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800
BUS
IDE

INTRODUCING AT&T ADVANCED 800 SERVICE.

It's a terrific source for all kinds of new ideas for your business. Whether it's 800 or 8,000 new ideas, you'll find the possibilities are almost endless.

Why?

Because Advanced 800 Service is one of the most exciting advances in business communications since we developed the original 800 number.

Now, you will have the flexibility to customize and control your own communications network.

With AT&T Advanced 800 Service, you will be able to direct calls to different locations, even different departments. And redirect them at a moment's notice.

You can even decide what percentage of calls each office should receive any time of the day. Any day of the week. Or both.

Here are the specifics:

800 CALL PROMPTER.

Allows your customers to hear a recorded message that will help them route their own calls to the department or service of their choice. Just by dialing additional digits. Making it easier and faster for your customers to get to the right people.

For example, if you're a wholesale distributor, you'll be able to direct customer calls to billing, general information, or the appropriate order desk.

And if you've been using a separate 800 number for each of these departments, now you'll need only one.

800 COMMAND ROUTING.

Reacts to your spontaneous needs by letting you instruct the AT&T network to redirect your AT&T 800 Service calls to planned alternate routes. Immediately. Whenever the need should arise.

Let's say you're in financial services or any other industry which undergoes sudden, often hectic changes. Maybe even emergencies. To ensure that your communications link with your clients is protected, you must be able to move fast. And with 800 Command Routing, you can.

lates that this "dependency ratio"—the number of citizens under 25 and over 65 divided by the total population—is now roughly ten percentage points lower in the U.S. than in Japan, West Germany, and Britain. "That adds up to less drain, more gain, in the U.S. economy for the next 15 to 20 years," she says.

Most forecasters now reflect America's sparkling economic fundamentals in their long-range growth projections. Wharton Econometric Forecasting Associates, Data Resources Inc., and Chase Econometrics all predict that for the rest of the decade the U.S. economy will grow faster than the economies of West Germany, France, and Britain. The wizards of Wharton think America's average annual growth rate will be 57% higher than Western Europe's. Even the Japanese juggernaut is looking a little less fearsome. From 1960 to 1982, Japan's real gross domestic product grew at an annual average rate that was about double America's. Through 1989, Wharton projects that Japan's real GDP growth will average 3.8% a year vs. 3.3% for the U.S. Thus Japan will continue to gain on the U.S. but in a much more mincing manner.

Still, many U.S. businessmen and economic policy mongers remain deeply concerned that America is falling behind in manufacturing and high-technology markets critical to the economy's long-term health. Few feel threatened—for the moment—by Europe. Says Robert Hayes, co-author of a much noted 1980 *Harvard Business Review* article, "Managing Our Way to Economic Decline," and a professor at the Harvard Business School: "The U.S. has won the battle with Europe. I can't think of a single high-technology industry where we are concerned about Europe's leadership."

But to Hayes and anxious U.S. executives, taking comfort from outperforming Europe is like getting lathered about dominating the Olympics when the Soviet Union and East Germany stayed home. "It's like congratulating ourselves for finishing a race second to last," says Hewlett-Packard Chief Executive John Young, who spent the past two years chairing a presidential commission on industrial competitiveness. In their recent report to the White House, Young and his blue-ribbon panelists warned, "The U.S. is losing its ability to compete in world markets." They took special pains to note that "Japan and the newly industrializing nations of the Pacific Rim . . . now represent our major competitive arena." U.S. trade with these countries is already bigger than European trade, and if present trends continue it will be twice as big by 1995.

But such worries seem more than a little exaggerated. As much as 40% of last year's estimated $15-billion trade deficit in electronics with Japan reflects Japan's longstanding dominance in consumer electronics. The Japanese are coming on strong in particular markets, such as semiconductors, where they control 41% of the world market, up from 25% five years ago. They also have a technological edge in the commercial application of certain futuristic products, such as ceramics and gallium arsenide, a new semiconductor material far faster than silicon. But in a number of other so-called sunrise industries, the shadow cast by the land of the rising sun seems a little less threatening than it did five years ago. Says Irving Leveson, an economist with the Hudson Strategy Group, a conservative think tank: "While the Japanese are moving ahead in some areas they've targeted very heavily, we've been able to advance on a much broader front."

