

Economic Club of Lapeer County

October 1, 1992

Michigan's Future: It's Up to Us

Introduction

I am delighted to be with you here today in Lapeer. The University of Michigan-Flint campus is well-represented here today. I know that a number of you are Michigan alumni. The Flint campus is increasingly important to this area of the state, training the workforce for an economy that is rapidly changing. Chancellor Clint Jones and I are working on a number of cooperative projects, so that we can continue to serve this area of the state and unleash the kind of graduates who can compete in the global economy.

I'm aware of the good work that the Lapeer Development Corporation is doing in this region, providing counseling for the entire Thumb area. I'm sure that many of you have benefited from it. Our own Industrial Development Division has had a close relationship with the Lapeer Development Corporation, and we've worked with this organization to provide computer support and other technical consulting to its economic development programs.

On the way up today, I was looking over your list of speakers from the last few years. Quite an impressive list -- George Romney, Don Riegle, Walter Adams, Patricia Boyle, Carl Levin, John Engler, Owen Bieber...just to name a few. I also saw George Plimpton's name! So I know that this is an audience with a great range of interests, perhaps patient enough to hear from a university president who loves a captive audience. Certainly you represent much of the

leadership in this part of the state and I know that we all share a deep commitment to making things better.

So, for the next 25 minutes or so, I'm going to talk to you about some of the very serious issues that we face as a nation and some of the very painful steps that I believe we need to take if we are to become competitive again. I should say at the outset that I know that many of you have thought very seriously about these issues, as you have tried to develop an environment where economic development can occur.

Some of my colleagues heard me deliver this message a while ago and compared me to an evangelist who had taken to the pulpit. In truth, the clergy and those of us from academe aren't that dissimilar. We often find ourselves in the position of talking about harsh reality. But my message today is not without hope. For more than anything, I have tremendous faith in the human spirit, in our ability to pull together as a nation. And I believe that we can not only get through this difficult time in our history, but that we can emerge even stronger than before.

Waking Up and Feeling Bad: It's a Big Hangover

I want to talk to you today about the future of our state and our nation. My remarks might be prefaced with the statement you sometimes hear on TV, however: "Warning, viewer discretion is advised!" Actually, I hope what I have to say will disturb not just some of you, but every last one of you. Because my message is more than disturbing--it is downright frightening.

Too many leaders of late have been trying to convince themselves and you that everything in our country is just rosy or that if we can go back to the 1950s model of the ideal family (whatever that was) or a static domestic economy then everything will be alright. Well, it's clear that most of the politicians just don't get it.

Everything is not rosy and a few cosmetic changes here and there aren't going to do the trick. The borderless economy came crashing down on us in the 70s and 80s, and there is no turning back. The family defined by dad at the office or on the farm or in the big factory, mom baking bread at home, and 2 1/4 children simply doesn't exist. Nowadays we're more likely to see a single parent, unsure about the future, struggling to make ends meet, wondering if they can get through the next week, let alone put their children through college.

The truth is that we have awakened in the 1990s with a massive national hangover. This year's election coverage has brought some attention to these problems, with our inability to come to grips with a range of issues, but in fact we have really only begun to skim the surface. The fundamental question remains: can we make the hard choices.

No question about it. We are hurting. To ease the pain we keep applying those old-time remedies. Many seem to prefer the "hair-of-the-dog" approach--more of the same excesses that got us into trouble in the first place. But quackery or quick fixes aren't doing the job, at least not for long. Why? Because our hangover is only a symptom. Until we sober up and confront what's really ailing us, we will not recover.

So before talking about cures, we need to look unflinchingly at some hard realities. Only this will lead us to the right diagnosis and the right medicine.

