

not hesitate to get rid of a friend when he thought the friend was getting out of line. Gladstone once said, 'The prime requisite of a Prime Minister is to be a good butcher.' Gorbachev is a good butcher. Gorbachev is a world class heavyweight. I would put him in the league with the great leaders of the Post World War II period: Churchill, Adenaur, DeGaulle, de Gasperi, Yoshito, MacArthur, Eisenhower, Cho En Lai. And the major test of who should be the next president of the United States is can he get in the ring with Gorbachev? What does he believe?

"Well, he is first of all a dedicated, true-believing Communist. He couldn't be the General Secretary of the Soviet Union if he were not. But he is also a clear-eyed pragmatist. He is one that does not allow his ideology to blind him to reality. He knows he has great strength, but on the other hand he knows he also has great weaknesses, not only abroad but at home.

"Three years ago when I was in China, I asked the top Chinese leader whether he thought that Gorbachev would open up the Soviet economy and adopt reforms...He smiled and said, 'If he doesn't, the Soviet Union will disappear as a great power in the next century.' He was right and Gorbachev knows it. And that is why Gorbachev is taking the great political risk of shaking up the Soviet economy despite the opposition of millions of bureaucrats who have been shaking it down. ...There is a question as to whether these reforms will work. But there is no question on this point, he needs time for them to work...And the question is, should we accommodate him? And the answer is if his purpose is to provide a better life for the Russian people, yes, but if his purpose is to make life harder on us, no...

The time has come for these two great nations and these two great peoples to reduce the costs of military competition and to increase the rewards of economic competition... But let us continue to lead not just for others, but for ourselves... Only when you participate in a cause bigger than yourself can you be true to yourself. This is true of individuals.

This is true of nations. It is particularly true of America. Turn away from challenge, to settle for anything but the best, to refuse and decline to be as great as you can be is contrary to the American character... We must never be satisfied with success and we must never be discouraged by failure. That is the philosophy that has made America the great nation it is today... We are talking about the next century. That is a challenge worthy of a great people. We hold the future in our hands."

**Felix G. Rohatyn:
Deficit Demons and the Economy**

Felix G. Rohatyn was a partner in Lazard Freres & Company, and chairman of the Municipal Assistance Corporation when he addressed The Economic Club of Chicago on April 20, 1989.



"It is not easy nowadays to make an appropriate speech to a highly respected organization such as The Economic Club of Chicago. Today, the basic principles of economics or even of simple business ethics seem to have little meaning. After eight years during which we have almost tripled the national debt, some of our leading economists claim that budget deficits are not only irrelevant, but could be surpluses under some rather arcane accounting theories. This reminds me of what New York City's officials were saying just before our near bankruptcy in 1975. After eight years of unparalleled market speculation, dramatic leveraging of corporate balance sheets, and too many instances of illegal or unethical behavior in the financial community, some of our leading business publications praise the entrepreneurial virtues of the junk bond and argue that insider trading, market manipulation and illegal parking of securities are victimless crimes pursued by overzealous bureaucrats and prosecutors. I have

spent over a year as a member of the late National Economic Commission, which had been created by law to propose a plan to reduce the budget deficit. We spent the first six months of our mandate without saying anything, for fear of politicizing the issue during the Presidential campaign. We spent the last, and final six months of our mandate, without doing anything because the President's commitment against new taxes made the whole exercise moot.

"Over the past few years, my firm has been involved, in an advisory capacity, in some of the largest corporate transactions in this nation's history, many of them financed with levels of debt beyond anything I would have considered prudent a decade ago. The world of economics has been turned upside down. However, while the arguments are raging as to whether deficits matter, or whether leverage makes management more efficient, in the real world we get the answers every day. These answers include dramatic under investment both in the public and the private sectors. They include third world debt and the savings and loan crisis. They include continued high levels of trade deficits and falling levels of business productivity. They include failing public education systems and the acceptance of levels of poverty, drug abuse and functional illiteracy that are a disgrace for the greatest industrial democracy in the world.

"It is ironic that this should be happening when we have clearly won the ideological and economic competition which we fought with Communism since World War II, and that at the same time, our military strength and economic support helped to create our two greatest competitors for the balance of this century and into the next: Japan and post-1992 Europe.

