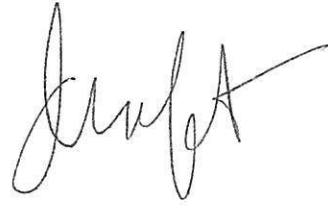


Dick DeVos

Remarks to the Detroit Economic Club

May 23, 2006



“Seven Principles of a Michigan Turnaround”

Note: Due to Detroit Economic Club rules, this speech is not intended to be political, and therefore is not a campaign policy plan.

Nearly one hundred years ago, the following want ad appeared in London newspapers:

Men wanted for hazardous journey. Small wages. Bitter cold. Long months of complete darkness. Constant danger. Safe return doubtful. Honour and recognition in case of success.

In response, nearly 5,000 men applied to join Ernest Shackleton in his quest to be the first to cross the Antarctic continent. Twenty-seven men made the journey with Shackleton. Their success against all odds to make it home is one of the most inspiring stories of great leadership.

We are here today to talk about a different journey – a quest to change Michigan, to turn around our economy and to create jobs and opportunity for the people in Michigan. Unlike Shackleton’s journey, our lives are not at stake, nor will we have to battle cold, ice or frostbite. But in our case, what is at stake is Michigan’s future.

I took charge of a business that had experienced 40 years of success. But in order to remain successful, fundamental change was essential. We are at a similar crossroads in Michigan.

Former Governor George Romney would tell his son Mitt “nothing is as vulnerable as entrenched success.” Romney’s message applies today: change, or else.

So my message today is simple – if we do not change, Michigan’s best days will remain in our past. If we find the courage to work together, to embrace change, our best days are yet to come. I’m here because I believe Michigan’s best days are yet to come!

Our time together today is not about politics but about my views as a businessman who has led change before. The need to change and to adapt to challenges both at home and abroad are cold, hard, realities of business and economics. Like Shackleton’s men, who chipped their way through polar ice, our challenge is to chip away the old ways and failed models that kept Michigan frozen. Shackleton’s mission was to bring his men home. Our mission is to bring jobs home – home to Michigan – and for many of us, to bring our kids home to Michigan, too.

I very much appreciate the opportunity to join you today to lay out what I believe must be the key principles in a strategy to turn Michigan around. Let me be clear: This turnaround strategy is not a point by point prescription, but rather a framework for change.

What I am talking about is not just tinkering around the edges, tweaking the tax code or revising some regulations. What I am talking about is a complete overhaul of state government. Our goal must be for the world to look at Michigan and say, hey, that’s the best place in the world to start a business, to invest in a business, to build products, or to buy products, bar none!

I understand how to turn around an enterprise that is in serious decline. I’ve helped a company turn around. I’ve helped a city turn around. When I look at Michigan, I see the same challenges, and I know that the same approach will work here in Michigan and get Michigan back to work.

Here are seven principles that I believe will change the way we do business and turn Michigan around. One, acknowledge reality; two, stop hurting ourselves; three, take inventory; four, lead; five, unify for change; six, think big ideas; and seven, take action.

The first turnaround principle is acknowledging reality. Friends, we live in the state of Michigan. We cannot live in the state of denial.

The reality is that Michigan is in a single-state recession. The nation is recovering. Michigan is truly alone in our economic misery. For the first time in our lifetime, the Michigan economy has become disconnected from the national economy. It used to be when the country did well, so did Michigan. But not anymore.

- Michigan lost seven percent of its jobs from 2000 through 2005, the worst jobs record in the nation.¹ This is the longest period of job loss in Michigan since 1939 -- the end of the Great Depression.²
- Michigan's unemployment rate currently stands at 7.2 percent, ranking us 49th in the nation, slowly inching toward Mississippi for last place.³
- Michigan has lost nearly one third of our manufacturing workforce over the last five years.⁴ Even worse, manufacturing is expected to lose an estimated 32,000 jobs over this year and next.⁵
- Over the past two years, 85,000 more people have left Michigan than moved in.⁶ Many of those who are leaving are Michigan's best and brightest, our college graduates, our skilled workers, our children – our future.

¹ Bureau of Labor Statistics, State and Local Unemployment, Archived News Releases.
http://www.bls.gov/schedule/archives/laus_nr.htm

² George Fulton, Research Seminar in Quantitative Economics. *Gongwer* 5/18/06.

