# THE EIGHTIES MAY BE THE GOOD NEW DAYS

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Thank you. It is certainly an honor to be asked to address such a distinguished gathering, but I have to remember to keep in mind Somerset Maugham's admonition that "at a dinner party we should eat wisely but not too well, and talk well but not too wisely."

Since I am going to be talking about the nation's economy, if I don't talk either too well or too wisely I will be in good company. John Maynard Keynes, who was of course an economist himself, once said about economics that "In the United States, it is almost inconceivable what rubbish a public man has to utter . . . if he is to keep respectable."

Still, I think that as a non-economist who is concerned about the economy I can perhaps bring some perspective to our economic debate.

Let me say right at the beginning that I myself am optimistic about our nation's economic future. My optimism stems not only from the attitude of the new Administration in Washington but also from some more basic trends in our economy arising from demographic changes, higher energy costs and technological developments.

The net result, I believe, is likely to be a decade ahead in which things will be getting better. People should find their quality of life improving, businesses should find a more stable environment in which to operate, and the government should be able to turn its attention from saving the economy to taking care of other pressing needs.

I emphasize the "should" because my optimism is based on trends that I perceive today that might change tomorrow. In fact, it's often foolhardy to make predictions at all. Shortly before he died, the French philosopher Voltaire predicted from his Swiss home that in 100 years the Bible would be a forgotten book, found only in museums. When the century was up, Voltaire's home was occupied by the Geneva Bible Society.

Still, I am optimistic enough to make a few predictions.

Actually, I can predict some improvement over what we experienced in the Seventies with some confidence because our Seventies economic record was so dismal that almost anything would be an improvement.

I'm sure most of you are familiar with the litany of our economic woes during the last decade:

o Our annual growth rate dropped by about 30 per cent from the level of the 1960s.

o From 1973 to 1980, the typical American worker's weekly wage lost 13 per cent in purchasing power.

o The consumer price inflation rate more than quadrupled in the Seventies and has recently been in double digits.

o Our personal savings rate plummeted from 7 per cent at the decade's beginning to about 5 per cent at its end. Japan's rate, by contrast, was over 20 per cent.

o And our annual productivity growth rate dropped to less than half of that recorded in the Sixties. In fact, in the last three years the rate has been negative.

In addition, energy costs mushroomed at the same time that the amount of proven domestic oil reserves began falling. And because of our need to import expensive foreign oil, our balance of trade has been unfavorable.

Yet a close look at some of the unfavorable trends of the Seventies reveals hope for the Eighties. In fact, I would like to suggest that while these demonstrably are not the good old days, we may some day look back to the early Eighties as the good new days -- a time of tremendous opportunity for those who could see the better times ahead.

Certainly, the extraordinary volume we have been seeing the last few years in our nation's stock market -- and the rise of the market indices as well -- indicate that many people already believe this is a propitious time for investing. Please understand that I cannot offer any personal endorsement or prediction of the future direction of the stock market.

Among the factors that bode well for this decade are a favorable population trend, the increasing computerization of the workplace and the response to the higher cost of energy.

What's favorable about the composition of the population is that the postwar baby boom generation is moving into its most productive years. That means our productivity rate is almost certain to rise.

As the number of young workers entering the labor force diminishes in the decade ahead, productivity is likely to get another boost because businesses will have an increasing incentive to add more productive machinery and equipment.

Another trend that will improve our productivity rate is the increasing use and greater versatility of computer-controlled machinery in factories and computer-based office equipment in offices. Just as the widespread implementation of labor-saving technologies helped boost our productivity rate in the Fifties and Sixties, the computerization of drudge work in the Eighties will help now.

A third trend that will help us substantially in the Eighties is an ironic one because it was a major problem in the Seventies. I'm talking about the cost of energy. The silver lining here is that Americans are reacting to the explosion in energy prices in ways that classic economics could have predicted: they cut back on energy consumption and upgraded the efficiency of their energy use. As a result of all of the insulating, buying smaller cars, turning down thermostats and so on by individuals and the substitution by businesses of more energy-efficient factories and equipment, we are using less oil per dollar of GNP than we were only a few years ago. If we continue to increase our energy efficiency at the same rate -- and there is no reason to think we won't -- we have a shot at energy self-sufficiency in this century.

What really happened to energy in the Seventies was that after decades of its real cost falling, it caught up all at once and then started rising again at about the same rate as inflation. If those increases continue in the Eighties, we will be much less affected because we have already begun re-orienting our economy to maximize energy efficiency. The bulk of our pollution-control and workplace-safety expenses took place in the early and middle Seventies and are now behind us. Likewise, the rise in our energy-efficiency expenses will soon diminish. When it does, the positive impact on the productivity rate will be noticeable.

Yet another favorable trend is the growing movement within American industry to improve the quality of life of workers on the job. Enlightened managements are recognizing the benefits of drawing on the experience and creativity of employees at all levels. Encouraging workers to participate in the key decisions that affect their jobs produces not only better morale but a more efficient, more productive organization.

