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2 NATIONAL GOVERNORS :

3 ASSOCIATION :

4 EXECUTIVE COMMITTEE :

5 MEETING :

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8 NATIONAL GOVERNORS ASSOCIATION

9 Executive Committee Meeting

10 J. W. Marriott

11 Salon III

12 Washington, D. C.

13

14 Sunday, February 22, 2004

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18 The above-entitled matter came on for meeting,

19 pursuant to notice, at 9:30 a.m. with Chairman

20 Kempthorne presi di ng.

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P R O C E E D I N G S

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(9: 30 a. m.)

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CHAIRMAN KEMPTHORNE: Ladies and gentlemen, let me

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call together this winter meeting of the National

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Governors Association and say what an honor it is to

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preside over this gathering of the governors of the

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United States of America and her territories.

8

I think it is significant to note that as

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we gather here in the nation's capitol, in the next

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three days 50 governors will be participating in this

11

National Governors Association, which is one of the

12

high watermarks as far as attendance by governors of

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the United States of America.

14

Let me also extend a thank you on behalf

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of all governors and our spouses to Ambassador

16 Thawley and Mrs. Thawley last night as they welcomed
17 us to the embassy of Australia, where they
18 demonstrated outstanding hospitality of Australia and
19 the people of Australia. And Keith Urban, who
20 provided the outstanding music for us last evening.

21 Today is February 22nd. This is George
22 Washington's birthday. We're celebrating the 272nd

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4

1 year of his birth.

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

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

11 So as we commemorate the birthday of a
12 founding father of the United States of America, to
13 have something of this history I think adds to the

14 si gni fi cance of thi s gathe ri ng i n Washi ngton, D. C.

15 VICE CHAIR WARNER: Chai rman, I mi ght note

16 a famous Vi rgi ni an as wel l .

17 CHAIRMAN KEMPTHORNE: And as our Vi ce

18 Chai rman poi nts out -- Govern or Warner -- a famous

19 Vi rgi ni an.

20 (Laughter.)

21 CHAIRMAN KEMPTHORNE: Du ly noted.

22 Let me al so acknowl edge and wel come the

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1 newest to thi s organi zati on: from Cali forni a,

2 Govern or Arnol d Schwarzenegger; from Indi ana,

3 Govern or Joseph Kernan; from Kentucky, Govern or Ernie

4 Fl etcher; from Loui si ana, Govern or Kathl een Bl anco;

5 from Mi ssi ssi ppi , Govern or Hal ey Barbour; and from

6 Utah, Govern or Ol ene Wal ker.

7 And may I al so say to Govern or Bl anco

8 thank you on behal f of al l us for the ki ng cake,

9 whi ch you provi ded as a great gesture from mardi

10 gras. Kathl een, we appreci ate that.

11 To al l govern ors that have been recentl y

12 el ected, congratul ati ons to you.

13 (Appl ause.)

14 CHAIRMAN KEMPTHORNE: Let me also
15 recognize a very speci al guest who is wi th me today.
16 And that is, from Afghani stan, Governor Muhammed
17 Alliyah, who is the governor of the provinci e of
18 Bamiyan. Governor, wel come to you.

19 (Appl ause.)

20 CHAIRMAN KEMPTHORNE: At thi s time I'd
21 like to take just a special moment to acknowl edge a
22 governor who is not among our ranks. And that is

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6

1 governor Frank O' Bannon, who in his seventh term as
2 governor of Indi ana passed away.

3 He and Judy were outstanding addi ti ons to
4 the National Governors Associ ati on. I thi nk that
5 Frank and Judy were in their prime when last year
6 they were the host and the hostess of the National
7 Governors Associ ati on in Indi anapol is.

8 And I thi nk for all of us to remember that
9 beaming of Frank as he was the host and was so proud

10 to show us his state of Indiana --

11 I attended his memorial service and I'll

12 always remember what a moving memorial that was.

13 And then as Judy was escorted back up into

14 the capitol, where she turned and with that camera,

15 which Frank had so many times, taking the pictures,

16 she took that one last picture of her friends

17 gathered in the name of her husband, Frank O'Bannon.

18 Let me call upon Governor Joe Kernan --

19 Joe, just to make a couple comments about Frank.

20 GOVERNOR KERNAN: Governor, thank you

21 very, very much. It was, as Governor Kempthorne

22 said, five months ago that we hoosiers lost our

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1 governor and lost our friend.

2 The fingerprints of Frank O'Bannon are all

3 over our state. After serving in the United States

4 Air Force, Governor O'Bannon returned home, where he

5 gave 18 years as an Indiana state senator, served as

6 our lieutenant governor for eight years and as our

7 governor for seven.

8 Frank taught us why we serve and showed us
9 how to serve. His vision, his passion, his
10 commitment to our state, particularly to our
11 children, is something that we as Hoosiers all
12 treasure.

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

22 I talked with Judy yesterday and she was

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8

1 reminded of how they viewed sitting at this table as
2 being a sobering experience as members of a
3 federation of states and that Frank was humbled and
4 honored to be able to do so.

5 Our thanks to all of you for your prayers

6 for Judy and the O'Bannon family. And we in Indiana
7 are proud and grateful for all of the offers of
8 support and assistance that we receive from you in
9 the aftermath of Governor O'Bannon's death.

10 Thank you all very much.

11 (Applause.)

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

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

21 (Applause.)

22 CHAIRMAN KEMPTHORNE: I now officially

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1 call to order the 2004 winter meeting of the National
2 Governors Association. May I have a motion for the
3 adoption of the rules of procedure for this meeting.

4 There's a motion. Is there a second?

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

7 (Chorus of ayes.)

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

12

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

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

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1 (Applause.)

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

6 (Laughter.)

7 GOVERNOR ROMNEY: We could let this wait.

8

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

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

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

20 (Applause.)

21 CHAIRMAN KEMPTHORNE: Welcome to the
22 patriot nation. I'm going to put on the home jersey

1 here and join him.

2 (Laughter.)

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

6 (Laughter.)

7

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

11 (Applause.)

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

14 CHAIRMAN KEMPTHORNE: Exactly, right.

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

18 (Applause.)

19 GOVERNOR EASLEY: We'll see you in
20 Jacksonville next year. And somebody's going to be

21 wearin g Jake Del one' s j ersey. But we' ll be back.

22 Thank you. We' ve enjoyed it all the

12

1 way through. We had a good time. Hey, Ed Rendell,

2 thanks for the Phil li cheese. We just got that --

3 (Laughter.)

4 CHAIRMAN KEMPTHORNE: I don' t think you

5 got those yet. Did you get those?

6 GOVERNOR EASLEY: I got hi s. There' s

7 several other governors who I will not menti on who

8 have not paid up yet. But since they' re my party, we

9 won' t bring that up.

10 (Laughter.)

11 CHAIRMAN KEMPTHORNE: These unfunded

12 mandates have got to stop, right?

13 (Laughter.)

14 GOVERNOR EASLEY: Exactl y.

15 (Appl ause.)

16 CHAIRMAN KEMPTHORNE: Well, I know that

17 many of us as governors, that we' re proud of our

18 respective teams. There are a lot of college bowl

19 games that took place.

20 I want to thank Governor Lingle for the
21 case of pineapple. The Boise State Broncos enjoyed
22 those.

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

6 (Laughter.)

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

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

15 We also know as sons and daughters, as
16 husbands and wives, that our loved ones want to age

17 with health and with dignity in the homes and
18 communities in which they have lived.

19 More importantly, we must consider what
20 governors can do to encourage best practices in home
21 and community-based care while inspiring our citizens
22 to maintain lifelong health and preparing to meet

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1 their own long-term health-care expenses.

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

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

9 Healthy aging issues are further addresses
10 in the CD Rom situated on the table that's in front
11 of each governor. This CD Rom, which we have here,
12 contains the taskforce's first publication, called
13 Healthy Aging and the States: Making Wellness the
14 Rule and Not the Exception.

15 It also includes clips from the
16 taskforce's December 10th taping on the PBS Broadcast
17 Living Better, A National Conversation on Aging, in
18 which taskforce governors Bredeson, Lingle, Purdue,
19 and I participated. Mort Kondracke was our
20 moderator. Now, I'd like to take just
21 a moment to provide you with a brief of what you will
22 find on this CD Rom if we look at the screen.

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

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

9 And as you look at this, you'll be able to
10 determine that in the next 25 years there are
11 dramatic differences that will be taking place in our
12 states.

13 Next we have highlights on preventing
14 chronic diseases and injuries, which is a fundamental
15 aspect of living well.

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

19 (CD Rom is played.)

20 SPEAKER: Physical inactivity was directly
21 responsible for nearly \$76 million in medical costs
22 in the year 2000. Studies clearly show that the more

16

1 active people are, the less likely they are to
2 develop high blood pressure, diabetes, osteoporosis,
3 and other chronic conditions.

4 (End of snippet from CD ROM.)

5 CHAIRMAN KEMPTHORNE: And again, we thank
6 Mort Kondracke for his participation with us on that
7 broadcast, which is now already in 60 percent of the
8 television audiences throughout the United States.

9 Here we also showcase several programs in
10 your states. There are examples of programs such as

11 Texercise and also in-depth descriptions of programs
12 such as the health promotion initiative in New Jersey
13 and also promoting physical activity for people with
14 arthritis in Georgia.

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

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

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

9 Governor Sebelius and Governor Sanford.

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

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

21 Furthermore, with support for the U.S.
22 Department of Health and Human Services we're working

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1 on an NGA center for best practices policy academy
2 and rebalancing state long-care term systems away
3 from institutional and toward community care. It
4 will be held this summer.

5 While the emphasis of the taskforce is on
6 older Americans, we hope that our efforts will

7 benefit people of all ages confronting long-term care
8 challenges.

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

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

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

21 Earlier during his military service Dr.
22 Cooper served as director of the aerospace medical

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1 laboratory in San Antonio and worked with NASA in
2 conditioning America's astronauts for space.

3 Two years later he opened the world-
4 renowned Cooper aerobics center. Dr. Cooper is the

5 author of 18 books. From the time of his first book
6 he has advocated revolutionizing the field of
7 medicine away from disease treatment and toward
8 disease prevention.

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

13 We're honored to have you here, Doctor.

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

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

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

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1 Earlier he cofounded Porter Novelli, now
2 one of the world's public relations agencies. Porter

3 Novelli was founded to apply marketing to social and
4 health issues.

5 Bill Novelli has been named one of the 100
6 most influential public relation professionals of the
7 20th century. We congratulate you for that, Bill.

8 And thank you for being here.

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

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

18 Dr. Coughlin is co-editor with Dr.
19 Cafferson, of a forthcoming book on measuring quality
20 of life in an aging society, addressing issues such
21 as pain management, cognitive function, fatigue,
22 mobility, et cetera.

1 He is offering a second volume on business
2 innovation, technology, and aging. Dr. Coughlin
3 consults and speaks frequently to business and
4 government audiences in Europe and North America.

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

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

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

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

20 Previously Jackie served as special
21 assignments correspondent for ABC News and as an

22 anchor and host for NPR's Morning Edition and Things

22

1 Considered. She also received an emmy award for
2 Nightline's coverage of the Iraq invasion of Kuwait.

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

5 (Applause.)

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

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

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

17 It's this. A jumbo pill holder.

18 (Laughter.)

19 MS. JUDD: I estimate each day can hold

20 about 25 pills times 7. That's a lot of pills in the
21 course of a week. And I think that more baby boomers
22 than we would like to consider are going to be using

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1 these jumbo pill holders.

2 As this largest generation ever speeds
3 towards retirement and older age, as the governor
4 mentioned, our life expectancy is longer than ever.
5 Our chance of facing a chronic disease is well over
6 50 percent. The nation already spends
7 \$750 million on managing and treating chronic
8 disease. That's about 75, 78 percent of the total
9 health care budget.

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

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

17 But these are some of the questions. How

18 do we stay healthier? And if we don't stay healthy,
19 who's going to take care of us? I include myself in
20 this. I'm a baby boomer.

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

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

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

10 As mentioned in the introduction I did
11 publish my first book in 1968 -- in fact introduced
12 the word "aerobics" to the world. At that time
13 according to Gallup polls, we had less than 24
14 percent of our adult population exercising. We had
15 less than 100,000 joggers.

16 People started jogging everywhere. And by
17 the year 1984 we had an estimated 34 million people
18 claiming to be jogging. And we had 59 percent of our
19 adult population exercising on a regular basis.

20 There was great concern about my medical
21 colleagues because when I was in medical school back
22 in the 50s we were taught that people past 40 years

25

1 of age should not exercise vigorously.

2 And many of those people started
3 exercising after 1968 were over 40 years of age. I
4 would even see titles in medical newspaper articles
5 that said the streets are going to be full of dead
6 joggers as more Americans followed Cooper.

7 (Laughter.)

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

13 Only three countries had a comparable

14 statisti c. Those countries were Australia, Canada,
15 and New Zealand.

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

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

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1 Hungary.

2 The reason I was invited to speak behind
3 the old Iron Curtain is because from 1968 until 1990
4 in Russia they had a 31 percent increase; Poland, a
5 36 percent increase; Hungary, a 40 percent increase.
6 And the record was Romania with a 60 percent
7 increase.

8 Yes, they said, Dr. Cooper, it's because
9 of your modern technology. We don't have coronary
10 care units in our hospitals. We don't have
11 angioplasty in bypass surgery. We don't have those

12 expensive medications you have in your country.

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

18 One-third was because of modern
19 technology. Two-thirds was because Americans changed
20 their life style, that it counted for that
21 unprecedented decrease in deaths from coronary heart
22 disease. Along with that we saw quite a change as

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1 far as our aging was concerned.

2 I don't know whether you realize this or
3 not, but Chancellor von Bismarck from Germany first
4 introduced social security in 1888 for the German
5 people. It was effective at age 65. The average
6 life expectancy of a German during those times was 45
7 years. Social security kicks in 20 year later.

8 In 1900 our average life expectancy was
9 47; by 1935, 61.4 years. And by the way, that's

10 when America made effective at age 65. By 1960 it
11 was 69 years. By 1970 it was 70 years. And prior to
12 the decade of the 70s, you could expect only one year
13 increase in longevity each decade.

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

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

20 Did that continue? No, it didn't.
21 Because you see the baby boomers were the ones who
22 led this exercise of the 60s and 70s and 80s. And

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1 after 90 they burned out. They stopped exercising.
2 The 76 million people born between 1946 and 1964.

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

7 Yes, my answer to this is I think that we

8 have to really embrace the concepts of preventive
9 medicine because my feeling is we spend way too much
10 of our health service dollar on desperate measures,
11 which often prolongs death, not life, if only for a
12 few days.

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

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

20 We measure the level of fitness
21 objectively by time on the treadmill and place them
22 into 5 categories of fitness -- the bottom 20

1 percentile to the top 20 percentile.

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

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6 beginning back in 1970.

7 You find that first line is actually for

8 people in the bottom 20 percentile, the low fit.

9 Their average life expectancy is 73 years. What's

10 the average life expectancy of a -- male in America

11 today? And the answer is 73 years.

12 The next line. Those who avoided

13 inactivity moved up one block on the 5-block fitness

14 scale and increased their life span by 6 years -- so

15 it's 79 years.

16 Those who made the top 40 percentile, the

17 final line there, are living an average lifetime of

18 some 82 years -- increased their life span by 9

19 years.

20 But if you turn it over you find that it

21 is not just the extension of life, it is the quality

22 of life.

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1 You see in looking at a group of men from

2 40 up to 70 plus years of age, classifying them into

3 their fitness from the bottom 20 percentile, the next

4 40 percentile, the top 40 percentile, and you find
5 that a man 40 to 44 years of age in the bottom 20
6 percentile, totally sedentary, they have at least one
7 self-reported limitation. They can't take care of
8 themselves. They can't do something to be
9 independent.

