

## Speeches

### **Governor Mitt Romney's Remarks At The Detroit Economic Club**

*Wednesday, Feb 07, 2007*

Detroit, Michigan

"Quite an introduction.

"I must admit - I love exaggeration and hyperbole when it applies to me and I, I appreciate that very, very much."

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"We used to drive Ramblers - I had the Rambler Station Wagon for my dates. My friends called it 'Mrs. Romney's Grocery Getter.'

"I used to ask my dad, 'How in the world can you compete as head of America Motors when you've got such huge competitors, GM, Ford, Chrysler, the big three - how do you possibly think you can succeed?' And he'd say in a way that I have not forgotten: 'Mitt, there's nothing as vulnerable as entrenched success. There's nothing as vulnerable as entrenched success.'

"And over the years, we've seen companies that have become complacent and they get passed by nimble upstarts. Big steel was overtaken by the mini mills, the main line air carriers are seeing a real run for their money from people like Jet Blue and Southwest, and perhaps the most interesting of these cases comes from the computer industry, where IBM was overtaken by Digital and in mini-computers, and then Digital was overtaken by Wang in work stations, and then Wang was overtaken by Compaq in desktops, then, of course, a new distribution model from Dell took over Compaq, and then now you've got HP making another run at, at Dell. It's extraordinary to see what happens.

"But there are many companies that are able to maintain their lead, over many, many years. And these are the ones that remain vigilant, that change as their industry faces challenges. Names like GE, and Hewlett Packard, Microsoft, Motorola come to mind.

"The same can be true for countries.

"About 100 years ago, at the Golden Jubilee of Queen Victoria, I'm sure people in the audience could not have imagined that any country would ever overtake Great Britain as the world's economic and military superpower. But 50 years later, we had.

"It's inconceivable to us today that we could in any way be passed by any other nation. We've been competing with Europe so long that we've gotten a little over-confident. But look east. Asia is emerging as an economic powerhouse. And that's great news, people who couldn't buy our products in the past are now able to buy our goods and services - I must admit, I was delighted in December when I was over in Beijing to see so many Buicks driving around town. But it's also a real challenge as they emerge out of poverty. Will Rogers used to say, 'Even if you're on the right track, if you don't move, you'll get run over.'

"So standing still isn't a viable option for America. The question for us is this: what direction should we take?

"History can be a guide for us. The 20th century saw two economic systems pitted against each other. Ours was built on free enterprise and the preeminence of the consumer. The Soviet Union's was built on government control and command, and the preeminence of the state.

"Ours produced the most powerful economy in the world and it gave its citizens a standard of living our grandparents would have never dreamed possible; theirs produced a downward spiral standard of living and a collapsed economy.

"That 20th century history lesson is what has made us understand why America's economy is so strong and that is because we put our trust in the American people, and in the free enterprises the free American people create.

"I spent some 25 years, as John indicated, working in the private economy, starting businesses, acquiring businesses, consulting to businesses, managing businesses. I've invested in companies in Germany, Italy and New Zealand. I've negotiated in China and Ecuador. I've managed businesses in Japan and Russia. You get a lot better in educating yourself by being in the arena than you do by sitting in the bleachers. My successes and failures, by the way, have given me some insights on what I think it takes to grow a business, and an economy, and a nation.

"And today, I'd like to offer a few perspectives.

"Let me begin with our objectives. On the screen, I hope you can read that, well, maybe you can, maybe you can't, it's a long way away. I'm going to read them. Objective:

" Remain an Economic Superpower-we can't be a military superpower unless we're also an economic superpower.

" A Growing Economy-growth is essential if you want to have a future that's brighter than your past.

" Shared Prosperity-economic success that's only narrowly shared will divide a nation ultimately and kill the entrepreneurial spirit and opportunity to pursue happiness. That's the quintessential American hope and dream - that every person has the opportunity to achieve the success that they desire in their own heart.

"Now, the words may sound a little academic there, but don't forget these objectives are very critical to human interests, a higher standard of living, greater job security, a brighter future for our children and income security for our senior years.

"Now my experience has taught me that there are a lot of things that create a growing economy and a vibrant nation. Let me look at five of them in particular. Next slide, please.

