

The Economic Club of New York

Ambassador William E. Brock, III
United States Special Trade Representative

Lee Iacocca
President and CEO of Chrysler Corporation

June 27, 1983

Waldorf Astoria
New York City

Questioners: George Weissman
Chairman and Chief Executive Officer
Philip Morris

Alfred Brittain, III
Chairman and Chief Executive Officer
Bankers Trust

Introduction

Chairman Peter G. Peterson

Ladies and gentlemen, it's my great pleasure this evening to first introduce our first speaker, Ambassador Bill Brock. He is perhaps the first, one of the few truly four-letter men in American public life. He was first a businessman, Chairman of the Board of the Brock Candy Company. Many of us owe our portly figures to Mr. Brock and his company. Secondly, he was a legislator, the first Republican congressman in forty years from his district, and then the second Republican senator in the history of his state – second only to Howard Baker. His third letter is in American political life as Chairman of the Republican Party, a very distinguished one. Fourth, a member of the Executive Branch Cabinet Level, Special Trade Representative. It occurs to me, Bill, that the only thing that keeps you from being a fifth-letter man, you're not a member of the judiciary at any point, not a member of the Supreme Court of the United States. He has a slight problem there. He's not a lawyer and presumably that would make it difficult, even for Bill Brock. Us non-lawyers, however, would never hold that against you, that you're not a lawyer.

In order to get an assessment of his performance as Special Trade Representative, I talked to one of the most objective beady-eyed senior career officers this afternoon at OMB. Those of you who know OMB know that they have confidence that occasionally borders on the arrogant. They have the most elite staff and they know it, but their ultimate power and independence comes from two facts. First, that they're going to be there long after you're gone. And secondly, that they put that

last memo on the very top that goes to the President of the United States and that gives them a sense of power that is quite formidable.

So I said to them, tell me about this fellow Brock. What kind of a job has he done? He said, well, he's done a damn good job. First of all, he's made progress on non-tariff barriers more than anyone. He's even making a little progress with the Japanese, it was reported to me. Secondly, he is going to probably be successful including services in the GATT negotiations. And he even has the French agreeing to reduce some financial subsidies. So that is a remarkable tribute. His great fans which many also say that he is protecting us or has protected us from protectionism at a uniquely vulnerable time in the United States. So it is my great pleasure to introduce a genuine four-letter man and a great public servant, Ambassador Bill Brock, Special Trade Representative.
(Applause)

Ambassador William E. Brock, III

United States Special Trade Representative

Thank you very much. You're always worried when somebody introduces you. There are so many things they could say that you just soon not hear, but I appreciate it. I've never heard anybody introduce me, though, by quoting OMB. And if I know those people well, they gave you another side of the story too, Peter. We'll do that later.

Anyway, thank you for a chance to be with you tonight. I have the honor of sharing the platform with a man for whom I have absolutely awesome respect, who has done as much as anybody in this room or in this country to refurbish American management's image, and that's Lee Iacocca. I'm proud to share the platform with him. (Applause) Now from here on, we disagree, but at least on that we agree. (Laughter)

I had a little meeting of the Summit-7 down in Williamsburg a couple, three week ago. Heads of government of the principal industrial powers of the world met in what turned out to be a remarkably productive meeting. Interesting in that it seemed to be a far better session than those of recent years, more constructive, more specific, very clear commitment to expanding the world trading system, the world economic process, and doing so while resisting protectionist pressures and even committing to roll back existing protectionist barriers to trade.

Fascinating in that this is the third time that we've had a summit with this president and we had far and away the most specific statements against protectionism at this summit. Fascinating also on the point that we made commitments against protectionism that take or maintain no protectionist measures back in Geneva last November. The industrial nations committed again to the same process in April of this year. And I guess the question is, with all of the promises, what's being done? What specific substantive steps can be taken to put some flesh on the words?

We do have a better time for moving in the direction of opening up. The recovery is moving. In

May we saw personal incomes up 1.2%, the highest level in a monthly increase in two years. We saw industrial production up 2.1%, the highest rate of growth in one month in seven years.

Inflation continues down, interest rates still continue at a much lower level than previously, and hopefully will come down a bit more. Stocks going up, home sales up, 800,000 new jobs created this year. A lot of good signs, news that allow us to be a little more optimistic and take a little more forthcoming position.

The question is why then is this not enough to satisfy those who suggest that for the first time since 1945 we reject the philosophy of the post-war era and go back to the Smoot-Hawley days of 1930. Whether you're talking about the domestic content bill which would raise the price of every car in this country and cost us jobs, not create jobs, or whether you're talking about actions we've already taken in the Congress, the sugar bill, a pretty good example of protectionism.

We got tired of the Europeans subsidizing sugar. We said we have to defend our farmers against all that unfairness so we're going to impose price supports on domestic sugar in this country.

And we did so. We said you can't buy sugar in the United States for less \$.16 a pound if it's produced here, 16 ½. Unfortunately, American consumers are smarter than those that represent them, and they started buying imported sugar at \$.08 a pound because you couldn't tell the difference. Well, under the law, you see that was passed, if American consumers didn't buy American-produced sugar, the government had to buy it. We didn't have a lot of use for it. It doesn't fit in an MX or an M1 tank. (Laughter)

So in order to stop from being flooded with full coffers of sugar, we had to take the second step which was to impose quotas on the importation of sugar so that our consumers could not exercise that right of purchase. Now we did that, and that sounded great until somebody realized that one of the largest suppliers of sugar was the Dominican Republic. Remember that we passed or have been trying to pass the Caribbean Basin Initiative to help those little countries of Central America and the island nations to grow economically so that they could be better markets, better friends, and free countries. Now when we stopped buying their sugar, then we have to increase our foreign aid to them. (Laughter) You see the sequence of events that follows when you take the first step. I don't know what the next step is going to be. I will tell you it's going to be stupid. (Applause) Because it follows as night onto day that you simply move from one excess to the next in an effort to make up for the previous mistake when you try to repeal the law of supply and demand as we do daily in Washington. (Applause)

I guess that's what troubles me about the debate. We don't seem to learn. You now have this incredible pressure on us in government and in the Congress to go back to the good old days. Some suggest higher tariffs. The majority of the American people, by the way, support an increase in tariffs if they are presented as a way to save American jobs, or non-tariff barriers, or subsidies, or industrial policy, all euphemisms for protectionism. Whether the government picks winners and losers or just winners and doesn't tell the losers that they haven't been selected, it amounts to the same thing.

I guess the one point I'd like to make in this process is to suggest that we are a long way from being pure. I mentioned the sugar exercise. This country talks a lot about free trade, and the fact is that we don't practice it and neither does anybody else. We are better than anybody else in the industrial world. We are less sinful and we hurt when we abuse it. (Laughter) We feel guilty but we sin. We're the only country I know in the world, if you write a book and want to sell it in the United States you've got to have it printed here. That's freedom of press, publisher's style. And when the President of the United States vetoes the extension of that bill that was passed in 1896, and is still on the books, his veto was overridden. It's the only veto that's ever been overridden in this administration.

We have subsidies. We have price supports, quotas, tariffs, but still, and it is true, we are less, we are more open than anybody else. And I think, I want to stress that simply because I think it's important to point out just how much we have prospered by that process. In 1950, when we began this whole thing, the combination of international accords that led to an opening of the process, Bretton Woods, IMF, GATT, all the rest, we did \$19 billion worth of business with the rest of the world. In sum total, last year we did \$450 billion, a rate of growth in international trade that has for a consecutive 35 years always and every year exceeded the rate of growth in the domestic economy, both here and worldwide. We have done very, very well. Several million people are working in jobs that simply would not exist had we not decided to compete.

