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REMARKS ABOUT AMERICA'S FUTURE

Clyde V. Prestowitz, Jr.
As given in a speech sponsored by
the MIT Japan Program
MIT Museum
November 28, 1989

Massachusetts Institute of Technology
MITJP 90-01

Center for International Studies
Massachusetts Institute of Technology

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Room E38-754
Massachusetts Institute of Technology
Cambridge, MA 02139 (617) 253-2839

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This evening, I am going to talk about the future of U.S.-Japan relations and technology in the 21st century. I think the essence of what is happening between the U.S. and Japan is captured in a story making the rounds of Washington. It seems that President Bush is invited to give a speech to the National Association of Manufacturers. Come the evening of the speech, he gets into his limo, drives to the Willard Hotel, and, as he is stepping out of his limo, he trips and hits his head on the door. And he's out cold--he's out cold for three and a half years. After being reelected in a landslide, he wakes up. He turns to John Sununu--an alumnus of MIT--who has been sitting at his bedside these many years, and he says, "John, what happened!?" John says, "Not to worry, Mr. President. You took every electoral vote." The President says, "Holy catfish! I'm better asleep than alive. But John, wait a minute. When I had this accident, we had these two terrible deficits--the trade deficit and the budget deficit. Now what has happened to the budget deficit?" And John says, "No, no, no, Mr. President, we don't have a budget deficit anymore; it's a budget surplus." The President is amazed. He says, "Well John, what about the trade deficit?" "No, No, Mr. President, we have a trade surplus." "John, that's fantastic. But something must be wrong. What about inflation? How much is a bottle of beer?" "200 yen, Mr. President."

I went to Washington in the fall of 1981, just about eight years ago. At that time, it was still possible to say, despite the "Wirtschaftswunder" in Germany, despite the economic miracle in Japan--it was still possible to say that the United States was the world's leading country. We had the highest GNP per capita of the major industrial nations. We were the leader in most areas of high technology. We were number one in industrial productivity, we were the world's largest creditor nation, and we had the strongest military force. Today, as we sit here, almost exactly eight years later, only one of those things is still true. In view of the Soviet capitulation, I think it's probably fair to say the United States maintains the world's strongest military force. But on every other criteria of performance, the U.S. has fallen behind. We are now number seven or eight in GNP per capita and heading south. We have lost the lead in high technology in many areas. In those areas where we still have a lead, our lead is diminishing. I cannot think of a single area of high technology in which the U.S. position has strengthened relative to our competitors in the last eight years. We're now number three, I believe, in industrial productivity, and we are not only the world's largest debtor nation, but we are history's largest debtor nation. We have managed to accomplish all this in the space of the last eight years. But, of course, that represents a culmination of dynamics that have been occurring in our society for quite some time.

However that may be, it's clear that the "Pax Americana"--the American Century--is over. We're entering a new era. The hinge of history is turning, and the world and the United States are being presented with questions that we have not faced for a very long time. The great postwar Secretary of State Dean Acheson wrote a book called "Present at the Creation," in which he described the building of the postwar world. I think it's fair to say that we today are present at the creation--we are seeing the passing of that creation of Acheson and Marshall and the other postwar statesmen--and we are being asked to create a new world ourselves. The question, of course, is what kind of a world are we going to create.

Now there are many potential scenarios, and much of what occurs depends on decisions that are yet to be made, and depends on the actions and attitude of people like you scattered around the United States and other countries. But, on the course upon which we are presently embarked, I think that it is possible to foresee a large part of the scenario. So let me sketch that out for you. I think it's very likely that, by the year 2000, there will be three major economic blocks. There will be the European Block, there will be an Asian Block, and there will be a North American Block. The competition economically will be primarily between the Asians and the Europeans. The North Americans will be struggling to maintain a stagnating standard of living, struggling to catch up in industrial productivity and technology.

