of the federal government.

MALE PARTICIPANT: How are they doing?

Well, kind of unfavorable. I don't think they're doing a good job right now.

MALE PARTICIPANT: Even as the favorable views of the federal government plummeted, state government by contrast, local government, still very well thought of.

MALE PARTICIPANT: I think my state government is in line with what I believe.

FEMALE PARTICIPANT: I think the state best represents my interests.

MALE PARTICIPANT: You find a lot of places where there's much more hope and much more confidence in what's going on in the state capitol.
than in what people see happening here in Washington.

FEMALE PARTICIPANT: I absolutely think that there is much more partisanship in the federal government and the state governments.

MALE PARTICIPANT: It's kind of a "gotcha" politics going on all the time, and they're not really working "well, let's get the job done." They could solve a lot of issues. They just don't do it because it will benefit the Democrats or it will benefit the Republicans.

MALE PARTICIPANT: People really do perceive that this city has become, in a way, sickened and poisoned by partisanship.

MALE PARTICIPANT: I think that partisan politics in the federal government are absurd right now, and it might be more polarized than it's been in the history of the United States. I don't know. I feel like there's more room for compromise on the state level.

MALE PARTICIPANT: I think the governors tend to live in the real world. They're more realistic about what's going on in the country, more
pragmatic. I like them in contrast to the Washington politicians.

MALE PARTICIPANT: I think the federal government's controlling too many things.

MALE PARTICIPANT: That's a big deal for me, that more control goes back in the hands of the states, and that they get to make more decisions, and not have to really bend to the requests of the federal government.

MALE PARTICIPANT: Particularly as long as Washington seems gridlocked, there's no question that there are going to be opportunities and challenges for states and for governors.

DR. SMITH: Interesting. Thirty-seven percent of the people we polled apparently are satisfied with what's going on in Washington. That's news. Fifty-nine percent said they were more satisfied with what's going on at the state level.

Now the fact is, disagree if you will, the media pays much less attention to state government than they did 20 years ago, 30 years ago. Is it possible that those 59 percent are saying they're
happy with what's going on because they're not paying much attention to what's going on? Governor . . . .

FEMALE PARTICIPANT: No, I don't think it's because they don't pay attention. I think the public is better informed today about what's happening in state government than ever in our lifetime.

But I think they're willing to voice their opinion, and we as governors know that, and we know that they're going to read the paper. They're going to see that TV ad or whatever's going on. So it makes us more responsive, and I think basically it isn't just governors; it's members of the General Assembly as well. Yes.

GOVERNOR KING: Well, being in New Mexico, and having become the Speaker of the House, sometimes I jokingly say I think I left a better job than I went to. But at least, as governor, if you've been in the legislature and worked with the legislature on a non-partisan basis, you can always accomplish a great deal more.

So I enjoyed both places, but I do think
state government is much more efficient than federal
government, but I've never been to the federal side.

DR. SMITH: Someone who has is Secretary
Kempthorne. I don't know whether to call you
governor or senator or secretary. But in any event,
you've seen it all, you've done it all. What are the
differences?

GOVERNOR KEMPTHORNE: The differences are . . .

having been one that voluntarily left the United
States Senate, I left a very prestigious board of
directors, to become the CEO of the sovereign state,
where each and every year, when I would deliver a
state of the state, I had to have a game plan. I had
to play out what those proposals were and what the
results would be.

At the state level, we didn't have the
concept called continuing resolutions, where you
could simply put off for an indefinite amount of
time. We do not have printing presses at the state
level.

So the idea that you must have solutions,
and I think that's why you see a response from the
public that is favorable towards state governments,
because governors are practitioners. They're pragmatists. When I came into this position as Secretary of Interior, I sat down after hearing that there were a number of issues that the states were having with the federal government, and I was briefed by some of the staff at Interior.

They began the briefing by saying "Well, we've been dealing with this issue for 15 years." I stopped and I said "I don't mean to stop you, but I'm going to tell you something. I don't have 15 years. We may not reach perfection, but we're going to reach a decision, and we did, and we continued to do that." I think that's part of the training you get as having been a CEO of a state. It's very beneficial.

DR. SMITH: Yes, Governor Hunt.

GOVERNOR HUNT: I think one of the reasons maybe state governments and governors have a better approval rating is because they are seen as builders, leaders who are building their states. It seems to me that, you know, we've talked here about what you
do in times of a crisis, term limits, a lot of things
that are important, and they are all important.

It seems to me that the building of our
states, the building of our country, the becoming
more globally competitive, and by the way, getting
ourselves in a situation where we can compete with a
world that's increasingly getting ahead of us.

Governors are the main ones, I think, who
do these things. I'm looking at governors around
this room who are constantly out there recruiting
industry. I sometimes say that the U.S. Department
of Commerce are the 50 governors of America. They're
the ones who go out there and do it. They create the
preconditions for it.

Governors are the ones who understand it's
about education that we have to have that
infrastructure. So you've got to get the money for
the roads and you know, the ports and all the rest of
it, what Tim Kaine's working on for Northern Virginia
and the rest of the state.

But I think we're headed toward a time
now, and I haven't heard much about this this
morning, when we're going to have to have more
cooperation between the states and our national
government. It's easy for us to cuss Washington, and
they deserve it often.

But folks, I want to tell you, I don't
think we can do this job just as states, as we go
forward. If we're going to have a truly outstanding
education system, and we don't have one today, you
know; we're 16th in the country, I mean among the
world's nation, the OECD nations, in terms of high
school graduation. We're 16th.

By the way . . . no, we're 19th, I'm sorry,
high school graduation. We're 16th on college today.
We thought we had the best higher education system in
the world. We're only 16th in graduating our kids
from college.

If we're going to do this job of
education, I think we have to work with our national
government. We've got some governors who are
senators in this room today, and I think we're going
to have to work together. I think we're going to
have to say this has to got to be a big national
priority.

We had the national summit in Charlottesville, Virginia, one time. Some of the governors here were there. Set goals. We've got to keep having goals for the American people, I think. I think we ought to share standards. I think we ought to work together, to have a good set of strong, global, education standards.

Governors can make that happen, and states ought to do it--set it--but have common ones. Frankly, I think we're going to have to work with our national government to have the resources to have a great school system in America.

The National--you know what you have to do in your states. We will always run the schools and must. But the federal government only gives us about seven or eight percent of our school budgets. Why don't we double that in the near future?

You know how much money you're putting into economic incentives to try to recruit industry and to keep it there. Governor Easley's doing that every day in North Carolina. But I think as we go
into the future, Richard, we're going to have to have more cooperation between the states and the governors working together with our national government.

Washington needs to listen more to the governors. When you're talking about economic development, governors work at it. Too often we just see Washington regulating, taxing, doing the things that really make it hard for us to grow economically and not, by the way, being economically responsible, not balancing budgets as governors have to do.

But I think as we go forward we're going to have to have a lot more cooperation between the states and our national governors.

DR. SMITH: Governor Romer.

GOVERNOR ROMER: I want to pick that up.

We're 16th and 19th in graduation; we're 25th in math; we're 21st in science. Let me tell you. This has been our responsibility. I'm a part of this problem. We have failed in the last 20 years to keep pace with the world.

Now let's pick up Jim Hunt's point.
There's 30 industrial nations. Every one of them has a more centralized policy and uniform program on expectations in education than we. That has to happen in this world.

Now in this country, either the federal government's going to provide that or the 50 states are going to provide it collectively. I think Jim is on the right track. We need in the next few years to have the governors voluntarily arrive at a mechanism in which they hold themselves accountable to the ten best nations in the world on educational performance through benchmarking.

If the states can do that, then the federal government can be a useful, helping ally.

But that really goes to some of the basic states rights issues, and I just want to say, this nation is dropping very far behind very fast.

You just list the nations that are better than we in education. Poland, Canada. I mean you just go on and on. This has got to be solved with some collective action by governors working in a new form of partnership with the next president.
DR. SMITH: Governor.

MALE PARTICIPANT: You know, this association is a good example of why there will be a differentiation in public opinion, because this association historically has always worked on a consensus basis and been able to, in a bipartisan manner, reach solutions to national problems.

In the mid-'90s, we had a coalition of six of us, almost all of whom are the in room. Mike Leavitt, John Engler, Tommy Thomson, myself and Roy Romer who just spoke, and the late Blunt Chiles spent 100 hours together, three from each party, talking about welfare and health care issues that were stymied in the Congress and in the White House at the time.

We came up with a solution that was satisfactory to all our contemporaries in the governors' offices, which was taken forward and became an impetus of some federal change. But that's not the environment in the U.S. Congress, and it's not . . . the overall federal environment is seen as a highly partisan, you know, non-functional group on a
I remember after having been governor, I was recruited to run for the U.S. Senate. I chose not to do so. One of the incentives that was suggested to me was “you get along very well with your colleagues on the other side of the aisle, and we'd like to have you be the person to go over and kind of work things out.”

I said "You think that's an incentive for me to go to the U.S. Senate?" There is a differentiation, and people realize that. We are closer to the people on a day-to-day basis in our individual states, and that also, I think, makes a difference in public perception.

Michigan has probably been the state that's been most challenged by globalization, as a result of the loss, and as a result, we have lost so many jobs, particularly in manufacturing. Obviously when manufacturers can chose to locate in countries that pay, you know, 50 cents an hour or a day or something like that.
I say that, because I think all of us need
to take Governor Hunt's point extremely seriously,
especially we're in the context of national election,
where we can make this point to both candidates on
both sides of the aisle.

It's true with education and our
competitiveness against other countries. It's true
with health care and how other countries are
providing health care to their job providers in a
way that makes them more competitive than our
manufacturers.

It's true with respect to trade policy, and
it's certainly true with respect to energy policy.

We cannot as states do it alone. We can't expect the
private sector to do the investment necessary in the
infrastructure associated with energy, whether it's
renewable energy or the technology associated with
carbon sequestration.

We cannot expect that the universities are
going to be able to commercialize on their own or do
on their own all of the research and development
that's necessary. We don't as states have the
resources to be able to invest in the infrastructure associated with getting ethanol or cellulosic ethanol to the pumps and then into the vehicles.

Everyone has a role to play. So having a comprehensive national strategy on energy, on health care, on education is critical, and for the states to be able to carry that out, I would urge as much. I really like the idea of block granting myself, because it allows for that innovation while still carrying out that national policy.

DR. SMITH: Governor McKernan.

GOVERNOR McKERNAN: Just one point that follows on the education part, with the old saying about the pollster, who goes up to somebody's door and says "What do you think the biggest problem is facing this country today, ignorance or apathy." The person say "I don't know and I don't care."

(Laughter.)

GOVERNOR McKERNAN: You know, we do know, I think--all of us as governor or former governors--the importance of being competitive. We've heard about the globalization, we've heard about where we
stand from an education standpoint.

What we should all be concerned about and be looking to try to affect the federal government on is the fact that if we want to continue to increase the standard of living in this country, we need people with more education than ever before, and we're falling behind.

When you realize that over 80 percent of the jobs that are being created in this country require more than an associate's degree, and only 37 percent of the existing workforce has an associate's degree or higher, you see that those lines are going to cross, and it's going to deny us the ability to continue to pay an ever-increasing wage for American workers so that we can increase our standard of living.

I think since governors are the ones who are trying to create jobs in their states. They can have a big impact if this association continues to work as it has in the past and affect policy in Washington by coming together on a consensus, bipartisan basis and make that happen.
DR. SMITH: Parris Glendening.

GOVERNOR GLENDENING: Just to ring in on a couple of the issues that were raised here this morning, it occurs to me that when we were talking earlier about the states being such centers of innovation in what's going on, whether it was welfare reform or education reform and so on, and then moving up to the fact that the way the states have done this has been through cooperation.

A lot of states work with neighbors, work with the regions and certainly work through the NGA. Pulling that to looking towards the future just a little bit, it seems very clear to me and to many people, and not at all negating the extraordinary importance of education as the foundation. I agree with everything that's been said and have been honored to serve with such leaders in education as we have here.

But a couple of the really major, major pressing issues is the energy sustainability, the cost of energy, what's happening on energy availability. The truth is that in the next decade,
first couple of the years of the next decade, we're
going to be looking at about $7 a gallon for
gasoline.

Yet, there's little really national
initiative going on this. The same thing with
the global climate change and the severity in the
coastal states, what is happening to the severity of
the storms in the interior and so on.

It seems if we could draw back on our past
areas where we've had success, by first of all
working together. We see this. A lot of states are
coming together with different climate change
mitigation efforts, energy efforts and so on.

But what's missing in a lot of this debate
now is a partnership between the national government
and the state government.

If we do not begin, for example, a major,
minor shift toward transit and away from the
automobile-centric type of growth that we've been
having, we're going to find whole communities that
very shortly will be like the areas in the 1880s,
when the trains stopped coming to the town. They're
going to have limited options in the future.

There's a sense of real urgency to that.

At the same time, in the past, when that sense of urgency has been there, the states have come together. The states have been innovators through the NGA, and the states have sometimes voluntarily, sometimes forced the federal government, kicking and screaming, to become an active partner in this.

I believe we're going to make some really dramatic, significant advances which we need in these areas. So in the energy sustainability and the global climate change, we're going to have to fundamentally re-think the type of partnership that does not exist with the federal government right now, and reactivate that in these areas and build even further on the regional cooperation that we're seeing among the states of these issues.

DR. SMITH: Governor, second round.

(Simultaneous discussion.)

MALE PARTICIPANT: Secretary Kempthorne said something I was reminded as I went from the federal to the state as well. When I was in
Congress, somebody once said to me "Don't go to Congress if you can't handle deferred gratification."

I thought you expressed well why it is that people become governors, and the advantage of being governors. Having said that, I want to follow up on those who have been speaking about education, because I think the Congress is ready to do something on education in conjunction with states.

I think the basis of the deal, an agreement, is there. All the statistics have been mentioned, the ones that Governors McKernan and Hunt and Romer and others have mentioned, have made this now not just a state issue but a national crisis.

Because if you've got 90 percent of your fastest-growing high wage jobs now requiring more than post-secondary, if you have the statistics that Governors Romer and Hunt talked about, this is a national issue as well. It's a civil rights imperative, but it's also a national one.

So that's why--and how much has each state spent on developing its own standards? Some of
you have worked in agreement, the NECAP, the New England agreement, for instance. Others are spending off on their own.

But Congress, I believe, is looking for states to come forward and say if you can agree on common standards that are internationally benchmarked, then we'll help fund it. Not mandated top-down; coming from the bests that the states have and truly benchmarked.

While we're on the subject of benchmarking, or even if we weren't, let me just also point out that one of the areas that deal could be made, and Governor Napolitano, you've been a leader in talking about this, is we are the only federal nation that participates in this PISA exam that Governor Hunt talked about, the Program for International Student Assessment, administered by the OECD.

We're the only federal nation that participates, but the individual states do not.