But, you know, with all of this, everybody now says, whether it was caused by the recession or

whatever, that we've been doing something wrong and that maybe we ought to pick a different model to emulate. Most people suggest Japan. It seems to have become a symbol to us. To some it's the awesome paragon of productivity that will inevitably displace the United States as number one. To some it is the ultimate in government and industry cooperation – the magic of METI. To some it's the cause of all our economic ills. If it wasn't for Japanese cars, motorcycles, computer steel, textiles, tofu (Laughter), whatever, we'd be just fine. So let's get even, let's put up the barriers and hide from the competition.

I guess before we make that decision, I'd like to suggest that we be very sure of our facts – where are we as a country, what's our competitive circumstance? By any measure, any measure that you want to take; we are the most productive people in the history of mankind, period. There is no exception to that rule in terms of our gross effort across the entire economic span.

(Applause) According to the Japanese, we're 57% more productive than they are. We're more productive than anybody else in terms of total economic activity. And I guess, I just want to be very sure that we realize that as we enter into a discussion of what do we do different for the future.

And gradually we've gotten out of competitive whack in a few sectors. But even in some of those, like automobiles, we've had a few people like Lee Iacocca that have gotten us back where we are getting back into competitive whack again. And that says that it can be done. Secondly, while METI may have had some successes, it's also had plenty, plenty of failures. And I wonder

if we really want to recreate Japan, Inc. here. Third, while it is true that Japan has made some fantastic inroads into the American market, it is also true that they've got some fantastic products. And by and large, they have gotten in here on the basis of price and quality, and I find it very difficult to criticize somebody who has done things well.

When I first took the job, Pete, of Chairman of the Republican National Committee in 1977, we had been decimated by Vietnam and Watergate and consecutive losses, the most recent of which involved some senators and the president in 1976. And there was a lot of feeling that the Republican Party was dead and gone. Somebody, Carl Ladd wrote a book, "party and a half," and a lot of people in the party were suggesting that it was so bad out there that we simply ought to just change our name so that nobody would know who we were when we came around campaigning.

Mary Louise Smith, my predecessor as national chairman, suggested a somewhat different response. She said you don't have to change the name; you just have to live up to it. It was a pretty good answer I thought. And I think the same thing may apply here too.

Are we afraid of fair competition or unfair competition? Two different problems and two different answers. There isn't a lot of fair competition out there. And it is the responsibility of government to try to deal with that problem – to enforce our laws, to sell wheat flour to Europe or to Egypt, if it's necessary to get somebody to a negotiating table, or to file cases in the GATT

or any dumping of countervailing duty cases here if the violations of law are in fact that.

Is it, though, the function of government to defend us when we are the problem? I think it's fair to criticize Japan for some closed markets. There are markets there that remain closed, particularly in agriculture. It's fair to criticize them for the maintenance of very high levels of protectionism over a period of years. They loved to protect a market until it gets to world-class competition, then said we're for free trade, and I grant all of that. And it's fair to criticize them for the non-tariff barriers that exist. It's fair to criticize them for having signed an MTT Agreement on telecommunications which allowed our companies to bid competitively as of two and a half years ago and as of yet we have gotten less than one-half of one percent of the business. So you've got to know that something has gone wrong because nobody can tell me we don't produce a competitive product in that field.

Those are fair criticisms but I ask you, is it fair to blame Japan for the incredible, incredible failure of the American people and its government over the last 20 years when every single year we have seen a decline in reading, verbal, communication, math skills on the part of the students coming out of our public school system and nobody has been fired? And is that the Japanese's fault or is it ours? Is it fair to blame the Japanese for our high deficits? You can talk about the yen-dollar exchange rate if you want to, but it isn't the Japanese that are spending money in Washington like it was going out of style. They've done it for 20 years. Is it fair to blame them for the undercapitalization that has occurred in this country in the last, particularly the last decade, as government required business to adopt one set of standards after another.

I guess the real question I would ask you is if we're going to have a debate like this on, not free trade versus protectionism because those are cliches sometimes, but really over the course and direction of this country and the future, shouldn't we take a look at what it is we are and where we're going to be, what kind of country we anticipate being? I think it's a fair statement to make that if you want to look at unemployment, and that is the nub of the political problem with 11 million people out of work in this country, it is fair to at least ask if technology isn't going to have more to do with the employment in any industry than all the imports put together? I think it's fair to ask if the fact that an automobile today on the average produced in this country weighs at least 1,000 pounds less than it did five years ago? I think it's fair to ask if that hasn't had more impact on the American steel industry than all of the automobile imports put together? I think it's fair to ask if today when you can hold a computer in one hand that can do more calculations than could be done by a computer that would fill this entire room and take almost a whole power plant to supply 30 years ago, if that isn't changing the kind of world in which we live? I think it's fair to ask if we're going to have a heavy industry, which I happen to think we must, 5, 10, 15, 25, and out into the future, is it not going to be on the basis of robotics and numerically-controlled machine tools and computers and mass communication, or rapid communication, all the rest, the technologies?

You can talk about plants, machinery, but if you want to see an explosion in technology, be careful that you don't ignore the farm. We can now determine the sexual offspring of a cow,

choose whether it be male or female. And if you're producing a dairy herd, you don't emphasize the male factor. We can do that. And when we are doing it regularly in a cost effective way, we're going to change the pattern of milk production to the point where you all had better start worrying about your wine cellars.

It's just a different world we're living in. And it's going to be a very, I think, exciting world, but a very, very different world. And I guess the question I would ask you is, isn't that good? Would anybody have suggested 50 years ago when half the American people were working on the farm that government ought to pass a law or erect a barrier or enact a program to require that they stay on the farm? Well, first of all, you know you'd have a revolution because a lot of people just wanted off. But half the American people were on the farm. Today it's 3%. We produce more food and fiber at a far lower cost, at far greater quality, and everybody is better off to the point where we have a surplus and don't have to worry about the problems that the Soviet Union has of bad weather since 1917. (Laughter) It's incredible how far we have come.

And I think the same thing is going to happen in certain areas of manufacturing, and I don't fear that. I do fear it unless we decide to cope, to take some steps now that will allow us to deal with it first. If, in fact, people are going to have four or five different, very different kinds of jobs in their natural lives as they come out of school in this generation, then ladies and gentlemen, we simply have got to do something about our educational system. And I do not mean just formal education because 90% of the people that will be in the workforce in 1990 are in it today.

So the formal education prospect for 90% of the workforce ten years from now is over. It's done. The question is what do we do about education, skill upgrading, skill training, retraining for those people now already out of school? And we do not have an adequate answer for them. There is no good answer for the unemployed steelworker that's not going to be working in a steel mill in the future. And we have to face that question. We also have to look at it in terms of formal education.

Just again, to draw you one quick analogy and not to suggest that we do precisely the same thing, but the Japanese spend an extra half a day a week in school. Over the period of their education in grammar school and high school that gives them four more years of education than our students. The question is not that they educate a few people better, but they educate all of them better. Fifteen percent of our 15-year olds do not have functional reading skills, 28% can't answer basic comprehensive questions on what they've read, 10% can't even write marginally acceptable prose, 58% can't write a letter. One in ten are studying physics, one in twelve, calculus. Twenty-six percent are dropping out before they finish. That's got to change, and we've got to collectively address it.

