The Economic Club of New York

Reginald H. Jones
Chairman and Chief Executive Officer
General Electric Corporation

The Honorable Daniel Patrick Moynihan
United States Senator, State of New York

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Chairman and Chief Executive Officer
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Introduction

Chairman, Governor Malcolm Wilson

I must say, ladies and gentlemen, that your presence in such impressive numbers despite what could only be charitably characterized as hostile weather conditions speaks with mute eloquence the esteem and warm regard in which you hold our two speakers. This is the third dinner meeting of our 1980-1981 season. And I am pleased to announce that our fourth dinner of the season will be held at the Waldorf Astoria on Monday, April 6. Our speakers that evening will be Dr. Jeane Kirkpatrick, the recently appointed United States Ambassador to the United Nations, and I suspect perhaps the first woman who has ever addressed an Economic Club dinner. And the other speaker will be Paul Volcker, Chairman of the Board of Governors of the Federal Reserve System. I must say that our president, Ed Locke, tells me that due to the expected heavy demand, reservations must be limited to one table of ten to each member. And so, to those of you who plan to attend, I venture to suggest the desirability of early reservations.

As those of you who have been with us before are aware, because of time restraints it is a practical impossibility to allow questions from the audience. Therefore, it is our custom to request two of our members to represent all of us in the question and answer period which will follow the formal presentations of the speakers. And that, of course, is the time where we find very great interest as we do during the presentations as well, Pat. As I identify our two distinguished fellow members who have agreed to represent all of us in that capacity tonight, I would ask each of them to rise for a moment. They are, on my right, the Chairman and Chief Executive Officer of New York Life Insurance Company, Manning Brown. (Applause) And on my left, the Chairman and Chief Executive Officer of Standard Brands, Incorporated, Ross Johnson. (Applause)

Our first speaker tonight, ladies and gentlemen, is Reginald H. Jones, Chairman and Chief Executive Officer of General Electric, known to his host of friends as Reg Jones. This trustee of the Economic Club entered the employ of General Electric in 1939, following his graduation from the Wharton School of which he now serves as Chairman of its Board of Overseers, of the University of Pennsylvania of which he is now a Life Trustee.

Reg progressed steadily to posts of increasing responsibility within the General Electric Corporation culminating with his election as Chairman and Chief Executive Officer on December 15, 1972. During his tenure of slightly more than eight years, he has brought fresh vitality and new strategic direction to one of the most diversified enterprises in the world. And under his direction, sales of General Electric have more than doubled and earnings more than tripled. Nor has he devoted his time and talent to General Electric alone, as Chairman of the President’s Export Council, Chairman of the Business Council and co-Chairman of the Business Roundtable, his has been an eloquent voice for the expansion of world trade, for the restoration of United States competitiveness and the development of a constructive business government dialogue.

US News and World Report, in its 1979 and 1980 surveys – the series was, "Who Runs America?" – reported that his peers in business regarded Reg as the most influential person in business today. Despite his very obvious youth, Reg has announced his intention to retire on April 30. Happily his vigor assures us that we can look forward to many more years of useful activity in the public interest. Although recent events suggest that at 63 he has not yet reached a suitable age for consideration as a presidential possibility (Laughter) and lots of people think he'd be a great one, I regret having to remind you that the one event in his life over which he had absolutely no control, namely his birth in Staffordshire, England, represents an insuperable constitutional obstacle. I am pleased to present Reg Jones. (Applause)

Reginald H. Jones

Chairman and Chief Executive Officer

General Electric Corporation

Thank you. Thank you, Governor Wilson. I think I'll start out by complaining about Governor Wilson chairing the event this evening pointing out to you and to Eddie Locke that my successor, chairman-elect Jack Welch, sitting here in the front dais row, has his name spelled W-E-L-C-H. He's never welched on a thing in his life. And as I said last week to some of my friends, we're having a very smooth transition. It is not true that Carolyn Welch called up to see if I could move out of the office a little early so that she could redecorate it. (Laughter) As a matter of fact, the contractors had explained to her it would take at least two months after I left to change it from square to oval in shape.

What you're about to get now is a fellow pitching in what I call the Grapefruit League – the Major League season will start when Senator Moynihan rises. And I can tell you that I am just delighted that I'm on first because can you imagine following an articulate gentlemen like our senator from New York.

This evening I want to talk a little bit about management and what I call a time for introspection. Now this is the kind of a talk that you can only give as you retire. You're likely to lose too many good friends and customers if you give it while you're in active service. But I have no fear about losing any customers for General Electric because Jack will win them all back.

But, you know, this business community of ours has been in a state of, well, almost euphoria, since the presidential election that brought Ronald Reagan to the Oval Office. Now Mr. Reagan is just starting to move out of the honeymoon period. That's the happy time between being sworn in and being cussed out. And the reactions in some quarters to his economic program are helping him to learn how easy it is just to paint yourself in a corner even in an Oval Office. But we're all pleased to see that he is giving a very high priority to the restoration of the United States' economic strength. And he's counting on us, the business community, to help him succeed in that difficult endeavor.

And it's against that timely background that I have something I'd like to get off my chest here in the friendly environs of the Economic Club of New York. Let me get at it this way. It's been very difficult for management to stick to the business of managing in this past decade. We've had to devote an inordinate amount of our time and energy to the problems created by our critics, by some of our legislators, and by our bureaucrats. We've been buried under an avalanche of paperwork by the new agencies. We've been running to Washington and to the state capitals to explain our needs and very often just to prevent legislative disaster.

In fact, we've been obliged to redefine the work of management. The experience of the past decade has produced a new breed, a new breed of managers who are sensitive to their public responsibilities – managers who anticipate rather than just react to the demands of a fast-changing environment. Today's managers recognize the necessity of helping to shape public policy. And these new tasks of management are essential if we're to continue to have public support for our private enterprise system. The public wants business to help assure clean air and clean water, safety in the workplace, an end to discrimination, and a full measure of social programs and benefits. But it also demands a continual outpouring of new and improved products that satisfy the people's needs at competitive and acceptable prices. Simply put, products that represent good value.

When we witness market after market being taken over by our foreign competitors, we must ask ourselves if we've met this ultimate test of the consuming public. Now it's easy to place the blame on the special interest groups or on government. Any businessman who is looking for alibis for his company's failings has not had any trouble finding them. But now the electorate has spoken. It's elected an administration that promises to reduce the yoke of burdensome legislation and regulation. While we must work to make sure this happens, we must also ask ourselves if we're prepared to meet the public's expectations of us.