The Painful Symptoms

What are some of the signs of the underlying illness? I would include the following:

- the decline of U.S. competitiveness
- inadequate public investments in infrastructure and R&D
- the capital deficiency in our financial institutions
- our losing fight against drugs and crime
- the blight of our cities, the plight of the homeless
- our damaged environment
- political stalemate
- a growing gap between rich and poor
- the poverty and plight of the very young

These are the painful, ominous, and interconnected symptoms of our disease. Let us look at some of them more closely.

I. Economic Competitiveness

For most of our history our political and geographic isolation, our abundance of natural resources, our motivated workforce and technological leadership provided a better quality of life for each succeeding generation. Suddenly, today, it is a different story. For the first time many of our children cannot expect to do as well as their parents. The reason is simple. A truly domestic U.S. economy has ceased to exist. It is no longer relevant to speak of "the Michigan economy" or "the American economy"--or the competitiveness of Michigan industry or American industry. Our economy, our companies, capital, labor--all are truly international and intensely interdependent upon other nations and other peoples. They are also intensely competitive with them. But it is a competition that we are not winning.

Let me give you a few signs of this. For example, during the 1980s, the U.S. trade deficit has taken us from the world's largest creditor to its largest debtor nation. For the past three decades the United States has ranked dead last among industrialized nations in investment as a percentage of the GNP. So too does our net national

savings rank at the bottom of industrialized nations. Equally alarming is the deterioration in our technological leadership, as evidenced by the fact that in 1988 the top ten companies receiving U.S. patents were: Hitachi, Toshiba, Cannon, Fuji, Philips, Siemens, Mitsubishi, IBM, General Electric, and Bayer.

2. Financial Disaster

Another thing shadowing our children's future prospects is that America's real weekly earnings and wages have been declining since 1972. Unlike any other industrialized nation, in 1990 the U.S. standard of living declined for the first time in eight years.

Why? During the 1980s we went on a long binge of denial and self-indulgence. By recklessly rejecting taxation to finance dramatically increased spending, we plundered our own wealth and that of our children. I think Felix Rohatyn, the noted financier, put it well: "The junk bond peddlers and the raiders, the speculators and the S&L hustlers, with their legions of consultants, their lobbyists and their camp-following politicians have turned our country into a vast casino and perverted our political system into a sordid charade."

The worst evidence of our hangover is the S&L scandal. It hasn't caught fire yet, but it is building out there. (Watergate started slow too.) It is pretty hard to hide a \$700 billion debt! Especially one that will cost every single American taxpayer at least \$1,000. Actually, in Michigan we will pay a great deal more since by some perverse logic of Washington, states like Michigan, where proper management of our financial institutions averted the thievery common elsewhere, have to pick up the tab. In fact, Michigan is thirteenth among net losers in this largest corporate bailout in history.

3. Passing the Buck from Washington to the States

Speaking of Washington, one of the major shell games of our time has been the federal government's passing of the buck for responsibility for essential services to states without transferring funds to pay for them. In the late 1970s Washington provided 25 percent of state and local budgets. Today that has declined to less than 17 percent. The burdens of entitlement programs such as health care, corrections, and education concocted by the federal government but passed on to the states are bankrupting us while the federal government spends our tax dollars on other priorities.

4. Education

Perhaps the most appalling symptom we are experiencing is the malfunctioning of our education system. This not only hurts us but passes our disease on to the next generation.

The coins of the realm in the age of knowledge that is our future will be science, mathematics, and technology. But most American students are simply not developing these skills. They aren't even learning the basics: reading, writing, critical thinking, languages, geography, history, literature, and the arts. More specifically:

- Functional illiteracy in our nation ranges between 20 and 30 percent.
- 25 percent fail to complete high school, and even those who graduate frequently do so without the knowledge and skills necessary for the new world economy.
- We are educating only 15 to 20 percent of our students to an intellectual level capable of functioning truly well in the everyday world.
- Only 5 percent of high school graduates enter college ready for science and math instruction.
- Our students score at the bottom of all advanced

nations in science and mathematics achievement.