Secondly, we simply have got to address not just the human capital question but the financial capital because if we're going to have robotics and numerically-controlled machine tools, all the rest, it's going to take money. And to get money you have to leave it in the private sector and

you cannot have the federal government subsuming 70 to 80% of the newly created wealth each year in the form of deficits and expect to leave enough money in the private sector for that private sector to remain healthy, growing, vibrant, and competitive. It cannot be done and we simply have got to deal with the deficit problem. (Applause)

We also ought to take a look at the basic mix of our tax system. Why is it that this is the only country left in the world that I am familiar with that premises its tax system on taking an increasing share of that which people earn? Why do we tax savings and investment and earnings and provide incentives for consumption and debt? I don't think that makes sense. Nor do I think it makes sense for us not to continue to emphasize and reemphasize and renew promises on planting seed corn for next year's crop and that means research and development, long-term R&D, capital, plant, new technology, new equipment, new jobs. If we do that, there is no question whatsoever about our ability to compete.

So the alternatives really are fairly straightforward. I think you can pull up the drawbridge and pray that the world will go away. In the process you give up \$2 trillion worth of business out there in the rest of the world. You just write it off. But more importantly, you write off the opportunity to use your muscles in a competitive exercise and thereby strengthen those muscles – be they intellectual or spiritual or physical. Or you can choose to compete. And you can do those fundamental things which restore our spirit and our opportunity for competition by addressing the basic elements of the system, the underpinnings, by getting rid of inflation, by getting rid of

deficits and restoring our emphasis on things like education and incentives. If we choose the latter, then there is absolutely no limit to this country's economic future. Thank you very much.

(Applause)

Chairman Peter G. Peterson: Thank you Bill. I would now like to introduce someone who has always been ahead of schedule and ahead of his times. Lee Iacocca got his Bachelor of Science degree at Lehigh in three years with an A average. He now has an honorary degree from there, quite understandably. He got his master's degree in mechanical engineering at Princeton. With his usual impressions, he wrote his master's thesis on the torque converter.

He has continued on a very fast track at Ford where the Dearborn Training Program, which usually takes eighteen months, took him only nine. I think perhaps the only thing where we was not ahead of schedule, at least his schedule, was that it's rumored that he had planned to be vice president of Ford at the age of 35 which was then seen as virtually impossible. He didn't make it until 19 days after his 36th birthday. But he got ahead of schedule again. He was not only made vice president but he was made general manager of the Ford Division, the largest division of course in the company, and then president.

Since coming to Chrysler, he has of course been way, way ahead of everyone's schedule, perhaps not his, but virtually everyone else's. In the first quarter of this year, that company, not in an industry environment that we had taken for granted, a 10 million car industry, but a 7 ½

rate, earned a stunning \$170 million. This was also in the context of the yen-dollar and a Mark-dollar relationship that certainly encouraged imports to garner 22 or 23% of the market. And with that, I believe, Chrysler is still a bit over 11% of the market.

You know, Lee, at the risk of sounding a little ethnic, but the truth of the matter is you and I are ethnic, but the ultimate – he and I serve on a commission together – the ultimate ethnic commission I guess, I serve under his leadership. Lee is the chairman, as you perhaps know, of the President's Commission on the Statue of Liberty and Ellis Island Commission. I am the resident Greek and he is the resident Italian on that group I guess. Now for a Greek to call an Italian a war hero is (Laughter)...is really something. After one of our many victories over the Italians going back over the years, when the question was asked, what is the thinnest book in the world, we used to say the Book of Italian War Heroes. He will have equal time I'm sure. But this person is a genuine folk hero, at a time when Lord knows we need some.

The story at Chrysler is perfectly remarkable, and I think we have the best person in the world to tell that to us, and anything else he wants to tell to us. It is my great pleasure to introduce to you a genuine folk hero in American life, Mr. Lee Iacocca. (Applause)

Lee Iacocca

President and CEO of Chrysler Corporation

Well, thank you Pete. Ambassador Brock and distinguished guests, ladies and gentlemen, I've got to start off, when I was about two years old my father said beware of Greeks bearing gifts.

(Laughter) How we got a toastmaster that's a Greek, I don't know, but that's the way it goes. But I do have a first for you tonight. This will be my first speech ever without a commercial.

(Laughter). It had to happen sometime. And no political announcements either so there should be plenty of time for questions.

I have to acknowledge this is a formidable dais. Maybe not to you but to me, because on my left is John McGillicuddy and on my right is Bob Beck. We have a lot in common of course. We smoke cigars. But I am honored to be at the head table with him because they haven't let me at the head table with him in three years. (Applause) I used to go to Newark with dark glasses and an old suit and we would meet out in front of Prudential and eat at Sabrett's, a hot dog or two, and McGillicuddy was on Park Avenue so we couldn't do that. But I have to say seriously, they probably had some qualms. I owed them, I think between them, \$200 million, just two of them at one time, because John was our lead bankers and is, and Bob Beck was certainly our lead insurance company that had a lot of faith in us. And I say this sincerely, without these two men I wouldn't be here tonight talking to you so I have to start with that.

Now Peter, Pete Peterson I'm not too sure of because he came in a little later and he sold our defense business for us when we needed the dough, and he got us top buck, \$335 million. But I'm often asked why I sold the defense business, because it was the only business by law that

Japan couldn't compete with us, why in the hell didn't we sell the car business? So there's your investment advisors for you. (Laughter)

But it's a real honor to be on the same platform, and I mean this, with Bill Brock. Brock and Drew Lewis were my only two real allies the last couple of years in Washington and Drew Lewis is gone. So Brock is my last shining light. What I'm really trying to say is he's such a good friend and he's so competent and so dedicated, I hate to follow him and even disagree a little bit with a good friend. I wish to hell I were following Senator Proxmire or Stockman, I could really get worked up. But we are old friends and we do have a lot in common. We both want to put people back to work, I think, and we both want to rebuild America. We probably differ a little on how you do that.

But the issue for tonight that I'm going to discuss, and I think it's going to be the issue for the next 12 months and longer, right through the presidential election, will be about a thing called industrial policy. And to me it's really not an economic issue. It may be the most fundamental question of all for us and that is, and Bill alluded to it, what kind of a country do we want America to be? It's a difficult subject because it's not been clearly defined by anybody to date, and that includes Mondale and Glenn and Cranston and the *Washington Post* editorial page and the White House. It even conjures up evil things among businessmen – that's you guys, a lot of you – who in a recent survey voted 76% against it. Whatever the definition, they didn't want to hear about it. Well, one thing is for sure, to have an industrial or economic policy, you first have

to have a clearcut trade policy that's fair. And we ain't got one yet in spite of Bill Brock's persistent efforts to date. But hell, I guess it's the challenges that keep you young, so undaunted I thought I'd give you a couple of views on these highly controversial and, I might say, emotional subjects.

