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NATIONAL GOVERNORS ASSOCIATION

WINTER MEETING

SATURDAY, FEBRUARY 25, 2012

JW MARRIOTT

1331 PENNSYLVANIA AVENUE, NORTHWEST

WASHINGTON, DC 20004

Nebraska Governor Dave Heineman,

NGA Chair, Presiding

Delaware Governor Jack Markell,

NGA Vice Chair

Presentation by:

Jim Clifton, CEO Gallup Corporation

Reported by:

CHARLES D. HOFFMAN

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PROCEEDINGS

(11:04 a.m.)

CHAIRMAN HEINEMAN: I call this meeting to order. As NGA Chair, I would like to take this opportunity to welcome you to the 2012 Winter Meeting. May I have a motion to adopt the rules of procedure for the meeting?

SPEAKER: So moved.

CHAIRMAN HEINEMAN: Is there a second?

SPEAKER: Second.

CHAIRMAN HEINEMAN: Thank you. Let me just explain one thing first, before we vote. Part of the rules requires that any governor who wants to submit a new policy or resolution for adoption at this meeting will need $\frac{3}{4}$ ^{ths} vote to suspend the rules to do so. Please submit any proposal in writing to David Quam of the NGA staff, by 5 p.m. tomorrow, February 25th. All in favor of the motion please say aye.

(A chorus of ayes.)

CHAIRMAN HEINEMAN: Opposed?

(No response.)

1 CHAIRMAN HEINEMAN: Motion is adopted.

2 Governors, our Monday session is dedicated to
3 reviewing and adopting new policy statements. We
4 have streamlined our policies and process to more
5 closely align our policy statements with governors'
6 priorities. And I want to say I appreciate the hard
7 work of everyone involved, the governors, your
8 staff, the NGA staff, as we change the direction of
9 how we are establishing our policies.

10 I would like to take a moment to acknowledge
11 some distinguished guests who are here with us
12 today. I want to first recognize our guest from the
13 White House Office of Intergovernmental Affairs.
14 Thank you very much for being here. We also are
15 joined today by delegations from Canada and the head
16 of the Mexican NGA. If both of these delegations
17 would stand so that we could recognize you, please.

18 *(Applause.)*

19 Thank you very much for being here.

20 For all the tough issues states and territories
21 face today, economic growth is one of the most
22 important issues for us to address. Economic growth

23

1 is key to our success as governors. That's why I
2 chose "Growing State Economies" as my Chair's
3 Initiative. It is designed to provide governors and
4 other state policymakers with better policies to
5 improve the economic environment in their states and
6 more strategies designed to foster business growth.
7 We put an emphasis on understanding how a small
8 business becomes a fast-growing firm and what
9 policies support that transformation.

10 High growth businesses are one of the driving
11 forces of the modern global economy. They are the
12 primary source of job creation, prosperity and
13 economic competitiveness. New fast-growing firms
14 often evolve to become large employers. As
15 governors, we want to help the private sector grow,
16 creating new job opportunities for our citizens.

17 Nationwide, firms in their first year of
18 existence add an average of 3 million new jobs per
19 year, according to the Kaufman Foundation. Nearly
20 40 percent of these new startup firms do not
21 survive the first three years. Those that survive,
22 however, prosper and usually create more net jobs

1 then all small startups do. The most important
2 firms that survive are called Gazelles, high growth
3 firms that expand employment by 15 percent or more
4 annually, for five consecutive years. Such firms
5 make up about 5 to 6 percent of all businesses but
6 virtually all new net job creation.

7 For any successful firm, the challenge is to
8 stay ahead, to go from good to great and to do it
9 again and again and again by creating new products
10 or by entering new markets. Firms that remain
11 entrepreneurial do exactly that. These firms drive
12 growth and prosperity and global competitiveness.
13 That's why we are opening the 2012 Winter Meeting
14 with a discussion about economic growth and job
15 creation. My goal for growing state economies is to
16 provide each and every governor with a state profile
17 on their small business and economic environment and
18 to produce action-oriented reports on policy choices
19 that have been shown to generate job growth,
20 entrepreneurial activity and expanded exports.

21 Part of growing state economies is four
22 regional economic summits to provide governors and

1 their senior economic advisers an opportunity to
2 learn from local entrepreneurs, small-business
3 owners, researchers and other experts on what works
4 to create high growth, innovative firms.

5 In October, Governor Malloy [Conn.] hosted a
6 summit in
7 Hartford, Connecticut, and Governor Markell joined
8 us. In November, Governor Haslam [Tenn.] hosted a
9 summit in
10 Nashville, Tennessee, and Governor Barbour [Miss.] and
11 Governor Fallin [Okla.] joined us.

12 Just last month, Governor Gregoire [Wash.] hosted
13 us in
14 Seattle, where Governor Parnell [Alaska] joined us.
15 In
16 April, I will be hosting a meeting in Omaha, and I
17 encourage as many of you who can to attend.

18 Finally, I want to take a moment to thank
19 several organizations that have made important
20 contributions to this initiative: Bank of the West,
21 General Motors, Intel, the National Venture Capital
22 Coalition, and Santa Fe of Venice. This

1 cross-section of private sector support illustrates
2 just how important our work in growing state
3 economies is. We have support from companies
4 engaged in advanced manufacturing to cutting-edge
5

1 information technology, to those who can finance
2 entrepreneurs. I also want to thank the Kaufman
3 Foundation for their financial and intellectual
4 support. We are pleased to have this broad support
5 because it is indicative of our work, that we need a
6 partnership with the business community and others
7 who are committed to job creation, prosperity and
8 economic competitiveness.

9 Now to kick this off, it is my pleasure to
10 introduce a good friend, Gallup Chairman and CEO,
11 Jim Clifton, who says that--and I quote--"What
12 everyone in the world wants is a good job." And in
13 his latest book, *The Coming Jobs War*, he describes
14 how this undeniable fact will affect all leadership
15 decisions as countries wage war to produce the best
16 jobs.

17 Since 1988, Jim has served as CEO of Gallup, a
18 leader in organizational consulting and public
19 opinion research. His most recent innovation, the
20 Gallup World Poll, is designed to give the world's
21 6 billion citizens a voice in virtually all key
22 global issues.

1 Under his leadership, Gallup has expanded from
2 a predominantly US-based company to a worldwide
3 organization with 40 offices in 30 countries and
4 regions.

5 Jim is also the creator of the Gallup Path, a
6 metric-based economic model that establishes the
7 linkage among human nature in the workplace,
8 customer engagement and business outcomes. This
9 model is used in performance management systems in
10 more than 500 companies worldwide. Please welcome
11 Gallup Chairman and CEO, Jim Clifton.

12 *(Applause.)*

13 MR. CLIFTON: Thank you very much Governor
14 Heineman. It's a big highlight for me to be here,
15 and thank you for your partnership.

16 By the way, I don't know if you know this or
17 not, Dave, I was born and raised in Nebraska. Now,
18 I live here in Washington D.C., and I have an office
19 in New York, and I go back and forth. But there's a
20 story that follows all Nebraskans on the East Coast,
21 maybe you've heard it. It's not a joke; it's a
22 story.

23

1 But Nebraska was playing Oklahoma years ago,
2 and we just have these big, knockdown, drag out
3 games, and the game was in Lincoln. The ABC
4 announcer went over and interviewed one of our
5 running backs. I'm not going to say his name. But
6 he was sitting there, and he had his football
7 helmet. A Nebraska football helmet is white, just
8 pure white. Nothing's on it except one big N.

9 I don't know why she asked this question, but
10 she said to him--I'm not going to say his name--
11 "If the N on your helmet didn't stand for Nebraska,
12 what might it stand for?" And he thought, he really
13 wanted to get it right, and finally he said, "I'd
14 have to say knowledge."

15 *(Laughter.)*

16 That one follows you everywhere you go. I just
17 changed some things to perfectly fit the program. I
18 just changed them here now, and I don't know if
19 this speech is going to work perfectly, and I kind
20 of wished I hadn't changed them, but I did.

21 Let me hang some thoughts on you that we have
22 found from our polling, and maybe they'll give you

23

1 some ideas for the really important discussions that
2 you're going to have.

3 So I've had kind of the same job my whole life.
4 Doctor Gallup founded our company, a famous Iowan.
5 That's right, yeah, absolutely. But he was more of
6 an academic than he really was a businessman. He
7 was a pretty dandy little entrepreneur. But anyway,
8 he had a thing, he was real interested in democracy
9 and he had a line where he said, "If democracy is
10 about the will of the people, somebody should go
11 find out what that will is."