We've often promised that if the homemade handcuffs were only removed, we could indeed be competitive. Well, I wonder, it's always hard to admit that you're putting on a little excess poundage, but I think the inroads of foreign competition clearly demonstrate that quite a few companies have been letting themselves get fat and sloppy in recent years. Perhaps our struggles on the public policy front have diverted us from those hard tasks of internal management that keep us lean, hard, and competitive. Cost and expense control, productivity improvement, new product development, and asset management.

Some observers in Europe and Japan say there's a management malaise in these United States. Let's not dismiss that suggestion out of hand. There are indeed some troublesome symptoms which it might be profitable to discuss for just a few minutes. Perhaps the most disturbing symptom of management malaise is a sharp decline in annual productivity improvements. For most of the period after World War II, as you know, industrial productivity in this country advanced a solid 2 ½% a year. But in the 1970s, the rate of increase dropped off to less than 1%, 0.7% a year. And for the past three years, our productivity has been declining.

The US still leads the world in productivity in absolute terms, but we're running dead last among industrial nations in terms of productivity improvement. The evidence is that our foreign competitors are moving quickly to adopt the new technologies that will dominate the factories and offices of tomorrow. Such things as micro-electronics, interactive graphics, computer-assisted design and manufacture and test, robotics, specialty materials and others. Companies that are trying to make do with old products and processes are in for big trouble in the 1980s.

And then we hear much these days of the decline of research and development expenditures in our country, and it's true that R&D has dropped off about 25% as a proportion of our gross national product. As in the decline of productivity improvements, much of the blame for this rests with the discouraging investment climate created by our own federal government. But that's cold comfort for a company that finds its markets taken over by more imaginative and aggressive competitors. Managements that have concentrated too much on short-term results are finding that they've really short-changed their own futures.

The United States has also experienced a steady decline in its world trade position as our international competitors have gained on us. Four annual trade deficits on the order of better than $30 billion back to back surely must be a cause for concern. This is most damaging for our economy for it exacerbates our unemployment and it reduces our economies of scale, weakens our dollar, and heightens our inflation rate.

True, our government has hampered our efforts to improve exports through an array of boycott laws, export controls, human rights maneuvers, and tax legislation that would not be tolerated for a moment in our major international competitor countries. But here again, we managers must ask, are we doing all we should? We've been so spoiled by this large, homogenous, domestic market that we truly understand that we haven't ventured into foreign markets which are difficult and sometimes hazardous – a much smaller percentage of our firm's export than is the case for other industrialized nations.

Another clue to the problem of management malaise is the common attitude, in my opinion, toward inflation-adjusted accounting. We all know that our financial statements based on historical costs are not portraying with any accuracy our profitability in these inflationary times. While we may argue that Statement #33 of the Financial Accounting Standards Board has many problems, and it does, at least it's an effort to achieve somewhat more reality in our reported figures. More importantly, it provides a mechanism for displaying to the public the extraordinarily high tax burden loaded on American industry – over 60%. And yet most companies' annual reports treated this issue as the last in a long string of footnoted tabulations appended to the financial statements, gave the absolute minimum information required, and then commented on the inadequacy and misleading nature of those figures.

The real question here, the real question, is how many of us internally, internally measure each of our operations on an inflation-adjusted basis so that we know and our management know the facts on our own de-capitalization. Or consider the subject of LIFO versus FIFO accounting for inventories. When we use Last-in - First-out accounting, we keep the so-called phantom inventory profits out of our financial statements – a very important consideration in a time of inflation. We also retain the cash in our business that would have been used to pay taxes on those phantom inventory profits if we had been using FIFO accounting.

Certainly LIFO makes sense in terms of integrity of our financial reporting and also in terms of cash savings. And yet study after study shows that two-thirds of the inventories in this nation are carried on a FIFO basis. We're not only misleading the public, we're misleading ourselves. And I'm quite confident that the financial community at least has figured this out. Witness the price-earnings ratios for most of us today. They're clearly discounting for the inflationary overstatement of real earnings.

Let me move to another symptom. We've been hitting Washington, and this fellow on my right, very hard for improved capital cost recovery allowances in our tax legislation. And I might add that we've made a real impression. Supply side economics are in and without question upcoming tax legislation will provide for improved depreciation deductions from taxable income. We've successfully made the point that the very slow write-off of the historical cost of buildings and equipment does not provide adequate funds for replacement and modernization in an inflationary economy. And yet, I can't help but be disturbed that even today we do not deduct from our reported profits the amount of depreciation that we take even today for tax purposes. There's a growing disparity between book and tax depreciation and it's indeed difficult to explain this to a senator or a congressman when you're arguing for even higher tax deductible depreciation. So again, are we kidding ourselves?

Now in discussions of these financial reporting matters that I've just outlined, one often hears the excuse, the tyranny of Wall Street. It's said that if we were to report on the basis just suggested, our stock prices would be hit, hit hard. Well, I doubt it. I think Wall Street is way ahead of us. They've already figured out inflation's impact on profitability. When inflation rates soared in the 1974 period, several major companies did shift the light bulb and their stock prices did not change relative to the market. It had already been discounted.

There was a study made at the University of Chicago and it was reported on by the *Wall Street Journal* that showed that although the firm's switching to LIFO did report lower earnings, their stocks actually outperformed the market over a two-year span centered on public announcement of the change. Now I do think there's a legitimate complaint about the tyranny of Wall Street when we're talking the myopic concentration on reported quarterly results. And this one really gripes me. The problem here may well be that institutional money managers who buy and sell our stocks are also under pressure for quarterly results. The long range investor who is willing to support major investments for R&D and for productivity at the sacrifice of current earnings today is in the minority. But on the more general front of inflation-adjusted results, I believe that Wall Street is very understanding.

Let me return to the subject of short-term results. The pressures on American management for these short-term results don't seem to be as compelling for our counterparts in Germany or in Japan. In those nations, management does make substantial investments for the future and their lower percent net to sales numbers in many industries reflect those investments because they're betting on the come.