Challenges like the one we faced at Chrysler five years ago just have to be met head-on. And for the time being at least, that challenge has been met. But now we've run head-on into an even greater challenge and it's nothing less than economic warfare, primarily with Japan. And make no mistake about it; my viewpoint is the US is losing. In fact, for the first time in American history we may have decided to surrender without a fight. Now we don't have to and that's what I want to talk to you about tonight. And I'm sure most all of you in this room share my lifelong devotion to free enterprise and free trade. But wait a minute, you might ask, how can I be committed to free enterprise when my company has become a rather notorious example of government intervention in the economy? And how about my devotion to free international trade when I start talking about temporary car and truck quotas from Japan which some people say to me is just dirty, old protectionism in a clever, new dress?

Well, these are tough questions. But they're the right questions for you to ask. Let me try to answer them. I'll start by saying that industrial policy, including trade policy, is the 1984 campaign issue that just isn't going to go away. And I happen to think that's the way it should be. If war is too important to be left to the generals, then economics and economic war are too

important to be left to economists. So I'm glad to see this issue moving out of the business section and onto the front pages and into prime time where it belongs because I said at the outset, it is not an economic issue, but it is the most fundamental question of all and that is again, what kind of a country do we Americans want to have?

And I got on this soapbox long before I ever heard the term industrial policy. Back then – it seems like 100 years ago, it's only about three and a half – it was just plain survival. We called it lifeboat economics. Chrysler was about to go under with 600,000 jobs in the balance, and federal loan guarantees of all things were the last resort. Congress, it was a tough battle, but they properly demanded that everyone involved better starting rowing.

So our management group got out of the office and into the trenches, to do what? To line up support from, would you believe this, 453 banks and insurance companies around the world who we happen to owe a bundle to, the governments of five states plus the country of Canada and Ontario, about 10,000 suppliers, about 4,000 dealers, and of course we can't forget our union, the United Automobile Workers. The \$1.2 billion we got was the catalyst and it got all the publicity because it was different, they thought. But the \$2.2 billion from these other constituents was probably a hell of a lot more important. But the best thing of all is by getting together it worked.

Now our turnaround at Chrysler has been pretty well publicized by now, probably ad nauseam, so I won't bore you tonight. But we did cut the payroll in half. Those we stayed, by the way,

were lucky they took only pay cuts or pay freezes for three years. We closed 20 obsolete plants. We cut back on the complexity of our product – all this cutting our break-even in half and that's real productivity. If you want to get productive in your shops, just take 40,000 white collar workers, cut them to 20,000 and man, you get productive. And yet during the crisis, we converted our cars to front-wheel drive. We doubled the miles per gallon from 14 to 28, and improved the quality so much we could afford the best warranty in the business.

But once we started building the best cars in America again, a funny thing happened. We started making money. We started competing. My God, this spring we even sold 26 million shares of new stock, would you believe at \$16 5/8. I don't know whether I've been had on that or not, but anyway. (Laughter) Twelve days ago, we paid off \$400 million or one-third of our government guaranteed loans seven years ahead of schedule.

But now, as I guess you would expect in our polarized society, there are two reactions to the Chrysler success story. The ideological hardliners who fought us every step of the way are still ideologic. They think it was a mistake. Embarrassed by our success because they said it couldn't, or more important it shouldn't be done, they passed it off as a fluke. But a second and quite different reaction is that the Chrysler success amounts to an ad hoc industrial policy of sorts that worked in spite of everything and that maybe we can learn something from it.

At that time it was really the only game, or policy if you want to call it that, in town, and it didn't

come cheap, by the way. Our out-of-pocket expenses so far including fees to the government have already totaled over \$100 million. If you think that's inflated, I'm sure some of the lawyers here tonight could explain it to you. (Laughter and Applause) And there was another \$300 million in lost profits because of the Perils of Pauline TV coverage – Wiman, I guess he had to do it – that we had to endure every night for a year, that scared away a lot of our customers. That meant that of the \$1.2 billion in federal loan guarantees, \$1 of every \$3 was frittered away and not available for investment in the company which was what the act of Congress was all about, to keep us going.

So it occurred to some of us that there has got to be a better way of doing it. Now when people try to find that better way by talking industrial policy, they have to ask the right questions and usually it goes like this. Should we have an industrial policy? Yes or no? Now that's not the right question because the reality is we already have an industrial policy albeit a hodgepodge based on congressional actions or administrative orders, even worse, over the last 50 years. And some of these actions were taken with broad public support but a hell of a lot of them were taken with narrow interest groups.

Take federal loan guarantees, for example, I've become a world's expert on these. When we charged up Capitol Hill to get ours, \$1.5 billion – I only asked for \$1.2, they said \$1.5 while you're here – we found out that there were already on that date \$409 billion, that's right, count 'em, \$409 billion in federal loans, grants, and loan guarantees on the books, or I should say off

the books because this is all off-balance sheet accounting that never shows in these deficits. By the way, that number has now climbed to over \$500 billion which is a little over half a trillion so it's not stopping.

Now who has all these loans? Well, look around the room, boys and girls. Big business is on the list, small businesses of every description, farmers, college students – probably some of your own sons and daughters. Now add in all the subsidies, tax credits, loopholes, incentives, grants, regulations, and you can see that US industrial policy is being made every day in lots...(audio ends and continues, no overlap)...should we have a national industrial policy? We already have one, make no mistake about it. The question is should we have a rational industrial policy? After all, somebody has to consolidate, or coordinate I should say, monetary and fiscal and tax and trade and energy and regulatory policy or they all go off in different directions. And take my word for it, that's exactly what they're doing right now.

Take the steel industry where US Steel is right now, tonight, setting industrial policy. While protected by trigger prices, it paid \$4.3 billion for an oil company instead of investing in modern, basic oxygen furnaces to be competitive. Then while leading the lobbying in Washington against imports of cheap, subsidized foreign steel, it cuts a deal with British Steel for guess what, cheap, government-subsidized foreign slab steel that will double our imports from Europe. It looks like the company has decided to close down its American furnaces and become merely a finisher or a fabricator. But what happens to the smaller steel companies? Will some of them be forced to shut

down their furnaces too? Will they have to switch to imports? And I see that they're meeting right now, by the way, to decide what they should do. But a funny thing has happened – US Steel has now forced the union and Bethlehem and others to get together in a private meeting in Washington to see what they can do about it. So that's probably good because they finally got them together. But right or wrong, US Steel is setting industrial policy in the steel business for the next 50 years.

General Motors and Toyota are about to set their own industrial policy in the auto sector, not to mention antitrust policy. With 25% of the world market and 50% of the US market, they want to set up a shop in an abandoned GM plant in California. GM will put up \$20 million, Toyota will contribute almost petty cash for them, and get to sell an extra 200,000 cars in this country – they won't come under any restraints you see – wearing the Chevrolet label. Most of the parts for the new cars will come from Japan. And the Chevette that's now assembled in the little state of Delaware with 95% of its parts made in the US will be left to die.

Hell, shouldn't the government at least ask what are these guys up to? Even the unions are now asking the right questions. (Laughter) But in both industries, steel and autos, once you've asked your government for even some modest form of protection, the quid pro quo is an obligation to then talk about excessive wage demands or exorbitant pricing or investments or your tax rebates.

Now to start with, it seems the use of the Washington buzzword, industrial policy, is all wrong.

So maybe we should call it a critical industries policy or whatever and bring together the steel and auto companies, their suppliers, their labor, and the general public and get an answer to the gut question, does the United States really need a steel or an auto industry and what form should they take? If the answer is yes, we do need those industries, then solutions to the real problems of the industry could include tax credits and even guaranteed loans for productivity improvements and modernization for those companies that choose to participate. And then maybe – and this is always controversial – then maybe they'd even have to commit to wages and prices that are indexed to productivity and real GNP growth rather than just inflation. And all the people involved could work out their plan for getting it done. That's what we did at Chrysler, substantially, and it worked. But it was equality of sacrifice and maybe social democracy at its best, and not just a simple bailout.