12 Now it's real important, all the politicians . .
13 .
14 he didn't say go vote that will. He just said that
15 you ought to know what that will is. Because if you
16 don't know the will is when you're making strategies
17 for your states and for the United States of
18 America; if you have the wrong premises, the more
19 you lead, the worse you make the place. So, his
20 point was let's write that will down.

21 Here's something that you need to know I think
22 for your conference. So, he started this thing 75

1 years ago. If you said to me, looking over those 75

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1 years, what's the single most profound poll you've
2 ever seen? I'll tell you.

3 Dr. Gallup called it the great American dream,
4 he always wanted to write that down. What the great
5 American dream has been for decades has been peace.
6 Maybe that's coming out of Civil War and World War I
7 and World War II. Then it became to have a family,
8 pray to the God that you want freedom and a bunch
9 of stuff like that. That's been the will of
10 America.

11 Here's what you need to know though. Almost
12 nobody knows this; it will sound subtle when I tell
13 it to you. It's just changed. The new will of
14 America is to have a good job. It's a huge
15 sociological shift that changes everything. I'll
16 give you a couple of them.

17 One thing is it changes when you get married.
18 You wait longer, or you don't get married at all.
19 It changes how many kids you have, or maybe you
20 don't have any at all. Here's a big one; it changes
21 migration patterns. We've been walking for about
22 200,000 years following herds or agriculture or

23

1 walking to ports. Now, we walk because of a place
2 where we think we can get a good job.

3 Here's a real important one. It changes who we
4 vote for--more than ever. It also changes for all
5 the people here in corporations. We were just
6 talking about this. It changes how you manage your
7 workplace because now a job is personal, and it
8 defines your relationship with your country, with
9 your state, with your neighborhood, with your family
10 and also with big you.

11 They say, "Well, is that new?" Yeah, that's
12 all new. I always say, if you want to know what it
13 used to be like, when you see a Yankees' baseball
14 game when Babe Ruth hits, then he has that little
15 funny run he does, look in the crowd, those are
16 salaried men. Sorry ladies, but I don't see any
17 women. At that time, it was all salaried men. They
18 all have those black suits on, white shirts.
19 Remember, they all look exactly the same. They all
20 have those same hats on and a black tie. And it
21 looks to me like they're all smoking Pall Mall
22 cigarettes too. But the whole of Yankee Stadium are

23

1 the same people. But that's back when a job wasn't
2 personal. Those were salaried people. So, that's
3 what you need to know. So right now, Gallup tracks
4 nightly unemployment. We show about 20 percent
5 unemployment. You've got underemployed too. You
6 know, if I go over and mow Dave's lawn and he pays
7 me 20 dollars, I worked 1 hour. I'm not unemployed.
8 Did you know that?

9 Maybe I'm an engineer, so I just worked one
10 hour a week; I'm not unemployed. But then, if
11 Gallup says to me, "Jim, are you unemployed?"

12 I'd say, "Hell yes, I'm unemployed. I don't
13 count mowing his lawn for 20 bucks." So, the real
14 unemployment number is about 20 percent. This is
15 what's deadly about it. When we asked the 20
16 percent, "Do you have hope to get a job?" Sixty
17 percent of them say, "I don't have any hope to get a
18 job."

19 It wouldn't have mattered to salaried men.
20 Salaried men don't care, it wasn't personal. But
21 now, it wipes you out, and you experience something
22 that I'm going to call hopelessness. That's a

23

1 brand-new state of mind here in the United States.
2 That gets you 18 million people. What I know about
3 18 million people from my business is that means
4 every single one of us in this room is one degree
5 away from somebody who is hopelessly out of work.

6 And so, if you ask yourself why do we have, why
7 is America in the current state of mind, it could be
8 the relationship we have with those 18 million.
9 That's why this is real important.

10 Now, the reason that there is a book called,
11 *The Coming Jobs Wars*: There's 7 billion people on
12 the face of the Earth and five billion adults. So, we
13 have this world polling book, consistent sampling
14 across 160 countries. That gets you 98 percent of
15 the world's population, and we said, "What's the
16 will of what you're up to in your country?" I'll
17 speed this up.

18 The great American dream is now the will of the
19 whole world. The whole world wants a good job, and
20 a good job we define as 30 plus hours per week and a
21 paycheck and consistent work. So, that's just a
22 good job.

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1 When we asked the world, the adults, how many
2 of them wished they had that, 3 billion of them say,
3 "That's the most important thing in the world to me,
4 is to have a good job." Here's the problem.
5 There's only 1.2 billion good jobs available right
6 now. So, we have a global shortfall of somewhere
7 between a billion, 1.5 and 1.8 billion jobs.

8 So, the problem that you see with jobs going to
9 China or wherever they are, all of that is going to
10 grow multiple times bigger. So as Americans, when
11 we think about our future, about where the jobs are
12 going to be, it's not just China. The whole world
13 is going to be crushing for them. And I'm going to
14 try to stay on subject here, but we've been watching
15 this in the Middle East with our tracking there.

16 So, it looks like Arab Spring to you? Maybe
17 it's Islamic Winter? How about this? How about
18 that's just a jobs war?

19 You know in Egypt they voted for the
20 brotherhood, so the brotherhood came in and made a
21 great big movement to leadership. Guess why they
22 voted for the brotherhood? You think because they

23

1 want Sharia law? That's not what they told us.

2 Remember, they are pretty good business people.
3 They think the brotherhood is more likely to get the
4 economics going better, so they can get jobs. You
5 see, if you don't understand that the will is, you
6 start making all the wrong decisions and wrong
7 assumptions, and you make the Middle East worse
8 because that's not what they're actually going for.
9 But it's everywhere. That's that point.

10 You know these numbers right now. This
11 country's GDP is at about \$15 trillion, right?
12 China's is at what, five? So, we have about three
13 times the GDP that China does. By the way, oddly,
14 when you ask on the Gallup poll to the country,
15 "Who has a bigger economy, China or the US?" Guess
16 what they say? Yeah, they say China. I don't know
17 why. But if China had a bigger GDP than we do right
18 now, this would be a colossal bust. I mean this
19 would be a huge mess. It's kind of a mess right
20 now.

21 I think this is important, but I went through
22 and took a bunch of economists. Not Gallup

23

1 economists, outside economists, threw the outliers
2 out and said, "Where will the US economy be in 30
3 years?" They said that it will go from 15 to 30.
4 So, \$30 trillion of new incoming stuff.

5 Said, where will China be? Does anybody know this
6 number? Between \$60 to \$80 trillion, they wipe us
7 out.

8 We're on a track where they will be the leader
9 of the free world, and I think economics will be
10 more important than military. I mean everybody
11 talks about this, but they'll have plenty of money
12 for military. The problem is the economic might
13 that the United States has had over the years is
14 just incredible.

15 So, another good question is, "Well, what will
16 the GDP of the whole world be?" So, I asked that in
17 there, threw the outliers out. We're going to go
18 from a current \$60 trillion, that's where we are
19 right now. Remember, the United States has 25
20 percent of the whole world's GDP. I mean that's
21 just colossal. There's only 300 million of us.

22 It's going to go from 60 to 200. So, it means
23

1 \$140 trillion new stuff is coming in. So, the god of
2 jobs and customers and everything else is going to
3 rain \$140 trillion of new sales, stocks,
4 money, customers and jobs in the next 30 years.
5 What's our job? What's your job? We've got to get
6 a disproportionate share of it or our relationship
7 with the rest of the world changes more than you can
8 ever imagine. But the way it looks right now is
9 that the Chinese, because they're growing . . .
10 whether you do 8½ percent or 10,
11 whether you do two to three for us, that's what it
12 comes out to. So, unless something big happens,
13 that is coming to a theater near us. And that was
14 one of the reasons why Gallup put all this stuff
15 together.

16 Now, you're kind of quiet and depressed. That
17 was why we did that research. And I'll try to say
18 something hopeful here. But I was watching TV
19 about, a little over 30 years ago and there was a
20 panel of economists. I just turned 60, so I lived
21 through this. But the panel of economists, I'll
22 never forget watching it; it just shocked me. But

1 they all sat there, both left-leaning and
2 right-leaning, good Americans, and they said that
3 Japan and Germany were going to overtake our economy
4 in the next 30 years. That's right now. They said
5 that because of superior manufacturing, Japan would
6 go to first, Germany would go to second, and the
7 United States would go to third. They said Japan
8 would be at about five. They said that Germany
9 would be at about four. And the United States now,
10 can you imagine, that would be about 3.5 or 3.8?
11 It's deja vu all over again. We're in exactly the
12 same place we were. But remember what happened?
13 Nobody saw it coming. I mean, the people that love
14 America, our own economists, said it's over, and we
15 borrowed clear up to \$15 trillion. But can you
16 imagine? I don't know why--I tell MBA classes this
17 --why didn't anybody write about this? Whatever
18 the hell happened right there is what we need back
19 here again. Somebody needs to write that down and
20 say how can we do that? Of course, what happened
21 was we just had an unbelievable run of innovation
22 and entrepreneurship.