5. The Feeding Frenzy of Special Interest Groups

At a time when we most need to pull together to get back our health, we have instead created a feeding frenzy of special interest groups. They are feasting on our common good. We end up paying off one and then another, depending on which group can mobilize the most effective lobbying effort. What has emerged is a fragmented social dictatorship exercised by special interest groups and characterized by an uneasy moral relativism. This is certainly not what our founding fathers had in mind.

6. Spaceship Earth

For the first time the evidence is clear and ominous. We humans are mindlessly altering the fragile balance of the planet. You have heard the concerns many times in recent years:

- the depletion of the stratospheric ozone layer
- the buildup of greenhouse gasses and global warming
- the destruction of forests, wetlands, and other natural habitats
- the extinction of millions of biological species and the loss of biodiversity
- encroaching desertification
- the pollution of our air, water, and land

Further, with the world population already at 5.3 billion, we are consuming 40 percent of the world's photosynthetic energy production. Most estimates place a stable world population at 10 to 15 billion in the mid-twenty-first century; and at this rate, we will eventually consume all of the planet's resources unless we do something. Because of this overload of the world's resources, over 1.2 billion of the world's population now live below the subsistence level,

and 500 million live below the minimum caloric-intake level necessary for life; that is, they are starving to death.

And yet, in the face of such alarming global challenges, the United States' environment effort is characterized by a highly self-indulgent, litigious nature, focusing on toxic waste dumps and ALAR and completely ignoring our greedy consumption of the world's resources. According to most polls, the biggest problem Americans identify in their personal lives is dieting to overcome excess weight--oblivious to the tragic reality that over one-half billion people today are starving to death.

The Warning Symptoms in Michigan

Here in Michigan, in the heart of the "rust belt," we see the 1990s hangover at its worst. Industries of great economic importance to our nation, such as steel and automobiles, have fallen victim to intense competition from abroad. Our plants have closed and far too many of our people are chronically unemployed or underemployed.

Over the past decade Michigan has slipped dramatically in several key indicators of quality of life:

- 30th in per capita income
- 37th in child well-being
- 39th in housing affordability
- 41st in overall employment
- 48th in business climate (perceived)
- 48th in high school graduation rate
- 50th in return on federal tax dollars--and we will be paying our billions of additional dollars over the next decade to bail out the S&Ls in the Southwest

Oh, we still rank near the top in some things. For example, we rank:

- 14th in teenage unemployment rate
 - 13th in incarceration rate (and rising rapidly)
 - 13th in percentage of children in poverty
 - 12th in property tax burden
 - 10th in infant mortality
 - 4th in public aid recipients
 - 1st in mortality from major disease
- ...and 1st as well in smoking, I might add.

The situation is particularly alarming for Michigan's children. One third of Michigan's children now live in poverty; one-sixth live on public assistance. Indeed, in Wayne County one-third of all infants now live in foster care, casualties of the loss of jobs and hope in the inner cities. Detroit and Flint lead the nation in youth poverty, with over 45% of their children classified as impoverished.

What is Going on, Anyway?

What is going on, anyway? Is it those aggressive Japanese? Or perhaps the numbing influence of media and TV sound bites? Perhaps it is an aging America that has forgotten its responsibilities to its children? No, these are just symptoms of underlying forces.

Few of us realize the full implications of the ever-accelerating pace of change in our world, our nation, and perhaps most of all, in our state. Change is transforming our world. Who would have predicted several years ago that:

- Communism would be rejected around the world, swept away by the winds of freedom?
- that the Berlin wall would crumble, and that Germany would be reunified?

- that Eastern Europe would break away from the Soviet block to embrace democracy and unite with Western Europe?
- that the Soviet Union would literally disintegrate from the centrifugal forces of freedom and nationalism?
- that the share of the domestic automobile market held by U.S. companies would drop toward 50 percent?