The ideologues in Washington – and there are many, and Bill, you're not one of them so don't get nervous – couldn't accept that something truly worked. It's that simple. If it clashed with their principles, they don't want to look at it even if it works. In other words, results are meaningless. And I hate to say it but that's the Stockman School of Theoretical Economics. (Laughter) Well, fine, some people may hear inner voices down there that tell them what Chrysler did is some kind of sin or worse. I say it's simply a great example of how government, labor, and management can work together to save and maybe create something of real value. I guess my attitude is the same as old Abraham Lincoln. When somebody told him Ulysses Grant got drunk a lot, and he said, find out what kind of whiskey he drinks and send it to my other

generals. (Laughter)

So, okay, let's face the next fact. If you decide to ask the tough questions about industrial policy, you can't find the answers without dealing with trade policy. That's the polite way of saying it. Since I don't work for the State Department and a couple of high-level people in Washington have said to me, thank God you don't, I can put it more bluntly. You can't find the answers without dealing with the unfair trade policies of Japan. This country is running a merchandise trade deficit with Japan right now of \$20 billion and it's soaring. But \$13 billion of that \$20 billion last year was in cars and trucks alone. And this is one of the main reasons, there are many, Detroit is on the ropes or has been.

Outside experts say the vehicle deficit in '85 without quotas could double to \$26 billion. But people say our industry is in trouble because of stupid management and lazy, overpaid workers, and they are overpaid maybe at \$22 an hour. Okay, guilty at least on the first part, dumb management. But we've learned our lesson and we've paid a hell of a price, \$12 billion of losses in two years in three companies is a lot. So you've got our attention. And we're fixing our problems.

But even after all we're done fixing the quality and the productivity, and we are, and the fuel efficiency, and the performance of the cars, when we're all done, the Japanese still have a \$2,000 per car advantage in the US showrooms for two reasons – taxes and currency. And no one in

Detroit can do anything about them, except yell. When a Japanese car is put on a boat for the US, the Japanese government rebates that come out of any tax for the manufacturer, that's worth between \$600 to \$800. And with the yen, and this is becoming a hot subject all over the country, undervalued against the dollar, by maybe today, I guess it was \$2.40 or something, by 20% and probably more, their cars and other products are much cheaper than they would be if the yen reflected its true purchasing power in an open world market.

Now we've got to do something about that, and it's not simple. But it's very simple that we have to do something about it. But once again when we set out to do it, people always ask the wrong question. It's usually something like this. Are you in favor of free trade or protectionism?

There's nothing in between. Well, my response is it's neither about free trade or protectionism. Believe it or not, I'm opposed to protectionism, but the fact is we're the only country in the world that comes close to practicing, not fully clean but comes close to practicing free trade, and we're getting killed.

That's why taking for three or four years the middle road, I'm against local content. I'm against tariffs. The Japanese jump 25% on trucks like it's not there. But I'm for involving our relations with them into some selective and temporary restraint and against the one country of the world that's running such a lopsided, negative trade balance with us. The burden should be on them to get it in balance in a reasonable period of time. Let's say, I don't know, plus or minus \$5 billion. When it gets there, then we'll listen to them more carefully.

Now people give a lot of reasons for opposing quotas such as, one, and this is Bill's domain, it would violate GATT, the General Agreement on Tariffs and Trade, as Bill Sapphire called it the Gentlemen's Agreement to Talk. Well, when the Japanese refund the commodity tax, it's legal under GATT, but it's not fair. Well, fairness, not some legal technicality is a foundation of our American system and Americans have every right to expect the same degree of fairness from the Japanese that we demand of each other. Otherwise, believe me, God help GATT in the future.

Two, it would provoke retaliation. Really? Just who started the struggle anyway? The Japanese buy our soybeans and coal and other unprocessed raw materials such as logs – not finished building materials – because they have a limited choice out there on that island. But for the vast majority of manufactured or value-added products, they close their economy to American business. So we end up, wind up defending their islands while they take aim at industry after industry. Today it happens to be autos and steel and machine tools and fasteners. Tomorrow it's airframes and microchips, while cigarettes and beef and oranges and potato chips, not to be confused with microchips, but you name it, must be protected as a matter of national policy and Japan says it that flat out.

So people say we don't want to be the ones to start a trade war. Of course not. Where would that get us? But our main trading partners in Western Europe already place severe limits on Japanese imports far in excess of anything ever seriously proposed in this country. Does that mean they've

already started a trade war then?

Finally, consumers benefit from having access to the best products from around the world.

Absolutely. But even the Japanese haven't invented the free lunch. The customer who buys a Japanese car instead of a US car gets a bargain up front, but the other side of that coin is that he's got to make it up, \$1,750 in payroll, property, and income tax lost per car by the various levels of government in this country. That's something at least to think about as we look for ways to reduce the record federal deficits and most states' budget problems.

Look at it from the Japanese point of view for a minute. Tokyo's tax rebate to Toyota amounts to a subsidy to the Americans who buy their cars. Now why do you think the Japanese government subsidizes American car buyers? Well, they need dollars to buy oil and we have those dollars, and that's what international trade is all about. But it should be a two-way street. And even under restraints, which Bill was able to negotiate with them on a voluntary basis, we are giving in the last two years 22% of our huge car market which is double the 11% they're allowed in Britain. They get 10% in Germany, 3% in France by law, and the Italians, I must say, Pete, overdo it, 2,000 cars and out a year. (Laughter) They may be lousy warriors but they're damn good negotiators. That's all I gotta tell you. (Laughter)

But for Tokyo, cars are a means to an even bigger end. They sell us Toyotas but they're really, they're really exporting unemployment to us. Their subsidies are aimed at maintaining full

employment over there and it's working. Don't get made about it. Their unemployment rate is 2.7%. Ours is over 10%. And that's a national average, where I come from it's much higher than that, about double.

Well, where do we go from here? Now let me read you something. This is a quote. "In the Japanese eyes, it is perfectly justifiable and even natural that the government assumes responsibility for the national economic viability and sound development of its industry. If the US is so envious of the success of Japan's industrial policy, why doesn't the US do the same thing?" That's from the April 12 edition of the Japan Economic Journal. It's good advice, but as usual some people draw the wrong conclusion. We can forget about trying to copy the way their workers think of themselves as one big, happy family at the factory, the whistle while you work theory, or singing. Also we shouldn't want to reorganize our country to be like theirs – highly centralized, a hazy separation between the public and private sectors, no real unions, and enforced discipline rather than the personal independence we treasure here. The right way to "do the same thing" is to remember that their success today is a product of three decades of hard work in industrial development at a time in the last 30 years when the US government (two different administrations) was indifferent toward the health of its industry.

It's ironic that Mr. Brock and I both look to agriculture which he mentions as a success story to prove our different points of view. He points out that because of high productivity, a relatively few people feed the rest of us and account for one-fourth of our exports as well. And he's right.