Every province in Canada can tell you exactly how they fare against Latvia all the way up to South Korea. Every Länder in Germany, every canton in
Switzerland. We're the only nation that you cannot
tell how you're doing, as many of you made such
incredible efforts.
So I do believe that in this--we're
moving into a new era of federalism where we're
exploring different roles. We've had two
presidential candidates that are talking about
change, and that there's a basis of a consensus there
between the governors coming together to set the
standards, truly internationally benchmarked, the
federal government paying for those assessments,
assisting with those governors that want to be truly
internationally benchmarked with PISA, and also that
then all comes under the contest of MCOB and getting
a true No Child Left Behind that everyone agrees on.

DR. SMITH: Governor Sununu.

GOVERNOR SUNUNU: Well, I'm afraid I have
to dissent with a great deal of what has been said,
and I'm really shocked. There are some areas in
which the federal government has a major role--energy
policy, trade policy.

But the last place in the world you want
to get the federal government to have a major role is
in education. The one statistic you have not cited
is that the degrading of the quality of our education
is absolutely correlated to the increasing role of
the federal government in education.

The key to education is a compact amongst
the student, the teacher and the parent. The further
and further away you take funding, the further and
further away you take regulation, the further and
further away you take control of the system, the
further and further away you get from an effective
compact that is working.

One of the things that is the key in my
state, in the state of New Hampshire, is that the
school boards at the local level are absolutely
powerful. They control most of the fundraising,
they control the allocation of funds, they negotiate
the contracts, and we have the highest state, at
least when I was governor and in a long period of
time before that--it wasn't just because I was
there--we had the highest SATs in the country with
the highest level of participation.
As you drift control to the state level from local control, and as you drift control from the state level to the federal government, you become homogenized at the lowest common denominator in education.

Yes, we want the federal government to assist you financially. We want the federal government to assist you, perhaps, in giving some leadership on standards. But the last thing in the world you want is to let the federal government start creeping in control, as has become over the last decade.

It is . . . the key to the erosion of education has been the bureaucrats moving into the education system from Washington, and the loss of control from the local school boards.

I think it is a slippery slope that all of a sudden--because it's easy to get money out of Washington--that we start sitting on and we lose the reality of the benefit of the state structure, which is in my opinion, particularly in education, an absolute, necessary ingredient if we are going to
meet with the needs of today's world.

DR. SMITH: Governor Baliles.

GOVERNOR BALILES: Yes, sure. Ted Kennedy, in one of his last public appearances before he was sidelined, quoted Mark Twain to this effect:

"It's ironic that in a country where physical courage is so common, moral courage is so rare."

Maybe we ought to stop reading polls and start reading more Mark Twain. That's all.

(Applause.)

MALE PARTICIPANT: A little perspective.

Twenty years ago, I was at this convention as chairman of NGA, and our theme for the year was the International Frontier. We could see the advent of the European Union. We knew that our competition was with emerging and developing countries.

Two themes emerged through the year of study by the governors 20 years ago. One was on transportation. Our argument was that the purpose of the transportation system is to move people and products quickly and efficiently, and a competitive nation that cannot do that cannot grow. If it cannot
grow and compete, it suffers economically and in many
other ways.

We also argued that education was becoming
the new coin of the realm, and that a competitive
nation requires an educated citizenry. If it does
not possess that, it cannot compete. If it cannot
compete, it cannot grow. It's that fundamental.

So here we are 20 years later, still
talking about many of the same issues that have
occupied governors and former governors for many
years. I've been sitting here listening and thinking
about 20 years.

Twenty years ago, the Soviet Union was a
super-power, bristling with nuclear weapons. Today,
it's disappeared, and it's been replaced by at least
15 countries that are now members of NATO and the
European Union. Twenty years ago, Germany was
divided into two countries, east and west. Today
it's unified. The Berlin Wall has been sold off in
chunks to tourists.

Twenty years ago, the Soviet Union was in
Afghanistan. Today, the United States is in
Afghanistan. Twenty years ago, the Web, the Internet, were just being created, just being developed, and today they constitute the crossroads of our commerce and communications.

The question that I raise is: if the pace of change has been so dramatic, what about the next 20 years? This is not something that the states can solve themselves. It's not something that the federal government can solve alone.

Twenty years ago at this meeting, I had a portable phone as governor. I could barely lift it, and it cost a bundle. Today, cell phones are everywhere. Kids and--thanks to Mark Warner.

(Laughter; applause.)

MALE PARTICIPANT: But the question for us: a lot of the issues never really changed. The structure of our government is not going to change. I mean the constitution that's been created in this city distributes power vertically as well as horizontally.

All of that requires, it seems to me,
governors and members of Congress and the White House
occupants, to really think about leadership itself.

Colin Powell used to say that the Army had studied
the leadership question for 200 years and they had
not come up with a definition.

But he always liked the sign he saw down
at Fort Benning, Georgia, that said "Leadership is
the art of persuading others to follow, if for no
other reason than curiosity." It seems to me that's
what governors do. They have to be persuaders. They
have to use the bully pulpit. They have to have a
sense of strategic direction.

You cannot persuade if you're not
prepared. You cannot be prepared if you don't
understand the context in which one operates. That
to me is part of our problem, I think, in
communicating with our larger public.

We assume people know more than they
really do about the issue. I think governors are in
a peculiar position, a unique position, to try to
show the connection between investment and return.
If it's education, for example, you show the
connection between education and economic growth,
between education and social responsibility, between
education and civic betterment.
You do that for every subject. I think
the reasons that governors are successful in our
federal system is because so many of them have had
that understanding of the importance of context.
Without it, I think you have a much more difficult
proposition to communicate to your public.

DR. SMITH: Governor Voinovich, what about
that?

GOVERNOR VOINOVICH: Well, I'd like to get
back to this education thing, and make one other
point. I voted against No Child Left Behind. It was
a Republican proposal. I was opposed to it, because
I thought the education was the responsibility of the
states; that it was arrogant for the federal
government to start demanding from the states when
they were only putting seven percent of the money
into the pot.

Last but not least, I knew that if it
passed, we wouldn't fund it. That's exactly what's happened.

The other issue I wanted to raise, and this is the one at 35,000 feet, and that is this: We are in deep, deep trouble financially. Our national debt is $9.4 trillion. It's 68 percent of our gross national product.

Unless we come to grips, like governors had to, with the finances of this country, many of the programs that the states are benefitting from from the federal government in all areas are going to disappear.

By 2030 . . . by 2030, if we're taking about 19 percent of GDP as far as revenues coming in, all of the federal government's money is going to go for interest, for health care and for social security. I think all of you should start to pay a lot more attention to that.

There's going to be a big movement on between now and the election by the Concord Coalition, by Pete Peterson, David Walker leading it, and even Ross Perot's going to get into the act. But
we have got to get the presidential candidates to
agree that they're going to face this problem
forthrightly and stop smoothing it over and making
the American people think that things are in good
shape.

One of the things that's great about being
a governor is you've got to balance your budget. You
either do it by cutting expenses or you have to raise
taxes. We've been on a honeymoon for too long in
this country, and it's about time we faced up to it.

It's going to take your help for us to get
the job done, because I'm not sure we've got the
political backbone today in the Congress of the
United States to get it done.

(Applause.)

DR. SMITH: Governor (inaudible).

MALE PARTICIPANT: This conversation,
which began with a discussion on federalism and has
gone through a whole series of issues, including
education, reminds me that the founding fathers in
1787 in this city may have formed the perfect form of
government for the 21st century.
They created what is essentially a network. We've operated for some time as a big mainframe. We have the ability now to operate as a network of PCs.

I believe the reason that the federal government has a 30 percent approval rating is because the federal government has routinely concluded to take on issues that are uniquely state issues, and we do a bad job of it because we try to be the computer and not just the operating system. We try to . . . rather than develop standards, we try to prescribe everything that goes on. So I would like to say we need to have federalism continue, but it needs to be a reinvigorated, 21st-century version of federalism. It does require that there are some national standards. But it also requires that the Congress of the United States demonstrate enough restraint that they allow states to operate in the unique way that they can to show the kind of innovation that they can.
It also requires that states act in their legitimate constitutional role and begin to agitate and push back when the federal government steps across that boundary. Now it's been my experience, both as governor and working in an agency that interacts with my colleagues and former colleagues a great deal, that what we hear most agitation about is more money, not more flexibility. If we're going to make 21st-century federalism work, we've got to guard and protect the institution of the state and make it more powerful by our virtue of standing up for those positions. Then the federal government's got to begin to recognize that its best advantage is in developing standards, and freeing and enabling action of the states, not taking it over.

If the federal government's got to begin to recognize the best advantage is in developing standards, and freeing and enabling action of the states, not taking it over.

DR. SMITH: Governor Schweitzer?

GOVERNOR SCHWEITZER: Sorry. You know, in this back row, we can't hear what everybody's saying. We kind of have to guess. I want to be very direct in the West, where the federal government owns somewhere between 30 and 80 percent of our land.
I'm going to tell you right now the federal government makes a damn poor neighbor. They don't know how to run those resources, they don't take care of those resources, and frankly, it appears to us that sometimes in the West, that the original colonies treat us like the colonies, just as a place that we can play and we can take resources.

It's important for us as governors to say “no, hell no” and “no” to the federal government often.

It seems to work in the West. If you say no enough, they'll leave you alone and they'll bother somebody else.

I only say that partially in jest, because as I visit with the rest of the Western governors we're always looking for solutions of getting the federal government off our backs. We're always looking for solutions to get the federal government to listen to us. They usually don't because we have a small number of Congressmen and a large quantity of land with a lot of minerals.

So Congress, by and large, they will make those decisions for us, because there's value in
those resources and they still own that land. I border Canada--three provinces. So I'm watching the system in Alberta, British Columbia, Saskatchewan, Manitoba.

They have a much better system than we have. They have much more economy, each and every one of those provinces. They're responsible for their own minerals, they're responsible for their own health care, and they're responsible for their own education.

We heard earlier that Canada seems to have a better education system than we do in the United States. I think that's true, and it's run by the provinces. Some of us know that their health care system is a universal health care system, and it's paid for by their provinces, probably superior to the system that we have here.

The provinces in Canada are much more autonomous than the states. I think their system is working, and I think that that might be a template for some of us states to be watching. Thank you.

DR. SMITH: Let me raise something. Let
me take Governor Leavitt up on his challenge about a
new kind of federalism, because it has been suggested
that all of you in fact can significantly change the
way things are done in Washington because of the
redistricting process of which you are a significant
part.
That if districts were not drawn to assure
one party control, if districts were made more
competitive, first of all it might very well increase
voter turnout.
Secondly, it would change the nature of
the electoral process itself. It might very well
place a greater emphasis upon pragmatism, moderation,
problem-solving, all of those qualities that define
governors at their best.
So what about it? What about that notion?
I believe Governor Schwarzenegger's taken the lead in
California. What's your role in that function, and
are you willing to step up to challenge your own
political parties? Anyone?
GOVERNOR MANDEL: I think all that we've
been discussing today, I hate to say, it gets back to
one word: leadership. I think what's lacking and
what is taking the place of leadership is party
politics. Just think for a moment. I was hesitant
to say it, because I may have to leave town.

But seriously, party politics is taking
the place of leadership. Issues are being decided on
the basis of what's good for the party and not what's
good for the state or not what's good for the
country. What's good for the party?

As you get closer to Washington, living
closer to Washington, you see more and more of it.

We're in Maryland, we're right next door. Every time
something is done, the question comes "Is it good for
the party?"

Well, when I was in office, we said
"What's good for the state, what's good for the
government, not what's good for the party? What is
the right thing to do and let's do it." I think the
leadership to do that is what's lacking today.

MALE PARTICIPANT: I don't have the answer
to your question, but it does seem, with the
mathematical precision of reapportionment, we'd have
the two parties pull farther and farther apart. Some people like that.

I had the privilege of serving in Congress between 1975 and '83 and there seemed to be a lot more bipartisan cooperation, discussion, socializing, friendships, and certainly a lot less heated rhetoric than today. I don't know if it's me or it's the change in condition. Others have written about it. But I think the conditions have changed, and it does make it harder to deal with some of the issues, like the debt that Governor Voinovich mentioned, which is clearly a huge danger to our future.

DR. SMITH: Governor Vilsack.

GOVERNOR VILSACK: To your question about the nature of how we set up legislative districts, I, with some pride and I think Governor Culver would agree with me about this, the state of Iowa, I think, has a very good model, which establishes very competitive legislative districts. It takes the politics out of it, and I think we have seen the ability and capacity of our state to have less
partisanship than perhaps other states.

It is a computer-driven process, in which the computer is given information about the population statistics. It comes up with a map. It comes up with three maps actually. The legislature is given the opportunity to do an up or down vote on the first map, no amendments, no changes.

If it's passed, the governor has the right to sign or veto. If for whatever reason it doesn't pass or it's vetoed, the second map, the same process. If that doesn't work, the third map.

If that doesn't work, ultimately the courts basically make the decision. But the reality is the courts have never had to make that decision, because people understand and appreciate it's part of our culture.

So I would really urge the nation's governors to take a look at this system, because I really think it does work well to your point.

Let me just say one other thing. I've listened very carefully to this conversation today, and I would simply say this. Part of our problem, if
we have a problem, is the frame in which we discuss
issues.

Most of what's been discussed today has
been in the negative, what's wrong, what needs to be
fixed. Maybe what this country needs is a positive
frame. This came to me when I was visiting some
folks in Europe about climate change.

They looked at me and they said "You know,
we're not capable of doing the innovation that's
going to be required to really solve this problem.

We are looking to America to do this."

It seems to me that what governors are
successful . . . the reason we're successful is that we
create in our states a positive frame, something that
people can rally around, not move away from. Maybe
there's a lesson there for our national leaders.

We have problems, we have difficulties.

But someone has to call Americans, all of us, to a
positive outlook, to a positive future, and explain
how each of us has a role and a responsibility to
make that future happen.

DR. SMITH: Governor Vilsack, I think
that's the perfect note--

(Applause.)

DR. SMITH: --on which to wrap this up. I would only say one observation. As you know, for a long, long time, it's been said in the United States Senate that if you poked your head in and said Mr. President, 100 faces would turn in your direction, I'm wondering . . .

I look around this group and I'm wondering if maybe if I say Mr. or Madam Vice President, maybe that would apply too. Anyone here want to declare their candidacy or non-candidacy?

(Laughter.)

DR. SMITH: Well, anyway. Listen, I cannot thank you enough. I think we promised you a lively and substantive conversation about the state of the states, and I think the governors behind me more than delivered. Would you please join me in thanking them?

(Applause.)

DR. SMITH: I think we can all agree:

Alexander Hamilton, eat your heart out. Thank you
for coming.

(Applause.)

(Whereupon, the session was concluded.)
GOOD AFTERNOON, EVERYONE. BEFORE WE BEGIN THE AFTERNOON SESSION, I WANT TO NOTE THE PRESENCE OF FOUR GREAT PRESENT-DAY GOVERNORS WHO HAVE JOINED US AND DIDN'T GET A CHANCE TO BE INTRODUCED THIS MORNING: GOVERNOR DON CARCIERI FROM RHODE ISLAND—DON.

