Auto Communities and the Next Economy

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When de Tocqueville came to America and wrote about America, he remarked that the most striking thing about America and the thing that would contribute most to its success was the remarkable capacity of Americans to come together to form associations and form communities and have meetings about every subject – which was quite unlike anything he had ever seen in Europe. And the capacity that it produced for social cooperation, to solve problems, was a remarkable American strength.

And in many ways, 150 years later, this meeting is an embodiment of exactly that idea. People from the private sector, people from the not-for-profit sector, people from government, people from the federal level, people from the state level, all coming together to address a challenge of common concern.

Because as our world becomes more complex, whatever the merits of Adam Smith's invisible hand idea 240 years ago – and actually he didn't put it forward in quite the form its remembered – all those years ago, what we understand today is that there are enormous numbers of what economists call coordination problems, what other people call chicken-and-egg problems, where everybody will be better off if something gets done, but where it won't just happen without some convening and cooperation.

If you had to summarize the hugely important work that Bruce Katz has done at his Center for Metropolitan Studies at Brookings over these years, it stands for the principle that enlightened coming together and cooperation can be transformative in a way that every person for themselves will fail. And I would suggest to you with respect to the automobile industry and with respect to automobile communities, we have seen exactly that phenomenon. We have seen that you need coordination – that you need leadership – and simply letting each individual actor go their own way will be a failure.

What I want to do is talk about that for a few minutes at three levels. First, with respect to President Obama's courageous initiative last spring to rescue the automobile industry by financing it through a rapid bankruptcy. Second, with respect to the residual assets that remain in old General Motors and that more generally remain in automobile communities. And third, with respect to the challenge of creating manufacturing jobs going forward in our country, especially in manufacturing communities. Because I would suggest to you that in each of these areas there is no substitute for coordination.

Where were we 18 months ago?

Facing massive layoffs – 400,000 auto industry jobs had been lost in 2008. The Bush Administration had estimated that 1 million more could be lost through a bankruptcy. And private estimates placed the potential toll at up to 3 million.

Those didn't just mean loss of income and people without jobs.

- They meant State and local budgets pushed to insolvency;
- They meant rising crime;
- They meant people dying younger than they otherwise would have.

Indeed, when we talk about jobs, let's remember the most recent psychological research, which shows that in terms of its impact on individuals' well-being, being laid off and unemployed for six months is comparable in its adverse impact and its risk of creating depression to losing a spouse who dies.

So central is work to the dignity of Americans.

President Obama knew that it takes a generation to grow a forest, but a forest can be cut down overnight. And in the same way, it takes generations to create a thriving community, but a community can be destroyed by liquidation and recession in a matter of weeks or months.

And so for him, there was only one question. But it was a crucial question. And that was: Can this industry be effectively saved?

Because President Obama was not prepared to make an investment in failure. He was not prepared to make an investment that would only delay the inevitable.

He was prepared to make an investment that would ease the way through a terrible transition.

And it was a terrible transition.

To replace all the cars that are taken off the road in an average year takes something like 14 to 15 million automobile sales. Automobile sales last spring were running below 9 million. That was clearly a situation that was temporary. And it was clearly a situation that was temporary at a moment when the nation's capital markets were not in a position to extend debtor-in-possession financing on a record scale.

And that's why the President made the decision to put additional tax dollars on the line. To do so with rigorous standards, expecting sacrifice from every stakeholder, taking the fair compensation for taxpayers, and insisting on painful terms – but insisting this could be done.

