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### May You Live In Interesting Times

By JP Gough, Chairman & CEO, Orange County Business Bank

“May you live in interesting times” was a wish upon another person intended as a curse in ancient times. That word “interesting” has many different flavors of meaning to it. A key meaning implies “change.”



JP Gough

So if you are afraid of change, then this wish is a curse. But if you are confident that you can position yourself around change and that you are nimble enough to take advantage of opportunities presented by change, then you see this wish as one of *opportunity*.

I cannot argue with anyone who says that we live in interesting times. But as I look at the last half-century of my life, *‘the times’ have always been interesting.*

#### Interesting Events in Our Recent Past

It is common for many people to take a current negative event or trend and extrapolate it into the future to its ‘logical outcome.’ Only a few of the many notable shocks I have witnessed, with projected, dire futures included:

- **The Sputnik scare in the late 1950’s.** Pundits told us that Soviet technology, built on the back of German technology, was about to overtake America. Supposedly, we were losing the education race, the modernization race and the military race. Some people believed that the Soviets would rule the world in two generations. For anyone born since 1970, you probably are reading this one with disbelief – “How could anyone have believed that nonsense?” For anyone born since 1980, you’re probably asking, “Who were the Soviets?” [Google it: Soviet Union]
- **Inflation in the 1970’s.** This resulted from financing foreign interventions and growth of government programs through increasing national debt and expanding the money supply beyond the economy’s natural growth, resulting in an eroding dollar. Bringing these political and economic problems into national focus was our first oil crisis, as the cost of

gasoline hit \$1 per gallon! People thought that the rising cost of gasoline, at those levels, was about to end Western civilization.

- **Falling dollar in the late 1970’s.** Domestic inflation and historical new highs in the trade deficit caused the world to lose faith in the dollar as a “store of value.” In fact, there was a summer when American tourists overseas were going hungry and cutting their trips short because foreign banks would not exchange dollars for local currency – foreigners would not touch the greenback, as its value was too uncertain.

Notably, we survived the shocks and the widely-shared fears of even worse times to come. Those projected abysmal futures never materialized.

President Eisenhower said it best in response to the Sputnik scare when he said that Americans always rise to their challenges; and the greater the threat, the greater the Americans respond.

And just as importantly, President Eisenhower said that history has a way of proving that any predictions – even the most thoughtful and reasoned predictions of the future – are not to be relied upon, because they rarely come true. There are just too many variables to be considered that can affect future outcomes; what I call the *‘fog of a living world.’*

President Eisenhower said that Americans’ freedom, ingenuity and hard work would overcome the communist threat to the West. And he was right. Instead of focusing on the “how” to overcome the threat, he focused on the “what” would defeat the threat as represented by the Sputnik crisis. And the nation went to work on it, strengthened by hope and with no regard for fear.

#### Today’s Challenges & Opportunities

The challenges and threats that clutter our newspapers and news media today are too numerous for a single article. These dramas weigh on us collectively and individually. But what we do not always consider is what opportunities that these

national and global dramas present to us as a nation or even as individuals.

In today's article, let's look at only two of today's challenges; their impact and their opportunities – which are heavily inter-related.

## Rising Energy Prices

In the late 1960's and throughout the 1970's, the political system was not willing to focus in any serious and meaningful way on defeating inflation and the underlying inflation psychology that weighed on the nation. But then there was the energy shock (the oil embargo) followed by ever-rising energy prices. This negative trend forced the country to focus.

The ripple effect of energy throughout the economy could not be ignored. After a decade of painful economic experience (*stagflation*), the leadership on Capitol Hill put politics aside and called for a savior, giving him (Fed Chairman Paul Volker) latitude to initiate and force through structural reform to stop the dollar's accelerating collapse.

[Paul Volker personified individual strength combined with political savvy. His medicine was painful but effective. The country survived. Inflation was tamed. The world's faith in the dollar was restored. And the nation began a period of prosperity previously unknown.]

Energy prices had been rising because oil producing nations were not willing to exchange their oil for dollars when the American dollar was losing its spending power as fast as the oil could be pumped out of the ground. Oil exporters demanded to be compensated for the sliding dollar, and so they would raise prices regularly to catch-up or to keep pace in terms of the dollar's *spending power* or 'store of value.'

Accepting anyone's currency is an act of faith that the issuing country will honor its IOU by maintaining its spending power. We did not and so many nations came to lose faith in the dollar.

Nations, companies and individuals all work hard to keep pace with the value of the money that they received as payment for wages or goods. And as a currency slides, the people's faith in it also slides, but usually at an accelerating rate which has tremendous political costs.

We call that inflation – an adjustment for an eroding value of a currency. And it gets reflected in higher interest rates too, as savers need to be compensated for the eroding spending power of the money.

Because of the underlying inflation of the 1970's, Americans had stopped saving. They believed that they would get back less money in the future (in terms of spending power) than what they put into savings. And so began the long trend of a low savings rate in the USA, which exists even to this day.

Today's challenges seem to mimic those of the 1970's. Rising energy prices are about to rip throughout our economy, and that

part of the world where their own currencies are tied to the dollar. Energy is one of the few items that touches every aspect of the economy. So when the cost of energy rises, it affects the cost of everything. The most noticeable things to be affected are items for which shipping or electricity are major inputs in their manufacture or distribution.

The bigger and heavier the item, the more its costs will be affected by transportation costs. You may soon see imported, bottled water as a sheer luxury good. So, gone are the days of seeing kids at the beach, pouring Fiji or Perrier Water over a beach ball to clean the sand off of it.