- Skilled and educated and motivated people, on the top of my list.
- Free Trade, On The Level
- Capital and Savings
- Innovation and Technology
- Consumer Freedom

"But, in addition to the things which propel the growth of an economy and create a higher standard of living for our citizens are those things which put in a braking action. On the other side of this equation, next slide, are these five:

- Excessive Taxation and Spending
- Excessive Regulation
- Excessive Burdens on Business Activity
- Excessive Health Care Costs
- Excessive Energy Costs

"Now, part of the history of America can be seen by looking at that slide - we've done very well educating our people, making sure they have the skills they need to compete, making sure we have open markets that we can participate in, having adequate capital, assuring that we have the leading edge in innovation and technology and relying on the consumer to point the way. We've also done our very best to hold down taxation - John F. Kennedy did that, Ronald

Reagan did that, George W. Bush did that. We tried to pare back government regulation when we can. We've also tried to take off burdens on our business activity to hold down our energy costs, and as a result, we've had a vibrant, fast-growing economy over these last 30 years.

"Now, you'll be relieved to hear that I'm not going to dwell on every single one of those ten today in great depth, but I want to give you a few thoughts about a number of them.

"Let me begin on the one of the far left, which is education. Our schools are falling behind those of other nations - you've seen that. It's true particularly in math and science. Our 15 years olds ranked 24th out of 29 OECD nations in math. 24th out of 29. Our high school seniors rank in the bottom 10% in math and the bottom 25% in science. How can you lead the world if the kids in the next generation are falling behind in the skills they need to innovate and create new enterprises?

"Now, when I became Governor, I sat down with educators and leaders and said, 'What do I have to do to improve our schools?' And some folks said to me, 'Well, you have to get a much smaller classroom size. That's key.' Coming from the private sector, I don't just take people's advice, I ask for the data. We have 351 cities and towns in Massachusetts. I said, 'Let's do something, let's compare the average classroom size of all of our school districts with our performance of the young people on our statewide exams.' Because we have statewide exams that determine how well our kids are doing. The chart we expected would have the trend you see in the next slide.

"That is, on the bottom, you have the classroom size, from the large classes on the far right-hand side to smaller classes on the left. And then we had how well our schools - our students - were performing. High performers on the top, low performers on the bottom. If there's a strong relationship between how big your classrooms are and how well the kids are doing, there should be a pattern along that line you see - a downward sloping line.

"But here's the real data: you can see those red dots, you can see there's no relationship at all. As a matter of fact, some of the districts that had the smallest classes had the worst performance on the student scores. And vice versa. And so we decided to spend a little more time talking to teachers and parents and people who'd focused on education - educators and others. And they came up with a list of things that would really make a difference in education. Let me show you some of those.

"First, was making sure that we treated teaching as a profession - not just as a labor job, an hourly labor job. We wanted to make sure that we gave bonuses to our teachers for having math and science capability and AP credentials. We wanted to have bonuses for superior work. We wanted to make sure that we could provide incentives for higher academic

achievement. As a matter of fact, we put into place in our state a scholarship called the Adams Scholarship - you score in the top quarter of your high school class on your state exam and you're entitled to 4 years tuition-free at our state universities or state colleges. And so those were the kinds of commitments we made. We also said, 'If you want to improve schools, give every kid a laptop computer, make sure that we also have math and science academies where our best and brightest kids can go.'

"English immersion: we put this in place in our state, no more bilingual education. We said if you want to be successful in a nation that speaks English, you've got to be fluent in English. We also felt it was critical to measure student performance, put in place a graduation exam, we insisted on school choice, longer school days, parental involvement. Parental involvement means not only a preparatory effort to help our parents get up to snuff, but also to make sure that we do everything we can to have two-parent families. There's nothing like a mom and a dad to help kids be successful in school. These are the ideas that make a real difference in education.

"We've got to raise the bar folks, or the future is not going to be as bright as the past.

"Let me turn to another topic and that's capital. Of course capital flows quite easily around the world, but even so new ideas and new technologies tend to be funded by people who are close to home. My venture capital experience taught me that companies close to where we lived and where we work had a better chance to get funded than those that were far around the world. Capital at home today is quite plentiful, but ultimately capital here is enhanced when people are investing their savings in the economy - in the future.

