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Challenge For Tomorrow

by

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It is not uncommon to hear the lament: "Tomorrow, I'm not even through today yet!" I suspect all of you have thought or said that at one time or another, and yet the fact remains, successful businesses do a better job of preparation for tomorrow. These businesses may not always be right in their plans or actions, but they are flexible, adaptable and have resiliency. These are attributes you will need in the 1990s.

But before looking ahead, let's use the rear view mirror to look back on the decade just concluded. In 1979 the consensus forecast of some of our nation's best minds projected the following for the 1980s:

1. The Dow Jones Industrial Average, then about 800, will exceed 1000 in the decade; but it hit a peak of 2722!
2. Double digit inflation will persist throughout the 1980s; but inflation declined to the range of four to five percent.
3. Oil, then at \$30/barrel, will dictate world events and may reach \$50; but oil hit a spot market peak of \$42, the OPEC cartel disintegrated and oil declined to \$10/barrel.
4. Mexico will grow into a major trading partner; but Japan grew to dominate world trade and finance in the 1980s.
5. The cold war with the USSR will determine world events; but Gorbachev, Perestroika, Glasnost and a breached Berlin Wall emerged.
6. The Sunbelt will grow and the Rustbelt will wither; but the southwest went from boom to bust in land, real estate and banking. The industrial northeast and midwest began to stabilize.

Now, if I were smart, I would admit that forecasters of the future have such a dismal record that nobody should seek membership in their club. And yet, I must admit a fascination with why the forecasts of experts seem so often to go astray. My career-long analysis has led me to two conclusions. First, too much weight always is given to the present; and second, not enough thought is given to the secondary, tertiary and quaternary effects. Now, before I lose you with this mumbo-jumbo, let me give a couple of examples.

In the energy crunch of 1973 to 1974 when gasoline was only available in limited quantities on odd or even days, I had some partners in a

corporation in North Carolina that rented beach cottages. They panicked and sold their interests believing that people would not be able to travel by car and would cancel summer vacations. In fact, people don't cancel vacations, they just adjust their plans, and in 1974 we had a boom year as families elected to travel to places reachable with one tank of gasoline and where they could stay all week without need of the car. This secondary effect of a serious energy shortage more than offset the primary effect of travel disruption.

Or consider the case of Pearl Harbor in World War II. Japan's sneak attack was to gain control of the Pacific--the desired primary effect. The secondary effect was to make the United States mad and to galvanize a determined response. The tertiary effect was to cause the United States to rebuild a Pacific fleet--bigger and better--that recaptured the Pacific and brought Japan to its knees. But, the quaternary effect of our revitalization of Japan has been their buying of Pearl Harbor.

So what does all this mean for us today? It means that as we look to the nineties we need to think beyond current events to tomorrow's events and then on to the business and societal effects of the most significant of the possible events.

Perhaps another way of expressing these same thoughts is to quote Henry Ford who said, "the motor car is more a social revolution than a machine. People will no longer live and die within 50 miles of their home." Likewise, Steve Jobs of Apple Computer fame said, "the computer will enhance mental capabilities as the bicycle expanded physical range."

I try to use this technique in strategic planning for the Farm Credit Bank of Baltimore. I find it to be mentally hard, frustrating and always unending. But you only have to be right once or twice, or at the worst not completely wrong. For most businesses that is all that is needed for the edge that makes a difference.

Now that we have a framework for thinking, let's examine the consensus forecast of

today's economic and business experts for the 1990s.

1. *Recession will replace the longest expansion since the 1960s.* Some even foresee a long period of stagnation as the excesses of the eighties--budget deficits, over consumption, under savings--take their toll. But I see a nation which has slowly been rebuilding its basic industries and has remained focused on improving productivity and efficiency.

I think we are in a recession and I expect it will exceed two quarters, but for the decade of the nineties there will be more growth years than recession years. Our "now" generation and consumer orientation will fuel demand for products and services. We are not a society of savers and scrimpers--not yet.

2. *The consensus is that interest rates will decline and inflation will hold in the 4 to 5 percent annual range.* In my judgment interest rates will fluctuate between 5 to 16 percent in the 1990s. Why? Because Federal Reserve policy shifted in 1979 from targeting a range for key interest rates to targeting the supply of money. The same policy is still in effect. With a supply of money held relatively fixed, interest rates must fluctuate and will go to extremes with short-term influences. Judge today's rates within this range to determine upside risk versus downside gain. Interestingly, we have many customers fixing long-term rates now indicating they don't look for much further decrease.
3. *Energy shortages are not foreseen for the 1990s.* At the time of the 1974 crunch we were importing one-third of our needs and OPEC was dominant. Now, OPEC is unable to extract a cartel's bounty, but these countries have managed supply and price such that we import more than one-half of our needs and carry only about a three month inventory of petroleum products. We will have another energy crunch; only the timing is in doubt.
4. *Forecasters have been premature in citing the emergence of a cashless society and seem to have abandoned this topic for the nineties.*

But I now see it emerging and supermarkets will lead the way. Our society will have three mediums of exchange--underground, untaxed barter; cash; and plastic. If only drug transactions take place in cash, where will legitimate food marketing be? Will you offer two-tier pricing as most gas stations now do? If credit cards mean instantaneous debits and credits, what will be the impact?

5. *So much for the serious issues--here are some fun ones. In the 1990s:*

Penn State will win the Rose Bowl for the Big Ten.

Puerto Rico will become a state and Cuba a commonwealth.

Legal water wars between urban and country cowboys will erupt in the west just as the range wars a century earlier.

Japan won't dominate the 1990s; the United States will as a result of two decades of remodernization.

Conservatism has not yet run its course. It will replace the Yuppie materialism of the last decade.

Biotechnology and communication technology is coming, but like EFT it is still a decade away. It won't explode on the scene in the nineties as many expect, but it will in the 21st century.

The "challenge for tomorrow" is to devote some time today to your business plans. We Americans have come to believe that there is something undemocratic about planning because we link planning with socialism, which we dislike. Planning for business success, however, is about as American as we can be and it's sad that we let other nations beat us at this game.

I hope these remarks will stimulate you to think about your own business. You will be the most influential factor in the success of your business regardless of the economic and social trends in the nineties.