³ Bureau of Labor Statistics, State and Local Unemployment, April 2006

http://www.bls.gov/schedule/archives/laus_nr.htm

⁴ Bureau of Labor Statistics, State and Local Unemployment, Archived News Releases
http://www.bls.gov/schedule/archives/laus_nr.htm

⁵ "Some indicators of Michigan's economic troubles," *Associated Press*, 1/15/06

⁶ Brad Heath, "Exodus from Michigan continues," *Detroit News*, 1/9/2006

- In the last year alone, Michigan *lost* 13,000 jobs. In contrast, other Midwest states are booming: Indiana gained 18,000 jobs; Ohio, 28,000; Wisconsin 34,000; and Illinois added 56,000 jobs.⁷

While Michigan continues to lose jobs year after year, the US economy has created more than five million jobs since 2003.⁸ In fact, the nation's manufacturing sector has expanded – you heard that right, expanded – for 35 consecutive months.⁹ Even our neighbor – Indiana – which has a higher percentage of its economy tied to manufacturing, is beating us.¹⁰

Consider this: In the past three years, manufacturing output has risen nearly 15 percent, while real GDP has increased more than 12 percent.¹¹ These facts contradict the conventional wisdom that the US manufacturing sector is unable to compete in today's global economy.

In reality, US manufacturers – especially those that have put a premium on flexibility and productivity – are in the midst of a renaissance. Unfortunately, Michigan is being left behind.

In every important category where Michigan should be first in the nation, Michigan is last or darn near last -- last in growth of home values¹², 49th in employment growth¹³, 49th in business tax climate¹⁴, 48th in income growth¹⁵ and 44th in population growth¹⁶. The

⁷ Bureau of Labor Statistics, State and Local Unemployment, April 2006
http://www.bls.gov/schedule/archives/laus_nr.htm

⁸ Bureau of Labor Statistics, National Employment, Archived News Releases
http://www.bls.gov/schedule/archives/empsit_nr.htm

⁹ Institute for Supply Management, April 2006

¹⁰ Bureau of Labor Statistics, State and Local Unemployment, April 2006
http://www.bls.gov/schedule/archives/laus_nr.htm

¹¹ Bryan Wesbury, "April Industrial Production – Capacity Utilization," *First Trust Portfolios*, 5/16/06

¹² *CNN Money*, 12/1/05

¹³ Sarah Kellogg, "Bad times elsewhere make Michigan look better," *Booth Newspapers*, 4/16/06

¹⁴ "State Business Tax Climate," *The Tax Foundation*, <http://www.taxfoundation.org/files/bp51.pdf> (pg 9)

¹⁵ Sarah Kellogg, "Bad times elsewhere make Michigan look better," *Booth Newspapers*, 4/16/06

¹⁶ Sarah Kellogg, "Bad times elsewhere make Michigan look better," *Booth Newspapers*, 4/16/06

only lists where we make the top five are in bankruptcies¹⁷, foreclosures¹⁸, and the Highway Report Card list of the five states with the nation's worst roads.¹⁹

Given these facts, and given the fact that Michigan outpaced the rest of the country in job growth and income gains in the 1990s, you have to ask yourself: Why is Michigan lagging the nation? Instead of catching up, Michigan is paralyzed – unable to change, unable to keep up with the competition. Just as a company needs customers to buy its products, Michigan needs customers to buy into our state – to build businesses, to invest and to create jobs.

I believe in what auto pioneer Henry Ford liked to say; “Don't find fault — find a remedy. Anybody can complain.”

So, I say, stop complaining, stop blaming and start solving the problem. Taking that first step to acknowledge reality creates the opportunity to spur fundamental change. This chance for change might not come again, so we must take it and take it now!

Number Two – stop hurting ourselves. Stop killing jobs with out-of-date business taxes that everyone agrees should be replaced. The rule here is to stop doing what you're doing – when you know it is doing harm. Because if you keep doing what you're doing, you're going to get what you've got. And what we've got isn't working!

Three-quarters of Michigan residents believe our state is headed in the wrong direction.

A better sales job isn't what we need. It doesn't do any good for state officials to traipse around the world, selling Michigan if what we're selling doesn't meet the needs of buyers. Nor is it fair to taxpayers or to businesses that are already here that Michigan has to hand over fat subsidies and tax breaks to attract customers.