It is very possible that Japan will be a major military power; and that the dollar will no longer be the world's primary currency; that nations will ask to be paid in marks or in yen; that the United States will be under the rule, to some extent, of the IMF, acting in a way similar to that of Mexico or Brazil today, shrinking its economy in order to pay off its debts; that the U.S. university system will be largely staffed by foreign professors; that the infrastructure of the U.S. universities will have deteriorated almost beyond repair; and that the rest of the infrastructure of the United States--the bridges, the roads, the schools--will be in sad shape.

In a word, I think that it is very possible, even likely, that on present trends, by the year 2000, the U.S. will not only not be a major world power... perhaps that's overstating things, it's a big country, and we will be an important country. But we will not be the primary among equals, and we will be increasingly in a subservient position. A large part of American industry will be owned by foreign investors, and the economic policies of the United States will be largely determined in Brussels in Tokyo.

Now that, of course, is a pessimistic scenario. But why do I sketch that scenario out? Well, if I look at Europe, for example, it has been said by Americans for a very long time that the Europeans are in sad shape. We have taken a kind of "Schadenfreude" in comparing ourselves to the Europeans. Everybody likes to be with a winner. For a long time, we have known in our hearts that we are losing in the competition with Japan, but we have told ourselves that it is we and the Japanese who are marching into the hi-tech future. Those poor Europeans, with their Eurosclerosis, high unemployment rates, what have you, they're being left behind.

The fact of the matter is, the Asian countries and the European countries have savings rates that are three, four, five times that of the United States. The cost of capital, the cost of investment, in all those countries is anywhere from a half to a quarter that of the United States. The infrastructure of Europe, the infrastructure of Asia are improving. Every time I go to Tokyo, the buildings are newer, the people are better dressed, and the streets are cleaner. Every time I come back to the United States, the buildings are a little older, the streets are a little shabbier, and the people are a little less well dressed.

The European educational systems still educate. The Asian educational systems educate. The U.S. educational system doesn't educate. The Europeans still have a whole industrial structure. They still make trains and television sets and radios and nuclear reactors. The Asians have a whole industrial structure. The Americans don't have a whole industrial structure. In fact, we're losing bigger pieces of our structure all the time. The story about Perkin-Elmer in the New York Times yesterday is just another indication of another sector in which the United States is likely not to be present in the decade of the 1990's.

I was in Tokyo last summer having dinner with the man who is currently the Vice Minister of MITI. He suggested to me that the lack of consumer electronics sector in the American economy was a major drag on the ability of the whole American economy to become more productive. And he suggested to me that the United States should use the opportunity of the break in the continuity of technology offered by High Definition Television to get back into the consumer electronics industry. Of course, we're not doing that. The latest reports out of Washington indicate that we're going to cut off what little funding we have been thinking of making available to HDTV and getting back into consumer electronics.

So, if I look at the current trends, we have a Japan, a Korea, a Taiwan, and other countries in Asia that are focusing as a matter of the highest national priority on achieving leadership in industry and technology, on being competitive. In focusing on that activity, they have achieved high savings rates, low cost of capital; they have contrived policies which incorporate a high degree of cooperation between industry and government, to achieve success in particular key fields; and they have pursued trade policies linked to those underlying policies. If I look at Europe, for a long time, the Europeans have had many of the elements of success. They have had high savings rate, they've had a good educational system, they've had an improving infrastructure. The one thing that the Europeans have lacked has been an integrated market to achieve the economies of scale that are possible in the United States. Now, after a millennium, Europe is going to realize that dream. With the crumbling of Eastern Europe, that market may become even more sizable and more dynamic. So, I believe Europe is going to be a very formidable force in the 21st century.

The question is, why is the United States in this position. Of course, there are many answers to that. But I would like to focus on three or four key ones tonight. For a long time, we have believed that the purpose of economic activity is consumption. We work to live. Other people live to work. We have subsidized consumption in the United States and taxed investment and saving. You and I write off our interest on our home mortgages against our taxes. We pay $1 a gallon for gasoline--$1.30 maybe in Massachusetts. We used to write off the interest on our consumer-durable purchases against our taxes. Now legally, you can't do that directly any more, but if you're smart, you have a home equity loan and you continue to do it. So we subsidize consumption. On the other hand, if you have a savings account, we tax the interest you earn on your savings. If you're lucky enough to own a few shares, we tax the dividends that are paid on those shares. In fact, we tax those dividends twice.