(Applause.)

GOVERNOR STEVEN BESHEAR FROM KENTUCKY.

(Applause.)

GOVERNOR BRAD HENRY FROM OKLAHOMA.

(Applause.)

GOVERNOR HALEY BARBOUR FROM MISSISSIPPI.

(Applause.)

VOICE: PRESIDENT WILLIAM JEFFERSON CLINTON BECAME KNOWN TO THE POLITICAL WORLD AS A SIX-TERM GOVERNOR OF THE STATE OF ARKANSAS. HE DID MANY THINGS PUSHING AND ACCOMPLISHING A PROGRESSIVE AGENDA, BUT OF ALL THE THINGS THAT HE ACCOMPLISHED, HIS BIGGEST ACHIEVEMENT WAS TOTALLY REFORMING AND
revitalizing Arkansas' public education system. He went on to get elected President of the United States and, as President of the United States, he revitalized the American economy by ending a massive budget deficit and producing record surpluses, by opening up the telecommunications industry with the reauthorization of the Telecommunications Act in 1996 and, as a result, helped create during his time in office 23.5 million new jobs in America. He helped restructure--with the help of this organization, helped restructure our public welfare system in American. He established Hope scholarships, bringing hope and a chance to attend college to several million Americans who never thought they could reach college in their wildest dreams. As effective as he was in the domestic arena, he was equally effective in foreign affairs. He brought peace to Northern Ireland; he brought hope to Africa; he brought life to over one million Kosovars who were ticketed for ethnic cleansing by the Milosevic regime. We were able to accomplish the protection of those one million Kosovars without the
loss of one American serviceman or servicewoman.

As impressive a President as William Jefferson Clinton was, he has been even more impressive as an ex-President. The Clinton Foundation has done so much all over the world, reaching into and impacting on some of the most significant challenges that we face as a country and as a planet.

And we all know that President Clinton is a very smart and intelligent man. And, in preparing for this introduction, I pretty much thought that I knew everything about Bill Clinton and the Clinton presidency and the post-Clinton presidency years, but I read the biography anyway, and I have concluded from one fact that I was able to discern that he's even smarter than any of us ever realized.

His biography lists his 20 favorite books in alphabetical order by name of author. The third on the list is Living History by Hillary Rodham Clinton. (Laughter.)

VOICE: Ladies and gentlemen, the former
President of the United States, former President of
the National Governors Association, William Jefferson
Clinton.

(Applause.)

PRESIDENT CLINTON: Thank you. Thank you
very much. Thank you. Thank you.

Thank you very much, Governor Rendell,
Chairman Pawlenty, the governors, the former
governors, their spouses, family members, and ladies
and gentlemen. I was very honored to be asked by
Governor Rendell to come here today. I used to have
to run for office every two years, and I thought I
would never be able to hold a job, but I got to be a
governor for 12 years; it's the longest I ever had
any one single employment in my entire life--

(Laughter.)

PRESIDENT CLINTON: . . . and I loved it. And
I am profoundly honored to be here on the 100th
anniversary of the Nation's Governors as an
association.

You know, our founders believed that the
states should be laboratories of democracy. When
laboratories are used in a scientific sense, one of
the things that you immediately see scientists
grappling with is how can they do the best research
and come up with the answer to whatever the question
is first, but then what are their ethical and
practical obligations to share those discoveries with
others so that the process of permanent improvement
can go forward. That's what laboratories do.
One of the things that I had the honor of
presiding over, but not doing, was the successful
sequencing of the human genome in 2000, after years
and years and years of both individual and
collaborative research by scientific labs in the
United States and many other countries.
And I remember the day we announced it in
the White House and in London. Tony Blair and I were
on satellite together, but we had the representatives
of all the other countries who had contributed to
this landmark moment in scientific history,
. . . laboratories involved, sharing.
I think it is altogether interesting that
it was 120 years, therefore, between the election of
George Washington as the first President of the United States and the first convening of the governors with President Theodore Roosevelt in the White House in 1908, 100 years ago. I want to say a little more about that in a moment.

But I came here early and had the chance to hear my colleagues and former colleagues speaking right before we broke for lunch. And the whole idea of being a governor involves in some sense moving beyond party to policy to positive changes in the lives of real people. Politics in the best sense is about both symbol and substance, about the emotional reality of our lives together and the material circumstances that shape them, about good intentions and about the hard work necessary to achieve actual changes, about standing for what you believe in and reaching out to others to find common ground.

In the best sense for 100 years now the National Governors Association has represented that, I think, to virtually every governor who ever served. It has done an exceptional job of helping states to be laboratories of democracy, making the most of
consensus when it was there--as it was by and large in the 1970s when I became a governor for the first time--and helping to minimize the partisan tectonic shifts that occurred in America in the 1980s and persisted throughout the ’90s. I used to tell people that I love going to the [National] Governors Association because it was a center of want-dom. And I love the idea of the laboratories of democracy because, on occasion when I was governor of Arkansas, we would be the first state to do something, but I was always just a little prouder if we were the second state to do something, because it meant that the founders' idea was being honored. So the most important thing I can do today as a former member is to honor this association, to honor the current governors and their predecessors for truly fulfilling the founders' ideals in good times and bad. But I would like to take just a few minutes to talk about what that means today. What should the laboratories of democracy be about today? The 21st century is overwhelmingly the age of
greatest global interdependence in history. A hundred years ago when we met first, or our predecessors did, just a few years before the outbreak of World War I, the world was actually about as trade dependent as it is today. In fact, the countries of Western Europe, several of them were actually more trade dependent than they are today; that is, a higher percentage of their GDP was generated by trade than today. But there was nowhere near the interdependence we see today in travel and communications, in shared culture, in instantaneous information, in international institutions which bring us together, and nowhere near the interdependence in terms of our shared vulnerability to terror, to climate change, to the spread of disease and all the other things which we share in common which are negative as well as positive. In this interdependent world, I would argue that both around the world and here at home the laboratories of democracy have to confront three profound challenges that stand in the way of our
children and grandchildren having the future that
they deserve. They are, in no particular order:

Persistent and profound inequality in
incomes, employment, education and health care.

Identity. In a world in which we are all
thrown together, and we celebrate our diversity armed
by the knowledge of the Genome Project that we are
genetically more than 99.9 percent the same. Indeed,
just in the last year, Craig Venter, who had a
private enterprise effort to sequence the human
genome--which finally was reconciled with the
public one--came out with a new study saying that
the original findings that we were 99.9 percent the
same, all of us who live on earth, was absolutely
wrong, and that in fact it was a gross overstatement,
we are only 99.5 percent the same.

(Laughter.)

PRESIDENT CLINTON: Now, actually, in
scientific terms, this can have enormous
significance, since there are 3 billion genomes, for
the resolution of all kinds of inquiries about
disease. But if you're a politician, if you work
with people, there's not a lot of difference in 99.5
and 99.9.

And yet the world is truly bedeviled by
people who still persist in believing that our
differences are more important than our common
humanity and that we simply can't find a way to live
with that.

The most extreme examples are obviously in
the terrorist countries that believe they won't
matter unless they have their own nuclear weapons,
and we have smaller examples of that--in America,
our biggest problem is figuring out how to manage the
fact that more people want to come here every year
and make a living in an unequal world than we can
accommodate. So we haven't quite figured out how to
be a nation of immigrants and a nation of laws. But
all of these are identity questions.

And you see it also in American politics--
this is the only book I will recommend to you
today. But I read a book a couple weeks ago called
The Big Sort, S-O-R-T, written by a man who had a
long career as a journalist; . . . happens to be a Democrat
but it's rather sympathetic with Republicans. And this is the argument of the book.

The argument of the book is that America is becoming more diverse so if you look at us as a nation it looks like we're accommodating all this difference really well and, to be sure, in many ways we are.

I was really proud that this year in the election my party's surviving candidates were an African American and a woman. There's a lot of other evidence of that.

But here's the point [Bill] Bishop makes: that underneath this apparent accommodation to our diversity, we are in fact hunkering down in communities of like-mindedness. And it threatens our ability to manage difference.

He points out, for example, that in 1976 in the presidential election between President Carter and President Ford, it was very close, and it was close almost everywhere. So that only 20 percent of our counties voted for either one of them by more than 20 percent margins. In most of America, people
were having this discussion. In their houses of
worship, where they work, with their neighbors, at
their civic clubs, in bowling leagues, they were all
talking about it. We were bound together across our
political differences.

In 2004, when we had another close
election between President Bush and Senator Kerry,
48.5 percent of our counties voted for one or the
other of them by more than 20 points. We were
sorting ourselves out by choosing to live with people
whom we agreed with. And the same thing is true with
our virtual reality, where we can now seek Web sites
and television news programs and print media that
confirms our pre-existing inclinations instead of
challenges us in a civilized way to talk through
these things, which may be one reason when we come up
against somebody that disagrees with us we can hardly
hear them anymore. So we have to learn to manage
difference.

And the third big problem we face after
inequality and identity is energy and global warming.
This country became a great world power more or less
coincident with the rising industrial age. We became a greater power after World War II with the rise of the middle class. All of it was fueled by our capacity to develop and use our natural resources and to put more greenhouse gases into the atmosphere. We are now coming to a time when, if all these climate scientists are right—and it's rather foolish to assume that they're all wrong—we have to move to a radically different energy future, and we have to do it in a way that doesn't undermine our struggle to create a common identity and that doesn't undermine our struggle to reduce the gross inequalities within our country and across the world. If you think about the challenges facing the governors today, most of them can be reduced to one of those three categories. If you're worried about jobs or schools or incomes or health care, you're caught up in the world's inequality challenge. If you've got an immigration issue, you're caught up in the world's identity challenge. And we're all facing $4 or more gasoline, as well as the looming threat of global warming.
So what can we do about it? What we can do is always more pedestrian than talking about it, but I think it is worth analyzing.

First of all, let me just mention a couple of things. With regard to the inequality challenge—and let me back up and say in my current life, when I got out of the White House and I realized I wasn't President any more, then my symbolic job became far less important than my substantive obligations. My rhetorical responsibilities were far less significant than my real action responsibilities. And what I do now running my foundation is much more like what I did when I was a governor, I just wake up every day and figure out what can I do, in the words that former Governor Brendan Byrne reminded me of, to close the gap between what is and what ought to be.

What can we do?

So let me just mention a couple of things.

With regard to inequality of incomes and the whole cluster of issues, I think that one thing I've been involved in and many governors are working on is the fact that some of the poorest working people in the
country are paying the largest amount of money to do ordinary business transactions with the little money they have because of the payday loan system we have, the check cashing operations we have, and this is aggravating inequality in a way that is very profound and yet almost never talked about.

For example, consider this: in this decade, 90 percent of the economic gains have gone to the top 10 percent of earners, over 40 percent to the top 1 percent. Median family income is $1,000 lower today than it was the day I left office. In that environment, with the cost of gasoline exploding, the cost of health care doubling, the cost of a college education going up 75 percent, what does it say about us that every year low- and moderate-income people spend more than $8 billion at check-cashing outlets, payday lenders, and pawnshops. Twenty-eight million Americans do not have a bank account, almost 10 percent of us. They can spend about $1,000 a year just cashing their paychecks.

With all these other cost problems they have, the average full-time unbanked worker in
America will spend more than $40,000 cashing checks over a lifetime. If that money were simply invested at a normal rate of return, it would generate $360,000 that could be spent on retirement security. And that doesn't take into account all the money that's being spent now on all these other problems.

Another 44 million Americans have a bank account, but they understand it not very well and they still pay for alternative financial transactions like check cashers or payday loans. Listen to this: there are more check cashing, payday loan, and pawnshop outlets in the United States alone than there are McDonalds and Starbucks worldwide.

So Governor Strickland of Ohio has done a lot of work on this, because Ohio has had a lot of real problems. Governor Schwarzenegger has done a lot of work on this. The City of San Francisco has been very innovative in trying to get 10,000 new people a year into the banking system, and not just putting them in there, but giving people the tools of financial literacy. This also can help us on the identity problem because immigrants are
disproportionately likely to be out of this system
even though in the workplace.
So we started a financial mainstream
program with our foundation to try to expand access
to lower-cost, safer and more transparent financial
products and services like bank accounts, savings and
investment vehicles, and other alternatives to payday
loans. We worked with the Pew Charitable Trust Safe
Banking Opportunities Project, and we're going to hold
a work session for them and state officials this
fall. I hope all the governors will send someone to
that. This is one concrete example of how you can
help deal with the inequality problem and the
identity problem that should cross all party lines.
And it's the kind of thing that I think--I have
seen just from the work we've done in New York City--
can make a profound difference in people's lives.
I'll give you another example. I believe
that we need to rewrite the No Child Left Behind law.
And the governors have always been right out there on
the forefront in a bipartisan way of favoring strict
accountability in education. But as I traveled
around America this year, the problem that I kept running up against over and over again was that No Child Left Behind—which requires five tests five years in a row and lets the states pick the tests and the passing score but conditions their federal aid on it when they have to have the federal aid--really does work for about 10 percent of the schools that are the lowest performing; that is, no matter what tests you pick, if you previously had kids getting all the way to the eighth grade not being able to read or count, it will help.

But if the schools perform better than that, the law is likely to do more harm than good because complying with the law has caused 80 percent of our schools to cut back on history, economics, political science, health programs, physical education programs, music and the arts.

The governors are trusted both because you're a bipartisan group and because you've always been for accountability and you know if you don't educate your people better, you won't be competitive.

So I respectfully suggest that the next Congress and
the next Administration ought to get a really
substantive and detailed position from you about how
we can have accountability and improvement, deal with
the kids that are stuck on the bottom, but stop
burdening all these other schools in a way that is
actually undermining their quest for educational
excellence. I think that's something you can do that
would reduce inequality.

One last thing, the inequality in health
care. I am quite well aware that we will never solve
this problem without national legislation and that,
in the meanwhile, most of the time what you have to
struggle with is what's happening with Medicare and
Medicaid. But I also think we need to recognize that
we have to do a better job of taking responsibility
for our own health and keeping our people healthier.