1 By the way, if you want a big number, if you
2 add the stubs over 30 years over the projection. Do
3 you see what I mean? So, add the stubs over the
4 regression line of the stubs, that equals \$100
5 trillion. Now, you finally have a big
6 number. That's how much money we had over those 30
7 years by outperforming where we were supposed to be.
8 And that's also how we had this 25 percent of the
9 total GDP of the whole world.

10 I just want to hit on a couple of these points.
11 I don't mean to make them sound reckless, but I
12 think it's important for the good of the order here.
13 I think we're making a very big mistake betting all
14 of our money on innovation. Just consider it.
15 You're all big leaders, just consider that. We have
16 pushed all of the big multicolored chips onto that
17 one a phenomenon of innovation. What if you're
18 wrong? What if we're wrong? I noticed that the
19 President is just packing 150 billion into
20 innovation. Well, I didn't see a line for
21 entrepreneurship. What if we got it exactly
22 backwards? But here's what I want you to consider,

1 and I worked on this research. No special interest
2 groups, nobody else.

3 Innovation has no value whatsoever until there
4 is a customer standing next to it. There isn't a
5 person in this town that knows that. But you see,
6 when we are trying to create jobs and we just keep
7 piling more and more in innovation . . . look what
8 the Saudis are doing. They're building cities of
9 innovation. Have you ever been over there to
10 Riyadh? I mean, you can just see right through
11 them. There's nothing coming out of those things,
12 because the most valuable part of it is the business
13 model and the entrepreneur that can fire it.

14 I'll tell you this real quick, because it's
15 such an unbelievable story. But you know the
16 Internet probably saved this country on that great
17 big run. There are some other things, but that's a
18 huge part of it. But the inventor is Vint Cerf, and
19 he's just walking around here in Washington right
20 now. He built that over at DARPA. I know Vint.
21 He's a friend of mine. He told me this story; I
22 didn't hear it from somebody else.

1 He had it done. A guy came walking over, he
2 had heard about it, and he said "Let me see that
3 thing." Vint showed it to him. Vint didn't even
4 think he had anything. He got packets to fly across
5 fiber optics so he could send . . . he had his own
6 Internet just sitting over there for a few years.

7 A guy came over from the U.S. Senate and said,
8 "Let me see that; he went, "Holy cow, that could
9 be a hell of a thing. Let's throw it out into
10 commerce."

11 Vint Cerf will tell you, he's told me; he said
12 back to that U.S. Senator, "Fine with me, but I
13 don't see what value businesses will have with it."

14 My God, it was a conversation about the
15 Internet. By the way, do you know who the U.S.
16 Senator is? Yeah it was, it was Al Gore. I don't
17 even know him, not a friend. It's a hell of a good
18 thing. He should've gotten a Nobel Prize for that
19 one I think.

20 But see that Internet just sat there until it
21 went out into commerce, then entrepreneurs got a
22 hold of that and probably most of that \$100

23

1 trillion that we had, came out of just that
2 moment. Otherwise, all that innovation just sits
3 there. And I don't know what would happen, maybe we
4 would still be spending more money on innovation.

5 A woman here in town invited me, it was about
6 9:30 in the morning and she said, "Can you come over
7 and give a talk at the Academy of Sciences over on
8 Constitution?"

9 I said, "Yeah."

10 She said, "Today, I need you here in an hour
11 and a half."

12 I said, "Did somebody cancel? What do you want
13 me over here for?"

14 She said, "No, it's the people that had our
15 best labs, NASA and NIH and MIT and that kind of
16 thing."

17 I said, "What do you want me to say?"

18 And she said, "I want you to tell them that you
19 think that innovation's overrated."

20 And I said, "It's not overrated. We've got the
21 wrong expectations for it." But anyway, I went over
22 and talked to them. There was only about 40 of

23

1 them. So, these are the people that run really the
2 biggest labs in the world. Nobody has labs like we
3 do.

4 But I said to them, "Before you start throwing
5 tomatoes at me, how many of you have inventions in
6 your labs that are ready to go and just need
7 commercialized?"

8 Every hand went up. One guy said, "I've got an
9 invention bigger than the Internet. It just needs
10 entrepreneurship." We might have the next big runs.
11 We don't have to chug along at 2½ percent. We might
12 have enough invention. We might
13 have a huge oversupply of invention. That's what I
14 think. But we haven't put the same science to
15 entrepreneurship that we have to innovation.

16 I'm watching my clock here, governor. I want
17 to make just one more point here for you to
18 consider. What the United States is the best in the
19 world at is intellectual development. Now, you hear
20 about we have bad schools and such. Yeah, near the
21 bottom. The top schools are incredible. The
22 *Economist* just printed the best 30 MBA schools in

23

1 the world, 20 of them are in the United States, nine
2 in
3 Europe and one in Canada. None in the Middle East,
4 none in China, none in India, nowhere else. We are
5 masters of intellectual development.

6 If you put 1,000 kids out in front of
7 educational psychologists in this country, they can
8 rank order them 1 to 1,000, with IQs, SAT scores and
9 everybody will agree we really know IQ. And that's
10 how we'll find people, even in lower income, in
11 Mississippi, in Western Nebraska or wherever it is,
12 because they test out. And then what you do is you
13 give them a scholarship to go the University of
14 Nebraska or Chicago and on to MIT or wherever it is.
15 Do you see what I mean? It is so intentional, our
16 intellectual development, that once they graduate
17 from MIT, they go on to NASA. See how we do that?
18 Nobody in the world has mastered intellectual
19 development like the United States of America.

20 But I don't know what the example is; it's a
21 hammer and a nail, when you're a hammer you think
22 everything is a nail, or something like that. So we

1 do that so well, when we are in a big problem like

2

1 we are right now, we spend just billions and
2 billions and billions on innovation. But see if you
3 said to that educational psychologist here is that
4 1,000, here are these 1,000 kids in Phoenix or
5 Austin or somewhere. Let's see you line them up by
6 their ability to create a customer,
7 entrepreneurship, to enterprise.

8 The United States of America fails, flunks. We
9 have no idea it's even an argument. We don't know
10 who the best is. But see if we could do that, then
11 you might rise up and change everything.

12 Here's two ideas I have for you, then I think
13 maybe you'll have some questions. This morning 6
14 million CEOs got up. That's how many businesses
15 there are in America. You'll read 26,000, they're
16 not. But there's a bunch of them on paper that
17 actually have employees, there are 6 million--6
18 million between one employee and 100. Between 100 and
19 500, there's only 80,000. See how fast that drops
20 off? And then between 500 and 10,000, there is only
21 18,000. More than 10,000, boys, there's only 1,000
22 companies. Do you see?

23

1 So, you've got six million companies that are
2 under 100 and only a 100,000 that are bigger than
3 that. So in the ecosystem, we really are a nation
4 of small businesses. When those 6 million small
5 businesses get up, not one of them is thinking about
6 how they can hire an employee. You're all going to
7 see the President, make sure you tell him that.
8 Nobody is trying to hire an employee. They are
9 trying to cut them. By the way, if some of you have
10 run a company with 10 people, hiring one person is
11 like a merger. I mean, it's a huge decision.
12 You've got to talk to your banker and your spouse
13 and everything else. But what everybody is talking
14 about is how they can create a customer.

15 But this is really important. Of the 6
16 million, 75 percent of them aren't even trying to
17 grow. You just have to know that or you'll
18 make mistakes in your engineering. You say, well
19 what are they doing in that business? They do it
20 only for the reason of freedom. They are like
21 coyotes or something. They can't be domesticated.
22 Nobody has ever domesticated a coyote; they never

1 will. That's the way those 6 million CEOs are.

2 They are not trying to grow.

3 So you see, if you put engineering systems in,
4 you put policies in, all the ways that they grow,
5 75 percent of them don't know what you're talking
6 about. They're doing it because they don't want
7 anybody to tell them what to do. Nobody knows that.
8 That's one of the places you find American freedom I
9 think.

