

From Riches to Rags at a Time of Prosperity:

**Hopeful Observations for
a Troubled Republic**



Frederick M. Zimmerman

**University of St. Thomas
St. Paul, Minnesota**

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Dedicated to

Joanell Eleanor Felker Zimmerman

Frederick Josef Zimmerman

Carita Michelle Zimmerman

Christina Joanell Zimmerman

Brigitte Aimee Zimmerman

Hans Anthony Zimmerman

and

all of the people who have tried

to do their best

including

**Fred and Nora Wagner, Tom Ippoliti, John and Judy Adams,
Michael Naughton, Clarence Shallbetter, Tom and Libby Horner,
Bill Kuban, Dan Berdass, Tom and Joyce Schlough, Father James Peterson,
Bernie Brommer, Dr. and Mrs. Charles Moldow, Tom and Pat Daly,
Father Martin Shallbetter, Everett Chapman, Steve St. Martin,
Bob Olson, Steve Evenson, Dr. Andrew Olson, John Boyle,
Sister Generose of St. Mary's Hospital at the Mayo Clinic
George and Virginia Gleeson, John Povolny,
Dr. John Cich and Dr. Susan Sencer,
Father Dease**

**and the faculty members of the engineering, chemistry, mathematics,
history, and theology departments of the University of St. Thomas.**

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About the Author

Dr. Fred Zimmerman started as a Field Engineer with IBM in 1955 then spent more than 25 years in industry as an engineer, manager, vice president and president primarily with three computer companies; IBM, Control Data, and National Computer Systems (NCS Pearson). Over more than a forty year period, he has worked on many troubled situations with companies and organizations and has served on the boards of directors of 14 corporations. In 1985, he joined the engineering and management faculty of the University of St. Thomas in St. Paul, Minnesota.

Dr. Zimmerman retired as a Professor of Engineering and Management at the University of St. Thomas in December of 2005 and currently holds the rank of Professor Emeritus. During his twenty-five year association with the University of St. Thomas, Dr. Zimmerman served as Engineering Program Director, Engineering Department Chair, Member of the Committee of Deans, and full Professor. When he retired at the end of 2005, he was awarded the University's highest academic award, the University of St. Thomas Distinguished Service Award.

For many years, he taught both engineering and management classes, mostly at the graduate level. He has also taught at Universidad Catolica in Montevideo, Uruguay and at the Czech Management Center in Celokovice, Czech Republic, the University of Pittsburgh, and the University of Minnesota where he also served as a visiting scholar at the Humphrey Institute of Public Affairs.

Dr. Zimmerman is a frequent informational source to the media on industrial issues. He is the author of numerous professional and technical articles plus the book *The Turnaround Experience: Real World Lessons In Revitalizing Corporations* which was initially published by McGraw-Hill in 1991 and republished as a Kindle publication in 2011. His research manuscripts, *Measurement of the Industrial Economy*, *The Relocation Of Industry*, and *The Status of Manufacturing in Minnesota* were published by the St. Thomas Technology Press. His book, *Manufacturing Works: The Vital Link Between Production and Prosperity* is co-authored with the distinguished journalist Dave Beal and published by Dearborn Trade Press in 2002. Dr. Zimmerman has been a frequent advisor to media staff and public officials on managerial practices and the status of the industrial economy in the United States.

Dr. Zimmerman resides in Minnetonka, Minnesota with his wife, Joannell. The Zimmermans have five children and have housed more than ninety foster children.



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The project of *From Riches to Rags at a time of Prosperity: Hopeful Observations for a Troubled Republic* was more than twenty years in the making and could not have been completed without the meaningful contributions of many dedicated people.

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Our five children have helped as well; distinguished scholars and business practitioners in their own right, they have added the useful perspective of international experience by living in Argentina, Austria, Finland, Togo, Germany, the Netherlands, and Malawi. Perhaps the most extensive gravitational force was exerted on this document when our youngest daughter, Brigitte, used one of my articles as an example of "unobjective opinionated writing" in one of her public policy courses at Stanford. I was glad that at the end of her critique she at least said that she "agreed with a few points in the article."

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The picture of the front cover was painted by the author's aunt, Bernice Soldat of Attleboro, Massachusetts, who was born in 1917.

And, I believe I need to mention, again, my thanks to my wonderful wife Joanell for her patient tolerance of the time it has taken to complete the background research for these and other manuscripts. She has been a true collaborator. Her wisdom and keen insights have added much to strengthen these articles.

Introduction

The United States is a wonderful country with an enormous potential to bring goodwill, prosperity, health, and peace to its citizens and the rest of the world. In this sense, the author is optimistic. But, I also have the feeling that we are neglecting some important lessons of the past, that we are too speculative, and that we are ignoring the lasting principles of basic arithmetic and sound philosophy in our day-to-day dealings in business, the economy, and the workings of government.

I would like to see things improve and I believe things could be better. But, improvement is often a resource based question. How are we going to improve if our schools are weak, our savings for the future are negligible, our investments are minuscule and often oriented to entertainment rather than to worthwhile projects which might improve our situations in energy, environmental protection, health, transportation and the orderly conduct of human affairs?

This manuscript is not partisan. The solutions to the problems we face do not fit neatly into any one political camp. In order to make progress on the pressing problems before us, we will need a new unbiased perspectives based on more extensive observation and sound analysis. The last thing we need is for leaders to interpret world events seeking reinforcement of what they said in their last speech. The world requires, and the world will soon demand, far more objective analyses of what we are doing, where we stand, and the probability of improvement given the methods we are using. Should those of us in leadership fail to provide those valuable insights, the world will deprive us of our leadership role. Then the future will be even more unpredictable because violent dissatisfaction with the way things are does not always produce a clear prescription for what things will be effective in the future.

The material presented here is a series of essays and other papers written over a twenty-year period. Very few of the thoughts presented here are original with the author. They result from the worthwhile exposure to workers, managers, shareholders, public officials, journalists, clergy, janitors, and a huge assortment of ordinary employees. The essays and articles presented were written in response to these exposures. I am grateful to all who contributed to these works.

The title, *From Riches to Rags at a Time of Prosperity*, was purposely chosen. There is still time for us to modify our behavior. But, if we misread or ignore world events, we will be poorer. The United States is currently the world's largest debtor by a substantial margin. Our prosperity is largely based on the rapid depletion of liquid fossil fuels – which are likely to be virtually fully exhausted this century. Our education system is sub-par. Our retirement promises are vastly in excess of what we can afford. Our environment is eroding. Though most US citizens are comparatively prosperous at the moment, we are gradually transitioning to much less prosperous circumstances – *From Riches to Rags at a Time of Prosperity*.

This book is divided into eight major parts. Part One includes a brief history of how some of the earlier writers in the field of management emphasized our responsibilities as managers and how they envisioned the integration of company and community interests. Part Two deals with the economy and what we may have to do to sustain prosperity for the world's citizens. Part Three includes some essays written in response to the euphoria of the stock markets. Part Four deals with manufacturing and its role in an integrated society. Part Five discusses the role of business management in a wholesome society along with some suggestions and caveats for the practice of management. Part Six reviews the importance of education and the responsibilities of those of us who are educators. Part Seven deals with a few of the nation's pressing public policy questions. Part Eight closes with a question: Will real leadership emerge?.

Historical Perceptions of the Good Company

Prepared for use in class at the Universities of Minnesota, St. Thomas, Pittsburgh, and Universidad Catolica in Uruguay

What makes up a "good company" has been thought about and written about for many years. This article will not explore the complete spectrum of scholarly contributions on the subject, but it will briefly go over a few interesting perspectives of the past one hundred years. Of course, what is presented here cannot be a complete list so the author is eager to learn of other ideas presented at the conference. A few frequently occurring historical concepts are presented here to show how the practice of management should relate to the performance of the economy and to society in general.

A careful reading of classical writers in the field of management will reveal a commonly repeated basic theses – what we might call cornerstones of managerial philosophy. These key principles are applicable to the practice of management in any era but several of these may have special application to our managerial and economic problems of today.

In this sense, the material presented relates to Catholic social thought and corporate social responsibility – the title dialogue of this October conference on "The Good Company." Some of the writers we will cover, such as Mooney and Riley, were Catholic practitioners. Others such as Frederick Taylor were Quakers. Others adhered to other beliefs. However, all of them displayed internal value systems which extended well beyond the mere refining of the managerial task. The emphasis on purpose, on the community, on the integration of goals, all purport to a caring larger view of the responsibilities of management – the stewardship role.

Stewardship in short supply

We have much reason to believe that in today's world, stewardship is in short supply. Our present performance as managers is not impressive. The world economy of today is in considerable difficulty. In the United States, several of our largest and most important industries have been marginal for several years. Governmental budget deficits threaten the stability of world financial markets. Severe unemployment exists in many regions. Record trade imbalances continue. International debts mount yearly with our own country being the largest debtor nation. The world's financial markets are fearful of these unprecedented deficits and could become quite volatile. Resource scarcity, with its resulting potential for inflation and monetary instability, adds to our concerns.

Obviously, many of these problems may be beyond the scope of management at the level of the firm. But, some of us are more hopeful. With effective management, we should at least be able to greatly improve our situation. However, a rigorous re-examination of our fundamental concepts of management may be necessary to trigger the needed improvements.

The quality of management influences the performance of the economy at the level of the firm and at the national level. The performance of the economy, in turn, impacts social problems and cultural developments. After all, if management is to be considered an important and well-compensated function, should not its impact on the general society be considered? All of these questions have surfaced before.

Let us examine what some of the earlier writers had to say. What are some of the basic cornerstones of managerial thought and how do these ideas dovetail with corporate responsibility and Catholic social thought? To what degree are these precepts applicable to the problems we have today?

It is useful to evaluate concepts of management with respect to the economic setting in which they were developed. Our prevailing concepts of management have changed over time. Individual management theories

have been popular at one time or another but have become less popular under different conditions. Great leaders of the past relied heavily on a charismatic style of management. Team mobilization, basic organizing, leadership and the amalgamation of power were central attributes to the emergence of the important organizational entities of our earlier history. During the early 1900's, when our country was struggling to establish itself as an industrial power, there was more interest in efficiency, order, and more of an engineering approach to the process of management. Then, after greater prosperity had been attained, our attention shifted more to the social aspects of management – to motivation, participation and personnel administration. Since the 1960's, with the arrival of larger businesses, we witnessed more interest in the analytical, quantitative, decision making and strategic aspects of management helpful in managing large enterprises. Later, we saw more of an interest in globalization and international factors.

