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NEIL GOLDSCHMIDT, MIT SEMINAR, CAMBRIDGE, MASSACHUSETTS, APRIL 8, 1980.

Our gathering here today -- and the study which stimulates this event -- could not come at a more propitious time. In the past, a discussion of the future of the auto was more an academic exercise than a burning economic and political issue. Today, it is a matter of current events, with important new developments featured daily in the news. Today it is a matter of utmost importance to the future economic and political well-being of our country. The decisions that are being reached now in Detroit, Washington and New York, in Tokyo, Paris, Turin and Wolfsburg will have profound and far-reaching implications not only for the future of the auto but for the future of the auto industry, the industrial system that supports it, the overall economy of this country and the world.

For in a very real way the auto industry sits at the center of the seamless web of our economy. It is difficult to over-dramatize the influence it exerts on the economic course of the nation and the other nations of the world with competitive industries:

* Roughly one of every six jobs in this country is related to the auto industry.

* It accounts for almost nine percent of our manufacturing output, 20 percent of retail sales and 18 percent of wholesale sales.

* It consumes over a fifth of the nation's steel output and more than half of the high profit steel; over half of the rubber; one-fourth of the glass; and significant percentages of plastic, aluminum, electronics and other commodities. Those industries annual produce over \$21 billion in automotive parts.

And, as you know, it -- and the industrial system which it leads -- are today in transition and in pain:

* One out of four auto workers are unemployed -- almost 225,000 workers laid off.

* Six plants closed their doors.

* Last year, Chrysler, Ford and General Motors all reported negative operating cash flows in North America -- \$1.5 billion, \$1.1 billion and \$.5 billion.

* Structural changes in the steel and tire industries have seen the disappearance of 110,000 jobs since the beginning of the 1970s.

This dislocation and the massive re-tooling which accompanies it come in response to two major developments which indicate that the pain in Detroit is but a local manifestation of international forces.

Foremost among these developments is the permanent re-definition of the world energy reality. In a matter of months this country finally came to acknowledge a reality the rest of the world has long known: the oil supply is scarce, expensive and susceptible to interruption.

This realization by the American motorist -- who each day consumes one out of every nine barrels of the world's oil -- has triggered a re-ordering of the auto industry of world-wide consequence.

Virtually overnight, by industry standards, the market which drives the nation's huge industrial complex permanently shifted: In 1977, sales of full-sized cars in this country held a solid 30 percent of the market; today that share has shrunk to 14 percent. Sales of small cars -- which domestic producers had scorned on theory that large cars mean large profits and small cars mean small profits -- have soared along with gas prices. Today small car sales account for 60 percent of the market and 50 percent of them are imports.

The capacity of Japanese and European automakers to respond to this demand is not difficult to explain. The cost of gasoline in Germany, France and Japan five years ago was greater than the price American motorists are paying today. And the price abroad has continued to rise: As recently as last year foreign motorists paid from two to three times the price per gallon of their American counterparts.

This shift in the world energy reality has been accompanied by a fundamental change in the world economy. The developed nations abroad -- having already internalized the cost of imported oil into their industrial economies -- have come to understand the imperative of trade. A new international economy has emerged, placing a premium on productivity, innovation and exports. The Japanese and Europeans have matched the development of fuel-efficient products with well-thought-out strategies for national industrial development, foundationed on the twin goals of long-term employment and economic stability.

Moreover, in pursuit of their goals, these nations have fashioned industrial policies which blur or even erase the distinctions between government and industry which still prevails in this country. In some nations government has taken a direct role in industry as a part owner; in others, government's role is that of policy-maker and promoter.

But in every case, the result has been identical: the use of government policy as an instrument of industrial vitality. Thus some countries, while espousing the principles of free trade, have used one means of another to protect their key markets at home while vigorously exporting abroad -- particular to the largest, most accessible market in the world, the United States.