10 Those 6 million people, if you get in to what
11 they are thinking about, they are like from outer
12 space. I'm kind of one of them, some of you around
13 here are kind of one of the them too. But only 25
14 percent of them are really trying to become Facebook
15 and Groupon and all of those. But you see, that's
16 1.5 million small businesses.

17 But those are the ones that we have to put some
18 kind of engineering in place and support them,
19 because they will burst. But they could burst, that
20 one and a half million. There is about \$3 trillion
21 of GDP in there. But they could burst up to
22 three times, five times, that of some of the success

23

1 that we're having with an experiment with Dave. But
2 that's the sweet spot in all of this.

3 The last one is we did a survey of 5th- through
4 12th-graders. It's real hard to get a national
5 random on these guys. But we asked, "Will you
6 invent something that changes the world?"

7 Forty-five percent of them said, "I'm going to
8 do that." So it's a real high hope innovation
9 question.

10 The other one is "I will start and run my own
11 business." That's about 45 percent too. So,
12 there's plenty of hope in the 5th- through 12th-
13 graders, but that's where you're going to get
14 startups. Right now, we only have about 400,000
15 companies starting up right now. We need a million.
16 So, the second place where we've got to be is right
17 there.

18 Here is the negative. When we ask them if they
19 are in an internship, only 5 percent of them say
20 they are. If we knocked that 5 percent up to 25 or
21 even 50, then I think we would take over and retake
22 the world.

23

1 I'm going to stop right now. Thank you very
2 much for having me here.

3 *(Applause.)*

4 CHAIRMAN HEINEMAN: Jim has given us
5 plenty to think about, and he also agreed that he
6 would take questions. So whoever wants to, go right
7 ahead. Well first of all, let me say the newest
8 governor has arrived, the Governor of Mississippi,
9 Governor Bryant. Welcome, and you get the first
10 question.

11 GOVERNOR BRYANT: Thank you. Jim, I
12 enjoyed that. Tell me what, if any, your
13 information shows as the biggest impediment to these
14 lone wolves, these entrepreneurs? Because I love
15 these guys. I love being around them. I love
16 talking to them; it's exciting. I think those of us
17 in this business need to be a little bit of an
18 entrepreneur. So, what slows them down, what do
19 they say. "If you just moved that out of the way, I
20 would take off?"

21 MR. CLIFTON: Okay, that's a deadly
22 question, because that's a debate right here. And

23

1 we just did a great big sample, and I even called
2 some of them myself, so I would get a feel for them.
3 Because you sound like you know a lot of them too.
4 They are in a completely different space than the
5 rest of the country.

6 The question is, well, banks won't lend them
7 money. That's what you think. It's not true. When
8 you ask what their biggest burden is, they say this
9 word, regulations. They say regulations. It's not
10 banks. If anybody tells you, because there are some
11 surveys around; they tend to be listed samples. I'm
12 not going to . . . just trust me.

13 And when we say what regulations? The two
14 drill downs are environment and healthcare. Now,
15 some will say, well, they shouldn't be saying that,
16 blah, blah, blah, blah, blah. Here's the real
17 important thing. It's the image that crushes them.

18 So, I look at them as 6 million turtles. They
19 have all got their heads in their shells. The
20 question is what will get them to put their heads
21 out? And I mean that in a complimentary way. I
22 mean turtles can get running pretty fast.

23

1 *(Laughter.)*

2 They have their heads in their shells and won't
3 get them out.

4 GOVERNOR BRYANT: In Mississippi, they'll
5 bite you too.

6 *(Laughter.)*

7 MR. CLIFTON: But it's not really an issue
8 of banking. We say, "How many of you are having
9 trouble getting a loan?" That's about 20 percent.
10 And if you and I have both been small businessmen,
11 you and I have always had trouble getting loans.
12 Twenty percent is about the right number. It
13 shouldn't be zero, because you should be arguing
14 with these guys anyway.

15 But the regulations, but also the image.
16 That's why the messages have to be . . . I'm not
17 going to say the name, but a group of guys, they
18 said, "We're going to give a rebate of 4,000 dollars
19 if they'll hire somebody." Then they start
20 wondering about, "What's that? More rules for me?"
21 Then that makes the turtle draw in. Even if they
22 don't do it, don't even talk about it.

23

1 But then there's something else. They say,
2 "Why don't we have every company just hire one
3 employee?" Six million people aren't going to hire
4 one employee. What does that mean? That little guy
5 in Jackson, Mississippi, is going to hire one and GE
6 hire one, when they are laying off 33,000 or
7 whatever? Don't bring that up because it's a
8 conversation that makes the turtle pull their head
9 in even more.

10 GOVERNOR BRYANT: Thank you.

11 CHAIRMAN HEINEMAN: Governor Herbert [Utah].

12 GOVERNOR HERBERT: Thank you. Kind of
13 along the same line as what's been mentioned with
14 regulations. When you talk about 6 million CEOs who
15 are not trying to expand their businesses, I expect
16 that they are out there trying to be profitable. I
17 think that's the motivation. That's how a free
18 market system works. And as you are profitable, you
19 have opportunities to expand your business and hire
20 more people. Profitability happens in many
21 different ways.

22 To me, it's not only the regulation, but it's

23

1 the uncertainty of the marketplace. The estimates
2 are that we have, in fact, a couple of trillion
3 dollars of capital sitting on the sidelines, not
4 engaging in the marketplace. That's because of
5 uncertainty, regulations, we don't know what the
6 future is going to bring. And for those
7 entrepreneurs out there who have got great ideas,
8 they need capital. When you commercialize, how do
9 you have capital to flow towards helping them
10 commercialize great ideas, whatever that may be in a
11 free-market system?

12 So, my question would be how do we get capital
13 flow in the marketplace to, in fact, energize
14 entrepreneurs and help them in commercialization and
15 expansion of existing businesses with new ideas?

16 MR. CLIFTON: Okay, remember the 6
17 million, only 25 percent of them really want to
18 grow. And we asked them, "Do you have the capital
19 necessary to grow?" They say they do.

20 Now, you've got another group, that 75 percent,
21 where they are going broke. They're having trouble,
22 they are having trouble; they would like to have

23

1 money, banks won't lend it to them, because they
2 know they're not going to get paid back and they
3 grow broke. It's so important that you segment
4 those populations when you're talking to.

5 The experiment that is one of the most amazing
6 that I've ever done in my whole career--Dave and I
7 are doing it in Nebraska. But we found, I'm going
8 to say, 500 small businesses, and we called them a
9 guide. We don't like the word mentor. The guide
10 has 10 of them. But if you sit down, we've got
11 about five things that we do to them that we agreed
12 and put it in a box. But then, you also have a
13 relationship outside those tools. But you talk with
14 them about the own strategies. They are always
15 doing a lot of things wrong. They'll spend too much
16 time with their worst customers rather than their
17 best. You see what I mean?

18 So, we put our best consulting tools in, but
19 it's mentoring, advising, that's really what they
20 want. What they wish is that they could have
21 consultants like big companies have: Kind of like
22 Bane or Gallup or McKenzie or somebody. So, we've

1 tried to create that. By the way, to do it well,
2 you've got to have . . . the University of Nebraska
3 helped. You can't just have some lowly state
4 department do it. It doesn't work at all. It's
5 kind of like magic, pulling it off.

6 Gallup has a big name. Dave told me he is a
7 popular governor. He told me he is very, very
8 popular. That's what he told me.

9 *(Laughter.)*

10 We have a popular governor. The people in that
11 25 percent, there are some real hot shots in there,
12 and they only want to be a part of something that is
13 exciting. You see? So, you've got to put together
14 something exciting, and they join it. And Dave
15 really shows up, I really show, our CFO, our COO,
16 the president of the university really shows up.
17 So, it's a very special thing. That's what they
18 need, not capital.

19 CHAIRMAN HEINEMAN: Governor Fallin.

20 GOVERNOR FALLIN: Thank you for all your
21 information.

22 CHAIRMAN HEINEMAN: By the way, she's from
23

1 Oklahoma.

2 GOVERNOR FALLIN: Yes. I think we
3 probably beat Nebraska that year, so.

4 *(Laughter.)*

5 But we appreciate your coming today. I was
6 intrigued by your statistics, talking about the 6
7 million businesses and how many of them are actually
8 looking to expand or not expand. And the last
9 question that we just had about certainty and
10 uncertainty in the marketplace.