Each of these schools contributed to a more comprehensive theory of management, but the schools did evolve somewhat sequentially. Economic and environmental conditions of different times required varied managerial approaches. Some managerial theories emerged during robust economic periods when the orchestration of growth was of principal interest. During the serious recession of the 1980s and since, how to survive eclipsed how to grow as a managerial concern. Now, we may be entering a new historical period with economic conditions entirely different from those in play when some of our theories were developed. The management theories we have employed for the past forty years may produce unanticipated results if applied under these new and different economic conditions. We may find some older prescriptions, formulated during less affluent times, relate more appropriately to the problems we face at the moment than theories fostered during more affluent times. We may begin this inquiry by examining what the job of manager really is.

Perceptions Of Management A Fundamental Difference

There is a difference between popular current managerial paradigms and those of old in the general perception of the role of management. We can see in these earlier writings a definite interest in the responsibilities of management – its stewardship role. We could illustrate these differences by the following example:

Company A is involved in a basic industry that shows signs of maturity. The industry is viewed as crowded, low margin, slow growth and is fraught with stagnation in its labor management relations. These characteristics are detected by sound analytical techniques as applied by Company A's headquarters staff. A strategic direction is charted to get Company A into a more vibrant and emerging business. The base business is milked as a cash cow while Company A's resources are shifted to emerging markets.

Company B is in a similar industry and its management team observes similar threats and trends. The higher margins and higher growth rates potentially available in a new industry are also observed by Company B. However, the management of Company B notes that there are two major considerations to any dramatic shift to the new industry:

- 1: The skills required for the new industry are radically different from those currently possessed by the company's management and employees. The difficulties encountered are likely to be substantial.
- 2: Any major strategic shift to a new industry would require casting as less valuable some of the company's most precious assets; production expertise, rapport with customers, knowledge of the industry and an appreciation for its economics. The attendant personnel ramifications, both sociologically and operationally, are also likely to be substantial.

The management of Company B also observes that there are many opportunities to improve the efficiency of the base business and that the opportunities available in their home industry are regarded as lucrative by international suppliers. Company B concludes that its inherent expertise in its present industry is much greater than it would be in the new industry and that it would be difficult to establish a lasting presence in an unknown market so late in the game. Company B establishes a strategic direction, with the cooperation and understanding of company personnel, to concentrate on the industry it now serves and to become the most efficient and differentiated supplier in its base business.

Arguments can be made for either approach, though there seems to be strong clinical evidence that major strategic shifts across industry lines is perilous. However, the major point here is the fundamental difference in the perceptions of what the term "management" really means.

To Company A, management is a task of strategic selection. Management involves analysis, decision making, resource allocation and the eventual strategic direction of the firm. The emphasis is on selecting what is perceived is the most advantageous thing to do.

To Company B, management is the necessary task of on taking what you have and making it work. The emphasis is on implementation, service to markets, cooperation with company stakeholders, efficiency, effectiveness and the company's mission. The emphasis is on the development of a competitive advantage and the establishment of a defensible international position so that the firm, its people, and its community will survive.

Though there may be instances where either one of these two approaches is appropriate given circumstances, they are fundamentally different in their underlying value systems, the kinds of skills the managers need, and the sense of managerial responsibility (stewardship).

Some businessmen and academic leaders have been concerned that we may be drifting too much toward the analysis of problems at the expense of refining our ability to execute. We may be strategically positioning ourselves into some situations that have high potential, but we may not be sufficiently prepared to attain the potential that exists.

Clearly, there are some excellent companies that have developed and retained the ability to execute, survive and expand during a tough world economy. Deere, Nucor, Steel Dynamics, and Winnebago all provide excellent examples. They have been able to attain success by operating efficiently in industries that other firms found difficult – in industries sometimes regarded as lackluster and slow growth. We should remind ourselves that industries we often see as mature and slow growth are often recognized as highly exciting opportunities by off-shore competitors.

As Columbia University professor Donald Hambrick and his colleagues²⁵ have noted, we cannot discard most of industrial America because it doesn't fall into the proper corner of the Boston Consulting Group matrix. We have to examine what effect our managerial actions of today will have on our society in the future and on the firms that we, as managers and directors, represent. We have to determine which styles of management are appropriate to the particular circumstances we have before us. Which principles will best enable us to survive in an increasingly competitive world.

A patient review of the historical literature on management will reveal many interesting and applicable managerial concepts which have stood the test of time. However, there are four value laden philosophical themes which seem to surface repeatedly as important cornerstones in the managerial literature. Our intent is to examine the applicability of these four cornerstones to our business problems of today. Briefly, the practice of management is based on the following four fundamental principles:

- 1: The enterprise is viewed as an integral part of the whole community and it routinely functions in that role.**
- 2: Success is dependent upon an established, cultivated and maintained coincidence of interest between workers and the organization.**
- 3: High integrity on the part of both managers and workers is necessary for success.**
- 4: Shared value systems, objectives and beliefs must be established and inculcated within the organization.**

It is not the author's intent discuss which of these principles is preeminent. I merely wish to review what has been said repeatedly by earlier authors in order to stimulate discussion at our conference.

Cornerstone One The Enterprise As Part of the Community

As described in the early classics, a business is an integral part of a larger community system and, in order to succeed, it has to function with that perception in mind. Henry Gantt, Frank Gilbreth, and Oliver Shel-

don saw the mission, goals and methods to achieve objectives as firmly rooted in the needs of society. Notwithstanding, the concept of the enterprise as part of the community was fundamentally economic, it has a social dimension in that it integrates the interests of society with those of the firm. In the view of these writers, the firm would not succeed over the long term without adhering to this basic concept of service to the broader community.

Oliver Sheldon saw this issue clearly his preamble to his 1923 essay; “A Philosophy of Industrial Management”.

“Industry exists to provide the commodities and services which are necessary for the good life of the community, in whatever volume they are required. These commodities and services must be furnished at the lowest prices compatible with an adequate standard of quality, and distributed in such a way as directly or indirectly to promote the highest ends of the community. Industrial management, in a broad sense, is the function, practiced by whatever persons or classes, responsible for the direction of industry to the above end. It must, therefore be governed by certain principles inherent in the motive of service to the community. Such principles are – Firstly, that the policies, conditions, and methods of industry shall conduce communal well being. It is therefore part of the task of management to value such policies, conditions, and methods, by an ethical measure.” 47

The industrial engineer, Frank Gilbreth, also recognized the integration of proper and effective management, the general prosperity of the peoples of the world and the health of the firm itself. From the closing paragraphs of his 1923 essay, “Science in Management for the One Best Way to do Work”, we have the following:

“Greatest national prosperity depends upon greatest individual training in knowledge and in ability to contribute toward the public welfare. Such contributions may be, and often have been, more or less haphazard and still result in good. However, to be most profitable, activity must be planned and directed, must have ability, experience and knowledge behind it. It must be based on measurement and willingness to abide by the result of measurement. Nothing will stand for a long time and continue to exist and to give satisfaction unless there is a real reason for it so doing. It may stand for a long while because no one has changed it, but the day of comparison and struggle for survival will come, and unless it can show logical reason for its existence, it must go. Therefore, development of national prosperity that is to have permanent stability, that is to be evolution and not revolution, that is to attain and perpetuate the all essential element of maintenance, does depend upon science, upon measurement; and it is for this reason that the science of management is an essential factor in the development of national prosperity, of international prosperity, and of the prosperity of the whole world.” 22

Henry L. Gantt, also an accredited member of the scientific management community, underscored the necessity of service to the community as a foundation to efficiency and success in his essay, “The Parting of The Ways”, which was written at the time of the First World War.

“It is this conflict of ideals which is the source of the confusion into which the world seems to be diving headlong. The community needs service first, regardless of who gets the profits, because its life depends upon the service it gets. The business man who says profits are more important to him than the service he renders; that the wheels of business shall not turn, whether the community needs the service or not unless he can have his measure of profit, has forgotten that his business had its foundation in service, as far as the community is concerned. We all realize that any reward that business arbitrarily takes, over and above that to which it is justly entitled for service rendered, is just as much the exercise of autocratic power and a menace to the industrial peace of the world, as the autocratic military power of the Kaiser was a menace to international peace. This applies to Bolsheviks as well as Bankers.” 20

It is interesting to note that Gantt argues these points from the standpoint of industrial efficiency – in the long-term interest of the business itself. The firm must be an efficient and low cost provider of what society needs. If this principle is not observed, the enterprise will fail and the civil peace of the society itself will be in jeopardy.

Chester Barnard devoted an entire chapter to opportunism in 1938 treatise, THE FUNCTIONS OF THE EXECUTIVE 6 Barnard described opportunism as existing when the values, ideals and decision processes become specialized to the individual rather than to the organization or to society.

The nineteenth century French Industrialist, Henri Fayol, formulated a similar concept in his sixth principle of management; “Subordination of individual interests to general interests” 59. And for centuries, an operating principle of the religious monasteries has been that the individuals subordinate their interests to those of the community and to the society in general. Although, in spite of low pay, subordinated interests and a restricted channeling of self actualization, people worked hard. The organizational format of the Benedictine Order has survived virtually unchanged for 1500 years – with the vow of poverty being a principle bonding element.

Modern scholars have also commented on the dysfunctional nature of too much opportunism. The noted geographer John Adams, a specialist in the development of regional economies, lamented the dysfunctional role an opportunistic service sector is playing in weakening the U.S. economy. From his article entitled “The Regional Service Economy — A Contemporary Mirage? 3

“It's a national scandal and in the aggregate everyone loses. None of these ploys creates new wealth. Each merely shifts assets from one set of pockets to another. Together they foster a cynical indifference to production or to any goal beyond personal gain. Sustained economic growth can be achieved only through cooperation. The future welfare of the country depends upon complicated interdependent organizations in which responsibility is shared and where all trust that benefits and sacrifices are borne fairly. But this view is slipping from our grasp – and especially in the service industries that we have started to discuss today.” 3

Note that these scholars were not arguing for changes in either the social system or the economic structure of society. They were arguing for goal integration with the community from the perspectives of managerial effectiveness and practical economics. They were saying that those organizations which have the highest likelihood of lasting have their objectives firmly rooted in the efficient satisfaction of the needs of the society. They were against opportunism because they didn't think it would work.

In the real world, however, this fundamental concept of community service as a determinant of organizational success is often violated with poor results for both the firm and the society. For years, artificial mechanisms have been employed to allow some interests to participate preferentially. On a temporary basis, such opportunism may provide insulated prices, mandated requirements for services, artificial barriers to effective competition, preferential financing or in some cases, the overt conversion of property. As a result of sustaining their positions on the basis of synthetic advantage, these organizations never develop the skills to effectively serve the community. Ultimately, however, these temporary artificial advantages are overcome. Such forces as deregulation, foreign competition, new technologies, niche marketing or other countervailing forces surface to neutralize the advantage that is gained without substance. When it finally becomes necessary for the opportunistic firms to provide a truly effective service in order to survive, they are ill-equipped to do so. Chaos for them and their communities is the frequent result.