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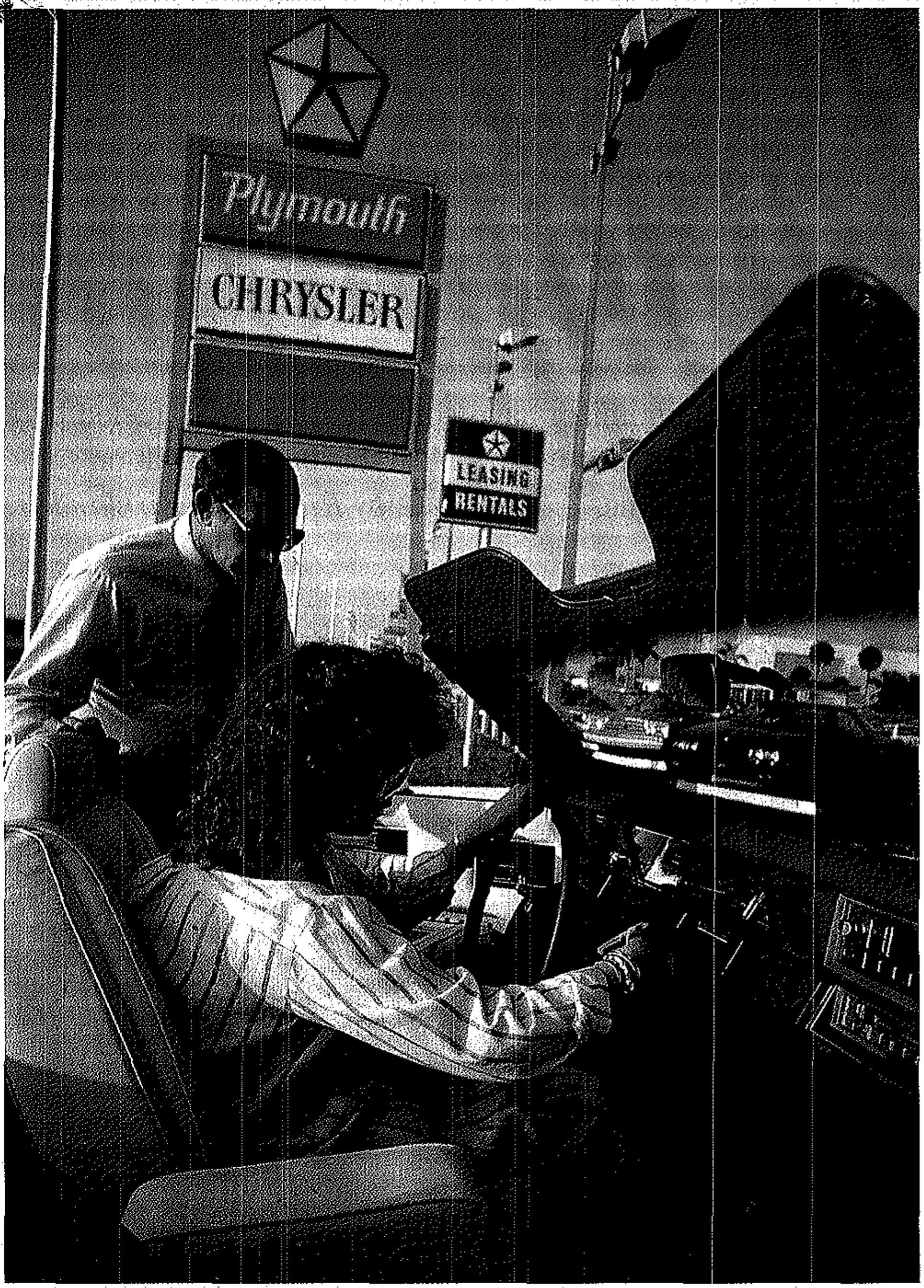
U.S. computer makers are confident they can win the race to build the next generation of supercomputers, the voracious number crunchers that permit extraordinarily detailed mathematical modeling. Says John A. Rollwagen, chief executive of Cray Research, the dominant U.S. maker of supercomputers: "The Japanese goal is to make a computer 100 times more powerful than a Cray by 1990. We expect to do that well before then." With 55% of the world computer market—the same share it had five years ago—America shows little sign of losing dominance. Despite the rising dollar, U.S. computer exports have soared 83% since 1980 and climbed 30% last year. IBM's $6.5 billion in profits last year were about nine times Hitachi's, its principal Japanese competitor. Recently the hard-selling Japanese were chagrined to find the Chinese government turning to Wang Laboratories and IBM.