11 I just recently did a survey of all of our
12 businesses in Oklahoma, as many as we could get to
13 reply. And we're a relatively small state, 3.8
14 million people. So, we surveyed our businesses. We
15 asked 44 questions. We asked about our tax
16 structure, workforce, education. Are you planning
17 to add more jobs, not add more jobs? There's
18 something about Oklahoma. We found that over 60
19 percent of our businesses that responded said they
20 were going to add jobs. Which is interesting
21 compared to your statistic about how many are
22 actually looking to expand their businesses.

23

1 And then the other thing that's a little bit
2 different in my state is that we actually have
3 employers that can't find the workers that they need
4 in Oklahoma. Which we started a new program called
5 Okay Jobs Match.com to match employers with
6 employees who are out there in the workforce looking
7 for jobs.

8 So, it's interesting how what you are seeing
9 nationally is little bit different than what I am
10 seeing in my state. But I think it goes back to the
11 last question, is creating that certainty in the
12 marketplace versus the uncertainty that we see
13 nationally. So as governors, what would you
14 recommend to us that we can do to further create
15 certainty in our states, versus what you are seeing
16 nationally? And what do we need to do nationally
17 with the uncertainty in the marketplace?

18 MR. CLIFTON: By the way, if you want to
19 do 9 percent unemployment or 20 percent
20 unemployment . . . you're right, the variation of
21 performances in this country are unbelievable,
22 especially by city. If you take Omaha, I think

23

1 Omaha's unemployment is like 4.9 and GDP is growing.

2 I always look at . . . , I think this is okay, but

3 if

4 you look at Austin, Texas, and Albany. I love

5 comparing those two; both big states, both cities,

6 capital cities, no ports, no nothing. For some

7 reason Austin, Texas, has created unbelievable

8 energy. People move. It changes migration patterns

9 and start-ups and all that. Where Albany can't

10 really get . . . the only thing that you can point

11 to are local leadership teams, where they get

12 together and they make some kind of a strategy.

13 Looking at Nashville, of course, they've got

14 the music thing. I don't know if that's much GDP or

15 not. But they've made that now into a healthcare

16 center. My gosh, I mean there is so much

17 white-collar health-care there. But there is

18 enormous differences. The best thing that we can do

19 is the 1.5 million small businesses . . . by the

20 way, it's about the same number, kind of the same

21 number of soldiers we have.

22 But if we worked as hard at developing them

1 like we did our military . . . I love the military

2

1 by the way. But if we got as good at doing that
2 science then I think that's our best chance to come
3 up. And we've got to get free enterprise, obviously
4 I'm a capitalist. But those kids coming out of high
5 school, they had better be in the state of mind of
6 free enterprise, or we won't have the startups that
7 we need.

8 I think those are the two big places to focus
9 on. The 25 percent of the businesses in your state
10 that really want to grow, get some engineering for
11 them that encourages them. And Dave and I can help
12 you and tell you about our experiment.

13 And the other one is get a metric. By the way,
14 Gallup just gave it as a gift to the country. If
15 you go on Gallup.com you have a thing that your
16 schools can just plug it right there, to measure how
17 much innovation energy and how much entrepreneur
18 energy, and then how many are in internships. And
19 whatever your internship number is in your state,
20 it's too low. It has to go up three to five times.

21 CHAIRMAN HEINEMAN: Governor from Guam,
22 okay, go ahead.

23

1 GOVERNOR CALVO: Eddie Calvo from Guam.

2 Let's say we solve the issue on teaching folks how
3 to be entrepreneurs, and then we solve the issue on
4 regulation. So, we have governments that have found
5 ways to make it much more easier to do business.

6 Now the statement you made, under certain
7 successful communities, 4.9 percent unemployment-

8 MR. CLIFTON: Something like that.

9 GOVERNOR CALVO: Something like that. And
10 then of course places, small communities like Guam,
11 13 percent, or some other areas where again, over 9.
12 The question I have is, is there . . . in fact, it's
13 a two-part question. You need a customer. It
14 ultimately comes in to you need a customer. And is
15 there enough to, let's say this territory, this
16 county figures it out. But is there enough, do you
17 then take from the other county or the other state
18 that customer and prosper and blossom?

19 You alluded to the issue now of globalization
20 and where America is at 25 percent now. But if you
21 look at all the experts, in 10, 20, 30 years, maybe
22 we are a small piece of the pie. If we are driven

23

1 by small business, how do you get more customers,
2 and it's not just a customer from Albany or a
3 customer from Oklahoma? How do you get that small
4 business entrepreneur who doesn't have much
5 regulation to other customers in this global
6 economy?

7 MR. CLIFTON: I understand your question.
8 One of the reasons we have a slowdown is that we
9 are not selling stuff fast enough to each other.
10 So, we do need more competition. But you're right,
11 that won't take us up to the great big GDP numbers
12 we need to continue the relationship we have now
13 throughout the rest of the world.

14 And so what that gets you to is remember we do
15 need that competition. We need everybody. Because
16 we can get about another 7 percent out of that.
17 But the big answer is export. You can kind of see
18 the whole future through . . . I mean Apple,
19 Groupon, obviously cars and a whole bunch of other
20 things. But if we don't export, none of this works.
21 But those little guys are doing a pretty good job
22 within that 25 percent group. I mean the Facebooks

23

1 and that kind of thing. Those numbers add up really
2 fast, but we've got to export. No, you're spot on.
3 It doesn't work just selling . . . we can't sell
4 enough stuff to each other to get the numbers we
5 need.

6 CHAIRMAN HEINEMAN: Any final questions?
7 Governor of Hawaii.

8 GOVERNOR ABERCROMBIE: You indicated that
9 among the responses that you got, the word that used
10 to
11 cover a multitude of sins was the word regulation.
12 And when you said you drilled down a little, one of
13 the elements that came forward was healthcare.
14 Healthcare, the provision of healthcare, financing
15 healthcare, I presume, is what you mean by that, the
16 costs associated with healthcare and those
17 businesses. That has very little to do, or nothing
18 to do with regulation as such, and has everything to
19 do with how we provide healthcare. What is the
20 assumption about healthcare?

21 You mentioned the United States Military. If
22 we had training, if we had an investment, if you

1 will, in the United States Military. As someone who

2

1 was involved for two decades on the Armed Services
2 Committee, before I took this job, I can tell you I
3 have some experience then in how you provide that
4 healthcare. It's national, in fact international.
5 That is to say it's universal, healthcare.

6 What's happening at least where my collective
7 bargaining is concerned as an employer in the State
8 of Hawaii is that healthcare is the single most, the
9 provision of healthcare and its costs is the single
10 most difficult challenge to me. It's not spending.
11 It's not state spending. It's the cost running
12 away. The spending chasing the costs.

13 Until we come to grips with the question of
14 healthcare and get away from the political rhetoric
15 associated with accusations about it, we're not
16 going to be able to deal with whether it's called
17 regulation in healthcare or anything else.

18 We have to come to grips with the question
19 of the provision of healthcare and the exploding
20 costs around it, before we'll have some of the
21 flexibility, with regard to investment in education
22 and all the rest of it.

23

1 MR. CLIFTON: I will answer this, and
2 maybe we better-

3 CHAIRMAN HEINEMAN: Okay.

4 MR. CLIFTON: By the way, when respondents
5 say healthcare or whatever, something to keep in
6 mind is that also the image of regulations might be
7 more than the actual regulations. So, it could be
8 the 6 million turtles just throwing their hands up,
9 "Oh my gosh, more regulations." But then trying to
10 pin them down, they can't really pin it down. But
11 of course, you're right. I mean everything I'm
12 talking about this morning addresses. . . I'm going to
13 call it . . . back to the Oklahoma/Nebraska . . . I'm
14 going to call it the offense. We can't cut our way
15 out of this. We've got to cut a lot, but if our GDP
16 doesn't bounce way up, none of this works.

17 If we're going to go to the defense . . .
18 sorry 'bout the football thing . . ., but the defense
19 is
20 healthcare, is unbelievable. It's \$2½ trillion
21 now. It's growing at 6.2, which means in 10 years,
22 it's at \$4½ trillion. If you add those stubs,

1 it's \$10 trillion , which is three times bigger

2

1 than the subprime meltdown.

2 The tsunami that's coming in from healthcare is
3 just unbelievable, and the only solution, what we're
4 doing here in Washington, just moving the money
5 around. The only solutions actually lie in
6 preventative measures. At 8,000 a person, Target is
7 getting out way ahead of a lot of people on this.
8 But so they have about 300,000 people. So you see,
9 they're 300,000 times 8,000, 2½ billion. It's
10 about the same as their profit, and so, healthcare
11 has gotten to the same place.