One last favorable trend in the private sector is our continuing shift from a goods-producing economy to a service and information-services economy. We are the leader in that shift, and that makes our output -- which increasingly consists of ideas -- not only with little competition in world markets but also highly valued.

Part of our recognition of our proper future role is the renewed emphasis on research and development by many companies -- and especially the top priority given R and D by our high-technology companies.

All of those trends are going to continue almost no matter who is in Washington or what the government does. But we are especially fortunate to have these days a new attitude in government that will reinforce and build on the favorable trends in the private sector. I'm not just talking about the Reagan Administration. The attitude of many officials in the Carter Administration was almost as positive.

In particular, the new government attitude is expressed in a number of ways: in the widespread agreement that high tax rates are counter-productive and that, in fact, some tax cuts may be needed; in the belief that tax policy can be used to encourage productivity growth; in the almost universal belief that budget deficits have to be drastically cut and that federal budgets have to be pared down to do it, and in the realization that federal regulations produce a drag on the economy and that new regulations should be issued only if they are cost-effective.

The Seventies, by contrast, were a decade in which so-called transfer programs -- welfare, Social Security, Medicaid, unemployment payments, and so on -- increased much faster than our economy's ability to pay for them without knocking productivity growth for a loop. While the motives behind increased transfer payments are noble, transfer payments doubled as a percentage of gross national product during the Sixties and Seventies. The result of course was a boost to our inflation rate and a kick in our productivity growth rate.

Contrast that with the new attitude that government should do everything it can to help the economy grow and modernize. The so-called supply side can help us all -- and especially the poor and near-poor -- if by emphasizing the supply side we mean smoothing the way for more capital investment and higher productivity. The net result then will be more jobs and more better-paying jobs.

One bright spot in our economy even in the Seventies, by the way, was its ability to create almost two million jobs a year during the decade, which was a staggering accomplishment and one not matched in proportion by any other industrialized nation except Canada.

Although our unemployment rate averaged 7 per cent during the last half of the decade, up from an annual rate of under 5 per cent during the Sixties, that higher unemployment rate reflected a changed work force as well as a much larger one. The movement of the baby boom generation into the work force was one factor, of course, but the unprecedented movement of American women into the labor force during the decade was just as important. Nearly 62 per cent of all women aged 20 to 64 now have jobs.

Indeed, a more realistic way of evaluating jobless-ness is to look at the total percentage of the population over 16 that is employed. The 59.6 per cent figure recorded in 1979 was a record high for this country, and the percentage fell less than a point in 1980, despite the short recession.

What the unemployment total doesn't show is that many of the people who are out of work are in effect taking voluntary sabbaticals between jobs or are looking for part-time work. And the so-called underground economy employs some people who are supposedly out of work. A 7 per cent unemployment rate is certainly too high, but with the enlarged and demographically different work force, 7 per cent may be closer to a full-employment economy than 5 per cent was a decade ago.

Other bright spots that we can build on in the Eighties are our leads over the other large industrialized nations in three important areas: we have the highest living standards, the most productive workers -- although our productivity has been increasing much more slowly than other nations' -- and the highest level of exports. In all three cases, our lead was diminished greatly during the Seventies and we would be overtaken soon if the unfavorable economic results of the Seventies continued.

But I am optimistic that the favorable trends that I outlined before will produce better results in the months and years ahead. And I am convinced that people who recognize that the economic past isn't necessarily the future may have a real advantage.

The Keynesians, for instance, should remember that Keynes once said that "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist."

In fact, millions of people who think they can see beyond our current economic problems are taking advantage now of the opportunities to participate in the boom years ahead. And our nation's stock market has been one of the major beneficiaries.

The stock market's role in our economy is central. American companies of all sizes have to be constantly investing new money in their facilities and equipment to maintain a competitive position in an increasingly more competitive world economy. Indeed, for this decade it has been estimated that new capital investment of $4.6 trillion has to be funneled to American business.

A corporation can get that capital in only three ways: from its profits, from borrowing, and from selling stock, which is part-ownership in the corporation. Of course, the high-technology businesses that often need the most new capital are much too small to earn it from profits.

Corporations routinely borrow from banks, from insurance companies, and from individuals through issuing bonds. But there is a practical limit on the amount of borrowing a corporation can undertake. Borrowers always keep an eye on the corporation's capital base to ensure borrowings don't overwhelm the corporation's ownership capital.

As a result, growing corporations often have to issue new stock to broaden their ownership base. That is possible in this country only because of the existence of a broad and liquid secondary market for the stock of American corporations. Unless there were an efficient secondary market in which stock can easily be sold, nobody would buy the stock being issued by growing companies.

That's why the stock market is central to the nation's economy, and why it has remained relevant decade after decade.