Fundamental to this new export economy is the strategic targetting on industries -- logically those which are weakest and thus most susceptible to competition. It is alarming to note the extent to which this nation is surrendering more and more of our basic industrial economy to foreign competition -- both in the auto industry and the larger manufacturing base which support it, as well as in our reliance on imported raw materials:

- * Twenty years ago, the United States imported 3.4 million tons of steel, 18 percent of which was Japanese. Four years ago, the amount of imported steel had jumped to more than 14 million tons, 56 percent of which was Japanese.
- * At the same time, U.S. capacity to produce critical industrial items as a percent of world capacity has dropped across the board. In the early 50's, this country produced more than 75 percent of the world's autos; today, that is less than 30 percent; more than 75 percent of the tires; today that is less than 30 percent; more than 50 percent of the steel; today that is 20 percent; and 50 percent of the aluminum; today that is 25 percent.
- * The U.S. share of world exports has declined as well. Between 1960 and 1979, this country's share of manufactured goods exported declined from more than 25 percent to about 16 percent.
- * Our machine tool industry -- an important indicator of vitality in new process technology -- now ranks behind West Germany in terms of both total size and annual exports and behind Japan, France, Italy and the United Kingdom as a percent of gross domestic product.

* These shifts have been accompanied by an increasing reliance on imported raw materials at an increasing cost. Our dependence on foreign sources has increased not only for oil which now stands at almost 50 percent, but also for bauxite at 93 percent, chrome 92 percent, platinum 91 percent, tin 81 percent, nickel 71 percent and more.

These figures illustrate the economic magnitude of both this painful period of transition and our increasing vulnerability in a changing world economy. An older, more mature U.S. industrial base is being challenged to compete for world markets by foreign concerns with fresh technology, ample capital, economies better conditioned to the shock of energy shifts and strategic plans and industrial policies designed to capture shares of specific markets.

In short-term, the response of the auto industry to these trends is clear and already underway. Between now and 1985, the nation's three major producers have programmed expenditures of roughly \$75 billion to re-tool -- an amount one and a half times this country's budget for the space program, spent in one-half the time.

That investment -- which is predicated on the unspoken assumption that oil will continue to be available as fuel for cars at some price for at least the next 10 to 15 years -- will accomplish the down-sizing of this country's fleet. The 1985 domestically produced new car fleet will meet the mandated 27.5 miles per gallon fuel economy standard and more than 50 percent of the vehicles will achieve over 30 miles per gallon. Compare that to the 1974 new car fleet which averaged less than 15 miles per gallon, with only two models -- both imports -- capable of achieving 30 miles per gallon.

This move represents industry's response not only to the market demand for fuel efficient vehicles, but also to the issues of energy sufficiency and international industrial competition. Out of this transition period will emerge an industry which is technologically re-vitalized, re-capitalized, internationally re-positioned.

However, the industry's accomplishment of these short term technological and capital objectives will not be without cost to the rest of the industrial system. Today, according to our estimates, there are approximately 160,000 Americans in the steel and ferrous casting industries whose jobs depend on the auto industry. Considering only the impact of down-sizing for fuel-efficiency, nearly half of those jobs may disappear by 1990.

At the other end of the spectrum of change are those industries which stand to gain substantially from the auto transition; plastic materials and resins, nearly twice the jobs; aluminum products, two-thirds again the jobs; electronic systems and components, more than twice the jobs.

There will be shock tremors. The composition and location of our industrial workforce could change dramatically as this sequence of boom or bust ripples across the land.

We will see fewer jobs per auto. New technology designed to boost productivity will claim some; others will be eliminated by the changing composition of the auto. Just how large this dislocation ultimately is depends upon the competitive performance of domestic products in this market once they arrive. We are seeing increasing evidence that imports today are penetrating corporate fleets and, perhaps, effecting long-term changes in car-buyer's loyalties. If the current amount of import penetrations is sustained through mid-1981, I believe it could seriously impair the ability of U.S. automakers to finance this transition and would permanently alter the domestic industry. Moreover, it would exact another severe toll in employment: 60,000 jobs in the auto industry and 50,000 jobs in supporting industries, on top of those already out of work and those whose jobs disappear because of the conversion to smaller cars.

Finally, those are the regional and community impacts as shifts occur in type and location of employment. In the 1980's, we could witness a national version of the suburban sprawl of the 1960's, with the same massive costs and wastes. We could simply go through another cycle of a throw-away economy, transferring new capital costs to booming communities and wasting the resources and infrastructure of declining communities.

And even if we do succeed in minimizing these dislocations to workers and communities; even if our industry succeeds in making the transition, retains the market and regains world competitive stature; even then we are left still to resolve the debate of the past 20 years over the impact of the auto on our cities, the debate over the environment and over safety.

From this I conclude that the greatest obstacle to our accomplishing the short-term transition that is before us -- as well as addressing fundamental long-term issues -- is neither technology nor capital: It is the politics of change.