The forces of competition may serve to limit the effectiveness of opportunism – in some cases, quite effectively. There is nothing wrong with honest competition or prudent opportunism. However, many of the strategies that are unfolding from government, labor, and many businesses today are largely oblique to the long term needs of the general society as a whole and are oriented excessively to the satisfaction of special, rather than communal, interests. Apart from the morality of it, self-interested strategies are unlikely to be successful either managerially or economically. A wide variety of countervailing forces will combine to bring ultimate correction to those situations where concern for service has not been present. The enterprise as a part of the community was seen by these earlier writers as an ongoing necessary cornerstone principle of management.

Cornerstone Two Coincidence of Interest Between Management and Labor

Frederick Taylor, the early twentieth century student of time study and productivity, identified “intimate and friendly cooperation between the management and the men” as one of his four basic principles of management. His writings are among the most vehement regarding the necessity of strong cooperation between management and labor in the pursuit of their common interests. The following is an excerpt from his 1912 testimony before a special committee of the House of Representatives which was later reprinted later as an essay entitled; “What is Scientific Management”.

“The great revolution that takes place in the mental attitude of the two parties under scientific management is that both sides take their eyes off the division of the surplus as the all-important matter and turn their attention toward increasing the size of the surplus until this surplus becomes so large that it is unnecessary to quarrel over how it shall be divided. They come to see that when they stop pulling against one another, and instead both turn and push shoulder to shoulder in the same direction, the size of the surplus created by their joint efforts is truly outstanding.” 52

The writings of Frederick Taylor are replete with references to the necessity of coincidence of interest between management and labor as a requirement for the attainment of industrial efficiency and the general welfare of society. From the same essay:

“This, gentlemen, is the beginning of a great mental revolution which constitutes the first step toward scientific management. It is along this line of complete change in the mental attitude of both sides; of the substitution of peace for war; the substitution of hearty brotherly cooperation for contention and strife; of both pulling hard in the same direction instead of pulling apart; of replacing suspicious watchfulness with mutual confidence; of becoming friends instead of enemies; it is along this line, I say, that scientific management must be developed.” 52

Also in his 1912 book, THE PRINCIPLES OF SCIENTIFIC MANAGEMENT, Taylor delineated the main elements of his system:

Science, not rule of thumb.

Harmony, not discord.

Cooperation, not individualism.

Maximum output, in place of restricted output.

The development of each man to his greatest efficiency and prosperity.” 51

Charles Babbage was most noted for his differential engine but his writings on management were also extensive. His 1832 book entitled, ON THE ECONOMY ON MACHINERY AND MANUFACTURES was an early attempt to bring order to the practice of administration. In this book, Babbage advocates the need for a harmony of interests between workers as a catalyst for the attainment of industrial efficiency. 5

Chester Barnard regarded the coincident of interest between management and labor as fundamental to the creation of faith within a cooperative system. His cooperative system involved the free will of the members of the organization, a mutual set of interests between the organization and its members and the structural system within which the willingness to cooperate is maintained. In Barnard's view, explicit provisions need to be made for both the creation and the maintenance of the cooperative system. It was necessary to not only have common interests but also to communicate this commonality of interests to both the formal and informal organizations. Barnard identifies his three functions of the executive as;

1: To provide a system of communication.

2: To promote the securing of essential personal efforts.

3: To formulate and design a purpose for the organization. 6

This major executive function of formulating and designing the purpose for the organization necessitated a lasting and meaningful coincidence of interests between the organization and its members. This emphasis on coincident interests was fully integrated with his "acceptance theory of authority." Authority could not be demanded but is voluntarily accepted by people within organizations. Because it is "voluntary" and cannot be coerced, the goals of people and the organization itself must be integrated.

Lillian Gilbreth, Professor of Industrial Engineering at Purdue, wife of Frank Gilbreth, mother of twelve children, and Time Magazine's Woman of the Year in 1947, formulated earlier a similar theme in her 1914 book on THE PSYCHOLOGY OF MANAGEMENT.

“The workers knowledge that the management plans to maintain such conditions..... leads to love or loyalty between the workers and employers. Far from Scientific Management abolishing the old personal and sympathetic relations employers and workers, it gives opportunities for relations as have not existed since the days of the guilds and the old apprenticeship. The cooperation upon which Scientific Management rests does away with the traditional "warfare"

between employer and workers that made permanent friendliness almost impossible. Cooperation induces friendliness and loyalty of each member in the organization to all the others." 23

Mary Parker Follett referred to this process as the integration of goals. Her 1925 paper on "Business as an Integrative Unity" strongly articulated the need for the coincidence of interest of management and labor.¹⁸ She argues against self interest pursued at the expense of goal integration:

"Capital and Labour must fight or unite. No gentlemanly name for fighting will change the essential nature of the relation between capital and labour where "sides" are sharply defined."
18

Follett argued strongly for a "collective responsibility for production" between labor and capital and for the mature appreciation of their different functions and of their common interests. Later, in 1927, Ms. Follett presented a paper on "The Psychology of Consent and Participation" wherein she outlined the essential condition to obtaining participation:

"There are three ways of dealing with difference: domination, compromise and integration. By domination only one side gets what it wants; by compromise neither side gets what it wants; by integration we find a way by which both sides may get what they wish.....We get progress when we find a way that includes the ideas of both or the several parties to the controversy. But this requires hard thinking, inventiveness, ingenuity. We should never think of integration as a foregone conclusion; it is an achievement." 18

The concept of 'the coincidence of interest between management and labor' is so fundamental and obvious that we tend to neglect it when we talk about management. Yet, it is a necessary condition to the attainment of organizational success.

"The substitution of peace for war; the substitution of hearty brotherly cooperation for contention and strife" Frederick W. Taylor, 1911

Unfortunately, the coincidence of interest between management and labor is not always present when we deal with problems of adversity. It is not a simple concept that operates free of other influences. As several of these writers have pointed out, it is integrated with trust, efficiency, community interest, productivity, compensation systems, an engineering approach to the problem and an atmosphere of cooperation. Yet, the relations between management and labor often reflect a spirit of domination or compromise much more than true goal integration. We have factories that are woefully inefficient and terribly out-of-date where management and labor aggressively compete with one another so that each might obtain a greater percentage of a rapidly shrinking pie. It doesn't make any sense, from the standpoint of either management or labor.

Labor and management, communities and companies, government and industry, and other historically polarized elements of society have a vast communal potential if they work together. The entire system needs review.

Without a coincidence of interest between management and labor, our managerial system, our economy and our society are in jeopardy. The history of Germany provides an excellent commentary on what can happen when labor and management cooperate, as they did from 1948 through 1975, and what can happen when they do not, as was the case before and during World War II.

Cornerstone Three Integrity of Managers and Workers

Integrity on the part of both managers and workers is necessary for the managerial system to operate effectively. Chester Barnard underscored this necessity when he observed that organizations consist of both formal and informal organization elements. The formal organization establishes purposes, communicates, and enlists the willingness to serve. But the equally important informal organization also serves important functions:

- 1: *Establishes attitudes.*
- 2: *Creates conditions under which formal organizations may rise.*
- 3: *Communicates.*
- 4: *Regulates the willingness to serve.*

5: Maintains the feeling of self respect and independent worth. 6

Barnard observed that the mere presence of immorality or opportunism is sufficient to retard the effectiveness of the organization, regardless of who is affected. People are inclined to see how other people are treated as an index of how they will be treated. When people witness nefarious behavior at work, the informal organization senses this, communicates it, formulates new attitudes and regulates the willingness to serve. From Barnard's same chapter on "Executive Responsibility", we have the following:

"Now we shall confine our thoughts to the second aspect of leadership – the more general; the more constant; the subjective; that which reflects the attitudes and ideals of society and its general institutions. It is this aspect of individual superiority in determination, persistence, endurance, courage; that determines the quality of action; which often is most inferred from what is not done, from abstention; which commands respect, reverence. It is the aspect of leadership we commonly imply in the word "responsibility", the quality which gives dependability and determination to human conduct, and foresight and ideality to purpose." 6

Philip Selznick commented on the necessity of integrity in his 1957 book, LEADERSHIP IN ADMINISTRATION:

"The integrity of an enterprise goes beyond efficiency, beyond organizational forms and procedures, even beyond group cohesion. Integrity combines organization and policy. It is the unity that emerges when a particular orientation becomes so firmly a part of group life that it colors and directs a whole wide variety of attitudes, decisions, and forms of organization, and does so at many levels of experience. The building of integrity is part of what we have called the "institutional embodiment of purpose" and its protection is a major function of leadership." 46

Several members of the scientific management community were particularly impressed with the need for traditional morality on the part of both managers and workers. Traditional values served as a strong foundation for the application of their methods. Honest work and proper moral qualities interact upon one another to produce an improved society on a higher plane. The following excerpt from Gantt's 1908 essay on "Training Workman on Habits of Industry and Cooperation" is indicative:

"Moral Training: The fact that under this system, everybody, high and low, is forced by his co-workers to do his duty, for someone else always suffers when he fails, acts as a strong moral tonic to the community, and many whose ideas of truth and honesty are vague find habits of truth and honesty forced upon them. This is the case with those in high authority as well as those in humble positions, and the man highest in authority finds that he must also conform to laws, if he wishes proper cooperation from those under him." 21

Lillian Gilbreth commented on the relationship between the moral development of the members of the organization and the attainment of the organization's purpose. She devoted much attention to both moral development and fairness in THE PSYCHOLOGY OF MANAGEMENT:

"The ultimate result of all this physical improvement, mental development and moral development is increased capacity, increased capacity not only for work, but for health, and for life in general."

"Moral development under Scientific Management results from the provisions for cultivating –

- 1: personal responsibility*
- 2: responsibility for others*
- 3: appreciation of standing*
- 4: self control*
- 5: squareness*

"Squareness." This squareness is exemplified first of all by the attitude of the management. It provides, in every way, that the men are given a "square deal", in that the tasks assigned are of the proper size, and the reward that is given is of the proper dimensions, and is assured. This has already been shown to be exemplified in many characteristics of Scientific Management, and more especially in the inspection and in the disciplining." 23

James Mooney, an early executive with General Motors, teamed with Alan Riley to develop the functionally similar concept of "fair play":

“The leader must be sensitive to the rights of the led and he must take measures to ensure that they are maintained for every individual throughout the organisation. In other words, he must hug closely to the policy of ‘fair play’. To this end, the leaders must begin by playing fair with each other.” 39

Fairness on the part of the workers toward the organization was of equal importance to fairness on the part of those in management. The scientific management school was particularly adamant regarding “soldiering” or deliberate slowing of the work pace. Taylor summarized his assessment of it crisply in SHOP MANAGEMENT:

“The natural laziness of men is serious, but by far the greatest evil from which both workmen and employers are suffering is the systematic soldiering which is almost universal under all of the ordinary schemes of management and results from a careful study on the part of the workmen of what they think will promote their best interests.” 50

Often, we have treated the concepts of business ethics and moral integrity as ancillary characteristics apart from the more direct process of management. They are seen as nice qualities to have but they really don't have anything to do with making money. Instead, they are occasionally seen as getting in the way of it. Sheldon, Barnard, Gilbreth and others saw the role of integrity as absolutely fundamental to the process of making money. They saw integrity as having a direct effect on the smooth and effective workings of organizations. As time progressed, they became more interested in promoting and teaching integrity as an integral part of the managerial process.