10 You have to go all the way out to 65 to 69
11 years to find a man who keeps himself in shape that
12 has the same number of limitations as the other man
13 40 to 44 years of age that is in poor condition.

14 So it's not just extending life. It is
15 the quality of life.

16 Now, if you look at the chart that says
17 "age-specific all cause death rates by fitness" and
18 you find in this group of men from 20 to 39 up to 60
19 plus, people who came to our clinic between 50 and 59
20 years of age and came back for at least 10 years
21 during this period of time -- a total of 19 years.

22 And you find those that never got the message, never

♀

31

1 got out of that bottom category of fitness. You

2 might ask why did they come back? It's because
3 they're sponsored by corporations and their CEO
4 insists they come back.

5 But they're defiant they're not going to
6 be doing anything. Look at their death rate for
7 10,000 man years: 470.

8 But those who came to our clinic after 50
9 years of age, changed their lifestyle over the next
10 19 years -- as you can see they dropped their death
11 rates from 470 down to 129.

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

16 I think even more exciting is those past
17 60 years of age who decided to change their
18 lifestyle, get out of that bottom category of fitness
19 and over the next 10 years at least they dropped
20 their death rate in half.

21 Now, I've said so many times I don't care
22 how long I live. I just want to live until that

1 final moment. I hope to square off the curve, live a
2 long healthy life to the fullest and then die
3 suddenly, just as my mother and father did.

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

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

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

18 That's what you have to keep in mind.
19 It's not just quantity of life. It's quality of
20 life. I'm happy to say with 33 years' experience

21 in Dallas taking care of patients I'm seen some
22 phenomenal things -- when we're writing books as far

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1 as the textbook on aging and find people 65, 70, 80
2 years of age are performing like we never dreamed was
3 possible.

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

10 Thank you, Ms. Judd.

11 (Applause.)

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

17 Bill Novelli is next. Bill will talk to
18 us for a bit about community-based care -- what that

19 means, what you think the public understands that to
20 mean, and the financing arm of it.

21 MR. NOVELLI: I'd like to begin by
22 thanking Governor Kempthorne for championing health

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1 and long-term care issues during his term as NGA
2 president.

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

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

11 Now, at AARP we have a 10-year social
12 impact agenda. You have it at your table. It's this
13 right here. And our goal, as you see at the top, is
14 for people 50 and older to have independence, choice,
15 and control in ways that are beneficial and
16 affordable for them and for society.

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

22 And independence in choice and control are

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

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

11 Now, with the demographic changes ahead of
12 us that Jackie referred to, on top of the immense
13 needs that we already have today we've got to build a
14 consumer-friendly system that serves people who

15 require long-term care and their families.

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

22 And we at ARRP intend to put a lot of our

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1 emphasis into this area that we call navigation.

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

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

10 This idea, which is called "the money
11 follows the people" is still fairly new, but it's
12 been successfully piloted here in the U.S. and

13 implemented abroad.

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

20 And these two factors create a very
21 difficult problem for delivering quality care. Many
22 older people with disabilities and their caregivers

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1 need support services and assistive equipment in
2 their homes and communities.

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

7 Community-based services, although
8 limited, are available. But only one out of three
9 used them. And that's because people don't know
10 about the sources of support or how to find them or

11 if they are eligible for publicly funded services.

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

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

21 This all leads to a number of areas where
22 we can make change. We need to insure individuals

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1 against the high costs of long-term support services
2 and find ways to lessen their financial burdens.

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

7 Medicaid continues to spend most of its
8 long-term care dollars on nursing homes, not home

9 care. We need to balance the Medi care -- I'm sorry,
10 I meant Medi cai d. We need to bal ance the Medi cai d
11 system between nursi ng homes and home care.

12 And I'm not talki ng about nursi ng homes
13 versus home care. It's really about reforming the
14 whole fi nanci ng and del i very system. We need to
15 educate peo ple to plan for long-term care. And
16 federal pol i cy shoul d also promote more consumer
17 choi ces and types of servi ces and setti ngs.

18 Provi ders shoul d focus more on functi oni ng
19 and heal th-rel ated qual i ty of li fe and the management
20 of chroni c di sease, not just on acute an curati ve
21 care.

22 And we certainly, as we just heard from

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1 Dr. Cooper, need more emphasi s on heal th promoti on
2 and di sease preventi on.

3 We need better tools to select qual i ty
4 servi ce provi ders, better measures of provi der
5 performance, and very importantly an i ncreased supply
6 of workers provi di ng front-l i ne servi ces.

7 Finally, family caregivers and many of
8 whom we know are the backbone of our system,
9 providing 80 percent of the care without pay and
10 often with little support.

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

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

20 Now, we've been working with a number of
21 you in the states to reform long-term care systems.
22 Just last week in Boston AARP Massachusetts stood

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1 with Governor Romney as he unveiled the "helping our
2 Massachusetts elders initiative" to help seniors
3 maintain long-term independence in their communities.
4 And we're proud to support it.

5 Vi rgi ni a, Nebraska, I daho, Ohi o, Mi chi gan,
6 Tennessee, and North Dakota are other exampl es of
7 states where we're worki ng together. We want to
8 expand our partnershi ps to more and more and states.

9 By worki ng together we can help peopl e
10 achi eve i ndependence and a li fetime of better heal th
11 and di gni ty. And i n the process we wi ll i mprove
12 heal th outcom es and reduce heal th-care costs for our
13 states and for the nati on.

14 Thank you very much.

15 (Appl ause.)

16 MS. JUDD: Thank you, Bi ll .

17 Joe Coughl in, now the di rector of the MIT
18 AgeLab.

19 DR. COUGHLIN: Good morni ng and thank you
20 for i nvi ti ng me. And bei ng from Massachusetts i t's
21 great to see the home team colors i n more than j ust
22 one-quarter of the room.

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1 (Laughter.)

2 DR. COUGHLIN: So you know i t's funny.

3 When policy makers get together or those who comment
4 on policy tends get together, what do we focus on?
5 We focus in on the policy problems.

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

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

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

17 And I think what happens is that when we
18 make
19 those investments in sanitation, medical technology
20 -- whatever it is -- we rarely are around long
21 enough, we rarely think we're going to have the
22 discussion of what if a policy actually works.

1 Well, now we're left with the success of
2 longevity and what to do with it as an opportunity.
3 And yes, it's a challenge. But it's an opportunity.

4 Now, I'm going to cite not an academic or
5 some great piece of research, but Sarah Knotts, who I
6 believe was from Governor Rendell's state before she
7 passed away December 31st, 1999, at 119 years old. If
8 she had lasted one more hour, she would have spanned
9 three centuries if you can imagine.

10 Now, she framed our challenge and our
11 opportunity far better than I could ever and I would
12 suggest many others. She enjoyed her longer life,
13 she said, because she had her health and she could do
14 things.

15 That's what we need to talk about today.
16 How do you maintain the health? But how do you do
17 things? And that's the essence, if you will, of
18 quality of life. So I want to use that as a guiding
19 format, if you will, as to what we are talking about.

20 But also how it's changing -- how that
21 definition, how that political definition is changing

22 and then indeed, as promised, how technology is going
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1 to actually give you some options that you may not
2 have thought about, but also bring some new partners
3 to the table.

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

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

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

19 Therefore that makes it political. People

20 are never angry with you for not giving them
21 something they didn't think was promised. They get
22 very angry if they don't get what they think they

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1 have coming to them.

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

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

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

14 Now, what does that mean?

15 Well, yes, in some cases they are spending
16 on everything from acupuncture to special mattresses
17 and the like. But that means there's another revenue

18 stream that I think we really need to think about in
19 terms of bringing innovation to health and aging --
20 that people are willing to put their money down, for
21 those who have it, to live longer and to live better.

22 Secondly, who else is, shall we say,

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1 watching and very interested? Dr. Cooper brought
2 this up. Employers. And it dovetails very nicely
3 with what Bill Novelli was saying with caregivers.

4 One in four families in the United States
5 are already providing caregiving to an older adult.
6 Now, one study suggests that \$29 billion is lost in
7 productivity from employers for people coming to work
8 late and leaving early, taking a long lunch to take
9 care of mom, dad, whoever it might be -- a spouse.

10 Now, I get a little nervous, especially in
11 this town when you start using the numbers like
12 billion. There was a guy named Dirkson up the road
13 that suggested that pretty soon it's real money.
14 Let's just say it's a lot of money -- 29 or whatever
15 number of billion we're talking about.

16 Bottom line is: It's not just the boomers
17 who are willing to invest and showing indication that
18 they are willing to put money into their own well
19 being.

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

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

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

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

13 And you need to get that under control, as

14 well as the rest of us who are essentially either
15 enjoying it or paying for those benefits.

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

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

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

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

11 There is now a convergence of technology

12 that is available. Let me give you a couple of trend
13 lines.

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

18 Most of you don't know that your cell
19 phone in many cases has a global positioning system
20 chip that is satellite technology that will be able
21 to track you anywhere on this planet within a few
22 meters. You have to decide later on if you want me

♀

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1 to do that, but it's there.

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

6 So when I talk about technology, don't
7 think I'm going to give you a silver bullet. I'm
8 not. But what's happening is there are now new
9 technologies from the cell phone to a health-care

10 monitoring in the home that are being developed and
11 provided by companies and by agencies you may never
12 have thought about before.

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

16 The fact is, that's not something that's
17 20, 30 years in the future that you would expect us
18 to talk about when we speak of technology. That's
19 here today and it's something you might be able to
20 leverage later on.

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

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1 participation question: 10 percent of your grade.

2 Does technology help you do what you do better?

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

5 (Laughter.)

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

8 be.

9 PARTICIPANT: Sure.

10 DR. COUGHLIN: And the answer is yes.

11 You're all wrong.

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

17

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

22 And third, here's the political dimension.

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

4 So as we think about these different
5 technologies, I want you to really think about really

6 what's happening now is that there's a fundamental
7 realignment of not just what's being done, but who's
8 there and who you can leverage at the table to talk
9 about.

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

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

18 Do you know that drugstores in some parts
19 of this country, as well as overseas, are now going
20 to start planning on seeing more revenue coming from
21 screening services and health services than moving
22 toothpaste and toilet paper? And we had that quoted

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1 to us by one CEO of a major drug chain out there.
2 So for instance, one technology that Governor
3 Kempthorne was using in our lab is the connected

4 kiosk. And one of our partners, Computerized
5 Screening, Incorporated, develops these kiosks that
6 you see frequently in drug stores -- your blood
7 pressure, your weight, perhaps glucose monitoring, and
8 the like.

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

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

18 The real impact is the business model and
19 the policy model that all of a sudden tomorrow your
20 pharmacy next door and that kiosk is going to be
21 linked to a health-care provider that provides
22 another outlet of service overall in that first -- as

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1 Dr. Cooper was saying, towards prevention rather than

2 simply managing wellness -- or illness.

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

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

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

21 So if I can catch you before you put it in
22 your cart, you're not going to put it in your mouth.

1 Third -- I'm sorry, second vision or hallucination,
2 depending on your level of kindness this morning.

3 (Laughter.)

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

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

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

17 But what's happening very quickly is that
18 they are going to start giving you information back,
19 not just collecting what your status is and helping
20 you decide -- or your caregiver, which by the way,

21 guys sitting around the table, it's mostly a 47-plus-
22 year-old woman, who is a caregiver. So that's who

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1 the technology is aimed for -- to help mom, dad, a
2 spouse eat well, care, whatever it might.

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

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

16 Because it's a lot cheaper for the Tokyo
17 metro area to manage people in their homes and to
18 have them decide at home that it's indigestion and

19 not a heart attack and charge upwards of \$1,500 for
20 that emergency room visit than it is to have everyone
21 use the emergency room as their first line of
22 defense.

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

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

12 And then finally the third, if you will,
13 technology area that I'd like you to think about.
14 And this is -- you'll probably think, "Well, I can
15 see the retail health. I can see the checkup a day.
16 Now, why is he talking about transportation?"

17 And the bottom line and the reason why I
18 want to talk about transportation is -- one last
19 question before I start to wrap up. What is
20 transportation?
21 I can wait a long time. What is
22 transportation?

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1 PARTICIPANT: The movement of people and
2 goods.
3 DR. COUGLIN: Excuse me.
4 PARTICIPANT: The movement of people and
5 goods.
6 DR. COUGLIN: Moving people and good.
7 You're pretty good. I'm going to put you in my civil
8 engineering class.
9 (Laughter.)
10 DR. COUGHLIN: Well, it is moving from
11 point A to point B. But let's go back to Sarah
12 Knotts. Remember, she set this up. The idea of
13 maintaining your health and doing things.
14 Before you can do anything, you've got to

15 get there first. And transportation -- and in this
16 country it's driving -- is the very glue that hangs
17 all those little things that you call life together:
18 window shopping; yes, going to the doctors; yes,
19 going to the store; visiting your grandchild.

20 And the bottom line is is that there is
21 demonstrated evidence that as people choose to not
22 get out because of driving issues or because they

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1 can't drive, not only do they emotionally decline,
2 but they physically greatly.

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

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

10 But there will come a day for some where
11 they will not feel comfortable or able to drive. And
12 for those, each of you are spending incredible sums

13 of money on alternative transportation for older
14 adults: anywhere from a \$1 ride paid by the user
15 going upwards of -- ready? \$17 to \$44 a ride for
16 that paratransit trip to get to the doc or whatever
17 it might be.

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

22 But there are new technologies out there

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1 to help you run those vans better, more efficiently,
2 more effectively to squeeze both the health-care
3 dollar.

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

7 Let me wrap up and leave you with
8 something. You know, what can I leave you with?
9 Think about it. What does government do? And I'm
10 not asking you. You live it every day.

11 The power of government is three things
12 really: identifying issues, setting the agenda,
13 directing money or spending money. I want to leave
14 you with, three, if you will, P's to think about.

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

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

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

7 Secondly, focus on public empowerment and
8 public responsibility. That is, encourage people and

9 find ways to establish legitimate, accepted, trusted
10 sources of information to guide their health
11 decisions, their eating decisions, their exercise
12 decisions so the idea of using the technology, if you
13 will, to actually put the responsibility generally
14 where it is is not only most felt, but where it is
15 most powerfully adjusted -- in the home.

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

20 Focus on partnering, encouraging retailers
21 to be more innovative on how to adopt a lot of these
22 technologies in their stores in your states to

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1 encourage health -- not just for health and aging.

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

7 life span.

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

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

21 I'll leave you with one last thought.

22 Does anyone here think that the microwave oven is a

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1 piece of assistive technology? No, it's a lifestyle.

2

3 But if you're an older woman typically and
4 you now live alone because your spouse is deceased,

5 your kids live too far away, it is no longer a joy to
6 prepare a meal. That microwave oven is probably the
7 best piece of assistive technology we have in many of
8 our homes to provide a convenient meal to insure that
9 she eats.

10 We want to develop technologies, services,
11 and programs that make these things a lifestyle
12 choice so that people don't come to you when they are
13 75 and say, "Gee, I need this. You should reimburse
14 it."

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

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

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

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1 aging and technology -- is a policy entrepreneur, if
2 you will.

3 That is, this is not an issue that
4 benefits from a massive trigger event of an accident
5 or a disaster or something that galvanizes political
6 power and coalition building.

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

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

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

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

20 (Applause.)

21 MS. JUDD: Thank you, all. I'm going to
22 ask one quick question to get our conversation

1 rolling. And I guess I would direct it to Bill
2 Novelli.

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

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

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

19 And what we need to do is we need to say
20 to ourselves, how do you get people active? And it
21 doesn't have to be really extensive exercise. CDC

22 shows us that moderate exercise helps a great deal.