12 Remember the joke Warren Buffet made about
13 General Motors or somebody, was really a healthcare
14 company that happened to sell cars? Because what he
15 meant is that it only survived to provide
16 healthcare. That's pretty much the way all our
17 businesses are now.

18 I better end, thank you very much.

19 *(Applause.)*

20 CHAIRMAN HEINEMAN: Jim, thank you very
21 much. We appreciate your insights. You've given us
22 a lot to think about.

23

1 Now, I would like to take a few moments to
2 recognize the winners of the NGA Public Private
3 Partnership Award. This award recognizes NGA
4 corporate fellow companies that have partnered with
5 a governor's office to implement a program or
6 project that makes a positive contribution to a
7 state and its citizens.

8 Each year, all governors are invited to
9 nominate a corporate fellow company for work in his
10 or her state that demonstrate a significant
11 investment at the state level to perform a public
12 good in areas such as education, health, public
13 safety, economic development and the environment.

14 I want to thank all the governors who submitted
15 nominations for this year's awards program. The
16 nominees were outstanding, and a volunteer selection
17 committee chaired by Lauren Kintner and my staff
18 evaluated the nominations on criteria such as cost
19 savings, innovation, sustainability and improved
20 service delivery. I want to thank Lauren and the
21 members of the committee for their investment of
22 time and energy. I know the decision wasn't easy.

23

1 This year, two companies will be recognized.
2 And I would first like to invite Governor Tom
3 Corbett of Pennsylvania to the podium to present
4 Pennsylvania's winning nomination for the 2012 NGA
5 Public Private Partnership Award. Governor.

6 GOVERNOR CORBETT: Thank you, Governor.
7 Thank you, Governor, and I will say good morning
8 still. I think we have another minute to the
9 morning. It's nice to see you all. I think this is
10 a great award the NGA gives out, and it gives us an
11 opportunity to recognize those private sector people
12 whom we work with on a regular basis, and who, by
13 their innovation--and I'll use that word on purpose--
14 their innovation makes our job hopefully a little bit
15 easier, but also less expensive for the people of
16 our states and the taxpayers of our states.

17 As many of you probably are right now,
18 Pennsylvania is in the midst of reforming our
19 welfare system. And that reform can take many
20 different shapes. But when I say reform, it's not
21 an excuse to do less. We have to stretch that
22 dollar. We have to do that, I understand. But it

23

1 really is a call to do better. The system that
2 Hewlett-Packard Enterprise Services helped us do and
3 put into place is about saving revenues, saving work
4 hours in our workforce and thereby having more
5 leftover to help the clients of our Department of
6 Welfare and the citizens of our states.

7 This system essentially has kept our employees
8 from drowning in a pool of data. You talked about
9 data before, Mr. Clifton. As we all know, that
10 Internet provided more data than we ever thought we
11 would ever see. And that has, in some places,
12 frozen agencies in time. Some agencies have a
13 difficult time assembling that data, and that's one
14 of the things that we found when we came into office
15 about 13 months ago. So, I'm grateful for the
16 opportunity to use the real-world solutions that the
17 private sector companies have come up with, Hewlett
18 Packard in particular, to make state government more
19 efficient and more responsive and really, a better
20 servant to the people of Pennsylvania.

21 I believe that the less time we spend crunching
22 the numbers, the more time we have left to help the

23

1 people of Pennsylvania from our Department of Public
2 Welfare. So, I'm pleased to help see that HP is
3 recognized here today, David. Thank you very much.

4 *(Applause.)*

5 CHAIRMAN HEINEMAN: I would now like to
6 invite Governor Martin O'Malley [Md.] to the podium,
7 to
8 present Maryland's winning nomination for 2012 NGA
9 Public Private Partnership Award, and it's right
10 here.

11 *(Laughter.)*

12 GOVERNOR O'MALLEY: Thanks governor, thank
13 you. Governor Heineman, thank you very, very much.
14 It's an honor to present this award today to one of
15 the strongest partners in our work, in the state of
16 Maryland, to advance the achievement of our children
17 when it comes to STEM: Science, technology,
18 engineering and math. As our global economy becomes
19 more knowledge-based, our ability to compete
20 increasingly depends on spurring innovation and
21 strengthening its primary ingredient, which is
22 education. An issue that each of you spent a

1 tremendous amount of energy on, in particular, in

2

1 the STEM disciplines. And that's why, in Maryland,
2 we set the goal to increase the number of STEM
3 college graduates by 40 percent by 2015. And so
4 far, we've increased it by 23 percent, but we're not
5 done yet.

6 To reach our goal, we wanted to find a way to
7 increase collaboration and information sharing to
8 promote student achievement and really to spark that
9 interest in kids, so that they want to get into STEM
10 disciplines. We wanted to bring together experts
11 not only in education but also from our business
12 community and our nonprofit world and to share
13 knowledge on the latest trends, best teaching
14 practices and recent developments within STEM
15 fields. And we envision what one might call
16 e-Harmony of STEM, and this was the genesis of our
17 STEM innovation network.

18 Thanks to IBM, we are able to make this vision
19 a reality. Together with the Maryland Business
20 Roundtable, which is represented here somewhere by
21 June Streckfus, who has been championing this, IBM
22 led a visioning process to help us create a system

23

1 to promote the most meaningful sharing of resources,
2 information, collaboration, expertise and time.
3 They brought in developers to build the central
4 technical platform, which is now in use in high
5 schools all across our state. And they were right
6 by our side through every phase of the process,
7 including building, testing and implementation, with
8 the shared goal of bringing the expertise of working
9 STEM professionals directly into the classroom, so
10 kids could see this was real. And they could have a
11 profession and use their talents and skills in STEM
12 professions and fields. STEM is . . . one of my
13 favorite parts about it is our ability to bring in
14 representatives from business, government, higher
15 education into classrooms to talk directly to kids.

16 Today, hundreds of students were learning from
17 STEM specialists in the classroom, and over the next
18 few years, we're planning to provide access for
19 thousands more. It's my understanding, we're the
20 first state to build this type of STEM resource, and
21 we could not have done it without the expertise
22 Governor Heineman and the guidance that IBM

1 provided.

2 So for their contribution to our efforts, I'd
3 like to bring forward the NGA Public Private
4 Partnership Award, from the IBM Corporation, and
5 here to accept that award is Jim Salinger, Vice
6 President of Technical Sales and Support, IBM of
7 North America. Jim, come on down.

8 *(Applause.)*

9 Jim, thanks a lot.

10 MR. SALINGER: Governor, thank you.

11 CHAIRMAN HEINEMAN: We have one final
12 thing we want to do before we adjourn to the
13 governors only. We would like to ask Governor Bob
14 McDonnell [Va.] to come forward to say a few words
15 about
16 the upcoming annual meeting in his great state of
17 Virginia. Bob.

18 GOVERNOR MCDONNELL: Good afternoon.
19 Thank you, Dave, for giving me a few minutes to plug
20 the great commonwealth of Virginia: The cradle of
21 democracy and the mother of presidents. And I want
22 to extend, on behalf of the eight million people in

1 Virginia, an invitation to all of my fellow

2

1 governors to come this summer, in July, to bring
2 your family to Williamsburg, Virginia. It has been
3 57 years since the NGA has come to Virginia, and I'm
4 delighted, Mr. Chairman, that you and the executive
5 committee saw fit to return this summer to Virginia,
6 and we're really thrilled to have you.

7 Over this last year, Dave and his staff and his
8 wife, Sally, and my wife, Maureen, and our staff
9 have been planning what I hope will be for you--who
10 I know love America, love history, a love of the
11 story of the foundation of this great country--a
12 memory that I hope will be unforgettable. I was just
13 chatting with my good friend, Deval Patrick, and
14 reminding him that Plymouth Rock was actually 1620,
15 and Jamestown was 1607.

16 *(Laughter.)*

17 And so that accident of landing on Plymouth
18 Rock was actually, there was a bad storm and they
19 were actually looking for Jamestown coming back, and
20 they got a little lost. But both commonwealths have
21 a great story about the foundations of our country.

22 We have a lot of great events planned. In

23

1 fact, you have on your desk an invitation that says
2 it's from the Right Honorable Robert McDonnell, as
3 opposed to the Left Honorable Robert McDonnell. So,
4 I wanted you to have that.

5 You'll have an opportunity to be able to have
6 dinner at the Old Governor's Palace in Williamsburg.
7 We're going to have a candlelight dinner there.
8 This is the same palace and the same place where my
9 predecessors, Patrick Henry and Thomas Jefferson,
10 the first two governors of Virginia, were actually
11 sworn-in in the late 1770s and where they resided
12 before the capital moved to Richmond some years
13 later.

