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America Today : The Good News

24th Dec 2012 by [Leonard Harlan](#)

Leonard M. Harlan is Co-Founder and Chairman of the Executive Committee of Castle Harlan, Inc. and a member of the Executive Committee of Castle Harlan Australian Mezzanine Partners (CHAMP), the Australian Affiliate of Castle Harlan. Len Harlan is also a member of the Board of Overseers of the Weill Cornell Medical School, a director of the Harvard Business School Club of Greater New York and a trustee of the New York City Citizens Budget Commission. In a US presidential election year, and shortly after Barack Obama had won a second term, Len Harlan addressed The Sydney Institute on Tuesday 13 November 2012, to discuss his enthusiasm and optimism for the USA as it recovers from a global financial crisis.



AMERICA TODAY: THE GOOD NEWS

LEONARD HARLAN

First, I'm very honoured to be here and just a little overwhelmed by the sell out crowd, so thank you for coming. My mother must have sent you a memo. It's really appreciated.

Everybody knows about the US presidential election and there are pundits who can talk about it far better than I can. So, I'm not here to talk about the election. I'm not here to tell you what is wrong. You've heard enough of that and you'll hear a lot more in the coming days and weeks. What I'd like to do is tell you about matters that may be new to you. They are the reasons I'm very enthusiastic about the United States at this point in time.

The private sector is alive and well in the United States.

First – some basics. Unemployment in the US has stabilised and is declining. Our current unemployment rate of approximately 8.5 per cent is at its lowest since the peak of the GFC – well since the peak of the GFC, 10 per cent in November 2009. That's very, very significant. Jobs are being created and we have seen 32 consecutive months of growth in the private sector. Labour productivity – a very, very important element of the economy – keeps increasing significantly. Productivity is going up. The private sector is alive and well in the United States.

Most importantly, for all of us, the love affair between the American people and Australians remains not just intact but as strong as ever. As an American, I've been coming here since the late 1990s and there's a marvellous affinity between us. Many of you who have travelled in the United States have felt that as well and I don't know of any two countries like that. Canadians don't get that reception.

And that sets the stage for a whole society which has no top to it. Anybody can make it to the top – there's no aristocracy in the United States.

The good news is what's going on in the US today. First – some basic observations. We're a country of immigrants. The people who founded the United States and the waves of immigrants that have come to the United States have all been waves of people escaping some form of oppression, largely government oppression. And that sets the stage for a whole society which has no top to it. Anybody can make it to the top – there's no aristocracy in the United States. There's no preconceived notion that you can't do it. Upward mobility is a cornerstone in our society. It also is true in reverse – if those who have been at the top don't maintain their success within the family, or the entities, they will drop out. So it goes both ways.

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The US remains a frontier society – but one with optimism. That optimism is ingrained in our people. There's an attitude that we can make it happen, if we try. I recall as a youngster in grammar school, a teacher who told me, "American is spelled A-M-E-R I can. I C-A-N." I remember that like it was yesterday.

There's also a strong sense of community and idealism. You can see it in the philanthropy; you see it in AID, in American naivety.

Our ethic is self reliance, hard work and little fear of failure. Failure is accepted and celebrated. That's a key item in our society. Take one of the most glaring examples – Steve Jobs. He was fired, and humiliated. He came back, and look at what he did. There's a recurring attitude that asks, "What did you learn from that experience?" That optimistic ethos of "what can we do better?" is ingrained in our society.

There's also a strong sense of community and idealism. You can see it in the philanthropy; you see it in AID, in American naivety. In 2011, the U.S. ranked first out of all countries in the World Giving Index, a score based on the percentage of a countries population giving to charitable causes and volunteering time. Americans can be very naive, particularly in the international sphere. We can be very trusting, sometimes too trusting. But that's built into our system. It started from the outset. The Puritans came, they settled, they had to rely on themselves, create their own structure and move on from there.

And each wave of immigrants has risen to the top, which gives an extra boost to those who have been in the United States for a while. And it's so interesting to see. When the Vietnamese arrived – a boost. As with various ethnic groups who came before them – a boost. That rejuvenation kick starts our businesses; it gets everybody's juices going because it provides a natural competitive ethic in the community.

if it works in the United States, the spill over can be enormous around the globe.

What we have is a population that is caring, naive, and generous. These attributes are as strong today as they were 100 or 200 years ago. That's the backdrop to where we are and where we might go as a society; and what it means, hopefully, to the United States. And, if it works in the United States, the spill over can be enormous around the globe.

