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At the request of Mr. Leo Cherne,
enclosed please find a copy of his speech to the
Sales and Marketing Executives of Greater New
York, given at the Waldorf Astoria Hotel on
January 8, 1988.

In the event you would like additional
copies of his speech, please contact me at (212)
337-4157 and I will be happy to forward them to
you.

Sincerely,

[Redacted signature box]

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Marie L. Gomez
Secretary to
Leo Cherne

/mlg
Encl.



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SLIDE FROM EMINENCE

a speech by Leo Cherne,
Executive Director of
The Research Institute of America, Inc.

before the Sales & Marketing
Executives of Greater New York
at 12 noon on January 8, 1988
in the Grand Ballroom of the
Waldorf-Astoria Hotel,
New York, New York

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SLIDE FROM EMINENCE

A year ago I emphasized the fact that no nation, no business, no investor, is now sheltered from the incredible speed, size and dimly understood power of a truly global financial economy.

Last month saw the dollar's value at a twenty year low. That same day saw the announcement not of shrunken imports the dropping dollar should have produced. Instead, the latest figures revealed an all-time high in our adverse trade balance.

This is the global revolution set into motion by the computer, the microchip and instant communications.

Now add our trillion dollar debt, our still growing annual budgets, and stock markets in major countries which now function differently from anything we have previously known.

[A recent meeting of 33 leading economists from 13 countries warned "...something is still seriously wrong with our world economy.....If corrective measures are not taken promptly, and in adequate degree, a third crash of the markets could be greater than either predecessor and with far more pervasive results."]

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The most dramatic and extensive aspect of the globalized economy has been the financial revolution. During 1987, more than one hundred billion dollars in financial transactions have occurred 24 hours a day in markets without frontiers, operating around the clock.

100 billion dollars a day is 35 times the total daily world's trade in goods and services. In one week, that amount equals the entire third-world debt.

The new globalized financial markets are not only more powerful, they are more volatile, fragile, and capable of producing serious disruptions.

As the crash of October 19th progressed, and there was no bottom in the now interlinked worldwide securities markets - the important link in Hong Kong broke. They essentially found themselves without adequate funds. Even a world securities exchange meltdown seemed possible. Until a lender came up with the funds needed to restore Hong Kong's solvency. Believe it or not - a nerve center of world capitalism was kept from possible disaster by a loan from the Communist People's Republic of China.

In this new world, what we do to restore confidence in our ability to manage our key problems is critical - our still rising debt, deficits and adverse trade balance.

Our own deep concern is our competitiveness in world trade, and our manufacturing recovery is encouraging.

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But highest in the concern of investors abroad is the great fear that diminished confidence in the value our dollar may be causing a free fall in the value of what remains the world's key currency - a free fall which would threaten a flight from the dollar, rising interest rates, renewed inflation and the risk of world-wide recession.

Regrettably we cannot solve our financial and trade problems alone. They now require cooperation by our major trading partners.

We must face the fact that preponderant financial power now resides in Japan, and if that is not a slide from eminence, I don't know what is. We'll be more acutely aware of the significance of this as Japan increases its purchases of our equities businesses and properties at a sizeable discount.

First, as always, to last year.

I'll emphasize the boners.

How could I expect, as I did, that the Persian Gulf would be the most dangerous area in the world and still think that oil prices would average 16 - 17 dollars a barrel? I expected OPEC to unravel, but sooner than it did.

How could I anticipate imports growing more than exports, our national debt and annual budget deficit still growing, and still think our trade deficit would shrink slightly, even with Japan? While our dollar would only depreciate by 10%.

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As for my expectation that interest rates would decline, I also said one has to be mindless to anticipate where interest rates would go. Well, I was wrong about declining interest rates for the year, but right about being mindless.

Among my accurate expectations: -- that manufacturing plants would shrink further, while we would turn out more goods -- that serious steps would be taken to cut our budget deficit, with unavoidable revenue increases.

