

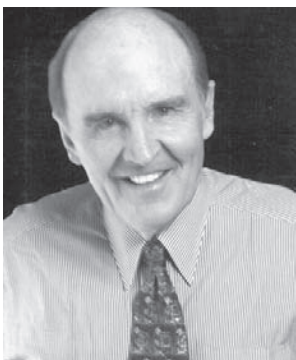
from the enduring values, from the faith, the work ethic, and the central importance of the family. We had something of a hedonistic heyday. But it's passing. We've righted ourselves, and across the country there's a rebirth of the traditional values that guided our fathers and mothers and guided our nation. We affirm this trend, not to return to some mythical past, but to build on proven strengths for a creative future...

"There's another challenge for us to think about. In the history of our nation we've had problems with ill-spirited divisiveness: one race thinking it was better than another, one generation thinking it was superior to another. We've had religious divisions. We've had our share of bigotry. We've even had tensions between this class or this group and that. And one of the good changes of recent years is that we've outgrown a lot of that nonsense. But we must commit to doing better. We are and must remain a pluralistic society, but we're also one nation together. We're brothers and sisters equal in the eyes of God and equal under the law."

**John F. Welch, Jr.:**  
**Succeeding in the Real World**

*John F. Welch, Jr. was chairman and chief executive officer of General Electric when he addressed The Economic Club of Chicago on February 20, 1986, on competition in the world.*

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"I represent a company that doesn't pay taxes, and I want to talk about tax policy that is good for everyone. We net over half a billion dollars a year. I service businesses, and with the RCA acquisition we're moving even more aggressively into the

services sector, and yet I want to make the case for manufacturing. Every one of our larger, older businesses has been targeted by foreign competition,

and I reject the idea of protectionism.

"Again and again, we've made the painful decision to close noncompetitive manufacturing operations, and I'm here to speak about jobs. These are consistent and connected, and so are the following:

- "The budget deficit and the dollar.
- "The dollar and the trade imbalance.
- "The trade imbalance and tax policy.
- "Tax policy and investment/R&D.
- "Investment/R&D and productivity.
- "Productivity and world competitiveness.
- "World competitiveness and manufacturing jobs.
- "All jobs and the standard of living.
- "The standard of living...and you and me.

"There are linkages between all of these, some more obvious than others...and focusing on one or a few of them without an eye to the consequences of others is wrong. Let's talk about a few...of these linkages. Let's start with the budget deficit, the dollar, and the trade imbalance. General Electric, in most years, is the number one American exporter. We're pleased by how well we do in the international marketplace. But in the past few years, we haven't done as well as we used to, thanks to the dollar. Our exports fell from \$4.3 billion in 1981 to \$4 billion in 1985 because the artificial strength of the dollar was giving our international competitors an effective 30 to 50 percent subsidy...

"But why should anyone who is not directly involved in manufacturing, or who competes only domestically, care how the Caterpillars or General Electrics or Motorolas fare in the world markets? Those who do not care ignore the linkage between services and manufacturing, and unfortunately, it's one that's often ignored in America today.

"GE Services businesses are healthy, profitable and growing. Yet their success is clearly linked to, and dependent upon, manufacturing industries both inside our company and out. We sell financial services, and information services to capital-intensive industries. We lease thousands of rail cars and/or ships and airplanes to them as well. We own the

nation's third largest reinsurance business, heavily tied to industrial America.

“The point here is not to take you on a tour of our portfolio, but to point out that as far as our experience goes, the linkage between services and manufacturing, if not always apparent, is always real. It's very real in Erie, Pennsylvania, where we operate our locomotive business. Now, an old locomotive factory, complete with smokestacks, is not what is envisioned on the high tech and services dream-scape. But we couldn't be more proud of it. Because if you walk through the final assembly building in that plant you return to the golden age of American competitiveness, the era that brought the nation the jobs, the schools, the health care, the standard of living we have today. Locomotives lined up next to each other, being painted in the colors of Mexico, Indonesia, Sudan, Kenya, People's Republic of China, and scores of other countries. They sell them for about a million apiece, and we have sold about a thousand of them abroad since 1981.

“Several years ago we reached the moment of truth in Erie, either invest to become more productive and achieve higher quality, or fold the tent. The '81 tax bill helped us put a third of a billion dollars into that business, the biggest automation in our history, a big bet, but we're winning. And so is the city of Erie.

“I'm certain the department stores and supermarkets in Erie understand the linkage between investment and manufacturing, a \$180 million payroll, and the survival of a service business. Every time we create a good manufacturing job, we win, the service industry wins and the U.S. Treasury wins. In the same three-year period, GE paid no federal income taxes, our employees paid about \$5 billion in federal income taxes and the company paid another \$5.4 billion in state, local and federal taxes; none of which would have been paid if the Eries of our world didn't win...

