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**THE UNITED STATES: ITS ALLIES  
AND THE WORLD ECONOMY**

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- o Future of the dollar
- o Prospects for American business in foreign markets
- o Stability of U.S. allies
- o Pros and cons of our trade policies
- o Future of the international banking system

MR. GARY CORBETT: Our keynote speaker, Dr. John G. Stoessinger, is an internationally recognized political analyst and a prizewinning author of ten leading books on world politics, including the Bancroft Prizewinning, *The Might of Nations World Politics In Our Time*. Dr. Stoessinger holds a Ph.D. Degree from Harvard University and has taught at Harvard, M.I.T., Columbia and Princeton. From 1967 to 1974 he served as Acting Director of the Political Affairs Division at the United Nations. He is Director of the Advanced Institute for American Leaders, a member of the Council on Foreign Relations and lectures extensively throughout the world. Dr. Stoessinger was chief book review editor of *Foreign Affairs* for five years and is presently Cox Distinguished Professor of International Affairs at Trinity University in San Antonio. He has been the recipient of numerous honors and awards, including Honorary Degree of Doctors of Laws from Grinnell College and the American College in Switzerland. During the past year, Dr. Stoessinger has addressed audiences in the fifty states of the union and in more than twenty foreign countries. The title of his presentation today is "United States: Its Allies and the World Economy."

DR. JOHN G. STOESSINGER: It's an honor and a delight for me to speak to the SOA and to be in Boston again, which brings back memories. I lived here, worked here and taught here for seven years. And, also, I'm delighted because I think my topic is particularly timely for the actuarial profession. Needless to say, I will not speak specifically about the actuarial profession. I've always avoided statistical analysis and theory of probability, because no doubt I would have flunked these courses, so I'm not an expert in your field, but I do know a few things which I believe may be of interest to you.

There are three topics I would like to address. First, there is an extraordinary transformation now in progress in the relationship between the U.S. and the Soviet Union, which in my judgment, has precipitated events that have not occurred in forty years. As a matter of fact, for the first time in forty years since I've been teaching this material, I've become (guardedly speaking)

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somewhat of an optimist. This transformation for the better has even begun to reverberate into your field, because as I understand it, a few months ago in the International Congress of Actuaries in Helsinki, Finland, Soviet actuaries or what passes for that profession in that country, attended that conference for the first time. And that, in my judgment, is a very interesting development.

The second topic I want to address is China, where I grew up, where I spent seven years of my life, and where I return two or three times a year for various reasons. China, in my judgment, is simply no longer a communist country. When you contemplate the facts that for four thousand years, China has been relatively entrepreneurial, merchant minded, and capitalistic, it has only been for thirty years during the Mao Tse-tung era that China was a communist country. This era is now ending and China is returning to a life-style with which it was always more comfortable, more familiar. And, again, here your profession is on the cutting edge, because as I understand it, the SOA consisting of Canadians and Americans, has recently initiated a program to teach the actuarial profession in China and has, in a sense, encouraged some professors to go to China and to engage in the teaching of that profession on the Chinese Mainland, which I think is a very wise move, because you cannot ignore one billion people, one-fifth of humanity in a country whose leader, Deng Cho Ping, said only a few months ago, "We must now improve communism through capitalism." I love that statement. It's straight out of George Orwell. And, therefore, I do believe life insurance is probably going to come to China in the not too distant future; and when you have life insurance, actuaries cannot be very far behind. Isn't that the case? We have to look at China here in a very meaningful fashion.

The third topic I should like to address is the subject of Japan. And here I would like to address this in a rather different way. As you know, Japan has powerful, large insurance companies. It's a tradition of its own and, to the best of my knowledge, the Japanese are now competing with us, Americans and Canadians, both in the east block countries and in China. The Japanese, however, are not all that terribly popular, especially in China, for a very simple reason called history. And, therefore, we're now witnessing a rather interesting relationship evolving in which the competition for life insurance in China is between the Japanese and the Americans and it will be a nip and tuck situation. Also, I'd like to look at Japan in a different context and that is it illuminates the status of the present American economy in a rather challenging light. To put it to you very bluntly, last week I had a speaking engagement in Hawaii and spoke at the Sheraton Hotel in Waikiki, which I discovered is now owned by the Japanese, as are most other hotels on the beaches of Honolulu. And it occurred to me that if Rip Van Winkle had fallen asleep on some Honolulu beach some forty years ago in 1944 and had awakened today, he would no doubt believe that the Japanese had won the war. And this creates some interesting problems, because we are now deeply in hock to the Japanese to the degree that 25% of our standard of living is now borrowed from Japan. And the big question to me now as an analyst of this question is what would happen to the Americans if the lending would stop, if they would simply no longer lend us money: what would happen then? And this is something that I would like to address in my third topic.

So without further adieu, since there's a lot to talk about, let me start right in. As I said in the outset, several things have occurred in the relations between ourselves and the Soviet Union just these past few months which have never happened before. When I was a graduate student across the Charles River at

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Harvard here back in the 1950s when Stalin was still alive, I would never have believed that this could be happening today. Two things specifically have occurred. Last December in Washington, Mikhail Gorbachev and Ronald Reagan signed the first genuine disarmament treaty between the U.S. and the Soviets in history and we are actually agreeing to destroy existing nuclear weapons. Not too many mind you, two thousand out of a total arsenal of fifty thousand, which I know is no big deal, but it's a start. It's a start and it's never happened before and that is in and by itself encouraging.

The second thing that's never happened before is that real flesh and blood inspectors, real people on both sides, are planning to make sure that nobody cheats. We now have American inspectors in the Soviet Union to supervise the destruction process of these missiles. And a few weeks ago in San Antonio where I teach and live these days, I saw a Soviet General with a chest full of medals who was to supervise the destruction of some of our missiles. And so far so good. Nobody has cheated.