The interconnections between integrity, morality and ethics and organizational success have not received much discussion in the academic world recently and only some in the business world. One of the main propositions advanced in the managerial classics is that traditional morality and integrity are qualities that are basic to organizational success – they are admirable but optional qualities. They are fundamental necessities.

Integrity on the part of managers and workers suggests that, in the long run, honest people will be more successful than dishonest people. Sober people will be more successful than those who show little personal restraint. Hard work is as important as skill. Morality must be taught and reinforced. Management should do the teaching. Integrity is functional necessity to enlist the willingness to serve.

Cornerstone Four Value Systems and Organizational Culture

In their more recent classic, IN SEARCH OF EXCELLENCE, Peters and Waterman observed that successful companies create, nurture and reinforce unique cultures that emanate from overtly formulated value systems that are partially embodied in the organizations' reasons for existence. Successful companies have strong philosophy systems and weaker systems for bracketing behavior. 42 The articulation of these philosophies, values and purposes is ongoing and an activity of managers of all ranks. Actions of the companies unfold in ways that are consistent with these philosophies and value systems. Explicit operating dogma is less common but the value systems, philosophies and purposes remain steadfastly reinforced and broadly articulated. As Philip Selznick articulated in his 1957 treatise;

We shall not find any simple prescriptions for sound organizational leadership; nor will it be purchased with a bag of tricks and gadgets. It requires nothing less than the proper ordering of human affairs, including the establishment of social order, the determination of public interest, and the defense of critical values.” Philip Selznick, 1957.

Harrington Emerson was interested in value systems and the first of his TWELVE PRINCIPLES OF EFFICIENCY, written in 1912, was “Clearly Defined Ideals”:

“As to definite ideals, we could profit from by--gone ages, although substituting other inspirations. over one of the Greek temples, the words are carved, “Know Thyself”, for which we could substitute, “Know the Spirit Rather than the Externals of Your Business.” 12

Philip Selznick's 1957 book, LEADERSHIP IN ADMINISTRATION, is heavily oriented to the role of values and culture in the effectiveness of organizations. The following quotes provide some indication of Selznick's perspective regarding the relationship between means and ends:

“The tendency to emphasize methods rather than goals is an important source of disorientation in all organizations. It has the stimulating full development of these methods, but it risks loss of adaptability and sometimes results in a radical substitution of means for ends. Leaders may feel more secure when they emphasize the exploitation of technical potentialities, but the difficult task of defining goals and adapting methods to the may be unfulfilled.” 46

Selznick argues that values become inculcated in organizations and become institutionalized thus providing an atmosphere of guidance to the organization members.

“In what is perhaps its most significant meaning, “to institutionalize” is to infuse with value beyond the technical requirements of the task at hand.” 46

“From the standpoint of social systems rather than persons, organization's become infused with value as they come to symbolize the community's aspirations, its sense of identity.” 46

This institutionalization of values changes the relationship between the organization and its members.

“From the standpoint of a committed person, the organization is changed from an expendable tool into a valued source of personal satisfaction” 46

Meaning is thus provided to those associated.

“Both personal and social commitments combine to weaken the purely technical significance of organizations. Beginning as a tool, the organization derives added meaning from the psychological and social functions it performs. In doing so, it becomes valued for itself.....Organizations do not so much create values as embody them. As this occurs, the organization becomes increasingly institutionalized.” 46

Members have to make sense out of what they are doing. They have to feel that their efforts are integrated into a noble purpose. Both ends and means are important. The caliber of the goals are important. The legitimacy of the means employed is crucial. There is latent idealism among all of us. During times of stress, this latent idealism becomes more powerful and influential. It is difficult to attain organization objectives without integration with the underlying value systems of the organization members. Good management helps the organization formulate and institutionalize its value system and then provide for critique. Once the organization's values have become institutionalized, the need for the constant presence of management in every detail of the organization is reduced.

Carefully cultivated and well-understood values can serve as structural lynchpins in helping the organization to focus on its mission, goals, and procedures. However, organizational values need to be structured and articulated with caution. Some of the world's most infamous movements, such as Nazi Germany and modern terrorists, have well-cultivated value systems. Indeed, history is replete with value-laden demagogues who have cast misery to millions. So, the legitimate bounding of value systems is an appropriate subject for study.

The attributes that seem to make the inculcation of values helpful, rather than harmful, appear to center on a two characteristics:

- Moral principles and sound philosophy provide the necessary foundation for the use of values in an organizational setting. Thus the formation of chosen values should not be entirely internal to the organization. This is where many organizations make their mistake. They assume all important concepts are up to them when there are higher authorities.
- Organization leaders have to be humble, sincere, and wholly just. Many a nefarious executive has fired some well-meaning and thoughtful person on the grounds that the person did not share the value system of the organization. More probably, the person was fired because he or she thought for themselves and their ability to do so was threatening to the insecure executive.

Hypocrites can damage most any organization and insecure hypocrites are among the most dangerous. Insecure and uninformed hypocrites, who take no time to study the philosophies and ideas that have worked well in the past, are the most dangerous of all.

With a proper moral foundation permeated by humility, sincerity and justice, the cultivation of institutional values can greatly help bring cohesiveness to an organization's purposes and methods. But without these foundations, some nasty consequences can result – all in the name of values.

Management as a Complex System

The great wisdom of some of these earlier writers is applicable today and dovetails neatly with more modern writings in Catholic social thought and corporate social responsibility. But please note that these "cornerstones" are not selectable pillars of individual traits but are the essential foundations of a cohesive system. Each of these important principles are necessary and wholly integral to an effective working organization.

As the earlier quotation from Philip Selznick points out, there are few simple prescriptions for sound organizational leadership. Management is the integration of human affairs with the public interest and the social order. Management is inescapably a value-based activity. Professors Trist 57, Emery 13, Ackoff 2 and others have written extensively about the fragile interrelationships that exist in complex social systems. Instabilities and turbulence can result even when solutions to the organization's most pressing problems are attempted. Russell Ackoff describes this complexity in REDESIGNING THE FUTURE:

"We have also come to realize that no problem exists in complete isolation. Every problem interacts with every other problem and is therefore part of a set of interrelated problems a system of problems.... Furthermore, solutions to most problems produce other problems;.....a financial problem, a maintenance problem, and conflict among family members for its use." 1

In management, there are no simple gadgets and there is seldom one big knob to turn. Every action influences every other action. Managers have to remain attentive to the surrounding atmosphere they are creating. Qualities such as integrity, goal integration and the ability to perceive a noble purpose favorably influence the atmosphere within which the complex system of management functions.

The present atmosphere surrounding our managerial activities is often far from ideal – in businesses, governments, and not-for-profit organizations. Mistrust pervades and often for good reason. Integrity is too often viewed as optional and is undervalued as an essential element of the organizational system. Individuals too often pursue only their own objectives with insufficient regard for the community in which we all operate. Whereas these nefarious activities may appear to be "rational" behavior, these are having the aggregate effect of eroding the competitive edge of our country and our effectiveness as a world economic power. We can do much better.

It is important to note that many of the scholars mentioned here were not philosophers by training. For the most part, they were engineers or efficiency experts. Gantt, Taylor, Emerson, the Gilbreths, Mooney and Riley all worked primarily on production matters. Their interests in managerial philosophy arose secondarily in search of principles of management that would make efficiency achievable. A hundred years ago these experienced practitioners had learned something that most of the modern takeover artists and movers and shakers are yet to learn. Efficiency and the attainment of objectives is only possible if a philosophically sound managerial atmosphere is present.

Companies provide jobs. Good companies provide valuable products and services, stimulate the expansion of suppliers, treat their competitors and investors honestly, provide opportunities for fair treatment and dependable growth of employees and effectively integrate their objectives with those of their communities. Being a good company is a challenging task – one which takes the full concentration, dedication, and talents of management.

Some managers are up to the daunting task of building a good company. Some are not. During this age of corporate scandals, colossal bankruptcies, mushrooming fiscal and trade deficits, it is appropriate for us to question whether the caliber of management with which we have been provided is sufficient to the task at hand. And yet, during these same times some companies are doing well and their employees, suppliers, creditors, and communities are pleased by their existence. Perhaps our conference will be unable to formulate a detailed prescription of what is needed to become a "good company." But, hopefully we will be able to effectively formulate some suspicions.

As an engineering professor, I am unfit to present deeply theological material – a task better left to those more capable. Instead, I have attempted to present the perspective of a practitioner and a novice student who is eager to hear what others will say.

As the United States struggles with the transition to a world economy during a time of economic difficulty, these cornerstone principles described above should be kept in mind. We cannot discard everything. We have to make what we have work. And, we have to foster an atmosphere where the interests of the workers, the organization and the community are seen as more congruent.

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Part Two – The Economy

Though theoretically sound in its ideals, the U. S. economy, and many others like it, are flawed in practice. Amid the precept that the community is better off when everyone pursues his or her own best interest, we have rising and persistent unemployment, massive failures of financial institutions, chronically worsening trade deficits, gigantic borrowings from less affluent countries, and the prospect of continuing and uncomfortable worries and uncertainties. These worries and uncertainties are not partisan. They are shared by workers, entrepreneurs, charities, small and large employers, young people entering the labor force and older people who have retired from it.

Part of the problem is with the systems we use to measure our economy. The measures we employ are by nature and design impersonal. They are designed to systematically screen out all values – and maybe meaningful observations of a subjective nature.

Consider one of our most important measures – Gross Domestic Product. The GDP is a cost driven measure. It assumes that if we spend money on something, it must be valuable. It assumes that the modern day anesthetist who administers anaesthetic at compensation of half a million or more dollars per year is performing a service infinitely more valuable than the Franciscan nuns who formerly performed the same service at the Mayo Clinic for the vow of poverty. This transition has allowed the statistical GDP to increase, because the new system costs more.

