

Working Toward a (New) U.S. Industrial Policy

Remarks by Andrew Liveris, Chairman and CEO, The Dow Chemical Company

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Thank you, Bill (Ford, Jr.) for your kind words and the invitation to be here today.

As Bill mentioned, I was here two years ago. At that time, I shared my concerns about the state of manufacturing and the weak economy. But I am an optimist and in the back of my mind I thought, surely, it can't get any worse, right?

Instead, we've witnessed two years of continual slide capped by the unprecedented meltdown in the financial sector last week. Frankly, we're just now beginning to see the repercussions of that crisis as markets respond and re-settle themselves.

Wall St. isn't the only place feeling pain, of course. Main Street USA is feeling it, too.

People in every town and city across the country are uneasy these days. And for good reason.

Since I was here last, oil has risen from the mid-\$70s a barrel to around \$100 today.

Housing starts are at their lowest level since 1991, and there seems to be no bottom in sight. Consumer prices are expanding at the fastest pace in 17 years, affecting every consumer item from fuel to food.

On top of that, we have the sobering news that the economy lost some half a million manufacturing jobs since the end of 2006. And I'm sure you all saw the jobs report last month for the entire nation: 84,000 jobs lost in August alone.

September, it appears, won't look any better.

And the rank and file employees who are still working? They earned three percent less last month than they had a year earlier simply because of inflation.

Even the small things are more expensive. I saw a report in the New York Times recently that the price for the common paper clip – this small item holding my talk together – is up 40 percent.

As that great American philosopher, Will Rogers, once said, we seem intent on showing the entire world we're prosperous ... even if we have to go broke to do it.

Given all the doom and gloom, it really is hard to remain an optimist. But I am reminded of the advice that I've given others so many times – that often the difference between success and failure is nothing more than pure persistence and hard work.

So here we are, talking again about a difficult economy and what to do with it.

Talking ... again ... about a real energy crisis that will have no quick or painless solution.

Talking once more about how to return this country to a position of strength and vigor.

As Bill said, on my last visit before you I did state that the United States was THE indispensable nation in the world. As a foreign citizen who has benefited enormously from the American freedom and enterprise model, I stand by that statement today more than ever.

The world would be a much poorer – and a much more dangerous – place were it not for the United States and its global influence.

But as I travel around the world and I see other countries putting together comprehensive and well thought-out plans for energy, manufacturing and sustainable economic development – I have concerns.

I'm concerned that our economic dependence on others is continuing to increase every day. I'm concerned that we're in the midst of the greatest wealth transfer out of this country in history ... \$500 billion plus spent annually for foreign oil ... and too few in Washington seem alarmed.

And I'm concerned – most concerned – that the U.S. is forfeiting its dominant position as THE indispensable nation because it has lost sight of what first made it strong: a vibrant industrial and manufacturing base that drives innovation, technology – and creates jobs – from the shop floor, to the engineering centers, to the R&D labs and to the white collar offices.

Ladies and gentlemen, let us never forget that the very life force and strength of this great country begins here – in America's heartland. A country can't be strong abroad if it's not strong at home. It can't be strong in China or Chile if it's not strong in places like Cleveland and Canton. It can't be strong in Dubai if it's not strong first in Detroit.

Somehow, our government has lost sight of that. Instead of implementing policies that make our industrial heartland stronger, government has made it weaker. And we've allowed bad economic policies to drive good jobs out of the country.

In fact, between the bankers in New York, the lawyers in Washington, and the actors and entertainers from Hollywood, we have allowed people who know nothing of the might and intellect of our manufacturing base to make laws and decisions on our behalf.

We've allowed them to create an industrial crisis in this country that is undermining our nation's strength ... and they don't even know it.

If you want to do something enlightening, go to the Internet and Google for the phrase "energy crisis." You'll get over 4,000 stories.

Then search for "economic crisis." You'll get more than 5,000 hits.

Then search for the phrase "industrial crisis," something that is just as real and felt just as deeply by everyday Americans. You'll get fewer than 10 stories – and none will be about the United States.

So, yes. I am still an optimist. But I'm an impatient optimist because at Dow we know there is a better way.

So what I'd like to do today is lay out for you the broad components of a new industrial policy. Not one characterized by central planning and the picking of winners and losers. We know that approach doesn't work.

What I'm talking about is a pro-industrial policy crafted and developed by manufacturers for manufacturers, a policy that rejuvenates our economic base.

Consider it a new strategy, if you will, to make American industry competitive again, re-establish our economic and energy independence and re-grow jobs in America.