I was essentially right on the rate of inflation. Correct in expecting us to avoid a recession. I did expect an increase in our productivity.

My expectations on autos, housing, construction, were correct.

Of the 39 economic expectations, nine errors make the outcome 81%.

On my international projections, I anticipated the Summit, and the nuclear cut, but picked the wrong class of missiles. I anticipated that Congress would not renew the military support of the Contras - and it is unclear to me that they did, but I will call that one wrong. All the other 18 expectations were right; that Gorbachev would begin to run into domestic political opposition to his restructuring -- that the Iran/Iraq war would not end this year -- and that U.S. troops would not be used in Nicaragua -- for a lucky - or wise - 90% result in my international, military, political expectations.

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But above all, I said there would be "a firestorm in the globalized economy during 1987." There was!

Now, however, to the near impossible task of anticipating the 1988 economy.

In a similar impenetrable and complex time, the 19th Century British Prime Minister Palmerston once said ... "These questions are so complex that there are only three people who understand them. One is dead, one is in an insane asylum, and I refuse to talk."

Unlike Palmerston, I will get out on that limb because you came here to watch me do so.

Because of the final tax rate cuts applicable this year, the government's revenue will drop, and I expect our cash budget deficit for this year to be at least ten billion dollars more than the 148 billion dollar deficit announced for fiscal '87.

I expect additional corporate loopholes closed this year in the technical tax corrections law which should have been enacted this year.

The perception here and especially overseas will be that we didn't quite bite the bullet in our budget cutting actions.

Among some influential U.S. and foreign investors, a forty to fifty billion dollar cut for each of at least two years was, realistically or not, their standard of decisive initial action.

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One effect is that the dollar will continue to drop toward the 110 dollar-yen level.

Our trade deficit in 1988 will shrink some - but by a disappointing amount. We will not be helped by new protectionist measures in Europe.

My toughest call is on a recession in the months ahead. Our moderated interest rates, the disaster of rampant protectionism averted, the Fed bent on a policy of providing adequate liquidity, productivity increasing further, -- These all operate to cushion a downturn.

But the flight from the dollar, the steepest monthly drop in six years of our most recent leading indicators, reduced consumer expenditures and rising inventories, lower growth abroad except in Japan. These threaten a recession. Frankly, I'm more concerned about unpredictable, even unknowable, negative surprises which are associated with the now global financial economy. The question of recession is not whether, but when. Do I know? Of course not. But you have reason to expect me to make the best guess I can. It was only last weekend that I changed my mind toward recession beginning some time this year - shallow and short unless the dollar drops more than now seems likely.

I expect a very lackluster 1 to 1-1/2% growth in GNP for the year.

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Overall corporate profits in 1988 will be flat, despite the fact that the benefits of corporate restructuring and economizing, tend to go to the bottom line. But several industries, steel, computers and related products, paper, chemicals, drugs, capital goods, will do better.

We must be grateful for the superb performance of entrepreneurial small businesses. Virtually all of the nearly million and a half new jobs were added in 1987 by businesses which employ 20 or fewer employees. Job saving restructuring by major corporations will continue this year, as will the corporate buy-out fever.

I expect inflation to be in the 5% area. If I'm wrong, my expectation is on the low side. Wage gains will run no higher than this year, and that means a further cut in real incomes. There will be no significant strikes.

I am guessing that despite a growing backlog in housing demand and today's interest rates, housing starts will be at least 5% below the 1987 level.

I expect a further decline - at least 12% - in the sale of domestic passenger cars, but we'll also see the first drop in sales of foreign made cars. However, there will be more foreign cars made here and they will do better. As will U.S. made trucks. And bear in mind no cars are now made in the United States without foreign parts.

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Unemployment for the year will, in my opinion, rise above 6 percent, despite a welcome increase in manufacturing jobs, a hefty rise in business investment, increased exports of U.S. products and imports dropping.

And finally, the election. This one will be close.

Neither party has a coherent program. There will be no viable GOP candidates other than Bush and Dole.