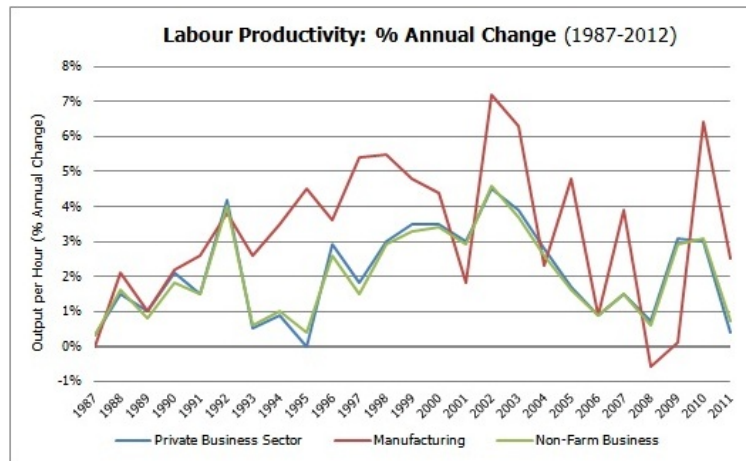
Now I would like to reflect on the economy for a moment, in more particular ways. Manufacturing is coming back to the United States. A recent piece by The Boston Consulting Group caught my eye. They surveyed senior executives at 106 U.S. manufacturing companies and found that more than 1 out of 3 of these companies with revenue greater than \$1 billion are planning on bringing back production from China or are considering it. Among the largest companies – more than \$10 billion in sales – the number was 50% of executives. Let me give you an even more specific example. Mercedes Benz which has a plant in South Carolina – that plant produces SUVs and is now producing all the SUVs for Mercedes worldwide. In other words, Mercedes Benz is exporting its SUVs from South Carolina.

My firm owned the company called Ames True Temper. It manufactured shovels and rakes and all kinds of hand tools and had previously shifted a lot of this production to China. Then we built a new plant in Pennsylvania and brought half of that production back. This was very significant.

Industrial union membership is the lowest since WWII which is fairly significant.

Worker productivity continues to improve. In fact, private business has seen productivity growth every year since 1987 – including during the recession when it grew by about 3% each year from 2008-2010 (Figure 1).

Figure 1: The Continuing Increase in U.S. Labour Productivity



This productivity trend fits into the national insourcing model I just mentioned.

Industrial union membership is the lowest since WWII which is fairly significant. When you see union membership growth, it has all been in the public sector. In the industrial sector, and the private sector as a whole, union membership has been dropping year after year. As a percentage of all private sector employees, union membership has dropped from nearly 17 per cent in 1983 to less than 7 per cent in 2011, decreasing every single year over that 28 year period. This is largely because of enlightened management.

Built into this system is an ethic where Johnny Lunchbucket says, "I want that top opened so my kids can be there too." So

Not insignificantly, the glass ceiling for women has gone. This weekend, Lockheed – that Defence industry, old boy network – announced that a woman had just been made CEO. Pepsi, Kraft, eBay, HP, Xerox, are all led by women. That's very important.

waves of immigrants and others have all felt that their kids could get there.

The US as a community is now, more than ever, a meritocracy. If you're good you can get there. And everybody wants you to win – that's the other part of it. People want you to win. Built into this system is an ethic where Johnny Lunchbucket says, "I want that top opened so my kids can be there too." So waves of immigrants and others have all felt that their kids could get there.

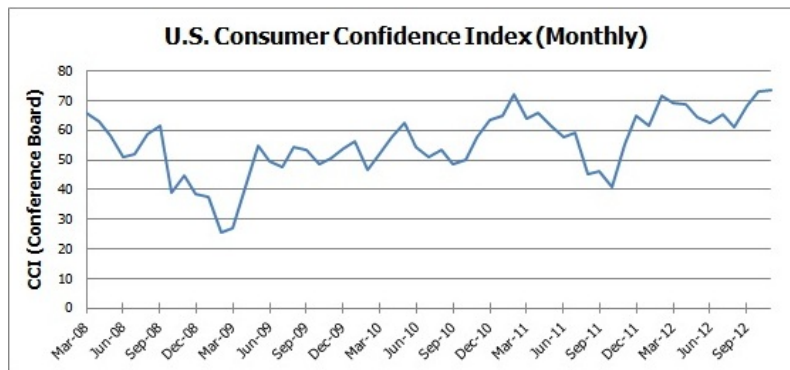
There is cash in the system again. The banks are loaded with cash, corporations are loaded with cash, individuals are loaded with cash. So cash is not an issue.

