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REMARKS PREPARED FOR DELIVERY BY DEPUTY SECRETARY OF TRANSPORTATION
WILLIAM J. BECKHAM, JR., TO THE WORLD CAR SYMPOSIUM, TOLEDO, OHIO,
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I want to commend the Mid-America Council on Economic Development and the Council's Managing Director, Joe Pratt, for initiating and sponsoring this very timely symposium on the World Car. Your selection of the topic is visionary. Knowing of your action-orientation, I expect practical, achievable recommendations to result from this symposium.

I also commend your selection of sites.

Ohio has long been a leader in transportation developments. It remains the third-ranking state in passenger car production and is second in truck assemblies. It is a major automotive equipment supplier with Toledo being the leading center of automotive parts manufacturing in the United States.

The "world car" as a generic term is somewhat ambiguous. At least three concepts come to mind.

Several years ago, for example, a rather formless, austere "Jeep-type" vehicle was proposed by one major U.S. manufacturer as a sort of universal Model T for people of the underdeveloped countries. It was simple; it was spartan; it was utilitarian transportation. It was conceptually a "world car."

A second more recent use of the term refers to motor vehicles of particular national parentage but no national pedigree. World cars would be assembled in plants around the globe from components manufactured in the United States, Europe, South America or Asia. The cars built in any one country would have a prescribed percentage of "local content" parts, but those parts would be standardized and readily available wherever the car was sold. This second concept focuses on the production aspects of the "world car."

The third concept of a "world car" focuses on demand. In this context a "world car" is a product designed to satisfy a world market. That world market is demanding energy efficiency. Consumers worldwide can no longer ignore the soaring price of oil and its threatened

scarcity. Reduced emissions, greater safety, better reliability and overall affordability are also becoming common criteria for tomorrow's cars -- wherever they are manufactured or sold.

It is the last two of these three concepts that this symposium is addressing. We are considering world-wide parts production and assembly of automobiles. And we are attempting to identify the elements driving the world-wide market. Today I want to look at the future role of the United States both as a major producer of tomorrow's cars and as a market for those cars.

We face a severe economic challenge in this country, and the auto industry is at the heart of that challenge. The new energy reality has generated a heavy demand for fuel efficient cars -- a demand being met to a large extent by foreign car producers. The result has been substantial and unsettling dislocation of one of our basic industries -- the auto industry. Our response should be nothing less than a re-ordering of our economy.

We must look to solve the more basic economic issues which underly our auto dilemma. The larger and longer-range issues require of us the swift and well-reasoned development of an economy that is less wasteful, more productive and intensely competitive. We want an economy geared to long-term employment for American workers. We must create opportunities for a progressive and innovative American industry. And we must respond to growing markets for U.S. products at home and abroad. The interests of the U.S. automobile industry should be first and foremost in this broader economic restructuring.

The production of cars and trucks in this country takes one-fifth of the steel, over half the rubber and a fourth of the glass produced or consumed by U.S. industries. Twenty percent of the U.S. work force -- one worker in five -- is employed in the manufacture, distribution, maintenance or commercial use of motor vehicles. More than 3500 business establishments in 45 states are engaged in motor vehicle and equipment manufacturing. In short, the motor vehicle industry accounts for a sizeable chunk of the American economy.

Today, the U.S. automobile industry is hurting. Domestic new car sales declined 10½ percent in 1979, nearly 172,000 auto workers are currently laid off, losses at one company have reached record levels, and the drop in domestic car dealerships last year was the worst in 10 years. The number of retail outlets for U.S.-built cars is now at the lowest point since World War II.

To some extent, the problems confronting America's auto industry are technical and social; however, there are three overriding challenges.

The industry suffers, first, from an aging plant. In a sense the problems of Dodge Main are endemic to the industry. Except for

the relatively few new plants that have been built in recent years, most of the nation's auto manufacturing facilities are old -- afflicted with the inefficiencies symptomatic of a mature industry. By comparison, Japan's entire auto industry is barely 25 years old, and more capable of responding quickly to changes in the marketplace.

Second, the U.S. industry is making the painful transition from the production of large, heavy, typically American cars, to the lighter, leaner, more traditionally European type of cars today's energy situation demands. The "downsizing" of U.S. cars has been reasonably successful, with several of the newest, more efficient models in heavy demand, but -- unfortunately -- Detroit's incredible shrinking car act has not kept pace with the rate of gasoline price increases. As a result, demand has diminished for the full-size and intermediate American cars -- even though their fuel economy has improved by as much as 50 percent over their 1974 counterparts.

The third challenge facing the industry is increased foreign competition -- especially from the Japanese.

Imports last year took 22 percent of the U.S. market. Japanese manufacturers alone accounted for 16½ percent of all U.S. car sales -- 1,745,000 vehicles or 67 percent of all the imported cars sold in this country. The Japanese have tapped the compact as well as the subcompact market. Their penetration of our overall auto market has been increasing, reaching 21.6 percent last month.

We must determine whether this is a long-term trend. On the demand side, U.S. consumers appear convinced that smaller is better. J.D. Power and Associates, an auto market research firm, reports that half of America's big car owners want to switch to smaller models. Fuel economy appears to be a major motivating force in this shift in demand. On the production side, the Japanese companies currently offer a wide line of cars that meet that demand.

To some, the imposition of import restrictions represents a quick-fix to what might be described as an anomaly. But I would suggest a more feasible course might be a recognition by the Japanese of the need for voluntary restraint on their part -- in view of their own long-term best interests of continuing what has been a very favorable trading relationship with this country.

I believe that the inroads the Japanese are making in the American auto market, although painful, may be of short duration. Detroit is mounting a major counteroffensive -- Ford with its Escort series, General Motors with their "J" cars, and Chrysler with its line of "K" cars: all small, lean and designed to compete directly with the most popular Japanese models.