So the first question that we have to address is how come this is happening now in 1988? How come this didn't happen ten, twenty, thirty years ago or when I was a graduate student longer ago than I care to remember? There are three reasons for this and I will give them in ascending order of importance. The first reason at the most superficial level, but one that nonetheless has to be taken into account, is that Reagan and Gorbachev like each other. This may sound simplistic, but there's something to that. You know Gorbachev visited the United States for the first time in his life last December. Reagan who is now 77 years old visited the Soviet Union earlier this year for the first time in his life. And Reagan gave a speech at Moscow University to Moscow University students under a bronze statue of Lenin about freedom of speech, freedom of assembly, freedom of religion and Lenin never even bothered to talk back. Instead Gorbachev applauded loudly and then these two men took a walk in Red Square in the middle of the "evil empire," so to speak, and talked about practical alternatives for a future relationship devoid, hopefully, of some of the ugly rhetoric that characterized it in the early 1980s. And Nancy Reagan, who's a major authority on her husband, said, "The chemistry between the two men is good." And she's probably right. And Sam Donaldson, who was an irreplaceable character during a press conference in Moscow, asked our President, "What's happened to you? Have you changed your mind? What happened to the 'evil empire' that you always used to talk about?" And Reagan said, "Well, I guess I've changed my mind. It's because of the personality of the General Secretary Mikhail Gorbachev." So it's something in these personal relationships that does make a difference.

There were, needless to say, profounder reasons why this is happening now and why we're having this transformation. The second and very important reason is that Gorbachev is hell bent to modernize and improve the Russian economy which is a disaster area. Anybody been to Moscow lately? Well, I don't blame you. Moscow looks like the Bronx on a bad day. I have nothing against the Bronx, but it's not exactly a vacation spot. You know the old babushkas with the shawls stand there lining up in front of the stores waiting for the consumer goods which still are not there. You have glasnost. You have perestroika, but they still say, "Where is the beef?" You know the shelves are still fairly bare there and nothing works there. And Gorbachev is infuriated by this, because he wants the Soviet Union to be an economic super power, not just a military super power. He doesn't want to modernize that country because he's a liberal or a democrat. Far from it. He's a tough, convinced communist and he wants

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to compete with us and the Japanese economically. He doesn't want to be left in the dust. And, if indeed, you visit the Soviet Union and forget about the missiles which they have and just look at the economy, you're in the presence of a third world economy, a very dismal economy.

I am going to give you an example which will interest you as actuaries about what doesn't work in Soviet Russia. And this is a true story which I'm not making up. A few months ago, the Soviets decided to go into the automobile export business. So they exported thirty thousand Lada models, that's a Soviet model, to Rumania, another communist country. Well, so far so good. When the cars were being unloaded in Bucharest, the Rumanian Capital, a Rumanian inspector discovered to his chagrin that every key of each of these cars fitted every ignition. I know you people in this audience are not in casualty but in life insurance, but I thought it would amuse you anyway. And this, of course, is what infuriates Gorbachev. This is one of a thousand examples I could cite of what's wrong with that economy over there. So, needless to say, of course, these cars were shipped back to Russia where they're now being let loose no doubt on unsuspecting KGB members for service faithfully performed. And this is what drives this man.

He's now hell bent to take some of the money earmarked for missiles away from the defense sector into the economic sector, into consumer goods, into light industry, and into what here we might call capitalist ventures, but which over there they call further evolutions of Socialism. I don't really care about the euphemisms they use, but it's definitely away from orthodox communism. Also, Gorbachev was interested in the economy only two weeks ago to decollectivize the Soviet agricultural system. This is absolutely a stab at the heart of communism when you contemplate the fact that Stalin collectivized the forest by force and this guy now says you can disband. We should have at least learned the individual presence. The Soviets can grow the kind of crops they want for profit. Do you realize what this means? This had to happen, of course, sooner or later, but it's happening this year in 1988.

Now, will Gorbachev last? I'm betting on this guy, because he seems to understand power so well that even Machiavelli could have taken lessons from him. Let's look at it. He has his A-team now right there with him. He got rid of some of the old guard. Gromyko is gone. Dobrynin is gone. Ligachev is more or less gone and he gets rid of these people nicely. He promotes them to ribbon-cutting ceremonies. You don't end up in the gulag anymore, but you're gone just the same. Now he's got his own guys in there. So the guy will not wind up, in my judgment, running some power station over Siberia. Far from it. And he is particularly interested, therefore, in remodernizing the economy and that means fewer missiles and more money for the economy. Therefore, disarmament deals with the U.S. are part of this.

Then there is a third reason as I said. He's very worried, Gorbachev is, about the fate of the satellites, Eastern Europe, which are no longer really satellites. Look what's happening just these weeks. Yugoslavia's falling apart almost literally. In Poland they want the Solidarity Union back and Lech Walesa without communists, if you please. In Czechoslovakia only a few weeks ago, they commemorated the twentieth anniversary of the Soviet invasion of Czechoslovakia in 1968 and Alexander Dubcek is still around and kicking and he says, "Look, we in Prague did what Mr. Gorbachev is doing in Moscow today. We did this here twenty years ago. How come you're rehabilitating all these dead Russians like Nikoli Borcardin who died in 1924? How about me? I'm still alive. Rehabilitate

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me you see." And he's got a point there, of course. Then Estonia, Latvia, Lithuania are up in arms demanding their autonomy back. The whole Eastern European orbit of the Soviet Union is shaking and rolling under the stress of the yoke of the Soviet occupation that's been going on for the last forty years. And Gorbachev has to deal with this you see. So he and his wife, Raisa, who by the way is a chapter unto herself, who is a very intelligent woman who talks back to her husband, who doesn't look like Nina Khrushchev used to look, you see, she's a fascinating lady. And she and her husband, Mikhail, took a tour of Eastern Europe a few weeks ago. In fact, they're like a couple of salespeople there, making the pitch for the new communism, saying, "Look, we are good people. We are making disarmament deals with the Americans. We're going to have a better economic deal for you. We're not going to be like Stalin or Brezhnev." Which reminds me, in Gorbachev's view, every Soviet leader except for Lenin was either a fool, a criminal or incompetent by his own lights you see. So they go on this tour and Gorbachev was in an expansive mood. A few weeks ago in Belgrade he said, "Stalin was a criminal." Well, this is pretty heavy stuff about a man who ruled the Soviet Union for a quarter of a century. Now, you see, the Soviets can go back to their history. They can revise it. You're laughing, of course. I understand why, because the definition of a Soviet historian is a person who accurately predicted the past.