I'm always interested to hear people talk about the standard of living in Japan. Very often, when a debate is going on about the U.S.-Japan relationship, a comment is made by some American that "Ah, yes, maybe the Japanese are productive, but I wouldn't want to live like them. They don't enjoy our standard of living." Typically, if you narrow that down, and say, "Well, tell me what exactly it is about the standard of living that the Japanese don't have," it comes down to living space. The Japanese don't have nice houses like we have. What strikes me as interesting about that is that the reason we have these nice houses is because we subsidize them. We tell ourselves that we don't have an industrial policy as a nation, but we subsidize the construction industry. Not surprisingly, we have beautiful houses. If your idea of standard of living is living in a nice house, then the United States is for you. The flip side of that is that the Japanese have the best factories. Brand spanking clean new factories that produce at a very high rate. If your idea of standard of living is working in a nice place, the Japanese have a high standard of living. It just depends on what your viewpoint is.

The point is that the United States subsidizes consumption, taxes savings and investment--not surprisingly, we have the lowest savings and investment, the highest cost of capital, and the greatest amount of consumption. As I noted, our competitors don't do that. Japan, Korea, Taiwan, Germany all have relatively high savings rates--they tax consumption. They have value-added taxes, high taxes on gasoline. They don't allow write-offs of mortgage interest; they don't allow write-offs of interest paid on purchases on time. They subsidize investment and savings, and tax consumption. That, I think, is one of the main factors in the U.S. situation.

The second factor has to do with the overall approach of the government towards industrial and technological activity. I was struck recently when I was at Langeley, the major NASA lab near Norfolk, Virginia. NASA's now working very hard on designing the so-called Orient Express, the airplane that will get us to Tokyo in two and a half hours. As far as I am concerned, it can't come fast enough. But what struck me about it was that we in the United States have put a great deal of attention on achieving leadership in space. Post-Sputnik, we created NASA, out of the former NACA. We have continued to subsidize the development of the shuttle space launch vehicles, the Orient Express, and so forth. It is interesting that we do that, because, if you look at this from a trade point of view, if you think in terms of the free trade philosophy of the United States, we really shouldn't do this; at least an economist would say that we really shouldn't do this.

You all know that the Russians have the lowest-cost, most reliable launch vehicles. The Proton rocket is much less expensive and much more reliable than anything we have. So, if we were really free traders, we would import Proton rockets and just launch satellites with Russian rockets. Or, if we were going to build our own, we would probably import Russian parts. But we don't do that. We don't do that because as a nation we believe it is important for us to be a leader in space. So we have adopted a policy that aims at achieving that leadership, and if we are behind, we aim to catch up. Part of that policy is that we restrict access to our market. We don't allow Russian or Chinese rockets to be used to launch U.S. vehicles.

Now, other nations have applied that approach, but in a more systematic and broader fashion. In Japan, beginning in the early 1950's after the Occupation, they applied the same policies and the same level of priority to achieving competitive status in shipbuilding, steel, electronics, computing, and so forth, that we have applied in the case of the space shuttle and aerospace. We do it in the name of pushing out the envelope, pushing back the frontiers of human knowledge. In the name of national security, we do those things in the United States. We don't justify it in terms of simply improving the welfare of our citizens and the productivity of our economy. The Japanese, the Koreans, the Singaporese, the Germans, the French, have all begun to apply the same kinds of policies, the same criteria, systematically, across the reach of their economy.

It has a major impact in the following way. We talk very often about the short-term thinking of American management. American managers, we say, are only interested in quarterly profits. We castigate American management for falling behind, for not taking the long-term view, for not investing in R&D, and so forth. The question that has always troubled me as I thought about that is this: Anybody that has ever worked in Japan knows that as individuals, the Japanese are the most risk-averse people in the world. They're the most conservative, cautious people in the world. Conversely, the Americans are risk takers. So, how do you square the circle that the most cautious, risk-averse people in the world take this long-term view that involves risky, long-term decisions, and that the risk-taking Americans turn into marshmallows every quarter? The answer is the environment within which they operate.