In fiber optics, AT&T and Corning Glass Works have kept pace with their leading Japanese rival, Sumitomo Electric Industries. The Asians' major inroads in telecommunications so far have been in consumer products—"schlocky phones from Taiwan and Korea," says one industry analyst. In the critical market for large digital switches, AT&T's toughest competitor has been Canada's Northern Telecom rather than a Japanese company. The world market share of U.S. pharmaceutical companies has remained steady at roughly 50%. Though their rate of new product introduction has begun to lag behind their Japanese and European rivals, they still have a big edge in research and development in biotechnology.

Even in industries where Japan has clearly gained the upper hand, all is not gloom and despair. U.S. automakers have used the protection offered by the now abandoned Japanese car quotas to get back on their feet. By slashing their production costs by 34%, they have at least blunted the Japanese charge. Some industry analysts believe General Motors' $5-billion Saturn Project, aimed at building a world-class small car by the end of the decade, holds out the promise of thrusting the U.S. back into the forefront of automotive design and manufacture. That project will also prove a boon to U.S. machine tool makers, who lost an additional 20% of their market to Japanese and European imports over the past five years. GM is seeking state-of-the-art production equipment, and Eli S. Lustgarten, an industry analyst with Paine-Webber, maintains, "The higher the machine tool technology, the stronger the U.S. position."

The strong U.S. dollar, which makes American exports dear and imports cheap, continues to batter the tradable goods sector of the U.S. economy, evoking ever stronger protectionist pressure. But the dollar's strength almost certainly is obscuring the fundamental improvement in the position of America's manufacturers, just as in the 1970s the dollar's weakness masked their steadily eroding competitiveness. Says William Niskanen, former chief economist of Ford Motor Co. and until March a member of President Reagan's Council of Economic Advisers: "Ford is much stronger today than it was in 1980 when it first began pressing for quotas, even though the dollar is much stronger against the yen. Whenever the dollar does weaken, American manufacturers are going to look good awfully fast." By contrast, Europe, far more dependent on trade than the U.S., would probably find a weaker



JOSE FERNANDEZ—WOODFIN CAMP

U.S. automakers *used the protection given them by the now abandoned Japanese quotas to get back on their feet. Sales are zooming at this Pompano Beach, Florida, Chrysler-Plymouth dealership.*

merely reflects the red ink of budget, trade, and current account deficits?