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

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

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

14 We think if we have partners to do this,
15 we can make a real difference. And you don't have to
16 make a huge a difference. Ten percentage points --
17 you know, the -- I think it's about 33 or something
18 like this -- 28 percent of people claim they do
19 regular physical exercise.

20 If we got that up 10 or 15 points, it
21 would make a huge difference. And I believe very
22 strongly that it's doable.

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

5 DR. COOPER: First of all, our studies
6 published in 1989 show that if you just go out and
7 walk briskly for 30 minutes 3 times a week, covering
8 2 miles in that period of time, you can reduce death
9 by small causes by 58 percent and increase your life
10 span by 6 years. It doesn't take that much.

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

15 Number two, with the explosion of obesity
16 -- and I have the latest chart here from 2002
17 showing the number of states that have more than 15

18 percent, more than 20 percent, or more than 25
19 percent of their people obese --

20 We now have 3 states that now have more
21 than 25 percent of their population above 30 pounds
22 overweight -- the states of Mississippi, Louisiana,

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1 and West Virginia.

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

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

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

13 Along with that we have seen that you're
14 going to have to go through a four-step approach to
15 do that. Number one is an evaluation.

16 Number two is an education motivational
17 experience.

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

22 And number four, get them back. That's

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1 the four-step approach that we use with great
2 success.

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

7 Number one, get their body mass index.

8 You take your body weight in pounds and multiply it
9 by 703, divide it by your height in inches squared.

10 Are you less than 25, which is normal weight? Are
11 you 25 to 30, which is overweight? Are you above 30?
12 You are obese. That's number one.

13 The second thing that the Archives

14 recommended is measure the waist circumference of the
15 individual. Because we know if that man's above 40,
16 that woman's above 35 inches, that's typical of a
17 metabolic syndrome that carries with it a marked
18 increase risk of diabetes and also a risk of heart
19 disease.

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

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

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

9 In a period of 10 years those who remained
10 in the bottom category of fitness, average cost:
11 \$419,000.

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

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

21 How do you slow down the aging process?
22 Number one, eliminate cigarettes smoking. Number

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1 two, eliminate inactivity. And number three,
2 eliminate obesity.

3 MS. JUDD: Governor Sanford.

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

9 My question, I guess, to you is, given

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

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

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

22 Can you get there without medical savings

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1 accounts or some other very substantial change to the
2 healthcare delivery system at the state and federal
3 level?

4 DR. COOPER: I don't believe so. In the
5 state of Texas the Commissioner of Agriculture, Susan
6 Colmes, has developed a program whereby they would
7 give to the schools those children who meet a

8 standard as far as fitness and weight -- will give
9 them \$30 per year for that student -- a subsidy of
10 some type.

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

16 To the extent that if their body mass
17 index was under 25, give them a \$250 deduction off
18 their income tax. If their blood pressure is less
19 than 140/90, \$250 more. If they didn't use tobacco
20 in any form, \$240 -- no, \$250 more. If their
21 cholesterol is less than 200, another \$250. That's 1
22 \$1,000 deduction off your income tax, the equivalent

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1 to having one child.

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

6 unbel i evabl e.

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

11 It went on to point out we have 100
12 million Americans who are overweight. We have 60
13 million Americans suffering from high blood pressure.
14 50 million Americans are smoking. At least 40
15 million Americans have high cholesterol.

16 He also said that in 1990 we paid \$700
17 billion for healthcare and in 2002 we paid \$1.4
18 trillion. He said this: "80 percent of the diseases
19 that we have in America today are the result of an
20 unheal thy li festyl e."

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

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

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

10 It's not discriminatory because you can
11 attend lectures -- wear your seatbelt, have a smoke
12 detector in your home, all the basic things. \$200.
13 Meet a standard as far as their weight, their blood
14 pressure, their cholesterol -- whatever it may be --
15 another \$200.

16 The first year I started that was in 1991.
17 I gave to the 187 -- my 350 employees \$37,000 in
18 money in bonuses. Compare the previous two years.
19 We reduced our healthcare claims \$119,000.

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

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1 MS. JUDD: Governor Huckabee.

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

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

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

18 We last year passed a body mass index for
19 every student in the school. It was very
20 controversial. And we had to fight to keep it in
21 place because a lot of parents thought we were going
22 to post the BMI on a board and every kid would be

1 embarrassed, which is not the way it goes.

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

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

9 (Laughter.)

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

16 DR. COOPER: I appreciate your comments
17 there. Last week, 10 days ago I was asked to give
18 a testimony before the House Subcommittee on
19 Education Reform, looking at this subject of
20 childhood obesity and looking at the school lunch

21 probl em.

22 As I said in my presentation -- that we're

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1 al armingly fat as far as our children. We've had a
2 two- to threefold increase in obesity since 1980 and
3 our children are 6 to 19 years of age. We are now
4 seeing unprecedented diabetes in these children and
5 even -- hepatitis. This is already -- because of
6 obesity.

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

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

16 We do feel that the school lunch program
17 is some place we should start. We know that you
18 should be consuming 5 to 7 servings of fruits and

19 vegetables every day. Average American adult, 3.1.
20 American teenager, 1.6.

21 We need to concentrate on the school lunch
22 program. We need to concentrate on physical

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1 education programs in the schools, have incentives
2 for them -- whatever it may be.

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

10 We've got to go back and regroup. What's
11 most important for our kids? Education? Computer
12 technology? Or the fact that when the child spends
13 \$900 per year in school but 1,100 hours watching
14 television, playing video games. That's the problem.

15 But a point, too, I'd like to make along
16 the line of what you said is we are finding that

17 corporations are finding the -- physical fitness a
18 good business. And we find more and more
19 corporations are developing a worksite wellness
20 program.

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

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1 750 employees -- this is 1985 versus 1992 versus a
2 target by 2000 -- I want you to see that in those
3 that had 750 or more employees, the target for 2000
4 was up here. By 1992 they had already met that
5 challenge. Why?

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

12 Number four, by offering the worksite
13 wellness program -- whether it's at the state level
14 or whether it's at the school level, the corporate

15 level -- it helps you recruit the best employees in
16 the marketplace if you offer them a worksite wellness
17 program. And number five, reduces turnover among
18 employees.

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

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1 care down.

2 Our Texercise program we're very proud of.
3 I'm the honorary state chairman of that, which was
4 concentrating on senior citizens and trying to get
5 them involved.

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

10 Because if we don't, once those baby
11 boomers start turning 65 years of age in 2011 and 67
12 years of age 2013, what effect is it going to have on

13 Social Security and Medicare? We won't be able to
14 afford it.

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

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

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1 \$57,000 a year.

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

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

8 But we certainly can't consider that it's
9 too late. I call your attention back to this 10-year
10 social impact agenda that I was talking about. And

11 under "economic security" you'll see that we're
12 talking about "Americans accumulate and effectively
13 manage adequate retirement needs." We can focus
14 there and we can make some differences there.

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

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

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

5 And so what we need to do is, again, focus
6 on the workforce, make it possible for workers to
7 work longer. Many of them have to. Many of them
8 want to.

9 In this country we've already reversed the
10 process so that there are more older workers in the
11 workforce today than there have been in earlier
12 years.

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

20 MS. JUDD: Governor Kempthorne, I think
21 you've talked about the idea that once people have
22 stopped saving for their children's college

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1 education, they think I'm done. That's enough. In
2 fact it's just the start of what should be another
3 fund for their own retirement.

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

7 financial incentives, tax deductions.

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

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

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

21 I think that we should all look at what
22 we're currently providing for the college fund and

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1 duplicate that on long-term care financing. And they
2 should go hand in hand.

3 Because when you consider this
4 demographically, we now see a lot of families that

5 are waiting later in life to have their children.

6 And so that when you may need as a parent to have
7 your children help you, they may not be of income-
8 earning age.

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

14 MS. JUDD: Questions? Yes.

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

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1 In Minnesota -- and we were one of the
2 first states to institute HMO's -- we have the most

3 HMO'ized health-care market in the country.

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

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

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

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

22 These are not new concepts. If you go ask

1 Americans do you think exercise is good and should
2 you do it? unless they, you know, recently returned
3 from Pluto, they would all say yes, they know this.
4 They know what you're talking about, but they don't
5 do it.

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

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

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

16 We must have a more sophisticated
17 evaluation to determine who is and who is not
18 overweight. I think the government should be
19 involved in that -- in evaluations of body mass
20 index, percent body fat. And then along with that,
21 as we've said, some type of financial type of

22 i ncenti ve.

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1 But I firmly believe, Governor, that the
2 program we've used very successfully in the last 33
3 years in Dallas --there were over 80,000 patients --
4 has been that four-step approach: evaluation,
5 education, motivation, implementation, and re-
6 evaluation.

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

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

18 I challenge the insurance companies. And
19 it's beginning to change. Medicare is beginning to

20 change. They're beginning to allow this due to their
21 reform. It's the prescription drugs and all.

22 Well, a lot of people past 65 years of age

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1 to have that physical examination. That's the first
2 time it's ever happened. They've been approving
3 colonoscopies. They've been improving mammographies.
4 They've been improving the PSA.

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

11 It's the same with the children. It's
12 called the fitness-gram test. We have over six
13 million kids involved in this now. We test six
14 different things. It's a computerized test of
15 aerobic capacity to strength, flexibility, percent
16 body fat. That report goes home to
17 those parents. And once those parents see how their

18 child compares to another child the same age, it's
19 very impressive.

20 One point that has been ignored. I know
21 Governor Schwarzenegger isn't here. I know him quite
22 well. But in 2001 they did a study in California

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1 Looking at levels of fitness measured by our fitness
2 gram versus a Stanford academic achievement score,
3 the middle capacity of these children.

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

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

13 And that was true in fifth graders,
14 seventh graders, and ninth graders. And there were
15 953,000 students in that study.

16 But the other thing they discovered, too -
17 - those kids who could pass only 1, 2, and 3 of the
18 fitness test were the fat kids.

19 So what are we -- not only a generation
20 that's going to be susceptible to diabetes and high
21 blood pressure and all the various things, what about
22 the academic achievement of our children in the

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1 future if we don't start concentrating particularly
2 on getting our kids in shape?

3 MS. JUDD: Thank you. Governor Walker.

4 GOVERNOR WALKER: (Inaudible.)

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

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

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

13 DR. COOPER: Yes, in fact the only state

14 that has a mandatory K through 12 requirement for
15 physical education historically has been the state of
16 Illinois. And I would say the best PE program in
17 America today is in Naperville, Illinois -- a program
18 by Bill Lawler.

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

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1 program in America.

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

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

9 MS. JUDD: Governor Granholm.

10 GOVERNOR GRANHOLM: Just a suggestion for
11 some of the governors who may be faced with financial

12 di ffi cul ties and want to get something like this
13 goi ng.

14 We have appointed for the first time in
15 Mi chi gan' s hi story -- and I don' t thi nk any other
16 state has this -- a state level surgeon general. And
17 we' ve done that wi th the hel p of the hospi tals.
18 They' ve funded her. And she is -- her three goals
19 thi s year are smoki ng cessati on, obesi ty, and I' ve
20 asked her to look at teenage pregnancy preventi on as
21 well .

22 It is a great way for this item to get

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1 hi gh on your list. And while we go through these
2 tough budgetary times, it' s a way to use the
3 hospi tals as a partner, who all have the exact same
4 agenda.

5 MS. JUDD: Thank you. Governor Wi se.

6 DR. COOPER: Let me comment on that just
7 one second, please, because she sai d the
8 concentrati ng on the three thi ngs. You sai d smoki ng
9 and then obesi ty and chi ldhood pregnancy. I woul d

10 strongly encourage you to consider in your state that
11 you add inactivity to that as an evaluation, okay?

12 GOVERNOR GRANHOLM: That's in obesity.

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

16 (Laughter.)

17 DR. COOPER: I usually get applause for
18 that.

19 MS. JUDD: Everybody feel better?

20 (Laughter.)

21 MS. JUDD: Governor Wise.

22 GOVERNOR WISE: Thank you. Dirk, having

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

5 (Laughter.)

6 GOVERNOR WISE: But on baby boomers let me
7 make an observation and then ask a question. The

8 observation is, as the governor of the state with the
9 highest age median in the country -- about 38 years
10 old -- we have observed and we're getting ready to
11 release shortly a report on the status of the baby
12 boomer.

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

22 Jackie Judd talks about savings. But

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1 because of downsizing in various industries, if you
2 were in the airlines industry, a white-collar
3 employee after 9/11, you probably lost your job.

4 Because of what has happened in the steel
5 industry, you've seen your retirement go into the

6 pension benefit guarantee corporation.

7 The PBGC in the last three years, because
8 of the economic situations it has faced, has gone
9 from a \$5 billion surplus to an \$11 billion deficit
10 because of all the new entries into this.

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

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

19 What I have learned as well as one who
20 will be going out on the job market myself is we're
21 not as attractive at 55 as we were at 25, either from
22 a healthcare standpoint of being able to get

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1 insurance or even from employability.

2 And, Bill, you talked about the aging
3 worker. And, indeed, many of these are productive

4 jobs, but then many of them are people that have been
5 downsized or seen their economic security reduced so
6 significantly that they're working at the fastfood
7 restaurant or they're working someplace else.

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

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

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

22 One final note. I learned a new

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1 phenomenon: the sandwich boomer.

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

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

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

13 MS. JUDD: Bill.

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

20 And this relates to the older worker issue
21 that I was talking about a little while ago. There
22 are -- you know, we can talk in generalities. There

1 are fewer younger workers coming into the American
2 workforce, into the pipeline.

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

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

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

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

18 In addition, again I go back to our
19 agenda. We are trying to expand our program to train
20 low-income older people to go back into the

21 workforce. We can't do this ourselves, but we can
22 demonstrate.

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1 And we'll place a fair number of people
2 this year. And we can use that as a way to be a
3 catalyst.

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

10 MS. JUDD: Hal ey Barbour, a quick
11 questi on?

12 GOVERNOR BARBOUR: For Jack I just -- on
13 behal f of Governor and myself I just wanted to thank
14 Dr. Cooper for saying it's better to be fit and fat.
15 (Laughter.)

16 GOVERNOR BARBOUR: I don't know what
17 Governor Ri chard is laughi ng about over here.

18 (Laughter.)

19 GOVERNOR BARBOUR: Anyway I --

20 MS. JUDD: I could put you all into this

21 ring here if you want.

22 (Laughter.)

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

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

12 DR. COOPER: I appreciate that.
13 Congratulations, by the way. I've known you for
14 many years.

15 GOVERNOR BARBOUR: Thank you.

16 DR. COOPER: Our studies clearly show --

17 we published this first in 1989 and it's been
18 classified as the landmark study of this century. It
19 actually questioned how much exercise is necessary.
20 It was published in the Journal of the American
21 Medical Association.

22 We did have a group of 13,400 healthy men

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1 and women we followed for 8.6 years and looked at
2 their levels of fitness versus all causes of
3 mortality, divided them, as you said, into quintiles
4 based upon their objective measure of fitness by
5 their time on the treadmill, a highly repeatable
6 test.

7 And we found those that in the bottom
8 category of fitness versus the top category of
9 fitness, they reduced their deaths from heart
10 attacks, strokes, and diabetes, and deaths from
11 cancer by 65 percent and increased their life span up
12 to 9 years.

13 But those who just went from the bottom
14 quintile, as you said yourself, one quintile, they

15 reduced death small causes by 58 percent and
16 increased their life span by 6 years.

17 And by the way, that article -- anytime an
18 article is published in the peer review journals, if
19 it's referenced 50 times, it's considered a classic.
20 That article has been referenced over 1,000 times.
21 So it is a standard of what is enough.

22 Yes, and as I said, it's dependent upon

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1 the intensity and -- of the activity. If you don't
2 get that bottom category of fitness up just one block
3 on the fitness scale, you walk your 30 minutes and
4 cover 2 miles. That's pretty fast.