"Probably the most important event since the end of World War II is the recognition by the leaders of both the U.S.S.R. and China that Communism is not a viable system. Gorbachev's Perestroika and the Chinese market reforms have, so far, mostly been limited to the economic sphere, but they are beginning to spread to the political spheres, begin-

ning with Eastern Europe. It is obvious that neither the Soviets nor the Chinese embarked on reform because of a sudden love for democracy. They did it because their economy was collapsing, their citizens wanted a higher standard of living and their military wanted up-to-date technology and educated armed forces. But the underlying cause was that their system, in addition to being philosophically unacceptable to free people, is inefficient and non-competitive in the modern world...

"The ideological walls are crumbling all over the world. The divisions that existed, and that will become more and more serious, will be between haves and have-nots, rich and poor, competitive and inadequate; these will not be ideological in nature. However, the continued progress of democracy requires sustained economic growth and rising standards of living, which will require major efforts to create greater worldwide demand. This can only come from continued western economic growth, healthier LDC's and, possibly, growing consumer demand in the Soviet Bloc, India and China. Massive worldwide investment by the private and public sectors will be required...

"These factors all argue for the proposition that 'domestic policy' is a definition of the past. It can only be formulated within the framework of an 'economic policy' which is global in nature and in concept since some of the most important facets of our economy all have significant international aspects...

"At a time when both superpowers have implicitly recognized the irrelevance of nuclear weapons (except as deterrents), the real power in the world of tomorrow will consist of surplus capital combined with national discipline, advanced technology and superior education. The U.S. is no longer the unquestioned leader in every one of these categories. Debt, like drugs, is our new addiction; it cuts across every one of these issues...

"The argument that a very high level of debt hones the entrepreneurial spirit of management is questionable, to say the least. Management ownership

is highly desirable; so is employee ownership, profit sharing, etc. But managements can be highly motivated to be efficient without mountains of debt to drive them. There are sound leveraged buyouts and unsound leveraged buyouts, just as there are good and bad takeovers.

“But one should remember that the companies with the best records of operating performance, as well as the best records of employee relationship, innovation and community relationships, are those with strong balance sheets, high levels of investment and high levels of research and development. They are the IBM’s and the DEC’s; the Pfizer’s and the Merck’s; the Coca-Colas and the General Electrics. Their use of leverage has increased in the last decade because the tax laws almost require it; but they have kept their levels of debt to reasonable amounts and have had no recourse to the more exotic instruments created by the junk bond markets.”

**John H. Johnson:
Roots of Ebony**

John H. Johnson was publisher, chairman and chief executive officer of Johnson Publishing Co., Inc. when he addressed The Economic Club of Chicago on December 19, 1989 on the subject of success.



“It is a matter first of all of setting a goal. And I’m speaking primarily to young people. You have to decide where you want to go. And then you have to decide what obstacles there are in your way. And then you’ve got to find a way to overcome them. It’s that simple. You’ve got to succeed against the odds...”

“I started way back, so long ago. Nineteen forty-

two. It was another world, and another America. But, I dared to put out a new magazine. I had nothing to lose. I had everything to gain...I put together a magazine. And I couldn’t get anyone to invest in it. I saw a man last week who could have owned half of my company for two hundred dollars. He saw me, and he walked on the other side of the street because he just didn’t believe it would go. But, I went to my mother, finally, trying to borrow money on her furniture...’Son, you know. This is new furniture. I’ve just paid for it. I can’t afford to lose it.’ As my mother often did, when she didn’t want to make a decision, she said ‘I’ll have to consult the Lord about this.’ So, I said ‘O.K.’ So, I would call her up and ask her ‘Has the Lord given an answer?’ And she said, ‘No.’ So, I’d go by and pray with her. So, we’d pray together. And cry together. And finally she said ‘Well, the Lord hasn’t answered. But, I’m going to let you have it anyway.’ So, I had the money. Only \$500. What are you going to do with \$500? That was seed money for me to buy postage. To send out letters to a group of people that I urged to send in \$2 each for an advance subscription to a new magazine, Negro Digest.

“Now, I tell this story only because when you begin to do something, you’ve got to think, why would these people send me \$2? I was unknown. They had never heard of me before. Every black magazine before mine had failed. And they had not returned the money. So, this was not a new...market that was receptive to me. But, I tried to think, what did black people want in 1942? They wanted respect. They wanted people to remember their names. They wanted to feel good about themselves. And so I wrote this letter. And I remember it as if it were yesterday. In which I said ‘A good friend of yours told me about you. This friend told me that you were well-thought of in your community. That you like to keep abreast of what’s going on. And as a result of this recommendation, I’m offering you the new magazine at this reduced price.’ Now, three thousand people answered, and sent \$2 each. And they always asked, ‘Who told you about me?’ Now, really no one told me about them. But they felt good about