Well, now you see they can do this again in a new light. And now new jokes are coming out about Stalin which are very interesting, one of which I have to tell you because it's not bad. This one came out of Belgrade. The story went that the Soviets have just issued a new commemorative postage stamp of Joseph Stalin. There's only one thing wrong with this stamp, however. It doesn't stick so well, because people keep spitting on the wrong side. Boston brings this out in me you know. What the heck. I'll tell you another one. This one you've got to think about. What is the definition of a string quartet? Answer: A string quartet is the Leningrad symphony orchestra after it has toured in the United States. You know these are jokes from which you would have landed in the Lubyanka, the KGB prison, only a year ago. Now people are talking. And one thing I notice there, there's less fear. The sunlight is beginning to get through the cracks a little bit over there. One last one which I've got to tell you, is about Chernenko, the old Soviet leader who died recently. The story goes that he had a conversation with Gorbachev before he died. And he said to him, "Listen, Mikhail, we've got big problems here in Soviet Russia. Too many people defect over to the West. They want to go to America. The Jews want to go to Israel. We have to plug up these loopholes. Unless we do there will be no one left here in Russia but you and me." Gorbachev says, "Don't count on me." So this is the reason or rather these are the reasons why Gorbachev is now disarming with us, why he's interested in a businesslike rather nonideological relationship with us.

Now how about Mr. Reagan? How come he's playing ball with him? The same Mr. Reagan who for the first four years of his tenure had not one good word to say about the Russians, who talked about "the evil empire," who talked about the murdering, cheating and robbing, but then once he met Gorbachev in Geneva in 1985 and, subsequently, three more times in Reykjavik, and in Washington and in Moscow, he's been saying nothing but nice things about Mr. Gorbachev. Very practical things. He has changed his mind. And, also, more important than this, most important, in the twilight of his Presidency, Mr. Reagan is concerned about his historical legacy. And very simply put, he wants to be the first President in history to have signed an authentic inspectable disarmament treaty with the Soviet Union. And so far he has done just that.

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And this has somehow overweighed and sort of outperformed some of the many fiascos which have haunted him this past year. You know the scandals in the Pentagon, in the Justice Department with Mr. Meese, the whole business with the Iran Contra mess, lately, Mr. Noriega. And all these things somehow are dwarfed by this rather monumental achievement that he is the first President, indeed, to sign such a treaty. And if you have noticed, the one thing on which George Bush and Mike Dukakis had no disagreement about at all, which they don't even debate, is the need to continue the disarmament process with the Soviet Union. That is the legacy of this administration in my judgment.

In effect they're not talking deep cuts. Fifty percent cuts of strategic missiles and some of the big ticket items that are aimed directly at us and at that them. For the first time I'm rather optimistic that this is a profound, significant transformation between us and the Soviet Union. This is not to say that conflict between us and them will be removed. Far from it. There's lots of conflict that remains, but the bottom line is this, that the way the conflict will be managed will be different. It used to be managed in the last forty years predominantly in the military arena of Vietnam, Korea, Afghanistan. Now it's going to be managed in the economic arena. That's my main point. Gorbachev is now leaving Afghanistan. He's deemphasizing the foreign adventures. He's cutting back from Angola and from Central America. He's interested in modernizing the economy to make the Soviet Union a powerful economic state.

And I see a future for you in this also, because I believe . . . Well, casualty insurance is already there. I know that's not your field, but life insurance, in my judgment, is not all that far behind. And as I said to you before, once life insurance comes in, actuaries are a necessity of life. No pun intended. So I see a significant role in there on the horizon. And as I said, the Helsinki Congress is a straw in the wind when the Soviets in that field attended the Helsinki Conference for the first time. So we're in the presence of a significant transformation.

Now let's look at China. Point two. Even more important. I know China very well. I grew up there. I know the culture. I speak the language, to some degree at least. And I know the people quite well. The country is simply no longer communist. It's that simple. I know this is a large generalization, but I believe it holds. Maybe the best way to describe it to you is to tell you what I saw there the last time I was there a few weeks ago. And I'm delighted that you people have the foresight in this Society to, if you will, underwrite and support a kind of scholarship program of professors, Canadian and American, who teach them the art and science of actuaries, because in China no doubt that profession is going to flourish, because life insurance is already there. The Japanese are very busy promulgating it. And I do believe that if you get the jump on the Japanese in the actuarial profession then, hopefully, they'll go the American and Canadian way, not the Japanese way. Therefore, the more of this you do now to prepare the ground, the more business will come your way down the years in China. The investment you made there is excellent.

Let me tell you what I saw there. You know you're in Shanghai by plane. You can use American Express there now when you get off the plane. That's something new. I walked up and down the streets of my old hometown. There were thousands of vendors out on the streets selling everything under the sun: refrigerators, T.V. sets, washing machines, suits, shoes, trinkets and there were thousands of tourists haggling with them buying these goods. All this under a towering statue of Mao Tse-tung who probably would have turned over

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in his grave several times had he been witness to this. I got into a conversation with one of these vendors and said to him, "Where do you get this inventory from?" The man said, "I took a loan out from my bank." I said, "Excuse me? Did I hear that right? Loan, bank, communist country." He said, "Yes, but I have to go demonstrate to my banker" the man said "that I would make a profit by selling this to people like you or in Hong Kong or overseas." I said, "Did I hear right again?" "Yes," he said "Right." But then he adds with a whimsical smile. He said, "Well, unfortunately," he said, "Part of my profits have to go to a newly established internal revenue service." That sounds familiar to me. I can relate to that.

Well, after that I went to a Chinese village, one of thousands, of course, in China. You speak Russian to them in a Chinese village and they look the other way. They studiously ignore you. You don't exist. They sometimes spit in the other direction, but if you speak English in a Chinese village there will be twenty street kids, little street urchins, following you down the street practicing their English on you. They come up with those jingles like "no mama, no papa, no whiskey, no soda." Stuff like that. God knows where they pick it up, but you suddenly realize that the official foreign language in China today, as of half a year ago, is no longer Russian. It is English. Every little boy, every little girl must learn English in China today and that helps communism go down the tubes that much more quickly in China. That's right.