5 Slow it down. Walk 2 miles in 35 minutes.
6 Do it 4 times a week. Or even slower -- standard
7 speed of walking 2 miles in 40 minutes and do it 5
8 times a week.

9 Let me elaborate on something too.
10 Published in 1997 -- in the year 2000 rather, the
11 Harvard nurses study. And they were able to show
12 those 84,000 women, who were followed for 14 years -

13 - if they met these 5 standards: body mass index
14 under 25; they didn't smoke over the 14 years;
15 followed an American Heart Association type of diet,
16 not an Atkins diet, a high protein diet; consumed no
17 more than one-half a drink of alcohol per day, and
18 walked three hours a week at 20-minute-per-mile pace
19 -- over the next 14 years they reduced deaths from
20 heart attacks by 75 percent and reduced deaths from
21 strokes by 82 percent.

22 That's lifestyle. That's proven. That's

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

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

8 MS. JUDD: Dr. Cooper, we're racing to the
9 finish here. We're running out of time. Can I
10 recognize one more governor? Governor Riley.

11 GOVERNOR RILEY: Dr. Cooper, I read in one
12 of these little pamphlets total long-term care is
13 \$172 billion a year. And then on the corresponding
14 page it says, "The cost for diabetes alone is \$105
15 (sic)."

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

20 DR. COOPER: Of the 17 million diabetics
21 that we have in America only 5 percent are type I's.
22 95 percent are type II's; that's adult onset.

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

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

8 MS. JUDD: Okay, thank you all very, very

9 much. And it was an important and interesting
10 conversation. I hope you all go home with ideas.

11 (Appl ause.)

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

14 (Appl ause.)

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

17 (Appl ause.)

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

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1 Association, that we must now maintain the momentum.

2 My question for each of our three
3 panelists -- and Jackie if you wish to respond, I
4 would certainly invite you -- but if based upon the
5 knowledge that you have now shared with us, plus the
6 additional information, if the 50 governors of the

7 states plus the territorial governors -- if we
8 recognized the power that we have that next January,
9 when we give we give our respective state of the
10 state messages and we include some component piece to
11 deal with long-term care, that's powerful.

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

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

19 Bill, let me start with you.

20 MR. NOVELLI: I would argue that dealing
21 with long-term care is one of the single most
22 important things that the governors can do. And most

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1 especially it's this idea of balance and of really
2 trying to focus on home and community-based care.

3 And I say this not just because of quality
4 of life, as important as that is for all Americans,

5 but I say this because I really believe that there
6 are some very substantial costs to be saved.

7 And in this era of deficits and tight
8 budgets there is no better way to really examine cost
9 and quality of life by really trying to refocus and
10 reformulate the long-term care opportunities that we
11 have.

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

14 DR. COUGHLIN: I'd put this on two levels.
15 One, I mean, fundamentally government is here to take
16 the long view because as individuals, as
17 corporations, long-term vision is not really part of
18 the job description.

19 And so in that part I think it's not just
20 something that you should do in terms of economic
21 priority or political priority.

22 But as an elected official you have the

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1 obligation to take the job as trustee -- not just as
2 delegate as to what the people are excited about at

3 the moment -- but to take the trustee position of
4 what is the long-term vision and good for whatever
5 state you are governing.

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

14 CHAIRMAN KEMPTHORNE: Very good. Dr.
15 Cooper.

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

20 Because along with continuation of regular
21 work and some goals and objectives in their lives,
22 their health stays at a much higher level. Once a

1 person stops working and retires, they almost
2 invariably go into retirement syndrome and then start
3 having medical problems.

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

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

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

18 MS. JUDD: Well, I would say that as a
19 former health-care reporter that health care and
20 controlling health care costs are the issues of this
21 decade and probably going into the next decade.

22 And one thing that struck me as I heard

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1 the discussion today is that a lot of what has been
2 discussed, suggested, proposed doesn't require
3 regulation. And it doesn't require huge amounts of
4 money.

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

9 CHAIRMAN KEMPTHORNE: Very good. Thank
10 you so much.

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

14 When we think about Dr. Cooper and his
15 plan of incentives, again that's the sort of thing
16 that we will then incorporate in the next CD that
17 will be presented to all of us in July so that you
18 can take that to your policymakers back in your
19 respective administrations.

20 We talk about the Texercise program, but
21 that's aimed at the older generation. And I think
22 all of us need to begin thinking about the younger

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1 generation.

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

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

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

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

13 "No, it doesn't."

14 And Dr. Cooper I think you'd affirm, it's
15 the little 10 year old that's sitting on the couch.

16 We have these opportunities in different
17 grocery stores and drug stores where you can go in

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

21 You can, through supplements, increase
22 your bone density. But if you wait until you think

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1 you're a senior citizen to begin being aware of this
2 issue, it's too late.

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

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

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

15 But just think of the partnership, whether

16 it's a grocery store or a drugstore, which may become
17 the weekly location where you go and check your
18 latest statistics. But you may have an insurance
19 company that will then partner with that store.

20 And if in six months you've been able to
21 bring your blood pressure down, you may get a \$25
22 gift certificate. That will be incentives from the

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1 insurance company that's trying to keep rates down.
2 Incentives.

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

11 To the governors, this is what we will
12 continue to work on. We will include in the next
13 product that is given to you at the end of July an

14 inventory of some of those best practices. It may be
15 Michigan, where we talked about a state surgeon
16 general. It's a whole host of things that you are
17 doing in your respective states.

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

22 And we're going to give you the most

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1 straightforward, pragmatic information so that we as
2 governors of the states can begin to impact this
3 positively, this issue.

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

7 So I want to thank all of my partner
8 governors for your participation in this discussion
9 and for those governors that have throughout my
10 tenure as chairman been active in giving me
11 suggestions with regard to this issue.

12 So I think we are definitely onto a
13 critical issue. We're on target. And we're going to
14 deliver.

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

17 (Applause.)

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

22 We will go into the governors only

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1 luncheon at 12:00. And you all know where that is
2 located. But directly across from there is Salon J.

3

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

8 (Laughter.)

9 CHAIRMAN KEMPTHORNE: So when we leave

10 this ballroom, if you would go in there so that we
11 can do one quick photograph of today's governors.

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

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

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

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1 Now, let me convene a meeting of the
2 executive committee. All governors are welcome.
3 This is not going to take long. But I will ask that
4 just members of the committee cast votes.

5 May I have a motion and a second to
6 approve the minutes of the November 20th, 2003,
7 executive committee meeting?

8 PARTICIPANTS: So moved.

9 CHAIRMAN KEMPTHORNE: There's a motion and

10 a second. Those in favor please say aye.

11 (Chorus of ayes.)

12 CHAIRMAN KEMPTHORNE: Opposed nay?

13 (No response.)

14 CHAIRMAN KEMPTHORNE: The ayes have it.

15 So carried.

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

20 PARTICIPANT: Moved and seconded. Is
21 there discussion?

22 Hearing none, those in favor please say

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1 aye.

2 (Chorus of ayes.)

3 CHAIRMAN KEMPTHORNE: Opposed nay.

4 (No response.)

5 CHAIRMAN KEMPTHORNE: The ayes have it.

6 So carried.

7 Next we'll consider the amendments to
8 policy executive committee 9, federal tax policy. A
9 motion and a second.

10 PARTICIPANT: So moved.

11 CHAIRMAN KEMPTHORNE: Moved and seconded.

12 Is there discussion?

13 Hearing none, those in favor please say
14 aye.

15 (Chorus of ayes.)

16 CHAIRMAN KEMPTHORNE: Opposed nay.

17 (No response.)

18 CHAIRMAN KEMPTHORNE: The ayes have it.

19 So carried.

20 We now have a proposed amendment,
21 executive committee 11. This is representation in
22 Congress for the U.S. citizens of the Northern

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1 Mariana Islands. Juan, would you like to address
2 this?

3 GOVERNOR BARBAUTA: Mr. Chairman, I

4 appreciate my fellow governors and the executive
5 committee's continuing interest in the Northern
6 Mariana Islands and the territorial governments.

7 In amending the executive committee number
8 11 in support of a National Guard unit for the
9 Northern Mariana Islands, it also extends to two
10 years to executive committee's sunset policy
11 provision, which supports giving the U.S. citizens of
12 the Northern Mariana Islands representation in the
13 Congress.

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

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

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

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1 Governor.

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

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

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

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

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

20 GOVERNOR BARBAUTA: Yes.

21 CHAIRMAN KEMPTHORNE: Okay. Thank you.

22 Is there a motion and a second?

1 PARTICIPANT: Moved.

2 CHAIRMAN KEMPTHORNE: Motion and second.

3 Discussion? Those in favor please say aye?

4 (Chorus of ayes.)

5 CHAIRMAN KEMPTHORNE: Opposed nay.

6 (No response.)

7 CHAIRMAN KEMPTHORNE: The ayes have it.

8 So carried.

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

11 GOVERNOR WARNER: Thank you, Mr. Chairman.
12 The NGA's financial statements are found on page 11
13 to 13 of your executive committee report.

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

20 So all in all, I think you'll find in the

21 financial report that we're in pretty good shape.

22 CHAIRMAN KEMPTHORNE: Very good. Any

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1 comments or questions?

2 (No response.)

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

6 PARTICIPANT: So moved.

7 CHAIRMAN KEMPTHORNE: Moved and seconded.

8 Discussion?

9 Hearing none, those in favor please say
10 aye.

11 (Chorus of ayes.)

12 CHAIRMAN KEMPTHORNE: Opposed nay?

13 (No response.)

14 CHAIRMAN KEMPTHORNE: The ayes have it.

15 So carried.

16 Is there anything to come before the
17 executive committee?

18 May I just compliment to the executive

19 commi ttee for your i nvol vement throughout the year.

20 Agai n, when we had our teleconference about three

21 weeks ago I appreciate the fact that of nine

22 executi ve commi ttee members ei ght parti ci pated i n

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1 that. It's truly appreciated.

2 So wi th that, i f there' s nothi ng else to

3 come to force i n thi s plenary sessi on, we stand

4 adj ourned.

5 (Whereupon, at 11:25 a.m., the meeting was

6 adj ourned.)

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NATIONAL GOVERNORS' ASSOCIATION

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WINTER MEETING

J. W. Marriott Hotel
1331 Pennsylvania Avenue, N. W.
Grand Ballroom
Washington, D. C.

Monday, February 23, 2004
3:00 p. m.

The meeting commenced, pursuant to notice, at J. W. Marriott Hotel, Grand Ballroom, on Monday, February 23, 2004, in Washington, D. C., at 3:0 p. m., Governor Dirk Kempthorne, Chairman, and Governor Mark Warner, Co-Chairman, presiding.

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P R O C E E D I N G S

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CHAIRMAN KEMPTHORNE: Good afternoon

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ladies and gentlemen and good afternoon to all of the

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governors of the National Governors Association.

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This afternoon we have an outstanding session. We

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are going to talk about productivity and the economy,

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manufacturing and we have very dynamic individuals

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who are going to be addressing us here this

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afternoon.

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Four outstanding individuals will have a panel

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discussion which will be led by world-renowned

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journalist and (inaudible) are all going to be very

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recognizable to you and they have accomplished

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tremendous things.

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We will begin with an overview by an economist who

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has received tremendous acknowledgement from his

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peers. This is going to be an opportunity following

18 three key note address by our economist. We then
19 turn to a gentleman who knows how to ask effectual
20 invigorating questions and keep this afternoon
21 session moving right along.

22 In the next entire issue technology productivity

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1 change, globalization, they are all powerful forces
2 driving economic change. Together, they are bringing
3 about a new economy characterized by different
4 sources of wealth, interdependencies among
5 businesses, dynamic markets, consumer choice, and
6 venture investment.

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

12 Radio existing for 38 years before 50 million people
13 tuned in, while television took 13 years for 50
14 million people to tune in. The Internet have 50
15 million users in only four years. Throughout most of

16 the last century, productivity in the United States
17 increased a little over 2% per year and over the last
18 decade however, it averaged well over 3% per year.
19 Productivity change is a double-edged sword. In one
20 hand, it is the source of all increases in real
21 income. Essentially, it is the basis of our
22 increasing standard of living. On the other hand,

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1 when you need less labor to produce the same amount
2 of output, job growth will be less, particularly in
3 transition periods.

4 Manufacturing has arguably suffered through the most
5 wrenching period through the great depression. Since
6 peaking in the late 1990's manufacturing payrolls
7 have dropped by nearly 20%.

8 We all know that we have lost significant numbers of
9 manufacturing jobs. Now there are many factors for
10 this, including, the increased productivity of U.S.
11 manufacturing plants and increased import
12 competition. Today job growth is at a cross roads
13 and there is uncertainty in the path that it will

14 take.

15 On the one hand, some economist foresee continued
16 tough times ahead for the manufacturing sector and
17 continued stiff competition from global producers.

18 In addition, global competition is hitting other
19 sectors of the economy and we may be losing as many
20 as 500,000 jobs each year to off-shoring.

21 On the other hand, economists also tell us that the
22 world economy will adjust and globalization will

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1 allow us to create more jobs than we lose. Indeed

2 America is beginning to show stronger job growth.

3 The President of the Federal Reserve Bank of

4 Philadelphia recently projected that domestic job

5 creation should accelerate to 200,000 jobs each

6 month, are more than enough to absorb new entrance

7 into the labor force, and begin reemploying those who

8 have lost their jobs.

9 Moreover, although a portion of domestic jobs will

10 continue to face potential off-shoring to overseas

11 producers. The Institute for International

12 Economics, predicts that the U.S. economy will
13 continue to create many more jobs each quarter than
14 are projected to be lost over the next decade.
15 Nevertheless, workers will need to continually
16 upgrade their skills for job security and to meet the
17 demands for the fastest growing occupations in the
18 United States.
19 Global competition shows no signs of abating and it
20 seems that skilled and educated labor force is key to
21 winning the race.

22 To begin this session, I'm first going to acknowledge

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1 our moderator. Mr. Lou Dobbs. Mr. Dobbs is the
2 Anchor and Managing Editor of CNN's Lou Dobbs
3 Tonight. He has won virtually every major award for
4 television journalism, including the Horatio Alger
5 Association Award for Distinguished Americans in
6 2000. He graduated from Harvard with a degree in
7 economics. And as I indicated, this is the right man
8 to moderate this topic, to stimulate the discussion.
9 We are going to begin this session with a White Paper

10 by an outstanding economist. Following that key note
11 address, I'm then going to turn to Governor Granholm
12 and Governor Doyle to introduce our two special
13 panelists. Because of bragging rights, they've asked
14 that they introduce the outstanding citizens from
15 their states.

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

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1 outstanding contribution to the field.

2 Other past recipients include Paul Volker and Alan
3 Greenspan. Mr. Hale has written extensively for the
4 Wall Street Journal, the Financial Times of London,
5 the New York Times and the Harvard Business Review.
6 He is a graduate of the Georgetown University School
7 of Foreign Service and has a masters of Science

8 degree in economics from the London School of
9 Economics. It is a great pleasure to introduce to
10 the Governors of the United States, Mr. David Hale.

11 APPLAUSE.

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

19 So in that capacity I was often addressing issues
20 which determine the competitive position of the
21 State. Taxation issues, regulatory issues and so on.
22 So I fully understand that you, as Governors, play a

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1 very, very important role in shaping the economic
2 policies that affect our manufacturing industry,
3 indeed affect the economy in general.