As the nation's largest secondary market for stocks, the New York Stock Exchange has a particular obligation to maintain a market that is fast, efficient and credible. In meeting that obligation, we have always been a top-notch service organization. But more recently, in order to meet the requirements of the Eighties, we have also become a high-technology organization, using all of the latest advances in data communications and high-speed sorting of information to take over much of the non-judgmental functions of trading.

In fact, the New York Stock Exchange and its member firms together comprise one of the largest data communications networks in the private sector. And the Exchange alone has one of the larger computer installations in the private sector.

As a result, we are handling most of our smaller orders through computer systems that automatically route buy and sell orders to the proper trading post.

One system we implemented last year automatically tallies and matches buy and sell orders in most stocks before the opening each day so they can be executed all at once by the specialist when the market opens. And we have other electronic systems under consideration that will further help the specialist at times of high volume.

By the end of this year, in fact, NYSE automated systems are expected to participate in up to 70 per cent of all trades, although most of the larger and more difficult orders -- orders comprising most of the daily volume -- won't be included.

Because of all of the automation, our 78-year-old trading floor has gone from the staid look of an old banking office to the look of a Star Wars movie set within the last year. We have replaced all of our 50-year-old oak and brass trading posts with sleek new models bristling with computer screens and other electronic devices.

If we hadn't begun using computers as much as possible during the last decade, we wouldn't have been able to meet the demands that the increased stock market volume has pressed upon us in the last several years.

Volume has been growing in both listed and unlisted stocks, and in listed stocks the growth has been perhaps most dramatic on the New York Stock Exchange. Our annual volume on the NYSE exceeded two billion shares for the first time only 15 years ago, in 1966. Then our volume climbed fairly steadily, passing the five billion mark for the first time in 1976. Then, beginning in 1978, volume exploded. It was seven billion shares in '78, eight billion in '79 and a whopping 11 billion last year.

The growth in our average daily volume is especially dramatic. As recently as 1977, the record one-day Big Board volume was 44 million shares. Last year, the average daily volume for the year was over 44 million shares.

The record one-day volume on the NYSE, meanwhile, has more than doubled, to the almost 93 million shares recorded last January 7. In fact, for the first two hours that day our volume was running at the rate that would have given us a 140-million share day if it had continued.

Volume on other exchanges also has been growing, and for the first time all of the nation's exchanges have access to one another's orders in one result of the Congressional mandate in 1975 for a truly national market in stocks.

The nation's stock exchanges, the SEC and the securities industry in general have been working together to join the existing marketplaces into an interconnected national market for stocks that are available in more than one marketplace. The first step was a system linking all of the nation's stock exchanges. That system, the Intermarket Trading System, was just extended to the last exchange, the Cincinnati only earlier this year.

It has been working well.

The next step is to connect the exchanges with the market for unlisted stocks, the over-the-counter market, which is really a marketplace composed of securities dealers working in their offices and communicating by telephone and computer terminal. Although there are some problems with linking the listed and unlisted markets, we are confident we can do it.

All the new systems and new ways of doing business have made our advance planning function at the Exchange much more important. The planning has allowed us to keep ahead of the demand for our services so far, and we are working hard to remain ahead.

Although our peak volume day is still under 100 million shares, we fully expect a 150-million-share peak day and 80- to 90-million-share days for weeks at a time on the NYSE within the next couple of years.

We also expect the number of Americans who own stock to continue increasing, especially if there is an economic boom in this decade. The NYSE periodically tallies the number of shareholders, and our survey last year found the number of shareholders up by almost five million. The all-time record was reached in 1970, when we counted almost 31 million American shareholders, or about 15 per cent of the population. The market correction during the early Seventies led to a shakeout among shareholders, dropping the number to just over 25 million in 1975, or just under 12 per cent of the population.

But with the almost five million net additional shareholders recorded in 1980, the total number -- almost 30 million -- is only one million short of the 1970 figure, and the percentage of the population owning stocks was only a point and a half below the record.

The new stockholders are younger and have smaller portfolios than in the past. The 1980 Exchange survey found a median age among shareholders of about 45, the lowest median age since we began taking the surveys in 1952 -- and sharply lower than it was in 1975, when it was about 52. Three-fifths of the new adult shareholders had portfolios worth less than $2,500, which has lowered the value of the average portfolio.

In addition to the 30 million direct shareowners, our survey last year found 133 million <u>other</u> Americans were <u>indirect</u> owners of stock through such means as pension plans, life insurance policies of which they were the beneficiaries and trust funds.

The new shareholders have done well. The indices for the New York Stock Exchange, the American Stock Exchange and the over-the-counter market repeatedly set new highs over the last few years. In fact, the most widely followed index, the Dow Jones Industrials, is the only major index that has remained flat, in part because it only tracks large, slow-growing industrial companies.

But wherever the market indices stand, and whatever the economic situation, we at the New York Stock Exchange intend to be ready to handle the trades of the people who believe that they see an opportunity in the stock market. If they are right, they will look back to those times as the good new days.

And if the favorable economic trends that I see work out as expected, everybody will be able to look back on the Eighties as the good new days.

Thank you.

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