After my heart problems, I got into the
whole idea of preventing other people from going down
the path that I'd gone down. I agreed with the
American Heart Association to work on a project to
help improve health care among our young people, and
it quickly became obvious that childhood obesity was
the biggest problem and the biggest manifestation of
it is the shocking rise in what we used to call adult
onset diabetes, Type II diabetes, the kind you are
not born with a predisposition to among young people.
Two years ago in Harlem, where my office
is, we actually had a 9-year-old child diagnosed
with Type II diabetes. When I was with Governor and
Mrs. Barbour in Mississippi in Katrina and I went to
Biloxi, I went to a neighborhood that was destroyed.
The good news was . . . the bad news was all these
people had just paid off their home mortgages. The
good news was, they were all fairly well insured, and
they were going to be able to rebuild.
But I was met there by a very articulate
woman who could not have been a day over 35 years old
greeting me and explaining to me everything that had
happened, except she was in a wheelchair having lost
one of her legs below the knee to diabetes at an age
when it would have been unthinkable not very long
ago.
So I have very much enjoyed working in a
bipartisan way on this. Many of the states have
worked with us, the former Governor of Arkansas, Mike Huckabee, and now Governor Schwarzenegger because we wanted it to be bipartisan, have helped us to work with the Heart Association to change the agreements we have with soft drink people, with snack food people to get 750,000 young people to sign up through the Let's Go Healthy Challenge on Nickelodeon. Mississippi, Oregon, Colorado and Alabama have adopted our beverage standards for the schools. And now the Robert Wood Johnson Foundation has helped us to put a healthy schools program in place in all 50 states—we'll soon have 8,000, and we want to go to 25,000 schools.

These school programs really work because they require people at the local level to decide how they're going to improve the school lunch programs, how they're going to improve the other feeding programs, how can we have more exercise programs and wellness programs for staff as well as students.

There will be a significant challenge here because of the exploding price of food. I see it now. A lot of our schools now are calling us and
saying I don't know if we can afford to stay with our healthy food program because of the rising price of food plus what it costs to run the school buses. But I think this is really important. We simply cannot have a health system which continues to be focused on helping people just when they're sick; we have to do a better job of promoting wellness.

Does this exhaust all the things you can do with inequality? No. But you have to ask yourself, what can I do? There's one final thing that I think that the foundation world and the state governments can do that is really important. The exploding price of food has had a lot of interesting consequences. Restaurants, for example, are trying to manage their inventories better. That's good, but it means if you live in a big city like New York it's harder for our food bank to go around and get extra food from people that used to provide it. So we have urban food banks all over the country in some trouble. People are more willing to buy three-day old bread, so the grocery stores in medium-sized cities maybe have less food to give to urban food
banks.

And people are simply having trouble affording it. I don't know how many people I met this year that told me they are literally making the decision every single week between buying the gas necessary to go to work and putting food on their kids' tables or buying the medicine the family needs. Now in that context, it is very interesting that the Department of Agriculture says that in 2005 only 65 percent of all people eligible for food stamps claimed them. Only 57 percent of low-income working people eligible for food stamps claimed them. Now some of that is doubtless people are proud; they're working and they don't want to admit that they need this. But we're living in a different world now with $4 gasoline.

So I think every foundation that works in neighborhoods in this country and every state government ought to have an effort, it is cost free, just to get the people who are eligible for this to claim it. President Bush just came back from the G8
summit in Hokkaido, Japan, where they were all being
told that unless they gave more money to the World
Food Program we were going to have mass hunger and
some starvation around the world.

I'm about to leave for my foundation's
annual trip to Africa, and in Ethiopia we have a
major AIDS project. It doesn't work anymore unless
we're also providing comparable nutrition services to
the kids or the medicine won't work, it'll just wash
right through their bodies. And we cannot afford to
let these kids die. This is going to be a huge
problem.

This sounds like a little step, but this
is a pre-existing authorization that will not cost
any more money, that is just a gap between what the
law provides for and what people know about or have
access to. So the states are very well suited, I
think, to close the gap between the people who are
eligible for food support and have not yet claimed
it.

It would also help to recirculate that
money in the economy, by the way, and have a modest
impact on slowing down the economic downturn at the
grass roots level. So that's something else that I
would encourage you to look at.

Finally, let me just mention one other thing on the identity front. All the debate in
Washington is over what kind of immigration reform we
should have, and I hope and pray that we'll pass a
good balanced bill next year that makes us a nation
of laws and a nation of immigrants again. And I'm
very encouraged by what has been said by the apparent
nominees of both parties; I think they've been good
on this.

But we need to ask ourselves whether
that's enough. What else would it take for us to
avoid an even bigger big sort, if you will, with this
new generation of immigrants? We want people to live
in their own neighborhoods and their own communities
and keep their traditions alive and their language
alive and practice their faith as they choose and all
that; we want all that to happen. But are we doing
enough to bridge those gaps? And since it's
different in every state, I think this is something
where the states could really teach the national
government something about what 21st-century
Americanization should really mean. And let me just
mention one final issue, and that is the one that
brought the governors together 100 years ago:
energy, natural resources.

It is obvious to all of us that we have to
figure out how to use less, and the American people,
as usual, have gotten out ahead of the politicians:
oil imports, in spite of the price going up, are down
over 10 percent this month. That is cash outlays, so
the oil we're buying is down even more than that.
The American people are just using less. It would be
good if they hadn't given up mobility to do it. And
if they were in higher-mileage vehicles or plug-in
electric vehicles, they could do it. Or if they were
using cellulosic ethanol that didn't increase food
prices, it would be good.

A lot of governors are into this. I
believe that creating jobs will be at the heart of a
lot of governors' agendas for the next few years and
I think the only way to do it in a sustainable way is
to change the energy future. I think the automobile industry in Michigan is going to be revived because they're working on hydrogen vehicles, plug-in electric vehicles, biofuels, the whole range of everything between where we are and where we know we're going to be in 10 or 15 years. And I think anything any of us can do to support that is good.

I work with 40 large cities around the world, the National League of Cities here and the Organization of College and University Presidents to prove that you can create jobs by reducing energy consumption, by retrofitting buildings. And this is something--but we're doing this too slow. And every state could do this. I'll give you just one concrete example of how you could create jobs in your state tomorrow. You could do what we do on a grander scale because of state government. Totally market oriented.

My foundation went out and basically said to the providers of energy efficient materials: if we buy this stuff in larger volume with certain payment, will you give us a discount? The same thing we do
with AIDS drugs. So we got a discount of anywhere
between 15 and 70 percent on energy technologies.
Nobody loses money; they just make money a different
way--higher volume, lower margin.
We then got five banks to commit a billion
dollars each to these urban retrofits and to agree to
make loans that would be paid back only through lower
utility bills, through the utility savings. Because
of the third thing we did, we got energy service
organizations to agree to go in and estimate the
savings--normally between 20 and 50 percent--that
could be economically achieved, and guarantee those
savings in return for a premium. So that if the
savings are not realized, the energy service
organization makes up what's owed to the bank.
Now what this means is that every state
government building, every local government building,
every school, every college building, every hospital,
every auditorium, eventually every house in the
country you can do retrofits on and there is no money
taken away from the taxpayers, the state budget, the
local budget, the school budget, because it's all
going to be paid off from utility savings. And when
they're paid off, the utility bills are lower and you
free up funds for other things, you have created lots
of jobs, you have reduced the threat of global
warming in a way that works.
Now every state government could do this.
We raised this $5 billion in an afternoon and, to
give you an example of how bad it is now, when we did
this two years ago that doubled the amount of money
then being spent on urban building retrofits in the
entire world.
A couple of blocks of Manhattan, in spite
of the real estate collapse, is still worth more than
$5 billion. This is no money. We should be
generating $200-$300 billion more every year across
the globe retrofitting these buildings, generating
massive numbers of new jobs.
Goldman Sachs put out a study last year
that said--listen to this--that if the United States,
China, India and Russia--never mind Europe and
Canada--just the U.S., China, India and Russia,
reached the energy efficiency levels of Japan, that
would take the entire world 25 percent of the way
home to reducing greenhouse gas emissions by 80
percent by the year 2050. In other words, that's a
20 percent reduction in global greenhouse gas
emissions if just those four countries used energy in
the same way Japan is.

Back in the '80s when I was governor of
Arkansas, we were trying to use cogeneration to power
every plant we could, and we didn't know anything
about global warming, we just thought it was good
business. These are things the governors could do.
There's money there.
The same thing is true in clean energy.
The Department of Energy had a study a year or two
ago that said that in theory enough wind blows
between West Texas and the Canadian border with
Montana to electrify America, even when the
politicians aren't talking.
(Laughter.)

PRESIDENT CLINTON: But it's just a
theory. Why? Because most of the wind blows where
there aren't enough people to have a pre-existing
transmission network sufficient to carry the electricity back to the grid and route it to the users. This is something ready-made for the states to do. Oh, there are lots of windmills being built all over America, but I would say at about one-fifth the rate it could be and you'd have more and more people in the production business. And Congress can help; maybe they'll give us six years of the deduction this year; I know they're working on it. But the point is, it's going to be economical anyway. There's still a substantial price differential between coal and solar, but it's not very big between wind and coal anymore, and it will be inverted as soon as there's a price for carbon emissions.

I just talked yesterday to a conference that I co-hosted in Rotterdam, the world's third biggest port, about whether they could collect all the CO₂ from all their coal burning in the Netherlands and then pipeline it up to the North Sea where there is a great cavern under the sea that has enough space to hold all the greenhouse gas emissions
Europe will generate for the rest of the century.

We ought to be trying to perfect clean coal technology, and there ought to be joint state projects to do this because—and I know this is controversial with some of my environmental friends—but the truth is forget about Montana and West Virginia and Kentucky and everywhere else that produces coal; the Chinese are bringing on a new coal-fired power plant every 10 days. They have already surpassed us as the world's biggest emitter of greenhouse gas emissions. We have no choice but to figure out how to capture carbon dioxide and either bury it or chemically change it before it's released into the atmosphere. This is a ready-made deal for states to do.

So I say that, and I'd like to just read you this in closing. I end it on the energy issue because here's what Theodore Roosevelt said to the governors 100 years ago:

“The natural resources of our country are in danger of exhaustion if we permit the old wasteful methods of exploiting them longer to continue. When
a nation becomes fully civilized and very rich, we cannot continue to be civilized and rich unless the nation shows more foresight than we are showing at this moment. It is safe to say that the prosperity of our people depends directly on the energy intelligence with which our natural resources are used. It is equally clear that these resources are the final basis of national power in perpetuity and it is ominously evident that these resources are in the course of rapid exhaustion.

“We have become great in the material sense because of the lavish use of our resources and we have just reason to be proud of our growth, but the time has come to inquire seriously what will happen when our forests are gone, the coal, the iron, the oil, the gas are exhausted, when the soils will have been still further impoverished and washed into the streams, polluting the rivers, denuding the fields and obstructing navigation. They relate these questions not only to the next century or to the next generation.

“One of the great characteristics of really
civilized nations is foresight. We have to exercise foresight in the future and, if we do not, dark will be the future. We have admitted the right of the individual to injure the future of our republic for his own present benefit. In fact, there has been a good deal of demand for unrestricted individualism, for the right of the individuals to injure the future of all of us for his own temporary and immediate profit. The time has come for a change.”

Old Teddy was pretty smart, wasn't he?

The point is, if you read the whole speech, he also argued that over the long run if we conserved our natural resources we would grow wealthier, not poorer; that doing the morally right thing for the future was the economically beneficial thing over the long run because, without a sustainable economic policy, prosperity by definition could not be sustained.

I think it is altogether interesting that the world in many ways is facing a lot of the challenges today it faced 100 years ago. We had a lot of trade 100 years ago, and there was growing
1 prosperity, but Theodore Roosevelt was the first
2 person to say we had to do something about the
3 inequality that that industrial society had imposed
4 on us. Now we have to do something about the
5 inequality that the international information economy
6 has imposed on us.
7 There were serious identity problems 100
8 years ago as we had a big wash of immigration and no
9 one could believe with all this immigration and trade
10 that we could possibly be stupid enough to do
11 something like go to war. But then we went to war in
12 World War I with modern technology and yesterday's
13 tactics, losing as many as 900,000 people in a battle
14 over differences that most people thought didn't
15 amount to a hill of beans. And finally Roosevelt
16 understood that we had to preserve our natural
17 resources if we were going to have long-term economic
18 growth and broadly shared prosperity.
19 Just a couple of years before he gave this
20 speech to the governors, he saved the 20 remaining
21 head of buffalo in the entire United States in a
22 national park that now have given Governor Schweitzer
alone hundreds of head.

So here we are again. There may be nothing new under the sun. But this moment in our history on a global scale closely parallels what the United States faced when Theodore Roosevelt brought the governors together for the first time. And he was absolutely certain that the challenges could not be met unless the states did their part and were the laboratories of democracy.

In 1996, when I came to speak to the governors, the NGA gave me this, and I read it all the time. This is the original printing of the proceeds of the first Governors Association. President Roosevelt's speech, all the dialogue, all the debate. And about a third of it is as fresh as yesterday's debate on climate change. There is nothing new under the sun.

And the good news about that is the founders were right; you have to be the laboratories of democracy. The NGA gives the governors a forum to do that. We have to deal with inequality; we have to deal with identity; we have to deal with energy. If
we do, we're about to go into the most exciting period in human history. If we don't, in the words of President Roosevelt, dark will be the future. I'm betting on light. I hope you are, too.

Thank you very much.

(Applause.)

VOICE: This is the second time that President Clinton in the last few years has graced us with his presence at the National Governors Association, both times stimulating us with wonderful remarks, and Mr. President, we know how many demands there are on your time, and you've been very, very generous with this Association.

His comments reminded us of his commitment to the concept of laboratories of democracy, I think that's inspiring to all of us as governors, and he certainly demonstrated that when he was a governor his areas including education reform and welfare reform and others. And we also are gathered here with former governors and all of us who are governors will one day be former governors, and his charge to transition from rhetorical emphasis to substantive
work is very guiding and insightful as well; and his
work and his foundation's work in areas such as
Africa and tsunami response and nutrition and health
and, as he so eloquently described just a moment ago,
a transition to a brighter and better energy future
for our country is spot on. So his service
continues, our gratitude to him as an association
continues and, once again, Mr. President, thank you
for joining us today at this historic event.

(Heartfelt applause.)

RECORDED ANNOUNCEMENT: Please welcome to
the stage our VOICE for this afternoon, Emmy-award
winning journalist and best-selling author Cokie
Roberts.

(Applause.)

MS. ROBERTS: Gentlemen, ladies. Well, what
an honor it is for me to be here at this centennial
event and following former President Clinton and
Governor Pawlenty. Thank you for having me.

We've heard a lot about the founders
meeting here today, the meeting here in Philadelphia,
and lots of different interpretations of what they
were about, which is one of the nice things, because they can't answer us back.

But it is true that in that era that people referred to their states as their country and, you know, they'd say in your country or my country, meaning the state. So since our great host is Governor Rendell, I thought that I would ask him about that.

Governor Rendell, if Pennsylvania were a country, what would you do?

GOVERNOR RENDELL: Well, probably invade Ohio.

(Laughter.)

MS. ROBERTS: He was dying to do that. Well we also heard a lot this morning about, in the very interesting federalism conversation, we heard a lot about the issue of education. And of course that is the issue that is uniquely the province of the states. And we, of course, had the very daunting report of a nation at risk 25 years ago, and here we are 25 years later and a lot of concern still about the state of our
education, the problems that our inequalities in education produce and the failures our educational system in too many cases bring about. And so we're going to take a look at a little video here introducing us to this whole issue of education and then we will discuss it. So let's see the video please.