"And that chart up there shows that our savings rate is looking pretty grim.

"The bars that are upward in number show that two, three percent kind of savings rate that we've had over the past several years, but in the last year-and-a-half, we actually have a negative personal savings rate. Now the government has come up with all sorts of savings programs for our families, I'm told there are as many as 20 different plans. They present a daunting phalanx of penalties and rules. The government lets us save, but only if we do it in the way the nanny state tells us we can save.

"It's time to make saving easy in America. I believe people should be allowed to earn interest dividends and capital gains, up to a certain amount per year, tax-free and without restrictions on how or when their savings or investments are spent. As an example, let's take the number of 5,000 bucks. Let's say, and that's not a final number, but let's use 5,000 dollars as an example for joint filers. What I'd say is people ought to be able to save annually or to be able to receive income annually, in capital gains, dividends in interest on 5,000 bucks and not have to pay any taxes on it at all, and not have to worry where that investment got spent. This would help the middle class to be able to invest and save. It also would allow them to spend their savings the way that Americans like to spend their savings, - any way they want.

"Let me turn to free trade for a moment. My growth factors - don't show the chart yet, we'll get there in a

second. My growth factors include free trade. There'll be a growing clamor in this country for isolation and protectionism. Just wait for that '08 campaign to get underway, you're going to hear it time and time again. Protectionism might feel good for a few years, but then we'd be passed by the products that met the new world competitive standards like we were standing still. Protectionism would virtually guarantee that America would become a second-tier economy in a couple of decades, with a second-class standard of living.

"At the same time we have to make sure that the rules of free trade are fair. It's time to make sure China's markets, for instance, are open to our goods. And it's time to sure they enforce our intellectual property rights as well as they enforce their own. Try to counterfeit an Olympic tee-shirt in Beijing, for instance, and see how long it takes for them to find you. No, the easy money for the criminal counterfeiters is in software, entertainment, pharmaceuticals: the things that we export.

"Fair trade has to be fair in both directions, but don't forget, it's good for all of us.

"Let's look at technology. Without serious question, America is the innovation capital of the world.

"That chart you can put up now shows the patents issued by the U.S. Patent Office. The red bars are patents issued to American enterprises, the yellow are those that come from all the other nations in the world. We lead the world, one country leads the entire world in patent applications.

"The Internet started here, biotech is headquartered here, Microsoft is here. But China and other nations aren't going to just cede permanently our leadership in innovation and technology.

"Now and then I hear people say that it's probably good economics for manufacturing to go from here, to go to Asia, because they can do it there cheaper. Then they go on and say, 'But we'll continue to keep the design and engineering right here, they'll just do the manufacturing.' But that belies very little experience in the real world. My experience is that design and innovation ultimately are done best next to manufacturing. Those that are proximate tend to get the best designs and the most innovative ideas. If the Chinese are making a product, you better expect them someday to be engineering it and designing it as well. It's critical, therefore, that America maintain our lead in manufacturing, if we also want to maintain our lead in innovation.

"Now you know that where America invests in technology we lead the world. Places like healthcare and defense technology. Let me just show you a chart that shows how our investment dollars are spent at the federal government level.

"The dark blue portion of that bar is money spent in health and the other areas are in the lines below. I'd like to make sure that we review how government invests our research dollars, because I want to see more research dollars going into power generation, fuel technology, materials science. I think it's critical that

America continue to invest in our future in technology. It is what will allow us to lead the nations of the world for generations to come.

"Now I mentioned five of the factors which accelerate our growth. How about those that slow down our growth? Let me look at those. Here's where they've seen, perhaps, the most dramatic change over the last 30 years.

"I was with BiBi Netanyahu, the prime minister of Israel. He said that when he came into Israel that the economy was shrinking not growing. He said as he looked at what was going on and talked to business leaders, he said it reminded him a bit of the first day of basic training in the Israeli army. They lined everybody up along a football field, they said take the person next to you and put them on your shoulders, we're going to have a race. And he said he had a big guy on his shoulders, so he couldn't run very fast. But somebody next to him had a real small guy on his shoulders and he won the race. He said the guy running the race, those are your corporations, your enterprises, your inventors. The guy on the shoulders, that's your government. And if government's too big it slows down the inventors and the entrepreneurs.