I've said that you can have an Olympic swimmer, but, if you put him in wet cement, he won't swim very fast. Between 1985 and 1987, the Japanese semiconductor industry took a cumulative $4 billion loss. In that same period, the U.S. industry took a $2 billion loss. In the U.S., six or seven companies got out of the business altogether. Thirty thousand people lost their jobs. Capital spending, R&D spending, were cut to the bone, and the share prices of all the companies fell to the floor. In Japan, no company left the business, not a single employee lost his job, plant capacity was expanded by 40 percent--40 percent in the face of a $4 billion dollar loss--R&D spending was increased, and the share prices of all the companies rose. I contend that, if you can take a $4 billion loss and watch your share price go up, it's not too hard to take the long-term view. Conversely, if you're closing your plant, laying off your employees, and watching your share price drop, probably you've got Carl Icahn or T. Boone Pickens or somebody looking over your shoulder, and it's very hard not to think about what you're going to do tomorrow.

We have created in the United States a very high-risk environment. The SEC requires quarterly reports. In response to those quarterly reports, shares are traded. Who trades shares? Pension funds, money-market managers on Wall Street. Who are they? Twenty-seven-year-old MBA's, who themselves get paid bonuses based on their quarterly trading profit. Shares begin to trade, and, if they tick down a bit, your cost of capital automatically has increased. And, if a tender offer is made to you, under the ARESA law, in fulfillment of your fiduciary duty as a member of the board, you must entertain the offer and consider competing offers. The U.S. law requires it. We have created a tremendous paucity of savings in the U.S., which already gives you a high cost of capital. We have a government policy which is just as likely to be aimed at hacking you as supporting you. We have created a tremendously high-risk environment within which we then ask businessmen to operate. It is in that high-risk environment that even the risk-taking

Americans become cautious. If you compare that to the much more friendly environment of Japan, Korea, or Germany, it's easy then to understand why it is possible to take the long-term view or the long-term investment in the Far East, and not in the United States.

Then, the fourth piece of puzzle comes down to trade policy. Here, the United States has not pursued so much a policy as a slope. We have gone to our trading partners and said to them, "We want you to open your markets." Now, asking them to open their markets is an interesting trade policy for two reasons. First of all, typically, here's what happens. We go to Japan and we say to Japan, "Please open your markets." And the Japanese respond to us and say, "Okay, which ones do you want us to open?" The U.S. Trade Representative responds by saying, "Well, all of them, of course!" The Japanese say, "Well, okay, we understand that you Americans are idealists, but, which ones first? What are your priorities?" We're stuck. We haven't got the foggiest idea. As a nation, we don't know whether we would rather sell supercomputers or soybeans. We don't know whether we would rather export semiconductor chips or wood chips. Nobody has done that analysis in the United States. We don't have an industrial strategy as a nation; therefore, we don't have any way of determining what we would like to do in our trade policy. So our negotiating list is made essentially by who comes in the door first; who has the biggest voice in Washington; or, in some cases, just what particular bureaucrats happen to be interested in. There's no analysis of whether we would rather pursue one issue more strongly than another issue, because we don't have any strategy underlying that on which to base it.

The question of a request to open markets is also interesting from another point of view. That is that implicit in the request is an enormous assumption: that assumption is that our trading partners understand what we mean by open, and that they can respond. Clearly, we would be stupid to ask them to do something that they couldn't do. But the fact of the matter is that they haven't got the foggiest idea of what open means. Open is a word that is freighted with meaning that comes out of the American historical experience as an immigrant country. In countries that are not immigrant countries, in countries that have never thought about how to integrate or bring outsiders into their society, they can't possibly understand what Americans mean by open. In business in particular, Americans, by open, mean that business should be done on the basis of the best offer. Sometimes in the United States, we do business because the guy we are dealing with is our fraternity brother or our brother-in-law. But we feel guilty about doing it that way; we don't justify it, and we consider it unfair. If I am going to be dealing with a particular supplier for a very long time, and another supplier comes along and offers me a price cut, I'm justified in the United States in switching. In fact, if I don't switch, the fellow offering me the better deal may sue me on the basis of discrimination, because I am being unfair.