(Video begins)

"The first line was our nation is at risk. That was 1983. That's even more the case today in the year 2008. While there had been many reports before about education, this was one that grabbed the public by the throat essentially and said, hey, if you care about the lives of your children, if you care about the well-being of your country, you've got to care about the education system.

"In this day and age, it's still true that the quality of education that a student gets depends upon the color of their skin, where they live and the affluence of their parents. One of the saddest problems is, even after this report has been around for 25 years, this past year more than a million kids dropped out of school."
"You've got a lot of kinds that's dropping out of school, you know, and that's getting involved in the streets.'

"'There's another kind of failure and that is the kids who do get out of school who forget much of what they were taught before the ink is dry on their diploma.'

"We're still a nation at risk. I was asked recently on a scale of 100 percent how far we've come along the line. And I answered about 15 percent. We've got to figure out a way to have commonly high standards for all youngsters.

"'There's a bigger chasm between those who are truly, you know, what we would consider educated high school graduates versus people who have gone through the system.'

"'There's certain baseline minimums that every state must have.'

"'My attitude has always been with the standards . . . for me, it, you know, it just kind of verified exactly what we were supposed to have been teaching anyway."
"Continue to try to fix the schools by using standards and tests, but in the meantime we need to create thousands of new innovative small schools that match the diversity of the student body and accommodate the kinds of changes of a high-tech society and a high-tech world. I considered that to be essentially a laboratory for democracy."

"We have to do a better job of telling our people what we have done. You know, we now have state leadership that's heavily engaged in education. We didn't have that 25 years ago."

"If you don't fight for progress, there is no way you're going to get it."

"'It's a very far-sighted and noble politician who says I'm not going to be around to get the credit for this, but we're going to do it now because 16 years from now it's going to have made an enormous difference, it's going to change the world, and that's the kind of Governor I want to be.'"

(End of video.)

MS. ROBERTS: Well, we've heard this morning from Governor Hunt, Governor Romer, Governor
McKernan some of the really devastating statistics on where America is today in terms of education. So my question is why is it still so bad? Governor Barbour, do you want to take that?

GOVERNOR BARBOUR: Why are we still at risk? First, American citizens generally don't understand how far they have fallen behind the rest of the world in education. We still—if you just take and look at the way these 50 states describe efficiency, only five of the 50 really have a definition of efficiency which is what NATE, our national test, would indicate. So we under-expect of our students, and we have not improved teaching substantially in 20 years, and I don't think we spend enough time on education.

MS. ROBERTS: But here we are, I mean, this is—you know, I heard a lot of Congress bashing this morning and, you know, that's fair enough, a lot of you have been in Congress so it's fun to do. I'm the child of two members of Congress so I take some umbrage--

(Laughter.)
MS. ROBERTS: And my father did run for governor once, but lost. So you know, I have prejudices here. But the fact is that this is what governors should be doing is education and why is it still so bad? Anybody want to tackle that? I mean, we've had 25 years of governors saying this is a problem. I see your hand up, Governor Sununu.

GOVERNOR SUNUNU: I think it's because the easy political rhetoric does not touch the real problem. The fundamental issue--on any child that has to learn, the single component you can change in education that I believe makes the biggest difference is the child's desire to learn, and that comes from the home. We are focusing resources in the classroom without providing the support to the home structure to make learning an important part of the culture of the family. And until you do that, all the money you pour into the system, all the standards you establish, all the incentives you give to the teachers are for naught.

I spent 16 years in a classroom. I can teach any child who wants to learn on a log with a
40-year old textbook. I cannot teach a child who
does not want to learn with a $2,000 computer, a
gymnasium that's worth $10 million and a teacher
that's paid $150,000. That's the difference.

And the rhetoric unfortunately that moves
politically is to talk about these other things. And
the rhetoric that is hard is to talk to parents and
to instill in the family and in society as a whole a
desire to have their kids learn.

(Applause.)

MS. ROBERTS: I see some other hands eager
to get in here.

VOICE: I would like to say, probably like
most governors, that we as governors aren't in
control of our education system in our states. We
get blamed for everything, we're required to provide
the funding, but most of them are stand-alone
agencies. So we have very little input. We might
get to choose the state board of education members,
anywhere from four- to six- or nine-year terms, but
to truly have access and be able to make a change and
a difference is something that we don't. I think
that we would all relish that, to be able to get in there and do something.

And I just would like to share with the rest of the governors here and former governors that I was speaking to a class of honor students--and I do this throughout the state. And I asked all of them, at the end I said be candid with me, raise your hand if you think the system of education is challenging you. I've not had one hand raised yet.

So something is definitely wrong. But as a governor I feel helpless that I can't jump in and do that.

And I'd like to say this, that we as governors are used to being held accountable and responsible. Put us in charge of education and watch something change.

MS. ROBERTS: Well I am surprised to hear that because I thought this was something that you were responsible--

VOICE: Not at all.

MS. ROBERTS: Governor Carcieri.

GOVERNOR CARCIERI: Let me say that if you have good teachers and they have enough time with individual students, they can teach every child.
Every child can learn. They can get them to want to learn if they're really good. So I think having good teaching and situations in which they can teach where class size has been reduced and they have the technology and a lot of other things and if they're really good, I think that is a key answer to it.

But I'd like to ask Governor Sununu--he brought the matter up about parents, and he's right in a sense. If you could have just one thing, it would be a great family that supports it and encourages it and, you know, does all of those things, but what about those parents who don't do that?

I remember going to a school one time and it was close to a public housing project and the school people said you know we had a night when we invited all the parents to come. Out of that public housing project, 2 percent of the parents came. Only 2 percent. And they did everything in the world they could to get them to come. So if the parents don't do it, what do we do, just preach to them or . . .

GOVERNOR SUNUNU: Let me answer that.
Because that's the whole point. It is hard politically then for you to say we have to create in the system an asset for the child equivalent to the parent. And that is hard rhetoric. That is uncomfortable rhetoric. That is . . .

MS. ROBERTS: I'm sorry, I don't know what that means.

GOVERNOR SUNUNU: That is part of the education system.

MS. ROBERTS: What does that mean, that something equivalent to the parent.

GOVERNOR SUNUNU: It means you need society to make it clear to children that there is a reward for education. It means you need a press corps that doesn't talk down education but a press corps that says it is important for you kids out there to finish school. You need an economic system that doesn't reward just good luck but rewards those that use the results of education for society.

Let me give you one factoid that I think is interesting. If you get a bachelors degree, you get this salary. If you get a masters degree, you
get this salary. And if you get a PhD, you're back
down to this salary.

(Laughter.)

GOVERNOR SUNUNU: We have created a society in which the economic rewards for moving on education are not convincing.

MS. ROBERTS: Well, except that as we heard from Governor McKiernan this morning, the difference between having first of all a high school diploma, then an associate’s degree and then a college degree and income is huge. And getting bigger. I mean, income inequality is education inequality in this country at this point.

Governor Granholm, you have had your hand up here.

GOVERNOR GRANHOLM: I was going to ask the same question that Governor Hunt asked you, and I'm not sure that you answered it in a way that gives us the ability to act as governors. What Governor Hunt I think was starting to suggest is that these small high schools that are referred to here, where you've got rigor, relevance and, most importantly,
relationships, where you substitute in the classroom
--you become in loco parentis, where you have a
culture in the school that has high expectations;
that's something that we can do as governors, if
there isn't--I mean, ideally you'd love to have
parents who are all engaged. There's two districts
in Michigan that have the same reimbursement per
child, and one of these districts has terrible
graduation rates and one of them has great, and the
difference is one has great parents and one has great
teachers.

And so the question is how do you take
that district with great teachers and have them have
enough interaction with those kids, enough
relationships so that you can create that culture of
high expectations for every single child.

GOVERNOR SUNUNU: Which was going back . . .

MS. ROBERTS: I'm going to go to Governor
Swift, but I wanted to just raise a couple of things
here. One is we've known about parental involvement
for a very long time, certainly since the Coleman
report. We've known about small classrooms. We've
known about all of these things. So this is--for
25 years at least--those things have been out on the
table in terms of education.
And you were talking earlier about the
importance of leadership, of getting people excited
enough to follow you, at least curious enough to
follow you. And it seems to me that this is an issue
where we see in the polling that people really don't
ever put education up there with unemployment or, of
course, this year, gas prices or health care. So
there's some failure there on some level about
leadership and follow through because we know all the
problems.
Governor Swift, go ahead, but then, you
know, I like to sort of hear you all thinking about
that.
GOVERNOR SWIFT: Well, let me just say as
the parent of three public school children, involved
parenting is certainly something that can make an
everseous difference. But the truth is that you also
need innovation. We need innovation in our schools.
The education system is one of the few very large
sectors of our industry—or of our economy as an industry that has yet to be revolutionized despite the availability of technology which would allow for more extrinsic motivation. Students who could pick up . . .

MS. ROBERTS: Use your microphone, please.

GOVERNOR SWIFT: Students who could pick up this iPhone, 9-year-olds, and make it work in the first 30 seconds are being taught and lectured to by and large in our classrooms. Most of the public school students in our country are home today or in some other activity that isn't learning based because we're following an agrarian calendar.

My three daughters live on a farm but they're not doing any farm work this summer, and they're in a very small minority.

MS. ROBERTS: You need to fix that.

GOVERNOR SWIFT: So I think that we need to embrace innovation. We need to make sure that the structures that we set up help parents who are involved and who are trying to drive toward excellence, but also I think we need to be bolder in
our vision of what it is our children can achieve.

We talk about high expectations, but I'm not sure our entire country is completely clear what that means in math and what that means in science, and I think we need to do a better job articulating what they're going to be competing against in order to get good jobs.

GOVERNOR CULVER: Cokie, let me jump in here. This is Governor Culver back here.

MS. ROBERTS: There you are.

GOVERNOR CULVER: Before I got elected governor, I taught government and . . .

MS. ROBERTS: I actually knew him as a little child.

(Laughter.)

GOVERNOR CULVER: So I was on the front lines as a teacher and a coach prior to getting into public service as a secretary of state and a governor, and I had 150 kids a day coming to my classrooms, six periods a day, three different subjects, and then I'd coach before and after school.

Let's focus for a minute on what we know
works: early childhood education. We just invested $60 million over the next three years in early childhood education in Iowa. As a result of that, this fall we'll have 100 new early childhood education centers all over the state and a hundred more in two more years. 90 percent . . .

MS. ROBERTS: A lot of . . . is that going on in a lot of your states? Can I see a show of hands?

(Show of hands.)

GOVERNOR CULVER: Ninety percent of brain development occurs zero to six. So when they show up on your log, Governor Sununu, if they have early childhood education, they'll . . . we need to teach kids to love to learn. That young person will be ready to go regardless of their background, socioeconomic status, if they have that early start.

The other two things are health care and teacher pay. So that kid also needs to be healthy when they show up for your class. If you give them those two things, a healthy start and an early start in terms of that investment in their education early, these kids will accomplish anything and everything we
ask them to. There's not a doubt in my mind.

GOVERNOR SUNUNU: I don't disagree, but 90 percent of that comes in the home and is stimulated by the parent.

MS. ROBERTS: Governor Voinovich, you had your hand up. Senator Voinovich.

SENATOR VOINOVICH: It's interesting, when I was governor we had the six national goals that we had and the National Governors Association actually judged the states on how they were performing in terms of those national goals. Two of them were every parent should be a child's first teacher, every child should be ready to learn. And the comments about early childhood education are the most relevant that I can think of, because if you don't get them early on you've lost them. By the time they get to school and Title I it's too late.

And I believe--and I've tried to get this done on the national level but they don't get it in Washington; they don't understand that that's where we should be putting our effort as early as possible with--in our state we call it Help Me Grow
of working with those children and their parents
so that those brains are developed and so they are
ready for school and they're not discouraged right
off from the time they get into the school.

MS. ROBERTS: It's the old Jesuit line,
give me a boy before he's seven. And it is the same
idea.

Governor Sanford.

GOVERNOR SANFORD: What I hear are the
words innovation, I hear smaller class size, smaller
school size. It's interesting that the Bill and
Melinda Gates Foundation I think put a couple billion
dollars into their small school initiative, and what
they saw was clear correlation between educational
performance and in fact smaller classroom size—or
schoolroom size or classroom size because anonymity
and education don't go together. I think that the
real question though is how do you get there and this
is most controversial, and a lot of people hate this
idea but the reality is that monopolies don't
innovate.

And in answering your question, Cokie, I
think that one of the fundamental problems over the
last 25 years has been that we in essence have a
monopolistic educational system and that's why I've
come, and a number of other folks have become, such
proponents of this larger notion of school choice,
because this industrial mindset that says big school,
lots of widgets, keep production moving does not fit
with the innovation that you've seen. And again, a
couple of different people have alluded to it, in
every other marketplace of American society or human
society.

And so I think this larger notion of
choices where you have empowered parents--which
causes them to be that much more vested and that much
more concerned about what's happening in their local
school--making choices in what school fits for them
I think is an important part of the solution.

Because God makes every child different, they learn
differently, they have different backgrounds,
different aptitudes and having an empowered parent
acting as a consumer I think is going to be a big
part of the solution.
GOVERNOR BALDACCI: First of all, let me just say that I want to just recognize that parents are important. You can't teach somebody at school to brush their teeth if they don't practice it at home. But a lot of those homes are broken homes, they're not even single heads of households, and those kids are roaming the street. They're not the families that we grew up with, and it's a different world. But we also know the research shows that those kids with higher education are going to get higher incomes and we know that's going to be a benefit to everybody else.

What we did in our state is we have two initiatives: one is that we're working with the Doris Buffet Foundation on Educare centers at the early childhood level to get best practices at the early level. The other is we have a benefactor, Harold Alfond, who dedicated to every child born in Maine $500 for an education account so that the parents would be getting the involvement at a very early stage about their child's future and their child's education to be able to get that financial
literacy and information into the home and to have them begin thinking about it and the state matches it on a small level. It's a small way of starting early on to get parents thinking about it.

But if you don't have parents and parents advisory groups and a school system that's willing and open to parents, I don't think it's going to be successful. So I think it has to continue to bridge the gap between those who are fragmented and without parents and grandparents like we all were, at the same time to recognize that we've got to bring down the walls from the resistance of not having them involved in the classroom, because that really is where all the learning is going to take place: teacher, student, principal, parents involvement, right there is the most important part of it.

And that's the economy of the future, the associate degrees, the degrees that are recognizing that the better they do--we studied economic indicators and the two leading economic indicators for raising people's income were the level of education of the population over 18 and the amount
that we invested in research and development per
worker equaled higher per capital incomes. And I
think we've got to do it, and we've got to work at
it. And we don't necessarily have all the tools, is
what Governor Manchin was saying, and sometimes to
galvanize our states to say okay, I'm going to take
responsibility; I'm getting the blame anyway, as
Governor Manchin says, might as well take the
responsibility and get something done.

MS. ROBERTS: I want to take a little
hiatus here, because your staff at the NGA has
devised a polling question here that they want you to
answer because it's going to take a little while to
get the answer, and then I want to come back to the
conversation.