What are the components of this plan? There are two.

First, we must look with fresh eyes at the structural costs that have weakened the very foundation of our manufacturing enterprises and remove the obstacles hurting our competitiveness.

And second, we must develop a comprehensive energy policy.

Now, I will admit that some people, like the ones I referenced before, don't like the words "industrial policy." I understand.

But the truth is that in this country today we already have an industrial policy – except, in reality, it's mostly an ANTI-industrial policy – a set of contradictory, ill-planned and

ultimately self-defeating laws and regulations that are creating havoc at the manufacturing base.

Consider this alarming fact: Thirty years ago, manufacturing made up nearly 22 percent of the U.S. economy. Today, it's less than 12 percent and falling.

This will be no surprise to anyone in Michigan but the number of manufacturing jobs in the U.S. has fallen by 3.7 million over the past 10 years. We're projected to lose another 1.5 million over the next eight years.

That's 5.2 million jobs – 5.2 million jobs that today pay more than \$17 an hour plus benefits. To put it another way, that's \$190 billion in wages and \$76 billion in benefits.

I ask you this: What elected official in his right mind would develop an industrial policy that destroys \$190 billion in annual wages? Which politician would want to tell the American voters they just lost \$76 billion in benefits?

The sad fact is that nobody intentionally sought to do this. But it's happening right under our noses. Anti-industrial policy is hurting a lot of good people.

If it were just the U.S. and nobody else, it wouldn't matter. But there ARE countries around the world that DO see the uplifting power of manufacturing.

I spent much of my career at Dow working in Asia. I saw first hand how the “Asian tigers” used manufacturing and trade to go from grinding poverty to growing prosperity.

Today the emerging economic powers like China and India understand that when you build an economy from the ground up – make a strong manufacturing base as its foundation – benefits flow to everyone.

Those nations are our competitors and many of them are beating us at our own game.

Do we have to change? Well ... no. As the quality guru Edward Deming put it: Change isn't necessary. No one said survival was mandatory.

History is replete with once-great countries that have dissolved into obscurity precisely because they didn't change.

If we want to keep the economic lead we've had for a century, however, we have to re-tool a few things. If we want to keep the many benefits that accrue from a strong economy, we must change course.

Times change, and strategies have to change with them.

And we have to start, first and foremost, with the structural costs that are suffocating industry in this country. We must level the playing field by removing the artificial,

ANTI-industrial policy costs that disadvantage American businesses against the rest of the world.

Think about this. The 14 million men and women who work in U.S. manufacturing created about \$1.6 trillion of wealth in 2007.

That's a huge, almost mind-blowing number. But the sad fact is it could be so much larger, and we could be so much more competitive.

We're burying our manufacturers under red-tape, weighing them down with structural burdens that push our production costs a staggering 32% higher than our major trading partners.

Understand: I'm not talking about top-down economic planning in any way, shape or form. I'm talking taking into account Tom Friedman's "flat world" and using a little forethought about the policies that affect business.

I'm talking about little more coordination with policies in place already, and a lot more coordination with reality.

And I'm talking about resolving the conflicts in law and regulation that hamper our abilities to do business efficiently and effectively.

I propose work in four areas to bring our costs in line with our competitors.

Lowering the corporate tax rate.

Re-inventing regulation.

Reforming our civil justice system.

And finding a solution to the crisis known as healthcare in America.

Each one of these puts U.S. industry at a competitive disadvantage above and beyond the cost of labor. And each one of these burdens could be lightened or eliminated by our own government.

I won't go into each of these for the sake of time. Besides, most of you already know, for example, that America has the second highest corporate tax rates in the world.

But did you also know that of the 30 members who comprise the Organization of Economic Cooperation and Development, nine dropped their corporate tax rates last year to attract more investments.

Germany dropped its tax rate. So did Canada and the UK. Even the Czech Republic!

Not the U.S. Why should that be?

As one great leader said, some in this country regard private enterprise as if it were a predatory tiger to be shot. Or they look upon it as a cow they can milk. Only a handful see it for what it really is: the strong horse that pulls the whole cart.

That was Winston Churchill who fought his own battles a half century ago to keep Britain's economy unencumbered and vibrant. He was unsuccessful, if you hadn't noticed.

If you want a cautionary tale about what this economy could look like if we continue to push manufacturing out of the country, look across the great pond. The service-based economy of the U.K. rises and falls at the mercy of others.

This point is really being brought home right now as the financial crisis in the US has been felt in full force in the UK, which has no other sector available to buttress this effect.

We can't afford to follow down a path of economic malaise like U.K. by destroying our manufacturing sector.