Yet the changes we have seen thus far are just the tip of the iceberg. Even more fundamental alterations are occurring throughout the world:

- the worldwide explosion of ideological fervor
- the staggering accumulation of new knowledge
- the rapidly accelerating international movement of capital, technology, and people
- the disappearance of the world's peasantry
- the changing nature of family life
- the social disintegration of our urban communities

Indeed, many believe that we are going through a period of change in our civilization just as profound as that which occurred in earlier times such as the Renaissance and the Industrial Revolution--except that while these earlier transformations took centuries to occur, the transformations characterizing our times will occur in a decade or less!

I used to portray the 1990s as the countdown toward a new millennium, as we found ourselves swept toward a new century by these incredible forces of change. But the events of the past year suggest that the twenty-first century is already upon us, a decade early. We live in a time of breathtaking change, at a pace that continues to accelerate even as I speak.

But change itself is not our real problem. Our problem is that as a people we are not facing up to the challenge of change. We are not yet prepared to face a world whose economy, culture, and politics are driven by the explosion of knowledge. If we were, we wouldn't see so many signs of decline. We sure aren't getting much sympathy from the rest of the world.

Facing Up to the Challenges of Change

We can face up to the challenge of our times and change our behavior, or we can continue to deny reality and face certain ruin. Let me suggest several of these challenges.

Challenge One: Quality and Competence

You would think that the one lesson we should have learned during the 1980s--in Michigan of all places--is the importance of quality in everything we do, in everything we buy, sell, and produce. It is this culture of competence--a set of attitudes, expectations, and demands--that is often missing in America today. Ultimately, competence requires that people and institutions be held accountable for their performance. Competition helps improve performance. But too often we spend our time trying to protect ourselves from accountability and competition.

Further, we fall victim to those age-old forces of populism--a distrust of expertise and excellence. Dr. William Hubbard, former CEO of Upjohn, used to point to one of the great character flaws of the Midwest as "our extraordinary intolerance of extreme excellence."

When I was Dean of Engineering at Michigan a decade ago, I remember a wise, old vice president of General Motors who pulled me off to the side, put his arm around me, and said, "Don't worry, son, the American automobile industry will always be on top because we can put a car on the showroom floor for less dollars per pound

than anybody else in the world." I guess folks just don't buy their cars by the pound these days . . .

We see these character flaws as well when it comes to key investments in our people, such as education and worker training. We seem hell-bent on insisting on bargain-basement prices, even if it means bargain-basement quality in the performance of our institutions or products and services. A couple of years back I actually had a state official say to me that quality was a luxury that students had no right to expect from a public university. If they wanted quality, they could pay the extra price to go to a private university. Worth noting is the guy who said this had gone to Harvard. I suppose this was his version of "let them eat cake."

Challenge Two: Investment

The real issue is providing for our future rather than spending every available dime we can get or borrow to provide for immediate needs and luxuries. By almost any measure, our nation lags all other industrialized societies in our willingness to invest in the future, whether it is a new manufacturing capacity or in infrastructure or in our people. For example, the U.S. has ranked dead last in OCEP in investment as a percentage of GNP over the last thirty years. Gross real investment in manufacturing has been declining throughout the 1980s and is now far too low to sustain competitiveness. Indeed, the only real growth in our investment has been in areas such as finance, insurance, and commercial real estate. We lag badly in civilian R&D investment, now falling behind Germany and Japan by over 50 percent.

Yet, throughout the past three decades, personal consumption as a share of GNP has risen steadily from 60 percent to now over 66 percent. In fact, for the last decade the federal government and the business community have combined in a gigantic spending and speculative binge. As a nation we have been spending our children's

future to pay for greedy consumption and quick fixes. Instead of investing in our schools, we have squandered our money on junk bonds and leveraged buyouts, on payouts and write-offs to people who already have enough--or more than enough.