On the Democratic side, as I now talk, Gore will do best against Jesse Jackson in the all important "Super Tuesday" primary. Dukakas is, at least for this period, the "lead" candidate. I believe that Cuomo is still looking for a way into this campaign and Lazarus Hart rising from the dead may have opened that door to an open convention, perhaps for Bradley and Nunn as well.

The outcome? The bleaker the economic picture, the better the Democrats' chance. In a passable environment with a recession avoided, I think we will still find ourselves in the closing phase of the Republican control of the White House.

This will continue to be, a campaign in which personal gossip and innuendo will dominate. In a similar period, Alice Roosevelt Longworth, Teddy Roosevelt's sharp-tongued daughter, used to say: "If you can't say something nice about someone, come sit next to me."

And now to foreign affairs.

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I do expect another Summit in 1988. The INF Treaty just signed will pass the Senate. But a radical cut in strategic weapons, even if agreed to at the next Summit, which I doubt, will not be ratified by this Senate.

Gorbachev's reforms will not produce the hoped for increase in Soviet output in 1988, while confronting him with rising Central Committee opposition and growing discontent in Poland, Czechoslovakia, Hungary and Romania.

China will not give up Communism or "modernization".

Nicaragua will not be nudged into democracy. The Sandinistas will be in power until they're either thrown out by force or fall apart from their severe internal strains -- neither likely in the coming year.

The Iran-Iraq war will continue.

Reagan will not withdraw from the Persian Gulf.

The present Panama regime will make the Canal sign-away look like a blunder. U.S. contingency plans for staying there will start being made as the year goes on.

The Soviets are eager for a formula to get out of Afghanistan while leaving a submissive regime in control. Because the freedom fighters are now more successful, I expect fighting and negotiating to continue until a satisfactory formula can be found. There is a possibility this year.

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1988 will be the year of crisis for the LDC debts with the danger of important defaults. The write-off by America's 13th largest bank - the Bank of Boston - of one-fifth of their loans was the formal acknowledgment that neither the full debts nor interest will be paid. And the Latin American countries are increasingly acting jointly - anti-Americanism is growing - They will even press for Cuba's return to their joint councils.

The U.S. response will be to reduce the size of the obligations about a third without formally acknowledging a default. The U.S. banks will take the licking in exchange for some form of U.S. assurance of the reduced amounts.

Piece-meal U.S. protectionist measures will be passed but stop far short of a major barrier or from igniting a trade war.

As I spell out the reasons for our imperiled eminence, there comes to mind a throw pillow in the late Clare Luce's apartment with an embroidered legend which said, "No good deed ever goes unpunished."

An action for which we have received appropriate punishment is the unbelievable innocence, or was it avarice, which led us to sell or license our basic technologies vital to the Age of Information.

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Who thought that, after this major currency revaluation, we would find that the United States is no longer the world's leading exporter. Number 1 is Germany. We are now number 2. Japan is number 3. In volume terms, we are, in fact, still the leading exporter. It is the declining dollar which reduces the value of that trade and the balance of trade is measured in dollars, not quantity.

For years we've seen the unrelenting appetite of our consumers, who account for a full two-thirds of our gross national product. Our maxim has long been "a dollar saved is a dollar wasted."

The American consumer brings to mind one of America's notorious tight wads --Errol Flynn -- who once said, "My problem lies in reconciling my gross habits with my net income."

Nevertheless, there will be a drop in our consumption this year, and an urgently needed rise in our savings rate.

A critical piece of good news! Last year's U.S. labor productivity rose more than Germany, Japan, Great Britain and France, yet we find it next to impossible to devise ways of improving the productivity of many of our services.

There has been a vast erosion of standards, of accountability, in almost every segment of American life -- corporate, religious, educational, governmental.

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As I try to understand our slide from eminence, there are even more vital elements -- discipline and a sense of national direction. Especially in these days of the Information Revolution, these must be the product of education. The dropout rate in High School is horrendous, 13% are functionally illiterate. Inadequacy among our High School graduates burdens our colleges. U.S. primary and high schools score a low 17th out of 20 industrial nations.