Making things – real, tangible things – still matters.

The leaders of this country should remember that the word “industry” created this great country's might by opening up the West ... by fighting two World Wars ... by putting a man on the moon ... and by improving our lives and the lives of our children by creating high paying jobs and rewarding careers.

They should remember ... but they don't.

Instead, they've saddled it with huge corporate taxes ... AND a crisis in health care costs ... AND an out-of-control civil justice system that adds a huge cost burden to American enterprise ... AND an inefficient regulatory system that costs us as much as \$10,000 per employee in the manufacturing sector.

Don't we owe it to America's families, and especially to the next generation, to put back in place a Pro-Industrial Policy that stimulates investments and jobs by removing the structural costs that are holding us back?

This brings me to the second key component of an Industrial Policy for the 21st Century – the need for a comprehensive Energy Plan.

I don't need to tell those of you here today that energy is the life-blood of our modern economy. But I do want to point out that the current energy crisis goes far deeper than the price of gasoline at the pump and those high heating bills on the way this winter.

Here's what I mean by way of an example. Dow is currently on track to spend \$32 billion – yes, I said billion with “B” - \$32 billion this year on energy and feedstock costs. That's more than the entire U.S. chemical industry spent just a few years ago.

That's just one way to measure the impact of rising energy costs. The race for affordable energy also affects where we invest and where we build plants.

Keep in mind that every dollar of energy consumed creates 20 dollars of GDP value-add. That dollar also creates five of the kind of high-paying manufacturing jobs Michigan and every other state needs so badly.

It seems like common sense to keep those kinds of investments inside our borders.

Instead, most of those investments are now occurring outside the U.S.

Dollars are flowing - in unprecedented amounts - to places like China, Saudi Arabia and Kuwait, and many other countries that want the value-add to their economy that manufacturers bring.

What I don't understand is why our political leaders don't see that.

Maybe it's because they hear TV commentators say the price of oil has “dropped” to \$100 a barrel! Or that gas has “dropped” below \$4 a gallon! This type of irresponsible reporting is creating a false sense of security.

It does, however, confirm what James Schlesinger, the first Secretary of Energy in the U.S., first noticed decades ago: When it comes to energy policy, he said, America has only two modes: panic and complacency.

A slight, temporary moderation in price is no excuse for complacency. \$100 oil brings me no comfort. Gas at \$3.70 is no cause for celebration.

Frankly, this country needs a little panic because the truth hasn't sunk in yet. We have entered a new era in energy – one driven by a new global fact of life: less supply and more and more demand.

Even with greater conservation, energy consumption is soaring. It's forecast to rise 53 percent between now and 2030. Earlier this year the International Monetary Fund put out a report projecting the number of automobiles by themselves increasing 2.3 billion by 2050.

The good news for Detroit is that somebody will have to manufacture all those cars. The bad news is that we'll still have to power them and they'll still add to our growing energy consumption.

And despite the exponential increases in the amount of wind, solar and renewable energy coming on line, the fact is that these sources won't be able to keep up with overall demand.

So the energy of tomorrow – like today – will depend predominantly on fossil fuels: oil, natural gas and coal.

Everyone in Washington knows this. So where's the policy to deal with this new reality? This country doesn't have one.

I say "this country" has no strategy. But what I really mean is that Washington has no coherent strategy. Americans everywhere else already know the solutions.

Ninety-two percent of Americans believe that developing alternative energy sources is a step in the right direction. 88 percent want cars that are more fuel efficient. 67 percent believe we need more oil refineries and 73 percent believe off-shore drilling is a good idea. And, I'm heartened to **say, 82** percent believe that conservation is important to our overall energy policy.

Even in Santa Barbara – the city where 200,000 gallons of oil spilled offshore some 40 years ago and where the movement to ban off-shore drilling began – even Santa Barbara gets it. The County Board of Supervisors there voted just last month in support of new drilling off its shore.

When it comes to energy, there's no ideology among the American consumer. Almost everyone wants more conservation, alternative energy, greater fuel efficiency, and environmentally responsible offshore drilling to help us right now.

And, yet, here we are ... constrained by the old politics, separated by silos of thinking and ill-served by politicians intent on fighting the last war instead of the one in front of us.

And what is most worrisome to me – what is most vexing – is that Washington doesn't understand that the energy crisis isn't just about energy. The energy crisis is also about jobs ... about manufacturing competitiveness. And at its base, the energy crisis is an industrial crisis that is threatening America's strength and standing in the world.