But there's more here than just good soil and good climate and hard-working farmers. Hell, we had all of that in the 30s. We've seen massive amounts of federal research money, state experimental farms, county agents providing technical aid, irrigation projects, rural electrification, federal crop insurance, export credits, price supports, acreage controls, TBAs, and on and on ad nauseam. According to the economists just last week, all of that adds up to \$40-\$50 billion a year. It also adds up to an elaborate industrial strategy but it works.

Now I'm not smart enough to tell you tonight just how big any commitment should be to an industrial strategy, or just what form it should take. All the debate going on right now on the subject will continue and it'll put all the nuts and bolts on the table so people can decide how they should be put together. But the beauty of our political system is that it gives us a way to reach a broad consensus in making that kind of decision.

What I am smart enough, however, to tell you, and I got smart about this while I was rowing like hell in that Chrysler lifeboat, is that knee-jerk reactions are not the way to deal with this question. Let's take a look at all the factors and lay our preconceived ideas aside while we do it. If METI works for the Japanese, let's ask ourselves with an open mind how we might translate some of their lessons here.

If Chrysler is an example of the benefits of cooperation between labor, management, and government, let's open our eyes and see if we can find places in our economy for other

examples. I mean Conrail and Lockheed and the First Pennsylvania Company and Chrysler are the guys that are named, but they have one thing in common. I don't like the way some of them were put together, including my own deal, but they all worked fairly well, since the alternative was death. And everybody said let them go, let them go. The rail system? Maybe the bank in Philadelphia was different, I don't know. Chrysler with 600,000 people? Lockheed, whose stock just hit \$100 or something like that?

And if American agriculture is one of the glories of our civilization and it got that way with government help, let's be honest enough to recognize that government can help. Americans have come to expect and demand leadership that will deliver the kind of country they want for themselves and for their children. They sent a message and changed the leadership at the depth of the Great Depression. They sent a message and changed the leadership in 1952 and again in 1968. And they sent a message and changed the leadership three years ago in 1980.

To those in government and those of us in industry, if we forget this, we do it at our own risk because we'll be sent a message. We'll see our leadership challenged if we don't take firm action for fairness, for jobs, and for a real chance at international competitiveness. Americans refused the role of colonists once before and sought out men who would lead them out of their bondage, and you can be sure that they won't follow for very long if our leaders adopt policies that are going to make us nothing but colonists again. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN PETER G. PETERSON: Thank you, Lee, very much. Now to our custom of questions by two leading business figures in the New York area. On my left, George Weissman, Chairman and Chief Executive of Philip Morris. On my right, Chairman and Chief Executive at Bankers Trust, Al Brittain. George, why don't you take the first question.

GEORGE WEISSMAN: Ambassador Brock, if the administration's proposal for DTI, the Department of Trade and Industry, became reality, it would put trade on a par with other Cabinet departments. Wouldn't it then lose its role as an honest broker and coordinator between the off-conflicting positions of Commerce, Treasury, Labor, State, Agriculture, the Council of Economic Advisors, sometimes Defense and others? And then wouldn't it be necessary to recreate the trade representative role which carries so well in the White House with such a successful ombudsman for trade?

AMBASSADOR WILLIAM E. BROCK, III: Yes. (Laughter and Applause) But I should point out that we are aware of that and in the legislation we have proposed the coordinating role of USTR is carried forth in the legislation. And the White House staff is maintained albeit at a different function level for precisely that reason. Because you simply never can have trade policy established without taking into account other agencies who have a legitimate interest. And I'm not being critical of State, or Treasury, or Commerce, or Agriculture, or anybody else. These

agencies have a legitimate interest in trade policy because it affects their ability to do a job in their function area. And you do have to take those things into account so there is a role of the honest broker, and it should be maintained.

ALFRED BRITTAIN, III: Ambassador Brock, while you're up, you were persuasive about the importance of free trade and the evils of protectionism. You gave us some good ideas on long-term solutions to the problem – education, R&D, and the like. But is there a short-term solution? Is it necessary that we continue to negotiate auto import restrictions, establish the sugar quotas that you mentioned, the sale of the wheat flour to Egypt? Are there any short-term solutions to help us out of this growing feeling of protectionism?

AMBASSADOR WILLIAM E. BROCK, III: Oh, yes, and you know, sometimes I think Lee and I have more of a semantic difference than real because we're not debating the fact that we live in an unfair world – I have to remind my children of that periodically – but it's true. And there are times when you've got to take out a two-by-four and exercise it with some abandon to get people's attention. Now in the case of the European community, we have been trying to negotiate an end to their export subsidies on agriculture product for ten years. And I guess three, maybe four different presidents tried. Well, finally we reached the end of our tether and we had to say maybe we had best do what you do so that you understand how painful it is. And we took a million tons of wheat flour away from them. They now know that it's painful. And we had some pretty good conversations as a consequence. There will be other opportunities for us to

engage in attention-getting over the next year or two, and we'll do it. I guess I want to be very sure, though, that we do it for that reason and not simply because we feel incompetent or incapable of competition. I think the difference is between acting against an unfair trading practice in an aggressive, tough fashion and simply throwing away the principle and abandoning your long-term interest and saying for political reasons now we're going to, because we've got an election coming up next year and Mondale's eating our lunch on the issue, or Glenn, or whoever is doing it lately, that we should capsize and capitulate and start going down that protectionist route. And I don't think Lee is proposing that. I hope he's not and I don't think many people would. But let's be very sure that we draw the distinction between a tough, affirmative, aggressive action, in the wheat flour case, or taking the Japanese on in some other fashion, even the negotiated – not the negotiated, the voluntary action which they took in recognition of the political realities in the United States. I mean that sort of thing will occur, but nobody has suggested, I hope, that we play the game that the French have done and hold it to 3%. By the way, Lee, that Italian limit was suggested by the Japanese when they were creating their automobile industry and they feared Italian imports into Japan. And they said we'll limit our imports into your country if you'll limit yours into ours and they have a treaty of 2,000 units per year. So it was the Japanese that negotiated it and I wouldn't give the Italians as much credit as you did. (Laughter)

CHAIRMAN PETER G. PETERSON: Lee, I may violate one of the customs of the Club. Do you want equal time on that last thing? George Weissman.

GEORGE WEISSMAN: Lee, the European community is wrestling with the so-called Vredeling Proposal which in essence calls for greater communications by management to workers. And in West Germany we have workers sitting on the board of directors of public companies. You've had the experience of a labor leader on your board. In specific terms, what problems do you see ahead if the trend goes labor leader this week, special interest next week, consumers, suppliers, governments seeking board representation?

LEE IACocca: Well, if you're talking about board composition, I was with another company and everybody was from Yale. (Laughter) I said many times publicly, George, that I didn't put Fraser on our board as a matter of negotiation, I thought he was a super guy, probably one of the best negotiators I've ever run into in my life. And I invited him on the board and that's not folklore, I mean that's the way it happened. We have no deal with them. I've often said to my peers who say, why would you let the fox into the hen house, I say, well, we needed him. He's there to help us. If it doesn't work out, then the rest of you guys shouldn't do it. And if it works out, you better get yourself a guy the caliber of Fraser. So he's helped us a lot. I don't think he's left our board meetings more than once or twice because of what he perceived as a conflict. During the strike, he got out for four weeks because he was in the middle of negotiations. But now I think after that couple of years of training, he wears a three-piece suit now, and he doesn't think profit is a dirty word. And most important, what he did is he was repudiated during the Canadian strike by his constituents, but he had seen the books every month. And he said this is

all they can afford and they turned him down, but that's life. The workers are restless. But his education made him be very reasonable. So I wouldn't be too quick to say that the future shouldn't have a labor representative strictly because he's labor. Hell, I've had bankers on my board. (Laughter) And they could conceivably have some conflict from time to time also. So I'm relaxed about it. Do what you want, you know, run your company the way you want to run it. To us, it's been a great experience. He's learned a lot and I've learned a lot. We have great respect for each other. And now he's going to stay on an extra year or two as an elder statesmen and now we can really pick his brains. (Applause)

ALFRED BRITTAIN, III: Mr. Iacocca...