4 My focus today is on American manufacturing with all
5 employers in the economy and the challenges that

6 we'll face in the years ahead. Needless to say, in
7 manufacturing, despite the fact that it shrunk from
8 being 40% of our labor force in 1940 to only 12%
9 today, it's still a very, very important part of the
10 economy. It accounts for 14% of GDP. It's the
11 dominant force driving R&D spending.
12 This country spends every year about \$300 billion in
13 R&D, manufacturing is responsible for \$140 billion of
14 that. If we didn't have the manufacturing sector, we
15 would not have our technological leadership, which
16 plays a major role in America's overall global
17 economic supremacy. I should also add that the
18 manufacturing sector has, over the last 20 and 30
19 years, greatly outperform the growth rate of the
20 economy as a whole.

21 If we look at the last 25 years, manufacturing
22 outputs 109%, output in the economy in a whole is up

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1 53%. Manufacturing has also been hyper competitive
2 in cutting prices. The inflation rate for the
3 manufacturing sector in the last quarter century has

4 been 60%, for the economy as a whole is 140%.
5 Manufacturing also gives American workers the
6 opportunity to have a higher level of compensation
7 they get in other sectors. Wages are only modestly
8 higher, but benefits, healthcare, pensions, and so on
9 are significantly better in manufacturing than
10 elsewhere in the economy.

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

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

20 And finally, the American manufacturing sector has,
21 over the last 20 and 30 years retained a very
22 dominant position in the global economy. Last year

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1 our share of total global exports was about 13.50%,

2 compared to 12% 10 years ago, 13% 25 years ago.
3 Despite all the concern about the trade deficit,
4 despite all the concern about America's competitive
5 position, the fact is, we've held our own. Other
6 countries, Japan, some European countries have seen
7 their market shares fall quite significantly,
8 especially because of the rise of China and other new
9 countries in East Asia, but this country has held its
10 market share overall.
11 It's also important to note that our manufacturing
12 jobs are very broadly distributed. We have
13 manufacturing in every American state. It's not the
14 same, it varies greatly. The number one
15 manufacturing state is Indiana. Indiana has 20.5% of
16 its employment in manufacturing. The smallest is
17 Wyoming, 3.7%.
18 But if we look at the major states, we'll see
19 typically the manufacturing is somewhere between 12%
20 and 18%. Four years ago, we had actually six states
21 that was close to 20%. But because of the
22 manufacturing recession in the last four years, that

1 number shrunk and now the big states, after Indiana,
2 are Wisconsin, 18.8%; Arkansas, 18.3%; Michigan,
3 16.6%; and Mississippi got 16.2%.

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

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

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

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

20 But what's unique and distinctive about this business

21 cycle, what separates it from all the previous cycles
22 since World War II, is how even after the economy

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1 began a recovery in the late 2002, manufacturing kept
2 contracting.

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

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

17 Gerald Ford had a terrible recession in 1975, he
18 still got two million new jobs. Jimmy Carter had

19 high inflation from election year recession. He got
20 10 million new jobs. George Bush senior, twelve
21 years ago, had a recession during the Gulf War. He
22 still got three million new jobs.

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1 This current period is truly unique and very
2 distinctive. What's going on? Well first, we lost a
3 lot of jobs during the recession in 2001 because
4 there was a huge boom in the late 1990s in the
5 information technology and the telecom sector. And
6 as that boom unraveled, we naturally lost jobs in the
7 technology area. And indeed, we have lost in the
8 last four years, almost 500,000 jobs in the computer
9 sector, 125,000 in electrical equipment, 125,000 in
10 machinery in general.

11 So it's partly just the unraveling of the boom we had
12 in the late 1990s. Another important factor though,
13 and the critical factor is that American firms have
14 been striving here in recent times to significantly
15 bolster their profitability and their productivity.
16 The price of this productivity growth has been job

17 losses and weak employment growth.

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

22 The consequence has been, we've had job losses. So

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1 we are looking at a period here of very profound
2 structural change. There is a broad consensus on
3 Wall Street that in the year ahead, productivity
4 growth will slow and employment will improve. But
5 the fact is, there are no guarantees.

6 I should also add that these job losses are not just
7 occurring here in America. The fact is, we are
8 seeing a contraction of manufacturing employment on a
9 global basis. In the last few years, Germany has
10 lost 500,000, Britain has lost 600,000 jobs, Japan is
11 down 2,000,000, and the biggest job loser of all is
12 China, the country many Americans are terrified of.
13 In the last seven years, China has lost 25,000,000
14 manufacturing jobs because of the restructuring of

15 its economy to also enhance productivity, the
16 conversion of state-owned companies into privately
17 owned companies, and a wave now of foreign
18 competition because of (inaudible) which is
19 subjecting Chinese companies to unprecedented levels
20 of foreign competition.
21 So this is not just an American phenomenon, it's very
22 much a global phenomenon. And I would draw some

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1 analogies to what happened previously in our history
2 with Agriculture.
3 In 1940, 20% of the American people worked on the
4 farm. By 1970, that number was down to 4%, yet at
5 the same time, farm output increased by 60%. The
6 fact is, we are finding ways all the time to produce
7 more and more with fewer people because of the impact
8 of technology. And what's happening in
9 manufacturing, is very much a continuation of this
10 process.
11 Now what should your agenda be as Governors in
12 focusing on this issue of manufacturing and our

13 competitive position as a country? There are many
14 issues which loom large potentially for Governors as
15 we look out over the next five years.
16 The first important issue is healthcare. One of the
17 major problems facing American business in global
18 competition is the very high cost of healthcare in
19 this country. We spend 13% or 14% of GDP on
20 healthcare, most other industrial countries spend 6%,
21 7% or 8%.

22 This is a burden and it falls very, very heavily on

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1 American firms because they pick up the liability,
2 pick up the cost for most of these benefit programs.
3
4 Second very unique American issue is tort lawyers.
5 The cost of tort litigation in this country now
6 exceeds 2% of GDP. It is \$223 billion. There is no
7 other industrial country where tort costs are even
8 10% of ours. I realize this is a very difficult
9 political issue for you because many of you get your
10 money from tort lawyers when you are out campaigning.

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12 The bottom line is, this is a very, very severe
13 problem for American, it's a very, very big cost for
14 doing business and we must do all we can to try and
15 reduce it and the national association of
16 manufacturers I know regards Wisconsin as a very
17 useful role model for how states can address the
18 issue of tort reform.

19 The third concern is the cost of regulation in
20 general. The federal government produced a study
21 just a few years ago suggesting the cost of
22 regulation for U.S. business is \$150 billion a year,

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1 now it's probably \$180 billion. Half of this is
2 simply for environmental compliance but there are
3 other costs as well.
4 This is a very, very severe burden on small business.
5 This study shows that the average cost for
6 environmental compliance in small companies is
7 \$16,000 per employee compared to \$7,000 for large
8 companies. So please be very, very sensitive to the

9 regulatory burden you impose on your firms.
10 This is a greater problem before because we're now in
11 an era of relative deflation. Because of competitive
12 pressures in the world economy, we actually have
13 following prices now in many of our goods producing
14 industries.

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

18 The fourth very important area for policy focus is
19 that education. And a special concern of the
20 manufacturing sector is, it tends to have a much
21 older workforce than the rest of the economy. Only
22 19% of the people in the manufacturing industry of

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1 this country are under the age of 30. The economy as
2 a whole, the number is 30%.

3 In the next 10 years, four of five million workers
4 will retire from the manufacturing sector. And firms
5 have to replace these workers and the great concern
6 they have is finding people who have got the skills,

7 the education, the confidence to master what is now
8 required to be a worker in modern manufacturing. 30
9 and 40 years ago, you didn't need a lot of education
10 or technical confidence. But the fact is, now
11 because of technology, there is a much greater
12 premium on education than skills.
13 Needless to say, we have to have our state
14 governments and our local governments provide a well-
15 trained labor force, a well-educated labor force to
16 meet this challenge, to replace these workers who
17 will be retiring in very large numbers over the next
18 5 or 10 years.
19 The final challenge I want to focus on is not so much
20 a policy challenge as an intellectual challenge. And
21 that is this whole issue of global trade and open
22 markets. There is no doubt in my mind that America

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1 has the capacity to be a dominant player in many
2 industries because of its technological supremacy,
3 because of its core competitive values, its
4 confidence in management, its confidence in a wide

5 range of areas that are important to business
6 performance.
7 But over the last 12 or 18 months, we have seen in
8 this country a great crisis of confidence about the
9 issue of global trade. Here, a few months ago, I
10 testified before Congress on the issue of China's
11 exchange rate policy. As the hearing began, several
12 members of Congress came to blame all the
13 manufacturing job losses of the last four years on
14 China.

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

21 I want to stress to you that in fact these concerns
22 were very exaggerated. There is no doubt we do face

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1 a competitive challenge from China as we did with
2 Japan 10 and 15 years ago, but we are always going to

3 face a competitive challenge because the world's
4 economy is constantly evolving. 25 years ago China
5 was a communist country. It was poverty stricken.
6 Now it has rapidly rising incomes of living
7 standards. It is turning into the world's best
8 market for a whole range of products.
9 Indeed, China itself is now running a small trade
10 deficit because while its exports are booming, its
11 imports are growing by even more. This is an
12 opportunity for us. It's not something we should
13 fear. But I would encourage all of you as Governors
14 to use your offices, to use your bully pulpits as it
15 were to promote policies of open markets and free
16 trade and to try and position your states to benefit
17 from what's happening in the global economy.
18 My firm state of Illinois has trade-offices around
19 the world. We work very hard in Chicago to have a
20 very open door to the wide range of global companies
21 to come to trade, to invest, to use the financial
22 services we make available in the City of Chicago. I

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1 would encourage you to have a similar theme to
2 provide similar opportunities for the companies in
3 your own state.

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

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

18 Foreign firms are also very attracted to this market.
19 Over the next two years, Toyota, Nissan, and Honda
20 are going to create in this country 70,000 new jobs.
21 The fact is, Toyota now earns two-thirds of its

22 profits in the United States. Far more than it earns

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1 in Japan, and China is going to respond to its
2 success here, its opportunity here by investing a
3 great deal more and employing far more Americans.
4 The fact is, Toyota has become, in recent years, the
5 world's dominant auto company. It's market
6 capitalization is \$130 billion. GM, Ford and
7 Chrysler combined aren't even at \$60 billion. So
8 having this contribution from Toyota is very much a
9 positive for U.S. manufacturing and the U.S. economy
10 in general. So again, to finish up, we face great
11 challenges but we also have great opportunities.
12 The manufacturing sector has had a rough four years.
13 We've had some very rough adjustments with employment
14 losses. The counterpart to this has been major gains
15 in productivity and major gains in profitability. If
16 U.S. firms can earn high profits, if they can achieve
17 high levels of productivity, here is no doubt they
18 can also dominate in global markets, look forward to
19 new growth and this will in time, I think later this

20 year, lead to some, at least modest gain, some modest
21 recovery in America's level of manufacturing
22 employment. Thank you very much.

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1 APPLAUSE.

2 CHAIRMAN KEMPTHORNE: Mr. Hale, thank you
3 very much. Tremendous information and insight and
4 much that I think we can review and discuss. Now as
5 we continue this, I'm going to ask our two governors
6 if they would introduce the members of the panel and
7 then I'm going to turn this over to Lou Dobbs who
8 will begin the discuss.
9 He will then turn to the panelists for their comments
10 and we're underway. Thank you Governor Granholm.

11 GOVERNOR GRANHOLM: Thank you Governor
12 Kempthorne the opportunity to make this introduction
13 which I view as a personal privilege, given that Dick
14 Dauch is from Michigan and a great citizen and a
15 great advocate for manufacturing. I also want to
16 thank you for holding this panel to begin with
17 because it is such an important topic for all of us

18 who have manufacturing facilities in our states.
19 Dick Dauch is the larger than life Chairman of the
20 National Association of Manufacturers. He is the Co-
21 founder and Chairman and Chief Executive Office of
22 American Axle and Manufacturing in Detroit, Michigan.

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

6 Dick has been a strong advocate national and in
7 Michigan. His focus has been on global competition,
8 global pricing, and domestic cost as the driving
9 forces that are changing the face of American
10 manufacturing. In addition, his priorities are to
11 educate the American people about the importance of
12 U.S. manufacturing to our standard of living, to our
13 economic, and military leadership, and to get a
14 handle on the runaway cost of manufacturing, and to
15 demand, as we've all been discussing here, throughout

16 this conference, a level playing field with our
17 international trading partners.
18 In 1994, Dick Dauch founded American Axle and
19 Manufacturing but teaming with two investors to
20 purchase General Motor's Axle Forge and Drive Shaft
21 Drive Line assets. Today, American Axle is a Fortune
22 500 company, one of the top 25 automotive suppliers

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1 in the world and is traded on the New York Stock
2 Exchange and I know some of the original equipment
3 manufacturers, Ford and Chrysler and GM are here in
4 the audience today and, of course, we welcome them as
5 well.

6 Dick has outlined his passion for manufacturing in a
7 book called Passion for Manufacturing, which is
8 distributed in 80 countries in several languages and
9 is used as a textbook as well in numerous colleges
10 and universities, and I am personally, especially
11 grateful to Dick for his partnership with the State
12 of Michigan and our manufacturing matters summer
13 where we brought together business and labor together

14 to say while we know there are things that we
15 disagree with on the margins, we have a whole array
16 of common ground in the center and we came up
17 together with a nine point agenda that is a common
18 ground agenda that we want to pursue in Congress.
19 So I want us all to welcome Dick Dauch to Washington
20 and, of course, to this dialogue.

21 APPLAUSE.

22 GOVERNOR GRANHOLM: Very good. Mr. Dauch

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1 we come. Just a few moments we look forward to your
2 comments and we're delighted to have you here. It's
3 wonderful. Governor Doyle.

4 GOVERNOR DOYLE: Governor Kempthorne thank
5 you for giving me the chance to introduce a good
6 friend of mine. You know, in most of our states, we
7 have an employer or some organizations that really
8 define the character of the state. And in Wisconsin
9 we have a few, the Green Bay Packers and others, of
10 which we are enormously proud. That's right, the
11 most winning team over the last 10 years in the NFL.

12 LAUGHTER.

13 GOVERNOR DOYLE: But we certainly have a
14 company that we believe characterizes the values and
15 spirit of the State of Wisconsin and it is Harley
16 Davidson. And I am honored to introduce the Chairman
17 of the Board and the CEO, Jeff Bleustein.
18 The Harley story is an incredible story. A company
19 that was struggling in the 1980s that had to make
20 strategic difficult decisions decided that it was
21 going to compete at the high end, continue to make
22 the very best bike in the world. It has -- and under

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1 Jeff Bleustein's leadership it has done that and has
2 maintained its position as the leading heavyweight
3 motor cycle manufacturer in the United States.
4 But as you know Governor, it is more than just a
5 company. It's a way of life. Jeff Bleustein has
6 certainly help develop Harley as one of the great
7 trademarks, not only for the State of Wisconsin, but
8 for the United States.
9 He is a man of extraordinary accomplishments, holds a

10 masters of science and PhD degrees in engineering
11 mechanics from Columbia, a bachelor of science in
12 mechanical engineering from Cornell, and has served
13 as associated professor of engineer and applied
14 science at Yale University.

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

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1 Wisconsin as well.

2 And Mr. Bleustein as well is a great citizen of
3 Wisconsin. Now, you probably wouldn't expect this
4 from the CEO of Harley, but he is on the Board of
5 Directors for the Milwaukee Florentine Opera, the
6 Milwaukee Jewish Federation, the Greater Milwaukee
7 Committee, the Medical College of Wisconsin, a recent

8 emeritus of the Milwaukee School of Engineering, serves on
9 the Board of Brunswick Corporation and Coca-Cola Company.
10
11 He has been a tremendous citizen of the State of
12 Wisconsin of the United States and he has been a
13 great friend and advisor to me as we have really
14 worked to try, in Wisconsin, improve our climate for
15 manufacturing.
16 He has helped me, advised me on things like what we
17 do with China, what we do with manufacturing in this
18 State and I am just very, very honored to present to
19 you Jeff Bleustein.