Now these differing degrees of pressure between their countries and ours may well result from the fact that American industry is largely financed by equity – equity held by speculative investors who are seeking capital gains rather than dividend income. Now one needs no extended reflection to realize that our tax structure encourages the in and out speculator rather than the patient investor who retains just such a small percentage of his dividends. The government at the federal level takes 70%; the state of Connecticut will take 7% and New York perhaps even more, so you wind up with less than the rate of inflation on your dividends. German and Japanese companies are largely financed by the banking institutions – truly long-term investors with major stakes in both debt and equity issues. Their interest is in the long-term welfare of the corporation and they can afford to look beyond the quarterly results.

Well, what kind of answer do you have to this problem? While changes in our tax structure would undoubtedly help, it may well be that the ultimate answer lies with our boards of directors. Management cannot protect and enhance the productive capacity of the nation if it is to be responsive only to the short-term pressures of a constantly shifting and changing share owner constituency.

And yet the country's economic foundation must be modernized and grown if our enterprise system is to endure. It seems to me that the boards of directors must shoulder the responsibility for balance between short and long-term results. They've got to insulate management. They must share with management the setting of proper goals and the measurement of performance against those objectives. They must protect management from undue short-term pressures and base their compensation of management on achievement of balanced results. And I'm delighted to see the heightened interest in corporate governance and the growing trend to independent boards of directors of real stature. That augers well for addressing this particular problem.

Well, this has been a long litany of charges and they're, of course, generalizations. As Justice Holmes once said, all generalizations are false, including this one. (Laughter) I am well aware that there are many companies in the United States that do not suffer from the management malaise that's been charged by foreign observers and foreign critics. There are companies that have been on LIFO for a long, long time, and they're using inflation-adjusted accounting as the supplement to their traditional controls. There are companies that are driving hard to apply the new technologies to their products and processes, and some have taken the plunge into international business. The pressures for short-term results are ameliorated in the larger, more diversified firms with larger and longer perspectives.

Nevertheless, where there's smoke, there is fire. The national statistics on productivity decline and the successful invasion of so many markets by smart, innovative, foreign competitors certainly suggests that some managers, some companies, and some industries have questions to ask of themselves. You know when the aggressively managed US auto industry, for so many years a paragon to the world, finds itself running losses in the billions of dollars, then there are very few industries that can look to the future with any kind of complacency.

It's easy enough to find alibis for our difficulties, but with the humility that comes from honest introspection, we might find that some of our problems are of our own making. Perhaps we have to spend less time assigning blame and a little more at hard work in our own shops. After more than 40 years in business in positions that have put me in touch with many industries in many parts of our country, I've acquired a profound respect for the leaders of American industry. This country is the business society par excellence, the model by which other nations have framed their economic aspirations.

Now that enviable position was achieved by you, by American management, and American management still has what it takes to restore this nation's wavering image in the eyes of the world. We have our problems, but it's an old management saying that every problem is an opportunity in disguise. Given the reasonable environment that the electorate has approved for this new administration, given the quality of American management, I have every confidence in the future of this country's private sector. Thank you. (Applause)

Chairman, Governor Malcolm Wilson: Thank you very much, Reg, for that thoughtful presentation. And we'll be hearing from Reg before very long during the question and answer period. Ladies and gentlemen, the roles of academic scholar and public servant are ideally combined in the career of our second speaker, Daniel Patrick Moynihan, the Senior Senator from New York.

A member of the Senate Committee on Finance, he is the first New Yorker to secure a place on that tremendously important and powerful committee since Senator James J. Wadsworth from Geneseo in Upstate Livingston County served on the committee briefly during the tenure of President Calvin Coolidge. (Laughter) Pat also serves on the Budget Committee, the Committee on Environment and Public Works, and is Vice Chairman of the Select Committee on Intelligence.

He has been a member of the Cabinet or sub-Cabinet of four presidents – Kennedy, Johnson, Nixon, and Ford. Under the administration of President Nixon, he was a member of the Cabinet Committee on Economic Policy. He has served as our country's ambassador to India and as United States Permanent Representative to the United Nations. And you will recall that in that capacity he headed the United States delegation to the Seventh Special Session of the General Assembly on International Economic Development.

On the scholar side of the equation, the senator has four earned degrees, honorary degrees from

42 colleges and universities of this nation, and Europe, and is an Honorary Fellow of the London School of Economics which he attended on a Fulbright Scholarship. I am told that when he's asked what other school of economics he belongs to, he answers, Austrian I think. This is obviously just a brief thumbnail sketch of our senior senator who was born in Tulsa, Oklahoma, moved to New York City with his mother and his siblings in his infancy, and now resides in what is not necessarily a major metropolitan center, in the agricultural heartland of New York State, Pindars Corners, West Davenport, Delaware County, New York. I would just add parenthetically that Pat has also provided great service to his fellow citizens of this, his home state, in Albany, because from 1955 to 1958, a period of time when I first was privileged to meet Pat, he was a valued and valuable member of the staff of the then governor, now ambassador Averell Harriman. I am pleased to present Senator Moynihan. (Applause)

The Honorable Daniel Patrick Moynihan

United States Senator, State of New York

Governor, our affection for one another is too personal for me to go on beyond saying I'll never forget that speech you made on the Yonkers Raceway in the Assembly. It's a subject only people who have been in Albany would understand. I have a problem actually this evening, it was, I think perhaps Justice Holmes got his remark from the great paradox of Epimenides, the Cretan, who said that all Cretans are liars, and left people to puzzle that one over for many years. I have been very much in favor of a constitutional amendment which would rid us of this long-dreaded fear of the House of Hanover and allow persons born abroad to be president. And some people brought it up for Henry Kissinger. I'm for it in aid of Reg Jones.

But, on the other hand, sir, at 5:30 this afternoon in the cornfields somewhere between Philadelphia and Trenton, the Amtrak train broke down completely and the part that broke down was, according to the conductor, made by General Electric – the complicated things that you have to deal with in life. But now then, no more levity. There will be no more levity. This is an economic club, a dismal science. (Laughter)

And I would like perhaps to have a sort of macro response to the micro remarks that Reg Jones made with great capacity. And to begin with his comments upon the very favorable, the auspices of the moment. In this moment of pressing difficulties and drastic remedies, it may be useful to look back to an earlier and perhaps not dissimilar time. And now those of retentive memory will recall that on March 3, 1858, the *New York Times* reported from Albany that 86 state senators had presented the petition so brief and so explicit, as the *Times* put it, that it was given in entire. And I quote, "The undersigned citizens of the state would respectfully represent that owing to the great falling off of the canal revenue as well as the increasing drafts upon the state treasury and the large expenses of carrying on the several departments of the state government, thereby flowing up the taxes; therefore, with the view of relieving the people from the large amount now unnecessarily expended to sustain the Executive and Legislative Departments and to secure the honest and better administration thereof, your petitioners respectfully ask that your honorable body pass an act for calling a convention so to alter the constitution as to abolish both the Executive and Legislative Departments as they now exist and to vest the powers and duties thereof on the president, vice president, and directors of the New York Central Railroad Company." (Laughter)