"Now BiBi didn't come up with this all by himself. Ronald Reagan saw the same thing back in 1982. He and his team initiated a three-part strategy for our sclerotic economy. He said number one, we need to have a steady monetary policy, number two, deregulate, number three, we want sweeping tax cuts. Those three ingredients, low inflation, deregulation and tax relief lay the foundation for an economic renaissance, and help to unleash the spirit of enterprise in this country. What Alex de Tocqueville had once called America's restlessness of temper. By contrast the European path led to high unemployment and anemic job growth.

"Now the big issue we're going to face coming soon is taxes. What is the better course for America? A European model of high taxes and regulations, or low taxes and free trade, the Ronald Reagan model? That's the choice the next president is going to make. Some of course are already working hard to implement a massive tax increase.

"Let me show you what it would look like. On the left-hand portion of that chart where you see the squiggly line go up and down, that's the taxation in the United States, the federal taxation is a percentage of GDP. It's gone up and down but pretty much level, over a bunch of years, around 18 percent. You'll see that big decline in the middle of the graph, that's what happened when President Bush instituted the tax cuts, as well as the recession in our economy. When the economy went south he said we need to lower taxes to get it going again and boy did it work, seven-million new jobs later. The chart to the right shows what would happen, the top line, if you saw a big tax cut, tax increase rather. That shows what would happen if the Bush tax cuts were allowed to expire. You'd see a massive tax increase, which without question would halt this economy in its tracks. If you see the flat line around 18 percent, that's what happens if the Bush tax cuts are made permanent. So its pretty simple, isn't it? It's absolutely critical that we don't have that massive tax hike and instead we make the Bush tax cuts permanent.

"We need reform of our tax code. We need to move it toward a system that's encouraging of growth, fairness and simplicity. Now of course some people want to increase taxes because they want to spend more. When the party that's been in charge has been our own, I'm a little embarrassed to say that we haven't distinguished ourselves by reigning in spending. The chart that I'm going to show now, go ahead, shows spending by year in non-military discretionary accounts.

"The last few years there aren't as low as I'd like them to be. If we're serious about holding down taxes, we have to be serious about fundamental reforms to government and to entitlements. I have a pretty simple idea about how to keep our spending in check: give Congress a specific spending number and insist that that number is hit. If Congress doesn't hit that target, then its appropriations bills shall be vetoed, I regularly exercised my veto power when I was governor.

"The alternative of course is for the Congress to vest the President with a power held by Governors in some 43 states, including my state, the line-item veto.

"And it's time, at long last, that the federal government is taken through the kind of cost and quality improvement process, and the kind of benchmarking process, and the kind of best practices process, that you in the private enterprise world carry on almost every single year. The duplication and waste, and inefficiency in government is absolutely mind boggling.

"Our greatest challenge though is in entitlements. This next chart shows entitlements as a percentage of GDP.

"The bar on the left is where we are right now. A little over 8 percent of GDP is spent on Medicare, Medicaid and Social Security. Fifty years from now the bar on the right would be in existence. That would say that we would be spending about 18 to 20 percent of our entire GDP on those entitlements. If you recall from my earlier slide, that is the total amount of taxation we receive. That would say that on the current trend, these entitlements would completely take over the federal budget and taxes would have to go through the roof. Our economy would be stalled.

"Today's seniors are living in a world that almost no one could have imagined. The inventiveness and vitality of our pharmaceutical and biotech industries and our healthcare providers have meant groundbreaking advances and long life and I say it is worth it.

"But when Social Security and Medicare were created, they were meant to solve a particular need - seniors living in poverty and without healthcare. They have done that. Now it's time to address a new set of challenges.

"In the case of Social Security - we know the levers we can pull to bring it under control. It is time for

Republicans and Democrats to come together and agree on a solution. Medicare and Medicaid are going to require more fundamental reform to tame their runaway costs.

"How to do it? Well some people are going to say the best way to reform health care is have the government take it over, a single payer system, let the tax payer pick up the bill. As P.J O'Rourke once said, 'If you think health care is expensive now, wait till it is free.'

"My suggestion is that the European model for solving health care is not the model at all. There is an American reform model: apply free market principles and individual responsibility. We took steps to do that in my state this last year. Here are the keys.