Four years ago we at Dow proposed a way out of this. We proposed an Energy Plan with three key components.

The first is to pass comprehensive federal goals on energy efficiency and conservation. To me, this is common sense.

Now, I realize I'm in Detroit and energy efficiency goals sound like code words for new fuel standards. It's heartening to see all the Big Auto's developing new models to

consume less fuel. But what I'm mostly talking about here is improving the efficiency of buildings.

Consider this: buildings are responsible for 40 percent of our total energy use, 70 percent of our electricity use and 38 percent of our CO2 emissions. A combination of federal incentives and local energy efficiency building codes could lower all of those numbers and significantly improve this country's energy security.

A very achievable 25-percent improvement in the energy efficiency of our economy would save this country the equivalent of all of its oil purchases from the Middle East and be the foundation for a secure energy future. It's the first and easiest step to implement.

The second component is to increase and diversify our domestic energy supplies. This is simple logic.

We have the oil deposits here. We have natural gas deposits. And we certainly have the coal reserves.

We should be accessing – responsibly and safely – every source we have to produce as much energy as we can at home.

We also have the best technology in the world. Why not use that to build new, safe nuclear power facilities? Why not begin – today – an Apollo-like R&D project to solve the carbon capture and sequestration question so we can use – safely and responsibly – that 200-year supply of coal beneath our feet?

The third component of our plan is to accelerate the development of all alternative energy sources – including renewables – and provide the financial support on research and development to get us there.

Given the situation we're in today, it's amazing to me that this Congress can't even seem to pass an extension of the Renewable Energy Tax Credits and, as a result, is putting this country's renewable energy industry – along with 100,000 jobs and \$20 billion in investments – at risk.

Congress should also live up to its commitment and fund the direct loan program it created last year to help lower the cost of capital so the auto industry can retool to make more fuel-efficient vehicles.

The fact is we don't need to limit our possibilities by limiting our choices. Solar. Wind. Biomass and other renewable and alternative supplies. We need them all. And we need them now.

Will these give us energy independence? No.

Energy independence is a pipe dream for the U.S. But these steps will help us achieve the more realistic goal of energy security.

And, while I'm at it, let me remind you we have to do all of this within the context of reducing our carbon footprint. That's why Dow – along with the Big Three automakers, other large and diversified companies and leading environmental groups – are members of the U.S. Climate Action Partnership and are committed to driving the Federal government to adopt measures to reduce greenhouse gas emissions.

So there are three steps to Dow's Energy Plan for America.

Improve efficiency and conservation.

Diversify domestic supplies.

Find new alternatives and renewables.

If we take these steps – in concert with one another – we can literally provide the fuel that will restore the power to American industry.

Do these sound familiar? They should.

They are now being talked about more and more ... by more and more politicians, companies, CEOs, and yes, even the President of the United States and the two candidates that want to succeed him.

I suppose we should be pleased that this plan is finally being talked about. But it's hard to take pleasure when all we hear is talk.

We have yet to see any significant action by Congress. We have yet to see a bipartisan approach to getting it ALL put in place. And I mean ALL.

Not what partisanship brings us, but what common sense demands we do.

The right path forward is not one of "divide-and-conquer." That's what got us into this mess to begin with.

The right path forward – the only path forward – is one of collaboration and coordination: public and private sectors, Republicans and Democrats, industry and environmentalists, working together with the goal of finding and removing obstacles.

And we need to start where the major challenges of our day intersect: on manufacturing ... on jobs ... on energy ... and the environment.

That's what we call the Dow Energy Plan for America – a workable plan and a real solution to rebuild the industrial base in this country and put Americans back to work.

One of the things I love about democracies – like America – like my native Australia – is that every few years we get to elect new leaders and chart a new course.

This country is entering an historic era. It will elect either its first African-American President or its first female Vice President.

And this new leadership must marshal the courage to re-establish America's place in the world as THE indispensable nation.

If this nation is going to live up to its legacy – if it's going to fulfill its potential of independent influence – our leaders must remember that its strength comes not necessarily from strong politicians ... but from a strong economy. Not from strong words ... but from strong, practical policies that rebuild the industrial heartland and create new jobs for Americans in every part of this great country.

We do that by removing the artificial anti-industrial policy costs that disadvantage American manufacturers.

And we do it by insisting – at every turn – on an energy policy that promotes efficiency ... alternatives and renewables ... AND new domestic supplies.

We at Dow are committed to this defining idea and plan. We are committed to this state and to this great country.

And I look forward to working with all of you – in the private AND public sectors – as we build this new future together and re-establish America's preeminence in the world.

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