It's a very different story in Japan. Japan is a nation that focuses on long-term relationships--personal relationships. In business in Japan, you are expected to do business with people that you have gone to school with, people that you have known for a long time. If you've been dealing with a supplier in Japan for 20 years and you switch to get a 10 to 15 percent better price, that's considered unfair. You've abandoned the long-term, loyal supplier who helped you through thick and thin. So it's a totally different approach to open and closed.

Our request to the Japanese to open is really a request to be like us. The Japanese response is to say, "Well, you have to try harder. We are open--you have to try hard." We don't understand "try hard" any more than the Japanese understand "open." Let me give you an example. One time in my checkered career I was the president of a company that made artificial kidneys in Japan. Now, the customers for kidneys are doctors, and in Japan doctors have such a high social status that by law they don't pay taxes. Some people say that American doctors don't pay taxes either, but it's not legal. So my poor lonely salesmen had to sell kidneys to these Gods of Doctors. If a doctor wanted his car washed on a Sunday afternoon, my salesman would go wash his car. If a doctor took a vacation trip to gamble for a week in Las Vegas, my salesman would go along and carry his bags. I even had one instance in which a doctor took a trip to New York City. He had heard that New York is dangerous--lots of muggings and so forth, and, of course, my salesman went along with him. He actually asked the poor salesman to sleep in the hallway at night to guard the door. That's trying hard in Japan! No American is ever going to try hard like that. The Japanese request to us try hard is essentially a request to be like them. Of course, it's not going to work.

What troubles me about this is that not only are we engaged in a situation in which the current trends bode ill for the future of the United States, but we are also embarked on a course in which the current trends bode ill for the relationship between the United States and Japan, because there is an element of conflict in this relationship that we have at the moment. Japan is focusing on achieving leadership in areas in which the United States has traditionally been the leader. Japan is focusing on achieving a position economically and technologically which would, in effect, supplant that of the United States. While there is nothing wrong with that--I want to emphasize that I am not criticizing Japanese policy; in fact, I admire the Japanese policy--nevertheless, the impact of that combined with the lack of a policy in the United States is inevitably, in the long term, the gradual replacement of American science and industry by Japanese science and industry. This has both economic and national security implications which are going to be disquieting to Americans.

We are pursuing this course on the basis of a giant fiction. The giant fiction is that Japan and the United States operate on the same system, that we share the same economic principles, the same economic philosophy, that our economies operate more or less on the same basis, and that, if we can just negotiate a couple of things here and get rid of a couple of barriers there, that everything will be all right. As long as we operate on the basis that the two systems are the same, that there really is no conflict between these two systems, that it's all just a matter of free trade with a few aberrations, we will not address ourselves to these underlying--in my view--very potentially dangerous dynamics. We will then have the self-fulfilling prophecy that we will indeed come into serious conflict.

The solution to that, of course, is to recognize that there is a potential conflict, to recognize that there are differences in the two systems, and to address ourselves to those differences honestly, without rancor, without finger-pointing, but to attempt to accommodate. That implies some kind of a trade policy for the United States, which is not "open your markets," not a kind of mindless assertion of the wonders of free trade. It implies a system of trade negotiation in which the U.S. focuses on situations in which "free trade" is not possible, in which it is unlikely that we are going to get open markets, and how we would handle that. Possibly, we handle that by talking about results, by talking about what we want to achieve industrially in the United States, rather than talking about procedures having to do with openness or closedness or trying hard.

Of course, the solution to the American problem is a much further-reaching, much more fundamental question. I think that the answer to our problem is implicit in the analysis. Obviously, we need to save more. We need to stop subsidizing consumption and start subsidizing investment and saving. We need to stop taxing investment and saving and start taxing consumption. I believe that we need to have a government policy that focuses systematically on directing government agencies to direct their efforts toward creating a less risky environment for the United States. I think we need an industrial strategy as a government. We tell ourselves that we don't have an industrial policy, we tell ourselves that bureaucrats--the hated bureaucrats--cannot pick winners and losers. Everybody knows that American bureaucrats can only pick losers.

