



Remarks

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New American Foundation – ‘Recipes for Recovery’

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Thank you very much, Chairman (Bill) Frenzel. Chairman Frenzel and I are both about to share the same fate as the transition begins. We'll probably be relieved of our duties of the ACTPN, the Advisory Committee on Trade Policy Negotiations. I'm the vice chairman. I'm not sure we'll be kept on, Mr. Chairman; that burden will be lifted from us.

Thank you for that great introduction and thank you for literally a lifetime of public service and for the work you're now doing with the New America Foundation. To the Foundation itself, thanks for organizing this event. The timing couldn't be better.

Congress returns next week, and I want to take a few moments today to talk about manufacturing, make the case for manufacturing and why it is so critical for the U.S. economy.

You've all seen the headlines. They tell the story pretty concisely, in an almost dramatic, draconian fashion.

Manufacturing in America is hurting today. The economy is shrinking. The GDP dropped, officially reported at .3 percent, and as it's revised, it could be down as much as .8 percent in the third quarter. That's the largest quarterly decline in about seven years.

Larry Lindsey was out last week with some numbers, suggesting that according to his data, you could be looking at a fourth quarter GDP negative of as much as 2.2 percent. Then you start washing that through the formulas he looks at, and he says, look, it's an

80/20 sort of scenario – 80 percent now that the more negative estimate will hold, and that will then see unemployment at some point in mid '09 hitting as high as 7.8 on its way to an eventual 10.5 percent unemployment rate – a depression that could be, as he says, 80/20, maybe long and deep, continuing on, maybe at not such a rapid rate, on in to 2010.

The Institute for Supply Management wouldn't argue probably very much with that. The manufacturing index out recently was at the lowest level in 26 years.

There were 90,000 jobs lost in manufacturing last month. The heaviest hit were areas like fabricated metal products, furniture, plastics, and motor vehicles. Housing isn't on that list, probably because it's been so low for so long. Hours worked peaked way back in June and since then have continued to slip.

The auto industry in particular is in the news this morning, last week, tomorrow and probably for some time to come. The earning reports last week – if you missed them and it was hard to miss them – Ford lost \$3 billion in the last quarter. General Motors lost \$2.5 billion; more ominous, sales of cars and light trucks dropped 45 percent in October, the worst sales month since the end of WWII.

Now, we have three years where the former governor of Michigan used to watch these numbers: Vehicle sales were over 17 million vehicles, dropped off a little bit this year, quite a bit down in next year's numbers. You get a wide array of estimates, somewhere in the 12.5 million vehicle range, you've got some who think it's between 10 and 11 million vehicles. That's pretty scary, and that's a pretty big impact. The financial impact is being felt in a lot of places.

President Obama, that is, the President-elect is on his way here. The news report is that this will be his first steps ever into the Oval Office at two o'clock this afternoon when he meets the President. Pretty impressive campaign, but you wouldn't blame him and it might be more tempting to go shopping for that puppy instead at looking at some these economic numbers ...*(laughter)*

I do think the President-elect and incoming chief of staff made it pretty clear over the weekend and at the press conference on Friday there's a pretty keen understanding of

how bad some of these numbers are and how serious these economic challenges are facing the nation.

One thing I chalk up as a very smart move was to go ahead and signal to the Congress that, “Look, it’s good to proceed now.” A President-elect could have easily said, “Well, why don’t we just wait and we’ll do this when I get there.” Instead, they’re going to do some things early, and it’s no question it will be front and center on January 21. I think that’s a smart approach.

One of the challenges we have ... is that when you start trying to do a pre-holiday, post-election bill, whether you call it a stimulus, an economic rescue, or whatever wrappings you want to put around it, however pretty the paper and ribbon might be it could well contain a lot of Christmas presents.

That’s the challenge for those of us who look at this as part of this being necessary and potentially quite helpful, what’s the cost to get it done? What happens along the way?

I’ve got a real simple rule. I used to use this back in Michigan, and I thought it was pretty good advice to legislators whom I was working with. It also works at the federal level, even though I recognize that Washington is very, very different.

But if you’re going to pass a package designed to help people, then do no harm. Let’s start there. Do no harm first.

So I would say don’t raise taxes, don’t increase regulation, and don’t add taxes to energy production. Let’s focus on those areas that are absolutely the highest priority, and let’s try to have a rationale and plan for what we’re up to.

I do think the auto industry is on that list. I understand just watching the commentary – there was an excellent article by Paul Ingrassia in the Wall Street Journal on this very topic – one of the challenges we’ve got if we’re talking about economic recovery in America, is what do you do with an automotive sector that’s the nation’s largest manufacturing sector? Estimates are that it’s as much as 20 percent of our manufacturing GDP. Let that industry go down?

You've got some 4,200 key suppliers out there, and then you have a lot of ancillary employment, including retailers – and we've had dozens of dealers who have closed this year. The transportation sector gets impacted, and so much more.

On the supplier side, that's where the focus needs to be. The auto industry is the most integrated manufacturing sector we've got. We've talked about the virtues of that in the past. Far and away, it's not even close. They've been this way for some time.

