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REMARKS PREPARED FOR DELIVERY BY U.S. SECRETARY OF TRANSPORTATION
NEIL GOLDSCHMIDT, TO THE CLEVELAND ENGINEERING SOCIETY,
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To come to Cleveland today is to be brought sharply face-to-face with the pain of America's industrial present and the possibilities and promise of its future.

Because Cleveland and the industrial Mid-West are at the confluence of two powerful international forces impacting the United States.

The first set of these forces is driven by the radical redefinition of the world's energy reality. In literally a matter of months, Americans finally have acknowledged a fact that the rest of the world has known for a long time -- that the world's oil supply is limited, expensive and highly susceptible to interruption. This realization has moved the American automobile market -- almost overnight by industry standards -- to smaller, lighter, more fuel-efficient cars in what is clearly a permanent shift in demand.

This shift in demand reflects the second set of forces affecting America's industrial base. For the redefinition of the world's energy reality has triggered a redefinition of the world's economy.

Today we are in the midst of an unprecedented transition to a single world automobile market. The developed nations abroad -- having already internalized the cost of imported oil into their industrial economies - - have grasped the imperative of trade. The Japanese and Europeans have matched the development of fuel-efficient products with well-conceived world-wide strategies for national industrial development, based on the twin goals of long-term employment for their people and economic stability for their countries.

Today, we are confronted by a new international economy that places a premium on productivity, product quality, innovation and exports. And, for the first time -- here in our own home market -- we are competing directly against these nations in a single world auto market where they have an advantage -- if for no other reason than the fact that they have the capacity to produce the product the market is demanding.

These are the twin forces which have converged on the auto industry and our Nation's industrial base and which have forced a structural change in it --intensified by a cyclical downturn in the auto market.

These are the twin forces which hold our industrial base in a vise-like grip.

That is the pain of the present.

It is also the promise of the future.

Because the answer to America's energy and economic challenges will be forged here as well -- in the hard work, the vision, the creativity, the pride and productivity of our people; in the industrial muscle of our country that is centered here in Cleveland and in Ohio; and in the auto industry and its supplier industries which are already hard at work, regrouping and reinvesting to respond full force to the new realities. What lies before us is nothing less than a national industrial re-armament -- this time not to fight a war overseas, but to keep the promise of America here at home.

I do not mean to minimize the scale of the task that is before us.

The automobile industry sits at the center of our manufacturing. Surrounding it is a seamless web of supporting industries -- steel, rubber, aluminum, iron, electronics, glass -- the industries which comprise our country's industrial clout.

It exerts an almost incalculable influence on the economic course of this country and the other nations of the world:

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

* It utilizes over one-fifth of the Nation's steel output and more than half of the high profit steel; 60 percent of the synthetic rubber; 17 percent of the aluminum; 50 percent of all maleable iron; 30 percent of the zinc; 13 percent of the copper; 25 percent of the glass and significant percentages of plastics and electronics.

* To describe it another way, there are roughly 250 plants involved in the manufacturing process of each automobile; over 2,000 companies producing goods primarily for the auto industry, which purchases \$50 billion from suppliers each year -- \$8 billion from Ohio alone. (Here in Cleveland six of the top 10 corporate employers are auto-related companies.)

This is a vast network, woven of steel and iron over several decades.

It is this entire network which is today in transition and in pain: today, auto and related supplier unemployment accounts for 40 percent of those out of work in this country.

What is underway in this country today is a re-shaping and re-definition of our country's industrial base -- a change as fundamental as any faced by this country since World War II. How well and wisely we direct this change will determine not only what kind of country we are in the year 2000, but what kind of world we live in, as well.

The components of this change are not difficult to track; the impacts are not difficult to gauge. What is at issue is our capacity -- our will -- to make of this time of transition an opportunity to direct the retooling of America.

The transition itself consists of three components: the development of a new American auto industry and the ripple effects that has on the supply network; the issue of international trade; and the bottom line - American industrial competitiveness in an international economy.

The most obvious change already underway is the transformation of the auto. In the next five years, domestic manufacturers will spend roughly \$80 billion to produce the smaller, lighter-weight, more fuel-efficient cars the market is demanding.

It is a wrenching transformation -- with major implications for suppliers and workers. First, the vehicle will become smaller and lighter:

* Between 1975 and 1980, American autos shed 500 pounds of steel and iron per car -- a drop of 2.2 million tons of steel and 12,200 jobs in that basic industry; 700,000 tons of iron and 8,500 jobs in that industry.

* Between 1980 and 1985, we anticipate a further reduction in steel of 400 pounds per car, and another 200 pounds of iron; by 1990, each car made in this country will have roughly 1100 pounds less of steel and 450 pounds less of iron than it had in 1975.