Change -- any change -- is fearsome. It uproots habits, re-arranges relationships, shakes long-held world views.

How much greater, then, the political problems of managing the course and pace of change when it includes our role in the world that is sustained by our economic might; our industrial base and the economy which undergirds it; and our mobility and 40 years of life-style, investment and habit which stem from it.

And how much more critical our success in managing this political problem when we acknowledge that our choices will be circumscribed by politics more than any other factor.

For any of you who may doubt the importance of this factor or the depth of the problem, I only wish that you could have sat in the back of the room and listened during the recent Vanik hearings on auto imports. The message to the industry from some members of that committee -- a message which I believe reflects a prevailing attitude of the public -- was shocking in its capacity for self-destruction: They don't like the industry, they don't trust the industry. They're not overly concerned by the industry's problems, which they believe are self-inflicted. And they're quite content to see the industry stew in its own juice.

I consider this a myopia of the most harmful and destructive kind, an expensive remnant of past conflicts over the social costs of the auto. And if it remains our national mind-set, it will seriously impair our ability to manage change constructively; we will lose our future to failed politics and fear.

For I believe that underlying this period of change in America is a crisis of obsolescence challenging government and industry to abandon business as usual:

- * obsolete assumptions about resources -- not only energy but raw materials, land, capital
- * obsolete assumptions about the market
- * obsolete equipment and products
- * an obsolete relationship between the public and private sectors.

It is the last of these, the most overtly political, which stands as the most telling force in determining the direction of this country for the remainder of this century and the first decade of the next.

It will require a re-structuring of that relationship -- and the abandonment of outmoded stereotypes and stale dogmas -- if we are to develop national industrial policies.

It will require a re-structuring of that relationship if we are to answer the long-range questions about mobility in America and the role of the auto beyond the year 2000, and if we are to emerge from this period of change secure in our role in the world and the world's economy.

If we assume that this predominant drive in this country will continue to be for auto-based mobility and that technology -- either ours or that of foreign concerns -- will provide it, then at least the following tentative conclusions are in order:

- 1.) We must face the fact that we are in a catch-up situation with regard to international competition. This compels us to end the era of government-industry recrimination and instead structure an environment where our industry can succeed.
- 2.) We must accept a faster turn-over of our capital plant and equipment and increase our ability to accept innovation.
- 3.) If we want to regain our position of leadership, we must make increased investments in basic research and future technology. This is not a matter of government spending for the auto industry nor does it apply to that industry alone.

In each of these three areas we must look to our tax codes for incentives to industry.

- 4.) The search for energy security and for solutions to near term capital problems cannot successfully be traded for clean air and safe vehicles.
- 5.) We must insist upon the enforcement of trade agreements in both directions, particularly where non-tariff barriers are involved.
- 6.) The capital environment in which we are operating demands an end to obsolete assumptions about federal public works spending. We cannot use scarce capital to chase the migration of the industrial base. Nor should state or local governments or communities continue to look to the federal government to buy their way out of a dead end land use decision with yet another unnecessary freeway. It is time to dis-abuse people of the notion that any decision, whether at the local government or private corporation level, can and will be salvaged by federal spending.

7.) We must embrace a long-term view of this country's future. What we are engaged in transcends the issue of industrial re-tooling, tax cuts and anti-trust laws. We are seeking an integrated revision of our nation's future, where our strategies respond to more than one problem, with more than one opportunity. We cannot look at re-tooling America without considering capital, land use, social and environmental factors. To neglect these matters would be to condemn our cities to death, our social and economic systems to decay. We would risk creating just another cycle of throw-away economics, and a new round of resentment between industry and a large body of well-informed citizens; between industry and have nots who have needs which cannot be met because our resources are wastefully spent.

In all of this, we must recognize how young our nation still really is and how much lies ahead of us. If we succeed today in the political problem of structuring a new relationship between the public and private sectors, we will have made immeasurable progress in the task of choosing a workable future not only for the auto but for the nation. Then we can begin to plan intelligently and strategically, to choose a course which responds to our nation's historical demand for mobility but not in a way that jeopardizes our energy future or safety or the quality of life in our cities.

For my part, I cannot conceive of a more compelling or more urgent undertaking, nor one with so much promise for our nation. For I agree with De Tocqueville's description of the spirit of our still-young country: "No natural boundary seems to be set to the efforts of man; and in his eyes what is not yet done is only what he has not yet attempted to do."

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