I then visited a huge collective farm and at first, of course, it looks like a stereotype from a communist textbook. You know the tractors and the people straining and working very hard ten, twelve hours a day. When the work day is done, when night comes, something very curious happens which doesn't quite fit that stereotype. Each of these peasants then scurries off to little private plots of microscopic size and there he's got some produce, he's got some chickens, and rabbits, and tomatoes. It's his private property. He can eat that. He can sell it. Needless to say, the productivity on the plot is four times that on the public land. And then several times a year with the proceeds and the savings, the peasant takes his wife and goes shopping to the market in the nearby town. And there he will buy his wife a lipstick. The women want to look attractive. The old Mao unisex suits are gone. They're no longer fashionable. Then they will sort of lovingly ogle some of these consumer goods, the refrigerators, and the washing machines and the T.V. sets. And last time I was there the following sight blew my mind. A Chinese peasant couple loaded a huge carton onto a tricycle, and being a nosy fellow I said, "What you got in there?" So he opens the carton and gazing back at me from the carton was a used IBM PC.

So I told this story to one of my friends at IBM. His eyes began to pop. He got sick and he said, "You mean there are one billion potential customers out there." I said, "No, no, not at all. It's not that simple at all." And indeed most Americans who go to China to make business do badly, because they do not understand the cultural differences between us Americans and Canadians on the one side and the Chinese on the other. To put this in its simplest form, the main difference is on how you measure, how you perceive time. The Chinese, being a 4,000-year-old people, look at time in a very elongated fashion. Everything takes a long time over there. We, being a 200-year-old people, believe in quick solutions, quick fixes, give me the slide rule, give me the probability curve, I'll figure it out. Give me a quantitative analysis. That's not the way it is over there at all. So the typical American who comes there says, "I've got my order book here. Here's my lawyer. Let's make a deal and

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then we'll play some golf." The Chinese guys say, "This guy is nuts. He's got this thing backwards. First of all, we have to form a relationship. We have to get to know each other. We talk about anything but business. We talk about history, education, your children, your family and then you go home and think about all this. You come back in six months. We'll have another conversation." Well, if it's like this for two or three years, and then your host will probably talk about doing a little business. Most Americans cannot stand this. They go home and say, "Gotta make my return reservations." Then they go home. They cannot take it. That's why most Americans do not do well in China.

On the other hand, you have thousands of Japanese there who are now interested in getting the China business. Now the Japanese are not all that popular in China, as I said before, because the old Chinese remember the historical experiences with the Japanese in the second World War, but the Japanese understand the Chinese time frame. That they understand. So they wait in their hotel rooms for six months, if necessary, waiting for the Americans to fail and to go home. And then like barracudas they move in for the deal; the Chinese, in total frustration, would much rather have made the deal with the Americans or the Canadians than give it to the Japanese. I've seen this phenomenon countless numbers of times.

The Americans, however, who have patience and tenacity, who hang in there, who are not interested in quick fixes and who have a strategic view of things do very well. IBM now, for example, has been there for six or seven years and they're still not making money, but they're breaking even now, which is pretty good. And a high IBM official had a conversation with a high Chinese official and said, "Look, our shareholders are getting impatient. When are we going to make some money?" And the Chinese gentleman said to the IBM gentleman (this is a true story), "You might not make money in China, but your son will." If you can live with that you'll do okay.

Another one of my clients, Holiday Inn, just was allowed to build fourteen hotels in China after seven years of negotiations. They built the last one in Lhasa at fourteen thousand feet where they pump oxygen into the rooms. A sort of Yankee ingenuity. And when you think of Lhasa what comes to mind? Buddhist monks tinkling bells. Shangrila, Lost Horizon, Ronald Coleman, forget it. When you land there you see the good old familiar neon sign. Things have changed you see.

Now you ask me, of course, you have to answer the question, how come there is this dramatic change right now which will open the door for you also? Why? Well, when Mao Tse-tung died some twelve years ago or so, they had a pow wow in the Chinese Politburo. The question was asked then who is the more dangerous Western barbarian today, the Americans or the Soviets? Not only Mao Tse-tung said, "I prefer the Soviets. At least they are communists." That's why one woman went to the slammer on a commuted death sentence and is still not out on parole. This is the widow of the founder of the communist state. Very unpopular lady. Of course, she and her late husband are blamed for putting China backwards by twenty-five or thirty years during the years of the cultural revolution and the lunacy of the little Red Book, which is supposed to teach you everything when it comes to medical science, any kind of science. They are backward twenty, thirty years and she's the symbol of their backwardness in China today.



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Dung Cho Ping said, "You know I'm not really that enamored of the Soviets. Already under the Czar the Russians invaded China a hundred years ago and to this day they're sitting in outer Mongolia, which should belong to us." Which is three times the size of Texas, by the way. "And they refuse to give it back to us. On the other hand, the Americans lost the Vietnam war. They're leaving Asia, but they are the world's most advanced technological power and we, Chinese, must make a quantum leap, technologically speaking, into the twenty-first century. We want to be a major economic super power for which we need the help of the Americans. The Russians are not going to help us. They're backwards themselves. The Americans will help us. Therefore, we must go back to a relationship with the United States." And this, ladies and gentlemen, is official foreign policy in China today. In my judgment, it's irreversible. If you question Chinese about going back to the Mao Tse-tung period, they'll laugh derisively and say how would Germany like to go back to Hitler, or Russia to Stalin? I think that it is irreversible. It's simply going back to a lifestyle, as I said before, with which they are much more comfortable and far more familiar.

Here again, it is my judgment that the actuarial profession is on the cutting edge of China's future, because life insurance is already there and you have sent a team out there to teach them the actuarial profession which, in my judgment, was a wise move. If you hadn't done that I would have recommended that here, but you are way ahead of me. And then I, in a sense, give you a foothold in the coming competition for the China life insurance market with the Japanese, for the question is, "Will we go the Japanese way, will they go our way?" That little team there that your Society originated will, I think, pull the center of gravity more our way than the Japanese way. And I think in the decades to come there will be considerable business for actuaries in China and in the rim lands of China. That is my profound conviction, and I congratulate you in having had this foresight to send that team to China as you have, in fact, done.