A year later, that measure, which looked like it was taking a big chance, still carries with it enormous risks. But there are some things we can look at:

- General Motors and Chrysler are, for the first time in some years, operating at a profit.
- Recent consumer surveys suggest that the longstanding quality gap between General Motors and its foreign competitors appears all but closed.
- The prospects of repayment look brighter than almost a year ago. General Motors has repaid the full balance on its $6.7 billion loan. Now, to be sure, most of the investment that government made took the form of equity, some 61 percent of General Motors common stock, but General Motors has indicated that it is working towards the objective of launching an Initial Public Offering in the fall, the next milestone for the government's exit from its investment. And based on the current value of Old GM's bonds – the best proxy that's available because those bonds contain an option on the stock when it comes – there is a real prospect of recovering most if not all of its investment in General Motors.
- Employment in the industry has stabilized, and 52,000 jobs have been added since last summer.
- And spurred by the Cash for Clunkers program, automobile sales have risen from the 9 million range to the 11 million range.
  This is progress. It is progress that would not have happened by standing back and allowing liquidation and abandonment.

It is progress that is very real for the works at the firms' affect and, as you all know better than I, for the much larger number of workers who are directly affected by their activities.

At the same time we are making progress in addressing the challenges facing the communities that rely on the automobile industry.

Here Ed Montgomery and his colleagues have done such a good job in addressing the very difficult work in resolving all those chicken-and-egg dilemmas that set back local economic transitions.

Could we coordinate federal agencies, listening to community voices and reducing red tape to get services to those in need and help attract new investment and new jobs?

Take just one example.

In the fall of 2009, NUMMI – the historic joint venture between Toyota and GM – announced its intention to close its plant in Freemont, California. Shortly thereafter, the Council deployed an interagency team to help the community strategize and prepare.

The Department of Labor coordinated a rapid response effort for workers at the plant.

The Commerce Department – through its Manufacturing Extension Partnership – worked with dozens of local suppliers to help diversify operations, saving hundreds of jobs.

And the Economic Development Administration is working with the city of Freemont on a redevelopment strategy for reuse of the plant.

Now I am under no illusions. These are not the kind of successes that would be represented by that plant still being open.

12 percent unemployment in Alameda County is no time to declare victory.

But steps like these can make the difference in preserving vital economic assets and helping to turn former manufacturing assets into drivers of job creation and hope.

If you look across too many parts of this country and you see shuttered facilities that sit as a blight for years if not decades – you know, some people say in economics there's no such thing as negative value added, but there is such a thing as capital that's worth than nothing.

And when those shuttered facilities serve as a deterrent to any kind of economic activity coming nearby, they are not just failing to contribute to our national economy, they are acting as a drag on our national economy.

And too often, it goes too long. Parties argue over environmental clean-up. Potential buyers are wary of assuming unknown liabilities. Industrial blight pushes property values down, constraining economic potential.

That's why I believe the landmark federal framework to help buck this trend that Ed referred to – to speed the clean-up, redevelopment, and reuse of shuttered facilities – is so important.

More than $800 million federal dollars provided for the wind-down of the Old GM on 90 properties in 14 states.

$536 million for clean-up.

$300 million to re-conditioning these properties.

This framework offers the possibility of placing these sites back in productive uses far sooner than in similar situations.

It is, as Ed said, the largest environmental and economic development framework for former manufacturing sites in our nation's history.

And I believe it can and, if it is executed effectively, will have a significance that will go far beyond these 90 properties by showing what collective and collaborative effort at renewal can accomplish.

Imagine the difference it will make when chain-link fences come down.

Imagine empty parking lots filled with cars again as workers return to factory floors, corrugated sheet metal refurbished, and the silence of neglect replaced by the buzz of production.

This wouldn't have happened without the work of Administrator Lisa Jackson and the staff of the EPA, Secretary Solis, the Department of Justice and the tireless efforts of Ron Bloom and Ed Montgomery.

But I will tell you, and I'm sure they would be the first to say this, that while they are helping to provide some energy and coordination, that is not where the success is going to come from.

We can remove obstacles. We can provide funding. But the initiative has to, for success, come from the kinds of efforts and the kind of people who are in this room working with each other.

Supporting the industry is overcoming one kind of coordination problem. Addressing the particular problems around particular plants in particular communities is a second. A third challenge is an effective manufacturing jobs strategy for the United States.

And here too, we are a long way from having all the answers and will benefit from these deliberations. We read voraciously anything that comes from Brookings or any other think tank on this subject because it so important.

