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REMARKS PREPARED FOR DELIVERY BY U.S. SECRETARY OF TRANSPORTATION NEIL GOLDSCHMIDT, TO THE JAPANESE/AMERICAN AUTO FORUM, UNIVERSITY OF MICHIGAN, ANN ARBOR, MICHIGAN, JANUARY 14, 1981

It is altogether fitting and proper that my last formal speech as Secretary of Transportation be in this state, to this audience, on this subject.

For the issue of the future health and competitive strength of the U.S. auto industry and its supplier industries has occupied the central place in my administration of the Department -- as I believe it will occupy the central place on our nation's agenda over the decade of the 1980s.

Let no one misperceive the vital importance of this matter of the health of our industrial base:

- this issue is fundamental;
- it is intrinsic to our country's future well-being;
- it is essential to our fulfilling the aspirations of our people;
- it is critical to our safeguarding the most basic of our trusts, our national security.

Yesterday, in our nation's capital, I released my report to President Carter on the future of the American auto industry. It came as the culmination of more than a year of hard work; of detailed research and analysis; of visits to assembly plants and steel mills; of conversations with managers, frustrated over the lack of capital available

to expand their plants; with workers, frustrated over the lack of jobs in our bread-and-butter industries; with local government officials, frustrated over the lack of resources available to contend with the global changes washing over their communities -- and each concerned over the future economic strength of this country. We talked, as well, with the leaders of industry, labor and government of the nations of the world with whom we compete, including the Japanese -- and could see their strategies, policies and programs targetted very clearly and coldly on the objectives of economic growth and employment through trade.

We arrived, after all of this work, at an alarming picture of the decade ahead:

* The shape of the world auto market has been altered permanently and dramatically. No longer is our market distinct from the rest of the world -- there is only one auto market -- an international one.

* Indeed, this country's market will be the international economic battleground of the 1980s. It is the largest, most accessible market in the world.

* In this life-or-death battle, U.S. automakers are starting from behind. They come late to the production of small, fuel-efficient autos demanded by the market. At a time of record losses, they must make record expenditures to re-tool -- while the foreign competition accumulates retained earnings as ammunition for future re-tooling or a price war.

* At the bottom line, our automakers face competition from Japan which appears to hold a \$1,000 to \$1,500 per vehicle comparative cost advantage based on greater productivity, lower wage rates and more favorable government relations.

* Finally, in spite of -- or in some instances because of -- our efforts to compete, in the decade ahead we stand to lose permanently roughly one-half a million manufacturing jobs concentrated in a handful of states and cities.

While these conclusions may provide cold comfort to U.S. managers, workers and government officials, I do not believe this analysis to be overly pessimistic.

Indeed, the points may be stated even more starkly:

* The \$1,000 to \$1,500 per auto advantage of the Japanese must be met if our industry is to regain its competitive stature in this decade.

* Less than one-half -- perhaps as little as one-third -- of that advantage is attributable to wage rates; the rest must be found in productivity differences and government policies.

* It will take a minimum of five years for our industry to meet the challenge from Japan -- assuming that we use those five years to good advantage.

* From my recent visit to Japan and my conversations there with the leadership in government and industry, I conclude the following: the Japanese do not think that we will use the next five years wisely -- I perceive that they judge that this country lacks the will -- the guts -- to do what is necessary to recapture industrial leadership. They regard us with the cold eye of competition as a one car company country for the future.

* If they are right; if our automakers lose more market share; if we fail to meet the competitive challenge from abroad, then our job losses here at home will make the original estimate of half a million seem paltry. Our entire industrial base -- steel, iron, rubber, aluminum, and all -- will be at peril.

If these judgments sound harsh it is only to sound the alarm and to prod all those concerned -- industry, labor, the Congress and new Administration, the American people -- to address the critical questions before us:

-- Can this nation accept a permanent shrinkage of our industrial base?

-- Can we, rather, design a strategy to interrupt these dangerous trends and return this key industry and our larger industrial base to competitive health?

In my view, the answers to these questions must be self-evident. Not only because of the important role those industries play in providing employment for our people; or simply because of the close relationship between these industries and our energy future.

Transcending these concerns is the issue of our national security. In the past, the production capacity of these basic industries has been a vital mobilizing force in our defense capability. Today, and in the future, we see how important these industries are to defining our might in the world. For as much or more than the power of our arms, it is the power of our industrial economy that establishes our international leadership.