Now then, one last word about China. I would strongly urge you to take your next vacation in China. I'm a teacher and I like to give homework. There is a lot to learn there, even if you don't do business right away. For example, in your field you might discover that people there tend to live longer than Americans. I should say live longer in a creative sense. You don't find too many nursing homes in China. People grow old in a somewhat more humane fashion than in the West. The average age of the ruling group in China, including Dung Cho Ping, is eighty-three. They think Reagan is a kid. The age factor would never arise in China. From an actuarial point of view, it seems to me there are very interesting psychological and philosophical lessons to be learned. And I think you will find yourself enriched philosophically and psychologically if you study that culture. It's important to study.

Before I leave this, an old friend of mine, Dr. Wellington Coo, who was Taiwan's Ambassador to Washington some years ago, died in New York a few years ago. He told me the story that he was invited to give a luncheon speech to a group of American businessmen a few years before he died. He was seated next to an American businessman during the lunch, but this gentleman didn't know anything about Chinese culture, so he chose to talk to Dr. Coo in pigeon English. And the luncheon came and he said to Dr. Coo, "Doctor, you like a soupee? Like your meat. You like your fruitec." And Dr. Coo played along with this rubbish and said, "Yes, I like a soupee, like a meatee, like a fruitec." Then he went up to the podium and delivered himself an elegant, ornate speech in Oxford English laced with witicism from Voltaire in French with this guy gaping at him

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in total consternation. And then Dr. Coe finished his speech and ambled back to his table and whispers into the ear of his luncheon companion, "You like a speechee?" All right, go to China. Take a look at it. There is a future for you there.

Now, third and lastly, the Japanese equation. In the fall of 1945, shortly after V.J. Day when I was eighteen years old, I visited Japan from Shanghai where I was living. I saw Tokyo, and Osaka, and Hiroshima and Nagasaki. They were rubble heaps. Not one stone was left on top of another there. Then General MacArthur marched into Japan in one of the most amazing military occupations of modern history and taught the Japanese virtually everything they know today about productivity, efficiency, economics and rebuilding a country.

Not only that, but he also did other things. For example, Japan was then the last bastion of extreme sexism. When a Japanese couple would walk down the street, the man would always walk ahead and the woman would walk several steps behind him carrying the parcels. Well, one day I went on a trolley car and there was one seat left. A Japanese couple gets on the car and the man sits down and his wife stands there with the parcels. At the same stop two GIs got on, American GIs from the occupation force, and one of these young guys walked over to the man who had just sat down and very gently pulls him up with one hand and puts him to the side, and with the other hand nudges his wife in the now vacant seat. Sociologists would call this social reform. I saw this going on there.

Now when MacArthur left in 1951, Japan was set on the most miraculous economic recovery of this century. I tend to believe that the American-Japanese relationship in this century is the greatest role reversal of the twentieth century. In 1948, we Americans owned half the world. We had the Marshall Plan. We built up Germany and Japan. Today 1988, forty years later, the Americans are the leading debtor country in the world, with the habits, however, of a creditor country. We still spend like hell as if it were 1948 not 1988. The Japanese, on the other hand, are exactly the reverse. They, today, are the world's leading creditor country. Everybody owes them money. They have surpluses upon surpluses, but they have the habit still of a debtor country as if the bombs have dropped upon them only yesterday in Hiroshima and Nagasaki. And in this strange relationship lies a very real danger. Now then the reason why I have to say a few words about Japan is, that what worries me is, what would happen if the Japanese would stop lending us money? We'd be in very deep trouble. That is how, in my judgment, the stock market collapsed last year.

Some of you may have heard me at the Million Dollar Roundtable in July in Chicago. Anyone here who heard me on that particular speech? In many speeches last year, including that one, I predicted a terrible stock market crash before the end of 1987. I predicted this not because my name is Nostradamus, but because I saw this increasing dangerous dependency of America on Japanese borrowed money. Three things happened in September 1987 which made the Japanese pull their money out, and when they pulled it all out in October, the market crashed. It's worth your while for five minutes to recapitulate this, because it's now one year since this has happened and some of these conditions, alas, still prevail to this day. The first thing that happened was that the American dollar had been cut in half vis-a-vis the Japanese yen. Now what did this mean? If I were a Japanese investor and I buy American stocks, which went up very nicely throughout most of 1987, did I necessarily make money on these transactions? The answer is, no, of course, as you know better than

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everybody, because the exchange rate took it all away and worst than that, I lost money if I calculate it in yen in a rising American market in dollars. So many Japanese pulled their money out and invested in the Tokyo market which was levitating in the stratosphere. And our market began to shake in September and shudder. Then the second thing happened. The Toshiba incident. A few Congressmen in indignation took a hammer and smashed a Toshiba radio, because the Japanese had sold submarine silencers illegally to the Russians. Well, I was in Japan at that time. They were very worried about this. They said, "My God, the Americans are getting angrier and angrier. They're running Richard Gephardt, the great protectionist, for President. Let's pull more money out," which they did. And then came the third whammy, the worst, the trade deficit. Now, ladies and gentlemen, most economists last year, almost without exception, predicted that since the dollar had now become so cheap vis-a-vis the Japanese yen and the German Deutsche mark, it would mean that we would export more and import less, which is logical enough.

So most economists said the trade deficit will narrow. Things are going to get better you see. Were they right? They were dead wrong. Let me ask you why. How many of you in this audience drive foreign cars? May I see a show of hands? Oy vey! This is worse than I thought. That's why the economists were wrong. They didn't talk to people like you. We're still willing to pay the premium on foreign cars, because they don't break down as you all know. While the American cars generally, with a few exceptions, do break down. And, therefore, despite the cheap dollar, last year the trade deficit widened; even though exports went up, imports went up even more. And on October 14th, I remember it exactly, because it was my birthday. Last year, October 14th, the Department of Commerce announced a horrendous deficit that month. Seventeen point six billion bucks that month, and that day the Japanese said enough. We will not lend anymore to these crazy Americans. We'll not buy their debt obligations anymore. We're not going to buy their bonds anymore. We are pulling our horns in until they clean up their act. We're going to pull their credit card, to put it very bluntly, and that day they didn't buy the usual 30% or 40% of our debt, of our bonds at the auction.

