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REMARKS OF U.S. SECRETARY OF TRANSPORTATION NEIL GOLDSCHMIDT, COMMONWEALTH CLUB, SAN FRANCISCO, MARCH 20, 1980.

Last weekend, you saw and heard news accounts of President Carter's actions on the budget. The question was immediately asked - and it's a legitimate one - what happened since January to demand a balanced budget for fiscal year 1981?

The answer is that a lot of disturbing signals were being heard in January just as the President was sending his budget up to Capitol Hill.

The budget he proposed at that time was tight by any measure. Despite inflation, government programs were being held in most cases to levels of the previous year. In other words, they were being cut back in spendable dollars.

President Carter was keeping to his timetable of reducing the deficit - pushing eventually for a balanced budget.

But soon after Christmas, the stock market took a brief surge upward and then plunged into retreat. Consumer price index figures for January and February annualized out to 19 or 20 percent inflation.

Interest rates went to 17 and then 18 percent and beyond.

It was clear that the assumptions made when the budget was drafted in the fall were no longer valid.

There was no doubt about the villain. It was our dangerous dependence on foreign oil and the nearly $90 billion we will send out of this country to OPEC this year.

But inflation was feeding on more than reality. It was multiplying on a psychology of fear of the future. Citizens who might not absolutely need to borrow money were beginning to feel that they better do it now before the money dries up. Businessmen were beginning to slap price increases on their products "just in case" the government set price controls.

Although there are few economists that view the federal budget as the cause of this psychology of uncertainty, the budget was the one place that the President and the Congress could make the most visible public stand for restraint. It was here that the message of a new American resolve for independence from Foreign sources of energy could be written.

In January, we had tightened our belts. Today, the President is saying that we are going to have to cut some worthwhile programs - youth conservation corps, highway construction, revenue sharing, foreign aid - to set an example of austerity and responsibility in Washington.

For all of us, it is going to be a time of testing in this country. Remember that the $90 billion we send to OPEC was only $8 billion in 1973 when the first embargo began to wake us up.

Don't think of this as some distant, abstract number; it is money you pay and I pay; it is a major cause of inflation, our balance of payments problem and the value of the dollar. It is virtually a tax placed on Americans by OPEC with staggering consequences.

Every hour, the people of this country send $10 million to foreign countries for oil. Put another way, it is as if every man, woman and child in America sat down together and wrote a check for $350 and mailed it overseas.

Just as serious as this energy picture is the performance of the productive sector of our economy. Consider the auto industry, with which my department has an ongoing relationship. Today in this country, roughly one in every six jobs is related to the auto industry. It consumes over a fifth of the nation's steel output, over half the rubber, one-fourth of the glass, and significant percentages of plastic, aluminum, electronics and other commodities. It is an industry that occupies the center of the seamless web of our manufacturing economy.

And today it is an ailing industry -- with 175 to 200,000 auto workers on indefinite layoff; with almost 30 percent of the market in this country going to imported vehicles; and with enormous capital costs ahead of our domestic automakers -- $12 billion per year for the next 5 years -- to make the transition to a fuel efficient fleet. That is one and a half times what the United States spent on the space program -- a program which lasted 10 years, compared to the 5-year span of the auto retooling.

This massive transition has implications not only for the auto industry but for the broader industrial network that is the foundation of our economy. Today, according to our estimates, there are approximately 160,000 Americans in the steel and ferrous casting industries whose jobs are related to autos. According to one projection, considering only the change in the design of autos to increase fuel efficiency, nearly 70,000 of those jobs may disappear by 1990.

And that's if the domestic cars do well. Today, as you know, imports are claiming almost 27 percent of the car sales in this country. But more significantly than that, roughly 40 percent of the small car market is going to the Japanese -- the one segment of the market which is growing. Further, the Japanese have announced their intention to increase their auto production this year by almost 10 percent, to roughly 11 million vehicles -- the first time in history they will have produced more cars than this country. And the target for that increased output is the United States, where the demand for small cars is soaring with gas prices.

It is my concern that the result of sustained market penetration by the Japanese and other imports could have a permanently harmful effect on our auto industry and the industrial base of this country. Certainly that is not the case today, but we believe that the next 18 months will be critical. In the next several months, imports will reach 30 percent of the market. If that level is sustained through mid-1981 it could seriously impair the ability of United States automakers to finance their transition. And the toll in terms of employment would be severe: 60,000 jobs in the auto industry and 50,000 jobs in the supporting industries, on top of those already out of work and those whose jobs disappear because of the conversion to smaller cars.

Nor is this somber scenario limited to the auto industry. In my department alone we are seeing contract after contract go to foreign competitors. In bridge construction, transit equipment, helicopter production, rail cars, foreign firms meet all the provisions of the law by "Buy American" and still underbid domestic manufacturers -- or worse, there are no domestic manufacturers.

These are the signs which must alert us. This is a serious situation, a precarious situation for our economy. We have reached a new era for America and for the world -- an era where energy is scarce and increasingly expensive; an era where a new world economy is emerging and where capital, like energy, is scarce and increasingly expensive. And more than anything else, an era where the old assumptions that guided us in the past must now be revised or even discarded for new assumptions to lead us into the future.