But look at the supplier side.

- Arvin-Meritor just announced the elimination of an additional 1,250 jobs – 7 percent of their global workforce.
- Federal Mogul announced that it plans to shut down several factories.
- Dana, last week: 2,000 jobs being eliminated, some 10 plants that they're closing, and that's on top of 3,000 jobs that were announced earlier.

And the list goes on.

The Center for Automotive Research conducted a study of the economic effects of shutting down the Detroit auto companies, and asked, what would it be if they went out completely and what would it be if they had a 50 percent reduction?

A 50 percent reduction would reduce personal income by more than \$145 billion in the first year and a total loss of \$275 billion over three years.

Total tax revenues to state and federal governments would drop more than \$108 billion over three years. Some of the estimates of state deficits are pretty high... but that would add \$108 billion.

The far-reaching consequences of what would happen in this sector warrant an additional federal role, and so that's where the National Association of Manufacturers comes from.

We don't do this lightly, but when we looked at this and the impact – and we're well aware of (the tough questions of) where do you start and where do you stop – but when you talk about an economy that's so impacted by that one sector...

And the terms and conditions are to be negotiated. There's no question about that, and that's to be expected.

The low-interest loans, the \$25 billion that were funded back in October, were first authorized back in 2005. Now at the time, that was all for environmental compliance; it was basically a portage to the hike in mileage that was being mandated, so it was going to help for all the retooling. The DOE is at work trying to make those funds available, but there's a lot of sense that that isn't going to be any time soon.

But today we're at a point when you look at the cash burn: Ford said they went through some \$7.7 billion in the third quarter, and General Motors through some \$6.9 billion. General Motors said they wouldn't have enough money to operate next year.

Pretty compelling case.

When I mentioned the integration what you've got then is that these suppliers aren't just General Motors and Ford suppliers any longer. They're Honda suppliers and Toyota suppliers, so you'd get a systemwide collapse.

So these are extraordinary times never before having been seen. The choices are not easy for the Congress or the next Administration, but these are extraordinary times, and they are going to demand extraordinary action.

I want to talk a little bit about infrastructure, which is really why I wanted to be here. I'm excited by the opportunity, because funding of infrastructure is another idea whose time has finally come.

From the manufacturing standpoint, yes, we make a lot of equipment that is used to build infrastructure. More importantly, quality of infrastructure is a competitive advantage or disadvantage depending on the condition. We've underinvested for so long that in many areas of the country it's a disadvantage today.

Congestion is an expensive proposition. I've got a couple of statistics I'll try to make that point with. So we think funding infrastructure is critical to the manufacturing economy.

And yes, we've still got one. I should have made that point earlier, perhaps. We are the largest manufacturing economy in the world. There's a lot of gloom and doom surrounding it, but No. 2, Japan, isn't all that close. China is actually down in the third spot.

And we're this year probably passing Germany as the world's largest exporter. In fact, exports have been so robust that they have largely added back to GDP what the housing collapse has taken away. That statistic usually shocks people.

People have been commenting about Rahm Emanuel's selection. One thing that he has been is a strong supporter of NAFTA and all the trade deals, so he's been good on those issues. That's one of those things that needs to be kept in focus during tough economic times: Don't do like was done in the '30s and compound the problem on the tariff side. Let's keep the doors open, and let's be aggressive on trade.

For infrastructure, I testified in front of Chairman Oberstar and his committee during the week before the election. We talked a lot about the fact that there are roughly \$18 billion of projects that are in the "ready to go" category. In other words, they've been designed, they've been approved. The environmental permits – however onerous that process may have been – they've gotten them and they're ready to go. These could start and start now.

Given the decline in some of the commodity prices also you can actually get infrastructure built as a little bit of a bargain now. Fuel prices have come down, concrete and cement is going to be a little cheaper, asphalt's a little cheaper with oil prices coming down. So you've got a lot of things that would argue this is a pretty good investment.

You can say a lot about different aspects of the stimulus package, but if you fix the bridge, if you rebuild the road, if you build the transit, you'll be able to use it for about 50 years given what we've been doing with the current infrastructure investment. We'll have something when we're done. And, the economic impact in terms of the commerce that depends on infrastructure can be very positive.

And it isn't just about highways and bridges either. I would suggest we need to look more broadly. Inland waters move major energy and agriculture commodities, not only for domestic use but also for the export markets. There's a \$1 billion to \$1.5 billion federal investment there that would take 16 projects again that would be lock-and-dam type projects that are on a "ready to go" list so we can get those under way.

The aviation sector: Everybody in this room flies. Some of you fly more than you wish. We need to get some of those projects built. In particular, we ought to fast track our nation's transition to a satellite-based air traffic control system.

This is part of the argument I make when I get into the capital budget outlay debate, is that I think we need a capital budget in the federal government. Certainly any sensible person would bond the whole air-traffic control system and just get it built! We don't need to wait – as is suggested over at DOT – some 20 years to roll this out. Building that now gets us safer skies, reduces congestion, improves the reliability, and actually reduces – as the airline industry will argue – the carbon footprint of the industry by reducing those miles and making it more efficient.