The proposal, as the *Times* special correspondent explained, was intended as a joke. It passed the Legislature and failed of adoption in the fall election by 6,360 votes. If there's a moral here, it is that a long-suffering people fed up with taxes is likely to resort to less well-thought out responses than the Federalist Papers would suggest. And if there are those who feel that the new administration in Washington is overreacting to the present crisis in public finance, they would do well to consider that as of now some 30 state legislatures have passed resolutions calling for a constitutional convention to draft an amendment requiring a balanced federal budget. That last such resolution was received by the Senate from New Hampshire in May, 1979.

Under Article V of the Constitution, if three more states act, in four states a resolution passed one or another of the bodies, at least one house of the Legislature during 1980, if three more pass such a resolution, we shall be required to call for a convention. It will be, as best I read, our single precedent, Philadelphia, 1787, plenipotentiary. And there is not to my knowledge a Madison or a Hamilton on hand. It is enough, as Dr. Johnson might say, to concentrate the mind. But there is more to our present situation than the recurrent crisis in public finance that arrived from shifting economic resources, the falling off of, the decline of canals for example, and the dispositions of legislatures to overspend.

To the contrary, what is most absorbing about our present situation is the degree to which we face a crisis of economic theory as much as of economic performance. And I would wish to be understood as being as much perplexed as any by this as most of those who study government. I have tried to know about economic theory without any pretense of actually being able to do it. What I knew when I first went to Washington in the administration of President Kennedy was that our understanding of these matters was coming along nicely (Laughter) and events in the early 1960s appeared to confirm this. In the fall of 1965, the first issue of *The Public Interest* edited by Irving Kristol and Daniel Bell made its appearance.

And as it happened, I wrote the first article in that issue which was entitled, "The Professionalization of Reform." And I described what I thought to be a tendency, which I think in time was still more evident, for social policy to be taken over by persons whose nominal profession was that of social change. And this had become possible, I argued, in the first instance because economics was attaining to the condition of what I called an applied science – the result of theoretical advances which we associated then with the general theory and the empirical tradition represented by C. Wesley Mills of our city, Columbia University, and the National Bureau of Economic Research.

I wrote that men are learning how to make an industrial economy work, and I declared with the confidence of youth that the industrial democracies had undertaken systematic programs for industrial growth and had achieved it. If I can quote myself a bit more, the ability to predict events as against controlling them has developed even more impressively. The Council of Economic Advisors forecast of the GNP for 1964 was off by only $400 million in a total of $632 billion. The unemployment forecast was on the nose.

Now I had not wholly lost my senses. I noted that we had not; in fact, achieved full employment, and I worried. I wrote that we have accepted the use of federal taxing and spending powers as a means of social adjustment, but so far only in pleasant formulations. Our willingness to raise taxes, for example, is yet to be tested. In general, the political component of political economy remains very much uncertain. And yet, I saw a future in which an economy, if well enough managed, could be used to undertake for example the abolition of poverty.

Now in short order our willingness to raise taxes was to be tested and, of course, we failed. Inflation began. But there were other signs of disorder. Unemployment persisted. In the spring of 1970, at the annual dinner of the Fellows of the London School of Economics, Dr. Otmar Emminger, who was and is Chairman of the Deutsche Bundesbank, spoke of the simultaneous appearance of inflation and unemployment. That was not supposed to be possible. A little later, Dr. Arthur Burns of the National Bureau told a congressional committee that economic laws, the economic laws weren't operating as they were supposed to. It made an impression on them when someone like Arthur Burns says that. The inflation of the early 1970s followed by the imposition of peace-time wage and price controls persuaded me at least that our theoretical grasp of these matters was very weak. And our political capacity to carry out what theory in fact did decree was weaker yet, some earlier perhaps. I, for my part, grew alarmed about this.

At that time, Nelson Rockefeller left the governorship of New York turning over the reins of government to our most distinguished chairman to establish the Commission on Critical Choices for Americans. And I was asked to prepare a long paper on the quality of American life – a paper which appeared in 1976. It was an endless document. As far as I know, no one's ever read it. I couldn't even get my wife to read it. But I preface it with a two-sentence summary which I offer you. It said simply, there are two critical choices affecting the quality of American life. The first is how much growth we want. The second is how much government we want. This was not a political statement. I was not in politics. It was simply what seemed to me the observable condition of the time.

For much of the third quarter of the 20th century, Americans in choices actually made had more or less consistently opted for more government and less growth. Extrapolated, these curves could only lead to a condition of no growth and total government. And before that, or so it seemed to me, there would be a reaction. And events led me back into politics and I've been caught up with that reaction ever since. In part, this is because when I went to the Senate, as Governor Wilson remarked, I made it my business to become a member of the Committee on Finance.

Governor, I should tell you that it's true I'm the first New Yorker in 50 years; I'm the first Democrat from New York in a century. My predecessor, whose bones lie in St. Agnes churchyard in Utica, New York, is the man who nominated Samuel J. Tilden for the presidency. And if you stay off the Finance Committee for a century or a half century, don't be surprised when you go broke. I mean I just want to give you that little detail.

And so I have become involved in this matter now. And the most striking aspect of this condition is the degree to which government growth is seemingly beyond anyone's control. Now what more striking instance could there be than for President Reagan in his State of the Union Address to propose a $41.4 billion cut in the budget which was bequeathed him by President Carter and only seven days later to announce that there had been a severe underestimate of the growth in outlays such that some $3 - $6 billion in additional cuts would have to be found on top of the $41.4 billion. Now I know I don't have to tell people in this audience how much a billion dollars is – there are billionaires all around here. But when you try to talk to other fellas and ladies, and not in dinner jackets and so forth, one of the ways to put it is to say that a billion minutes ago St. Peter was ten years dead. It's a big number. (Laughter) Don't get used to it. Don't get used to it just because it, you know, I mean I know that all your friends are billionaires, but that's fine.