“But in winning orders in China and around the world, General Electric has an advantage not

enjoyed by many others: staying power. Because we have strong, profitable businesses at home, many of them in services, we can survive the type of 'Valley Forge' we're going through in sluggish markets such a locomotives and turbines. Because of our strengths at home we can sell locomotives on the thinnest of margins. We can, just as we did a few weeks ago, sell turbines to China at no margins to keep our factories open, our technology advancing and our hand in the game. Building, as it were, a bridge to the future, five, six, seven years hence when these markets will again come to life domestically.

“If I represented just a turbine company or just a locomotive manufacturer, I might be here tonight with a plea for subsidies or protectionism. But because we have healthy businesses like Financial Services and Aerospace, and others that will join us from RCA, like broadcasting, we have the staying power to compete overseas through lean periods as well as prosperous ones. We can duplicate the staying power of our competitors whose life support system during lean periods is either a protected home market or their national treasuries...

“Yes, GE can invest to become more competitive because we have a strong balance sheet. But there are thousands of businesses in this country that do not have strong balance sheets. Removing incentives will escalate the after-tax cost of investment in state of the art equipment by as much as 15 to 20 percent, hurting American manufacturing productivity. At the same time the dollar, while improving, is still squeezing industrial margins fairly hard. Doing this in the name of a level playing field will certainly create one, right over large segments of American manufacturing....

“When you hear the argument for a level playing field, make the argument that unless it is level on a worldwide basis, it can never be level at all...It's not enough to complain about bloat and fat in the federal budget if we have it in our own budgets. Or to complain about government bureaucracy if we're up to our ears in staff. Or to demand incen-

tives to invest and then fail to invest aggressively.

“We’ve got a real chance here, a chance to prove that America can compete and can win once again in the world marketplace. The momentum generated by some of the policy changes in Washington is building... World competitiveness is an emerging domestic reality. The linkages I’ve spoken of are being understood. And the linkage I see most clearly is: you and me, we’re all in this together.”

**Richard M. Nixon:  
A Tortured Cold Warrior’s Assessment**

*Richard M. Nixon, who resigned his presidency to save the pain and suffering of an impeachment proceedings, came to The Economic Club on April 26, 1988, to offer his assessment of a pivotal figure in modern history, Soviet President Mikhail Gorbachev.*

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“We are the strongest and richest country in the world. Unemployment is down, taxes are down, inflation is down, we are at peace. Most Americans never had it so good. And yet, we find a wave of isolationism sweeping over this country. A new negativism seems to pervade our public discourse. Pundits and politicians...proclaim that the United States is in decline, that we are over the hill, that we can no longer assume the burdens of leadership of the free world...”

“Now, there is no question that the Soviet Union has the will to play a role on the world scene. The question is whether the United States has the will to do so. Now we will have to admit that we were not as dominant today as we were 40 years ago when the nations of Europe and Japan were prostrate

because of World War II. And yet at the present time, with only 5 percent of the world’s people, we still produce over 25 percent of the world’s goods. As Herb Stein has pointed out, the United States is a very rich country. We are not rich enough to do everything, but we are rich enough to do everything important. And certainly to continue to provide the resources necessary to lead the free world is not only important, it is indispensable to our survival.

“But even assuming that we can do this, is it possible for us to match the will of the Soviet Union? Well, will without leadership is impotent, and in Mikhail Gorbachev, the Soviet Union has a leader, a very strong leader, who has within his own hands the power to match and carry out his will. And so tonight, I suggest that we take a close look at this remarkable man...”

“I have known three general secretaries of the Soviet Union, Khrushchev in 1959 and ‘60, Brezhnev in 1972, ‘73 and ‘74, and Gorbachev in 1986. He is the ablest of the three. He is very well educated. He earned a bachelor degree in law. He was born with a masters degree in public relations. He is one man who has enormous self-confidence. Unlike his predecessors, he is so sure of his strength that he is not afraid to talk about his weaknesses. He has a temper and he uses it. He seldom loses it. He is a man, too, who is a ruthless political infighter. Unlike Stalin, he does not have his rivals shot when they fall out of favor, but unlike Brezhnev or Khrushchev, I should say, he doesn’t keep them around.

“I remember very vividly that when I had this kitchen debate with Khrushchev, that the man standing next to him as his closest aide was Brezhnev. Five years later, Brezhnev overthrew him in a coup and took his place. That isn’t going to happen to Gorbachev. He has replaced his friends or he has put his friends in place of his enemies in the Politburo and also in the Secretariat. But the most significant thing he has done was to sack Yeltsin, who was his friend, the Mayor of Moscow. He demonstrated, by that, that he would