¹⁷ Louis Aguilar, “More UAW workers bankrupt,” *Detroit News*, 9/18/05

¹⁸ “Michigan foreclosures double in two years, now 2 1/2 times U.S. rate,” *Associated Press*, 2/27/06

¹⁹ *Overdrive Highway Report Card*, 2005

The word needs to go out – no more business as usual. For example, when it comes to taxes, the job-killing SBT has got to go!

What does SBT stand for any way? Most people in Michigan think it stands for small business tax. Maybe they're right – it's a prescription to keep Michigan business small! We shouldn't have a tax system designed to meet the needs of government. But that's exactly how the SBT was designed. Michigan should have a tax system designed to meet the needs of our workers, our employers and our families. And, it should meet today's competitive reality.

We can replace the SBT, reduce the burden of taxes on job makers and fund critical services with a broad-based business tax on profits or gross receipts. Those that run around saying otherwise are doing Michigan a disservice. Look at the record. States that cut taxes and keep them low are the states with budget surpluses and healthy growth. That's why we also we need to cut taxes on equipment and technology assets that boost productivity and create jobs.

The third principle of the turnaround involves a frank and honest assessment of Michigan's strengths and weaknesses. We have got to address our challenges and build upon our assets.

On the plus side of the ledger, Michigan brings some tremendous assets to the table.

Michigan men and women are some of the most skilled workers anywhere in the world. We are still the automotive capital of the world. In particular, spending on automotive R&D in Michigan is now more than \$10 billion annually.²⁰ When it comes to the next generation of cars and trucks – and the spinoff technologies they generate – Michigan is the heartland of innovation.

²⁰ *Michigan Economic Development Corporation*
<http://www.michigan.org/medc/ttc/ResearchAndDevelopment/?m=14:6>

We have some of the best colleges and universities in the world. We have some outstanding K-12 schools as well.

We have the Great Lakes and natural beauty and four-season recreation opportunities unmatched by any state.

With nearly half a million health care jobs²¹, we have a health care infrastructure that is second to none, creating an awesome potential for growth in the life sciences.

From cherries to wine to feedstocks for alternative fuels, Michigan farmers and agribusiness have tremendous potential to grow and create jobs, possibly leading our nation to energy independence.

I also believe with all my heart that when a product is stamped “Made in Michigan” it is a quality product. You can count on it. That commitment to quality is a strength we can take to the bank.

Most importantly, on the strength side, we have thousands of job makers who love Michigan and want to grow here. In fact, our best customers for business expansion are the ones that are already right here in Michigan. Let’s do what it takes to keep them here.

Michigan has these strengths to build upon: high-tech innovation, great colleges and universities, the Great Lakes, a solid health care infrastructure, bountiful farms and a high-skilled workforce that loves our state.

But on the minus side of the ledger, serious weaknesses are challenging Michigan.

First and foremost – despite the hard work of great teachers and dedicated principals some of our K-12 schools aren’t getting the job done.

²¹ *Michigan State Medical Society*

I understand the vital importance of public education. I went to public school. My mom was a schoolteacher. My grandpa was a public school administrator. I served on the State Board of Education. I believe in public schools!

That's why I am so committed to fixing the challenges facing our schools and helping our children.

Student test scores and graduation rates are falling. Michigan is trailing in the use of technology and precious dollars aren't making it to the classroom. The reality is that Michigan ranks 49th in the nation in the percentage of resources that make it to the classroom.²²

This is not an indictment of students or of their teachers. They are doing the best they can with a system that wasn't designed to meet the challenges of the 21st century.

I understand Michigan is not alone when it comes to education challenges. For decades we have seen American children perform as well as their counterparts around the world in math and science in the elementary grades only to fall behind in middle school and high school. The silver lining in this cloud is that the state that gets its schools and job training system right will have an immediate and long-term advantage.

If Michigan is to have a world-class economy we must have world-class schools. And if we stand shoulder-to-shoulder together, if we have the courage to change, we can make it happen!

Another serious weakness is our stifling regulatory climate. The bottom line is that out-of-control regulations and out-of-control regulators are putting Michigan out of business!

One example that comes to mind is the farmer who was ticketed by the Department of Environmental Quality for operating what the DEQ called an unauthorized animal

²² National Center for Education Reform, June 2005

feedlot. The farmer's crime? One of his cows had strayed onto the driveway and was grazing in between the tire tracks.

