

Econ Club of Chicago, Final Media



**Remarks by
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to the
Economic Club of Chicago
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- **Thank you, John [Bryan]. Great to join you for this event and the 2005 Chicago Auto Show.**
 - This is a very important show for the industry. If you haven't yet had the chance, I hope you'll get in soon to check it out, especially the GM display.

- **We've introduced two important new cars at this year's show:**
 - the 2006 Buick Lucerne, an all-new luxury sedan, that is Buick's third new vehicle in just over 12 months and the first Buick sedan in a decade to offer V-8 power...
 - ... and the next generation large Cadillac, called the DTS, which builds on DeVille's classic front-wheel-drive luxury performance, but wraps it in Cadillac's strong design language for today, along with a new and very refined interior, and tons of great features.

- **Both the Lucerne and the DTS are exciting additions to GM's brand portfolio, and great examples of the strength and resiliency not only of Buick and Cadillac... and of GM and the U.S. auto industry... but also of American manufacturing and American competitiveness.**
 - And that's what I want to talk about today... the importance of American manufacturing... its essential role in America's future... and several things that we can and must do to preserve our ability to compete successfully in an increasingly global economy.

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- **Now, some people might have thought of American manufacturing as dying... but I prefer to paraphrase Mark Twain's famous quote: accounts of our death have been greatly exaggerated.**
 - In fact, the comeback of American manufacturing in the last two decades has been a remarkable story.
 - In the early 1980's, American business, and particularly American manufacturing, was described by many as inefficient and ineffective... in a word, uncompetitive. The U.S. was losing its credibility as an industrial power.
 - But American business and American manufacturers worked hard to fix what was wrong. And the U.S. has emerged, once again, as the most productive and competitive economy in the world.

- **America's manufacturers have made dramatic improvements in their competitiveness, with big strides in productivity and quality, while continuing to bring outstanding new products to market.**
 - And our impact on the U.S. economy is enormous. Manufacturing generates two-thirds of America's R&D investment and three-fourths of our exports. Manufacturing creates about 15 million American jobs.
 - And the auto industry is a big part of that, accounting for 11 percent of American manufacturing, and nearly 4 percent of U.S. Gross Domestic Product.
 - For its part, GM remains the largest auto manufacturer in the U.S. and the world, a position we have held now for 74 years in a row. Here in the U.S., GM supports more than 1 million jobs.
- **And, as impressive as those numbers are, they really understate the importance of a strong manufacturing base. While there's been, and will continue to be, lots of growth in the service sector of our economy, we need to keep in mind that many of these jobs are tied directly to the manufacturing base... they provide their services to manufacturers.**
 - And, in addition, our manufacturing base has led to accompanying investments in our technology base. Do you think GM's huge Tech Center would be in Warren, Michigan, if we didn't have a massive manufacturing base here in the U.S.?
 - So, in addition to the direct benefits, a strong manufacturing base provides a critical ballast to our economy, and to our future economic growth.
 - And that's why so many other countries around the world are interested in developing and growing their own manufacturing bases.
- **And that's why the U.S. manufacturing sector needs to keep pushing, keep raising the bar if we are to remain the leader... because the competition in manufacturing is increasingly global, and it gets tougher every year.**
 - As President Bush said earlier this week during his speech to the Detroit Economic Club, "America must be the best place in the world to do business." We couldn't agree more... especially when it comes to manufacturing.

- If we want to maintain the manufacturing and economic leadership that we worked so hard to reclaim, if we want to remain competitive in the global marketplace, if we want to keep our economy growing robustly... then America must be the best place in the world to do business... and must maintain a competitive manufacturing base.
 - As business leaders, we need to begin by helping ourselves – ensuring that our own houses, our own businesses, are in order... in everything from R&D investments to quality systems to cost structures.
 - That's essential. That's the first step. But that's not sufficient.
 - To put it bluntly, in addition to businesses helping themselves, business and government need to work together to address a number of important issues that put U.S. manufacturers at a severe disadvantage to overseas competition... the cumulative effect of many well-intentioned policies that now harm American manufacturing and our nation's ability to compete effectively in the global market place.
 - **So what are these issues?**
 - Over the past year, a team of our experts at GM has studied a number of public policies that directly affect manufacturing competitiveness.
 - We benchmarked nine leading auto-manufacturing countries, and concluded that U.S. policies, on balance, place our own manufacturing sector at a clear competitive disadvantage.
 - Today, in the interest of time, I'm going to focus on the three concerns that we identified as the most pressing... issues that we need to address right now to improve our ability to compete in tomorrow's global economy:
 - Free and fair international trade;
 - Our civil justice system;
 - And our nation's health care system.
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- **First, let me discuss free and fair trade.**
 - At GM, we have been long-time supporters of free and fair trade, and for good reason... the benefits speak clearly for themselves.