The task before us is to control a budget which in the course of one presidential term rose from...(Audio Stops...then resumes, no overlap)...which President Reagan was bequeathed by President Carter – an increase of $235 billion in some six fiscal years. I speak as one who has, in the company of other Assistant Secretaries, sat in what is now the Roosevelt Room of the White House and had President Johnson instruct us in no uncertain terms that the budget for fiscal 1965, his first budget, would be $99.999999...like one of those little pocket computers, a billion dollars. It had taken us 176 fiscal years to get to our first $100 billion budget. We recently had a fiscal year, ‘80 - ‘81, in which the increase was $83 billion.

Now the administration proposes a response not less extraordinary than the circumstances to which it is responding. This is a necessary and urgent undertaking. Yet it should be clear that it will be tremendously difficult. James R. Schlessinger, having said so just yesterday in the *Washington Post*, he said, in brief, it is not going to happen, referring to those reductions. We're all perhaps freer to acknowledge the improbability of some of these budget cuts, the undesirability of others, and the somewhat breathtaking economic forecast on which the revenue estimates are based, and some other specifics. The deficit in fiscal ‘82 will surely be in the neighborhood of $60 billion and it could be higher. Even so, we could be at a turning point. We could be about to assert a significantly greater measure of control over our affairs than we've had and that will be all together a good.

Let me emphasize that I make the point about the 1982 deficit, not to criticize, much less to discredit. A situation that developed in the course of a dozen or more budgets will not be resolved in one. If the administration's specific forecasts have not been met in 12 or 18 month's time, this will not mean the effort has failed. But I do, however, have a larger concern. It is that the administration may be making just the mistake, or the mistakes, of those of its predecessors it least approves. There is an obvious parallel, if you would like to make that sort of thing, in the face of an economic emergency, what more Keynesian response could there be than a huge deficit, a whopping tax cut, and a sharp increase in spending. But that's not the parallel I wish to make. But I tell you, you could caricature this as a classical Keynesian budget. You don't like to hear that, do you? Well, that's all right.

I have another, in mind another reference. It is to Keynes' observation that every hardheaded businessman is the slave of some defunct economist. (Laughter) An aspect of the professionalization of reform, about which I wrote in *The Public Interest*, in the now distant years, is the extraordinary and growing influence on practical events of those frequently exceptionally impractical people known collectively as academics, and among these most conspicuously the economists. Now only a fool would dismiss what economists know, what academics know. But the greater fool is he who exaggerates what academics know. And I refer especially to those who exaggerate what economists know.

It seems to me that conservatives were not merely philistine in the 1930s; they were not merely philistines in the 1930s when they expressed alarm about the influence that they saw of the New Deal brain-trust. My reading of that period is that Jesse Jones, a plain, Texas millionaire had a lot more to do with getting us through, and I did not say out of, the Depression than did any of the fellows that you might say of Kings College, Cambridge, or of Cambridge, Mass. And I would note that Jones was head of the Reconstruction Finance Corporation, a creation of Herbert Hoover, another eminently practical man.

Now the tendency to believe in economists was then a disposition of Liberals as we say, and I was writing about that disposition in *The Public Interest*, those 16 years ago. But it has since, at least I feel, become very much the disposition of Conservatives also. And this is the parallel I would like to make. It’s not the use of academics that I deplore. I was once a member of the Cabinet of President Ford in which there were no fewer than five full professors. We did no great harm or no greater harm than others did. And man for man, we are no worse than lawyers. (Laughter) What I find curious is the degree to which Conservatives seem to have displaced Liberals as starry-eyed advocates of exotic and newfangled economic doctrine.

Some while ago I observed that in the course of the 1970s without anyone quite noticing, Republicans had become a party of ideas. Now this is something altogether to be desired but it is also something that takes practice. (Laughter) And where academics are involved, it takes more than experience; it takes a measure of knowledge as well. It is necessary to know the limits of economic knowledge. Economists know them, or most do. There are some well-understood economic functions, some less well understood, some not understood at all. It is not a failed profession, as Galbraith has suggested, but neither is it a mature science or likely ever to be. Not every economist is as candid on this point as he or she ought, but then let the buyer beware. Or keep in mind Melbourne’s dictum that he wished he was as sure of anything as Macaulay was of everything.

Which brings us to the question of taxation which will be the crucial, central economic decision that will be made this year. And let one member of the Finance Committee make his views plain. I am for a tax cut this year and I am for a tax cut primarily designed to increase our rate of capital formation. (Applause) This is not a new problem. It is a problem as old as the extraordinary productive economic system that is called capitalism and it is a plain problem. I grant that we went through a spell of economic doctrine which held that capitalist economies have an inherent tendency to surplus production and a built-in tendency to over-saving.

The spell of that theory having been broken, I cannot for the life of me see the advantage of submitting ourselves to other equally dubious propositions, for to repeat, the problem is plain enough for a political system to respond to. We do not have enough investment because in some significant measure the tax laws discourage investment. And here, Reg, you and I may have a slight difference of judgment but it seems to me that in part this discouragement comes from an incredibly complex tax code that invites the enterprising to devise means of gaining wealth essentially by outsmarting the code.

Consider the celebrated butterfly straddle in the commodities markets. When I first heard of it, it seemed to me, it sounded to me like one of the more exotic diversions of the Ming Dynasty. No. It is just another way of tax___. And I don’t know what troubles me more, the loss to the

Treasury of $1.3 billion a year in revenues or the loss to the society of the energy and talent of the grown men and women who spend their time arranging such things. In any event, I put a bill into the United States Senate this morning that will make it illegal. (Laughter)

And I think similarly we ought to take a very close look at the whole world of government loan guarantees. We perhaps ought to require the Congress to have a productivity impact anytime it establishes a new one and to judge the estimate of the present one. But we have no measures of this, but the closest we come is in the last budget documents, a special analysis that indicated that government last year lent $81 billion, or 23% of the total capital advanced in US credit markets. In the early 70s it hovered around 14%. That has got to be a form of mis-allocation at some point.

But the most direct and unambiguous approach to increasing the rate of capital formation is to decrease the tax on capital gains. And that is precisely what we should do this year. (Applause) Which brings us to the tax cut, let me say, I don’t know if the federal government will ever become the employer of last resort, but for members of the Congress we have a publisher of last resort which is the Congressional Record. And I’m going to put the rest of this speech in that record in order that I can close up in one minute and get to our speeches.