Permits are delayed. Permits are left in limbo. Michigan treats applicants like the enemy, while other states provide answers quickly and roll out the red carpet. The result? Our job providers are left holding the bag. Thanks to overzealous bureaucrats and environmental extremists run amok, Michigan families are paying the price in lost jobs and smaller paychecks.

It's clear, our strengths position Michigan well, but we must overcome the challenges we face, and the place to start is with education and regulatory reform.

The answer is not a government program for every problem. The answer is creating a more dynamic Michigan in which people like you are free to invest in themselves, free to solve your own problems and free to create your own opportunities – free of onerous regulations, free of a heavy tax burden and empowered by a world-class education.

The fourth principle of our turnaround strategy is the toughest – leadership.

President Harry Truman once said about leaders: “[They] make history and not the other way around. In periods where there is no leadership, society stands still. Progress occurs when courageous, skillful leaders seize the opportunity to change things for the better.” Leaders like Henry Ford or Harry Truman bring a set of qualities to the table that inspire people to follow – not just out of self interest but truly for the common good.

Leadership can be defined or described many ways...but let's touch on a few qualities that leaders demonstrate – Vision, Courage, Confidence, Transparency and Results.

First and foremost, leaders articulate a compelling vision for the future.

An example I'm proud of from my own experience is the turnaround of Grand Rapids. I had a vision of a vibrant, exciting downtown Grand Rapids. And today, after much hard

work by an incredibly diverse group of people, downtown Grand Rapids is bursting with energy, featuring new cafés, restaurants, entertainment and cultural attractions. People are moving back into the center city for the first time in a long time. A grand vision, combined with grand action produced a city worthy of the name Grand Rapids.

Courage. Leaders have the courage to make tough decisions and to fight for change. For example, when our company, Alticor, faced a bleak future of declining sales and falling profits, I took the lead to save the company.

Not only did we reorganize the firm, we transformed the business model from an antiquated handwritten order taking system to a just-in-time web-based system. The changes were gut-wrenching but they had to be made to put the company on a path back to prosperity. The result? Six straight years of growth.

Leaders have confidence I am talking about confidence in their people and confidence their products – confidence that you can compete and win in the world.

I talk to friends across Michigan about how it is that I've been involved as a businessperson in the global marketplace. I explain that Michigan can't be afraid to enter that marketplace and make it win for us. We can do it. We've done it. We have businesses across Michigan that are doing it. We know how to do it. We need to do more of it. We can get it done in the global marketplace.

Here's how the equation works. We make stuff here. We sell it over there. They send money here. People here get jobs and take money home and take care of their families. Seems like it works pretty well to me. Alticor sells products in 80 countries and people in those 80 countries send their hard-earned cash – be it in riyals, rupees or rubles – back here to Michigan, creating and supporting Michigan jobs.

There are some in public office today who will use the challenges of the global marketplace to scare hard working moms and dads who are rightfully concerned about

their families' future in Michigan. Families are struggling and it can be easy for politicians to prey on fear.

Sometimes, you think those same politicians are afraid of China – afraid of the competition, afraid that Michigan can't compete. Let me tell you, as Governor I will never be afraid of China because I have confidence that Michigan can compete and win! For example, when I was the head of Alticor, we were presented with the opportunity to expand in the global marketplace. Choosing to expand in China was the right decision for our business and for Michigan.

Our Chinese expansion involved a \$900 million investment. About \$200 million in China – which was required by law – and \$700 million which was invested right here in Michigan to support operations here at home.

During our expansion, and contrary to the partisan rhetoric that's being spread, not one Michigan job – not one – was sent to China. Not one product from our plants in China has ever been sent back to the United States. In fact, expanding into the Chinese market has created 300 jobs right here in Michigan and helped secure the employment of thousands more Michigan workers.

The reality is that whether you sell soap or software, no one in their right mind can ignore the biggest consumer market in the world. We shut out China at our peril because that means Michigan isn't a global player. If American business is not occupying space in the China market, then the Germans, Italians, French, Koreans and Japanese will. Michigan must take the risk in China because the payoff is stronger, more profitable and growing companies here at home!

Like I've said, leaders have vision, courage and confidence.

Leaders are also transparent. There are no hidden agendas, no secret deals or philosophical promises that contradict actual positions. They take responsibility and refuse to blame others. They admit their mistakes and they learn from them.

Leaders focus on results, not process. Because if Michigan wants a world-class economy, Michigan needs a world-class government – accountable for results and responsive to the needs of the people. Too often government becomes fixated on process. My management approach is simple: say what I will do and do what I say. The first half of that equation is just not enough. Leaders must deliver actions and results.