- But, in today's highly competitive global economy, we need to make sure that all countries, especially developed countries, are playing by a common and fair set of rules.
- And one example of free trade not being fair today is in the area of exchange rate policy – which is, in some ways, the most fundamental element of free and fair trade, as it is, in effect, the pricing mechanism between countries.
- **Since the early 1990s, the major industrialized economies of the world have scaled back their foreign exchange market interventions and relied on market forces to determine fair currency values, with one notable exception – Japan, which has continued to intervene frequently, and at times massively, in foreign-exchange markets.**
 - For example, from January 2003 to March 2004, Japan intervened on 126 days, purchasing a total of \$328 billion.
 - The massive size and frequency of Japan's intervention artificially weakens the yen, and in doing so provides a significant subsidy to Japan's exporters.
- **Some analysts correctly point out that the dollar has weakened since its last peak in February 2002... but remember that the dollar had become substantially overvalued by that point. In fact, versus the yen, the dollar is now just back to 1999 levels.**
 - Moreover, while the dollar has declined a lot against freely traded currencies – the euro, and the Canadian and Australian dollars, it remains overvalued against the Asian currencies, which account for 60 percent of the U.S. trade deficit.
 - This is largely because Asia's biggest economy – Japan – has thwarted the free-market adjustment process through its massive purchases of dollars.
- **Why should we care about this?**
 - Well, a recent report by leading economists found that appreciation of the dollar, as a result of currency manipulation by Asian countries, explains nearly all of the trade-related loss in manufacturing jobs since 2000.
 - And the stakes are big... one Japanese company says that for each move of one yen versus the dollar, its profits change by nearly \$200 million.

- With the artificial under valuation of the yen, no wonder auto exports make up over 60 percent of Japan's persistent and huge trade surplus with the U.S., as they have for more than 20 years.

- **So what should we do?**
 - We should insist that the Asian countries stop intervening in currency markets immediately and permanently ... and allow the gradual depreciation of the dollar to continue.
 - We believe the yen should strengthen against the dollar as much as the euro has since 2001, or around 15 percent more than it has already – which would bring the exchange rate to around 90 yen to the dollar.
 - Other Asian currencies, many of which seem to be loosely tied to the yen/dollar exchange rate, will follow.
 - The U.S. manufacturing base has suffered from an artificially strong dollar for too long. It's time for the Asian economies to rely more on domestic demand and less on exports to the U.S.
 - Asian automakers, for example, are very strong competitors... they do not need foreign-exchange-rate “subsidies” to feed their already healthy bottom lines and provide resources for next-generation products and technologies.
 - We need to correct this, now.

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- **The second issue where government and business need to work together today is lawsuit abuse and litigation reform.**
 - It's no surprise to many of you that the U.S. has the most expensive civil justice system in the world. What is surprising is just how expensive our system has become.
 - Litigation now costs the U.S. economy more than \$245 billion a year, more than \$845 per person. That's over two percent of our gross domestic product.
 - No other country in the world has costs anywhere near this level.

- **Why is it so bad?**

- Simply put, lawsuit abuse runs rampant in certain state courts thanks to an entrepreneurial plaintiffs' bar.
- And, the perverse result in a lot of cases, is that the majority of the settlement goes to the lawyers, not the injured party.

- **How do we fix this?**
 - We begin by returning common sense to our legal system, and that will require considerable work at both the federal and state levels.
 - At the state level, we need tort-reform legislation that places reasonable limits on excessive-damage awards.
 - There is growing public support to rein in lawsuit abuse. Last year saw a number of states, like Mississippi and Ohio, either passing litigation-reform legislation, or electing judges who understand that lawsuit abuse does not serve the interest of the public.
 - We need this common-sense trend to extend to all states around the country.

- **And at the federal level, we need several things:**
 - First is federal legislation to end abusive asbestos-related lawsuits, in exchange for an industry-funded trust that would provide the financial support to legitimate asbestos victims.
 - Continuing the current system will only result in more suffering by people who were truly injured by asbestos, and add to the more than 70 companies bankrupted by asbestos lawsuits so far.
 - Also at the federal level, we need class-action reform legislation, which is being debated on the floor of the Senate this week.
 - We support the passage of the current bill without amendments that could create loopholes or otherwise water down the legislation. This is something we need, and we urge the Senate to pass the bill now.

- **Finally, we need to take a hard look at medical liability.**

- Outdated medical liability laws and a booming trial-lawyer business routinely force doctors and hospitals to order procedures and testing... and retesting... that in many cases are not necessary.
- We need to reform our medical liability laws to eliminate frivolous lawsuits and help reduce the rapidly rising cost of health care... and that brings me to my third competitiveness topic.