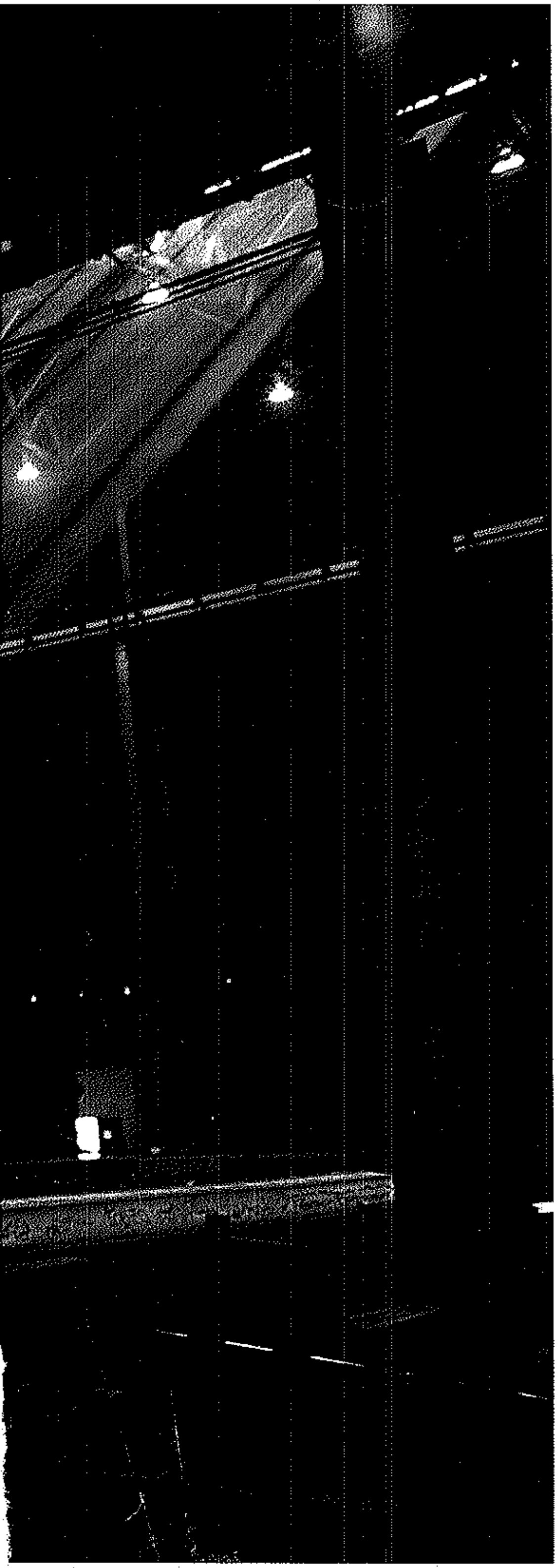
Certainly no small part of the reason the U.S. feels so good now is that it felt so lousy six years ago. Jimmy Carter was right in his so-called malaise speech in the summer of 1979 when he spoke of "a crisis of confidence" in America, though he didn't understand the extent to which his uncertain leadership was to blame. Polls at the time showed a majority of Americans expecting the next five years to be worse than the last five. Japan and West Germany, whose productivity growth had outpaced the U.S. for more than 20 years, seemed poised to seize the growth markets of the future. The dollar was so weak that OPEC's sheikhs openly debated taking payment for their oil in some other currency. The hostage situation in Iran made the U.S. feel it had truly become, in Richard Nixon's classic coinage, "a pitiful, helpless giant."

Worst of all, rapid money growth, exacerbated by the second oil price shock, triggered a terrifying bout of double-digit inflation that eroded consumer confidence and played havoc with business investment and planning. The best economic news in the U.S. over the past four years has been the dramatic two-thirds reduction in the inflation rate. Until it happened, few policymakers believed such a sharp decline in so short a time was possible.

But the U.S. hasn't simply ceased to shoot itself in the foot. "I'm more bullish today because the fundamentals are better now than they were five years ago," says William Ylvisaker, chairman of Gould Inc., an Illinois company that has transformed itself since 1980 from a supplier of auto parts and batteries to a maker of high-tech electronics, including minicomputers and factory automation equipment. One critical fundamental that has turned around is U.S. investment in research and development. After declining steadily since the late 1960s, R&D spending as a share of GNP began climbing in 1979 and now stands at 2.7% of GNP, probably the highest in the industrialized world.

PART OF THAT INCREASE reflects the Reagan Administration's military buildup, but business investment in R&D has also been growing at more than 6% a year in inflation-adjusted dollars since 1975, vs. 2% from 1970 to 1975. The cut in the capital gains tax in 1978 and again in 1981 has sparked an explosion in the U.S. venture capital market, which has soared by $10 billion since 1980. West Germany and Japan still spend more on civilian R&D as a percent of GNP (2.5% and 2.3%, respectively, vs. 1.8% for the U.S.). But playing the percentage game obscures the magnitude of the U.S. advantage. "You obviously get considerable economies of scale," says Rachel McCulloch, an economist at the Hoover Institution in Palo Alto, California. The $109 billion the U.S. will likely invest in R&D in 1985 is more than the investment of West Germany, Japan, and France combined.

U.S. capital spending has been booming, spurred by both the strength of the economy's recovery and the 1981 business tax cuts. Investment in plant and equipment is up 41% from the recession lows of two years ago. Robert Lawrence, an economist at the Brookings Institution, a Washington think tank, estimates that equipment spending, particularly for computers, has surged at twice the average rate of past recoveries. As a share of real gross domestic product, U.S.



steelmakers anywhere in the world.