As a result, our interest rates went through the roof in the next week and that was poison for the stock market, and on the 19th, as you all know, the market collapsed, that famous five hundred points on the Dow Jones. That day, ladies and gentlemen, almost exactly one year ago, the American economy had a heart attack. I use this metaphor, because I know about heart attacks. I had one a couple of years ago and went through triple bypass surgery. Well, when you go through that sort of thing and lie in a hospital and wake up, you sort of think a truck ran over you. Then a nurse walks in and says, "Well, Johnny, it's time to take a little walk." Johnny who? No respect you know. Professors be damned. It's like hospitals in this country are the great levelers of the American experience. It doesn't seem to matter. I said, "How far do I have to walk?" She says, "Well, let's walk ten feet to the nurses stations." I say, "Can I please put my slippers on first?" She says, "Why not?" And I bend down to put my slippers on. I'm reminded of the George Burns famous joke. You know the old ninety-year-old comic who says, "When I bend down these days to put my slippers on I try to figure out what else can I do while I'm down there." Well, I'm fine today. I play tennis again. I even beat my students to their infinite dismay, but I'm not quite the same guy I was two years ago. Today I have to eat slop. I have to eat no cholesterol. I've got to exercise every morning. Get on the treadmill. If I don't do this my doctor says the alternative is not terrific, to put it mildly.

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To get back to the main point, we Americans and to some extent the Canadians, too, have not gotten our religion yet. We still spend too much. Less so than we did a year ago, but still too much. Now the trade deficit is down to twelve billion bucks. It was down to nine billion last month. It's back up to twelve again. Now this is good news and bad news. The good news is we go into hock less than we did a year ago. The bad news is we still go into hock when we shouldn't go into hock at all.

Now you as actuaries know better than anybody else what good housekeeping means. You engage in financial planning as well, in pensions, in life insurance. Would you act like this as an individual householder, continuously spending more than you take in, so that a bunch of foreigners could pull the rug out from under us anytime they want to? My nightmare is if Governor Sumeka of the Bank of Japan would have a telephone conversation with Mr. Purl, who is Governor of the Deutscherbunder Bank and says, "Hey, I'm getting worried about these Americans. Maybe we shouldn't lend them anymore money. They're getting out of hand again you see. Let's make them clean up their act." What would we do when the lending stops? That to me is a very, very pregnant question. And this I believe very deeply, we have to decouple ourselves from the Japanese borrowing business. We must live within our means and that means we must make better products, so we can export more. It means the bottom line is we must go back to the work ethic and everyone of you in this audience better teach your kids the value of a job well done, the value of work, because that's what it's all about. If we do not pull ourselves together, we are making for another Black Monday.

Things are a little bit better than they were a year ago, but not that hot. And the litmus test of what the American economy is going to do is the monthly Department of Commerce figures or the trade deficit, which is now back up again to twelve billion. If we go back up a little bit to two digits, I see another very gloomy prognosis. If we pull our socks up and get those exports up and those imports down, then I think we will look good and get this deficit down to the single digit and stay there. It is that deficit which drives the dollar, which drives interest rates, which drives the stock market and which, therefore, has tremendous fallout on the American. And the real problem is not so much economics. It's philosophy. It's psychology. It's values and it's teaching our children, yours and mine, the value of work.

I have to speak to you now as a teacher for a moment. You know I've been a teacher all my life. I studied to be a teacher at Harvard here across the Charles River many, many years ago, before many of you were born, and I'm proud of that University. It gave me some of the best years of my life. It's a great, great university indeed. It remains that to this day. Since that time I have taught a whole generation of American students at the college level for thirty-five years. I've also taught Japanese students over in Japan. Extraordinary. They're not what you might think they are, so let me explain them for a moment. The best quality of my American college students today down in Texas where I teach at Trinity in San Antonio is that they're creative kids. They think freely. They're independent. Their minds are unfettered. They don't regurgitate what I give them at exam time. They think freely. They're not afraid of me and, therefore, I'm not amazed. You see it was the Americans who invented the computer, airplane, the assembly line, the telephone. The Americans invented these things, but the weakest aspect of my American students is they have no discipline. They're a little bit soft in the belly, a little bit lazy. They think that college is a kind of hiatus between high school

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and a first well-paying job. I keep writing recommendations for my students for a first well-paying job all the time. They're not interested in public service, because there are no bucks to be made there. I gave a final exam to my New York students at Columbia before I left for Texas and I asked the question, "What is the greater danger facing America today, ignorance or apathy?" My best student wrote the following answer. "Ignorance or apathy?" the boy wrote. I don't know and I don't care." It was a classic. You know first you laugh and then you cry and then you laugh again. Two weeks after that melancholy experience, I gave a speech in Long Island New York which cheered me up a lot. I saw the following birth announcement in the *Long Island Jewish News*. The birth announcement read, "Sol and Ethel Rosenbaum proudly announced the birth of their son, Dr. Irving Rosenbaum." I like that. It cheered me up.

Now my Japanese students are exactly the reverse of my American students. When it comes to creativity they're not quite in the same league. They like to march in lockstep. They like the security of a group around them. They don't believe in mavericks swimming against the stream. There is, in short, not the same incisive originality that comes with the creative intellect that one sees in my American students. But when it comes to discipline, my Japanese students are absolutely superb. I walk into my Japanese class and I'll say, "Gentlemen, today we stay two hours overtime. Lots of work to be done." They say, "Hi sensa, yes, sir." Not a murmur. My American students, forget it. "Let's go see the dean. There's student molestation going on here. I've got a date tonight."