*So what will change?* People's traveling and buying habits will change because they cannot afford not to do so. Everyone will become much more focused on efficiencies (as they once did before). And we will even find political will to do things which are necessary, regardless of their "PC" status. One area of high likelihood for change is our national attitude toward nuclear power.

The American political establishment had moved away from any support for nuclear energy in the 1970's. But while the USA virtually stopped its nuclear power program, other developed countries (France, Sweden, Norway, Germany, Switzerland, Austria....) continued their development of nuclear power to produce electricity – *efficiently, cheaply and cleanly.*

Clean energy? While there are still troglodytes in the Green Lobby who believe we should be living in huts in green pastures, many environmentalists understand that nuclear power has the benefit of cutting carbon emissions and other pollutants by major amounts – cleaning our air and our water.

Energy is no longer, *just another issue.* It is moving to center stage as *THE ISSUE.* Because energy not only affects our standards of living, it could ultimately determine our national existence. When the choice becomes that stark, political jockeying for advantage gives way to what works.

As our nation looks to higher efficiencies in the production of power and in all things that use power, *the demand for inventors and for engineers can only rise* – steeply. Just as it did after the Sputnik Crisis.

If you have children thinking of what they should major in, get them excited about math, physics and engineering. That will become the key to entry into the job force for the next 20 years. There will be many opportunities in this trend for those with foresight.

## Falling Dollar Now

In addition to our lack of dealing with the energy problems, the other, single largest damage to the US economy in the last 15-20 years has been the offshore manufacturing of American-designed and consumed goods. The fallout of damage from this business strategy has been huge.

Not only did we export jobs, we also created a structural dependence for goods that bring with them structural trade deficits. Europe, because of regulation or moral suasion, has not fallen to this Trojan Horse of short-term gain. [But Europe also actively practices non-tariff trade barriers and so protects its domestic industries from non-European competition.]

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At a conference in Singapore a few years ago, I spoke with someone from China who told me about their encouragement of offshore manufacturing in China. I asked him about the risk his country has in accumulating so many dollars, which are diminishing in value.

He told me that his country wanted offshore production from the US, *not for the money, but for the fact that we have modernized their economy far more effectively than they ever could have on their own – especially in that short a period of time. He told me that the transfer of technology and “know how” was far more important than anything the dollars could buy over time.*

In Chinese history, money has not been seen as a store of value (only as a medium of short-term exchange) – because they have had too many instances where money became worthless. They have a great appreciation for employed knowledge: skills of management, systems and technology. He told me that the American companies were turning China into a global power that it could not have done as effectively on its own.

As if to add salt to the wounds, this person told me that if all they could do with the US banknotes, is use them as fuel in furnaces, they still got more value out of picking our brains and know-how than they originally had been hoping to get. As he told me this, a rough quote from Vladimir Ilych Lenin (founder of Communist Russia) came to mind, ‘The capitalists are so dumb and greedy, that they would even sell us the ropes we need to hang them with.’

Bringing back home the production of various goods is already estimated to be *justifiable in economic terms in about one-fourth to one-third of the offshore cases.* The rise in fuel prices (oil is priced in dollars worldwide) is raising the cost of production worldwide. But even more so, the cost of shipping is skyrocketing. If you have flown lately, you’ve seen what has happened to airplane tickets.

But there are also other reasons to bring offshore production home to the USA:

- Increasing quality control problems are almost epidemic in the newspapers today. The stories not only cover lack of attention to detail, but downright lack of integrity in components and composition of ingredients. Cardboard as chicken?

- Ballooning cases of trademark and patent thefts – in no small number of cases by the very people contracted to produce the items for the American company being violated.
- While we used to argue that it is better they pollute over there, we ignored the fact that pollution travels. Whether it is carbon in the air or poisonous substances dumped into rivers and the Pacific, it finds its way here – like the tons of benzene dumped in November 2005 in northern China and which is working its way across the Pacific. One estimate is that 85% of the pollution off the California coast originated in Asia.

So bottom line is that the advantage of offshore production is diminishing with a falling dollar. For the entrepreneurial, this is the chance to go out and bid on work being done overseas so that you can do that work here at home. We could see the re-emergence of whole sectors of manufacturing in America for the first time in almost a generation. Only this time, we could be smarter and cleaner about it.

### **Good Times Ahead for Those Who Are Ready**

In summary, much of the news is bad. But if you can see the changes that are in motion to these problems, you can be roughly right in positioning for them.

The demand for more technically competent employees will rise, giving very healthy compensation to technical sectors once again. And from those initial jobs should rise a whole new generation of technically-driven entrepreneurs and inventors who will create great, efficient and clean businesses. I see a brighter future with even higher standards of living despite a falling dollar (which should stop falling before all of this is a reality).

And the dollar...sometimes it rises and sometimes it falls. The dollar’s relative value reflects our industriousness or our profligacy. If we react to the energy question properly and if our business leaders take advantage of the falling dollar to bring home production and boost exports, the dollar will revive as it has several times in our history.

An Argentine recently reminded me of our economic history and the dollar’s historical value when explaining why he still only holds dollars and not euros (and certainly not pesos). “America sometimes loses its way,” he said, “but it always finds its way back.” ‘And the dollar has never been abandoned by its issuer; it comes back when ultimately America wakes up.’

So with that to strengthen our resolve, let’s get to work. If you are a hopeful person and do not live in fear – *may you live in interesting times.*

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