These actions are consistent with a recent study by the Arthur D. Little Company which predicts that the import share of the U.S. market will fall to about 10 percent by 1990. The study reaches that

conclusion on the basis of two assumptions: one, that U.S. manufacturers, in response to consumer demand, will match the fuel efficiency capabilities of the imports; and, two, that foreign manufacturers will establish additional production capacity in this country.

This Administration is committed to the recovery and the renewed good health of the U.S. auto industry. Among the most serious impediments to the free trade of motor vehicles between nations today are the different government standards pertaining to performance, fuel economy, safety and environmental criteria. Pete Estes, General Motors President, has pointed out, for example, that U.S. cars exported to Japan must be modified to satisfy Japanese lighting, head restraints, seating and heat shield standards. Further, every car entering Japan must be tested and inspected -- individually -- to prove compliance. Sales statistics reflect the impact of these requirements. Last year 1.7 million Japanese-built cars were sold in the U.S., while only 16,000 U.S.-built cars were sold in Japan. American cars can be competitive, but our competitiveness requires a free-trade/fair-trade situation.

Pete Estes summed it up recently by saying, "In a fair fight, we can beat them." This Administration favors working toward a uniformity of standards for products sold in international commerce, both to avoid unnecessary cost and to assure equal market access.

In a slightly different tone, but in the same vein, GM chairman Thomas A. Murphy puts it this way: "America must come to grips with the new realities of world trade -- the death of the dream of national self-sufficiency, and the birth of the idea of the mutual dependency of nations. America must wake up to the fact that the auto market of the future will be an international one."

Many of the production aspects of a "world car" are already in place in the U.S. Volkswagen certainly qualifies as a "world car producer," with sanguine effects on the U.S. economy. Of the 215,000 Rabbits sold in the United States last year, more than 75 percent were built in the Westmoreland, Pennsylvania plant by American workers.

Other foreign manufactures are establishing U.S. production facilities. Honda will open an assembly plant in Marysville, Ohio. Datsun (Nissan) has indicated it may open a truck plant here and Toyota has hinted at the possible assembly of cars in the United States.

Likewise, the U.S. response to the "market demand" aspects of the "world car" is promising. Ford builds or assembles cars and trucks in 18 countries and plans to spend \$8 billion during the 1980s for foreign facilities. Last week General Motors announced plans for a \$2½ billion expansion program in Europe.

There are three other developments that cause me to be optimistic about the future health of the U.S. auto industry.

First, for all the anguish the industry is presently experiencing, its competitive instincts have been sharpened and its zeal for innovation rekindled. The necessity to produce whole new product lines is also an opportunity for the industry to update its plant and improve productivity. As Phil Caldwell, president of Ford, said recently: "We have an unusual opportunity to write a clean slate -- to renew operations; to get two or three improvements for the cost of one; to do what the Japanese steel and auto industries did when they had to rebuild after World War II."

Second, the Federal Government is positioning itself to be helpful to U.S. industry. President Carter has ordered an analysis of the overall state of the auto industry. Secretary Goldschmidt is heading that study aimed at determining what government can do to speed the transformation of the industry and sustain its competitive strength. The study represents an unprecedented effort by government to examine not only that industry but the broad industrial network involved with it -- steel, tires, glass, electronics -- to find and correct economic weaknesses.

Our study objective is to describe actions that will assure the future health of those industries and the means to re-invigorate an American industrial base that in many respects has reached maturity. We will identify actions in the government and in the private sector, to improve the efficiency and the competitiveness of those industries. We may find it advisable to recommend changes in the depreciation allowance, or to propose tax credits for re-tooling or other economic incentives to improve the competitive stance of those industries.

It is perhaps premature to speculate on the outcome of our analysis, but I do want to emphasize that the area the President has asked us to examine hasn't really been studied at all. We can see what's happening to a bedrock segment of our economy -- it's being eroded by inflation and undercut by foreign competition. It's costing us jobs and exports and sales here at home. But until we see and understand the chain of circumstances -- until we make an incisive, orderly analysis of the problem, we are not in a position to recommend the best corrective actions.

What we really need is a 21st century strategy for the American economy. We have been living on the fading momentum of 19th century industrial economics, and it's the President's view that we need to reconstitute our economy if we are to compete successfully on an international scale in a world vastly changed by energy politics.

Third, the industry will be helped by the funds we are requesting for basic automotive research and fuel economy technology assessment. It has been the President's intention to request \$1 billion for these

purposes over the next 10 years. The funds would be included in the transportation energy initiatives supported by revenues from the windfall profits tax soon to be acted upon by the Congress. The objective of the research investment is not to build an all-new car or to tell Detroit how to do that -- Secretary Goldschmidt does not consider that to be the government's province or business -- but rather to generate a body of basic research pointing toward more fuel-efficient and socially acceptable automobiles in the 90s and beyond.

The outlook for the motorcar is bleak only if we think of the automobile as it has been, not as it can be. In the last few years we have suffered some traumatic experiences -- sporadic gasoline shortages, soaring fuel costs, the demands -- often conflicting -- for lower emissions and better economy, and a near doubling of the imports' share of the U.S. market.

As a result, we have the opportunity, and the incentive, to create cars that are fuel-thrifty, easy running, light and nimble, crash-resistant, desirable and reliable. We have an even greater and more pervasive purpose -- to strengthen our economy by assuring continued world demand for American automotive products.

Tomorrow's cars will consume less and pollute less; they will take less space in our cities and save more lives on our highways. And if we persist in our new working alliance with the auto industry, and in our commitment to the health of that industry, more of tomorrow's automobiles -- I am confident -- will be the products of U.S. producers, both here at home and throughout the world.

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