It's a totally different attitude. To encapsulate the story, in two vignettes, which will be very brief from recent memory will bring this point home. I know a Japanese couple with an eight-year-old little girl. The kid goes to a Japanese school and she took a sentence completion test there recently. The sentence read, "Shoes are made of blank." The kid put down glass. The teacher says, "No wrong. You know this is wrong. Shoes are made of leather." The child begins to cry and she runs home to her father and says, "But daddy, you read me Cinderella last night. Cannot shoes be made of glass?" The father says, "Now that's a fantasy. That's a fairy tale. Shoes are always made of leather, remember that." The little girl cried very hard and with those tears I suspect a door to the imagination was closed, probably permanently. Education when applied too rigidly can close doors to creativity as easily as it can open them. When this kid grows up she will make a very good worker no doubt, lots of overtime, but will she think creatively? I kind of doubt it.

Now the other extreme is one of my students down in Texas. This boy is a senior now. He needs a job. He blended into one of my courses from the physics department for reasons unknown to me. The boy's absolutely brilliant in physics. He could have talked to Oppenheimer, to Einstein no doubt, but in everything but physics, he's an unconstructive nerd. You've no doubt encountered that type. Now we had a recruiter from a high-tech company on campus, so I said to this boy, "Look, you're a senior now. You need a job. Wear a tie today. Wear a suit and make a good conversation with the interviewer. Maybe you'll get the job." The boy says, "Okay." But on that particular day, he was engrossed in an arcane esoteric physics book that only he could understand. He couldn't put it down. He takes it with him into the interview situation. The interviewer happens to see the book and just to make beginning conversation says to the boy, "By the way, what are you reading now?" The boy comes out of his fog and says, "Sir, if I drive my car at the speed of light and turn on the headlights what happens?" The interviewer says I don't know what

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happens. The boy says, "Sir, if you cannot answer that question for me, I'm not going to work for you." I thought, total creativity, total absence of discipline.

To bring this back to the point, now in the competition for these markets, including life insurance, the Japanese have got the discipline and the Americans have got the creativity, which is not to say that there are no Japanese without creativity, nor that there are no Americans without discipline, but in my experience, this cultural generalization holds. Now then the secret of success I believe here is to fuse these two qualities into a single irresistible force, which we can do, which we have done in the past both in Canada and in the United States. To fuse creativity and discipline on the model of a Thomas Jefferson, one of the more creative people in his life, or of a Sir Lester Peterson in Canada, people who were creative and who also had discipline. We have done this in the past. We can do that again. And I think we have the edge here, because if you have creativity without discipline, it's easier to add the discipline than if you've got the discipline and haven't got the creativity. You can't put in what God left out. I feel passionate about this, as you might have noticed. And let me in my remaining couple of minutes or so make some personal reflections about this.

I feel very deeply both about the United States and Canada for reasons which I will now make clear. I want Americans and Canadians to prosper and to go from strength to strength, because, very frankly, I owe my life to these two countries. Let me tell you why. Fifty years ago exactly in 1938 in March, I was ten years old and I saw Adolph Hitler with my own eyes march into my hometown in Vienna, Austria. I remember it. I saw it. Hitler's entry into my hometown was not the best news for me, because I happen to be Jewish. So my mother said, "We've got to get out of here. We have to move to Prague, Czechoslovakia." That was where my grandparents, her parents, were living. So we moved to Prague hoping that things would be okay, but Hitler developed a curious passion to follow me around. So he wound up in Prague in 1939, and the same thing happened all over again, except this time it got to be much worse. In the next two years, Hitler began to build the concentration camps: Dachau, Treblinka, and Auschwitz. My poor father never got out. Hitler killed him. My grandparents, who owned a shoe store, were the kind of grandparents that every boy loves and I certainly did. Hitler caught them and shipped them to Auschwitz and killed them in the gas chambers. Now you don't forget something like that ever. My mother then said, "You know, we have to leave here, too. He's going to kill us, too." So we ran but we had to run in the wrong direction. The western escape route was already cut off by Hitler, so we wound up in Russia, Stalin's Russia, which is not exactly an improvement over Hitler's Germany. We wound up in a gulag in Siberia. Through a political miracle we escaped from the gulag, traversed Siberia and wound up Vladivostok on the Soviet Pacific coast from which on a clear day you can look across the Bering Sea and see Alaska. We caught a small Japanese fishing boat then, made our way to Kobey, Japan and from there to Shanghai, China. That's how I got to China. We arrived in October 1941, just in time, unfortunately, for Pearl Harbor and the subsequent Japanese military occupation in Shanghai which got me into another concentration camp for another four years. This time under the Japanese. Now in August, 1945, we saw a terrible, eerie, bluish light in the sky on the 6th of August. We didn't know what it was then. It turned out to be the atom bomb on Hiroshima. Two days later we saw it again, the second bomb over Nagasaki. Several days later the Japanese surrendered and a few days after that the American army came in and liberated Shanghai.

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I was eighteen years old then. Now like many teenagers in those distant days, I attached myself to a young American army lieutenant. I became sort of a shoe shine boy. I shined his shoes and ran his errands. I picked up a little English in the camps and helped him in anyway I could in the hope that he might help me somehow. This was a decent officer. And he said to me one day, "John," he said, "You might be able to get an education in America." I said, "America." To me America was paradise. It's the only way I can put it to you. I said, "What can I, a kid from the ghetto, do to get to America?" He said, "Well, I'll tell you. I went to a small college in the middle of America in a State called Iowa. The place was called Grinnell College and Gary Cooper went there." I'd never heard of Grinnell College, not of Iowa, but I had heard of Gary Cooper whom I'd seen in some movies. So I said, "What can I do about this?" He said, "Look, I will write a letter to my alma mater. I went to school there. Why don't you write a letter to Grinnell and ask for some application blanks?" So I sat down in Shanghai, China and wrote a letter in my broken English which I sent across the Pacific Ocean to this place called Grinnell, Iowa and waited for an answer. And three weeks later a big envelope comes back with an American stamp on it. I remember the thrill of opening it to this day. There were these application forms in it. And I sent them back and then a correspondence developed. And three months later to my overwhelming joy, that little school in Iowa that I'd never heard of before admitted me as a freshman with a scholarship. Well, then there was no holding me back.