But I just wanted to say that last August – and I will send a copy to anyone who writes me – by a vote of 19-1, the Finance Committee reported out a tax bill, a bipartisan tax bill, that was the same, roughly the same size as that which the administration had proposed but with a distinctly different emphasis. Our primary concern was capital formation. Senator Bentsen proposed a radically revised depreciation schedule which would have had the effect of cutting corporate taxes by almost 25% within two years. I propose to expand the exclusion on capital gains to 70% such that the rate on capital gains would drop to 20%. There was to be a reduction in individual income tax rates – the first since ‘64. But in economic terms, I can fairly state that the judgment of the Finance Committee was primarily concerned to increase the rate of capital formation in this country.

This is where we located the problem of productivity and growth and further, we had and have some strong empirical evidence to support our view. In 1978, the Finance Committee and the whole of the Congress amended the minimum tax and the exclusion for capital gains with the result that no individual needed to pay more than 28% of his capital gains in tax. Before that, the top rate had been 49%. The effects were dramatic.

First, investment in small venture capital firms climbed to $1 billion in ‘79 from an average of $300 million in the mid-70s. Second, the amount of capital that business raised through public offerings doubled from ‘78 to ‘79. And apparently, it’s doubling again this year. And third, stock prices rose. And finally, far from losing money from the tax cut, the government’s tax collections from capital gains increased by 15% in 1979. Now if you can find a situation in the economy whereby cutting a tax, you increase the revenues from that tax, you should seize it, it is God-given. There aren't many. And that, I hope, is what we will be doing in the, on the president's tax...we write the laws, and we will write the tax measures. And if you think it's a good idea, that's what we will do. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN - GOVERNOR MALCOLM WILSON: Thank you very much. Thank you very much, Senator Moynihan. And now ladies and gentlemen, for our interrogators, who will ask their questions alternately addressing them at their choice to either of the speakers. And perhaps in view of the preeminence of our interrogators, I would be on safest ground if I suggest that we start in alphabetical order. And so Manning Brown, would you please start.

R. MANNING BROWN: I would like to address the first question to Mr. Jones who alluded to the need to reduce barriers to exports from this country perhaps in recognition of the need for the American economy to remain open with respect to the rest of the world. At the same time, we read in the papers in the automobile and other industries there seems to be some discussion of the need for import quotas. And I'd just like to ask Mr. Jones how we would balance the growing protectionist sentiment against the need for free trade?

REGINALD H. JONES: Well, that's another nasty question in the field of economics and politics. And I have to say that I've had my problems with the theoretical economists also, Senator. I can recall that it was in 1974 that we started screaming about the lack of capital formation in the United States and testified before a one-man sub-committee of the United States Senate on the subject of capital formation. The one man was Lloyd Bentsen who is still very much interested in the subject. And when I finished that testimony, I was taken apart by the economics profession who pointed out to me I'd better go back and look at Economics 101 because in that textbook it said you will find there can be no such thing as a capital shortage. It's impossible, savings always rise to meet the demand because as the demand increases, interest rates go up and therefore you get the savings. And a very, very learned economist by the name of George Meany turned out to be the greatest ally I had when we went to Capitol Hill to get a permanent and increased investment tax credit. He said, Jones, the only trouble with you is you got some good ideas, you don't know how to sell them. You're talking about capital formation. I'm going up there to talk about job formation. And he was so right. And as the Senator has said, the whole problem with the Keynesian school, we've been hanging everything on this inability of a capitalist economy to have a sufficiently high demand – we over-save. Well, we certainly don't over-save in these United States of America and it's just refreshing to hear Senator Moynihan talk to these issues. And while I am off your question, Manning, I also, since you lumped me with Henry Kissinger, I have to tell the president's favorite story about Henry. A lot of questions were asked of President Reagan why Mr. Kissinger was not in the Cabinet. And he said, well, I have to tell you, I ran a public opinion survey on that and interestingly enough found out that more men recognize the name Kissinger than women. And, you know, it doesn't take you long to figure out. After all, how many women know Henry on a last name basis? It's probably just as appropriate that we're not allowed to serve. But to get to Manning's nasty question, here again you see we have the difference between the classical school of economics which talks the law of comparative advantage and the fact that there should be no barriers at all in international trade, that we all actually injure ourselves when we become protectionist. And there's a great deal of truth in it. Unfortunately, I am for free trade but with one proviso, that it be fair trade – free, fair trade. One of the greatest problems we have at the moment is the matter of the financing of international trade. We are up against an absolutely miserable situation where nation after nation is financing exports on a subsidized basis. Last December, Fred Bergsten, Assistant Secretary of Treasury in the former administration, met in Paris and under the Berne Convention tried to get everybody to agree that it was senseless to be charging interest rates of 6% and 7% and 8% on exports as you finance those at the very time you were borrowing the funds to do that financing at 13%, 14%, or 15%. And the French refused to lift the interest rates. So we are now talking about cutting the funding of our Export-Import Bank which, you know, is sort of like shooting yourself in the foot. The Export-Import Bank, I would point out to you, has paid over a billion dollars to the United States Treasury since its formation. Last year, even with that interest rate spread, because of the composition of its funds, made $109 million profit. It didn't cost the taxpayers a cent. And this year, despite the disparity in rates, will still be in the black. And here's another case where I think like the capital gains case, I can prove to you, Senator, that increasing the funding for export financing will increase the tax revenues of the United States, lower our unemployment rate, grow our economy, and reduce our inflation rate because it strengthens our dollar. If I were in the steel industry, if I were in the auto industry, I would probably be somewhat protectionist. I think we do need to recognize that we are being treated unfairly in the world markets. And while I am not a protectionist, I do believe that there are times and there are industries where there should be voluntary restraint agreements. There were voluntary restraint agreements in certain industries in the past that were quite successful. It's been done in steel before. I think that kind of a system perhaps even has advantages over the so-called trigger price mechanism that we have today. And it may well be that our auto industry needs a year or two to get itself re-tooled to produce the cars that you now want. And that if we don't do that, we could have some very severe problems and I suspect if we're tough enough, that our major international competitors will be willing to go along with us because they recognize the inequity of the situation that exists today. (Applause)

F. ROSS JOHNSON: Senator Moynihan, and if I can speak for Manning Brown and myself, the prospect of asking you questions is such, we'd like to be a billion minutes away too. As a member of the Budget Committee where you are the fifth ranking Democrat, we'd appreciate your comments, as you feel today, on the president's proposed budget in two parts if possible. Taxes, you've spoken on capital formation, your position on the personal tax cuts, and secondly, on this posture with respect to expenditures.