I will tell you that the world has changed and it is changing in ways that are not going to be reversed. The capacity for production in much of the rest of the world is profoundly different than it was a generation ago. It costs much less to ship a car across the Pacific than it does to fly a coach class ticket across the Pacific.

Technology means it takes far fewer people on an assembly line to assemble a car today than it did 20 years ago.

And yet, precisely because of these kinds of progress, manufacturing must remain at the center of the national economic strategy. Manufacturing drives innovation. Much of the research in our economy takes place in the manufacturing sector. Manufacturing jobs are often the best jobs in our economy.

There are four areas of particular importance that I want to highlight for support for America's manufacturing base.

First, credit.

About six months ago, I had the opportunity with Ed to visit the city of Detroit to attend a roundtable with Mayor Bing and Governor Granholm and a number of small- and medium-sized auto suppliers. Their stories were extraordinary.

Many were families who had been part of the supply chain for generations. They made high quality products. They paid their debts. They had credible plans to diversify into new areas like clean energy or defense components. And yet they were unable to obtain the loans they needed.

That's why President Obama has made a major focus of our financial stability efforts freeing up the flow of lending to creditworthy businesses.

Let me reiterate this morning President Obama's call on Congress to pass a small business lending initiative that would include capital for state lending programs that target industries or areas of particular economic distress.

And let me salute those in Michigan for their initiative in formulating a program that has been a pilot for these ideas.

Second, exports.

We are going to import more than we once did. It is inevitable, given the progress that the rest of the world has made, given the progress in transportation and shipping technology. Our alternative must be to export more.

95 percent of the world's customers are outside our borders.

President Obama has laid out a plan to double exports in the next five years and thereby increase the universe of buyers for American goods.

We will continue to negotiate open foreign markets, enforce our trade agreements, promote American goods, and encourage trade financing.

We cannot afford not to be on the playing field in international competition. Whether it is standing up for U.S. producers in the way that foreign governments stand up for their producers. Whether it is the provision of trade finance. Whether it is making sure that other countries don't get access to foreign markets preferentially to ours. Whether it is providing the necessary clearances in an effective and efficient way. It is crucial to our economic future that we achieve that degree of coordination.

Third, innovation and R&D.

Manufacturing companies account for 70 percent of the research and development in the United States – and 90 percent of all patents.

That's why we have stepped up the federal government's commitment to catalyzing these kinds of investments.

President Obama, in one of his first major speeches as President, set an objective of raising our national share of research and development from under 2.5 percent of our total income to 3 percent.

That's why, under the Recovery Act, we will double the renewable energy capacity in the United States over the next three years, why we seek to make the research and development tax credit permanent, and why we seek to eliminate capital gains taxes on small business investment and are providing other tax incentives for new plans and equipment.

Finally, human capital.

Ideas can move around the world. Finance can move around the world. There's not a great deal that is largely immobile around the world. But what's most immobile, what's most distinctively American, is our people.

In 1970, less than 20 percent of manufacturing workers needed a college education. Today, that figure is 50 percent, and the trend is only continuing.

The Department of Labor projects that jobs requiring an associate degree will grow twice as fast as jobs requiring no college experience. We will not fill those jobs – or keep those jobs on our shores – without the training offered by community colleges and higher education more generally.

That's why President Obama has set an ambitious goal of community colleges producing an additional 5 million graduates in the next decade.

That's why he believes that it is not acceptable that the United States, which for a century led in the fraction of its citizens who graduated from college, now faces a situation where we are not in the top 10 in the fraction of our 25 to 34 year olds who have been to college.

That is not acceptable for American manufacturing. That is not acceptable for America. And that is why the President has set a goal of again leading the world in college graduation by 2020.

If we are able to do these things, we are not going to eliminate unemployment. We are not going to succeed in bringing everything back in every community that we would want to. But I believe that with determined, cooperative efforts of the kind represented by conferences like this, these next years can be years of remarkable renewal for the manufacturing industry that is the heart of America and the heartland in which it resides.

Thank you very much.