I packed up my worldly goods in a bundle and got myself a job as a deckhand on a converted American troop transporter which was taking the boys home, the American boys, from China to the States. And I kissed my mother goodbye and said, "I'm going to America." Don't look so worried. Like all good Jewish mothers she followed me two years later. And she's still alive. I'm having dinner with her. She's eighty-eight today. Anyhow in September 1947, forty-one years ago, I stepped on board that little ship, destination America. Eight days later that little boat docked underneath that graceful arch, the Golden Gate in San Francisco. When I got off that boat, ladies and gentlemen, when I got off that boat I don't mind telling you, my knees gave way and I fell to the ground and kissed the American soil. Well, I never quite got over that. I remember I took a Greyhound bus from San Francisco to Iowa and every time the bus driver would say, "Well, folks, we're crossing Nevada now, Colorado, Nebraska." I was without my papers. Every foreigner knows when you cross a boundary you've got to show identification, right? It took me a year to get over this sort of stuff.

Then the bus rolls into Grinnell, Iowa, a little elm-shaded town, and the next morning I put on my best suit and a tie and walked into my first American college class. It is forever etched in my memory. I walk in; there are about thirty or forty students and they're in short sleeves and in the back is a huge football player. He was six foot six. Then the professor walks in, a little history professor. The football player waves to him and says, "Hi, there Prof." You know a friendly guy. I say to myself, "God in heaven, where have I landed." What sort of a planet is this? There's going to have to be a purge here soon. No student talks like this to a professor and lives for very long. But I was wrong. Next day I was back again, so was the football player. He might be there to this day come to think of it. Anyhow, again, the football player says, "Hi, Prof., and nothing happens. And the second time around I had a kind of illumination, a kind of insight, sharp and clear, that happens only once in a lifetime. The insight was, quite simply put, I'm free now. "I'm a

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free person." I can say what I want and neither the gestapo nor the KGB's going to come get me at three o'clock in the morning and cart me off to some gulag or to some concentration camp. I tell you this because sometimes guys like me who are immigrants who remember the Hitlers, and the Stalins, and the Tojos, and the Mao Tse-tungs of this world, we know deep in our hearts that freedom is not free. But if you don't stand for something you might just fall for anything.

The story has a Canadian sequel. In 1950 when I got my B.A. Degree from Grinnell College in Iowa, I had a call from the American Immigration and Naturalization Service. They said, "Well, your time is up. Now you've got to go back where you came from." I signed on a student visa which means you have to go back to your country of birth or of recent residence. So the guy there in Omaha, Nebraska said to me, "Well, you can go back to China. How about that?" I said, "I can't go back to China. It's just gone communist, which it did in 1949. I said, "You're not going to send me back into the arms of the enemy, are you?" The guy scratched his crew cut and said, "Well, I guess we can't do that. You've got to go back to the country where you were born." I said, "Austria?" "My God, I've got nobody left there. Everybody's dead." He said, "Well, you were born in Vienna." I said, "Look, Vienna's divided into four occupation sectors, American, French, British and Russian." He said, "Well, in which one were you born?" I thought very fast and said the Russian sector. The guy scratched his crew cut again and calls over a colleague and says, "Hey, Joe, we've got this boy here without a country. What are we going to do with him? We can't send him back to China. We can't send him back to Austria. What am I going to do with him?" And Joe also scratches his head and says, "Well, send the boy to Canada." That's how I came to Canada for six months to Montreal and went to school there at McGill and waited there. The Canadians welcomed me. Then Harry Truman, God bless his heart, passed special legislation, the Displaced Persons Act, under which I was able to come back to the U.S. and become a citizen. I got my citizenship in this City of Boston when I was a graduate student at Harvard. And I thank you for this invitation. It's always a nostalgic trip for me.

Let me say two more things by way of conclusion. The first thing is, with regard to your profession, you should be proud of who you are and what you do. You are associated in this particular group with life insurance, with pensions. In a sense you provide for the only immortality that we on this earth are capable of providing. By being, if you will, the colleagues of people in life insurance, you take care of those who come after us. In the struggle of life against death you are, therefore, on the side of life. And philosophically speaking, I don't know whether you ever thought of it in that way, you assure us of the only immortality that we have on this earth. Therefore, what you do is at the nerve center of the free world of its power, of its strength, in Canada and in the United States. You are part of the nerve center of the power of the free world here in the Atlantic community.

One last word. As you must have divined, I worry a little bit about my students down there in Texas at the college level. I worry about them on other things, because they take their American freedom a little too much for granted. They have no idea about adversity. They don't remember any war. Even Vietnam is like Napoleon. When I talk about Hitler, they look at me like I escaped from Madam Tussaud's Wax Museum and they don't remember the depressions or recessions. They think that good times will just run on like they have. They also believe that freedom, opening your mouth and saying anything you



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want, is the way it is everywhere. Well, far from it. I used to work at the United Nations. They've got a hundred and sixty countries there, most of which are dictatorships, not democracies. When you open your mouth you go to the jail. They have military coups in some countries virtually every week. As you remember, a couple of weeks ago they had one in Haiti, another one in Burma. Now they have others you see. We Americans and Canadians are the two most powerful working democracies in the world and of the hundred and sixty countries in the U.N., maybe only twenty-five are democracies and the U.S. and Canada are the strongest of the lot. And now there is a Free Trade Bill on the horizon, maybe linking their destinies in an economic sense, which will make them even stronger.

What I would like to leave you with is this, ladies and gentlemen. If you remember nothing else from this brief encounter between yourselves and me, remember this, please, teach your children what I teach my students, that the American liberty, the Canadian liberty, the North American liberty, if you will, is precious and unique on this planet. Whether it be the parliamentary form in Canada or the Presidential form in the United States, it is unique and precious. It does not exist in this particular form anywhere else on this earth and, therefore, it must not be taken for granted by anyone, not even for a single moment. Quite on the contrary, it must be cherished, nurtured and defended.

MR. CORBETT: I'm sure, Dr. Stoessinger, that you can tell from everybody's reaction just how much they enjoyed and appreciated your talk. There was so much in it. The world view is so important to us, and I think the creativity and discipline issue particularly apply to actuaries. I think we tend often to be on the more disciplined side and, certainly, creativity is something we must bring to it and, finally, your inspirational words at the end are something we'll all remember.