That's a bit of a down-payment. If we put some of those projects in the infrastructure area, that would be more helpful to the broader economy and beneficial to U.S. competitiveness. Those are win-win propositions, and they work for everyone, regardless of which party affiliation and regardless of whatever interest they might have.

In the manufacturing economy, we need a 25-year plan for infrastructure, a long-term strategy to rebuild competitiveness that's well beyond patches. And I'm not suggesting that these projects that are ready to go are necessarily high on that priority list. They are ready to go.

We have others that in some cases have been delayed years because there's no funding available or permits are hard to get. I'd fast-track the environmental permits and set up a national priority list for some of these.

- UPS estimates that every five minute delay in its drivers' deliveries due to traffic congestion costs the company \$100 million a year.

- General Mills spends \$650 million a year trucking hundreds of millions of cases, obviously, to market. Every single mile per hour reduction in the average speed of those deliveries adds \$2 million to company costs. You pay for that.

In China, they've just announced another dramatic infrastructure expenditure they're preparing to make. During the Olympics, we saw first-hand some of the progress they've been making. It's not just China. The premier down in Australia is saying the same thing. They're stepping forward and they're getting some of these projects done.

We used to spend routinely from the '50s to the '70s more than 3 percent of our GDP on infrastructure. We're now significantly below that and we have been for some time. So we're living off grampa's investment in the infrastructure. It's now time for us to step up for the next generation.

I don't think government's the sole actor. I don't want to give that impression. Part of this ought to pave the way for the public-private partnerships that I think are helpful. They ought to be welcomed and really encouraged in some local areas, and in this economic climate, they ought to be used to accelerate the pace of investment.

Actually some of this, like the air-traffic control system, is the kind of debt that has a wonderful revenue source attached to it, so it really does work very, very well.

To close on this final point: I don't have time to talk about taxes, although I'd love to get into some of this. Private investment and the private sector play a big role in the economy recovery, and not just with infrastructure. There's no way that the federal government can do this all by itself, so it's consistent to it help financial institutions and companies get to some of this credit. We're still working our way through that.

It's interesting. Every time an action is taken it has a consequence someplace else. The government guarantees commercial credit, Tier 1, and then everybody wants to buy Tier 1 commercial credit but not Tier 2. And a lot of companies that need it the most are in that tier, so suddenly their markets dry up.

As we work through this, it seems to me that we ought to keep in mind that rule about doing no harm. We ought to be looking at, when we make decisions, what's the impact on our nation's competitiveness. Because the one thing that's different in 2008 than in

any period in history -- at least in the more modern, post WWII-era of economic times –, is that our competition has never been better, never been tougher, never been able to move faster than they are today. We don't have time in many of these areas to recover if we do something that puts us significantly at a disadvantage. You can give up a market, you can give up a lot of opportunity, and you can do it very quickly.

We used to have an abiding faith in America's engineers and scientists, "Oh, don't worry. Pass the rules, pass the regulations, they'll figure it out." But at what cost? I'm arguing today that we don't have that margin, it's not there any more, we don't have the luxury of saying, "Well, wait five years until we figure this out, and if it's a few billions of dollars, so what?" because of the mobility of goods and services around the world, including the fact that many of the larger American corporations are finding most of their growth taking place in other parts of the world. In some cases, growth is export-driven; they're building it here and shipping it there.

Down the road, where does the next investment get made? It doesn't have to happen here. So we better be thinking of our attractiveness and the impact on our competitiveness. When you start getting careless about tax rates or eliminating secret ballots and simply saying unions can simply exist where union bosses want to have them, and the workers have no say in that – those kinds of things all come into play.

When you get at the tax code, same thing. A lot of people in Congress say, "Well, yeah, our corporate tax is the second highest." ...It is an indisputable fact. The OECD does the rankings. "But don't worry about that high tax rate. There are all these other adjustments that get made. They're really very, very low."

The problem is, when people run the numbers – and some of the companies that run those numbers are members of the National Association of Manufacturers – and they tell me, "Look, it's a huge disadvantage."

Plus we didn't fix immigration, so I can't get the talent here easily, and I need the best talent in the world in the space I'm in. Plus, I've got foreign earnings out there, and if I bring those back, I've got to subject those to a high tax rate.

Remember, when we lowered the tax rate on repatriation, about \$300 billion came back very quickly. We sort of punish you for bringing your money back. So the policy is keep

your money off shore, it's a cheaper rate. If you're offshore, you can get anybody to work for you; anywhere in the world, they can get to you. Your corporate tax rate is less. "Oh, and by the way, we've even got a better R&D tax credit, and guess what, it's permanent."

I mean, why kind of signal are we sending?

We better focus on competitiveness.

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For the New America Foundation, I want to close by commending you for gathering us together. We can't do too much talking about how we get out of this problem. The problem is that big. It needs all of us.

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