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- **In my view, health care is an area where all stakeholders – business, government, and consumers – need to work together... because the cost of health care in the U.S. is making American businesses extremely uncompetitive versus our global counterparts.**
- Let me give you a couple numbers:
 - In the U.S., health care costs have been rising at double-digit rates for many years. In 2003, they were about 15 percent of GDP, at least 30 percent higher than the next-most-expensive country.
 - GM, alone, spent \$5.2 billion on health care in 2004, for our 1.1 million employees, retirees, and dependents throughout the U.S.
 - Our foreign domiciled competitors have just a fraction of these costs, because they have few, if any, U.S. retirees, and in their home countries, their governments cover a much greater portion of employee and retiree health care costs.
 - The impact of the health care burden is particularly frustrating, because over the past decade, GM has made huge improvements in our operational competitiveness – we have some of the most productive plants in North America, including four of the top five, and our quality has improved dramatically, to the point, for example, where our Lansing Grand River facility is the top ranked plant in North America.
 - And, the sad thing is that America's high health care costs don't necessarily buy the best care. In fact, according to the Organization for Economic Cooperation and Development, the U.S. ranks 12th out of 13 industrialized nations in 16 top health indicators, things like infant mortality and life expectancy.

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- **Now, like many of your companies, GM has been very focused on improving the quality and reducing the cost of health care for a long time.**
 - We've made a lot of progress, and I know many of your companies have done the same.
 - But the recent health care inflation trends clearly show that we cannot do this alone. We need a collaborative approach.
 - And, by the way, spiraling health care costs are not an issue just for "old economy" companies, or heavily unionized companies. They affect everyone, from state and local governments, to your local Starbucks.
 - So, how do we address this health care cost challenge?
- **The first thing that we, as a nation, need to do, is to bring all of our capabilities in quality, productivity, and information technology to the health care industry.**
 - For example, GM, Ford, DaimlerChrysler and the UAW announced yesterday a first-in-the-nation electronic-prescribing initiative in southeast Michigan to reduce errors, improve efficiency, and lower costs.
- **Second, we all need to become better health care consumers.**
 - Today's health care consumers know far less about the drugs they take, or the quality and efficiency of their health care providers, than they do about the cars and trucks they purchase.
- **Third, we need to encourage access to affordable health care coverage for all our citizens. It's simply not acceptable for over 45 million Americans to be without health care coverage.**
 - And it's unfair for those of us who do provide health care benefits to have to pay higher bills to cover the costs of the uninsured.
 - A huge part of the problem is that so-called "catastrophic" health care costs for 1 percent of the population... generate 30 percent of the nation's overall health care costs.
 - If we can create a comprehensive insurance model to better share these catastrophic costs among all consumers, then we can take a big step toward providing affordable health care coverage for all our citizens.

- **Fourth, we need to reduce the high rate of inflation in health care spending, beginning with the very high cost of prescription drugs.**
 - And the easiest way to do this is by expanding the use of generic drugs.
- **And then, there's the role that each of us has as individuals to be smart consumers of health care.**
 - We need to ask our doctors or pharmacists if there are generic alternatives to our prescription drugs, or less expensive drugs to treat the same illness. In short, we need to shop for value in health care, like we do in everything else.
 - And very important, we each need to take better care of our own health – eat well, exercise, quit smoking – things we all know we should do.
 - I understand that's one of those things that's easy to say, but not always so easy to do.

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- **There are a lot of other things I could mention here, but I'd like to close out this section on spiraling health care costs, and their effect on U.S. competitiveness, with an appeal... to Congress and the Administration, to business leaders, to the health care industry, to health care consumers... and that is that we all need to come at this issue with an open mind and a can-do spirit.**
 - Failing to address the health care crisis would be the worst kind of procrastination – the kind that places our children and our grandchildren at risk, and threatens the health and global competitiveness of our nation's economy.

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- **I started my remarks today by talking about comebacks, and of course Chicago is no stranger to that subject.**
 - The Chicago Bulls of late? Well, not yet at least. But I'm thinking more along the lines of this city's legendary comeback from the fire of 1871.
 - When Chicago hosted the world's fair in 1893, you did so in large part to show the world the progress you had made since Mrs. O'Leary's cow nearly destroyed the city – and you succeeded in impressing the world.

- Today, we have a chance to impress the world all over again... by showing that the resurgence of America's manufacturing sector is not only dramatic – it's also permanent.
- We'll do that by working to change the policies that hamper our own economic and manufacturing competitiveness – by standing up to unfair currency manipulation... by reforming a legal system that no longer makes sense... by improving a health care system in need of serious medicine.
- **If the U.S. is to maintain the manufacturing and economic leadership that we worked so hard to reclaim, if we are to remain the leader in the global marketplace, if we are to keep our economy strong and growing... then we must make America the best place in the world to do business.**
- And that's a responsibility we all share.
- Thank you.

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