AMERICA ON TOP AGAIN

Confidence and optimism have come roaring back, fueled by a growth rate better than Japan's. And this boom is built on some solid new foundations. ■ *by Richard I. Kirkland Jr.*

THE U.S. IS FEELING on top of the world again. Poll after poll shows Americans brimming with a confidence in their country and a faith in their personal futures exceeding even the brief blip in optimism that greeted Jimmy Carter's election in 1976. A new outpouring of national pride, exemplified by the feverish exuberance with which America celebrated its athletic triumphs in the Los Angeles Olympics, seems to have finally washed away the self-doubt and defeatism left over from Vietnam and Watergate.

Americans certainly have plenty to cheer about. The strongest economic recovery since the Korean war has spawned more than seven million new jobs in two years. U.S. GNP growth since 1982 has left Europe's economies in the dust and even outstripped that perennial worldbeater Japan for two years running—the first time that has happened since scorekeeping began in the 1950s. After taking a severe battering in the 1970s, the dollar is once again almighty. Buoyed by the 85% rise in its value since 1980, Americans are rushing abroad in record numbers to spend a goodly chunk of their rising real incomes in the shops along Oxford Street and the restaurants near the Champs-Elysées.

U.S. allies have undergone a corresponding sea change in their view of America's economic vitality and role in the world. Denunciations of big U.S. budget deficits persist, but they are accompanied by acknowledgments among European policymakers that much can be learned from the so-called American miracle about how tax incentives and entrepreneurial activity can foster growth. The sharpest swing has come in France. Former French Prime Minister Raymond Barre maintains that the U.S. is once again becoming "the pole of stability and growth in the international economy" and is regaining its "predominance vs. the rest of the world." Many of his countrymen agree. Pollster Michel Brule of Paris-based BVA reports that in a recent survey 49% of Frenchmen said France's foreign policy should be staunchly pro-American rather than neutralist, up from 30% three years ago. Many Asians are similarly upbeat. Says a U.S. diplomat in the Far East, "I can't recall any time in the past five or six years when the U.S. has been so well regarded in Asia." In his State of the Union Address, President Reagan reveled in all this newfound popularity. "Our alliances are stronger than ever," he proclaimed. "Our economy is stronger than ever. We have resumed our historic role as a leader of the free world."

But a sizable body of informed skeptics at home and abroad wonder just how well-founded America's new optimism is, particularly the new sense of economic well-being. Says Tadashi Yamamoto, director of the Japan Center for International Exchange, an organization principally devoted to building good relations between Japan and the U.S.: "The situation doesn't merit euphoria. It's little better than the late 1970s." Is it really "morning again in America," as Reagan put it? Or is this a false dawn whose rosy color