The question is who is most important in
helping you reform the education system in your
state, the chief state school officer, the business
community, the higher education leadership or the
teachers' union? And I think you have little
"gizmos," to use the formal term. So you're supposed
to punch a button and we will give you the answers to
this later.

But Governor Baldacci raised that question of research and development and, of course, in addition we've been focusing on elementary education because that is the place that seems to have the most need, but what about at the university level, the research and development at the university level?

VOICE: I don't think you can look at education as one component, I think it's a seamless thing from preschool to the end of life and everything in between; it is higher education; it's the community colleges; it's the four-year colleges; it's the research universities; it's workforce development; it's--now in today's world it's job training and retraining because, as we've seen over and over, people are going to change jobs 3.5=4 times in their lifetime; whereas, in the past they stuck with the same job throughout their professional career.

But when you're talking about education, you can't isolate one component of it to the exclusion of the other unless you're willing to
sacrifice the total program and that's not realistic.

We were talking--the senator was just talking a minute ago, and Chet was talking earlier, about preschool. Our immediate reaction to preschool is how much better prepared youngsters are through preschool, and I think all of us have done it, we just did it with $111 million annually and probably were written up for leading the nation now in resources devoted to preschool, the proliferation and the quality of preschool education. But it not only helps the obvious, those children who would have otherwise started so far behind that inevitably sometimes they stay behind. What we need to also recognize and what's so important and needs to be told to the parents who really do care, whose kids did not need the preschool, that it's a good investment for their kids because now the whole class can move at a faster pace; the teacher's not spending 50, 60, 70 percent of his or her time trying to catch 50 or 60 percent of the class up to grade level at kindergarten or
first or second.

And it's all cumulative from there, the entire product can move at a faster pace when you're elevating those who were economically behind or didn't have a family that worked with them at home or don't have parents that care, and you have to find all these children where they are; and if you're right, governor, you have to have parents that care, that's the key single ingredient.

But to start from where we are rather than from where we want to be, you've got to recognize that you've got a whole cadre of kids out there who aren't in that situation. So we can't ignore them. And as a result of that, all of things that have been talked about and then some have to be included in this equation, you can't isolate one to the exclusion of the other.

I wanted to say something a while ago about the Kip School. The delta is today's Appalachia. Governor Barbour can tell you, certainly Governor Jindal down in Louisiana can tell you, I can tell you, Bredesen in Tennessee can tell you that the
poverty that exists along the Mississippi delta that
generates and creates that inequality that the
President was talking about is never more manifest in
a larger, I think, section or area than is reflected
in the delta.

There is a Kip School in the delta that I
could spend five minutes with you and blow you away
about what kids are doing now that nobody gave them a
chance to do, most of whom had parents who didn't
care, and it is beyond anybody's expectations about
what's actually going on in that school. That's not
the whole answer, it's not the only answer, it's
merely one component of the answer. But all of these
ideas together and the entire spectrum together are
things we need to focus on, there's no one magic
bullet.

MS. ROBERTS: Governor Englash.

GOVERNOR ENGLASH: I'll take a moment to
set up just a couple of comments because I work with
manufacturers all across the country, and I think what
manufacturing in America would be like if we ran it
like the school systems were. We spend $550 billion-
plus as a nation, so I look at education as a problem
that in many ways is funded and so it's easier to
resolve than some of the problems that aren't funded.
We've got a lot of those that we're trying to deal
with.
I also think, a bit provocatively, that
we've solved every education problem that we have in
America, somewhere. We just heard an example of a
school. We've got schools all over America that work
with very difficult . . .
MS. ROBERTS: That was kind of my point in
the first place. We've known the problems and we've
known the solutions; so why are we still here?
GOVERNOR ENGLASH: Well I'll tell you, I
think that we're here because we've got a lot of
focus that doesn't allow us to replicate the success
stories--that was my reference with manufacturing.
If somebody makes a better widget in manufacturing
down in Mississippi, everybody in the country has got
to go there and figure out how'd they make that
widget, how'd they get the quality up and the price
down, how come they're cornering the market?
In education, if somebody has got a school in the delta that we just heard about that's working, then we say well why don't we do a study, maybe we can come up with a different way to get--if we did the best practices in education everywhere today, regardless of the problem or the population, if we took the best practices we know that work today and implemented those everywhere, we would lift our performance dramatically overnight. But we don't do that.

This is a culture that fights back. And then it's aided and abetted by a lot of well-intended people. Bill Gates is wasting hundreds of millions of dollars in education the way Walter Annenberg wasted his money some years ago. Everybody is trying to invent the new, new thing.

And I would argue that we in the governments can solve this, I think, and Jim Hunt and I were part of this, ACHIEVE was part of this, other governors have been part of it, but we absolutely have to measure things consistently across the states and across the school districts. We've
got kids coming out of broken homes who just got
drafted in the NBA; they figured out that running
fast, shooting well, rebounding gets you to the NBA,
you know, they figured that out.
And the military is teaching kids,
manufacturing is teaching kids, these kids can learn,
but we've got to do the best practices everywhere and
we've got to measure, and we ought to measure it all,
and I think that's what Gates and others ought to do
is spend the money standing up the transparency. We
need a Sarbanes-Oxley for public education so across
the board we know where the $550 billion is going and
replicate the best programs that we've got out there.
MS. ROBERTS: I want to come back to that
accountability question, but let's take a look at the
answer to the poll. All right. Number two, business
community was the most helpful, followed by the chief
state school officer, then way down the higher
education leadership and, trailing badly, the
teachers union.
So the business community, its role was
certainly seen in higher education particularly in
several of our states. What about in the rest of
education? Governor, you had your hand up back there
for a while.

VOICE: The one point that I wanted to
make early on, and this has been a great
conversation, a lot of technical answers to some of
our pressing problems. But the one thing that's been
lost I think in this entire discussion so far and one
that amazes me with kids at every level of education
--I mean, I'm a dad first and foremost, aside from
being a governor--is the role of the teacher in the
classroom.

We have failed fundamentally to put the
teacher on a pedestal where they belong. Now my
grandfather was a teacher; he was a music teacher in
high school. He was not a teacher, he was an
educator, and that meant something. That was the
apogee of society when you were an educator. And in
today's world we have so much clutter in the
classroom, we have teachers who have to be parents
and referees and problem solvers and then you look at
the testing requirements that we impose today in the
average classroom and it is amazing that we have any
teachers left who actually want to teach.

So I saw something that was quite amazing
living in Singapore, where we had our kids in local
schools there. In Singapore, they respect the
teachers. They pay them almost what they're worth.

Now, you ask me what they're worth, I don't know what
they're worth because it's somewhere way beyond my
ability to deliver as governor. But we somehow, some
way, need to get back to putting fundamentally
teachers back on a pedestal, and that's part
communities embracing our teachers, it's part our
higher ed programs refortifying our education
programs so we turn more and better and the top third
of the class out to become teachers as opposed to the
bottom third.

And if we're going to take what Chet
mentioned seriously, and I totally agree with this,
early childhood cognitive development. I mean, I had
one daughter in full-day kindergarten versus sons in
half-day kindergarten . . .

MS. ROBERTS: But that's girl versus boy.
(Laughter.)

VOICE: She would tell you the same thing, by the way.

MS. ROBERTS: I'm sure she would.

VOICE: You know, how do you get lifelong learners in society, which has tremendous implications for higher ed? You've got to somehow teach our kids, give them a love for learning. And that love for learning comes in those early years, Chet, that you talked about. How do you give those kids a love for learning? I tried my best as a parent reading after hours, but it's the teacher that inspires that child somewhere along the way, gives them a love for learning which ignites that passion within and off they go, and they actually do pretty well.

MS. ROBERTS: Governor Kempthorne -- Secretary Kempthorne, right next to him, your hand has been up.

SECRETARY KEMPTHORNE: Cokie, thanks very much.

With regard to this early learning, and
we've talked and touched on the families, but there are programs such as Parents As Teachers that are strictly voluntary. There are a number of wonderful young parents, maybe the only parent, they want to be good but they don't know how to do it. You tell them, well just read to your child. Guess what, they can't read. And so these voluntary programs can have a tremendous positive impact. We must not overlook that.

The other thing I would say, Cokie, is when you look at your polling data, any one of those groups, if they are a holdout, the whole system will fail, any one of those that we just voted upon.

A couple years ago I was asked to be the commencement speaker at a wonderful graduation, and I invited all the university and college presidents to go with me and a couple of the leading school superintendents. I didn't tell them where I was going. We just put them in the vehicles, left the statehouse . . .

MS. ROBERTS: Kidnapped them.

SECRETARY KEMPTHORNE: And we went to one
of our maximum security prisons, because I'd really
put an emphasis on helping the prisoners to get an
education.

MS. ROBERTS: I bet that got their
attention.

SECRETARY KEMPTHORNE: Well it did, thank
goodness. None of them had ever been there before.

(Laughter.)

MS. ROBERTS: Not true in every state.

SECRETARY KEMPTHORNE: Right. But I took
them, after the commencement speech--which was a
great speech--but then I took them up to one of the
cellblocks, to the control tower, and I said the
reason I brought you is this, you always wonder at
the state of the state if the governor has been good
to education. That shouldn't be the question. Any
governor is going to be good to education. The
reality is what are the other absolute critical
needs. And if we don't do a better job and if
educators don't do a better job of keeping children
in school--that's the competition. I'd rather
build a gymnasium in the schools than in the prison
because of the totally inflated cost of doing it at the prison. So any one of those components have to work together.

The other thing I would just add is that when President Clinton talked about Type II diabetes and that it's happening now in six-year-old children, little children are being diagnosed with high blood pressure . . .

MS. ROBERTS: Well we're going to talk about that in the next session, in the health care session.

SECRETARY KEMPTHORNE: But here's my point: I think too often we are separating those two; it's one plenary in education, one plenary on health care. It is the same. We need to put physical education back in the schools so that these children can once again have a healthy start.

MS. ROBERTS: I want to ask one more question on higher education and, Governor Barbour, I'm going to put this to you. What we're seeing now with the economy in trouble is higher tuition for a lot of the state schools, making it even harder for
people to go to college rather than easier for people at a time when we want to make it easier for them to go. And even community colleges, for some people, are out of reach.

What do you do--and you've talked earlier about balancing your budgets and all of that--how do you balance your budget and make sure that these kids can get higher education?

GOVERNOR BARBOUR: It's interesting, Cokie. In my first four years as governor, we had record increases in funding for higher education. And that four years was the biggest increase in funding in any four-year period in the history of the state. They raised tuition every year. They've raised tuition 10 years out of the last 11, to the point today where, like in my state, the percentage of the money put up by the state through appropriated funds for higher education continues to decline as a percentage of the total cost. Having said that, we have record enrollment in our universities, we have record enrollment in our community colleges.

MS. ROBERTS: And what's that do--do
you have support?

GOVERNOR BARBOUR: You do have a genuine concern that debt, that people come out of college with too much debt. But I'll tell you, Mike Beebe's predecessor and I spoke in Memphis a few years ago and he said something very profound and that I've never forgotten. It's one reason, Mike, that I'm so interested in workforce development and job training.

He said 25 years ago in Arkansas a third as many high school graduates started college as that year, so the number of Arkansas high school graduates going to college tripled in 25 years, and the number that graduated was the same as 25 years. That's one of the reasons that I'm so focused on our community colleges, our workforce development, and I was tickled to hear Governor Beebe say we've got to not think about education as just K through 12 or just early childhood as K through 12. In my state, at least, lifelong learning is a huge thing.

MS. ROBERTS: We are about out of time on this segment but I wanted to ask you before we finish about President Clinton's idea, because he said for
you as an organization--and I think that certainly
includes the former governors--if it's possible for
you to come up with an accountability idea, something
that makes No Child Left Behind continue to work for
the schools that are failing the worst but not hurt,
in his words--I'm quoting--the other schools.
Is that possible? Is it possible for an
organization like the National Governors Association
to come up with some standards of accountability that
really can be used around the country? Could I see a
show of hands there?

(Show of hands.)

MS. ROBERTS: Yes, yes. So maybe that's
a good challenge to go away from this centennial
meeting with, because it really is an enormous issue
facing the country and our future. So I will pick up
where President Clinton left off there--something I
don't commonly do . . .

(Laughter.)

MS. ROBERTS: . . . and leave that on your table
as we move on to the issue of health care, something
else that I know is very, very important in all of
your states, and we will start this again with a
video. Because we have so much that the states have
to do in terms of health care and particularly in
dealing with Medicaid, which has been a tremendous
problem for the states, but also as we have not had a
national health debate over the last few years, at
least in the halls of Congress as opposed to on the
campaign trail. We have seen the states picking up
the slack and creating their own health care
programs. So let's take a look at this video and
then we'll move on to the subject of health care.

(Video shown.)

"Everybody should have health care.
People need it. I've got insurance through my
company, but still I've got to pay a lot of money,
even though I have insurance, it is very expensive.
The health insurance companies just make more, the
doctors charge more and everything gets passed back
to us, the people who have to buy the health
insurance.

"The majority of people who say that
they're concerned about the cost of health care are
worried about what they pay, not what society pays.

On the other side, people just say it's terrible what's happening, the uninsured people in this country is a disgrace; we have two classes of care, every election should be about getting those 47 million covered.

"The federal government should help out with a universal health care. It works for so many other countries in the world. I think the federal needs to take on that, you know what I'm saying, because that's a very big issue, because you've got a lot of people that's sick and, you know, and die but they just don't have the proper insurance where they can get taken care of.

"Health care has become a highly polarized issue between the political parties. Both sides are so far apart, not only the extent of the problem but the nature of the solution. If you try to tackle the whole system at once, you'll guarantee so many forces opposing you that it's not going to work.

"The federal government is going to be too divided until they have a clear plan, I think that
the best way is to see what works in the states first. States have to lead the way on things like that.

"Washington has become an extraordinarily difficult town to be creative in. The bureaucracy, the in-fighting, the big institutions, all of them slow down the rate of innovation. Governors are likely to be more successful about doing something substantial about fixing health care than in Washington because the political divisions in their state are not as great.

"I would say to the governors look at the places that are working, pick specific breakthrough areas that you think you can communicate clearly to the people of your state that will improve the quality of their life while lowering the cost, and at the heart of that has to be transparency.

"A governor that has, in my mind, very good political skills can take a very serious problem and find some compromise that fits their state and really addresses that and get huge national recognition."
MS. ROBERTS: So Governor Rendell, did you notice that they put your picture over the line of a governor with good political skills? This is what we call in television say cow, see cow. Good political skills.

What about this question of the states leading the way on health care? Governor Vilsack, have you seen that? Is that something that you think will force the Congress to act or are we going to have 50 state health care plans?

GOVERNOR VILSACK: Well, Cokie, I'm proud to be from the state that is number one in insurance coverage of children and number one is insurance coverage overall and number two in quality and number six in low cost and I think it's a result of a lot of things the state has done. Secretary Leavitt was working with our state to create some flexibilities that made it easy for us to get insurance coverage.