THE HONORABLE DANIEL PAT MOYNIHAN: Let me say on, my position on the tax cuts is, on the cuts, is that first of all, let's be clear, these are not cuts. These are increases of a lesser number than were supposed. I mean you don't sit around here at linen tables and dinner jackets drinking French wine because you let people in Washington fool you about words, do you? I mean, I assume you know that. And let me secondly say that, what I said earlier, I don't think you should go through what we have, the result of this many years of really not controlling expenditures shouldn't...you won't stop it in one budget. You won't. And if you think you will, then you're going to find out you're certainly going to be a morale break....what did Reg Jones just say to you? He said to you that the cut in the Ex-Im should not be anywhere the proportion it is proposed. I have a bit of a midlife crisis, as I was talking to the Governor earlier on, you know, it's not that easy. My first student has entered the Cabinet and that'll make a fellow feel gray-haired, even if he is 34 years old. His name is David Stockman. And I didn't teach him all those things. Where the hell did he find out all those things? But for what it's worth, and can I tell you the truth? Do you want to know the truth, the absolute, almost the whole truth? Alright, one of the most distinguished supply side economists who very much shaped the president's doctrines we're hearing in Washington wrote me a letter which I received yesterday as I was writing this speech. It was a letter appalled to find that there was being proposed a 75% cut in the budget of The National Science Foundation for Economic Research – his grant. He certainly, he meant cut...Russell Long has a wonderful, you know, the whole line about taxation, don't tax you, and don't tax me, tax that fellow behind the tree. And this is going to happen. But there's another thing. On the taxation, I know that our disposition in the Finance Committee is to go to capital formation on the lines of my bill last year and Senator Bentsen's bill and ___ anything more than we put them in first. But could I also speak to the question to which Reg Jones responded so carefully about imports and the whole question of how you handle the economy. One of the things that has happened, you see, to economic doctrine, and I think up at Columbia frankly they're doing the best, Mondale and others are doing the best work in it. Sorry about Pennsylvania, they do the best modeling. Columbia does the best theory. And it is that an awful lot of classical economics, and neo-classical, assumed the nation state as the limit of the system. And we are in an international economy of an extraordinary important kind. And what has happened, I think, I would like to say to you – you're not going to like to hear this – but you've been getting an awful lot of talk about government intervention in the economy and how it's going to be all over, right, all over, like next spring there won't be anymore left. Lynn, do you agree? Most of the, it seems to me that we have failed to understand the impact upon our society and economy of the rise of the state trading nation elsewhere in the world which means that only governments can deal at an economic level with other governments. Yesterday in Washington, well, let me first say, I would argue with you, as I've done for, I would argue in a forum, that the successful formation of the OPEC cartel has brought about more government interference in the American economy than did the New Deal. And it had nothing to do with us. We didn't have any elections, we didn't have any votes, we didn't have bills, it just, it happened. State trading, yesterday in Washington it was reported in the press that the present administration, thinking about what to do about the grain embargo and all that with the Soviet Union, is thinking about negotiating a series of comprehensive trade agreements with the Soviet Union which Joseph Craft said, in effect nationalizes our trade with the Soviet Union. This morning in the press in Washington, Clyde Farnsworth in the *New York Times* reported a meeting yesterday with reporters at which our very distinguished new trade representative, Bill Brock – I was incidentally heartbroken when he took that job – my plan was to hire him to be Chairman of the Democratic National Committee at four times his pay – but he went off and got this hopeless job he has. He told the, reported that he was prepared to talk to the Japanese about a "voluntary" restraint. I negotiated for President Kennedy the first long-term cotton textile agreement. Secretary Blumenthal and I were in Geneva and did that. Voluntary indeed. (Laughter) Now he said, Bill Brock said that he would want to do that but it was on the condition that the automobile industry labor and management commit itself to changes that would improve and advance American competitiveness. He said, and I quote that the government would demand every, he said there was going to be $25 to $30 billion extra have to be raised for the industry that would not be generated by the industry. And he said, quote, "Every cent of this must be invested in productivity." There was not a New Dealer that would have dared inform Detroit was it was going to do, pay, make, model. It comes routinely. Automobiles are a merger of state trading and OPEC. And don't think that world is going to go away just because of the outcome of the election. (Applause)

R. MANNING BROWN: Senator Moynihan, in your remarks you advocated a reduction in the capital gains rate. If I'm not mistaken, you also have previously advocated that individual income level, the tax rate should be reduced there somewhat in order to encourage investment and savings. If you were to do that on the individual income tax level, would you agree that the president's proposals hit the right place, or would you change the emphasis?

THE HONORABLE DANIEL PATRICK MOYNIHAN: No sir, I think you've got me mixed up. My name is Moynihan. I'm from New York. You were thinking about Kemp. He's from Buffalo. (Laughter) I don't think reducing income tax rates would have any significant increase in consequence and savings. I think people are hard up often in this country that it would go into consumption. That's why I characterized the president's proposal as classically Keynesian. I think we have to start; we cannot have the lowest rate of capital formation in the industrial world and expect to have much growth. And this is going to take some trouble. It's going to be a decade's doing. Reg Jones will have to get another job, start another company. We'd better invest. And we've got to be prepared for some serious troubles. I'm thinking, if I can just say another word about state trading, we went through the awful impact of OPEC, the Middle East crisis in the last decade. It was the prices of oil that blew up one budget after another. We are facing probably, no, no, God forgive on that, we are facing the possibility of a genuine emergency with the Soviet Union and Poland. We have had, for the first time in the history of totalitarianism, there has arisen a genuinely popular protest and a successful one. I don't know how the Soviets are going to be able to accept it. If they don't override it, they threaten the whole loss of their, to them their Western...their Eastern ____. If they do accept it, they threaten the loss of their legitimacy. We're going to find out how tough a people we are before this decade is out. But in the meantime, nothing more important than to develop the productive capacities of this country which in certain respects have become ominously weak. (Applause)

F. ROSS JOHNSON: Reg, I couldn't agree more with your comment about Wall Street's myopic concentration on reported quarterly results. Many of us feel the importance placed on the quarterly comment is overemphasized by Wall Street. Yet the ritual looks to be permanently embedded in our corporate reporting life. Do you have any thoughts on how to put this financial exhibition in better perspective and perhaps make Jack Welch's life easier?