RESEARCH ASSOCIATE *Alison Bruce Rea*

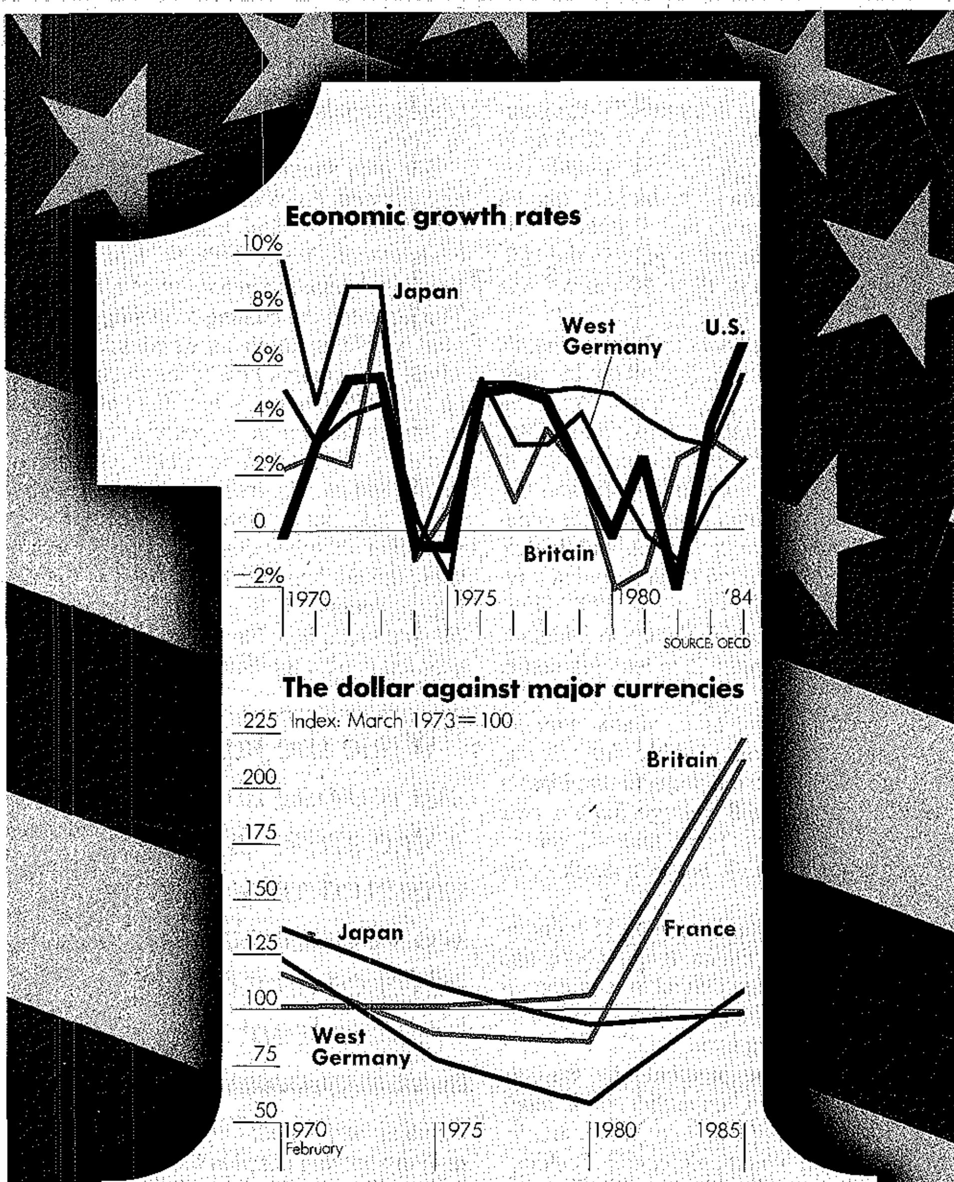
PHOTOGRAPH BY PAUL CHESLEY

business investment is now two percentage points higher than the average for the 1970s and has surpassed that of France and Germany, though it still trails Japan.

U.S. businesses are investing more in improving manufacturing technology as well as in product research—something management gurus have been urging them to do for years. Japan and West Germany still lead in this area. "But the U.S. is catching up," says Gerald Michael, a senior consultant at Arthur D. Little, the Cambridge, Massachusetts, consulting firm. "We've definitely turned around." Domestic sales of the fledgling U.S. robot industry jumped from $40 million in 1980 to about $400 million in 1984 and are expected to grow at 30% a year.

In large part because of this increased capital spending, most economists, including FORTUNE's, now believe the trend of productivity growth in the nonfarm business sector has shifted from the miserable 0.5% a year rate of 1973-1982 to at least the 1.5% to 2% range (FORTUNE, December 10). The double-whammy of disinflation and fierce import competition could encourage even higher U.S. productivity as American managers keep looking for ways to cut costs. Steven R. Malin, an economist with the Conference Board, a New York-based business research group, believes that the U.S. can enjoy 2.5%-a-year productivity growth for the rest of the decade. That rate would narrow, but not close, America's productivity growth gap with the hard-charging Japanese and pull the U.S. just about even with Western Europe's pace.

Another frequently overlooked cause for optimism about America's long-term economic outlook is the wave of deregulation that began under Jimmy Carter. "Transportation, telecommunications, and financial services are three critical parts of the economy's infrastructure," says Richard Blackhurst, chief economist with the Geneva-based General Agreement on Tariffs and Trade (GATT), the rule-making forum that governs world trade. "Their deregulation is bound to make the U.S. economy even more efficient and innovative."