20 GOVERNOR GRANHOLM: Very good. Mr.
21 Bleustein, welcome. You know I am an avid Harley
22 Davidson fan. Love being there with you for your

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1 100th anniversary and the Harley Davidson story is a
2 story that needs to be heard, so we look forward to
3 your comments. And it doesn't surprise me that you
4 belong to the ballet organization. Being a motor
5 cyclist, I think when you enter a curve at just the

6 right angle, there is nothing more beautiful than the
7 outlay on the road.

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

12 APPLAUSE.

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

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

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1 At this point, Jeff Bleustein and Dick Dauch, if we
2 could, hear from you gentlemen just your opening
3 comments and then we will open into the governors for

4 the session. I know they have more than one or two
5 questions for you and for Mr. Hale. What are we
6 doing, in alphabetical order Jeff? Okay, Jeff says
7 we're going to do it in reverse alphabetical order.
8 Mr. Dauch.

9 MR. DAUCH: First of all thank you Lou,
10 honorable Governor Granholm, thank you very kindly.
11 Governor Doyle, Governor Kempthorne. I'm delighted
12 to be here with my peer and colleague Jeff Bleustein.
13 We feel for America. We are on the foreign line, the
14 CEOs that run manufacturing corporations that are
15 presently listening to a lot of discussion and
16 dialogue that we have to execute.
17 So I am honored to be here as part of this forum and
18 to give an opportunity to address this aghast group
19 of governors and leaders of state government.
20 We are here to review the challenges facing American
21 manufacturers and I've been in this battle for 40
22 straight years. I want to be certain that

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1 manufacturing remains at the forefront of the minds

2 of the leaders in this room. We need you and we need
3 your policies.

4 We must never lose sight of the importance of
5 manufacturing and what David said before, still a
6 very significant part of our GDP and still about 15
7 million men and woman work directly every day in that
8 with another 8 million that are also related to those
9 15 million.

10 As we look to your leadership ladies and gentlemen.

11 The most important thing is playing a strengthening
12 U.S. manufacturing hand. Not giving up. I've seen
13 the powerful aghast discussions in '79 through '89
14 when the Japanese bubble was going to destroy us.

15 I saw the NAFTA thing when it was going to destroy
16 us, and today it might be China or anything else you
17 want to discuss. It's just another chapter of the
18 game we have to adjust to but this time it's not
19 cyclic, it's definitely structural and it's has to be
20 approached with objective data.

21 In my brief time with you today I'd like to cover
22 five basic points. First and foremost, I must stress

1 that manufacturing is critical to our economy. This
2 is not yesteryear tech. Manufacturing is very
3 sophisticated and needed. It's a fact that every few
4 Americans are aware of or respectful of. And we need
5 to work harder on that education process.

6 As we look at the seedbed of innovation, that David
7 talked about earlier, maybe my numbers and his are a
8 little bit different but when you look at about 60%
9 of RND of America, it's generated by manufacturing
10 for innovation and creativity and which keeps us
11 very, very sophisticated in the a global market.
12 It's by far and away the pace-setter for U.S.
13 productivity gains and that's hard measurable data
14 and auditable. Manufacturing is our largest
15 exporter. We export about 50 billion in agriculture
16 products every year. We do that much every month in
17 manufacturing recurring.

18 Manufacturing is how we pay our way in the world.
19 It's how we pay our bills. We cannot sustain a
20 prosperous economy and a strong powerful nation

21 without a viable and vigorous manufacturing sector.

22 Even during the recent downturn, the United States

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1 remains the single largest producer and exporters of

2 manufactured goods in the world. I seen sicker dogs

3 get well. I've been part of that process when it

4 occurred. Standing alone, America's manufacturing

5 sector would be the world's fifth largest economy.

6 That's quite a powerful statement.

7 Manufacturing has long been the very heartbeat, the

8 engine of the U.S. economy. It needs immediate

9 attention however and repair with a new prescription

10 to bring it back to health. History is nice, but

11 this is a totally different structural environment.

12 There are several factors that have dramatically

13 changed in the face of manufacturing in America.

14 That leads me to my second point that I want to

15 cover, and that's global competition. We are facing

16 relentless foreign competition like we've never faced

17 before and for most part, worldwide trade borders

18 have been erased.

19 Manufactured goods are transferable and thus they
20 compete globally. Unlike retail and service
21 industries that compete with the competitor down the
22 street, we compete with everybody in the world.

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1 Today, the major competition is China, Japan, South
2 Korea, Canada, Mexico, Indian, Brazil, you name it,
3 they're all over the place.
4 Relentless and often times ruthless, international
5 competition makes impossible for raising prices and
6 past increase cost. If anything, we are actually in
7 a deflationary pricing era. And make no mistake, the
8 world is determined to wrest our manufacturing
9 leadership away from us and without a doubt, they
10 want the jobs that are in you, men and women states
11 and that will get you reelected or dismissed.
12 That leads me to my third point. Customer demands
13 for global pricing. The customers are as demanding
14 as I've ever seen in 40 years. They want to get
15 anything in the world where they can get the lowest
16 price. They want U.S. made quality at the lowest

17 cost of any country in the world. Manufacturing
18 customers are leveraging global pricing as a
19 benchmark.
20 Yet U.S. manufacturers are challenged to maintain
21 solid financial business cases for each of our
22 services and product programs. Remember, we're

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1 business men and woman also. We have to reach those
2 hurdles of return investment capital, cash flow,
3 etcetera.
4 That brings me to my fourth point, escalating
5 domestic production cost and you ladies and gentlemen
6 can help along with the leadership at the national
7 level. The intense and often times unfair
8 competition that I have eluded to makes it impossible
9 for the manufacturers to raise prices, with rare
10 exception.
11 In recent years, the prices of manufactured products
12 have been declining. Manufacturers are caught
13 between a rock and a hard spot. The ships are
14 passing in the night and you wonder why your

15 companies or your people are in harm's way. It's
16 non-production cost that are rising in America and
17 they are coming from policies at state national
18 levels

19 I extend my very sincere thanks to Governor Bob Taft
20 of Ohio for sending us and every Governor in this
21 room, a copy of the new NAM study, "How Structural
22 Cost Impose on U.S. Manufacturers Harm Workers and

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1 Threaten Competitors." I hope you will study it,
2 review it and do something with it.

3 The report concludes that external overhead costs
4 from items such as tax, health and pension benefits,
5 tort litigation, regulatory, rising energy prices,
6 add over 22.5% to the price of production for U.S.
7 firms, relative to major foreign competitors. Even
8 more startling, is that these added costs are nearly
9 equal to the total production cost in China. These
10 add about five bucks plus change per hour, and that's
11 about what they get in China.
12 So school is out if we don't do something about this.

13 We need national policy to help remove this
14 unnecessary economic burden. The playing field for
15 manufacturing is by no means level, not by a long
16 shot. I remember when Lee Iacocca and I in Chrysler
17 coined those words in 1979 and '80, when we had an
18 unlevel playing field and we had to have the most
19 massive one-business recovery in 200 years of
20 American history. And the Chrysler loan guarantee
21 helped us do that.

22 But it was the people in America in those factories

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1 that pulled that off and paid you back seven years
2 early and at 17% return, not bad.

3 A level playing field means we all play by the same
4 rules and right now that is not happening. Some of
5 our trading partners impose illegal barriers to U.S.
6 products. Some of them engage in rampant piracy of
7 our patents and copyrights. And some of them engage
8 in currency manipulation, keeping the currencies
9 undervalued to make their exports cheaper and ours
10 more expensive.

11 Our government must do a better job and we'll be
12 delighted to work with the government administration
13 on enforcing international trade agreements. So what
14 are we to do? Obviously most of this is a national
15 problem demanding attention from Washington, DC. You
16 can help with that. You are a powerful influence,
17 first in your state and secondly in our nation.
18 Our first task is to get attention for the issue,
19 putting it on the front burner. Manufacturing has
20 been downgraded for so long, it's sad. A
21 collaborative effort from our governors would be a
22 powerful influence on national policy. And I'm

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1 asking for you to consider that.
2 Our policymakers must address the cost drivers that
3 are beyond the controlled manufacturers and severely
4 inhibit our ability to compete globally. I am asking
5 you to take a leading role individually and as a
6 group on raising the awareness and action of Congress
7 and the administration. Everyone needs to be aware
8 of the importance of manufacturing and the vital role

9 it plays in the long-term prosperity and security of
10 the nation that you and I call home.
11 Without a doubt, we are facing monumental challenges.
12 They are like no other in my automotive career in
13 manufacturing. It's an economic war that must be won
14 by you, me, and our team, the home team.
15 You can also go out in your home state to help
16 raising escalating costs. I was very proud of our
17 governor, the Honorable Jennifer Granholm. She
18 polled about 50 of us, men and women together from
19 different walks of life and that was business, labor,
20 education and government. And as she indicated
21 earlier, she created, with our assist, a nine point
22 plan, just like President Bush has a six point plan.

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

7 manufacturers to meet with him very soon. We are
8 encouraged by all of this. There is hope.
9 I respectfully challenge the policymakers in this
10 room, the aghast group of governors that lead our
11 country, to take similar actions in their respective
12 states. Develop solutions to abolish this 22.5%
13 disadvantage that U.S. manufacturers are saddled and
14 burdened with. Let's pursue trade policies that are
15 fair and ensure American manufacturers are able to
16 compete on this high level playing field.
17 When somebody has a 50% tariff and we have a 2%
18 tariff, that's not fair. Things have changed. It's
19 time for us to step up and realize that we have to
20 adjust to the times that we're in. I hope each and
21 every one of you will take an active role in
22 manufacturing, help us make manufacturing a high

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1 level national priority.
2 It's a very noble profession which most Americans
3 don't understand or respect the expression of our
4 industrial strength. It gets its very foundation

5 from the manufacturing sector. Listen to the
6 manufacturer leaders in your state, our Governor did.
7 Help us get runaway costs under control.
8 Make no mistake, there is no such thing as a
9 prosperous nation without a vigorous competitive
10 manufacturing sector. The greatness of our nation,
11 and it is a great nation, and the quality of our life
12 that we enjoy is a direct expression of our
13 industrial strength.
14 Ladies and gentlemen, thank you for allowing me to be
15 here with you today. We need your help. We will be
16 there to also help in the process. I am inviting all
17 leaders in this room to do what is best at your state
18 level and the national level to strengthen
19 manufacturing, preserve our nation's legacy for
20 future generations, manufacturing is a great
21 contributor to the wealth of America. I hope that we
22 can ensure it stays that way. And yes, these man and

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1 women need jobs and they are not entitled to them.
2 Thank you sir.

3 APPLAUSE.

4 MR. DOBBS: Mr. Bleustein.

5 MR. BLEUSTEIN: Thank you Mr. Dobbs and
6 thank you Governor Doyle for that kind introduction.
7 I just wished my mother-in-law were here to here it.

8 LAUGHTER.

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

15 LAUGHTER.

16 MR. BLEUSTEIN: The vitality of the U.S.
17 manufacturing sector is clearly an important issue.
18 But also clearly, it's not an easy one to solve.
19 There is no magic recipe that will ensure success.
20 However, we can be fairly confident that we know some
21 of the key ingredients.
22 First of all, U.S. manufacturers must do everything

1 they can do to help themselves compete in this global
2 marketplace. To begin with, we need to relentlessly
3 pursue operational excellence in our factories and in
4 our offices, in every facet of our business.
5 This means things like adopting the principles of
6 lean manufacturing throughout our companies. It
7 means educating employees in using process redesign
8 and capital investment to enhance productivity and to
9 improve quality on a continuing basis.
10 And it means breaking down some of the traditional
11 barriers between management and unions and learning
12 to work together as partners in the enterprise.
13 U.S. manufacturers have come a long way during the
14 past two decades. Significantly, we do see the large
15 gap that used to exist between U.S. and Japanese
16 manufacturers. But operational excellence is a never
17 ending pursuit and we must continue.
18 However, we can do more than just improve operational
19 excellence. Wherever possible, we need to pursue new
20 business models or business strategies that allow us
21 to compete on dimensions other than low cost.

22 For example, we can develop and leverage new

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1 technologies for products and services or create
2 innovative designs or different marketing approaches
3 that are not easy to duplicate, or combine products
4 and services in unique ways. The possibilities are
5 endless. We must find ways to de-commoditize our
6 businesses.

7 Now for a second ingredient. Even if U.S.
8 manufacturers are doing everything they can do to
9 help themselves, they still need a level playing
10 field if they are going to compete globally. And we
11 are far from a level playing field. What do we need?
12 First of all, we need to keep markets open around the
13 world and to remove both tariff and non-tariff
14 barriers wherever they exist.

15 Some of these can be quite subtle but they need to be
16 uncovered and eliminated. Mr. Dauch eloquently laid
17 out the challenge we face in the U.S. with structural
18 costs that put U.S. manufacturers at a large
19 disadvantage. We need your help in addressing that

20 challenge on a nationwide basis. But you can also

21 address many of these issues in your own states.

22 Meet with your manufacturers, find out what their

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1 priorities are.

2 Governor Doyle has done that in Wisconsin, and there

3 is an agenda for action. Governor Doyle carried the

4 ball on the single factor tax law, which makes it

5 more appealing for multi-state companies to do

6 business in Wisconsin. And together, we are starting

7 to address the major issue of escalating healthcare

8 costs.

9 And in Pennsylvania, another state where Harley

10 Davidson does business. Assistance on access road

11 development made it possible for us to construct a

12 new 350,000 square foot factory and preserve hundreds

13 of jobs for our growing business.

14 Something else you can do is to continue to attract

15 more new businesses to your states. But don't

16 neglect the businesses that already call your state

17 home. At Harley Davidson, we believe that our

18 existing customer is our most important customer.
19 Maybe that concept will work for you as well.
20 We can keep manufacturing alive and vibrant in the
21 U.S., but it will take creativity, cooperation, and
22 most of all, determination to make that a reality.

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1 Thank you.

2 APPLAUSE.

3 MR. DOBBS: Mr. Bleustein thank you very
4 much. It is a great privilege for me to be here as
5 your moderator and to have an opportunity to say just
6 a few words in the subject before turning this
7 review, gentlemen into the willing subjects of the
8 interrogatories that are about to hit you.
9 The subject of productivity manufacturing capacity,
10 capital investment in this system, this economy and
11 this country, the importance of technology and
12 driving prosperity. It's my privilege to be involved
13 in these discussions for quite some time. Out of
14 curiosity, intellectual curiosity as a journalist,
15 and one of the things that's so important about what

16 you're doing here today is this public debate over
17 our trade deficits, our productivity, the loss of
18 jobs, whether it be to outsourcing, or to the
19 advances of technology itself.
20 We find some limitation, if not outright pollution of
21 the public debate in the two bipolar extremes that
22 are trying to be insisted upon the debate in public

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1 policy. On the one hand, we are told that only free
2 trade is an acceptable option. On the other extreme,
3 the only option that exist is that of protectionism.
4
5 In point of fact, we have neither free trade nor
6 protectionism in this country. We have a wide range
7 of policy issues, as each of you in this room knows
8 and I just want to say in a bipartisan sense, that if
9 we can eliminate the artificial Hobson's Choice of
10 either free trade, which does not exist, or
11 protectionism, which is not on anyone's agenda that
12 I'm aware of, and talk about managing public policy
13 toward a desired outcome, I think that the country

14 will be well served as well as each of your states or
15 in each of your industries or in companies.
16 One of the -- it's interesting to me to hear Dick
17 Dauch describe the international competition against
18 which manufacturers in this country have to contend,
19 he used the words relentless. He used the words
20 ruthless. Jeff added another word, unfair. And that
21 to me is unfair competition and that to me is an
22 interesting statement about free trade, the trade

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

9 MR. HALE: The reason we have a trade
10 deficit is very simple. We have a fundamental
11 imbalance in our level of savings and our level of

12 investment. America has one of the lowest investment
13 rates in the world. Our personal savings rate is
14 down to 1% or 2%, almost all of our savings now are
15 in our corporate sector.