The same could be said for the evolution of the working mother. When mothers remained at home and unpaid, the work was never recorded as part of the gross domestic product. Now that so many have attained work outside the home, for economic reasons or other reasons, the GDP has greatly increased on the assumption that the work of the homemaker was valueless.

So, this section of the book argues for a more qualitative form of economics. Indeed it prudent to tabulate the market value of transactions. However, it is argued that the transactional cost of something is only one of several considerations we must employ to determine if we are progressing or losing ground economically. We also argue that prices paid, the cost of externalities, social impacts, and the impact on the accumulation of skills should also be considered.

Only a few of the nuances of our malfunctioning economy will be discussed in this manuscript – which is intended only to heighten our interest in more thorough analysis. The great changes we are experiencing should cause us to pause and reflect. The author is hopeful that the series of essays presented here will lead to something more insightful. These are only questions.

U.S. Economy Hampered by a Lack of Producers

MINNEAPOLIS STAR TRIBUNE -- January 20, 1991

Need evidence that our economy is sick? Check these conditions:

- Unprecedented consumer debt;
- Government deficits several times the amount formerly regarded as astronomical;
- The quick transition of the United States from the world's largest creditor to its largest debtor;
- Volatile capital markets;
- Monumental trade deficits;
- And a plethora of unfriendly and under-analyzed corporate takeovers.

The time is long past where we need more insightful analysis about what ails the economy. Our present analytical methods are not bringing results.

As with many other socio-technical system problems, questions surface regarding the cause of economic difficulties. Is it the lagging character of production capability? Or, is it the increasing burden it must bear? Should production be increased? Or is it necessary to reduce the expenditures of the non-producing part of the system?.

Manufacturing and other forms of tangible production, along with essential maintenance services, provide the real economic wealth of the nation, for all of its people. The future of the U.S. economy is inescapably tied to the efficiency and quality of its tangible production. In the interest of economic stability, a more favorable balance must be developed between production and consumption.

Yet, in the past 40 years we have witnessed a falling appreciation for tangible production (manufacturing, construction and mining). We have neglected it to concentrate on other things. In 1900, 48 percent of the nonagricultural labor force was engaged in tangible production. Even as late as 1950, this figure was still at 41 percent. By 1988, it had dropped to 24 percent. And the U.S. government has issued a projection that it will be 21 percent by the year 2000.

Meanwhile, employment in finance, insurance, real estate, government and services (gross national overhead) has mushroomed from 13 million people in 1950 to 32 million today. Minnesota continues in the same vein. During the past two years, the state has lost 13,800 manufacturing jobs but added 20,700 government jobs.

The problem of gross national overhead goes far beyond government, however. We are all part of it. Finance, insurance and real estate employment has more than tripled since 1950. Service employment has increased nearly five times, while essential services remain unaffordable to many citizens. Education has burgeoned in cost during the same period and become less effective.

The growth in service sector employment has placed an extreme tax on the people and companies engaged in tangible production. Our problem is not that our people and companies do not know how to design and build good products. In the last quality survey, nine U.S. auto models beat Nissan in overall quality. American cars consistently do better than cars from any other country except Japan, and they are at least as good as most Japanese models. Our ability to compete globally is severely impacted by exceptionally high overhead cost.

High overhead costs are a social concern. These costs result in plant closings and job losses. There is simply no way that 25 million people engaged in tangible production can supply all of the food, manufactured goods, buildings, roads and raw materials for the 225 million people who are not engaged in production. The situation is not sustainable economically.

A closer analysis of America's cost of competing is revealing. Direct labor is not a big problem because U.S. wages are equal to or lower than major competitors. Emerging countries do have lower wages, but labor accounts for a small enough percentage of total product costs to keep direct labor from being a major obstacle to world-class competition. Labor quality is more of a problem. The U.S. education system is vastly inferior to those in other industrial nations. It is not as thorough and it covers the wrong subjects.

Materials are no problem because the world market keeps U.S. costs at competitive levels.

Internal overhead is a great barrier to U.S. competitiveness and is likely to remain so. Even though the ranks of U.S. middle management are being reduced, government's propensity to shift societal costs to companies is keeping internal overhead costs high. Executive compensation also remains too high and impedes cooperation.

External overhead is the biggest problem of all, and it is not all public overhead. Services, finance, insurance, education and government all need to become much more cost-effective for the U.S. to continue as a viable nation. We cannot continue to siphon resources out of the productive units of our society and expect those units to remain competitive in world markets.

Prosperity: Prepare to encounter posterity

CITYBUSINESS -- March 27, 1998

As Ash Wednesday kicked off the beginning of Lent, we were marked with ashes with the admonishment, "Remember that you are dust, and to dust you shall return." The phrase took on special meaning to some of us who may be closer to dust than others. In the midst of our immense prosperity, the clamorous stock market and rampant optimism in corporate America, any reminder of our mortality is a bit unsettling — but helpful. It's good for us to consider that there may be a purpose more important than our own prosperity. The thought occurred to me that the administration of ashes wouldn't be a bad practice for board meetings.

Some of us have questioned the magnitude and nature of the prosperity we are experiencing. What does it mean? What are our responsibilities? Do we simply get to live in these prosperous times and consume and enjoy the wealth? That would be nice, but it sounds too easy. There must be a catch.

Apart from any theological implications, which I will leave to those better prepared, I have a concern for how prosperity is affecting the way we do business. We invest and the market goes up. Often, we are richer not because we designed anything any better or built anything any better, or because we served our customers any better or even because we invested any better. At times, our wealth seems to be accumulating for no reason other than the fact that, through no fault of our own, we exist during good times. The key question is, has business become so easy that we have lost touch with the fundamentals? And, if our period of prosperity ends, will we know how to rebuild it?

There are, of course, some companies that have not lost these skills. Bermo is one of the best metal stampers in the country, and they are doing some solid investing. Their plants are models of state-of-the-art automation and good equipment. Clearly, it's one of the best in the U.S. but, to put this expertise in perspective, there is one company in Singapore that is approximately six times Bermo's size, also with very up-to-date equipment. There are other overseas competitors.

Remmele Engineering is also a world-class outfit, with what is perhaps the best complement of equipment in the Upper Midwest. For a long list of prestigious customers, Remmele can machine parts ranging in size from one millimeter in length to several tons in weight — all with the utmost precision. Remmele is another forward-looking Minnesota company that is not afraid to invest. So are Medtronic, Dynamic Engineering, HEI, Starkey, Custom Mold, Kurt, Horton and others.

But, not everyone is doing this investing. In this age of asset utilization, there is an unwholesome degree of caution about having too much invested in equipment or having a balance sheet that is insufficiently leveraged, or investing too much for long-term gains. There seems to be an emphasis on buying, rather than designing or making, and outsourcing seems to be the latest managerial fad. The dividend-payout ratio has increased from about 40 percent in the late '60s and early '70s to around 70 percent today. Since profit rates are lower now than they once were, the percentage of revenue being reinvested for the future is substantially smaller than it once was.

The irony comes when the capital investments of these major manufacturers are compared to other expenditures. The state bonding bill, hostile takeover attempts, huge amounts of "goodwill" placed on corporate balance sheets from overpriced mergers and acquisitions, the diversion of resources away from industry to financial institutions. We should wonder if Minnesota is preparing adequately for an industrial future. Some companies, are, of course, many of them private. But, over the years, we seem to have accumulated a lengthening list of companies preparing only for mediocrity. Market values are increasing because the market is up. Yet we are not adequately preparing for aggressive world competition.

The U.S. trade deficit recently reached a nine-year high. The problems of Southeast Asia will impact our companies. Southeast Asia is like Italy. The governments and the banks may be broke, but the modern production equipment and trained workers are still in place. Many of the Asian industrial companies remain vigorous competitors. The recent changes in exchange rates will allow them to more aggressively compete on price, and some U.S. companies are not positioned for this onslaught.

I am aware that everyone says the economy is great and the U.S. economic system is the envy of the world. Perhaps this is true, but time passes quickly. Our prosperity is still industrially based. Consider these facts:

- The 38,600 employees in Minnesota’s instrument industry earn a half a billion dollars a year more than the nearly 150,000 Minnesotans employed in the restaurant and bar industry.
- The 75,000 Minnesotans employed in the industrial machinery industry earn about half of what 450,000 people earned in retail trade.
- The 31,100 people employed in Minnesota’s paper industry earn 8 percent more than all of the 70,600 Minnesotans employed in car dealerships, auto repair and services, and 11 percent more than all of the 45,530 Minnesotans employed in all banks and nondepository financial institutions.
- The 10,840 people employed in Minnesota’s chemical industry earn almost as much as the 25,000 Minnesotans employed in real estate.

Clearly, with so much of our state’s real prosperity dependent upon tangible production, it is in our best interest to keep it strong for the future.

Robert Wolman, chief economist for BusinessWeek, recently made an interesting observation in a talk at the Humphrey Institute about his latest book, *The Judas Economy*. The return on capital is outstripping the return from work. When that happens for long periods, the capability to perform fundamental tasks first atrophies and then declines.

In this connection, and in others, the ashes make sense. We can’t be here just to consume. We have obligations to prepare for the future of those who come after us. This is happening with some elements of our society — but not enough.

Trade deficits endanger our future

CITYBUSINESS -- November 27, 1998

Recently it was announced that for the third time this year, the United States trade deficit again reached a new record high — \$16.8 billion in a single month. The matter gets little attention in the news and virtually no attention at all in political campaigns. It is tragic that a development which can so compromise both the prosperity and social fabric of our entire nation gets so little attention. Yet its importance is not lost on the serious observers of our time — a few academics, some business people who travel internationally, students of central cities, representatives of industrial unions and people who participate actively in the industrial economy. If these trade deficits continue as they are, we must recognize that before long, we will no longer be a prominent nation, a military power, an economic giant or a haven for the world's savings. Economic trends, fueled by geometric progressions, take place quickly.

Such a dire prediction is ridiculous, you say. The U.S. is clearly the preeminent world economy — one of the few that is functioning reliably at the moment. We are fully justified in being concerned about Russia, Southeast Asia or Brazil, but not about the U.S. If anything, our economy has been overheated to the point that the biggest problem voiced by employers is the lack of availability of qualified people. Our statistical unemployment rate is exceedingly low while the stock market, though volatile, gets higher every year.

Beneath our apparent prosperity, however, are more worrisome events. Some of these merely indicate a return to more usual economic times, such as slipping consumer confidence, reduced profits, or gradually declining job formations. Others seem more fundamental — perhaps more endemic. Among these are declining rates of investment among U.S. industrial companies, exceptionally low savings rates, a shrinking base of suppliers of crucial industrial components, and the total exit of U.S. companies from strategic industries. There are bright signs such as the emergence of Nucor as one of the world's preeminent steel companies and the strong competitive positions held by U.S. companies in aircraft and paper. But the list of where we excel is growing shorter. The U.S. counts for nothing in shipbuilding, an industry that spawns many other industries and much employment. We have slipped greatly in electrical equipment, computers and instruments. Our market penetration in machine tools is minuscule compared to what it was, even though Haas and a few others are turning out some good units. U.S. manufacturing is growing in nonstrategic areas such as office partitions, cookies, burial caskets and greeting cards. We welcome the employment, but these are not industries that foreshadow an industrial future.

