DOES TRANSPORTATION LEAD ECONOMIC GROWTH?

I greatly appreciate the opportunity to talk about the subject of transportation and economic development. Good transportation services are absolutely crucial for economic growth in Kentucky, and for companies like Toyota. Like other Kentucky manufacturers, we need good roads and good railways to get supplies delivered on time and to get our products to market.

On this topic, I'd like to cover three main areas: first, the importance of transportation to Toyota's growth in Kentucky and across the nation; second, I'll summarize some general observations regarding the importance of transportation for Kentucky's economic growth, as well as America's economic development; and third, try to focus on a few "danger signs" for the years ahead.

Toyota's decision to locate in Georgetown was based on a number of factors, but high on the list was location. To be right on I-75, which is the nation's major north-south interstate, and to be only 10 minutes away from I-64, a major east-west thoroughfare, is super! That location—and those interstates—are very important for our suppliers.

And, by the way, we have about 1,000 suppliers in the United States, half of whom are located in Kentucky. Those suppliers bring us necessary goods, parts, materials, and services, and it is critical that we get those supplies and services "just-in-time."

Just-in-time delivery is a major component of the Toyota Production System. Our average inventory is less than one day and, for some parts, it's less than one hour. For example, the seats we're putting into our

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Camrys right now were made four hours ago at Johnson Controls, which is located six miles across town in Georgetown. We also have several out-of-state suppliers that are sending 12 to 14 truckloads per day in here. Our suppliers, all told, log 12 million miles per year. That, of course, accounts for a lot of indirect economic benefits for Kentucky. For example, Toyota alone keeps 107 Ryder drivers going. We have more than 100 truck deliveries per day of parts and materials and, of course, we rely heavily on rail, too.

As for access to our 1,100 dealers across the country--again, our location is critical. We send 70 percent of our finished cars out by rail, with 44 railcars per day, each holding 15 cars. That equals about 660 finished Camrys going out on trains every day. The balance (30 percent) goes out by truck--10 to 12 Camrys per truck, 25 truckloads per day, totaling about 250 Camrys per day.

Another reason location is so important to us, and another reason we need good roads, is our team members. They are about 95 percent Kentuckians, coming from 110 of the state’s 120 counties. That’s not to say that many of them have not moved to this area, but many still drive a long way to work. For example, we have nearly 400 who drive every day from the Louisville area. So they need good roads.

Meanwhile, our town, Georgetown, is just starting to build a bypass around the city. That will be very important for traffic flow, but it’s also important for economic development. The bypass will pay for itself in terms of access to industrial sites. Clearly, good roads are a critical element in Toyota’s, as well as Georgetown’s, long-term success.

Perhaps the most telling statistic is this one--20 cents of every $1 of product goes to transportation. In other words, 20 percent of the United States Gross National Product is transportation! Obviously, that point is very telling regarding Kentucky since manufacturing is by far the leading economic sector in Kentucky--about $15 billion per year in annual output.

I also mentioned just-in-time delivery and how important it is to Toyota. The same is true for other manufacturers across the state. In fact, Kentucky manufacturers now carry about one-half the inventory they did in 1980. And, it’s going down all the time. One Kentucky manufacturer depends on 30 railcars per week for supplies--and if that flow is ever interrupted, it endangers the jobs of 500 people.

I also mentioned how important Toyota’s location was to our success. The same is true for Kentucky in general. For example, 75 percent of the nation’s population is within one day’s drive of Kentucky. That means we are right smack in the middle of everything--a lot of other states make that claim, but we can say it truthfully.

Just as Toyota has noticed the advantages of that location, so have other Kentucky manufacturers. The agribusiness industry, such as the Paramount Pickles plant in Louisville, certainly has. The CEO of that plant told me that he loved Louisville as a location because it gives him "second morning delivery" as far west as Denver and up and down the Eastern Seaboard. That means that he can ship a truckload on Wednesday afternoon, and he knows it can be most anywhere in the United States by Friday morning. That’s location!
The large UPS facility in Louisville is another example. They now have about 11,000 employed out at Standiford Field, and they expect it to jump to 13,000 by the turn of the century. In addition, indirect jobs might increase by 10,000 by the mid-90s. That's how important the Standiford Field expansion project is to economic development.

By the way, the Louisville Airport is the ninth busiest in the world in terms of air cargo. Unbelievable, isn't it. It's the fifth busiest in the United States. Why did UPS choose Louisville for its major air facility? They list two key factors: location and weather. As for location, they analyzed it very carefully and found it's best for them in terms of reducing air miles. As for weather, that isn't related to this topic, but it's interesting to note that Louisville records fewer fog days than other major metropolitan areas in the Midwest.

There are hundreds of other examples of the tie between specific Kentucky businesses and the need for good transportation services. That's why chambers of commerce throughout the state often make transportation one of their top priorities. For example, the Pikeville Chamber of Commerce is trying hard to expand U.S. 23 into four lanes. Meanwhile, the Russellville Chamber of Commerce is anxious to four-lane U.S. 68-80. They realized those improved roads will lead to greater economic growth.