16 We, at the same time, have a high level of investment
17 and a high level of consumption and the result is, we
18 have this trade imbalance. We also have now,
19 compared to four years ago, a very large federal
20 budget deficit, almost \$500 billion, which has as its
21 counterpart, the so-called current account deficit,
22 the external deficit and our balance and payments,

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1 that's mostly the trade deficit, but can also include
2 the deficit on things like investment income.

3 Is this a problem? It's not a problem as long as you
4 can finance it. The new development of the last year
5 and a half though was, we no longer financed this
6 deficit primarily through private capital flows,
7 we've also become in the last year and a half very
8 dependent on the Central Bank Intervention of Japan
9 and China and Taiwan. They're all trying to maintain

10 stable exchange rate against the American dollar, so
11 they have been intervening massively to try and
12 prevent their exchange rates from appreciating.
13 Last year, Japan provided \$200 billion for funding
14 for our budget deficit. China did \$100 billion.
15 Taiwan did \$20 or \$30 billion. We've been able to
16 keep our interest rates down at very low levels, very
17 moderate levels in part because of these very large
18 capital flows from the East Asian central banks.
19 In fact, the whole financial underpinning of the Bush
20 administration's foreign economic policy is one
21 simple fact and that fact is the East Asian central
22 banks now have foreign exchange reserves at \$2

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1 trillion and they keep 90% of this money in the U.S.
2 government bond market. Because of these guarantee
3 capital flows, we are able to co-exist with these
4 very large fiscal deficits.
5 So the bottom line is, the trade deficit is a
6 concern, but so long as you can fund it, it doesn't
7 get in the way of economic growth, it doesn't drive

8 up interest rates, it doesn't create any shocks. But
9 if we lose those foreign capital flows, if money
10 doesn't come to this country on a large enough scale,
11 that trade deficit will set the stage for both a big
12 dollar depreciation and also higher bond yields,
13 higher mortgage rates, and a different composition of
14 growth in our economy.

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

20 MR. HALE: Again, one of the most
21 remarkable features of the global financial market in
22 the last year and a half is how we've had a big

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1 dollar decline against the currencies of Europe and
2 the floating exchange rates in the British
3 Commonwealth, 50% against the South African rand,
4 20%, 30% against the Canadian dollar and the
5 Australian dollar but there is no shock effect on our

6 bond market.

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

21 MR. DOBBS: Thank you Dave. If anyone of
22 you has a question of Mr. Dauch or Mr. Bleustein or

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1 Mr. Hale, just please signal and I will get to you
2 instantly, I promise. In the interim, I would like
3 to you Governor Kernan. On the issue of outsourcing,

4 you have recently had to contend with this issue both
5 in terms of policy and politics, which somehow seem
6 to go together with economics in making the judgment
7 to really discontinue outsourcing overseas to a cheap
8 labor market. Can you give us just basically your
9 sense of the parameters for your policy decisions and
10 your thoughts?

11 GOVERNOR KERNAN: We had a contract that
12 had been bid through an RFP process for some
13 technical information technology systems and the
14 award was made to one of the three companies that
15 ending up bidding proposals.
16 It was an overseas company. The other two bidders
17 that were part of that were U.S. companies that also
18 is a part of their proposals was going to do a
19 significant amount of the outsourcing out of the
20 country and obviously out of the state.
21 I made the determination that the request for
22 proposal was flawed in that the way that it was drawn

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1 up, had effectively eliminated any Indiana companies

2 from being able to participate. And as we were
3 looking to complete this work, it was not
4 inconsistent for our responsibilities to purchase
5 goods and services to be consistent with their
6 policies to encourage job growth in Indiana.
7 And therefore rescinded the contract and it called
8 together a group from around the state to form what
9 we are calling "Opportunity Indiana" which is to make
10 sure in circumstances like this and others where we
11 are purchasing goods and services, that we give
12 Indiana companies every opportunity to be able to
13 participate successfully.
14 For instance on a contract like this, for them to do
15 know what is in the pipeline, not just two months
16 from now but also two years from now, so that they
17 can make the judgment as to whether to create
18 additional capacity to be able to deal with the kinds
19 of challenges that we are looking at, to collaborate
20 with other companies, to work with our universities
21 and by giving more notice and giving more
22 information, that we are encouraging our Indiana

1 companies to be able to participate.

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

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

17 And I would just add that Indiana is a state that, as
18 David said, we make a lot of things and had forever,
19 and manufacturing is a critical part of Indiana's
20 economy today. We are the smallest state west of the

21 Allegany and yet we will ship more than \$16 billion
22 worth of goods to international destinations last

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1 year.

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

9 MR. DOBBS: Governor thank you very much.
10 Governor Pawlenty.

11 GOVERNOR PAWLENTY: Thank you Mr. Dobbs
12 and thank you for seeing and facilitating this
13 discussion today. In the spirit of your comments of
14 just a moment ago that most of us, like all of us
15 support free trade but we always say it has to be
16 fair trade and recognizing we really don't have fully
17 free trade, nor do we fully have fair trade at the
18 moment.

19 I'd like to ask our panel members, if they had to
20 triage the challenges that we face with respect to
21 unfair trade, or as I say stupid trade, you know you
22 mention things like currency manipulation, you

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1 mention the more aggressive protection of
2 intellectual property rights. There are political
3 considerations that advantage certain commodities or
4 countries relative to the United States.
5 If you could pick just one or two things, on a triage
6 basis, where you would want the federal government,
7 or those of us who want to present some voices of
8 change, to focus on as a priority, what one thing
9 would you pick?

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

17 code. So that's an expense, so it would be one.
18 I think the other thing Mr. Dobbs and others have
19 already discussed, and that is on the employee
20 benefits. The benefits is a structural, non-
21 production cost that basically is on the back of the
22 manufacturer in our nation and isn't with most of the

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1 other countries that you compete with, there would be
2 a couple and I would defer to other thoughts to Jeff.

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

10 Harley Davidson does compete around the world. We do
11 have the major market share in large motorcycles in
12 the united States but we also happen to have the
13 largest share of large motorcycle sales in Japan,
14 which is the home of our four largest competitors.

15 So we are not afraid to compete and it's particularly
16 gratifying to be able to do well in their backyard.
17 But it hasn't been easy, and let me give you an
18 example of a couple of kinds of non-tariff barriers
19 that we have had to deal with in Japan.
20 One of them was the very stringent test requirements
21 for someone to get a motorcycle operator's license to
22 operate a motor cycle that is greater than 400 CCs in

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1 size. One of the test was basically to ride a
2 motorcycle across a balance beam. And you see the
3 difficulty a gymnast have in doing that, imagine
4 trying to ride a large motorcycle on a balanced beam.
5 You are never quite as far off the ground but if you
6 fell off that, it was a special experience.

7 LAUGHTER.

8 MR. BLEUSTEIN: The result was, only about
9 2% of the people who took that test could ever pass
10 it. And obviously, although it was couched as a
11 safety requirement and all of that, its real purpose
12 was to keep Harley Davidson motorcycles, and I'm sure

13 before that, other motorcycles out of that market.
14 Fortunately, after many, many years of lobbying, we
15 got that change and it led to a very big increase in
16 sales, not only of our own, but other motorcycles as
17 well.

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

22 What that does is force people who want to ride two

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1 up, to have to go on these back roads and streets if
2 they ever want to go any place and as a result,
3 people who tend to ride together, people who ride
4 larger motorcycles, found these husbands and wives,
5 guys and gals, who want to go some place together and
6 so the highways are open to, you know, young kids
7 riding super high performance motorcycles out on the
8 freeways but more responsible riding is limited to
9 the back roads and the city streets.

10 MR. DOBBS: It sounds like a marketing

11 opportunity where you'd be able to sell twice as many
12 motorcycles.

13 LAUGHTER.

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

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

8 When we go to China and see the motorcycles that have

9 appeared in China really through the gray market or
10 the black market, people riding them, they want the
11 authentic U.S. experience. So, they don't want one
12 that was made in their country, they want the ones
13 that were made where Harley Davidsons are made.
14 So that whole area is ripe with opportunities, and
15 that's where we say level playing field. That's what
16 I mean. Just one last little thing and I will go on
17 -- I did not use the word unfair. I did use the word
18 relentless pursuit of operational excellence and that
19 was a requirement for U.S. manufacturers, something
20 we had to do for ourselves.
21 Fair and unfair, I try to avoid those kinds of
22 characterizations because they are so laced with

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1 cultural implications and, you know, in some cultures
2 you may think something is very fair, someone else
3 may characterize it as unfair and so I just rather
4 avoid that whole issue.

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

7 LAUGHTER.

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

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

19 MR. BLEUSTEIN: There are some things that
20 really surprise you when you get into them but when
21 it gets down to the politics of the negotiations,
22 sometimes the decision is made to avoid a big

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1 conflict with, you know, an important political ally
2 for some small commercial benefit for some small
3 group of companies.

4 GOVERNOR RENDELL: So you're saying maybe

5 that was a political choice on your path. Does any
6 of the panel elude, do you know, with a third thing
7 especially violate WTO rules requiring that they be
8 made in China, to be sold?

9 MR. BLEUSTEIN: That would violate WTO
10 rules?

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

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

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

22 MR. DOBBS: I've never seen Governor

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1 Rendell on any capacity, ever want to get into it
2 before. Governor let me as you this, Dick Dauch just

3 said this is all about jobs. But no one is entitled
4 to jobs. I was with you all the way until you got
5 right there. No one is entitled to jobs and if this
6 is not about jobs, if it's not about quality of life,
7 what's it all about?

8 MR. HALE: Can I answer that Mr. Dobbs?
9 First of all, the issue is competitiveness. And on
10 the broader scales, we discussed this about global
11 competition. As I've also indicated, it's not
12 cyclical like has been in the past, it's structural.
13 And all these things are re-hashed, but they are
14 facts.
15 If we look in maturity here, in the late 1990's for
16 whatever reasons America took a position of allowing
17 the dollar to become strong. And from '97 to 2002,
18 our dollar strengthened to the point that it hurt
19 severely, structurally our exportation. And that had
20 an impact on deficit, that had an impact on
21 capitalization (phonetic), that had an impact on
22 jobs, that had an impact on the financials that you

1 have to have for your Boards, your governors, your
2 investors, and the shareholders, because we have
3 fiduciary responsibility to all those different
4 constituency.

5 So we are at a cost price squeeze. We are in a
6 talent squeeze. We've got an unfair playing field.
7 We talked about basically our market is open. Why do
8 we have these different trade agreements? Because we
9 are trying to restrict these burdens that we are
10 carrying that are unfair, going back to that
11 fair/unfair treatment.

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

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

22 those policy directions that there is improvement

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1 occurring.

2 The same way with tax. Of course, you've got the

3 conjecture with that tax reduction, the three in the

4 last couple years, will be repealed or not. Those

5 are issues that you governors and the national

6 administrative have to deal with but there costs that

7 are hurting our manufacturing competitors.

8 If you have the tax issues, if you also have the

9 environmental issues, you also have the employee

10 benefit issues and you come up to 22.5% structural

11 cost. You can't hide from it. It's real. So we have

12 to deal with those things. And yet jobs is or

13 course, but economics is what it's all about.

14 MR. DOBBS: Economics is what it's all

15 about and I take your point. But let me pose the

16 questions, if I may, to you Mr. Bleustein, as well as

17 Mr. Dauch and to David Hale. The men and women in

18 this room are facing policy choices and indeed up the

19 street, on international trade competitiveness. In

20 one instance we're hearing you say that it's not a
21 level playing field, in terms of world competition.

22 We are hearing you say it's unfair, that it is

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1 ruthless, that it is relentless.

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

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

18 David.

19 MR. DAUCH: May I start David?

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

22 MR. DAUCH: Yes. To me the most important

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1 asset any manager has to manage is the human
2 resource, which we'll call that labor. And the most
3 important thing to do is to be truthful and to
4 discuss with your men and women, tell them the truth
5 and tell them what are the issues. The issue is
6 about competitiveness, it's globally competitive and
7 if we're not competitive, we have to adjust to that.

8
9 The American people, if given the straight scoop,
10 we'll respond positively, remarkably, resiliently.
11 I've had the privilege to see that over four decades,
12 going into five decades.

13 We are a Michigan based company. Michigan is
14 basically a blue collar, union, auto-focused state,
15 and there is not a better actual producing plant in

16 the world than the state of Michigan, in the city of
17 Detroit with unionized labor. And those are plants
18 that, for 75 years, were in difficult harms way or
19 troubled plants.

20 We have run 165 million man hours without a lost
21 second of labor and management strife. Not because
22 there is a love there but because there is an

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1 openness, there is honesty and everybody is adjusting
2 and labor is one of the seven or eight most crucial
3 factors but it is one of seven or eight factors and
4 we have to balance all of that.

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

9 MR. HALE: I'd like to make just one
10 overall comment about the labor market of this
11 country because it's not a well understood fact that
12 this country loses every year 7.5% to 8% of all its
13 jobs. The recently unemployment rate is 5.5% and its

14 declined in the years is that our job creation in
15 general over the last several years, has exceeded job
16 destruction. The last two years being the exception
17 but not by very much.
18 So we actually have, in our country an extraordinary
19 amount of turnover in employment and in jobs. We
20 have to get used to that fact. Now the challenge I
21 think for workers in the manufacturing sector is very
22 simple.

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1 They have to collaborate with their employers, they
2 have to collaborate with their companies, maximize
3 productivity, maximize profitability. Because it's a
4 strong company, a profitable company that gives us
5 investment, give us R&D, gives us new employment
6 opportunities.
7 And that means flexibility on work rules, flexibility
8 on all the things which influence productivity. If
9 we have that, we will have more employment growth.
10 If we don't have that, we may protect one or two jobs
11 in the short term but will lose them later because we

12 just won't be as competitive, we won't have the
13 profitability, we won't have the ingredients, the raw
14 materials for economic growth to give us employment
15 guarantees to compensate for the fact that we lose
16 7.5% of all of our jobs every year.

17 MR. DOBBS: Yes sir.

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

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1 And we have really worked hard on that as Mr. Dauch
2 has in his factories to get people to realize that
3 labor and management are really on the same side and
4 the real key is to stay competitive.
5 But I would like to give a slightly different
6 perspective on productivity because I don't think
7 that improved, increased productivity necessarily
8 leads to job loss.
9 This would be to describe our own experience starting

10 in the early ;80s we started to focus on improving
11 productivity. At that time, we employed about 2,000
12 people. We have increased our productivity at a very
13 high rate since the mid-;80s every year, so for two
14 decades and today we employ 9,000 people. So
15 productivity doesn't lead to job loss necessarily.
16 Now a lot of people have different jobs that they had
17 before, but they are still employed by the company.
18 They needed to be retrained, they had to learn new
19 skills and we continued to grow our business.
20 So the real enemy of jobs is lack of competitiveness,
21 not improving productivity.

22 MR. DOBBS: Governor Kempthorne.

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

8 motorcycle, it's an icon.

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

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

20 And then also, if you and Mr. Dauch could address
21 tort reform. Because I heard some positive things
22 said about Wisconsin, I don't know if Wisconsin has

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1 undertaken tort reform. I know that Texas has. I
2 know that we have in Idaho. So, how important is
3 tort reform and why and what form should it be?

4 MR. BLEUSTEIN: Let me deal with the
5 marketing issue and I'll let Mr. Dauch handle the

6 tort reform. I'll be happy to chine in as well. The
7 market is important and as I said there, it's really
8 helpful if you can create a business model or a
9 business strategy that allows you to choose a
10 different battlefield if you will, for the
11 competition.

