

An Occasional Paper*

The War Between Optimism & Pessimism

| The Dilenschneider Group, Inc.

* The purpose of these Occasional Papers is to give friends and clients of the firm a deeper understanding of the issues and events that are shaping the world we live in—and the world we will pass on to future generations.

The underlying problem we work to address is that major policy debates are usually presented to us in fragmented ways—a front-page story today, a page-18 story three days later, and so on. It's like getting the pieces of a jigsaw puzzle one at a time, one day at a time, and without any image of what they should look like when they're fitted together.

Rarely does anyone step back and offer the bigger picture, the comprehensive overview of what is really at stake and what the underlying interests are. Filling that vacuum is the purpose of these Occasional Papers.

The War Between Optimism & Pessimism

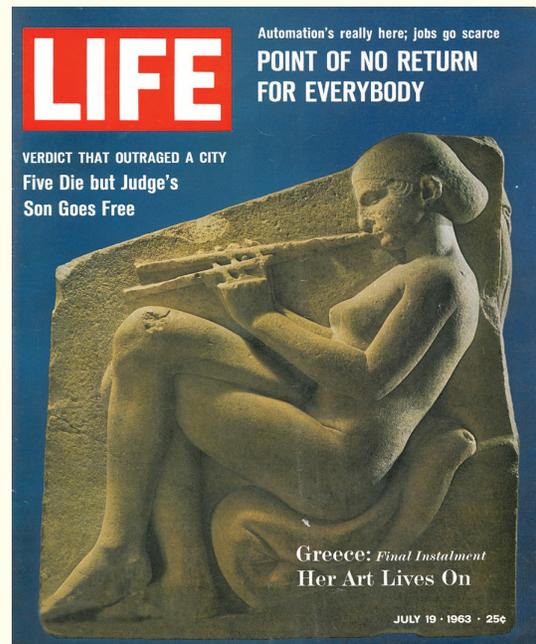
By Joel Kurtzman

MAY 2015

Take a look at the cover story of the magazine to the right. It reads, “Automation’s really here. Jobs go scarce. POINT OF NO RETURN FOR EVERYBODY.” The magazine was published on July 19, 1963, the year John F. Kennedy was assassinated in Dallas.

Today, if you walk past a magazine rack, peruse the internet, listen to radio or to conversations at a cocktail party, you are likely to see and hear the same sentiments expressed as those in the *Life* magazine story. And yet, immediately after the issue appeared the United States entered a period of unprecedented job growth lasting almost 50 years during which time tens of millions of good—*no, make that excellent!*—jobs were created. However, just prior to this jobs boom, the country was intensely fearful about the future.

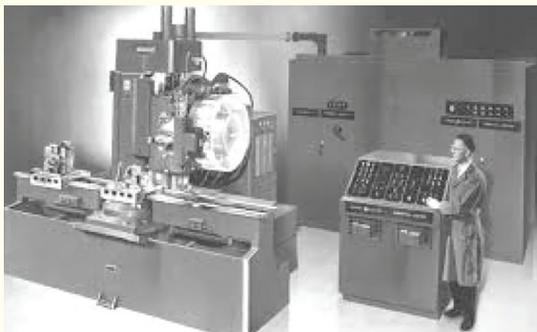
Is that how we roll? I’m afraid so. The optimists and pessimist are at war.



The reporters who wrote the article talked to all the right people. They interviewed shop-floor workers, captains of industry, economists, union stewards and leaders, politicians and academics. With nine million weekly subscribers at its height (more people than view any news show on CNN, Fox, MSNBC or CNBC) reporters for *Life* had access to anyone in the world. And yet they produced a cover story that missed one of the most important and longest-running economic trends, while pushing the needle on the emotional scale to a mark somewhere between intense worry and outright fear. *Life's* bias was not political, but it was staunchly pessimistic.

It is strange no one foresaw the events that actually happened. Instead, people were fixated by the march of computers onto the shop floor thinking of them as an invading, alien army. Specifically, the writers at *Life* focused on a single machine—the Milwaukee-Matic—made by a now-defunct U.S. company. This grey steel behemoth, which could be customized to do different jobs, was taller than most of its operators and controlled by a primitive computer. Its job was to cut and shape metal into irregular forms, something that previously could only be done by hand.

The reaction to this machine was vehement. One unidentified union official told a *Life* reporter, “There is now no need for 40% of our toolmakers, 50% of our machine operators. Without a shorter workweek, 60% of our [union] members will be out of a job.” Talk about a negative response to a new idea.



A PERSONAL PERSPECTIVE

A few years after the *Life* article appeared, when I was starting college, I took a summer job working for my uncle who owned a store that sold new and

used industrial machines, tools and parts. The store was in Southern California, not far from one of Lockheed's manufacturing facilities. Almost all of my uncle's customers worked in the aerospace industry.

One day, my uncle handed me a box and told me a customer needed it as soon as possible. He told me to take the van and deliver the package. I looked at a map of the city—this was long before GPS—and realized I was not going to Lockheed or Rocketdyne, or any of the big companies near my uncle's store. Instead, I was headed west, to a residential neighborhood nestled into the dry, brown, fire-prone foothills of Los Angeles.