14 It's the place where May 13th of 1607, those
15 brave 144 men and boys landed. The *Godspeed*, the
16 *Discovery* and the *Susan Constant* landed in Jamestown,
17 Virginia, and gave birth to the greatest country the
18 world has ever known. And I'm very excited about
19 being able to tell that story once again for all of
20 you some 405 years after that.

21 You will also be able to see and have a private
22 meeting at the Jamestown settlement. It's the place

1 where, in 1619, the oldest continuously legislating
2 body in the free world, that is the Virginia General
3 Assembly, held its first meeting. The remnants of
4 that church, where that meeting took place, are
5 still there.

6 Interestingly, after all this passage of time,
7 it was just about 15 years ago where the original
8 footings of the original Jamestown fort were
9 actually discovered. And they are still doing live
10 excavations today. Between the federal and state
11 and private research authorities, they are still
12 finding new artifacts. Just a few years ago, they
13 found what they believe to be the very body of
14 Captain Gosnold, one of the eight captains of that
15 voyage along with John Smith and John Roth and the
16 others that are well known throughout the course of
17 history. There is a marvelous museum now, set up
18 with some of the artifacts that have been dug out,
19 and you will actually still see a live
20 archaeological dig.

21 And we have a great setup also for the
22 families. A private night at Busch Gardens, one of
23

1 America's premier entertainment parks, on the
2 Thursday that you get there. My wife and Sally have
3 put together some of the things: A cruise either on
4 the James or the York River, which will be very
5 exciting, either on a yacht or a schooner that all
6 of you, I think, will enjoy and also a private tour
7 of one of Virginia's great wineries. You all know
8 that Virginia is the fifth largest wine producing
9 state in the nation?

10 So, we'd like to say you hear about the Napa
11 Valley, but Napa is for auto parts;, Virginia is for
12 wine.

13 *(Laughter.)*

14 Jerry Brown is not here I don't think, so I
15 guess I can say that. But we want to have all the
16 spouses see Virginia's great wine country and also
17 to have a private meeting and a lunch at the
18 Governor's mansion in Richmond.

19 So outside, you will see a lot of things.
20 Virginia's great wine country guide. You'll get
21 some of the best peanuts in the world, Virginia's
22 peanuts. Some of the world-famous Virginia-is-for-

23

1 lovers dark chocolate. Actually, it should be
2 Virginia is for lovers of elections. We have them
3 twice a year in Virginia. And some other things for
4 which you can remember and prepare for your visit to
5 Williamsburg.

6 But we're incredibly honored to be able to host
7 this here, this summer. I think it will be a very
8 memorable experience as you trace the roots of
9 American democracy and civilization. We will tell
10 the Virginia story, you will be able to see a lot of
11 the reenactors there in original garb, like mine,
12 and I think you really will get a sense of what life
13 was like 400 years ago as we gave birth to this
14 nation.

15 So, we welcome you in typical Virginia
16 hospitality, hope you'll come and please, bring your
17 families. Please come early; please bring your
18 wallet. We need a little more revenue, and we would
19 love to see you there, and it's a real honor to be
20 able to host here in Virginia. Thank you.

21 *(Applause.)*

22 CHAIRMAN HEINEMAN: Bob, I want you to

23

1 know that Jack and I made an executive decision that
2 only you and Deval are going to wear that hat in
3 Virginia.

4 *(Laughter.)*

5 So, we really appreciate that. He's already
6 complaining. This concludes our opening session,
7 and we will now adjourn to a governors only session,
8 which begins at 12:45. This session is adjourned.

9 *(WHEREUPON, The proceedings were concluded at 12:09*
10 *p.m.)*

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NATIONAL GOVERNORS ASSOCIATION

CLOSING SESSION

MONDAY, FEBRUARY 27, 2012

JW MARRIOTT

1331 PENNSYLVANIA AVENUE, NORTHWEST

WASHINGTON, DC 20004

Nebraska Governor Dave Heineman,

NGA Chair, Presiding

Delaware Governor Jack Markell,

NGA Vice Chair

Reported by:

CHARLES D. HOFFMAN

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PROCEEDINGS

(9:09 a.m.)

CHAIRMAN HEINEMAN: Governors, I'll call this meeting to order. Thank you for being here. On this final session, we will focus on our association and committee policies. This year, we've talked many times; we redesigned our policy process to more closely align our policies with governor priorities. We are asking each committee to provide a report today on its policy, and we will be voting on those policies. The packet in front of you reflects those policies as adopted by the Executive Committee and the Standing Committees and recommended by the Special Committee. They will require a vote of $\frac{2}{3}$ ^{rds} of those who were present, and we will first go to the Chairman of the Economic Development and Commerce Committee, Governor Brownback [Kan.].

GOVERNOR BROWNBACK: Thank you very much, Mr. Chairman. It's a pleasure to serve on this committee and lead it. Jay Nixon of Missouri was the vice-chair of it and did an excellent job. We

1 had a hearing on it Saturday and then a pretty
2 extensive discussion yesterday. What we've done
3 with this is gone into three key policy areas,
4 centering on commerce, transportation and
5 infrastructure, and public finance. The committee
6 recommends adoption, by the NGA membership, of three
7 EDC policies. EDC 1 focuses on commerce and
8 economic development generally, entrepreneurship and
9 innovation, trade and investment, tax and regulatory
10 matters.

11 EDC 2 addresses transportation and
12 infrastructure in a modal neutral manner. This is a
13 major issue on the transportation funding that's
14 coming up in front of the Congress. So that, we as
15 a group, NGA, can speak out on this.

16 And then, EDC 3 affirms the importance of
17 public finance, state authority and financial
18 services regulation, consumer investor protections,
19 and financial regulation. And this is making sure
20 that we don't get moved out of this area, nor our
21 ability to do public financing harmed by federal
22 laws.

23

1 So on behalf of the committee, I move the
2 adoption of our policy recommendations and would be
3 happy to answer any questions concerning them.

4 CHAIRMAN HEINEMAN: Is there a second?

5 SPEAKER: I second.

6 CHAIRMAN HEINEMAN: Thank you, Governor
7 Nixon. Any discussion?

8 *(No response.)*

9 All those in favor, please say aye.

10 *(A chorus of ayes.)*

11 Those opposed, no.

12 *(No response.)*

13 The ayes have it. It's been adopted. We now
14 go to the Chair of the Education and Early Childhood
15 and Workforce Committee, Governor Beebe [Ark.].

16 GOVERNOR BEEBE: Mr. Chairman, in an
17 effort to keep this thing on time, I move adoption
18 of the report. We talked about it yesterday.

19 CHAIRMAN HEINEMAN: Okay, that was pretty
20 brief. Is there a second to that one?

21 SPEAKER: Second that.

22 CHAIRMAN HEINEMAN: Is there anybody who
23

1 would like to ask Governor Beebe any questions?

2 *(No response.)*

3 Seeing none, all those in favor, please say
4 aye.

5 *(A chorus of ayes.)* Those opposed, no.

6 *(No response.)*

7 Good job, Governor Beebe. It's been adopted.

8 We will now move to the Chair of the Health and
9 Human Services Committee, Governor Branstad [Iowa].

10 GOVERNOR BRANSTAD: Well, thank you very
11 much, Governor Heineman. Yesterday, Governor Quinn
12 [Ill.]

13 and I moderated an HHS Committee session on
14 innovative and sustainable strategy states may
15 pursue to improve overall health of our citizens
16 while improving service delivery.

17 We had the opportunity to discuss these items
18 with two very distinguished guests, Dr. Howard Koh,
19 who is the assistant secretary for health at the US
20 Department of Health and Human Services, and Ms.
21 Laura Jackson, executive vice president of Welmark
22 Blue Cross Blue Shield. Each of whom provided great

1 insight on steps that states can take to meet

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1 increased health care needs of our citizens, while
2 reducing healthcare costs. And I guess I would
3 challenge other states to join Iowa with the goal of
4 becoming the healthiest state in the nation. That's
5 one of the things we focused on.

6 The committee also approved Interim Policy HHS
7 2, which has to do with the temporary assistance
8 for needy families. So, I would now move for the
9 policy HHS 2, the T & F update.

10 CHAIRMAN HEINEMAN: Is there a second?

11 SPEAKER: Second.

12 CHAIRMAN HEINEMAN: All right, thank you.

13 Any discussion?

14 *(No response.)*

15 All those in favor, please say aye.

16 *(A chorus of ayes.)*

17 Those opposed, no.

18 *(No response.)*

19 The ayes have it. It's been adopted. We will
20 now move to the Chair of the Natural Resources
21 Committee, Governor Malloy [Conn.].