Western Kentucky Gas tells us that the first question they most often hear from industrial prospects is, "Where are the nearest interstates?" Meanwhile, a recent study in Tennessee indicated that fully 80 percent of industrial prospects wanted sites in counties that are served by interstates.

Need further proof? Nearly 15 percent of recent manufacturing capital investment in the United States has been up and down I-75. That's no coincidence.

Besides manufacturing, good transportation services are critical to other key aspects of Kentucky's economy.

First, coal depends greatly on roads and rail, as you know. More than 50 percent of the cost of coal is in transportation. Couple that with the fact that more than 90 percent of Kentucky coal mines are so called "truck mines," and you get a feel for how important transportation is to the coal industry.

As for agriculture, remember the line from Governor Clements 35 years ago? He said he wanted to "Bring Kentucky farmers out of the mud. That's still true.

Tourism, meanwhile, is now the second leading employer in Kentucky. For example, they say that 120,000 are now directly or indirectly employed in Kentucky's tourism industry. That industry accounts for a whopping $4.5 billion in annual output each year for this state. What a future it has! For example, once they finish the Cumberland Gap Tunnel, U.S. 25E will be the shortest route from points north to Gatlinburg and Pigeon Forge, key tourist locations. Imagine what that will mean for communities along 25E from I-75 all the way through Middlesboro. And that's just one example.
As for the "danger" signs ahead, let me mention a few. First of all, traffic congestion is a growing problem. It hasn't really hit us the way it has areas like California, but it's important for business.

For example, if our team members experience significant traffic congestion, it might mean that they would quit their jobs with Toyota in order to maintain their home place in a county 50 miles away. If that happens, it will cost Toyota lots of dollars in terms of retraining, replacing them, etc. Plus, traffic congestion can have a big impact on the overall quality of life. The average commute time in California right now is about 45 minutes—and some experts predict it will go to two hours within 10 years. That kind of traffic congestion is spurring anti-growth sentiment among lots of Californians. It's hitting other areas of the country as well. Of 17 anti-growth measures on the ballots in California last year, 15 passed! If growth is curtailed long term, that will be harmful to the country. Per capita income will eventually decline and so will quality of life. So traffic congestion can have a huge effect on economic growth.

Are we willing to pay the price for good roads? If not, our economy will suffer. Listen to these facts:

- Ninety percent of all personal travel is along highways.
- Eighty percent of all freight revenues comes from trucking.
- There are 160 million licensed drivers in the United States, and 180 million licensed vehicles.
- Two trillion miles are driven each year in the United States—by far, we're the most mobile society in the world.
- About $95 billion per year is necessary simply to maintain our roads.
- Total annual travel is going up by 4 percent each year for passenger cars, and 9 percent each year for trucks. Some estimate that within the next 15 years, total travel will increase overall by 50 percent.

But—and this is the scary part—there has been no real improvement in recent years. For example, in the area of new roads, we have added less than one-half of one percent to our United States roadway system each year over the past five years. Also, more than 50 percent of U.S. bridges are more than 50 years old. And of 3.8 million miles of roads in the United States, 10 percent of those are major arteries, but those major arteries carry up to 70 percent of the traffic. And, even though our infrastructure needs are so apparent, spending on that infrastructure, as a percentage of Gross National Product, is actually declining—it was 3.6 percent in 1960 and now it's 2.6 percent.

Another danger sign is in the area of safety. We now experience 50,000 traffic deaths per year in the United States, and about three million more injuries. In addition to the obvious loss of life and limb, it's also costly. It is variously estimated at costing the United States $10-$50 billion. A big part of that is cost to business in terms of health insurance, retraining replacement workers, etc. That's money that could be used for research and development, which would spur new jobs.

Another danger sign is the coming global marketplace—are we prepared for it? For example, the European common community will be a
reality in two years, making it the biggest market in the world, even exceeding ours. Plus, Eastern Europe is now opening up to private-sector investment. We need good transportation services to take advantage of those markets. The world has changed so much. In 1960, less than 20 percent of U.S. manufactured goods had competition, whether they were sold here or abroad. Now it’s up to 75 percent.

A big solution might be vision on the part of communities. Huntsville, Alabama is a great example of a town that exercised vision. In 1963, Huntsville had a population of only 50,000 and yet they saw a huge airport as the answer to economic development needs. When they approached the FAA, the FAA balked. The FAA said that Huntsville did not need such a large airport. But, they had vision, and they went ahead with plans. They took 3,000 acres and built a huge airport with two parallel 8,000 foot runways.

And, what has happened? Just what they hoped for. There’s an industrial park inside the airport now that employs 14,000 people. They can land two 757’s simultaneously. They now have an intermodal transportation center there that allows them to unload cargo off planes and onto trucks in less than 10 minutes! In fact, the truck driver does not even have to get out of the cab--his paperwork is handled through pneumatic tube, like an "Anytime Bank Teller."

We need that kind of vision with Kentucky communities. Thanks again for giving me the opportunity to talk about this important subject. Good transportation services are crucial for Toyota, for Kentucky’s economic growth, and for America’s competitiveness.