But in 1984, the U.S.-Japan Businessmen's Council did a comparison of Japanese and American industrial policy. The report concluded that Japan has an industrial policy, and that it's comprehensive, coordinated, effective, and a major part of Japan's success. It also found that the United States does not have a policy, but that it has policies; that they are uncoordinated, uncomprehensive, ad hoc, often contradictory, and not effective. I remember the press conference at which this report was made public, and one of the reporters asked the American chairman--who at that time was also chairman of a Fortune 500 company--he said "Now look, Mr. Chairman, in view of your report, don't you think the U.S. should have an industrial policy?" The American industrialist said, "Nope. Absolutely not. No-siree-Bob, we don't want government on the back of industry in the United States. We don't want bureaucrats picking winners and losers." And the reporter persisted, and he said, "Well look, I don't mean that we would have development banks or tripartite government-industry-labor boards that Vice President Mondale has been talking about. But look, your own report says that we have these policies, they do exist. They're ad hoc, often contradictory, not coordinated, ineffective. Wouldn't it make sense at least to coordinate what we have to make it effective." And the response was "Nope. No-siree-Bob, we don't want bureaucrats picking winners and losers." Well, I think that's a nonsense response. Obviously, it would make sense to coordinate the policies that we have.

The breakup of AT&T gave us automatically a $3 billion trade deficit in telecommunications. Do you realize that the plan to break up AT&T was never reviewed by the U.S. Trade Representative? That the Secretary of Commerce never saw that plan? That he was never asked to comment to the President on the potential impact on the American trade balance, of the breakup of AT&T? Now when people talk about industrial policy in the United States, very often they talk about subsidy. Gee, we don't want to subsidize big business. It wouldn't have taken a cent for the Trade Representative to look over the breakup of AT&T and to tell the President, "Mr. President, this is likely to give you a $3 billion trade deficit in the form in which it presently is conceived." Industrial policy is not necessarily subsidy. It's thinking. I think the United States needs to do that. I think that we need a trade policy which focuses more on the analysis of the real situation, and less on slogans and the like.

But there are two other things that I think are maybe even more important, because I can give you all the policies and the recommendations, and it won't mean a lot unless we have a change of mentality. Recently, Dick Flamson, the chairman of Security Pacific Bank, was interviewed by the Los Angeles Times. He was interviewed about the growing relationship between Security Pacific and the Mitsui Bank. And the interview went on for quite some time, talking about the opportunities that this alliance would open for Security Pacific in Japan, and some of the investments that Mitsui was making in Security Pacific's subsidiaries in the United States. But the punch line was in the last paragraph. In it, Dick Flamson said that, of course, Security Pacific is not necessarily forever. His job as chief executive is to achieve the highest possible return for his shareholders, and, if somebody--and you could almost hear, reading between the lines, "hint, hint, Mitsui!"--were to make an offer, of course Security Pacific would have to consider that offer. I read that, and I turned to my wife, and I said, "You know, this is incredible! It is absolutely inconceivable that the chairman of the Mitsui Bank would make a statement like that. He thinks Mitsui is forever, and he thinks his job is to make darned sure that it is forever. Because Dick Flamson thinks that his job is to sell Security Pacific to the highest bidder, and the chairman of Mitsui thinks his job is to maintain the institution forever, Mitsui will be forever, and Security Pacific won't be."

A week later, I was at Harvard Business School lecturing to a finance class, and it suddenly hit me that there are 800 MBA's that are going to graduate from Harvard this year, all of them imbued with the idea that their job is to sell their company to the highest bidder. There are probably another 135 over here at the Sloan School, and I don't know how many at Stanford and Wharton, all thinking the same thing. The captains of American industry are all being told that their job is to get out there and sell their companies. You know, there's a certain syndrome here. Here's what happens.