From its peak in 1979, the U.S. has lost roughly three million manufacturing jobs. Improved methods and automation have perhaps reduced manufacturing employment but the empirical evidence is interesting. We are not currently losing much employment in the industries that are investing in better methods. We are losing employment in industries where investment is low. We have too many laid-back companies that lack the skills necessary to compete aggressively in world markets. Their task is no doubt made more difficult by an ever-burgeoning public sector — even during a period of supposed budget-balancing. During the same period that U.S. manufacturing employment declined by three million, government employment increased by four million. Higher taxes from a healthy economy are providing more revenue but government employment is continuing to grow — and with it, ever-expanding future retirement obligations.

The decline of manufacturing is sinister enough nationally, but devastating to some communities. Regrettably, manufacturing is declining more where the jobs are most urgently needed — in major cities. The statistics are frightening. From 1988 to 1995, during a period of high prosperity, manufacturing employment declined by 31 percent in Baltimore, 33 percent in Brooklyn, 34 percent in Philadelphia and 27 percent in Union County, New Jersey. Most major metropolitan counties, including both Ramsey and Hennepin in Minnesota, are losing manufacturing jobs. Some of the lost jobs are made up by increasing employment in services, but there is a catch. Many services do not do well in recessions. Recently released corporate earnings point out that earnings were down 9 percent in manufacturing, but down 19 percent in services.

To the employees and the general community, the variance in economic yield between industrial segments is huge. Consider these facts:

* The 39,000 employees in Minnesota's instrument industry earn a half a billion dollars a year more than the nearly 150,000 Minnesotans employed in the restaurant and bar industry.

* The 75,000 Minnesotans employed in the industrial-machinery industry earn about half of what 450,000 people earn in retail trade.

* The 31,000 people employed in Minnesota's paper industry earn more than all of the 70,000 Minnesotans employed in car dealerships, auto repair and auto services, and more than the 45,000 Minnesotans employed in all banks and nondepository financial institutions.

* The 11,000 people employed in Minnesota's chemical industry earn almost as much as the 24,000 Minnesotans employed in real estate.

Manufacturing is the one major industry where the percentage of Minnesota's wages is much higher than the percentage of jobs. Nowhere is this variance in industries more noticeable than in voluntary fringe benefits, which vary from virtually nothing in some service industries to more than \$10,000 per employee per year in some manufacturing industries.

The U.S. trade deficit can be greatly reduced, but attention is needed. In an effort to apply broad economic theories, public officials (both executive and congressional) have lost touch with the detail. The current administration has focused on the protection of movies and music — perhaps with an eye to the huge political contributions available from the entertainment industry. However, governmental initiatives have resulted in a flood of imports and diminished exports. Wages are not the driving factor in trade deficits. Much of our trade deficits in recent years actually occurred with higher-wage nations than the U.S. The U.S. runs trade deficits because we have not regarded the matter as important. We have failed to understand the connections between the industrial economy of today and prosperity in the future. The matter deserves attention.

Economy shares similarities with the side shows of old

Problem is not an emotional one, but rather a question of precisely how does it all add up.

MINNEAPOLIS STAR TRIBUNE -- December 7,1998

It was pretty tranquil growing up in rural Minnesota in the 1950s and 1960s. Not much gambling. Not much speculation. People had an old-fashioned view of wealth accumulation - they earned it.

There were imperfections, of course, but on the whole most folks were content with a more gradual increase in their standard of living. It had been less than two decades since the Great Depression, so people were keenly aware that wealth accumulation is often bi-directional. Most folks were pretty conservative. It didn't matter much if someone had more. The trick was to make sure one didn't have less.

The most exotic form of risk and reward occurred at the county fair. Once a year people would flock there to show their animals or their crafts or to participate in 4H projects. These were harmless enough.

But then there was the midway - a place where we could witness real dishonesty in action. One fellow must have thrown 50 baseballs to win a "genuine" silver bracelet, which turned out to be aluminum. There were other examples.

The economy of the 1990s has peculiar similarities to the carnivals and side shows of 50 years ago.

The stock market is reaching new highs every week. Mergers and acquisitions are at sky-high prices. There is rampant consumer spending coincident with negative savings rates. Problematic financial and real-estate markets affect us from thousands of miles away. And U.S. trade deficits provide tangible evidence that every month our country buys \$15 billion more than it sells. The carnival is on - with all of the caveats P.T. Barnum had to offer.

How can an economy with so desperate a need to make investments remain competitive without saving anything? What does it mean when one bank pays \$13.5 billion for \$4 billion worth of net assets in another bank? If these big banks are so smart, why don't they make as much money as small banks?

Arithmetic problem.

To express concern about the workings of our economy is not to be a prophet of doom. Along with others, I applaud the effectiveness of the U.S. industrial sector and the opportunities we have before us. My problem is not emotional but arithmetic. I cannot figure out how our present economy computes.

There are some bright spots to be sure. It was a great pleasure to visit a plant of Nucor Steel, the most profitable steel company in the United States - though not the largest. Talk about productivity - the revenue per person at that plant was \$1.3 million per year.

Ken Iverson, the company's well-regarded chairman has conducted phone interviews with our Capstone Class at St. Thomas where he articulated some of the beliefs captured in his book, "Plain Talk."

The people at Nucor make me feel better because they are investing, training people, improving quality and becoming more efficient every day. These things compute. I get similar feelings when visiting a host of other companies.

On the other hand, we have many industries where training, investment, leadership and innovation are not taking place - or at least not at the pace that can lead to survival. I also drove around a Bethlehem Steel plant that very much exuded a lack of training, a lack of investment and a lack of caring. It has since been closed. There are many plants like this, too.

The recently announced merger of America OnLine and Netscape Communications provides a vivid example of the kewpie doll economy.

These two companies now have a combined market capitalization of \$42.1 billion, about the same as General Motors with its \$165 billion in revenue, \$2.6 billion in earnings, its vast investment and its 693,000 employees. The AOL/Netscape combination has revenues of \$3.1 billion, 10,885 employees and a com-

bined loss of \$23 million. Even these financial results may be suspect. The Securities and Exchange Commission has intervened twice in the past few years regarding AOL's accounting treatments.

Gambling exploits.

A few years ago I was puzzled about the bankruptcy of Olympia & York when it was revealed that some of the world's larger banks had combined to loan one family \$26 billion - but the family didn't handle the money well. Not dissimilar, I suppose, from the multi-billions loaned to an ex-Salomon executive whose bizarre gambling exploits were featured in the book, "Liars Poker."

The resulting \$3.6 billion bailout of his aggressively named firm, Long Term Capital Management, required the involvement of the Federal Reserve Bank of New York and will cost U.S. investors for decades to come.

Now the most hallowed of all Western European banks, Deutsche Bank, has decided to acquire Bankers Trust, that warm-hearted professional firm that has recently been investigated for racketeering, gave us derivatives and provided money for the leveraged buyout of Northwest Airlines.

AT&T lost billions of its shareholders' equity on poorly thought-out unstrategic acquisitions and then spun off its premier research institution, Bell Labs.

Avon branched out from perfume to health care with smelly results.

The lost focus at Bausch & Lomb resulted in a flurry of lawsuits and serious charges from regulatory authorities because of improper accounting.

After a series of disastrous strategic decisions, the lights went out at Westinghouse and the company that was at one time larger than General Electric is no longer a player in electrical equipment.

Lastly, 75 years after being broken up as part of the Standard Oil Trust, Exxon and Mobil plan to merge.

Things are not yet delightful in the developing world, either. Within the past years, the liquidity ratio of the International Monetary Fund (IMF) has fallen to 19 percent with still more money needed for Brazil, Russia and many other places.

We should have the compassion to help distressed people in developing countries, but there is some evidence that this munificence does not always get to the people intended. In spite of some occasional good work and laudable objectives, the IMF operations often act to bail out foolish bankers and crooked politicians simultaneously.

For its part, the Clinton administration seems content to posture the United States as the importer of last resort, at great cost to the nation's manufacturers and industrial workers.

It is true that we can be thankful for the prosperity that exists at the moment. But, at a time when it is imperative to preserve a strongly competitive economy, we seem to be neglecting some of the basics - such as saving, investment, prudent stewardship, responsible leadership and plain, old-fashioned honesty.

Maybe there is science to our present speculative mode. Maybe there is sound financial management on the part of the people we have trusted with the nation's savings. But, it does seem a bit like a side show.

I just hope that there is at least an aluminum bracelet in there someplace.

Whose productivity?

Rising U.S. productivity raises some questions about what gets measured, what doesn't and how our foreign rivals are performing

MINNEAPOLIS STAR TRIBUNE -- February 21, 2000

Along with others, I was pleased to learn that productivity had grown by 4.8 percent during the fourth quarter of 1999. Even more impressive was the 10.7 percent productivity gain in manufacturing, which has long been the provider of much of the nation's wealth. Productivity is a key ingredient to prosperity, and the stock market responded favorably - but then slipped.

The reported results are impressive, but should be kept in perspective.

Measurements and estimates of U.S. productivity have been made and published almost continuously since the Hand and Machine Labor Report in 1898. No statistics are flawless and productivity statistics are no exception. The task is made especially difficult in part due to the intricacy of measuring certain transactions and the awesome task of persuading a huge number of employers, agencies and industries to fill out lengthy reports.

But competent people and cooperative people are in charge of these efforts. John Duke and his associates at the Bureau of Labor Statistics (BLS) are both practical and eager to help.

Productivity coverage throughout the economy is by no means uniform. With the latest expansion of the BLS Industry Productivity Database, productivity estimates are now reported on industries covering about 54 percent of U.S. employment, but the degree of coverage varies greatly by sector.

- Mining and manufacturing are nearly fully covered (96 percent and 100 percent) but are not expanding.
- Services, which is expanding, is about 16 percent covered.
- Finance, insurance and real estate is about 19 percent covered and wholesale trade about 2 percent.
- Medical services, so important to our welfare and our economy, are not covered at all.

So what do we really know about the productivity of so many of us?.

One of our faculty members at the University of St. Thomas, George Gleeson, suggests that the last productivity improvement in education was dustless chalk.

We have not really figured out meaningful ways to measure whether or not most of us are becoming more productive. There may indeed be improvement - but we may not be able to find evidence in the federal statistics.