After our recent experience with imported oil, does anyone truly believe that it matters little whether we import growing amounts of basic manufactured products?

Does anyone believe that it is in our own self-interest to adopt national policies that allow our industrial base to shrink permanently?

Policies that allow basic manufacturing jobs to disappear and critical skills to vanish from our workforce?

Does anyone believe that any of our competitor nations would adopt a set of policies so blind to national self-interest?

I do not believe it.

And I do not believe that that is what Americans want.

Rather, I see the people of this country ready to do what is necessary to re-tool American industry and to re-assert American leadership.

To accomplish that goal, I have recommended to President Carter a new American compact, forged equally among management, labor and government, and based on the following blueprint:

* First, government should negotiate an import restraint agreement with the Japanese which reflects the time period it will take for U.S. automakers to accomplish the transition. This would define a reasonable period of time for our domestic industry to re-tool without facing the permanent loss of additional market share. However, the expiration of the agreement would indicate the need for expeditious investments to meet the re-opened competition.

In addition, government should commit to help the industry and its suppliers obtain the capital required to compete. Government may look to undertake general changes in the tax code; or changes specifically targetted on the needs of this industry and its suppliers, or, if necessary, to create an institution such as a re-industrialization finance corporation. The central objective: a signal to the financial sector that this industry will continue to be an attractive place for investment.

* For its part, labor should agree to a wage strategy designed to close the differential with Japan.

* Management, in return for labor's wage restraint, should be prepared to compensate labor with a negotiated program which could include profit-sharing or other incentives. In this way, organized labor's restraint of today would become a vehicle for future interest in the profitability of the revitalized industry of tomorrow.

In addition to this centerpiece for the compact, I have recommended to the President:

-- Government reform its approach to regulation; re-define its anti-trust laws; increase support for worker re-training and community re-development; and continue to pursue a shared program of basic research as a joint government-industry responsibility.

-- Labor continue its support of measures to improve productivity; reduce absenteeism; improve quality; and promote new forms of worker re-training and re-employment.

-- Management substantially improve productivity; restructure its relationship with labor; intensify research and development; and accept more responsibility for the social and environmental impacts of their products and production facilities, including a commitment to build and source in this country.

The key to this report, to these recommendations, and to the whole concept of a compact is its balance.

I do not believe the blame for our nation's industrial dilemma can be laid solely at the door of the temple of labor, or the offices of government or the executive suite of management. Anyone who believes these critical problems can be solved by slashing at labor, or by cutting at government is worse than mistaken -- he is threatening our capacity to find the solution.

For the true solution must be in the efforts of all three -- to end the adversarial relationship of the past and to create the cooperative compact our future requires.

There is another danger -- that this debate over a great question of our country's future may get cut up into its smallest pieces; that it may be argued at the level of the lowest common denominator.

In my view, that would be a tragedy.

This is not a debate that can be carried by setting the principles of foreign trade versus protectionism; or inflation versus anti-inflation policy; or industrial policy that picks winners and losers versus market place economics -- and other such pairings and twists.

This is finally a debate which must get us back to basics -- to our own self-interest in an international economic competition in which the other nations of the world surely recognize their self-interests, are following those self-interests and can be expected to continue to follow those self-interests.

It is time we recognized the intrinsic relationship between our industrial power and our national security -- not so our companies can parade through the halls of Congress, trumpeting the theme of national security to avoid producing safe autos; not so our unions can

salute the banner of national security to avoid the elimination of jobs that block productivity gains.

But so that we can make the adjustments; the sacrifices; the investments needed to improve this country's industrial vigor, retain our manufacturing workforce, and re-develop the cities and towns which have been home to our workers and industries. That, finally, is the vision of America to which we all must bend our efforts.

This nation shared one of the most inspirational moments of last year when a group of hard-fighting, under-dog U.S. hockey players met the challenge of international competition and captured the Olympic gold medal. In their accomplishment this nation felt again the pride and strength of American achievement matched against the best the world could offer.

But remember what it took them to win.

Their coach said it.

"If you want to play this game effectively," Coach Brooks told his players, "you'd better report with a hard hat and lunch pail. If not, you better go watch some old guys ice-fishing."

That is where it stands -- in autos, in steel, in world competition.

If we want to play effectively; if we mean business; -- if we're tired of watching ice-fishing -- then it is time for America to report with hard hats and lunch pails.

It is time for all of us to get to work together.

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