America as No. 1

The upper graph tracks growth of inflation-adjusted gross domestic product (GDP). (For four years of the period, 1981-84, gross national product is used for the U.S., Japan, and West Germany.) GDP excludes profits from domestic companies' foreign subsidiaries; GNP includes them. The lower graph shows that the dollar is king of currencies again.

INTERNATIONAL COMPARISONS of service-sector productivity are almost nonexistent, but the U.S. is generally thought to have an edge. Deregulation can only sharpen it. So-called business services—public relations, temporary help, management consulting, and the like—make up the fastest-growing sector of the U.S. economy. Predicts Harald Malmgren, a Washington trade consultant: "The U.S. is going to just completely dominate the world services market."

Demography's iron hand will also weigh less heavily on the U.S. in the coming decade, even as it pushes down the economic growth of America's principal competitors. The baby boom in the U.S. peaked in 1957. The much smaller boomlets in Japan and Europe began and ended roughly a decade later. Those green, gawky 22-year-olds who were absorbed into the U.S. economy in the 1970s are now experienced workers in their late 20s to mid 30s and presumably a boon to productivity. By contrast America's allies now face what might be thought of as a yuppie gap. Not only must they find gainful jobs for their boomers—a particularly acute problem in Europe, where the average unemployment rate is 11%—they also have fewer workers in the productive 25- to 65-year age group to carry the social costs imposed by the very young and the very old. Deborah Olivier, president of Claremont Economics Institute, a California forecasting firm, calcudollar distinctly depressing. Economist Alan Greenspan predicts that Europe's current complaints about the strong dollar will be "virtual cheeriness compared to how they're going to feel when the dollar declines."

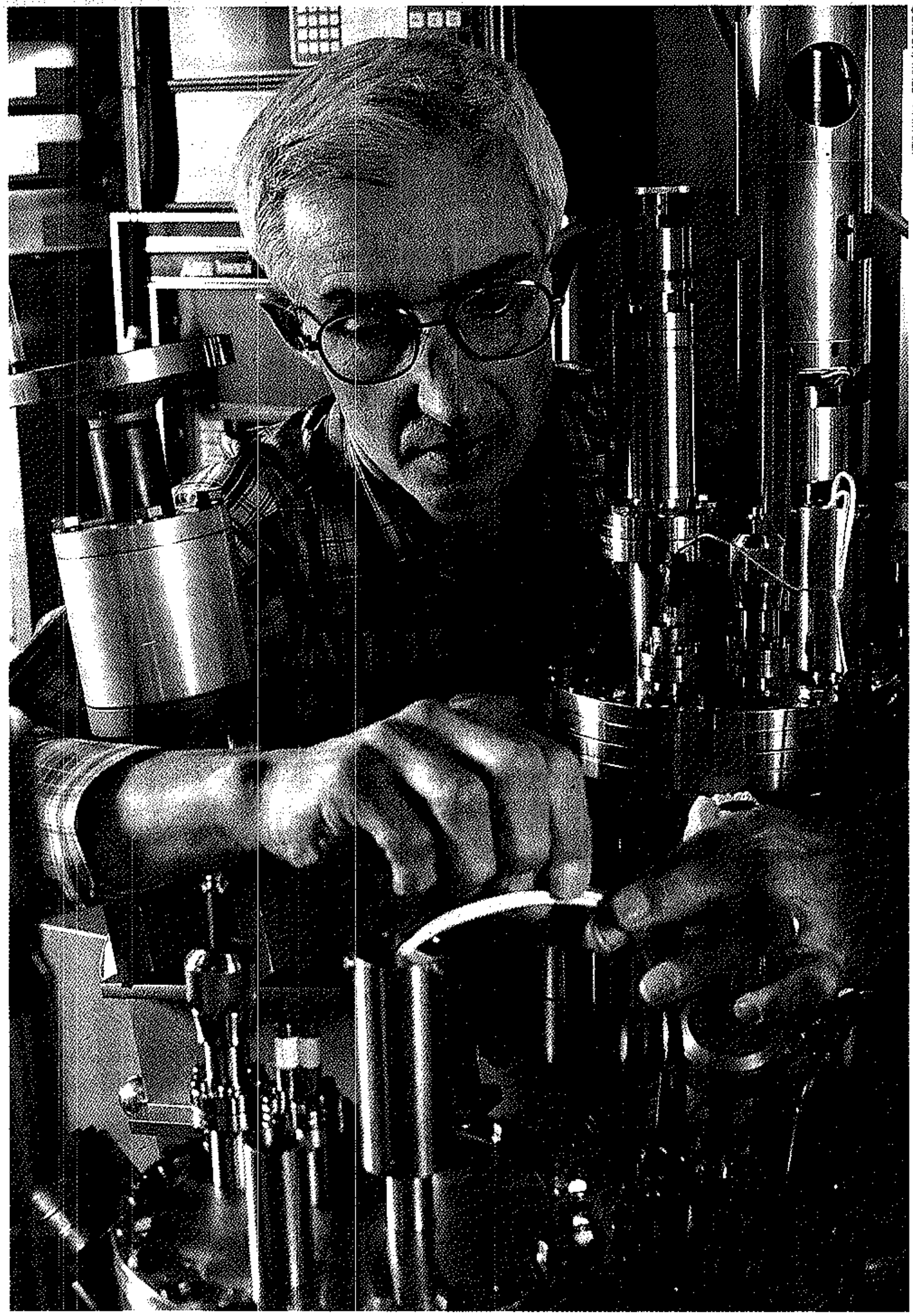
At the same time the dollar's stubborn strength clearly reflects the confidence the world's investors have in the American economy. Like many of his colleagues, Greenspan argues that the spread between U.S. real interest rates and lower rates offered abroad probably accounts for no more than one-third of the annual $100-billion inflow of capital into the U.S. "The most powerful factor attracting capital to the U.S. is that the prospect of earning profits is greater there than in the rest of the world," says Arthur Burns, the former Federal Reserve chairman who is retiring as ambassador to West Germany. This infusion of foreign savings, rather than a boom in the U.S. savings rate, has allowed the U.S. to run huge budget deficits without "crowding out" private investment.