In a second step, we are seeing a shift from rear wheel drive to front wheel drive -- and again, the transformation washes across the suppliers. For example, the frame is eliminated -- and the A. O. Smith plant in Granite City, Illinois is closed. Or we see a reduction in demand for real-axles --and the Dana plant in Edgantson, Wisconsin is closed. Currently, 25 percent of the autos produced in this country incorporate front wheel drive; by 1985, that number could be as high as 95-100 percent. Drive shafts, transmissions, rear axles -- all will either be eliminated or substantially modified.

In a third phase, as manufacturers seek even greater fuel economy, we will see major material substitutions -- going beyond the limited applications that have occurred to date.

And finally, as we approach the next decade, the industry will have made the investments required to produce major technological breakthroughs -- in engine techniques, fuel management, electronics and design aerodynamics.

The point is that the supply industry faces a revolution just over the changes in the product -- a revolution which will require a virtual dollar-for-dollar match -- \$80 billion to match the manufacturers' \$80 billion -- just to stay even with the pace of change. Moreover, the suppliers may face the same capital dilemma as the manufacturers: the need to raise enormous sums of money to compete in the future, while facing substantial losses in the present.

This problem is made more pressing -- and more complex -- by the current situation in world trade. Not only is our competition in the world well positioned because of their earlier adaptation to energy costs, in addition, many of them are particularly well financed because of their special relationships to their nation's governments and banks.

Moreover, while the nations of the world with whom we compete continue to mouth the words "free trade," it is increasingly clear that what they do is a far cry from what they say.

Without prejudging the case that is before the International Trade Commission on this matter, let me simply observe what I believe to be the true issue: the threat of injury to this country's industrial base in the future should imports continue to penetrate our market in the 30 percent range.

In my view, the damage would be unacceptable -- it would represent a permanent shrinkage of our industrial base: a loss of 75,000 jobs in the auto sector, and an additional 250,000 -- 300,000 among the suppliers.

The key question is whether or not such a possibility exists: that is, could foreign competition really claim three million units out of a 10 million unit market?

In 1979, 2.1 million imports sold in this country. Since then, without adding any new brick or mortar, Japanese capacity has increased by at least one million units; and it will continue to grow. We estimate that next year the Japanese will have the capacity to produce close to 12 million units -- and their home market consumes only five million.

Where can those seven million vehicles be sold? The British, Italians and French all have agreements which limit Japanese penetration in those markets. Most of the other nations of the world have strict local content laws, which require that a significant value be added in that country. Only the West Germans and the Americans practice free trade -- and the Japanese announced last month that they would begin to monitor sales to West Germany to limit the increases there. That leaves the United States as the major destination for that increased Japanese capacity.

Regardless of the outcome of the ITC hearing, we must have the conversations with the Japanese that President Carter has called for -- conversations which will continue to define our relationship with that close trading partner over matters crucial to the future of our industrial economy.

Beyond the trade issue is the challenge that I believe has most Americans concerned: our capacity to compete successfully in the emerging international economy:

* Twenty years ago, this country imported 3.4 million tons of steel, 18 percent of which was Japanese. Four years ago, imported steel had jumped to more than 14 million tons, 56 percent of which was Japanese.

* 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. Indeed, while foreign-made machine tools now claim 25 percent of this market, our share of the export market has dropped from 21 percent in 1964 to 7 percent last year.

For auto suppliers, the issue of international competitiveness is made even more substantial by the changes in the vehicle now underway. First, the shift to smaller vehicles has meant a change in the size of components: today, components on one-half of domestic autos are now of European and Japanese size. Second, in some cases, American auto manufacturers have had to look overseas for components and technologies not available in this country: the Ford Escort and Lynx have Italian-made cylinder heads, Japanese-made constant velocity joints, Spanish-made McPherson struts; the General Motors "J" car will contain 33 parts and components from around the world.

In large part, the issue becomes a question of American productivity, product quality, innovation and technological superiority -- all areas where, for decades, we assumed unparalleled leadership in the world, areas where, I believe, we still maintain leadership.

What we see now is a time of challenge -- foreign concerns with fresh technology, ample capital, economics better conditioned to the shock of energy shifts and the support of their governments are marshalling their resources to capture shares of specific markets.

For our part, I believe we must make clear to our people here at home the principles that will guide us in fashioning an American response to this challenge.

First, for this decade, our twin objectives should be to move from energy dependence to energy security in a way that develops jobs for Americans.

Much of our current economic dilemma can be traced directly to our oil dependence -- and to the missed signal of 1973 and 1974 that resulted

in three years of lost opportunity. It is a tribute to how far we have come in just the past three-and-one-half years that even during a time of raging conflict in the Mid-East our Nation's energy picture is untroubled.

In the next four years we need to move further -- so that neither our economy nor our international policies can ever be disrupted by the threat of the use of oil as an economic or political weapon.

Second, our values demand that we do all that is required to preserve and enhance our Nation's industrial base.

We are a people who believe in the value of work.

And we are a nation committed to the pursuit of world peace.