Even as we reaffirm our traditional values -- of work and family, of freedom and choice -- we must shed obsolete assumptions. Foremost among these is the notion of unlimited capital capable of buying us out of any problem. The days of the throw-away economy are at an end. The future demands a national conservation strategy -- conservation of energy, conservation of capital.

During this time of transition, a national conservation strategy is the surest vehicle I know to preserve the economic might of our nation at home and preserve our independence in the world. Conservation is the tool that lets us manage change -- by eliminating waste, by increasing productivity, by increasing our choices in a time of shrinking resources.

The development of this national conservation strategy stands at the top of the list of the domestic agenda of this nation and this administration. And with the enactment by the Congress of the President's energy program, the first major piece of the strategy is now is place -- and the results are already beginning to show:

In the past year, oil consumption dropped by roughly 8 percent.

The automobile -- which consumes almost 40 percent of the petroleum this nation uses and one out of nine of the barrels of oil in the world per day -- is finally being driven more sparingly -- 15 miles per week less -- and is becoming more fuel efficient -- up to an average of 21 miles per gallon from 12 miles per gallon in 1974.

Transit ridership around the country has grown by 21 percent over the past 6 years and by 40 percent over last year in some parts of California, perhaps our most auto-dependent State.

And the elements in the President's energy program promise even more savings through conservation not only in transportation, but in the home, on the job, and in manufacturing.

Very simply, we are making the energy transition.

Now we must make the changes needed in the economy. Now we must develop the same strategic approach to redefining our economic future that we have taken with energy.

The developed nations abroad are targetting on major industrial products, with the twin national goals of long-term jobs and economic stability, these countries have fashioned export stategies aimed at the largest, most accessible market in the world -- the United States. Moreover, in pursuit of their economic goals, these nations have not been delicate in blurring or even erasing the distinction between government and industry.

And some, while espousing the principles of free trade, have used one means or another to protect their market at home while vigorously exporting abroad. At the same time, less developed countries, upon whom we depend for key raw materials, are insisting that jobs and industrialization accompany the use of their resources.

The result of these developments is a new world economy -- one where exports and international competition are the watchword. And one which calls for the reconsideration of this nation's industrial policies. The danger signs in our economy all suggest that we are not only importing far too much oil, we are exporting far too many jobs.

The evidence is compelling:

> We are importing more of the raw materials upon which our economy depends and upon which our national security ultimately rests. Consider steel. Twenty years ago, this country imported 3.4 million tons of steel, 18 percent of which was Japanese. Four years ago, we imported four times the steel tonnage and 56 percent of it was Japanese.
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> At the same time, our production as a percent of world production has diminished. Between 1967 and 1976, our share of raw steel production declined six percent, aluminum declined eight percent, tires declined six percent, motor vehicles declined eight percent.
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> Finally, our share of world exports has declined. Between 1960 and 1979, this country's share of manufactured goods exported declined from over 25 percent to about 16 percent.

In view of the world competition which we face, we must define some new principles for our role in the world market.

We cannot be content to sell only to ourselves.

We cannot be content to export technology and raw materials, rather than finished products.

We cannot be sanguine about productivity lags, or capital investment lags, or major gaps in our domestic manufacturing output.

Not if we are committed to jobs for our people, strength in the world, and hope and opportunity for future generations of Americans.

It is for these reasons that the President's anti-inflation program is so critical.

That program represents for our new economic reality what his energy program was for the new energy reality: A major step in the development of a conservation strategy to guide us through change.

It is a program with a simple, clear message about this country's future:

One, in a period of capital scarcity and cost, we cannot continue with business as usual. We cannot afford the waste that masquerades as wealth; we cannot afford the profligate habits of the past that reflect obsolete assumptions.

Two, the sacrifices and pain of budget cutting, credit controls and carefully monitored wage and price standards should give us added confidence in our ability manage our way into the future -- and to do it in a way we will be able to live with and sustain.

And three, we should emerge from this with a new set of expectations and a new set of assumptions for our nation's future. We will decide what is an important investment for our country to make, and what we can defer or do without. We will put aside our past willingness to make "just one more" wasteful investment -- our national booster investment strategy -- and develop instead a constituency and a lobby that respects hard choices in lean times. And we will learn, not to do less with what we have, but to get more out of what we do.

As government agencies go, my department is small, but it's role in transportation policy is pivotal. Within the next nine months, DOT will complete a national White Paper on the auto industry and its industrial supply system -- steel, aluminum, rubber, plastics, electronics. Our objective is to identify a set of policy choices which would help to assure a healthy auto industry and a viable industrial base for this country in the future. Those policies can embody a new working agreement between the public and private sectors, one which respects our differences, yet builds from our common interests, and one which will spur our nation's productive genius to meet the challenge of international competition.

I believe that what we need to meet our test is the will, the commitment, the resources and the leadership. And I am confident that with the hard work and common effort of a united nation, we will succeed in our passage through this time of transition.

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