Perhaps the most valuable measure in the productivity statistics is unit labor costs - a key determinant of our long-term competitive position.

Comparing the fourth quarter of 1999 to the third quarter, productivity grew more rapidly than compensation (4.8 percent versus 3.6 percent), so unit labor costs decreased 1.2 percent.

That impressed everyone. But the year-to-year comparison was not quite so glamorous. Comparing the fourth quarters of 1998 and 1999, output per hour grew by 3.3 percent, compensation by 4.5 percent. So unit labor costs rose by 1.2 percent. A little less impressive.

We have competitors.

If unit labor costs continue to increase versus those of our competitors, we will find it more difficult to prosper. And we are not alone in making productivity improvements. Our international competitors are getting more productive as well and often in much greater increments. From 1995 to 1998, the unit labor cost of a trade-weighted mix of international competitors declined by 19 percent vis-a-vis the United States.

Looking at the problem another way, because of exchange rate changes and economic conditions in local countries, average manufacturing wages (in U.S. dollars) increased 8 percent in the United States while they declined 12 percent in Germany, 24 percent in Japan, and 32 percent in South Korea.

Given the fact that there are roughly six times as many science and engineering graduates being turned out in Southeast Asia as in the United States, we should not assume that we have a God-given entitlement to productivity and prosperity improvements.

The fact is that many of the world's most respected technical advancements now take place outside of the United States.

Month after month of record-setting trade deficits is, of course, the best testimonial to the emerging technical prowess of our competitors during a time when their unit labor costs are decreasing.

Another important caveat should be observed when considering productivity statistics. They deal only with the working population. During a time when our working population is showing increased productivity, we can observe disturbing trends in the ratio of retirees to workers - soon to reach a ratio of about 2 to 1. Last week, it was announced that the Minnesota Public Employee Retirement Association is running short of funds.

Surprise! Surprise! For years, Minnesota has had generous programs for early retirements for public employees during a time when we are all living longer.

At the same time, we have many more people in public occupations. During the 1950s, the United States had about 2.5 times as many people working in manufacturing as in the government. Now we have 1.5 million more people working in the government than in manufacturing. As productive as our industry has become, it will probably not generate the cash sufficient to fund future cost-of-living-adjusted, defined-benefit obligations for people who will live 40 years after they quit work.

Gaining by subtraction?.

With another perspective, Professors Cohen and Zysmann of the University of California have argued that we have achieved productivity improvements largely through subtraction - that is, we have closed marginal businesses. While we are showing statistical progress, we are experiencing widespread corporate restructurings, which may not have been fully appraised.

A related caution also is in order. If we do more outsourcing, particularly overseas outsourcing, we will have the same gross output with fewer labor hours and our statistical output per labor hour will appear to increase.

This anomaly is partially addressed with multifactor productivity statistics, but these are not yet widespread. It is quite possible that much of the observed productivity improvements are due to the rapid expansion of outsourcing through the industrial economy.

We are living in very good times and we should be quite thankful. We are making some genuine improvements. But, the United States needs to look realistically at our current economic situation.

- Yes, a lot is being sold - but much of it on credit.
- Yes, the stock market has been high - but more than 60 percent of stocks are lower than they were last summer. And during 1999, margin debt increased from \$140 billion to \$230 billion.
- Unprofitable companies amounting to little more than hubs on the Internet have been bid up to market valuation multiples in excess of some of our most dependable, technology- and asset-rich corporations.
- We have come to believe that bolting together a few hundred dollars worth of Chinese computer parts and calling it a PC is "technology" when many of our graduating high school seniors couldn't fix a misaligned cover on their CD player.

So, yes, productivity is up - but so is everybody else's. In addition, we have already promised some of the expected receipts. If we do not make some substantive improvements in education, allocation of resources, and our country's industrial strength, on-going productivity improvements - and the prosperity that comes with them - might be harder to obtain.

Quality and economic self-interest

Today's U.S.-made cars are more reliable and often cheaper than the imports. And by buying American, we help preserve our country's sagging industrial base.

MINNEAPOLIS STAR TRIBUNE -- September 28, 2003

My father harbored a mild distrust of large businesses, so we often had off-brand cars: Hudsons, Nashes, Kaisers, Packards and one Studebaker - which was enough.

At an early age, I took an interest in the technology of these cars and compared them with the Chevrolets, Fords and Chryslers in our area of rural Minnesota.

In some ways, the off-brand cars were quite advanced. The Nash, in particular, had many safety, convenience and economy features and generally superior machining tolerances. Hudsons were fast cars with good handling. Packards were very quiet, luxurious, with good drive-train design.

It saddened me to watch these manufacturers disappear from the American landscape. The Kaiser was last produced in 1955, Hudson in 1957 and, alas, the once glorious Packard left the stage in 1958. Studebaker, then 114 years old, ceased production in 1966. Nash continued under the name American Motors until its acquisition by Chrysler in 1987.

Each of these companies, though smaller than the Big Three, was a significant part of the U.S. economy. Both Willys-Overland and Hudson directly employed 21,000 people at their peak, with many more jobs created in supplier and dealer organizations. Kaiser employed 20,000 and American Motors 33,000. Remnants linger here and there but this once-vibrant sector of our nation's history is largely gone - replaced by a flood of imports.

New Big Three.

Today, there is a new Big Three. Toyota recently surpassed Chrysler in U.S. auto sales. The decline of Chrysler, at one time the nation's second-largest auto producer, had been brewing since the 1998 takeover by Germany's Daimler-Benz, an event chronicled in the 2001 book "Taken for A Ride: How Daimler-Benz Drove Off With Chrysler," by Bill Vlasic and Bradley A. Stertz.

Though Chrysler made it into the corporate name, a colleague of mine well-steeped in German business circles once asked if I knew how to pronounce Chrysler in German. He went on, "You don't. In German, Chrysler is silent."

We can keep giving away our industry, I suppose. Other countries have done it. But its depletion will affect a lot more people than those directly employed in these industries. Corporations are citizens. They provide jobs and fringe benefits. More importantly, they provide personal dignity and a sense of accomplishment for which there is little substitute when industry declines.

Industrial corporations give rise to much of the service economy. However, the empirical evidence shows, there isn't much of a service economy in the face of declining industry.

Chrysler could have prevailed as a separate company. This segment of Daimler Chrysler still gets most of its sales from vehicles developed during the pre-merger era; the PT Cruiser, the minivan, the Dodge Ram pickup, the Chrysler 300. Recent Daimler-initiated vehicles, such as the Pacifica, have sold poorly.

U.S. manufacturers are putting forth excellent products during this intensely competitive era in automotive history. The recently released J.D. Power survey of vehicle dependability placed four U.S. makes in the top 10: Buick, Cadillac, Lincoln and Mercury.

Several of the others, including Honda and Toyota, are mostly manufactured in U.S. plants. The bottom of the list includes three Korean makes, three Japanese, three European and another product from Daimler Chrysler. Ironically, Dodge, Plymouth and Chrysler all scored higher in the J.D. Power quality survey than Mercedes-Benz, which was 11th from the bottom.

U.S. manufacturers can hold their heads high on productivity, too. Two of the top 10 plants in labor productivity are General Motors plants and two are Ford plants. Ford and GM are both delivering quality

products at reasonable costs, and contributing to the welfare of their country by doing it. Compare the quality. Compare the values. And, especially, compare the price of parts. U.S. products in this industry are very good.

Legacy costs.

U.S. producers have obstacles to overcome, of course. Chief among them are legacy costs: retirement and health care benefits accumulated over the 100 years Ford and GM have been in existence. The bills are large, amounting to several billion per year for both companies. General Motors' cost for retirement and health benefits adds up to \$1,360 per vehicle, far higher than for many foreign producers.

Still, U.S. automakers have not done as steel companies Bethlehem and LTV did: file bankruptcy and let the reduced pension obligations be taken over by the federal Pension Benefit Guarantee Corp.

The auto workers are doing their part. The United Auto Workers recently reached agreements with Ford, GM, Chrysler and parts suppliers Delphi and Visteon that will provide some maneuvering room on other costs as the benefits are maintained. There is teamwork in this industry.

I am proud of the U.S. auto companies. They have competed effectively. Their vehicles are good to excellent. Importantly, they have kept their commitments during a time when that character trait is not universal. But there is another dimension to U.S. auto producers: Many of the people who work there care deeply about the country.

Lew Veraldi, former senior vice president of new car programs at Ford, was a friend of mine and helpful to us at the University of St. Thomas.

As the leader of Ford's successful Taurus/Sable project and many other programs, he was elected Auto Industry Executive of the year in 1987. Three years later, I attended his funeral at a modest Catholic church near Detroit.

Lew cared deeply about his country and the constructive role that Ford could play in maintaining the nation's prosperity. The Taurus/Sable project, delivered at record speed and under budget, launched a whole new way to develop products, which we now call simultaneous engineering.

I can distinctly remember one of Lew's comments in one of our last discussions: "Fred, tell these students not to worry about how much money they make. Have them do something that is good for the country."

The U.S. auto industry has produced many other idealists who have advanced the way we live our lives; Charles Nash, Walter Chrysler, Douglas Fraser, Charlie Wilson and many others. During World War II, this industry provided 92 percent of the personnel carriers, 75 percent of the aircraft engines, 56 percent of the carbines and a variety of other products needed for the conflict - including 10 percent of the aircraft. During peacetime, the auto industry has provided prosperity to communities across the land.

So what are we supposed to do? Buy a bunch of overpriced foreign cars with little regard to the impact on the prosperity of the nation? Let the nation's \$50-billion-per-month trade deficit continue forever? Let our cities see if they can exist without industry?.

We don't have to make hard choices. Several U.S. makes rank higher on the latest quality surveys than BMW, Mercedes, Nissan, Audi, Volkswagen and Mitsubishi and they are, for the most part, less costly.

Having strong industry is clearly in the nation's best interest, and the best interest of car owners as well.

NWA woes will ripple through MN economy

MINNEAPOLIS - ST. PAUL BUSINESS JOURNAL -- September 23, 2005

The bankruptcy of Northwest Airlines will likely have a substantial and prolonged impact on almost all the industries in Minnesota.

Lending institutions will have a few more problem loans. Housing prices will ease in some areas. Income-tax receipts will be reduced, thus exacerbating Minnesota's budget difficulties. Business expansion may slow, tarnishing the perceived prominence of the Minneapolis/St. Paul marketplace.

Yes, Minnesota's economy is certainly large enough to survive, but it is unlikely to survive without impact. After all, 15 years ago Northwest had the largest private payroll in the state, and it remains one of the largest.