I would just simply suggest this one thing that states could do. The Commonwealth Fund has done a 50 state evaluation of health care systems for each
state and they've identified 37 quality indicators.

And if every state simply worked to be best in class,
to get to where the best in class currently is,
hundreds of billions of dollars could be saved in the
current system and redirected to expand access to
coverage, to improve coverage, to provide additional
benefits.

I think part of the problem in health care
is the focus has been on uninsured populations, as
important as that is, and not on the cost side, and
the cost side I think is quality. There has to be an
emphasis on quality.

MS. ROBERTS: Secretary Leavitt.

SECRETARY LEAVITT: I don't believe I have
ever felt more passionately, after 11 years as
governor and now nearly four as secretary of health,
that the states can and should and will solve this
problem if they are given the tools and a deadline.

I think it's important to remember that there are two
problems, as has been pointed out: cost and
insurance, I think insurance will be far more
solvable by states than the cost will, but they're
related. If in fact the federal government would fix
the tax inequity that is blatant to both parties, if
the federal government would establish broad
guidelines for states to operate within, if the
federal government would give states an imperative
and give states a deadline, I believe states would
step up and we would see innovation and we would see
every American insured in a reasonably short period
of time.

MS. ROBERTS: Governor Dukakis, I see you
shaking your head no.

GOVERNOR DUKAKIS: But the states are
never going to do this. I'm sorry, I was there the
first time in 1975, we've been talking about this
thing as long as I can remember and, Mr. Secretary,
with all due respect, it isn't going to happen. It
isn't going to happen.

My state is now heralded as the latest
word, believe me, we're struggling. States cannot be
the insurer of last resort. We're going to go
bankrupt. We're never going to fund this thing
without fundamental changes that I don't see
happening. So I don't buy it. And I'm the guy that
signed the Universal Health Care bill in 1988, which
I've got my success and everything and it got screwed
up and we never got it. So it's got to be solved
nationally.

You know, I've been on Medicare for nine
years. It's terrific. It works extremely well for
those of us fortunate enough to be 65 or older and
it's the most popular social program in the country.

So why don't we provide it for everybody everywhere,
or is that just too simple.

SECRETARY LEAVITT: I would just say it is
a popular program, but Medicare is going to be broke
in 2019 and it's the most profound problem we have in
America that isn't giving enough.

And I want to be clear: I believe there
is a profound role for the federal government in
solving this problem. But it isn't in owning the
system, it's in organizing the system. And part of
organizing the system is to give states the tools
they need and let them innovate against broad
standards, and I said something very important that
I'm not sure was picked up on and it is states will need a deadline.

MS. ROBERTS: I heard you say that, and I'm curious what the sitting governors think about that.

With the deadline . . . go ahead, Governor Carcieri.

GOVERNOR CARCIERI: One of the fascinating things about this whole health care debate is, I think, we descend often into what I call the who-pays debate. In other words, the issue is we want to shift the costs from the employee to the employer to the state to the governors or to the federal government. When the real fundamental issue--at the end of the day if you do that sooner or later we're all going to pay and we're going to pay more.

I think the real issue, and this is the tough thing, and the secretary and I have talked about this, is it's a case of the inflation rate of health care costs. That's what's burdening all of us.

And when I talk with our Canadian premiers each year--we had a session a year ago--and I said listen, all of us Americans think you Canadians have got this problem solved. What are you doing? Well
they all put their heads down, shook their heads and said the worst problem we got. And what they meant, they put it in their provincial budgets and it's consuming more and more of their provincial budgets. So the real issue is how do you get the inflation rate of health care costs more into a line with what's happening with our citizens' pay increases year over year. And I think that is the hard work and it goes to some of the things we've mentioned, but in our state--and President Clinton talked about this--but the whole wellness issue. We as individuals have to take more responsibility for our own health care. We need to incentivize that in our people. We don't do that right now. You can be doing everything perfectly, Cokie, I can be doing everything wrong. Not that I am. You and I are paying exactly the same thing for our health care. And we know, all the physicians will tell us, there are certain things that we know will provide better health outcomes. So clearly wellness needs to be built into the whole model of what we incentivize from the insurers' standpoint.
We're doing that. Rhode Island, I'm happy to say, was designed as the first well state in the nation two years ago, and we've got a healthy weight campaign.

The other part is efficiency but the key part, and I know that there are several governors working on this, and we are pushing very hard on, health information technology, electronic health records. If you look at what's made U.S. industry prosper, if you will, for the last two decades, it's been built on the back of productivity, which is getting more out of what we're spending. And when you look at the health care system, if we can even call it a system, we are not driving productivity through that system, we are not capitalizing on electronics. And all the data says and I talk to physician who say that the duplication of diagnostic tests, et cetera, and on and on and on is because they don't have the information.

So there are specific things that we can do. We're pushing very hard on a center that will clear all of the health records for every individual
in the state accessible by physicians and hospital networks wherever they are. So I'm dis-emphasizing.

We need to go after how do we take cost out of the system, because at the end of the day we've got to get its inflation rate down to something that our citizens can afford to bear.

MS. ROBERTS: Governor Rendell, as you answer, could you also address this question of a deadline?

GOVERNOR RENDELL: Well I think a deadline is important, but a deadline has to be realistic.

First of all, getting cost out of the system is going to take some time. We've got to change, as Governor Carcieri said, the whole mindset of the system. The system should be paid for performance, not for how many times you go to the doctor or how many pieces of medication you take. It has to be performance based, number one.

Number two, there's low-hanging fruit:

hospital-acquired infections in Pennsylvania in 2006 cost the system $3.5 billion passed on to all the ratepayers and to the State of Pennsylvania, and get
the VA Hospital in Pittsburgh has reduced, just by a simple protocol, has reduced MRSA, the most prevalent of those infections, by over 50 percent. That ought to be a protocol that we're applying nationwide, as well as in Pennsylvania. We just passed a good hospital-acquired infection act.

Chronic diseases: 20 percent of the patients cost us 80 percent of the cost in the system through chronic diseases. And yet there's a method, it's called the Wagner method, for treating chronic diseases that dramatically reduces the incidents of people with chronic diseases going into hospitals. You manage the disease. You don't just wait, the doctor sees you in his office, he tells you you have diabetes, he tells you what tests to take and says good luck, here's a book on diet, good luck. The next time he sees you in the emergency room, you get that disease managed by a nutritionist, who calls every couple of weeks to make sure you're staying or your diet or tries to rework the diet with you. The pharmacist makes sure that if you're taking medication you understand how to take it so people
just don't drop off and give up. There are ways to
cut costs dramatically at every level. Wellness is
an obvious way. Incenting wellness clearly helps
reduce costs.
So we've got to do that but the question
is do we do that on a state-by-state basis, do we do
it nationally, does the NIH give us some incentives,
how do we get that done and accomplished? That's
number one.
And then number two is on cost itself,
Secretary Leavitt has been very good on working on
waivers. We developed a plan in Pennsylvania . . .
MS. ROBERTS: Medicaid waivers.
GOVERNOR RENDELL: . . . to cover all of our
children, it was called Cover All Kids, I signed it
in 2006; that was the bill signing you saw there in
2006. The plan is frustrated by the woeful
performance of the federal government on the
extension of CHIP. Our program was to take CHIP:
CHIP right now is totally subsidized for people 200
percent below poverty who are working who have kids,
we had people above 200 percent buy in at different
levels as their income level raised. Secretary Leavitt allowed us to do it. Boom. Then the CHIP controversy arose. So we've got to control costs but we've got to find a common sense way to fund these, and I think it's a combination of the states and the feds working together.

MS. ROBERTS: Governor Sibelius, would that do it? I mean, you still have these enormous costs in Medicaid and, as Secretary Leavitt said, Medicare is approaching crisis.

GOVERNOR SIBELIUS: Well it strikes me there is a lot in common clearly between the two topics we're talking about. I'm struck by the graph and the choice of the business community as one of the solution points for education.

MS. ROBERTS: We have a more fun poll for you this time.

GOVERNOR SIBELIUS: Well I think the business community is also at the tipping point for health care. I think we're finally going to come up with a solution because of the competitiveness issue and the recognition that we can't keep doing what
we're doing and just pay more for results that get worse every year.

And no question, we need to do a lot of things simultaneously. We keep taking them in bits and pieces, okay, this year or for five years we'll concentrate on uninsured, but we don't change the payment protocol. We still don't have an information infrastructure that was promised years ago. We had an Office of Information Technology at the federal level. The only thing that's been done at the federal level is that office was disbanded four years later with no real investment in the technology infrastructure that we need. So I think both in education and in health care we know what works. We're doing it in pockets and pieces, I think that the challenge is taking it to scale and doing it across the board simultaneously.

No question that the wellness pieces are in some ways the lowest-hanging fruit. They don't really cost anything to implement, and they could be across the board.

The other thing that needs to be flipped
in both education and health care is the payment system. If birth to three are the most important learning years, those are the educators we pay the least. If preventive and wellness care are the most important health exercises, those are the doctors we pay least. Somehow we've got to flip both of those so that we're paying really for what we want to achieve in results.

MS. ROBERTS: Governor Douglas, again, I'm hearing these pockets here there, everywhere, would a national program help?

GOVERNOR DOUGLAS: Well certainly a national program would help, but I don't think we can rely on federal action, and so there's a lot of things that we can do and have been doing, as my colleagues have noted, at the state level. The American Health Foundation recently said Vermont's the healthiest State in America . . .

MS. ROBERTS: Oh, several of you are the healthiest states . . .

(Laughter.)

GOVERNOR DOUGLAS: I've got evidence that
shows we're the healthiest state. I've got my 
pedometer on, I assume all my colleagues are wearing 
theirs, because it's important to show some 
leadership and to pursue the fitness and nutrition 
initiatives that are going to bring down the cost of 
chronic disease in the long run.

But thanks to Secretary Leavitt's waivers, 
we've reduced our spending in long-term care for 
older and disabled Vermonters by millions of dollars 
by keeping more of them at home and reducing the cost 
of institutionalization. Because of the Medicaid 
waiver, we've seen a reduction in the number of 
visits to doctors' offices and hospital emergency 
rooms by our Medicaid population because we have 
permission to use our dollars on preventive 
strategies instead of just after-the-fact care.

Like Governor Carcieri, we're going to put 
some software in the primary care doctors' offices, 
we call it DocSite, so that they have information 
they need to develop electronic medical records.

There are a lot of things that states can do and are 
doing, and I think we need to continue that kind of
leadership at the state level to really make a
difference for the populations of our state.

MS. ROBERTS: Governor Manchin.

GOVERNOR MANCHIN: Basically, you know, as

I evaluate the health care, it's one of the few
services in America that we don't shop. We don't
know what our bills are. I've never gotten a bill in
my life that I ever understood from health care. And
I said that basically if you have any form of
insurance, all you care is what the bottom line is,
what's the co-pay. If you don't have insurance, you
really don't care because you're not going to pay it
anyway. And you're worried about someone else if
it's Medicaid.

So I said if we could just mandate on a
national level a unified billing, simplified unified
billing stating that when you leave a procedure they
must produce a bill. How can they give us the excuse
that they can't put that together.

I asked a bunch of doctors one time and a
bunch of providers and hospitals, they tell me, oh,
it's impossible, you know, we have lab work here and
we have all this different specialty going on, so
everyone bills separately. I said well who built
this building for you? Well, we had electricians, we
had masonry, we had carpenters. Did they give you a
bill at the end? Yes. Did you know what you were
going to pay? That's all I'm asking for.
And then we were trying to even implement
something to--where we have a high utilization of
Medicaid, as you know--and with that give them an
incentive. If they find an overbilling or a
mis-billing, give them 10 percent reward. Watch how
quick you'll take the waste out of the system.

MS. ROBERTS: Governor Simms.
GOVERNOR SIMMS: I'd just like to
piggyback on the governor's comments in terms of
consumer direction and how important it is. I'd say
I guess two unrelated thoughts: one is the idea of
looking to Washington, D.C., from the standpoint of
fiscally viable or sustainable systems is probably a
dangerous spot to look given the history there and
given the fact that, as was mentioned this morning,
David Walker and Pete Peterson and a number of others
are really making a push to try and raise the very
points that Senator Voinovich was raising earlier
about the unsustainability of the federal system.
So I think that the answer, one, has to be
outside of Washington and at the state level, and I
think that you really have to let a thousand
different flowers bloom and one of us is going to get
it right. Again, the secretary has been kind enough
to offer us waivers as well. We're the second state
in the nation to offer health savings accounts to all
state workers and all state retirees, and we tried a
mirror program at the federal level on the Medicaid
system.
And what was interesting is my wife,
Ginny, went in with one of the kids to try and get
something done and, because we were on the HSA
program at the state worker level, she couldn't get
the bill that you're alluding to and it is really
problematic, if you can't get a bill to determine
what is the cost of the product, to ever control
inflation.
MS. ROBERTS: Well is that something you
can do as governors? Governor Minner, you've had
your hand up.

GOVERNOR MINNER: We've started a program
in Delaware. When I took office, we had the highest
incidence and the highest death rate in cancer, and
we have . . .

MS. ROBERTS: So you weren't the healthiest
state?

GOVERNOR MINNER: No, we weren't. But I'm
happy to say we're much better now.

But what we did was start with free
screening, screening for life. And I told everybody
it's much cheaper to pay for the screening and taking
care of a person before they get seriously ill,
rather than waiting until they're seriously ill and
it's hundreds of thousands of dollars for their care.
We have moved our numbers in Delaware. We now are
going down in incident rate four times the national
average and our death rate has gone down twice the
national average. Because what we did is say to
those people who did not have insurance, if you go for
the screening for life we will pay as a state for two
years' treatment, and we have saved people that
expensive problem and lost time and everything else
that goes with it because we've caught the problem
while it's early.

MS. ROBERTS: And has that cost the state a
great deal of money in the screening?

GOVERNOR MINNER: Not in comparison to
what it would cost if we waited until everybody was
really ill and it was $200- or $300,000. We've
actually taken the money for the cancer care program
out of our tobacco funds, so I can honestly say to
the taxpayers it's not your tax dollars, it's the
tobacco fund tax dollars that we have used for cancer
care.

We've also done healthy rewards for our
state employees, and that was successful, and now
we're in a program, because we've advanced through
it, to DelaWELL, and we actually have even started
for our state employees a program for Weight Watchers
and they don't have to pay for that, we do it, but
they're walking during their lunch hour or their 15-
minute or 10-minute break.
We've worked very hard, of course, on the smoking problem. I just recently got the numbers, 25,000 people in Delaware have been through our smoking cessation program, and it's working as well. I think you have to concentrate on one thing at a time rather than trying to do it all, and once you prove to the citizens that you really are making a difference, then they become more enthused about it. We now have walking clubs at churches and at civic organizations and other things simply because the state employees see how much better they're feeling. The total concept of it now has picked up in the business community, because they see less lost time for their employees as well, which means their businesses aren't interrupted but continue. And so it isn't just . . . you know, you've got to start somewhere, and you've got to prove that you can make a difference. We have made a difference in cancer in Delaware. People understand that they need to take care of themselves early, screening for life helps with that.
MS. ROBERTS: Governor Pawlenty.