Finally, leaders do the right thing. As Mark Twain once said: "Always do right. This will gratify some people and astonish the rest." Doing the right thing, no matter the cost, always pays off in the end because it sends a powerful signal about who we are as a business, a state or a people.

The next principle of a turnaround agenda has got to be bringing people together, all committed to achieving the vision and changing Michigan.

Just as we did in Grand Rapids or at Alticor, this means inspiring the best efforts and the best ideas from a diverse group of men and women – from industry, from labor, from service organizations, from education, from government, from every corner of our state. Our diversity is our strength – it brings ideas to the table. I've operated under a simple management philosophy – if we agree 100 percent of the time, then one of us isn't necessary.

We need to cooperate to produce real results that benefit Michigan families. Sitting down at the table together is important and makes a great photo op for the 6 o'clock news, but at the end of the day, what is more important are results.

Detroit – Michigan’s largest city – like the rest of our state, is struggling with an unemployment rate of over 14% -- virtually unchanged in the last four years.²³ This marks Detroit as the epicenter of need – for a total renaissance and a complete renewal. Detroit and Michigan will continue to falter together or we will succeed together. I choose success. We must all be partners to achieve a renaissance that touches every family.

Detroit should not have to settle for ceremonial meetings with the Governor. Michigan’s governor should be in the city – listening, learning, and leading the change. We can’t get it done in Michigan until we get it done in Detroit.

To get it done, we must unite for change...we must put past differences behind us and do that in action not just rhetoric. We will make results-focused, regional action a reality. Uniting around those things we agree on will make us strong. Because when we come together, when we work together, Detroit and Michigan can outthink, outwork and out hustle the competition!

Number Six – Think Big Ideas. As we embark on this journey, our success will be measured by our ability and willingness to put new and creative ideas on the table. We cannot underestimate the power of ideas.

What kind of ideas am I talking about?

- Reward great performance. When teachers, foster care providers, probation officers or job trainers do better, they should receive more support. This is the key to achieving more and better results. This pay for performance model works everywhere else and I am confident it will work in government.
- Invest more in the future. That means investing in K-12 schools and in higher education and skills training. And to those who say we can’t afford it, I say we can’t afford not to. If that means spending less on programs that don’t work,

²³ Office of Labor Market Information, County/City Unemployment, <http://www.michlmi.org/index.jsp>

that's a choice I am willing to make because our kids and their future are that important!

- Give more than just lip service to the idea that economic growth and environmental conservation are not mutually exclusive goals. We can achieve both. For example, Michigan's natural resources, especially the Great Lakes, are assets that are beyond compare. It's time to harness that power of the marketplace to cleanup and enhance those assets.
- As everyone in business knows, when we try to be all things to everyone, we soon become nothing to anyone. The idea here is to set priorities, do what you do best, and not let the politics of special interests get in the way of Michigan's best interests.

These are just a few of the ideas that will energize the Michigan turnaround, but I have saved the most important turnaround principle for last – ACTION.

Number Seven – Action. Sometimes, the pundits and politicians in Lansing confuse motion with progress. In this regard, I hear lots of chatter from my friends across the aisle about where's my plan. In my experience, a plan is just paper unless something happens. That's why so many plans are gathering dust on shelves all through the State Capitol. We need to be focused on action and results.

If all it took was a plan, Michigan would be number one across the board instead of number 51.

If all it took was a plan, we could just drop it in the mail, go home and skip the election.

If all it took was a plan, the Lions would be Super Bowl champs!

What's critically important are the principles that I have laid out for you this afternoon.

Acknowledging reality – the first step to recovery.

Stop hurting ourselves – like getting rid of the SBT.

Taking inventory – honestly evaluating our strengths and weaknesses.

Leading – making tough decisions and sticking to them.

Unifying for change – bringing people together.

Big ideas – being bold to get big results.

And action – GETTING IT DONE!

I know that turning Michigan around won't be easy and it won't be quick. Big changes take time. But we will turn Michigan around and turn Michigan into the dynamic state of jobs and opportunity we know it can be.

There is nothing more important than our children's future. This turnaround is for them, to secure their future here in Michigan. To make it happen is our duty and our obligation, as citizens and as parents. Let us all embark upon this journey to change Michigan and make Michigan work again. Together, we can – we will – get it done.

Thank you.