The 1980s witnessed an almost unprecedented transfer of wealth to the richest people in the nation, coupled with growing economic disaster and social disorganization for the poorest. Of all industrialized nations, the United States now has the largest gap in income between the richest and the poorest fifth of our population. The tragedy here is that the investments of wealthy Americans no longer trickle down to the rest of the American population--if they ever did so. Instead, they trickle out to wherever on the globe the best profits can be found. So too, the failure of the rich to invest back in society--the absence of stewardship--is a character of our time. It is worth noting that while families with incomes of \$10,000 or less contribute 5.5 percent to charity, those with incomes over \$100,000,000 give less than 3 percent. It is pretty sad to see that the most to spare give the least.

In a sense, during the 1980s we have created an oligarchy, a very small handful of immensely privileged people who have it very good and who plan to continue to have it very good, and who apparently don't care at all that the rest of the country is doing very poorly. We have seen this pattern before in Latin America, the Third World, and pre-World War I Europe. But whoever dreamed we would see it here in America.

Challenge Three: Education

We have entered an age of knowledge in which the key strategic commodity which determines prosperity, security, and social well-being has become knowledge itself; that is, educated people and their ideas. Hence, of all the investments we make, the challenge of investing in our people is the most important. The new logic of the international economy is that the skill and insights of the nation's work force are what make it unique and competitive.

From this perspective then perhaps the most ominous dark cloud of all on the American horizon is that we, as a people, have not yet recognized either the nature or the magnitude of investments we must make in order to achieve prosperity in an age of knowledge. Today, the public expenditures on education in the United States fall behind those of most other industrialized nations. Michigan is no exception. Study after study has revealed that we are seriously underinvesting in our human capital, by as much as 30 to 40 percent relative to other states.

The challenges faced by K-12 education, I believe, were well summarized by a recent editorial in the *Detroit Free Press*, "If Michigan is to prepare tomorrow's workers for tomorrow's jobs, major structural changes are needed in public education, both in classroom quality and in the adequacy and fairness with which the system is financed. What is required is a strengthened commitment in Lansing to school finance reform and improving the quality of basic and higher education, and a greater political willingness to stand up to those special interests who would thwart long-term goals to pursue short-term objectives. The opportunity to eliminate chronic unemployment in Michigan may be never more within our grasp than between now and the end of the century. The alternative is a growing mis-match of job opportunities and job training that threatens not only the state's recent prosperity, but its very solvency."

The situation is somewhat different yet no less acute for higher education in Michigan. Because of the commitment and sacrifices of earlier generations, Michigan today has one of the finest systems of public higher education in the nation. Yet over the past two decades the State of Michigan dropped from the position of a national leader (ranked sixth in 1965 in its public support of higher education) to among the lowest in the nation, now ranking in the bottom quarter of the states. It is clear that higher education in Michigan is running on empty, without adequate resources to sustain the quality of institutions so desperately needed by our state.

Who is to blame for the educational challenges of Michigan? We point the finger at others readily enough--at teachers and principals, at politicians and public figures, at our schools, colleges, and universities. Yet the truth is that we have all played a role. We are the ones who steadfastly resist a tax base adequate to support both our needs and desires, while providing an adequate level of support for quality education in the state. We are the ones who block any effective efforts to achieve equitable financing of education in Michigan. We have been unwilling to demand the highest standards of quality at whatever the price to vested interests. We have not held our schools accountable. We are the ones who are often too busy to help our own children in their studies or participate in their activities. We have embraced quick fixes and gimmicks such as the state lottery and the Michigan Education Trust.

The good news is that there are welcome signs of change in Michigan. Governor Engler and his colleagues in the State Legislature have embarked on a good, visionary, and courageous plan to save our schools. They have highlighted education as the critical investment for our future, even in these hard times and in the face of tough choices and tougher political pressures. It is important that we get behind these efforts to make the sacrifices necessary for the sake of the future.