It sounds to me like you all are all sort of doing something interesting here that is designed to . . . at prevention and at cutting costs. I mean, is that something that we're picking up in every state, is that the case?

Go ahead.

GOVERNOR PAWLENTY: I think that's true.

I wanted to address your question about a simplified or more transparent billing. But first I want to also say Minnesota was the healthiest and is the healthiest state in the nation.

I will admit that Vermont one year in one study beat us. One year on one study.

(Laughter.)

GOVERNOR PAWLENTY: And we have since retaken them on that same state.

MS. ROBERTS: I'm from Louisiana. We never claim that.

(Laughter.)

MS. ROBERTS: Fun, yes. Healthy, not so much.
GOVERNOR PAWLENTY: But on the issue of consumer empowerment and transparency and simplicity in billing, if we said on behalf of the NGA to the audience: Go home. On your way home purchase any TV that you'd like without regard to price or other characteristics and we'll pay for it, how many of you would show back up at your hotel room tonight with a 12-inch black and white.

(Laughter.)

GOVERNOR PAWLENTY: Not many. Part of the problem, and it is only one part of the problem, with our health care system is all of us get to go consume goods and services, with very few exceptions we don't really know what the price is, we don't really have a user-friendly, easy-to-understand quality ranking, and somebody else pays for and manages the transaction, namely, the government, an HMO or an insurance company. In no other walk of life does that system work, and it doesn't really work in health care. So this billing piece, and, again, only one piece, is very important.

And my friend John Huntsman in Utah has an
interesting model that we have adopted in Minnesota dealing with uniform billing. And it's not just simplicity for the consumer. Think about each doctor or clinic or hospital; they have teams of people in the back room, and in our case, trying to figure out different billing codes, different billing requirements, different forms for 15 different insurance companies, 15 different HMOs, and there's a lot of back-room costs associated with this morass which is billing. And I don't think we have to come in with a government system, but I think we could provide incentives or encourage the billers, the payers, to get uniform and coordinated on their billing. They did it in Utah, and I think, John, it's working, isn't it? Well under your leadership and it wasn't working before that. So I think that's a model that people can look at and it will save money.

MS. ROBERTS: Governor Schweitzer.

GOVERNOR SCHWEITZER: All right. This is the way we do it. Just transfer the money that the federal government is spending on Medicare, Indian
Health Services, Veterans Administration, Medicare, CHIP, long-term care, transfer it to each one of our states. We'll have 50 different examples. I will steal ideas from Vermont and Utah, they'll borrow some ideas from Montana and Wyoming, and 10 years from now we will have been able to compare who's getting the best bang for our bucks. Right now we have a bunch of governors talking about . . . well, we can incrementally do this, we can do that, we can beg for forgiveness from Health and Human Services, we can get a waiver, we can go ahead and do some things and hope that they won't catch us.

(Laughter.)

GOVERNOR SCHWEITZER: But ultimately if you want a thousand flowers to bloom, like Mark Sanford said, move the money, give us the responsibility, give us the authority, and you will see the flowers bloom.

VOICE: It's a good thing Montana has a senate finance chair to introduce that legislation.

(Laughter.)
MS. ROBERTS: Yes, it's also the first time Mark Sanford has been compared with Mao.

We will go to Governor Castle.

GOVERNOR CASTLE: Thank you, Cokie.

This is just a small addendum to everything we've heard. And I agree with everything we've heard here. But there are a series of programs out there that we all know about and hear about, the SCHIP program and Medicaid in particular, but also federal community health centers, which we probably all have in our various states and maybe not as much Medicare, maybe local programs. But I'm constantly reading that all of the people who are eligible for these programs are not signed up for them, particularly in the SCHIP program, for instance, even as it exists today regardless of all the confusion about an expansion of it. We just haven't signed up all the kids that should be signed up. And these are pretty high numbers, I mean, they may be 20-, 25- or 30 percent or whatever.

I don't know what methods the various governors are using to do that, but I just think it's
something we should all be aware of, that these

programs exist and we have constituents who are not

well and we need to make sure they're allowed to get

into these programs if at all possible or at least

know about them. I just think it's an important part

of our health care. It won't solve all the problems,

but if it can solve the problems for certain numbers,

it could be important.

MS. ROBERTS: As we come close to finishing

out this very interesting day, your staff at the

National Governors Association has another polling

question for you, this one of a more lighthearted

nature. The last campaign that you had for governor

should have been called: *Survivor, So You Think You

Can Dance, Fear Factor or Lost*. If we could get that

poll up there, please, folks? The number one is

*Survivor*, there you go, *So You Think You Can Dance,

Fear Factor, Lost*. And if you'll just vote, we'll

get the results on that soon.

And while you're thinking about that, I'll

go back to Governor Culver, who has had his hand up

for a minute. And Governor Culver, I want to ask you
this, you know, as a currently sitting Democratic
governor. The whole debate, obviously, at the
presidential level has very different health care
plans presented by the candidates—we're not quite
sure what the Democratic plan will be, but we know
what Senator McCain's plan is—is this something
that's useful to you as a governor? Or, it sounds to
me like you are all coming up with solutions on your
own.

GOVERNOR CULVER: Well it's been said that
it has to involve a partnership if we want to solve
this challenge. And I think it's fair to say right
now there are a lot of problems that need to be
addressed in how we partner.

For example, in Iowa we're actually
penalized for having one of the most efficient
Medicare services in the country in terms of
providing patient care at a low cost, we get
penalized; we're near the very end of the line in
terms of reimbursement rates.

MS. ROBERTS: It sounds to me like you need
to go to Secretary Leavitt for a waiver.
(Laughter.)

GOVERNOR CULVER: Well he has helped on other waivers. But that needs to be completely redone at the federal level. And so what happens is there's a lot of stress and strain on the health care system.

We have nurses, some of the very best nurses in the nation in Iowa, but because we're reimbursed at 49th in the nation for Medicare reimbursement rates, the doctors and nurses have to perform two or three times as many surgeries and things like that to get the revenue that they need to run the hospital and to pay the nurses.

And nurses: We have a looming crisis in terms of a shortage, and we need to take care of those people that are on the front line, we have to pay them what they're worth and we're not, and part of that is because of the reimbursement rate.

So I'm looking forward to working with the next president and with our colleagues in Washington to fix the structure that will allow governors to more effectively take care of the patients' needs,
the nursing needs, the doctors are having their challenges and, most importantly, all of our constituents who are going to depend on these health care services in the future.

MS. ROBERTS: Governor?

GOVERNOR: I'd just like to make one observation that links the two issues that we've spoken about this afternoon, and that is that if we don't get a handle on the health care costs, we're never going to have the resources to invest in the preschool, higher teacher pay, longer school year, and what we may need to do to improve our education system with the demographic realities that the country is facing with the aging of the population. This is a huge challenge and it hits Governors, you know, right where they hurt, in the budget.

MS. ROBERTS: Well, and as Governor Sebelius says, it also hits business. And do you see that as a group as one of the solutions? I see you nodding, Governor Granholm.

GOVERNOR GRANHOLM: Well, you know, manufacturers who are competing against countries who
provide health care, and all those costs are borne by
the employer, it makes them uncompetitive.

It's true, you know, all of us have been
talking about little things that we've been doing in
our states, but I don't think anybody here would say
that they've been able to insure everyone in their
states. And those uninsured people cost the system
even more when they show up at the emergency rooms.
The system is not rational. The fact that we have to
continue to go to Secretary Leavitt for waiver after
waiver tells you that; I mean, that's a deviation
from the system. You're asking, you're begging for
permission to deviate from what the system is.

So the system is not working. It's not
working for all Americans; it's not working for all
of our states, and the question is: is there a more
rational way to do it which allows for us to do
primary care to save costs, to do your technology in
the system in a way that allows us as a nation and
states to be competitive and our employers to be
competitive, too.

MS. ROBERTS: Secretary Leavitt, is that a
question of law or a question of regulation? I mean,
is it something that, you know, you can listen to
this--and, of course, you have been dealing with it
regularly--and you can say actually I might be able
to fix some of that, particularly on the billing
question.

SECRETARY LEAVITT: This is a very good
everyone what was referred to, which I referred
to earlier as a circumstance where the federal
government has used the statutes to be so
prescriptive that it has tied governors' hands.

Many references have been made to waivers.
That's a bad system. It is cumbersome, it's full of
drama, there's some inequity involved in it. It does
provide opportunities for innovation, but the fact
that it exists is a clear indication that we need to
free it up, give people tools, give them a deadline,
give them . . . decide what we're going to have in terms
of resources and let people go to work.

MS. ROBERTS: The thought of HCFA and
drama, I must say, is kind of interesting.
Governor Rell.
GOVERNOR RELL: I've been listening, I think your question early on was do we face a deadline and how would we respond to that. I think if you listen to those that have been speaking today, one of the things you'll find is that we can't wait for a deadline, and we probably wouldn't appreciate it if it came, because we all are working very hard in our own states.

I guess for a few moments I'd like to take a little bit of bragging rights because you talk about getting the information out to make sure, for example, that children are insured. We have 97 percent of our children are insured, either through private insurance, through parents' employers, or under our HUSKY plan. But we've done an outreach program, I think when I first started this--we actually sign up newborns in the hospital and we will pay--if they don't have health insurance, we will pay the first four months of the premium trying to encourage families to go ahead and sign them up. It has been very successful.

We now are doing something in the school
system so that every year--you know how many times
you have to fill out those forms as parents, who's
the contact person, where do you work, what's the
telephone number--we have another little check-off
box on there and it says does this child have health
insurance? And if the answer is no, we sign them up
for HUSKY, obviously with the parents' permission.
And in some cases, we will pay for that premium for
the first couple of months trying to get them
enrolled.

On July 1st of this year, we actually
kicked off a program that I devised back in 2006.
It's called the Charter Oak Health Plan. We found
that obviously we can insure children, we have
Medicare for the elderly population, but it was that
age gap between 19 and 65, too old for HUSKY, too
young for Medicare. We had 5,000 calls in the first
four days. These are people that are saying I've
always wanted to have health insurance, I just don't
know where to get it. Granted, it's going to cost us
money because we're going to be doing the premium
assistance, but I'd much rather be paying part of a
premium than paying part of the health care cost of
go to an emergency room or somewhere else. I
believe it will be successful. We can't wait for the
federal government's decision on what they want to
do. We're all acting in our own states.

MS. ROBERTS: Okay. We are now going to
get the results of your poll. All right. The last
campaign for governor should have been called. Let's
see, here we go. Number one, Survivor. Okay. I'm
so interested that 41 percent of you thought it
should be So You Think You Can Dance. And Fear
Factor and Lost only 3 percent. So we have winners
here.

One quick round, very quick round on a
final question, which is the most important thing a
governor can do. What's the most important thing you
can do to leave your state in the best condition that
you can think of? Who wants to tackle that first?

Anybody?

Go ahead.

VOICE: I think when we talk about the
major issues and the areas in which we're going to be
focusing on long term, I think every governor in this room knows that they will all be judged by how they respond in the case of a surprise or an emergency. And so, number one, that's the one thing that we all turn around and we all focus on is: are we prepared for that which is unexpected or that would be considered an emergency within our state. Before and above anything else that we can do strategically, we've got to be able to respond to an emergency.

MS. ROBERTS: Governor?

VOICE: Well I think the most important thing we can do when we leave is people have a respect for state government, in particular, the governor's office. I mean, I think all these other things are extremely important, but the bottom line is the system works and they feel like government is dealing with what they're concerned with.

MS. ROBERTS: Yes, Governor Rendell.

GOVERNOR RENDELL: I think I somewhat alluded to this a little earlier and that is to invest in things that are going to change your state and leave it better 10, 15, 20 years down the road.
I think one of the great failings of American politics is that we're only interested in things that are going to show up while we're still there. No business would ever do that. No business would govern—although actually it's happening in Wall Street a little bit right now—but you shouldn't do it. And we should be doing things right now and we are, like early childhood education, that aren't going to have an impact when we're around but are going to impact. Twenty years from now, I want my state to be in better shape than it is today, significantly better shape.

MS. ROBERTS: Well, I think . . . yes, go ahead, Governor Edwards.

GOVERNOR EDWARDS: I feel privileged, today. In the health care debate, you know, I served before Medicaid, so it was easy. We put our money in education because we didn't have to put it in health care and, of course, now you are all facing the problems of health care pushing aside investment in education.

But I just wish, after listening to the
debate this afternoon and the remarks, that the two presidential candidates should have been here, to listen, not to talk, and to hear what states are doing and to build a relationship that I think is going to be vital if we're going to have a transformative election and a new start at the national level. Health care obviously is going to be one of the most important things to do and I would suggest that whoever is elected president start out on the health care subject by bringing governors together and requesting them to join in. If you implemented all the good ideas I've heard around here today, we'd be a long way down the road toward a better health care system and rationalizing it nationally. I think that's the most important thing a new president can do is to create a new relationship and a new partnership with the governors of this nation.

VOICE: First of all, I'm glad to hear that you and Chet Culver were childhood friends. I had suspected that.

MS. ROBERTS: No, no, no, he was the child.
(Laughter.)

VOICE: I was trying to help.

MS. ROBERTS: I know. I appreciate it.

(Laughter.)

VOICE: Two things. While you're governor,

make as much progress as you can at every level that

you can and when you leave, leave your state as

fiscally sound as you can because budget drives

policy and the next governor needs a good budget to

set good policy.

MS. ROBERTS: Well I think this has been

quite a wonderful day. I have learned a great deal

myself, I'm sure that everybody has from each other,

which is the really sort of salutary part of this

meeting is how you do learn from each other and take

each other's ideas. So Governor Rendell, thank you

for hosting this; Governor Pawlenty, thank you for

having this whole idea of this centennial moment.

As I said at the beginning, we've heard a

lot about Philadelphia and 1787. Of course, the

press wasn't allowed in to that particular

Constitutional convention, which was probably a
good thing. And the women of Philadelphia were
desperate to know what was going on and fortunately
Benjamin Franklin was a big leaker. His daughter,
Sally, had to constantly make him be quiet at the end
of the day.

But when it was finally over and they were
let out of Independence Hall, as we now call it, and
it was so hot in September of 1787, Eliza Powell, one
of the great women of Philadelphia, one of the great
intellects was standing outside the door and she said
to Franklin, what do we have, sir, a republic or a
monarchy? And he said a republic, madam, if you can
keep it. The word "madam" is often left out of that
quotation, but that is the full quotation. So I am
thrilled to see the women of America, aided by the
men, at the state house level keeping the republic.

Thank you all very much for letting me
participate.

(Applause.)

(Whereupon, the National Governors
Association conference was concluded.)