LEE IACOCCA: Another banker here, right?

ALFRED BRITTAIN, III: Yes, that's right.

LEE IACOCCA: Thank you also, by the way.

ALFRED BRITTAIN, III: I was just going to say I didn't ask for equal time with Mr. McGillicuddy.

LEE IACOCCA: How much did we owe you, by the way? (Laughter)

ALFRED BRITTAIN, III: I'd like to talk about some dollars though. You recently asked the government to give up some warrants which were worth around \$200 million as I remember it, and these were given to elicit the guarantee during the financial crisis. And I was just wondering if you could tell us what reasons that you gave to the guarantee board which they then might have used to explain to the general public why it was prudent to forego that...

LEE IACOCCA: Well, you're in the midst of something confidential, but we're negotiating with them right now. But I'll try to answer it as obliquely as I know how. (Laughter) I don't want to take a long time to answer this, but everybody said a deal is a deal. But I was there the night that G. William Miller was working on the hostage, Iranian Crisis. I said, but I'm going bankrupt. Are you signing or not signing? And he said, well, yes, but I want a sweetener. And I said, what's that? He said, you gave the banks \$14 million warrants, and I want whatever you gave the banks. And now that wasn't what I call negotiating, that was extortion, because I had no choice and he said that's it. Now what we've tried to do right up to the President of the United States for the last six months is say, we're going to be paying you back very shortly and we'll surprise you. Couldn't we strike a deal at some price? The price when I started talking was \$6. Two weeks ago I said, because we have some plans that we don't want to announce tonight, I said to Regan – not Reagan, Regan – I said it's \$15 today, can't we arrive...that's not the same warrant obviously but that's what's being traded today and \$15 is a warrant price. Well, in the last two weeks, it's gone to \$23. So while I talked to Regan – he said I'll think about it – I'm out another \$110 million.

And my question is how high is up here? If it gets to \$400 million, which it could well get to, you've got to ask yourself the question, we've got a \$1.2 billion guarantee, no grant, they didn't give us a thing. We paid 15% interest on the first batch. What is a fair profit for the United States government? I got a problem. If I make them not only whole, because they were protected as you know with all the collateral, you were second to them, and I pay them \$400 or \$500 million dollars, my union has already told me if you not only make them whole but give them a profit, when we negotiate this fall, we want not just the concessions, but we want some gravy. Now everybody's picking on this carcass and want gravy. At today's level, with what we paid in fees and interest on the loans, plus what the warrants are worth on the open market, for 36-month paper, that's how long the guarantees have been out, we'll be paying them 21% return, the government. If it goes above 25, I'm yelling foul because state law says at 25% that's called vigorish in organized crime. And I say we have got to strike a deal and get them the hell out of our hair. (Applause)

ALFRED BRITTAIN, III: That takes care of me, right? (Laughter)

CHAIRMAN PETER G. PETERSON: Lee, we sure appreciate that oblique answer very much. George, could you take...

GEORGE WEISSMAN: Mr. Ambassador, in September, the Export Administration Act of '79 expires, and a new bill is under review in Congress. The present act has plenty of critics who say

the act allowed the US to unfairly apply sanctions. American business often claims that export controls limit their ability to compete in world markets and that we wrongly use trade policy to promote defense or foreign policy. Our trading partners in Japan, Canada, and Europe resent the extra-territorial application of US laws and questions have even been raised about the sanctity of certain contracts. How would you address these problems in re-writing the act so that excessive concern over national security doesn't limit trading opportunities and doesn't cause more harm than benefits to our trade position?

AMBASSADOR WILLIAM E. BROCK, III: Yes. That's a very difficult thing to address simply, in a simple fashion. The goal, I think, can be simply stated and that is that we as a country and our trading partners who share our values of freedom, I think should share this commitment, would like to find a way to limit those items of unique Western technology that do have a strategic or defensive characteristic of such magnitude as to increase the threat to our survival. We'd like to limit those sales and keep them from going to those that would use them against us. Having defined it that narrowly, it seems to me when you're writing legislation or when you're negotiating; the goal should be stated this way. If we share a common view of freedom and its necessity for survival, and if we agree on the narrow definition of those products to be limited, then we should try to devise a plan which allows us to act in concert only. Because a unilateral action is not, has never been, and will never be, as effective as an action taken in conjunction with allies and friends. So I guess if I were writing the bill, it would have those two criteria. It would limit it to those elements of strategic or defensive technology which are unique

to the West and which would pose a threat to our well-being. And I would limit our actions to those which could be taken in concert with our trading partners. And from that point forward, I would let competition work. I do not believe you can control technology four or five years after it's been developed. I think if it's in a product, on the market, produced in more than one country, I think the horse is out of the barn and we ought to quit being so contentious with each other about the subject. (Applause)

ALFRED BRITTAIN, III: Ambassador Brock, if I could just return to Japan for one more question. Over the past 12 to 18 months, we've seen a number of liberalization steps taken by the government in response, I guess, only to pressure from the US and from the major European countries. Are these, as they're pictured by the Japanese, truly significant concessions. And if so, realistically what do you expect that the impact will be?

AMBASSADOR WILLIAM E. BROCK, III: Well, first, in legal terms they are significant. We decided, about a year-plus now ago I made a decision in terms of our trading relationship that we simply would not negotiate on individual items anymore. The Japanese have an incredible talent and have demonstrated over the last 35 years of negotiating for weeks and months and years and years, and years, on an individual item and then finally giving it to you and thinking that everything is solved. And there are only 150,000 more products on the list. So we stopped doing that and said we want to deal only with generic trade barriers that are comprehensive in nature. Testing and certification standard setting was the most comprehensive trade barrier we found in

Japan and affected 60% of all of our product. And the Japanese did agree. In Prime Minister Nakasone's Cabinet meeting just before he came to Washington in February, again announced here, again reinforced in March, and passed through the Diet to change ten different ministries, 16 different laws, in this area in a way that was in my judgment absolutely everything we asked him to do. I can find no fault with the steps they have taken. If it is implemented as it was passed, business people in this country will have an opportunity greater than that which they have had since World War II in which we sought other methods. And it's possible for us to do a lot more business. The real question comes to whether or now we have the will because doing business in Japan requires an investment of some degree and duration. You have to stay with it. Those companies that are doing business in Japan went there a long time ago and stuck with it, and maybe lost a good deal of money for a number of years. Now they're more profitable in Japan than they are in the United States – invariable rule, more profitable there than they are here. But it took a lot of time and a lot of effort. And I don't know how many business people have the will to do that. But I will tell you this, the legal barriers that existed a year ago do not exist today. That's changed. So now it's up to us.