How long can the U.S. count on its foreign capital fix? Conceivably for quite some time. Says Albert Wojnilower, managing director of the First Boston investment banking firm: "Inflows of $100 billion a year or more into an economy whose net assets are valued at some $12 trillion can persist for many years without becoming disturbing—so long as our political strength and economic growth outstrip the competition." From 1880 to 1900 the U.S. ran comparable trade deficits and capital surpluses—though they were measured in hundreds of millions rather than of billions. Those deficits eventually disappeared without a sharp drop in the value of the dollar as U.S. productivity rose and prices fell relative to its trading partners.

THE DARKEST CLOUD over America's economic future remains the political inability to get control over federal spending. Like a highly leveraged growth company, the U.S. economy depends on the confidence of its creditors. Lack of action to lower the deficit while the economy is perking along nicely raises the odds that a downturn could shake that confidence. A fall in the dollar, prompted by a stampede of foreign capital into other currencies, would boost inflation and force the Federal Reserve to raise interest rates to resist the dollar's decline. The sluggish growth that would ensue, in turn, would swell the budget deficit, send the interest bill on that debt spiraling, and increase the odds that policymakers would eventually feel compelled to reinflate the currency to pay off those debts.

On the other hand, as Alan Greenspan notes, taking up arms against the deficit, particularly through spending reductions, would probably lower long-term inflation expectations, interest rates, and the cost of capital. Says Greenspan, "If that happens, we could very easily vault the economy to an even higher growth path for quite a while."

What the U.S. is really celebrating, of course, isn't a return to economic preeminence—that's a position it never lost. As it has been since World War II, the U.S. remains the richest country in the industrial world, as measured by the per capita purchasing power of its citizens. Despite the stagflation-plagued 1970s, the absolute productivity of U.S. workers is still unsurpassed. Other countries will continue to narrow America's lead in these and other economic categories. But unlike five years ago, that lead no longer seems to be disappearing. While it may not be morning again in America, it no longer feels like dusk. Barring bad luck and bad management, as the late futurist Herman Kahn used to say, the U.S. seems poised to extend its day in the sun for a long time to come. ■



GORDON/TRAUB—WAYFARER

Speedier silicon chips *are the goal of research at General Electric's R&D center in Schenectady, New York. The U.S. outspends Japan, Germany, and France combined on R&D.*