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

17 And I think no matter how hard we try, it take a
18 while before we are going to be able to compete. I
19 think there is always going to be someone who will be
20 able, from a commodity product to have a lower cost
21 than we are going to have in the U.S. because there
22 are just some things that our society will not

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1 accept, that are accepted in other places around the
2 world.

3 So it's helpful to find something else, you know, if

4 it's marketing, if it's a particular proposition for
5 your product or your service, that distinguishes you
6 from other manufacturers who are in the same area,
7 but maybe have a different business proposition. And
8 marketing comes in in a very important way there.
9 It is just -- it's pretty fortunate that you actually
10 had a choice by a similar product made in the U.S.
11 clothing product made in China or Korea or Thailand,
12 or any one of the number of countries in Asia. We
13 fodder a losing battle for many years trying to prop
14 up the U.S. clothing manufacturing industry at least
15 as it related to our products, leather manufacturers
16 and things like that, unsuccessfully.
17 I mean they just couldn't. Our business was not
18 enough to support them. Now as our company has grown
19 and we are a fairly large clothing distributor, as
20 far as distributors go, we have been able to bring
21 some companies back from the dead and in fact create
22 some companies now, who actually will produce, you

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1 know, a garment in the U.S. but it's very difficult

2 for them to get to the same quality levels and so
3 forth. It's still is a higher cost product but some
4 people are willing to pay that price and some demand
5 it. So we try to please our customers.

6 MR. DAUCH: So in manufacturing that
7 relate eventually to marketing on my response to your
8 point. What I discuss with my people on the day we
9 took over, whereas it's a firm that was terrible
10 neglected, everybody was high anxiety. Nobody
11 thought they would ever have a job, and we fast
12 forwarded in 10 years and we've elevated their
13 education 5 years.
14 We've elevated their diversity dramatically and the
15 genders of female, about 300%. On the hard core
16 things, you can market quality from 13,000 parts per
17 million to less than 10 by far better than anybody
18 else in the world. That you can market. Otherwise
19 it's not very sexy or sizzling to look at steel or
20 gear or an axle or a driveline. But when you put it
21 into a crucial industry, the auto industry, which is
22 still the biggest bell cow in the world, a driveline,

1 a drive train, a power train is what the guts of it
2 is all about, because you have to have tort delivery.
3
4 Whether it's a motorcycle or it's a car or a truck, I
5 don't think anybody rode a horse here to Washington,
6 DC. So you got here by a car, a truck, or a bus and
7 you don't want to hear our business, you want to be
8 quite. I can market quiet, NBH.
9 I can also market warranty protection. If one person
10 say 100,000, I say 200,000, that's twice as good.
11 That's marketable. I can sow in a red, white, and
12 blue flag, it's not going to do any good to my
13 customer today. If I don't have measurable math
14 data, a fundamental value added work, which is what
15 manufacturing is all about and we balance that with
16 marketing.
17 On the other piece on tort reform, it is one of the
18 top five big boys that make up this structural cost
19 impediment that we've got. If I put that into the \$5
20 an hour, it would be over 80 and almost 90. Well

21 if we are in negotiation and somebody wanted 80 per
22 hour and I've got 20 million hours per year, well,

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1 that's an economic issue. That's \$16 to \$20 million.

2 So multiple that times however many manufacturer we

3 have, we of NAM represent 14,000 manufacturers and

4 let's say there is maybe 20,000 total in our country.

5 Tort reform is a very critical issue. It needs to be

6 addressed by the men and women in power at the state

7 level and the national level.

8 So, I think those are very salient points and that's

9 sir how we try to respond to that. Thank you.

10 MR. DOBBS: Governor.

11 GOVERNOR CARCIERI: Thank you. I spent

12 most of my career doing what you're doing, which is

13 competing against the Japanese and the Chinese and

14 trying to -- all of the non-tariff barriers that you

15 referred to, I saw time and time again.

16 I think that what strikes me in the conversation that

17 I would be completely supportive of Governor Rendell,

18 you know, if we got unfair situations, we should be

19 pursuing those and making sure that's not happening,
20 because it does. I saw it time and time again.
21 The issue though what I'm interested in is healthcare
22 cost, you talk about healthcare cost, tort reform and

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1 expended on a little bit, but health care costs is
2 just an enormous issue, some of which we can deal
3 with at the state level, much of it at the federal.
4 I'm trying to bring this back to, as a governor,
5 having a businessman my whole life, now as a
6 governor, I'm only interested in one thing,
7 economically, which is jobs.
8 Because if we are producing jobs and employing
9 people in our states then we produce the revenues,
10 etcetera, etcetera, and we're producing a quality of
11 life. So I'm trying to ask myself what's absence. I
12 haven't heard yet in this kind of a discussion, is
13 getting away from tariffs and barriers as Lou said,
14 you know, protectionism versus free trade. And bring
15 it back down to issues that as governors, we can have
16 some impact on.

17 And there are a few that I would tick off that I
18 would be interested in your thoughts on. One is
19 technology development. What kinds of incentives are
20 there. Are there enough incentives for technology
21 development.

22 I'm an absolute believer of that's the future for our

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1 nation, it's the future for my state. We are going
2 to stay ahead of the curve competitively as long as
3 we continue to innovate and produce the products
4 without commoditizing them. And we've got to do that
5 with a sense of urgency.

6 Beyond that, and arriving back to my business days
7 and see issues like worker's comp cost, unemployment
8 cost, energy cost, workforce training and development
9 cost and so forth. And those are the kinds of issues
10 that we as governors can actually have some impact on
11 and I know things I'm trying to work on in my little
12 state. But I'd be interested because sometimes we
13 get into this whole, you know, competitive situation.
14 We cannot affect what they are paying wages in China.

15

16 There is no way we are going to be able to ever
17 compete against that. That's a reality. The
18 question is, what do we need to do to position
19 ourselves competitively, and what can we as governors
20 do in the kinds of areas that I've talked about --
21 and we didn't talk about energy, but I'm just saying
22 some of your thoughts on that. Because worker's comp

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1 is a big issue, unemployment cost, because we've got
2 great support systems nationally and statewide, I'm
3 not convinced at all we're doing a good job getting
4 people back to work, fast and make them -- because
5 anybody who's been out of work for a long time,
6 doesn't feel very good about it.

7 We support them, we've got a good support network,
8 but we're not doing them a favor by keeping them out
9 of work. So I'm interested in your thoughts.

10 MR. DOBBS: Chairman, can I ask for it to
11 be very succinctly there. We've got just a few
12 minutes left and we have two more governors with

13 questions and I promised they'll be able to get them
14 in. So if you would.

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

20 Secondly, an energy bill is stuck somewhere in
21 Congress. We need help. What happen in the
22 millennia we're in is, we had an abundance of natural

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1 gas just a few years ago. And today, because of
2 flawed policies in our nation, we are being raped on
3 energy at the natural gas level, and these are costs
4 that have to be burdened onto the unit cost, whether
5 you're selling a Harley or whether you're selling a
6 driveline system.

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

10 MR. BLEUSTEIN: Just let me say a few

11 words on healthcare cost because that's a really
12 tough area. There are some obvious things like
13 medical malpractice awards and things of that sort,
14 but there is really a more fundamental problem for
15 you politically.
16 The reality is, is that the healthcare industry has
17 not undergone the kind of self-examination and
18 productivity improvements that manufacturing has been
19 going through for 20 years.
20 They just haven't started and the problem for you
21 politically is -- not you, but collective you -- is
22 that healthcare, because of the fact they haven't

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1 gone through all this productivity analysis and
2 thinking about how to do things Lean and how do you
3 deliver the high quality experience at the lowest
4 possible cost, they are adding people at a fabulous
5 rate. And that's where all the jobs are being
6 created.
7 So how can you tackle this issue of healthcare that's
8 giving you all these jobs when the problem is, is

9 that it's giving you all the jobs. So that's one
10 that's too big for me to solve, so I'll just stick to
11 manufacturing.

12 I want to say one more thing Lou if I could to the
13 governor on energy. In my hat in NAM, I was
14 absolutely stunned sitting in an aghast group like
15 this with those folks and this particular executive
16 was representing the chemical industry, which is the
17 largest user of all professional manufacturing in
18 energy and natural gas.

19 And they indicated they were going to put a billion
20 and a half dollar plant in the Middle East. And we
21 said isn't that quite risky? He says no it's more
22 risky to put it in the United States with lawyers and

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1 tort reform and no natural gas.

2 MR. DOBBS: Governor Granholm.

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

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

9 GOVERNOR GRANHOLM: You may or may not
10 want to answer these but I have two questions for
11 you. One is in light of the fact that we do want to
12 level the playing field and everybody has said that
13 and one of the suggestions has been made to ensure
14 that in trade agreements, that we do adopt in the
15 future that we do have core labor and environmental
16 standards in them. Is that one way to assist in the
17 multi-tiered way of assisted manufacturers, that's
18 number one.
19 Number two, the issue that Ed Rendell raised about
20 enforcing trade agreements at the WTO. The data
21 demonstrates it -- and I really don't want to make
22 this partisan, this is just a data piece of

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1 information, you tell me whether it's relevant -- the
2 last three years of the former administration, there
3 were 27 matters -- cases -- brought before the WTO.
4 In the past three years there have been 7 cases

5 brought. Is that a factor that is relevant to
6 leveling the playing field?

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

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

21 And it is in some measure, the fault not only of
22 obviously of the treaty makers themselves, our

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1 national policymakers, but also, if I may, gentlemen,
2 it is the fault of some of the corporations, U.S.

3 based multi-national s themselves. Because they've
4 looked at that risk as the cost of doing business.
5 And I would submit to you that the cost of doing
6 business on a price level, that is at the corporate
7 level is one thing, but the cost of free trade to
8 this country right now to be summed up under the term
9 "trade deficit." And there is nothing surprising
10 about this, there is nothing new to any of us.
11 We have not run a trade surplus in this country for
12 over two decades. That takes care of Republican
13 administration and Democratic administrations and as
14 you suggest governor, it's time for people to start
15 talking straight, quit worrying about the partisan
16 nonsense because those sort of reflected mirrors, the
17 partisan shift and ideology do very little to serve
18 as a clear window for you all to help set policy and
19 to lead. Governor Easley.

20 GOVERNOR EASLEY: Thank you. I think I
21 can speak for about everybody around the table that
22 the governors support free trade but free trade is in

1 America's interest but I'm not sure we've always got
2 those agreements.

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

11 The second is dealing with the reality, not the
12 theory that if we do this everything is going to work
13 out in 10 years, everybody's going to have better
14 jobs and standard of living will be up and all that.

15 And that may very well be true but in 2002 when China
16 came in to the WTO, we had special China safeguards
17 recognizing it was a very unique circumstance.

18 As a result of that, we lost in North Carolina, for
19 example, 14% of our textiles, those jobs. In '05, we
20 lose all the quotas and the estimate is we lose 75%
21 to 80% of what's left. Now, what do we do with the

22 5,000 Pilotex workers who were laid off in

85

1 Kanapolis, a town of 29,000? We've got 2,000 of them
2 back in community colleges, but what do we tell them
3 about 10 years from now, things will be better? You
4 know, 500 houses foreclosed on during Christmas.

5 There is a reality out there of people losing jobs
6 who are our least educated citizens, whose basic
7 skill levels we know we have to get up. Everybody is
8 committed to that, everybody has an infrastructure
9 and place to do that, but we can't do it so rapidly
10 and get them jobs, otherwise we end up, as Bob Taft
11 pointed out, supporting them.

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

14 MR. DOBBS: Mr. Dauch.

15 MR. DAUCH: I have no expertise in textile
16 so I can't respond directly to that. But I have a
17 hell of a lot of expertise in manufacturing and I had
18 a much bigger problem. I had 97,000 people working
19 for me while I was Executive Vice President of

20 manufacturing at Chrysler and we had to close or
21 mothball 20 plants and I went and talked to each of
22 those people when those plants met their Waterloo.

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

3

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

11 So that was one example, real with the Chrysler
12 Corporation in the '80s. It wasn't a lot different
13 than that in the '90s when we took over this inner
14 city Detroit, inner city Buffalo, New York core
15 business of General Motors that was a true epitome of
16 rust bucket, which I detest that term, but that's
17 what it was and we have, just like my esteem

18 colleague here next to me, we had 7,000 people, we've
19 added 5,000 people, because we learned how to become
20 productive, how to engage technology, product price
21 system.

22 With concurrent raining and take the education up

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1 five years and 10 and have no strikes, no slowdowns,
2 no sabotages and eliminate scrap, eliminate waste.
3 We can compete. How you apply that in the textile
4 industry? Somebody else would have to respond but
5 how you respond to it in heavy manufacturing or auto
6 or steel or forging or casting or stamping or metal
7 bending or whatever you might want to call it, we can
8 compete in America, but we need policy help. And we
9 are not trying to eliminate employee benefits, we're
10 trying to reduce the overhang, the 22.5% overhang.
11 Thank you sir.

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

15 GOVERNOR BLANCO: Well Mr. Dauch you said

16 something earlier about the energy policy, the failed
17 energy policy and certainly in Louisiana, we are one
18 of the high energy producers and now the cost of
19 natural gas is driving our chemical plants out. We
20 are also one of the highest users.

21 Do you have any ideas on how to address this
22 situation. The energy bill as something that was

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1 supportive but our congressional delegation until the
2 administration cheapened it and took out the benefits
3 that Louisiana needs to restore our coastline. You
4 know we'd be happy to get back on that energy bill
5 ban wagon if the administration would help us restore
6 our coastline.

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

13 MR. DAUCH: Well miss, the issue, you and

14 I agree, is a major issue for our nation and you've
15 also indicated that there has been recommendation to
16 the Congress and somewhere between the two factions,
17 we haven't gotten it done.
18 If we sat and do nothing, we're doomed. We have to
19 get the issue back to high priority and nobody is
20 going to get an idealistic solution. We have to find
21 some solution that's reasonable with some kind of
22 balance and get it on. Otherwise we're all going to

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1 be hurt and the employer, the associate that we as
2 leaders represent, we owe that to them to give them a
3 chance at hope. At a chance for future employment,
4 whether it be in textile or whether it be in energy,
5 or whether it be in auto or wherever it might be. We
6 will reach out to help anyway we can.
7 We know our nation went through a short-term
8 recession, 9 to 12 months, that conjecturable but we
9 in manufacture went through a three plus year
10 recession and one of the things that drove that was
11 the spikes in energy, and we are not over it yet.

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

20 MR. DOBBS: Thank you very much. And
21 Governor Blanco thank you very much for your
22 question, which unfortunately have to be our last

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1 question of the afternoon. It has been a great
2 pleasure to be with you. Richard Dauch and Jeff
3 Bleustein, thank you gentlemen for being with us.

4 APPLAUSE.

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

7 GOVERNOR KEMPTHORNE: Well to Mr. Dobbs
8 and to Mr. Hale, Mr. Bleustein, Mr. Dauch, I hope
9 that you found this afternoon worthwhile because you

10 had a forum with the nation's governors.

11 APPLAUSE.

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

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1 images that you need.

2 So again, this has been worthwhile. I think we need
3 to sustain this. Governor Granholm thank you too for
4 your comments. We also received a call from
5 Secretary Tommy Thompson and he has indicated that
6 his Medicaid Director, Dennis Smith will be available
7 to meet with governors tomorrow. So any governor who

8 will like to have a personal meeting with the
9 Medicaid Director, if you will just contact NGA
10 staff, they'll work it with your schedule.
11 That would conclude this afternoon's session. I want
12 to thank all the governors for your participation and
13 again for an outstanding panelists. Thank you.

14 APPLAUSE.

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

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