CONFERENCE ON TRANSITIONS: THE STATE OF THE AUTO INDUSTRY FEDERAL RESERVE BANK OF CHICAGO

Chicago, Illinois
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Welcoming Remarks

It is my pleasure to welcome each of you the Chicago Fed today, and I'd like to thank you for joining us today. I'd also like to thank George Ranney and Metropolis 2020 for co-sponsoring the event with us.

We're going to spend a lot time today talking about the Who, What, Where, When and How's of transportation pricing, but we shouldn't lose sight of the Why.

Globalization has brought new opportunities to many cities. Large cities are best suited to perform the advanced business services that global transactions require, such as finance, law, and logistics. However, because our large cities are so complex and diverse, and because their residents live and work so closely together, large cities face intense and competing demands on land use and public services—especially transportation.

Obviously, since I live, work, and commute in the Chicago-area, I'm most familiar with why transportation policy is an important issue here. In some ways, the pressures on Chicago's existing transportation capacity are extra-ordinary. To be sure as Chicago's economy shifts toward high-valued service production, the value of Chicago's existing roadways for bringing workers to and from their offices is rising in relation to their value for moving goods around and through the city. Yet, while the Chicago economy has been transforming into one that excels in the information-based services that are critical in the global economy, it still has one very large foot in its previous form—a manufacturing and freight transportation center. And so, in cities such as Chicago and Los Angeles, personal travel must compete with freight traffic in a very big way.

The rise of IT communication technologies has done little to eliminate the demands for travel to offices and business meetings. Despite having the technical ability to work at home with the Internet and personal computers, skilled workers often find it more productive to continue to commute from home to office to exchange information. As urban economist Ed Glaeser noted during a visit to Chicago earlier this year, in today's information economy, "who we converse with on the Internet are also those who we find we must

meet with face-to-face." Technical advances have only magnified the value of face-to-face communication, not diminished the need for it.

Within the metropolitan area, the distance, structure and direction of such workplace trips have changed mightily. Chicago's employment centers have expanded well beyond our city center, the Loop, and are now widespread. Our transportation system was designed well to move workers from the suburbs to the Loop, but it has been strained as more people find themselves commuting between suburbs: traveling from their home in Naperville to their job in Schaumburg, or leaving their office in Joliet for a meeting in Lake Forest.

Traffic congestion has risen along with these changes in commuting. As we all know, our auto and bus commuting times have increased significantly in recent years—I know my commute takes 10 to 15 minutes longer than it did when I started at the Chicago Fed in the mid-1990s. By one recent study, the average Chicago commuter spends 58 hours per year stuck in rush-hour delays, up from 42 hours in 1990.

These longer commuting times are a significant cost to the city, in terms of lower productivity. For the city to work well, it requires key infrastructure such as highways and land-use planning that promote the movement of people. Both ground and intercity transportation must be accommodated and eased to facilitate travel for workplace, residential, and recreational wants and needs.

Building roadway capacity to serve all possible traffic is not an option. To do so would be too expensive in both construction costs and in taking up limited urban land. Yet given its lagging growth opportunities, the region will want to act to maximize its ability to handle as much freight and human traffic as possible. And so, in addition to some expansion of transportation capacity, the region will need to make difficult and judicious decisions on the most critical infrastructure to repair and build. So too will the region need to decide how to finance the construction of new roads and maintenance of existing ones.

To be sure, more rational operational and pricing policies, which allocate existing transportation infrastructure, will also need to be adopted. Creative pricing policies can help to more effectively use our limited roadway capacity and allocate it toward its highest-value use. And as we will learn more about this afternoon, electronic payment of tolls helps to speed both cars and trucks through highway toll stations.

As we do look ahead to new and expanded payment technologies, we should also be expansive and strategic in our thinking. The data collected from an electronic payment system could prove useful for public land use and transportation planning across entire metropolitan areas. And because our travel and general purchases are also varied and geographically broad in scope, we may consider integrating payments systems—after all, we do not want to end up with too many plastic cards and transponders in our overcoats and wallets. In looking for further efficiency improvements in our payments systems, policy makers in the Chicago region and other cities should examine a host of models and experiments from around the world that are now pricing highway driving privileges for trucks and cars.

And so we designed this conference to advance the understanding of how pricing strategies, public-private partnerships, and emerging payment mechanisms can be used to address congestion and efficiency in urban commuter networks—and how such policies are being applied around the world. It is a conference that draws on a range of disciplines—payments studies, public finance, urban planning, economics, and others. We're pleased with the turnout and the quality of participants the conference has attracted.

Again, thank you all for joining us this morning; I look forward to hearing your insights.

The next session will focus on supply chain issues. Loren Brandt from the University of Toronto will present his work on benchmarking the performance of auto suppliers around the world.

Labor is always a prominent issue in the auto industry—and it certainly will be this year with the UAW contracts up for renegotiation. So we have two sessions on labor topics. One this morning, featuring Susan Helper from Case Western Reserve University, and one this afternoon, with Kristin Dziczek from the Center for Automotive Research.

And, we have a distinguished luncheon speaker to give us an overview of the worldwide trends in the industry: Jerry York. As you know, Jerry has been in the middle of a number of recent developments regarding the ownership and control of the Detroit Three, and I'm sure he'll be able to give us some very interesting perspectives into the prospects for the industry in the years ahead.

Of course, the true value of any conference comes not just from the speakers but also the quality of the discussion that follows. We designed this to be an interactive session, including a roundtable discussion at the end. I encourage everyone to take part and make this a lively dialogue on the state of the auto industry.

Again, thank you all for coming today and I look forward to hearing everyone's insights.