This doesn't mean that we haven't had our problems going back over time. But I'm talking about right now. You can see it with the results of this election – people will pull together with Americans saying, "Okay! If that's the decision, that's the decision." This will be so for the vast majority of Americans. They will say, "Okay, we're Americans and we're going to finish the job. We've got four years and then we'll see what happens."

Consumer sentiment and consumer confidence are both on the rise today which is very important. In October, the Consumer Sentiment Index hit its five-year high of 83.1 while the even more closely watched Consumer Confidence Index hit 73.7 – its highest since the beginning of the GFC (see Figure 2). There is cash in the system again. The banks are loaded with cash, corporations are loaded with cash, individuals are loaded with cash. So cash is not an issue.

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Figure 2: U.S. Consumer Confidence



Far more important, is cheap energy. This morning's *New York Times* has a lead story titled, "The US to be the World's Top Oil Producer in Five Years". As such, the US will overtake Saudi Arabia to become the world's leading producer by 2017. And, it will become a net oil producer by 2030. The figures are from a report by the International Energy Agency. The foundation of any industrial society is energy and the US is now moving in the direction of the cheapest energy available. Just in the last 5 years, foreign oil imports as a share of total oil consumed in the U.S. has fallen from 70 per cent to less than 60 per cent and this decline is widely expected to continue.

The implications of that is a move to industrial growth and for the US to once again be a manufacturing country. The heart of US manufacturing is still there despite what newspapers would like to suggest. Now it's on the way back and it's building. We can see this in the BCG executive survey I mentioned earlier – 50 per cent of the largest manufacturing companies are planning on or considering bringing manufacturing back to the U.S.

The Start-up Genome Project recently ranked the top 25 start-up ecosystems in the world. Silicon Valley was #1 and New York was #2 with Los Angeles also in the top 6.

Technology and innovation have been the backbone of what has been occurring over the last 20 years in the US. We see new enterprise and innovation, we can see new start-ups – and these characteristics have never been stronger than today. The Start-up Genome Project recently ranked the top 25 start-up ecosystems in the world. Silicon Valley was #1 and New York was #2 with Los Angeles also in the top 6. American cities are out-innovating the capitals of

Asia and Europe. In these innovation ecosystems, which go beyond just New York and California, there are technical universities, research dollars, ideas and availability of capital – angel capital, growth capital, venture capital. Seventy percent of global venture capital in 2011 originated in the United States – \$50 billion.

Such innovation doesn't just mean advanced technology and productivity – it also means more jobs. In the United States, in 2008 and 2009, even with the GFC, 3 million new jobs were created by start-up corporations. Remember – Microsoft was a start-up at one time, and Hewlett Packard started in the Great Depression in a garage owned by its two founders.

What does this mean? Think about it this way. A person can come up with an idea and say "I'll take a risk. I'll build something." If they need capital, they shout down the street to the neighbours and friends – \$5,000 here, \$10,000 there – and before you know there is \$100,000 invested and you're in business. The next stage sees \$200,000 invested and so on and so forth.

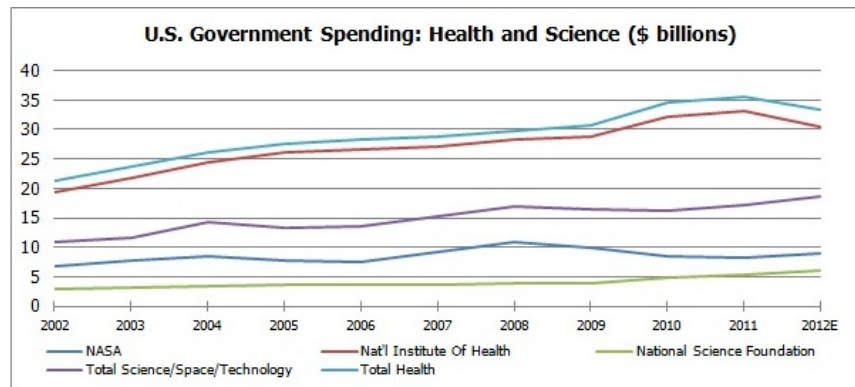
The banking system in the United States will bet on ideas. The Silicon Valley Bank is one of the fastest growing banks in the United States. It's moving worldwide but started in Silicon Valley. How did it start? It took a risk with little companies, many of which did not have any revenue. But they had backers and the old concept of banking where credit is defined as knowing who you are lending to and their character. The Silicon Valley Bank would lend to these companies.

The private sector is only part of the innovation story – there has been tremendous growth in government research. As many of you may recall, NASA and its expenditures produce spin-offs of all kinds. Much of your electronics and so forth have come out of that government investment. Projects supported by government investment are owned by the developer. What a great incentive! If the government gives a research grant to a university and the university comes up with an invention, the university owns it. The government has declared it wants no right to such inventions. This encourages new and innovative creations.