I threaded my way around the Burbank airport and past one housing tract after another. Finally, I found the address stenciled on the side of a mailbox in front of a small house with a flat roof covered with white pebbles and rocks. A small, handwritten sign behind the screen door said, “Deliveries in rear.” I walked to the rear of the house where I saw a garage with an “Always Open,” sign on the side door. It was *the* archetypical California garage—like the ones in which H-P and Apple were started.

I will never forget what I saw when I entered the garage. Inside the brightly-lit, unair-conditioned space was a drab, grey, early-model Milwaukee-Matic milling machine. The machine was operating and I could hear the high pitched whine of its big electric motor and the sound of jets of water spraying the tool bits to keep them from melting from the friction. I'm guessing, but the square block of metal the machine was cutting made it look like the operator was making some type of intricate hinge.

When I entered the garage, I was greeted by a middle-aged woman who my uncle later told me was the machine operator's wife and bookkeeper. She opened the box I brought, checked the carbon-steel parts inside, smiled, unlocked a grey metal box marked “petty cash” and handed me a tip. “Tell your uncle I'll send him the check,” she said. The woman's husband, the machine operator, was standing with his back toward me, studying the switches and dials on the Milwaukee-Matic's console.

I made deliveries to this small two-person shop during that summer and the next summer and learned from my uncle that the Milwaukee-Matic's operator—who I never actually talked to—borrowed money against his house and from friends to buy a used machine after he was

fired from a big aerospace firm. Shortly after, he and his wife started the company and won a contract to make a series of small parts for rockets, aircraft and missiles. Aerospace was made up of big companies like Boeing, Northrup and Grumman, but it was also a cottage industry with lots of tiny, owner-operated businesses like this one.

I don't remember the name of the little company. But I do know this: None of the economists, union leaders, industrial captains, or professors who were interviewed in the *Life* story mentioned anything about an individual purchasing a Milwaukee-Matic because he or she saw an opportunity to own a piece of the future. Nor did the reporters talk to anyone who was fired and then started a business. Instead, the article focused on the grimmest of circumstances—unemployed workers looking for work.

Economic forecasters and others who try to understand the future are handicapped by thinking tomorrow will be like today. They are also handicapped if they have a negative bias because new technologies are often accompanied by opportunities that are missed when people focus exclusively on threats.

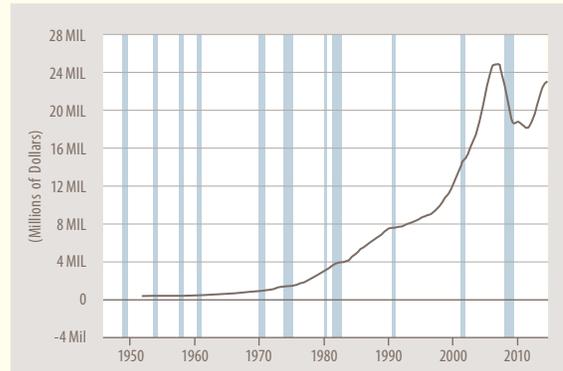
AMERICA'S ECONOMIC STANDING

I found this out the hard way. In March 2014 I published a book (*Unleashing the Second American Century: Four Forces for Economic Dominance*) arguing the United States will soon enter a period of exceptionally strong economic growth due to some changes in the economy and the introduction of new technologies. Technologically, since the Great Recession, we've gone from the world's biggest importer of energy to the world's largest producer of energy. We've also increased our lead in manufacturing (we are the most productive manufacturing country in the world), while remaining the world's most creative and innovative country.

These changes are not small. They are significant. Transforming the United States from energy importer to energy exporter means \$200 billion to \$300 billion a year will stay in the United States instead of going to other countries. In addition, since the Great Recession, America's real estate prices have recovered, and savings rates have soared. And, while this was happening, household debt fell dramatically. It's difficult to see these changes as anything but good news. And yet...

MARKET VALUE OF HOUSEHOLD REAL ESTATE

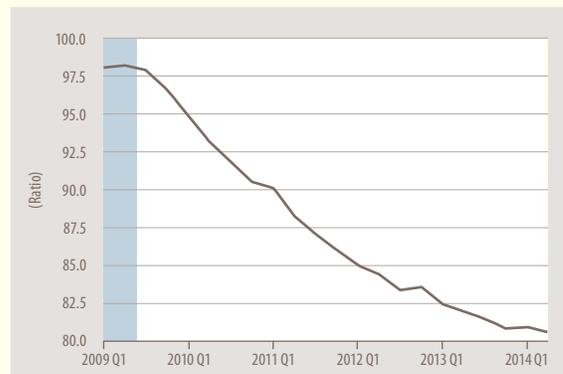
FRED Households and nonprofit organizations; real estate at market value, Level



Source: Board of Governors of the Federal Reserve System (US)
Shaded areas indicate US recessions – 2015 research.stlouisfed.org

HOUSEHOLD DEBT TO GDP

FRED Households Debt to GDP for United States®



Source: International Monetary Fund
Shaded areas indicate US recessions – 2015 research.stlouisfed.org

VEHICLE MANUFACTURING IN THE U.S.