REGINALD H. JONES: Well, I think the only way we can do it, though, is for us in management to screw up our courage because I just agree so totally with what Senator Moynihan has said about the need to rebuild the productive capacity of the country. And you can't do that and still show every quarter, regardless of the business cycle, improved earnings. You're going to have to make some sacrifices of short-term earnings to put the money into R&D, into productive equipment, into all the things I talked about in this field of micro-electronics, interactive graphics, CAD/CAM, CAD, etc. And this is where I think the management needs the insulation of a strong board of directors – a board that will encourage the management to make those investments, will take the slings and arrows of outrageous fortune, because you've got to recognize that you have the responsibility. Look, management today with the composition of the boards is largely, as we all know, self-perpetuating. Now I'm not going to go back and give you the old burly means arguments from the 30s, but the facts of life are that our share owner constituency has changed. And the very tax changes that are going to encourage this increased capital investment, mainly reducing capital gains rates, will exacerbate this problem. Not that I'm opposed to reducing capital gains taxes, because that does help us get new equity. But until we do something on the front of making dividends worth something to our share owners, we won't have long-term investors. More and more of the money, the equity money for American business is coming today from the institutions. Where are the savings going right now? Into the money market funds. And they'll go from there into mutuals and other investments, but they'll go on the basis of performance because the capital gains rates are so much more attractive than the tax rates you're paying on dividends. And when that happens, the bulwark against that investor and his need for short-term gain is you, the members of American management. We won't have this plant and equipment that will be needed to protect America in the world that you've just envisioned unless we collectively take on the responsibility of seeing to it that that is the most modern, the most efficient plant in the world. You know when we started to build this productive mechanism in this country; we had the long-term investors – many of them foreign. If you go back and look at our history, the foreign investors, British largely, put the money into American industry and left it there and watched those businesses grow. And they weren't in the money markets; they weren't in the funds the way our institutional managers are today. Let me turn that right around and say to you that we've got a responsibility there because, you know, we turn our pension funds over to those money managers and we look for performance every quarter ourselves. So it's a vicious circle in which we've entrapped ourselves. The only way we're going to get out is working with our own boards of directors, encouraging them to give us compensation plans that relate to long-term performance and then measuring us on that basis. And our share owners in the long run are all going to thank us if we're willing to screw up our courage and do that job. (Applause)

R. MANNING BROWN: Reg, in your remarks you discussed the disparity between book and tax depreciation and asked whether we were kidding ourselves. Were you suggesting standardization of book and tax accounting to make all financial statements show the same result?

REGINALD H. JONES: That's a tough one too. I thought you were one of my friends, Manning, and I'm not responsible for that snow that's going to stop you from going to Princeton tonight. Well, let me say this, you know, one reason we don't use LIFO for two-thirds of the inventories in the United States I think is largely because of the requirement put on us by the Congress of the United States that if we want to use LIFO, we must conform book and tax accounting. Let's stop for just a second to think what would happen if we did conform our book and tax accounting. If we did, we'd all go to LIFO. We'd immediately reduce our earnings in the short run. We would, of course, be reporting taxable depreciation and that taxable depreciation is going to go up – you heard the senator commit to that – it's going to happen. And that would further reduce income. And the net would be you would be showing that you're paying to the United States government taxes at much higher rates than the so-called code rates. Because, you see, your earnings would go down, but by God, your tax rate would automatically rise because you are now showing a book income much higher than your taxable income, showing the same tax figure of course. I think it would do us all a lot of good. I'm not sure that we can conform book and tax accounting across the board. There are timing differences that are legitimate. But certainly on the issue of depreciation and on the issue of inventories, I think it would be a cathartic that would be awfully good medicine, tough as it would be, Manning. (Applause)

CHAIRMAN - GOVERNOR MALCOLM WILSON: Ladies and gentlemen, since it is an unvarying and unbroken and great rule of this Club that our dinner meetings never adjourn later than 10:00 p.m., I suggest there is time for one more brief question and one more brief answer. And Ross, it's your question.

F. ROSS JOHNSON: Senator, living in New York City as many of us here tonight do, its financial viability is of great concern from many standpoints. To what extent with the city's financial status be affected by the president's recent budget proposals?

THE HONORABLE DANIEL PATRICK MOYNIHAN: Could I first say that at the end of that little, that endless speech of mine which I didn't give, I said that, you know, life goes on and things aren't as bad as they might seem. We, the Council of Economic Advisors, no longer have the foggiest idea what the GNP will be next year, but in fact it has doubled in the last 16 years. And some of the situations which seem very difficult have their advantages. Now how can I say this in a manner that is not misunderstood. I think I can say it this way. The price changes of the last five years have saved the city of New York. You all understand that, don't you? Our debt has been cut in half by inflation. Our value of our property has doubled. The revenues from the sales tax soar. Five years ago, we were in serious economic difficulty. We are not now. We are a stable, solvent city. And partly, and also, because the international world is so uncertain that you may think we have troubles here, by God, capital flows into this country from people who are glad to get it out of where they are. Mayor Koch has done an extraordinary job. The president's proposals are going to make some things difficult at first. One, which I cannot accept, and Senator D'Amato and I share this view, the idea of closing down the mass transit aide of the federal government is just wrong. You know, if you want a city like New York, you have to have the density of New York, and to have that density, you have to have mass transit. The French know it, the English know it. Everybody knows it. We don't know it because it happens that our capital is partly in New York, partly in Washington. It's a great mistake. It was an arrangement that Hamilton and Jefferson made, and it's the only mistake Hamilton ever made. So the capital was here, but it happened. We will get through this difficulty. If we got through the last five years, the next eight are nothing. (Applause)

CHAIRMAN - GOVERNOR MALCOLM WILSON: Well, ladies and gentlemen, I want to express our immense gratitude to our speakers, to Senator Pat Moynihan, and Reg Jones, to our questioners, Manning Brown and Ross Johnson. And most of all, ladies and gentlemen, our very deep appreciation to you for the great compliment which you paid to our speakers by the gift of your undivided attention. And now if Reg and Pat would just rise and come over here for a moment. On behalf of all of us here tonight, I would like to present to each of you a Steuben crystal apple which is the representation of the Big Apple which has become the symbol of New York City. But on our terms, we intend for each of you as a tangible token of our gratitude for your willingness to have shared with us your remarkable insights tonight. (Applause) Now ladies and gentlemen, I declare this meeting adjourned.