Challenge Four: Creativity and Productivity

During the past decades we have diverted too much of our resources to non-productive ancillary activities such as litigation and financial gymnastics. In the United States we want to make quick money. In Japan and Europe they want to make products of excellence because they know this pays a far greater long-term return. The professions dominating the late 20th Century have been those that manipulate and rearrange wealth rather than create it: law, business, accounting, politics. Higher education must shoulder some of the blame for this. But the key to the future, to the twenty-first century, is creativity. The driving forces of our society will be provided by people who want to create, by inventors, by builders, architects, engineers, artists. We must place a new premium on these activities.

Challenge Five: Civic Virtue

Both the pace and the nature of the changes occurring in our world today have become so rapid and so profound that our present social structures--in government, education, the private sector--are having increasing difficulty in even sensing the changes (although they certainly feel the consequences), much less understanding them sufficiently to allow institutions to respond and adapt. It is becoming increasingly clear that government, educational institutions, and institutions in the private sector are as obsolete for the twenty-first century as the 1950s corporation was to the new world economy.

Perhaps nowhere is this more obvious--or more disturbing--than in government itself. For some time, the polls have been indicating that the American people are way ahead of most of their political leaders, both in understanding that we have fundamental problems and in being willing to sacrifice to do something about them.

Most fundamentally the American political process at the highest national level has failed to identify the critical nature of the transition through which the nation and the world are passing. Both political parties continue trapped in the past, fighting old battles that simply miss the point. The issue is not more or less taxes, nor is it more or less government, or more or less entitlement programs. The issue is whether we have the capacity, the will, the determination, and the vision to face the profound changes now characterizing our society and prepare for this future.

Another point here. Our founding fathers never envisioned politics as a permanent career. Most of them viewed it as an onerous duty, a citizen's debt to repay, and then hurried back to a normal life. Our society sought lay leaders, people who would bring with them a far broader range of experiences and values than those who would make a profession out of politics.

Today the political office has become perhaps the most secure of all full-time jobs, since 98 percent of incumbents are re-elected. Indeed, it was pointed out to me that a seat of a member of Congress today is more secure than that of a member of the British House of Lords, in which change occurs only through death.

So too, surrounding these elected professionals is a gigantic staff now up to 31,000 in Congress alone--folks who are clearly not accountable to the public who support them and suffer from their excesses.

It is clear that we need a change in the way we choose and sustain our elected public officials--and support their appetite for staff as well.

Just Forward the Bill to our Kids?

Listen to the words of a young man, a student at the University of California, writing to his parents,

"Sometimes I wonder what it would have been like to have been twenty back in the 1960s. Back when you could grow up, count on a career, and maybe think about buying a house. When one person could expect to be a wage earner for a household. Aside from the wealthy, none of you ever told your children, 'Some day this will all be yours,' and you're the first middle class to fail in that way. Did you think we wouldn't care?"

"We are the stupidist generation in American history, we twenty-year olds. We really do get lower SAT scores. Our knowledge of geography is pathetic, as our ability with foreign languages, and even basic math.

"You did this to us. You prized your youth so much you made sure ours would be carefree. It's not that you didn't love us; but you loved us so much you pushed us to follow your idea of what you were--or would like to have been--rather than teaching us to be responsible. After legitimizing youthful rebellion, you never let us have our own innocence.

"You will differ from your own parents in that you will have missed your chance to change the world and robbed us of the skills and money to do it for ourselves. If there is any part of you left that still loves us enough to help us, we could really use it. And it's not just your last chance. It's our only chance."

A pretty grim indictment. To be fair, many people have been scrambling to keep up lifestyles in the face of real income declines. Our generation has been shaken by events such as Watergate and the assassinations of the 1960s. So too, we have suffered from a lack of leadership and an honest definition of our problems.

Yet the failure of our generation to invest in the next has broken a continuous chain of faith and investment from one generation to the next that has characterized American society. Perhaps it is just the inevitable outcome of three generations of affluence, which in turn created a culture of high expectation, and a politics premised on high assumptions and high consumption, in which expectations became entitlement.