Only the graduate schools still retain something of the quality which was once nearly universal.

In one area we do retain a unique edge -- in basic research. One measure is the overwhelming number of Nobel Prizes which go to American scientists trained in America's vaunted graduate schools.

The Japanese graduate four times as many engineers per capita as we do. But we do get back at them -- we graduate 15 times as many lawyers.

In describing the basic elements of the new cultural forces which shape American life, I must point to a shattering book, "Ideology and National Competitiveness", published by the Harvard Business School Press and co-edited by George C. Lodge, and Ezra Vogel. They and eight area specialists look at the changes in nine major nations.

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They rank these nine countries in four groups, in terms of their competitive comparative advantage. Here is the ranking: Top level - Japan, Korea, Taiwan; immediately below - Germany; third level - France and Brazil; and on the bottom rung - the United Kingdom, Mexico and the United States.

The scholars divided these nations according to the fundamental cultures which shape them. Does the nation have a driving sense of its purpose, served by the elements which commit their people to educational excellence, hard work, pride of accomplishment, and -- the key element -- a family culture which reinforces these qualities?

I came here to challenge you. We can do something, and on some problems we already are.

I probably would put highest in the needs we face the extent to which we succeed in educating our young. I may astonish you when I tell you I am encouraged by belated actions now under way - but the road ahead is long.

There are other urgencies.

We face a task so huge and basic in rebuilding our aged and decaying infrastructure, our bridges, roads, watermains and virtually all public transportation.

In tackling this job, we will re-start the engine of basic industry, employment of the new underclass and boost our national vitality.

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We are just at the threshold of the multitude of breakthroughs that will be the products of biotechnology. And the race for the Supercomputer has been stepped up - a race in which we hold the edge.

There is another new frontier in basic research - superconductivity.

The first steps toward the demonstration that power can be transmitted economically without frictional loss was discovered by two IBM scientists who, after several years of secret work, suddenly discovered new materials which could transmit such power at a higher temperature than was ever previously possible. Who quickly poured substantial funds to find the materials which would be superconductive at room temperature? The Japanese. Just days ago, a remarkable further breakthrough, closer to normal temperatures, occurred in Georgia Tech - which, if validated, can greatly accelerate our progress.

Whoever first succeeds in solving that riddle will revolutionize the world economy.

But there are tasks and opportunities, for each of us.

It wasn't that long ago that we were the world's masters in marketing, motivation and innovation -- and pretty good in quality and service. If any one attribute has suffered most, it has been in the extent to which we have let our marketing and product design deteriorate. A

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shocking fact nails this home. Despite the large drop in dollar value against the yen, our auto exports to Japan have only risen 3%. Europe, without a currency boost, has upped its auto exports to Japan by 25%. Their marketing has taught them that the Japanese will pay heavily for the prestigious, well engineered, high design cars the Europeans make. We must be shocked into recovering our lost competence.

What shock will produce that burst of renewed energy? Let me surprise you by saying that it has already occurred. That shock is the knowledge we've begun to absorb, that Japan is now home of 9 of the 10 largest banks in the world.

Of the world's 10 largest corporations, Japan's Nippon Telegraph and Telephone leads the list, IBM is 2nd, Exxon is 3rd, and the remaining 7 corporate giants are all Japanese. There is the measure of our challenge.

You'll be relieved to know I'm about to close and, as I usually do, it will be with several aphorisms.

[I apologize to Senator Biden for not knowing who I took the first one from, but it's on the nose.

"A leader must set goals, select the people capable of achieving the goals, and communicate the goals.]

My favorite American philosopher, a stevedore who

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never finished public school, Eric Hoffer, said before his death:

"In a time of drastic change, it is the learners who inherit the future. The learned usually find themselves equipped to live in a world that no longer exists."

And Walter Lippman said:

"We must plant trees we may never get to sit under."