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Figure 3: The Rise in U.S. Non-Defence Spending



Let's look at the total non-defence investment in research and development. In 2002, it was \$39.7 billion. In 2013 (the fiscal year which ends in June), it will have grown from \$39.7 to \$61.6 billion – more than 50 per cent growth. When broken down, science and technology spending increased by 65 per cent, health spending grew by more than 50% and energy spending grew by 300 per cent – all in just a decade (see Figure 3 for more detail). Now we hear about Medicare and its growth, but what is really growing is innovative investment by government. And this, in spite of the GFC.

I'll give you one tangible example of innovation encouragement that is very exciting. New York city Mayor Bloomberg has a concept that will leave a legacy for generations to come. New York has become known as Silicon Alley (in contrast to Silicon Valley) – a very poor relation to the IT West. Over the past year, Bloomberg and his administration have created and designed a new campus, strictly for graduate students. These students will spawn new companies, as in Silicon Valley. Bloomberg put out a request to institutions all over the world for proposals. The incentives were that the city of New York would turn over the lower third of Roosevelt Island, in the East River, to the institution that

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would be developed. In addition, New York would give \$100 million to the creation of this tech campus. The finalists (submissions came in from all over the world) were Stanford, in collaboration or joint venture with City University and Cornell (the engineering campus in Ithaca, New York) in joint venture with Technion in Israel.

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Cornell won. One of its benefactors immediately offered \$350 million to build the campus. In addition to that, the Board of Trustees of Cornell said they would set aside \$150 million of its endowment for venture capital to support an incubator of new ideas and new companies. This money would also be the "fuel" needed. And that's key. For a society to really expand in today's world you need legitimate fuel – energy – but you also need financial fuel and the right attitude.

There will now be a campus, with 2 million square feet of applied science and engineering. They expect, in about five years, to be graduating (and it's only graduates now, not undergraduates) a minimum of 2,000 students a year which will equal the engineering graduate school in Ithaca – Cornell's main campus. For temporary space to get the program started Google has given Cornell two floors in their office building in New York and the first entering class is now being assembled – just 20 students – as they debug this program. They will start in January 2013. The award was made in March and look at how fast it's going – phenomenal.

The vision is new discoveries, and new technologies. And that New York will become the major high-tech centre in the United States and the world. What a legacy. What leadership from Bloomberg.

There will be incubators, new businesses. And what this will mean for the city of New York is hard to envisage. Long Island City and Brooklyn will become homes for new companies that we can't imagine. They've created an advisory board: Bloomberg is the chairman; Eric Schmidt who founded Google is on the new board. The other new board member is Irwin Jacobs, a Cornell Engineering graduate who founded Qualcomm. And Cornell has advertised the program and scope of the endeavour widely within its community and people have just grabbed

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on. Students wrote petitions and activated to demonstrate that the new campus had the entire community behind it – from graduates to faculty to students. That's the energy I'm talking about, part of the good news I want to leave you with.

There'll be new teaching models, new ways of teaching, a business mentor for each student. There will be highly successful entrepreneurs who come to New York to be part of the project. In other words, the students and others involved in the community are not going to be the intellectual elite – these are people who are going to get it done and make it happen. And they've incorporated into this endeavour the Weill Cornell medical school, with its outstanding research, which also relates to the engineering school in Ithaca and has one of the finest Nanotech centres in the country.

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The smallest of these was the Bulgarian-American Enterprise Fund with \$58 million. In 15 years it grew that to \$500 million, and pioneered the banking industry.

The US is also the centre of philanthropy; it's embedded in our society. What do we mean by that? It is an ethos of giving back and it is extraordinary. Those with a million dollar net worth or more, up to 7 per cent of their income is given back to society in the form of philanthropy. In Australia, it's less than 2 per cent.

This means that, in many communities in the U.S., your social acceptance is a function of what you're giving back. This is an interesting way of defining the top. There are some marvellous examples. John Paulson made a fortune in the financial crisis. Not very long ago he gave \$100 million to Central Park for further restoration. Steve Schwarzman gave \$100 million to the New York Public Library. The New York Public Library gets no financial support from the city. It has to survive on donations, endowments and people like Steve Schwarzman.