Or perhaps it is due to an aging America, willing to place highest priorities on the needs of a retired generation, while leaving too little for the young. Perhaps it is the "me generation" of the 1960s now grown up into comfortable yuppiehood--a generation that has vigorously defended its rights but all too frequently failed to step up to its responsibilities.

Whatever the reason, it is clear that we may well be the first generation in the history of America that will go down as unable--or unwilling--to provide for a better future for the next generation--for our children and their descendents.

So What To Do?

When I began, I said we had a hangover, that we had been on a long and dangerous binge. I also said that we could cure what ails us, but first we would have to face up to reality. It is our own behavior that is causing the problem. We have been feasting on our children's future. We have indulged self-interest at the expense of our society. We have sought escape from this reality at any price.

It doesn't take a brilliant diagnostician to know that if we continue on our present path we will face a diminished--even ruinous--future for ourselves and our children.

Now what? The problems we face loom so large; they are so complex. Our bad habits are so deeply ingrained that our situation

can seem overwhelming--hopeless. What can any individual do to help? How can we and our society get back on the right track?

Throughout my remarks I have pointed to some specific remedies, but underlying all of them are fundamentals that hold the key to true and lasting recovery. The important thing to accept is that it won't be easy. There are no quick fixes, no effortless Hollywood happy endings.

In many respects the answer is the same for government for communities and groups, as for individuals. And you really don't need me or any experts to point the way. Your grandmother probably would do just as well as a guide--maybe better. It is just as simple as it is hard. We have to kick our bad habits and get back to some basic principles and values.

1. Face Reality

We need to go cold turkey together and just give up denial, scapegoating, escapism, fantasy, and illusion. We have to let go of yesterday's irrelevant cliches, old ideas, and tired ideologies. They have kept us stuck in another time while the world passes us by eagerly seeking the challenges of the new millennium.

We need to hold leaders of all of our institutions accountable for facing the facts and telling the hard truths while making the tough choices. This means that we have to support those who present us with hard choices and toss out those who would offer more sound bite politics or slick diversions in the hopes of holding on to office and privilege in perpetuity.

2. "I" vs. "We"

It is clear that we must all--on a personal level, as institutions, and as a nation--go through a period of sacrifice, of pulling back, of

generating savings and making wise investments. We need to shift our focus from "I" to "we." Believe me when I say that there is absolutely no way that you or your profession or your class or your race or your religion or your children or your town or your business or your institution are going to survive while fellow citizens and communities keep falling further behind. We Americans are all in this together.

There is just one spaceship here for all of us; and if it fails for any reason, we will all perish together. There is no special rescue available for the privileged few. We need only look at those other countries where extremes of wealth and poverty exist. They soon reach a point where money can no longer buy enough security. They become totalitarian and collapse under the weight of their own injustice.

Our country was founded under more democratic principles, and we need to get back to them in a hurry. A decent society cares for its children, for its sick and its elderly, for the less fortunate. Here our special interest warfare must stop. We cannot continue to feed our own appetite off of our children's future.

3. Discipline and Hard Work

Change will not come easy. We have a lot of excesses to pay for, a lot of lost time to make up. We need to accept whatever we have to do to lower our crippling debt and increase our long-term investments. And, let's face it, to improve our productivity everyone will have to sacrifice--some more than others. For example, if better performance means fewer bureaucrats, then we must cut unnecessary administrative layers while helping those workers find more productive and satisfying employment. We must take responsibility and demand accountability. We must set the highest standards of quality in what we produce and the services performed. We need to

be competitive again--to do and to be the best. No one else will do for us what we must do for ourselves.

4. Take a Long-Term View

We need to balance the needs of our children and the long term with those desires today. Every one of us must save and invest in solid, productive enterprise. We must accept stewardship and conserve resources and the environment--no more wasteful self-indulgence, no more vulgar extravagance in our own lives, in our communities, as a nation. We need to build a culture that conserves resources and values its people.