Both of these values are predicated on a strong industrial base -- to provide work for our people at home and to preserve our economic muscle in the world. For it is our economic might, as much as our military might, that allows us to be a force for peace. And the preservation of our industrial base is, for this country, a matter of national security.

With these principles guiding us, there is already much work underway, both public and private. Most recently, President Carter's announcement of a national re-industrialization strategy demonstrated this Administration's vision for a retooled America. That strategy, which contained the promise of refundable tax credits to help industry meet its capital needs was followed last week by the steel program: an example of the President's strong commitment to make that vision a reality.

But there is more work underway in transportation alone that holds out even more promise:

* A commitment by the President to expand federal funds for public transportation to \$53 billion in the decade of the 80s -- a three-fold increase over the 70s. For companies and workers who have, in the past, been partners with the auto industry, there is in this an opportunity to grow with the bus light rail or heavy rail industries.

* In the decade ahead we will re-build our Nation's bridges, our highways and roads, locks, dams and harbors. We are committed not only to the safe movement of our people, but as well to the efficient movement of our goods. The result will be a strong market for steel and iron and machine tools to rebuild America's transportation infrastructure.

* We will pay special attention to the too-long-neglected needs of our Nation's railroads -- to see to it that the railcars are available and the railbeds in shape to move America's goods -- particularly coal.

Beyond this list is the agenda which is waiting to be written.

At the top of that agenda must be the construction of a solid foundation of public-private cooperation.

If America is to meet the challenge of international competitiveness, we must end the adversary relationship between American government, industry, and labor. Instead, we must forge a working partnership -- each contributing what each does best -- that preserves our American economic independence while meeting the test of foreign competition.

There is much for industry and labor to contribute: increased productivity, both of management and labor; improved technology, both of product and process.

And there is much, as well, for government to contribute.

If there is to be a faster turn-over of capital plant and equipment, if we are to re-assert our leadership in innovation and technology we must look to our tax codes for incentives to industry. The President's program begins this effort; moreover, he has instructed his Economic Revitalization Board to take up the issue of capital availability as its first topic. In addition, this Administration has recognized the capital costs of meeting National objectives: a wise course for post-1985 fuel economy standards in autos demands that we link our national energy conservation goals with the capital costs of increased energy performance by autos.

Second, we must recognize our responsibility to the cities and communities which have long been home to our basic industries -- and home as well to the men and women who have worked in those industries. I believe that it would be enormously wasteful of our country's resources to chase those industries around the continent; investing in another whole round of throw-away economics, while allowing the older cities of the Mid-West and Northeast to decay. Retooling America's industry must begin with rebuilding America's cities -- and seeing to it that a reindustrialization strategy puts the investment back in the communities where it has been.

Third, government must continue its review and restructuring of regulations. In the past three-and-half years, much has been done to simplify our federal regulations. And while I find Governor Reagan's contention that the only thing which stands in the way of the auto industry's health is several thousand regulations hopelessly simplistic and misinformed, I do see the need for further improvement.

Specifically, I welcome the use of economic incentives as a new philosophical direction for regulation --or deregulation -- to take. At the Department of Transportation we have supported the regulatory reform of the air, truck and rail industries; at the Environmental Protection Agency, they are working with the "bubble" concept and air pollution "offsets." We need to talk with industry to find more ways to put incentive regulations into practice.

Fourth, I believe that we must review our anti-trust laws to see if they have become as obsolete as some of our plants. In my view, the redefinition of the auto market to a single world market may well warrant a redefinition of competition in our laws. The paradigm for competition has changed; the laws move more slowly in response.

Fifth, if we are to plan effectively, we must face the future honestly. The fact is that our drive to competitiveness will cost us jobs. There will continue to be shifts and adjustments in the scale and composition of our industrial base. Our task is to anticipate the course of change, to recognize the opportunities inherent in change and to utilize both our national wealth and our national wisdom to make the investments today that will guarantee a strong economic base tomorrow.

For I believe that the retooling of America is one of those pivotal opportunities that comes once in a generation -- a chance to preserve and enhance this Nation's most traditional values and its historic promise: jobs for Americans; security in the world; productivity and efficiency; a healthy competitive economy; technological leadership -- these are the products of a bold and effective strategy for reindustrializing America. By seizing that opportunity we can emerge from this difficult period of transition, more productive and more conserving, with a fulfilled promise of work for our people.

Change, by its very nature, can be fearsome -- but only if we allow it, rather than our own choices, to dictate events. We have the capacity to guide change, to choose a positive course for America in the decade ahead, to recommit ourselves to those values which are the tap-root of our Nation and the source of our strength.

"Rest is not a word of free people," Carl Sandburg wrote. And so it is with us today. Before us is a great deal of hard work. I believe that we have the courage, the maturity, the leadership, the resources, and the vision, to come through this period of change, strengthened by the test and rededicated to our national purpose.

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