Many of you, I am sure, are familiar with the Boston Consulting Group, the famous matrix--cash-cows, dogs, question-marks, and stars. Of course, the idea is that you are supposed to manage this portfolio. You get out of the dogs, and you take the money of the cash-cows, and you invest it in a few of your question marks--not many, because, if you put it in too many, you won't get anything done; so a few of your question marks--and you reinvest in your stars until they all become cash-cows. Well, implicit in this portfolio approach to management is the concept that when the going gets tough, you'll get out of the business. Pretty soon, your foreign competitors understand that when the going gets tough, you'll get out of the business, so the idea is then that you make the going tough for the Americans to get them out. Then the game goes to a second level. The Americans understand that, if there is Japanese or Korean competition, the going will be tough. So, before they get into the business, they look around to see who is going to be there. If it is Japanese and Korean, they don't bother. Then it goes to the next level. The Asian competition realizes that they can preempt the Americans with a press statement. So they announce where they might be going, and then the Americans don't go there. Of course, the end of this is that about the only thing that you wind up doing is, you know, hair dressing salons and clipping toenails, or whatever it is that you can't be driven out of. This goes back to the fact that the U.S. concept of what a business is is uncompetitive.

Just about a week after that interview, there was an article on the Boeing strike. I was struck by a quote from the president of the Machinists Union. He said "The purpose of this strike is that Boeing has the money and we want it." While that certainly was an admirably precise statement of the union's objectives, it struck me that no labor leader in Japan would make a statement like that. Yet, in the American context it is completely acceptable. Implicit in that, of course, is the idea that the proper relationship, the natural relationship, between management and labor is adversarial. Of course, we enshrine that in our labor law. Again, that's not the concept in Japan, or in Germany, or many other places, and again, it's an uncompetitive concept.

That leads me then to the third point I'd like to make, which is this. We've been driven in this country by certain basic principals. You can't live and work in Washington without realizing that the Founding Fathers are very much alive. My office at the Commerce Department looked out on the Ellipse and the Washington Monument and the Jefferson Memorial and, down the road, to the Lincoln Memorial. The great engines that drive this country are freedom, liberty, individuality. They always have, and they always will. We wouldn't want it any other way, and, if we did, it couldn't be any other way, because that's what those men implanted in this country. But we've forgotten something that they knew. They knew that true liberty, true freedom, true individuality, are not possible except in the context of community, obligation, and responsibility. In our mythology, we apotheosize the cowboy, the lone rider who comes in from the plains, shoots up all the baddies, and rides off into the sunset. We forget that it was the settlers who won the West. Now on film, the settlers aren't too spectacular. They dress like hicks, they worry a lot, they're slow on the draw. They move slowly, burdened down with wagons and oxen, chickens and grandma. But the moved together. When the wagon wheels break, they stop and they fix them together. When the Indians attacked, they don't fight the Indians one by one, they circle the wagons, they fight together. And they'd win. Cowboys are all gone, settlers are still here.

A nation that thinks that the proper relationship--the natural relationship--between management and labor is adversarial; a nation that thinks that consumers have no stake in the welfare of producers; a nation that think that producers have no stake in anything except the highest price for shareholders--no stake in the welfare of their laborers, no stake in the health of their communities; a nation that pays newly minted MBA's on Wall Street 20 or 30 times what it pays veteran teachers; a nation in which the President doesn't control the streets of the capital at night; a nation which has billions and billions of dollars of a drug problem. This is a nation in trouble. And no amount of value added taxes, more realistic trade policies, industrial trade policies, will change that, because it's a sickness of the heart. And the answer to it is very simple, and it was given to us at the founding of the Republic. Remember what Ben Franklin said at the signing of the Declaration of Independence? He said: "Now we must all hang together, for if we do not, assuredly we shall all hang separate." Those words are just as true today, maybe more so, as they were in 1776.

We face great dangers in the next 10, 20 years. We face potential conflict with Japan; we face potential conflict with Europe. We face the mortgaging of the future of our kids. We face a stagnating standard of living, and a decline in our real national security. We need to deal with all of those problems. But the answer to them is not really to be found in our negotiations or our trade policies or our industrial policies. It is to be found in our own values.

Thank you very much.