It's not just the money. It's also volunteerism, another part of our society's ethos. That volunteerism binds the cheese in many ways. The US Congress set up the Seed Act and the Seed Act supported donations towards the privatisation of former Soviet Union satellites and other parts of Eastern Europe. Notables from Wall Street donated their time and became directors of these funds, with the idea that they were giving back their time and their expertise. The smallest of these was the Bulgarian-American Enterprise Fund with \$58 million. In 15 years it grew that to \$500 million, and pioneered the banking industry. After the fund had privatised all manner of Bulgarian enterprises, we declared victory! Our goal wasn't the business of financing companies, but to start the privatisation of enterprises. So then the fund was given the right to invest \$400 million into a foundation for the betterment of Bulgarian-American Relations.

Another project is "Chess in the Schools". We now have 34,000 kids playing chess in New York City. We take little kids from the third grade, kids who have all kinds of energy and can't sit still.

In New York City, education is improving. This has been helped by the investment of time and volunteering of various private projects. One is called "Principal for a Day" where some 1,000 people who are community leaders and business people spend one day a year working with a principal or school superintendent. The hope is that specific businesses will adopt a school and create a relationship. It's better than money

– the contact and the knowledge that somebody cares. Kids need to feel somebody cares. At our firms we bring in kids under this program, after school, and they are kids who've never been to Manhattan. We teach them how to dress, how to conduct themselves; they work in the mailroom and at various times during holidays. It's a win-win situation.

Another project is "Chess in the Schools". We now have 34,000 kids playing chess in New York City. We take little kids from the third grade, kids who have all kinds of energy and can't sit still. We get them to focus on learning chess. And chess is a metaphor for life. As they learn to play they have to think about strategy, and also to listen because they have to keep quiet. All the while they are not only engrossed but they're developing their learning skills.

Then we have "Teach for America", which you probably have heard of. More college undergraduates apply to the 2-3 year teaching program than any other job program in the United States. 46,000 young graduates applied for the program in 2011 – almost double the 25,000 that applied in 2008. And these are not just any students – the program has an acceptance rate of just 11 per cent. Those accepted are only the brightest at the top schools. Harvard, Cornell, Georgetown, Yale, Stanford – these are among the largest feeders to Teach for America. Students entering this program have their choice of the most lucrative entry-level jobs in America but instead choose to teach at the most challenging schools in America. The program is barely able to find enough schools to accommodate these bright, young people.

Through the generosity of people, we're shifting what's going on in education. We're shifting the whole concept of using incentive bonuses. Again, it's not money. In this case, it's the teacher and manager/administrator of the school. We're seeing progress at the federal level. There's the federal program, "Race to the Top". The Secretary of Education, Arne Duncan, has states competing with each other and Americans are competitive – they love it. States compete for money and they compete on the basis of new programs and rising test scores to move the dial for their young people.

We have also the advent of Charter Schools, sponsored and paid for in large measure by business people and businesses. They have become an alternative educational source. Other school models offer management training and bonuses for performance. Mark Zuckerberg, of Facebook fame, has given \$100 million to the city of Newark, New Jersey, to develop a bonus program for teachers. And there's no more difficult city to operate in than Newark.

The American people are not turning their backs on the education issue. Community colleges are being converted, in many cases, to vocational schools. Over time, we had become excited about everybody going to college and forgot that we had no one to repair the automobile or do the electrical work, the plumbing work and so on? Technical and trade skills are back on the agenda.

Since 1996, Weill Cornell Medical School has raised, from the private sector, \$2.25 billion. The money is for new buildings, to bring in new professors and to provide subsidies for students. But the capital is raised because of commitment. Weill Cornell Medical School gets no money from any government agency, except through NIH (National Institute of Health) research grants (which are competitive grants). This is a foundation built on self reliance – it all goes back to that. Its philanthropic donations of \$34 million this last year largely came from grateful patients. The endowment alone for this school is \$1 billion, and generates about \$46 million of income.

I should also point out that despite the fact that we have shifted the U.S. medical paradigm or business model, medical school applications are up. At Cornell, we had almost 60 applicants for every seat and 50 percent of them were women. This is profound. That said the growth in medical schools is lagging. In the last 10 years they've grown only 10 percent, from 125 to 137, while the growth in student applications has grown from 34,000 to 44,000 – 33 per cent. What's really interesting is that for medical school we offer only 19,000 seats while for law school there are 50,000 seats. We have it the wrong way, but that's a whole other issue.

In conclusion, why am I optimistic? Because of the founding culture – that sense of optimism for the future, innovative with a sense of social justice, the idea of giving back. And not insignificant is the energy of independence. More importantly, we remain a very patriotic community and supportive of each other. We've never been a colonial power, we've gone in, and gone out. But the point is we want to do the right thing. I'm very proud of America and I'm very bullish about America. And I hope you're bullish too.

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