FRED Value of Manufacturers' New Orders for Motor Vehicles and Parts Industries



Source: U.S. Bureau of the Census
Shaded areas indicate US recessions – 2015 research.stlouisfed.org

I expected this and the rest of my analysis to be greeted warmly, even enthusiastically. I was confident my facts were correct and my analysis sound. And, since so many confidence surveys indicate Americans were in something of a funk regarding the future and their prospects, I thought my analysis might cheer them up. But I was wrong. My optimistic words were greeted with as much warmth as a Milwaukee-Matic machine at a '60's union convention.

What was really odd was that none of the reviewers or interviewers disputed my facts or took issue with my overall analysis. They just didn't like my conclusion—that the United States would be a more attractive place to invest than emerging market countries, including China.

One reviewer at a major, national newspaper that focuses on the economy and business, really took me to task. Like the others, he was okay with my numbers. In fact, he praised them. But he, like others, thought my bullishness about America was wishful thinking.

I never met the reviewer but I sent him an email. I did it to find out why we didn't see eye-to-eye even though we agreed on the numbers. Surprisingly, he answered my note right away. "If you accept my numbers, why not my conclusion," I asked.

A day or two flew by before he answered my second note, but eventually he did. "Our time has passed," he said in his email. "That's just the way it goes. It's China's turn now. We've lost our edge. Our kids don't have the same kind of fire we had and we don't have the kind of fire our parents had. We're on a downward facing slope," he wrote.

Really? All 320 million of us are on that same slope?

I argued with him in a series of emails which didn't end well. In his last email, which I deleted out of frustration, he said something like: "Writing to you is hopeless. You just don't understand."

I guess I don't. But what I do understand is that deep down, when it comes to the rift between optimists and pessimist, most Americans are like my book reviewer. They only see and hear gloom.

Let me explain why that matters. The husband and wife team that bought their own Milwaukee-Matic managed to stay in business, my uncle told me. They didn't build a company like Apple, or SpaceX, or Gulfstream. They weren't superstars. They ran a small business that allowed them to keep their family fed and make their mortgage payments. It gave them the ability to send their kids to college and it helped them retain control over their lives even when the economy caught a cold.

They were able to stay in business not because they were part of the Greatest Generation, or because they were geniuses. They were able to do so because they saw opportunities, which they greeted with hope and seized, while others saw only ruin. And, while they may have been as fearful as they watched each expensive component of their Milwaukee-Matic being delivered to the garage, they did not allow fear to stop them.

I doubt optimism brings anyone closer to any ultimate truth, and it doesn't necessarily go hand-in-hand with competence. What it does is help you see opportunities. Today, it seems, most Americans aren't very optimistic. When it's survey time and they are asked to circle a number between 1 and 5 to indicate how much confidence they have in the economy, they're mostly circling 5s, when 5 stands for "not much."

I keep my July 19, 1963, copy of *Life* magazine on a table next to my desk. Even though it is yellowing and slowly disintegrating, I continue to display it. One reason I do is to remind me how easy it is to get our ideas about the future wrong. Another reason is to help me remember that America's bias, is not toward the positive, as we like to tell ourselves, it's the opposite. But I also keep it there to help me remember that while the Milwaukee-Matic sent shivers through the spines of people reading that magazine, there were at least a few sensible souls who saw the machine for what it was—a tool that could help us uncover opportunity. My aging copy of *Life* reminds me that it's those people we should be listening to. ■JK

Written by

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Joel Kurtzman is a noted international economist and business writer, who began his career with the United Nations. His articles have appeared in scores of influential media including *The New York Times*. Mr. Kurtzman has long been honored as a major commentator on the global economy, bringing in-depth analysis and unique skills as a gifted business journalist and knowledgeable economist. He is a Senior Fellow at the think tank, the Milken Institute, former Publisher of the *Milken Institute Review*, and a member of the Editorial Board of MIT's *Sloan Management Review*. He is also a Senior Fellow and Trustee of the Wharton School's SEI Center for Advanced Studies in Management. He was an Advisor to the US Council on Competitiveness, and a member of the Global Agenda Council of the World Economic Forum.

Previously, Joel Kurtzman was Global Lead Partner for Thought Leadership and Innovation at PricewaterhouseCoopers. Prior to that, Mr. Kurtzman served as Editor-in-Chief of the *Harvard Business Review* and before that was a Business Editor at *The New York Times*. Mr. Kurtzman was an international economist at the United Nations where he was Deputy Director of the Project on the Future.

At the UN, he won recognition for his economic models which were the first to warn of the impending 1980s Latin-American debt crisis. His many awards include the Priyadarshini Academy's Indira Gandhi Prize for his work on the huge Bhopal gas disaster in 1984 that took some 2,600 lives. He has testified before Congress and spoken at dozens of conferences around the world.

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For more information on this report, please call,
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