"Make sure that the consumer of health services cares how much those services cost. Number two, get everyone in the system. You can't have people showing up at the hospital expecting free care because that ends up being passed on to everybody else.

"Let me turn to another topic, tort reform. It's a big burden on our economic future. Last year, I was shocked to see that U.S. corporations spent more money defending tort claims than they spent on research and development.

"I spoke with one member of the plaintiff's bar the other day. He said that tort lawyers are O.K. with state level tort reform, just not federal tort reform. You know what that means - as long as there is one lawsuit-friendly state, they can sue virtually any deep-pockets company in America. No thanks, America needs national tort reform.

"Our regulatory burden is overbearing. I'd re-institute a regulatory relief board to cut back on the regulations that choke off growth.

"Energy. Another burden on our future is our dependence on foreign energy. Every year, we spend hundreds of billions of dollars, sending it to countries for oil imports, and many of those countries don't like us. It's bad for our economy, it's bad for our foreign policy, it's bad for our environment. A reasonable and thoughtful energy equation has to have two sides.

"On one side is supply - it means developing alternative sources of energy, liquefied coal, nuclear power, biofuels, and other sources of renewable energy. It also means investing to develop new technology, and obtaining oil from domestic sources such as oil shale, enhanced oil recovery, ANWR and the Outer Continental Shelf.

"The other side of the equation is demand. We need to become more energy efficient - we use twice as much energy per person as a European, four times as much energy as the Japanese. Pursuing policies to reduce our per capita energy consumption is a critical step towards becoming energy independent.

"This kind of a national goal of energy independence can't be achieved by simply counting on the market to do its job. And that is because the oil market is managed by a cartel. It makes no sense to continue to live in a fiction that says it behaves like a market. We cannot allow our future and our growth and prosperity to be held in the grip of an oil cartel, particularly when it includes people like Chavez and Ahmadinejad. What does this mean for Detroit? Well, it means that the automotive fleet will have to become more fuel efficient. CAFÉ improved mileage initially, but the consumer has gotten around it over the last couple of decades. You've seen the chart.

"This next chart shows fuel economy rising like crazy from 75 to 80 as those CAFÉ requirements came into place. And then it has actually been flat to downward ever since.

"CAFE has some real problems as a vehicle for bringing down average fleet economy. It distorts the market. It penalizes the domestic automakers. It can ignore technical realities. So before I'd change the CAFE standards, I want to sit down with every major knowledgeable party and evaluate the alternatives. A good number have been proposed; let's decide which is the best course by looking at the data and carrying out analysis, rather than by playing to the TV cameras.

"Let's not forget though that a far more efficient fuel fleet is going to be necessary for our energy future. The issue is to find the least distorting way to accomplish that goal.

"By the way, I get a little tired of listening to supposed experts coming on TV and saying that Detroit just can't make cars that Americans want. Domestic cars, as you know, are burdened with over \$2,000 more in healthcare and pension costs than a car that comes from Toyota for instance. To be competitive, American innovators right here in Michigan have come up with what I will call, wow styling - look at the Dodge for instance; super quality - look at the Ford Fusion; and extra ordinary power plant fuel economies - look at the Chevy Silverado. As the son of an old auto guy, I got to say, I think Detroit deserves to be proud!

"America faces new challenges. Some are unprecedented. If we fail to react, to adjust, we could fall behind our potential. The standard of living of our citizens could fail to keep pace. The future could be less prosperous than the past.

"There are some who insist that the way to address these new challenges is by growing government, growing spending, raising taxes, protecting ourselves from the rest of the world by building isolating barriers and regulations. A government-centered strategy has been tried before, first by the Soviets, then by European welfare states. It has lead to economic stagnation, falling standards of living and high unemployment. To take the same path they have taken and expect a different destination is foolishness.

"It is the American way that leads to a brighter future for our children, to higher incomes, to a more secure employment, and to a more secure retirement. The American way, tested and proven, is low taxes, open

markets, low burdens on employment, excellent education, good healthcare and reliable energy.

"The American way will help us build a new American dream, for all Americans. It will be built in strong families and good schools, by innovative and nimble businesses, and by leaders who know that it is the people of America - free, hard-working, innovative people - that make America the hope of the world. Thank you so much."

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