22 GOVERNOR MALLOY: I'll try to make this as
23

1 quick as possible. We have three policies:
2 Environmental protection policy focusing on water
3 resources, our energy policy outlining some of the
4 activities that governors have undertaken in the
5 energy arena, and calls for Congress to encourage
6 environmentally responsible, secure, efficient and
7 affordable production and use of energy.

8 And finally, a policy, natural resources
9 policy, lays out our governors' priorities for the
10 Farm Bill, the Land and Water Conservation Fund, the
11 Secure Rural Schools and Community
12 Self-Determination Act, the Payment in Lieu of Taxes
13 Program, and the cleanup of federal facilities. All
14 of these issues may be acted upon by Congress, and
15 we now have positions. We will now have a policy
16 that will allow us to take positions in support of
17 what governors have previously outlined. I would
18 move it.

19 SPEAKER: Second.

20 CHAIRMAN HEINEMAN: Any discussion on the
21 Natural Resources Committee?

22 *(No response.)*

23

1 Seeing none, all those in favor, please signify
2 by saying aye.

3 *(A chorus of ayes.)*

4 All opposed, no.

5 *(No response.)*

6 The policy is adopted. We are now going to
7 move to the Co-Chairs of the Special Committee on
8 Homeland Security and Public Safety. Governor
9 O'Malley [Md.] and Governor Mead [Wyo.], have you
10 flipped a coin?

11 Who's going first today? They are both here.

12 GOVERNOR O'MALLEY: Go ahead.

13 CHAIRMAN HEINEMAN: Governor Mead first, then
14 Governor O'Malley.

15 GOVERNOR MEAD: Is that what he said?

16 CHAIRMAN HEINEMAN: He agreed to it, I
17 guess.

18 GOVERNOR MEAD: Well yesterday, we had a
19 very good discussion with our Special Committee. We
20 discussed 3 items; HHS 3I, HHS 4I, HHS 5I, and
21 Mr. Chairman, I would also note that I think we had
22 nearly, if not all, the TAGS from across the country

1 that were there. It was a great representation. We

2

1 had also, I think, most of the governors who serve
2 on the Council of Governors there. So, I'll turn it
3 over to Governor O'Malley.

4 CHAIRMAN HEINEMAN: Governor O'Malley.

5 GOVERNOR O'MALLEY: Thank you very much.

6 Governor, we had a great conversation yesterday,
7 and we will no doubt continue that today. A number
8 of us, Governor Branstad, Governor Gregoire [Wash.],
9 others
10 on the Governors Council, will be meeting with our
11 DOD friends later on today, and we'll follow that
12 up.

13 The policy matters are fairly straight forward
14 and simple. There are, I think, three of them. One
15 simply outlining the principles of homeland security
16 and emergency management. Another with regard to
17 armed forces, and another one on public safety.

18 This could be a huge win for first responders
19 throughout our country, because of this
20 organization, Mr. Chairman, the D Block and our
21 ability to make real interoperable communication.
22 So, I move all of those policy matters, and I ask my

1 co-chair for a second.

2

1 GOVERNOR MEAD: I will second. Thank you,
2 Mr. Chairman.

3 CHAIRMAN HEINEMAN: There has been a
4 motion and second. Any discussion?

5 *(No response.)*

6 Seeing none, all those in favor, please say
7 aye.

8 *(A chorus of ayes.)*

9 Opposed, no.

10 *(No response.)*

11 Policies are adopted. We will now move to the
12 policy report of the Executive Committee. Governor
13 Markell.

14 GOVERNOR MARKELL: So, the NGA has a
15 long-standing permanent policy that focuses on the
16 relationship between states and the federal
17 government. It highlights the limited authority of
18 the federal government under the Constitution and
19 the fact that all other powers are reserved for the
20 states. And the Executive Committee reviewed the
21 permanent policy, made some edits to highlight the
22 issues that are most important to us, and so that

23

1 policy really serves as a cornerstone of the work
2 that the NGA does and for all of our other policies.

3 In addition, the Executive Committee is
4 recommending adoption of a health policy that
5 reflects principles to guide our discussions on
6 national health policies. So, I move for the
7 adoption of the Permanent Policy and the Health
8 Policy and block.

9 CHAIRMAN HEINEMAN: Is there a second?

10 SPEAKER: Second.

11 CHAIRMAN HEINEMAN: Discussion?

12 *(No response.)*

13 Seeing none, all those in favor, please say
14 aye.

15 *(A chorus of ayes.)*

16 Opposed, no.

17 *(No response.)*

18 Policies are adopted. We are moving at rapid
19 speed here.

20 *(Laughter.)*

21 I asked you to be on time, and I appreciate
22 that. We now need to move towards the major step in

23

1 aligning our policies with our priorities. There is
2 one final motion we need to make, and I would ask
3 Governor Jack Markell, our vice-chair for that
4 motion.

5 GOVERNOR MARKELL: I can speak very
6 slowly, if you would like?

7 CHAIRMAN HEINEMAN: It might help.

8 GOVERNOR MARKELL: I just want to thank
9 all the committee leaders, committee members, for
10 working to improve the process. I especially want
11 to thank Governor Heineman for really doing a great
12 job leading us through this effort this weekend and
13 for the months leading up to it.

14 But with the adoption of all these new
15 policies, which incorporate many of our
16 long-standing priorities, I move that they
17 officially replace all of our existing, other
18 existing NGA policies.

19 CHAIRMAN HEINEMAN: Is there a second?

20 SPEAKER: Second.

21 CHAIRMAN HEINEMAN: Thank you. Any
22 discussion on this one? I think we've hashed all

23

1 these out. All those in favor, please say aye.

2 *(A chorus of ayes.)*

3 Opposed, no.

4 *(No response.)*

5 Policy is adopted. We are in much better shape
6 now. We do have a little bit of time, but I believe
7 Governor Gregoire would like to give us a little
8 update on the Council of Governors. So, we have an
9 opportunity if you would like to do that, Governor.

10 GOVERNOR GREGOIRE: I just wanted to
11 remind the council members that we're due at the
12 Pentagon at 3:00 o'clock. We're going to have a
13 pre-meeting here in the Senate Room at 2:00 o'clock,
14 and it's obviously a very important meeting.

15 Mr. Chair, if I might. In light of our
16 conversation over the course of the last couple of
17 days, once we've concluded that meeting, then I'm
18 going to suggest that Governor Branstad and myself
19 report back to the body as a whole, with regard to
20 the issues that we bring to the attention of
21 Secretary [Leon]Panetta at that point.

22 CHAIRMAN HEINEMAN: And let me just

23

1 update. We now have over 40 governors who signed
2 that letter. There's still an opportunity this
3 morning. Pretty much at this stage of the game,
4 we're trying to get those governors who were not
5 present, and so I think that number will climb
6 before your meeting this afternoon.

7 GOVERNOR GREGOIRE: Thank you, Mr. Chair.

8 CHAIRMAN HEINEMAN: Governor Branstad?

9 GOVERNOR BRANSTAD: I don't have anything
10 to add. I just want to say that I'm really proud to
11 see all the governors standing together on this very
12 important issue of the National Guard.

13 CHAIRMAN HEINEMAN: All right. Any other
14 issues while we are moving at this warp speed here
15 this morning? This is great.

16 Okay, Neal, you were just, you didn't want to
17 say anything there? Okay, he is going to invite us
18 all to Hawaii, that would be good.

19 Let me just say, I didn't anticipate we would
20 get done quite this quickly, but I did tell staff,
21 "You know it was entirely possible, what we were
22 going to do if it occurred." Well, let me make sure

23

1 everybody understands. Because we do not want to be
2 late for the President, okay? We do need to proceed
3 from this room directly to our buses, as I've
4 indicated earlier. And we will leave fairly
5 promptly, probably sooner than we anticipated. I
6 would ask all those who are present here in the
7 audience to wait for the governors to exit before
8 you move out. Because again, we've got a policy
9 here today trying to get everybody down to the White
10 House on time.

11 But with that, I want to thank the NGA staff
12 and all of you for attending. Particularly our
13 governors-only meetings, that was very, very
14 instructive, the last few days to get your comments
15 in a very candid and straightforward manner. And we
16 appreciate that, and we are adjourned. And it is
17 now time to head to the buses. Thank you very much.

18 *(WHEREUPON, The proceeding were concluded at 9:29*
19 *a.m.)*

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