GEORGE WEISSMAN: Lee, it's pretty clear that ours is turning into a service rather than a goods-oriented economy. Now while employment in manufacturing has stayed steady, about 25 million jobs per decade, service jobs have gone from 47 to 65 million people. Can you talk about some of your ideas of how your industrial policy would deal with those who have been trained for industrial jobs and have to move into service jobs? Or perhaps how do we create more

industrial jobs for those trained for them?

LEE IACOCCA: Well, that's a pretty broad question. Obviously we're not going to be able to bring all the people that have left the auto business, for example, back to work no matter how high the volume gets because we've been productive. That's the name of the game. And maybe at best, of 40,000 people we have on layoff now, 20,000 might come back even in a good year, a boom year. That leaves 20,000 guys to be readjusted or recycled. But you're dealing with people's lives. The president once said, vote with your feet, move to Houston. But Houston's a disaster area now, so that doesn't work too well. I think the key to it all is retraining. The UAW and we together have a lot of programs. We want to work with our state and federal government, to SEED grants we had to retrain people, but it's tough to train everybody to work at McDonald's. My great concern is that there are structural changes, they have to be addressed. But the industrial base part of that is, I can't answer it. I can't answer where we're headed on basic steel and autos. It's going to be less than we've ever known in the past. I can't envision, though, a country of, as I often say, hamburger stands and video arcades and branch banks. I mean they're fine and necessary. You have a horrible problem here. We keep talking about the average manufacturing wage being \$15 and the auto industry paying \$22 with fringes. And we seem to have a death wish that we want everybody to be retrained to be in the service business and pay them a minimum wage of \$3.35. Well, you just wiped out the middle class in this country who, I might say, buy a lot of cigarettes and beer too, George, you know. (Laughter) So it's a tough problem to handle. I think we have succeeded through this recession to cut back

workers' expectations. I see a dastardly thing happening. Now that we're going to have a couple of boom years in the auto business, my biggest worry is that worker expectations are going to soar again and they're going to want more, more, more. We cannot afford long-term, you can bank this, to pay – the GM contract is back-loaded we call it – at the end of 1984 they're paying over \$25 an hour to build a car. No wonder they want Toyota to build the little cars where there are no margins. We cannot compete with anybody in the world building cars at \$25 an hour when the people buying them might be averaging \$13 an hour. So those are the problems. And it's a massive retraining job, starting with that, and then it's trying to get together and find out what our industrial policy will be and how we'll approach it. I'm against picking winners and losers. I don't know how to do that. I thought maybe one of the winners would be Atari. I use them but they moved to Taiwan while I was making the speech. So they're in trouble too. They just laid off, I think, 4,000 people today at Warner. So nobody's spared this travail we're going through. It's going to be a crunch. We're going to have to worry, though, about this job's problem. It ain't going away. We cannot continue into the 1990s with 10 - 11 % unemployment. And thank God we're seeing an uptick here because I've always say unemployment is not 10%. When you add the people who stopped looking for work, when you add the full-time to part-time it goes to 20 million. And then I always say there's another 20 million that are so scared they haven't been buying cars and houses so there are 40 million people on hold. So that's a massive problem and it's so massive all I can end up saying is government and labor unions and management better get together or there's chaos in this country by the year 1990.

ALFRED BRITTAIN, III: Mr. Iacocca, you were very direct in your comments about the proposed GM-Toyota joint venture. In today's paper, I read that there are discussions going on between Chrysler and Volkswagen, a possible joint venture. And I was just wondering what would be the philosophic difference?

LEE IACOCCA: First of all, we are doing with Volkswagen. We don't deal in speculation so I don't want to talk about that part. I could talk for about an hour and a half on the GM-Toyota thing. (Laughter) Let me answer directly. It's not that you're against bigness, but when the biggest car company in the world and the second biggest car company in the world put out a fact sheet that says they're doing this to teach each other in 12 years time how to have GM learn how to build a small car and how to have Toyota share with them how to lay out a plant, that's pure unadulterated something, okay. That's not the fact of the matter. It will cost us jobs. But what worries me more than anything else, the biggest company in the world, GM, synonymous with cars all over the world, has decided to lay off the low end of the car business, the small car business, forever to the Japanese. In so doing, they'd lay off all of their technical people and will in the small car world. They've stopped all technology improvements. I don't know how in time that benefits the small car consumer. To say to Japan, you've got a labor rate, you're productive, you handle the small cars. We'll handle the medium and big cars. Now they do save \$4 billion against Ford and Chrysler and they take that and they move it up into big cars only, deal with the rich people, high margins, and they got the best of all worlds. And in time there will not be a Ford and Chrysler under that kind of a policy. So therefore, I think the government should at

least try to address it. And I just heard today that I am one of the star witnesses before Rodino's committee in July. So if you'll tune into your CBS station, you'll know exactly how I feel about it. We, with Volkswagen, I wish we had a joint venture with them. We buy engines from them. We bought one of their big plants and that's all that's going on. Very honestly that's all that's going on but the press saw it otherwise.

CHAIRMAN PETER G. PETERSON: All right, this will be the last round of questions. George.

GEORGE WEISSMAN: Ambassador Brock, you mentioned investment in Japan and the Business Round Table, and I'm part of their international task force, has been looking for a GATT-like mechanism that we can use for investments, and American industry that wants to invest overseas can have some sort of a GATT agreement on investments. Do you think such an agreement is feasible or possible in the foreseeable future?

AMBASSADOR WILLIAM E. BROCK, III: It's possible. It's going to take some time. And frankly, it won't go to as large an organization as the GATT for quite a while because these smaller countries by and large are not that excited about it. In the meantime, we've decided to do two or three things. First of all, we either have announced or will announce shortly a new investment policy for the administration that we've been working on in my shop for six or eight months. The reason I don't know whether it's been announced is because I've been out with eye surgery for a couple of weeks and I haven't been able to read anything, which has been a

blessing. But it will state very clearly that we are, in this administration and hopefully in the future, no longer neutral on investments as a matter of government policy. We are positive. We are supportive of external investments, internal investments, and we are going to take whatever steps we can to support US investment around the world. Simply because we don't know how we can build a world trading system unless there's a free flow of capital. Now that's government policy. Secondly, to help implement it, we've started this process, George, of signing bilateral investment treaties with Egypt, a few other countries. Hopefully, that will grow now. George Shultz and others are intensely interested. And we can begin by treaty to do what we ought to be doing by international obligation. Thirdly, we have pressed hard in the GATT for this. We simply haven't made a lot of progress because people don't know what that means and they start talking about immigration policy and other things that complicate it and make it a tough discussion. But it is a matter of major administration priority. We do have two really active...(audio ends and begins again, no overlap)....

CHAIRMAN PETER G. PETERSON: The last question will be to Lee Iacocca.

ALFRED BRITTAIN, III: Mr. Iacocca, when you came on board, Chrysler was on its last legs.

LEE IACOCCA: Now I am.

ALFRED BRITTAIN, III: Well, I'll let you off in a hurry. But now even with soft markets it

seems as if there's nothing but good news coming out of Allen Park. And since this is the last question, we're supposed to be short. In 30 words or less, how the hell did you do it? (Laughter)

LEE IACOCCA: I had a lot of help from bankers. (Laughter and Applause)

PETER G. PETERSON: Lee, I've been waiting a long time to have commercial bankers get it like that so I'm thrilled with that answer. Thank you very much. It's been a great evening. And we have here a token each of you will have of the Big Apple, and we're delighted to give that to you as a remembrance of this important meeting. Thank you very much. (Applause)