It is clear that our behavior must be governed not by conservative values that preserve the past, but by conserving values that preserve the future. We need to achieve "sustainable development," that is, learn how to sustain the life-supporting environment of the planet and its habitability while providing for the economic development that will ensure civilized standards of living for its inhabitants.

5. A Commitment to Learning

The founders of this state put their faith in education, in learning. We are a practical people, impatient with theory at times, impatient with intellectual work, intolerant even. It is time to overcome this prejudice and recognize that learning, both theoretical and practical, is the key to our future.

As I have said, we live in a time when knowledge is exploding and becoming the principal driving force of the world economy and culture. The students we are teaching today will have not one but

more careers in their lifetime. They will need to make continued learning a life-long commitment.

The most strategic investment we can make as individuals or as a society is in education at every level. Our principal goal as a state, and indeed as a nation, must be to build the best, most comprehensive, and demanding system of life-long education in the world.

What About Our State?

Like much of American industry, state government has become too large and bureaucratic, no longer responsible to its citizens. In his first year as Governor, John Engler took the very difficult and painful steps to turn that around. Nobody likes to do it, but it had to be done if we were to thrive again as a state.

In this effort, Governor Engler and his colleagues cut away much of the undergrowth that was clogging government and the economy. While it has been painful, over the last year Michigan has indeed been unique among the states in its capacity to eliminate a massive funding deficit while holding the line on taxes, downsizing unnecessary government, and protecting education as its highest priority. But now it is time to build once again. Now we must blaze new trails, encourage new industry to replace the old, encourage individual initiative in the best American tradition. It is time to become a lean, mean, economic machine.

There is health in the Michigan economy. Between 1978 and 1988, small firms and new small firms accounted for 55% of all new jobs created (while job loss was concentrated among larger firms) cit. UM professor John Jackson. Job loss is occurring primarily among the largest durable manufacturing firms and the small service firms. These declining firms are being replaced by a large number of new, small firms. We all know, however, that for these small,

entrepreneurial firms to grow and survive, we simply must invest in our human and physical infrastructure. We have a long, long way to go.

It should be noted that in this effort Governor Engler was guided by many of the same values and virtues that I have suggested throughout my own remarks. As he noted in his recent State of the State address, he has embraced the founding principles in the Northwest Ordinance which gave rise to our state in the first place:

- Common values of faith and family
- Common goals of educating our children and preparing them for the future
- Common sense to wisely spend no more than one can earn

I believe that Michigan is now facing the future, not only sensing and understanding the extraordinary nature of the changes about us, but demonstrating the confidence to turn challenges posed by these changes into opportunities for a better tomorrow.

Conclusion

I know my remarks have sounded an alarming note. But here is the good news. It is a time for extraordinary optimism as well. In the last several years the yoke of communism has been lifted from most of the world. The threat of superpower conflict has vanished. A new dialogue has begun in troubled parts of the world such as the Middle East. And for the first time in our lives, peace has broken out!

We Michiganders have everything we need not just to recover but to achieve our highest aspirations for democracy, prosperity, and fulfilling lives for our people. We have a state rich with resources. We have a people of tremendous talent, energy, and hope, constantly renewed by new talent and energies because of our tradition of

upward mobility and accepting immigration. We have a culture of unsurpassed richness and variety. And we have a system of higher education that is the envy of the world.

We also have a political system that serves as the model for the world. It hasn't failed us. We have failed it in that we have not fulfilled our duties as citizens. We have elected some leaders willing to take on the challenges and make the tough choices, and I hope we now support them.

The way ahead is hard. We have made mistakes, gotten sick on excess and consumption. Now we have to take some tough medicine.

But we will change; we will succeed, of that I am sure. As my colleague, Gardner Ackley, said at a recent meeting, "Democracies always do the right thing . . . after they have tried everything else."

Well, I think that's where we find ourselves today. We have tried everything else. Now the time has come to do the right thing. It's up to us.