Northwest's bankruptcy has to be seen as a sad event that has been anticipated for years. Doug Carroll, a reporter for Money, wrote in 1992:

"Before the airline's \$3.65 billion leveraged buyout in mid-1989, Northwest had one of the industry's strongest balance sheets and most fiscally conservative managements. Today, Northwest is reeling from three years of heavy losses and a still-staggering debt load left from the buyout. And nobody laughs when you say Northwest and Chapter 11 in the same sentence."

For the quarter ended June 30 of 2005, Northwest reported tangible assets of \$12.3 billion, but liabilities of \$17.9 billion — a tangible net worth deficit of \$5.3 billion. Add to that the airline's underfunded pension liability of \$5.7 billion and recent operating losses. Northwest is likely now in the hole by about \$12 billion — a disastrous situation by itself but particularly horrific when compared to the strong financial condition of earlier years.

Taxes and lawyers have the most privileged positions for payment during bankruptcy. Taxes must be paid and the proceedings are likely to be lengthy, so fees will be high. Northwest's secured creditors are owed nearly the full value of the airline's tangible assets. It is hard to see how there will be much money left over to pay the \$5 billion owed to unsecured creditors, so some bank debt may have to be compromised. Credit cards and other loans issued to former employees may not be paid in the usual manner. Many people needing to find other jobs may influence local housing markets.

The role of the Twin Cities as a regional center may be trimmed with this bankruptcy if patterns experienced in other airline bankruptcies are repeated. In the cases of the Braniff, Eastern, US Airways, and United bankruptcies, competing airlines took over larger shares of markets. Since no other major airlines are hubbed here, Northwest's weakened position may result in an overall reduction in the prosperity generated by the MSP airport. In addition, the Metropolitan Airports Commission is owed \$275 million dollars as a result of Minnesota's poorly administered bailout of Northwest in 1992.

Northwest's bankruptcy will be felt nationally as well. The federally sponsored Pension Benefit Guarantee Corporation (PBGC) is already straining from the recent bankruptcies of Bethlehem Steel, LTV and others. It is essentially an insurance fund without premiums. If the PBGC has to now pick up the liabilities of unfunded airlines pensions, a new infusion of cash from the federal government will be necessary at a time when Katrina, Iraq and a weakened economy are already placing strains on the credibility of the nation's currency.

Notwithstanding the enormous costs to be paid by citizens of our state and nation, the perpetrators of the 1989 buyout did not do badly for themselves. According to the public records, Al Checchi sold \$29 million worth of NWAC stock, Fred Malek sold \$1 million, and Gary Wilson sold \$34 million in the past two years. What they sold previously is not readily available. The bankruptcy of Northwest is a tragic event that hopefully will be fully investigated by the state of Minnesota, the Department of Justice, the Security and Exchange Commission and other appropriate agencies. But, it is not an unexpected event. Bankruptcy was both predicted and probable following the amateurish and unfortunate leveraged buyout of 1989.

Look to technology for the long-term fix

The recent stimulus package may help the economy a bit in the short run, but election-year tactics are no substitute for thoughtful, long-term investments in our country.

MINNEAPOLIS STAR TRIBUNE – February 11, 2008

"The best hopes of any community rest upon that class of its gifted young people who are not encumbered with large possessions. ... It is not large possessions, it is large expectations, or rather large hopes, that stimulate the ambition of the young."

Rutherford B. Hayes, author of that statement and the 19th president of the United States, is not discussed much today. But he did sign a bill allowing female attorneys to argue cases before the U.S. Supreme Court, vetoed many pending laws that he thought were unfair to black people, and insisted on the appointment of only qualified and honest people to high positions -- an approach that drew anguish from members of Congress.

He was also wounded four times during the Civil War and refused to campaign for any of the political offices he ultimately held. Then, when elected president, he held fast to one term.

One wonders how he would feel about today's frenetically constructed economic stimulus package.

The package no doubt will create some spending and will probably help the economy in time for November's elections. It is sure to pass. But the election-year popularity of knee-jerk reactions to deeply rooted structural deficiencies does not provide sustainable value.

I recently received an interesting draft paper from one of Minnesota's most respected economists, Regents Professor Vern Ruttan of the University of Minnesota. He describes how the periodic development of "general purpose technologies" spurs economic growth.

The arrival of such technologies as the steam engine, railroads, electrical generation, the automobile, turbine-powered aircraft and computers have always been followed by robust periods of economic activity where the good effects of these breakthrough technologies spill over into many industries.

But, in order to qualify, not any technology will do. To spur these monumental economic effects, the technology must be pervasive (widespread), capable of improving productivity and lead to further innovations.

The problem in Minnesota and the United States is that we have not had many of these general-purpose technologies emerging lately. The electrical grid is ancient, automobiles are produced all over the world and computers are now commodities.

The results of our technology deprivation is showing up in our statistics. From 1980 to 2005, the percentage of college graduates receiving degrees in engineering, physical and biological sciences and mathematics declined from 18.6 percent to 14.9 percent. From 1988 to 2003, the U.S. share of worldwide academic articles in science and engineering declined from 38 percent to 30 percent. From 1963 to 2006, the share of U.S. patents awarded to foreign entities rose from 18.6 percent to 48.3 percent. Does it look as though we are on our way to developing new breakthrough technologies?

It's not easy to sustain prosperity in today's highly competitive world -- especially when the fundamental preparatory skills are weak. We might ask, where will the prosperity come from? Will it come from our troubled K-12 education system? Will it come from the superior attributes of our well-run financial institutions? Will it come from our highly subsidized sports and entertainment industries? Will it come from world-leading U.S. manufacturers? From 1979 to 2005, this country has lost 5.4 million manufacturing jobs -- 4 million of them production jobs.

We might wonder what will be the result of the soon-to-be-enacted stimulus package. Will more television sets from China help our economy in the long term?

There are many things government could do to more fundamentally strengthen the U.S. economy.

Retirement ages could be increased. Is it helpful for so many people to be able to retire in their mid-50s, while others have to work into their 70s to support themselves?

Taxes could be collected. Estimates indicate that uncollected taxes exceed \$300 billion each year. This money could help fund research and development into new and better materials, better water purification, advanced batteries and other technologies that we'll need for the future.

We could develop tax systems that will distinguish between investment (which is good) and speculation (which merely shifts wealth to a few).

Instead of dissipating additional borrowed funds to stimulate consumer spending, much of which will go for imported goods, we could use these funds to shore up our rapidly deteriorating infrastructure. If we have to go even further into debt than we are now, perhaps we could at least fix something.

Hayes was on to something that contemporary politicians in both major parties have missed. If we really want to stimulate the economy, we should work on science, scholarship and art.

If we fail to energize the creative engines of technological advancement to solve our pressing energy, infrastructure, education and environmental challenges, our economy is likely to stagnate and spur social unrest that we won't have the resources to address.

We have a stake in Detroit Three's woes

Bankruptcies and bailouts alone won't solve the problems facing U.S. auto companies -- or the nation.

**MINNEAPOLIS STAR TRIBUNE –
December 7, 2008**

It is with great sadness that I read about the plight of the U.S. auto industry, where I have spent much time. Though some coverage seems useful, the flippant recommendations, often made by people who have never walked a factory floor, surprise me because of their brazen simplicity.

"Bankruptcy is the best option for GM," a Wall Street Journal editorial written by a former Northwest Airlines executive said in November. Consider the source.

I take no position on the bailout of this important industry. The problems extend well beyond the auto industry itself.

Only a major restructuring of finance, insurance, services and government -- as well as industry -- would lessen the problems we have before us. We should keep in mind that our current disastrous economy did not begin because Ford and GM built subprime transmissions. Our problematic economy results from mismanagement, greed and wealth destruction originating in other sectors, as well as problems in the auto industry itself.

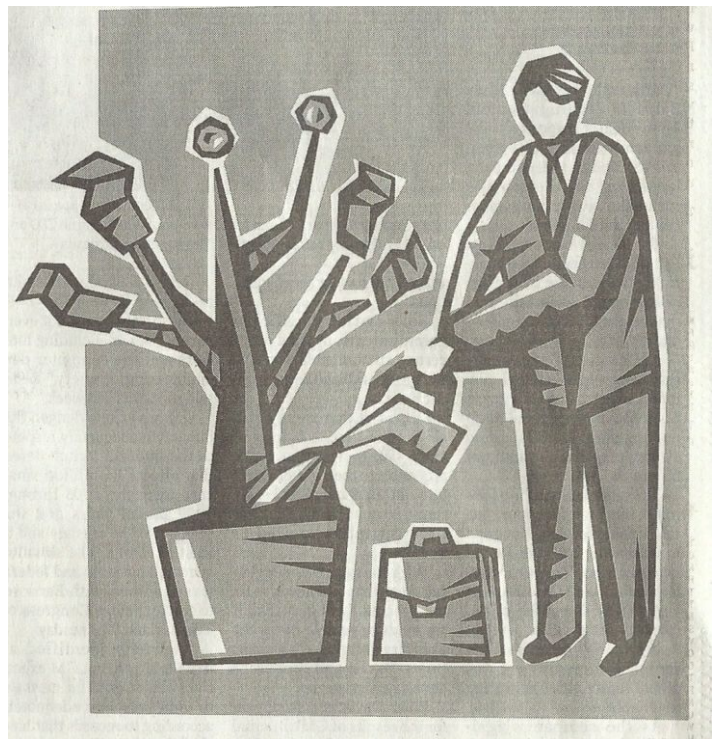
Bankruptcy would change things for large industrial firms. It is true that they may be able to renegotiate labor, health care and pension obligations. But emergence from bankruptcy requires positive operational cash flow -- and GM's operational cash flow was negative \$7.8 billion this past quarter. Perhaps other fruitful trimming would be made easier. But how would bankruptcy work?

GM is \$60 billion in the red

General Motors, as an example, has \$60 billion more liabilities than assets. How would the gap be made up? Taxes, attorneys and secured creditors would be paid first, because of bankruptcy's payment priorities. Unsecured creditors would get paid next -- if anything were left. There would be endless haggling, but predictable results. The vast majority of GM's bankruptcy cost would be borne by taxpayers and unsecured creditors -- the suppliers of parts, supplies and services.

GM may be able to dump its pension obligations to the Pension Benefit Guarantee Corp., an arm of the government. The PBGC, which had a \$23 billion fund deficit in 2005, is essentially an insurance company without premiums, with shortfalls made up by taxpayers. One estimate suggests that the taxpayer pension cost of a GM bankruptcy would be an additional \$23 billion.

To emerge from Chapter 11, GM would require a fresh line of credit, called "debtor-in-possession" financing. In the past, financing of this type has often been provided by such pinnacles of financial acumen as GE Capital, J.P. Morgan Chase & Co. and Citigroup. Would they be able to provide it? Or would this, too, fall to the taxpayers?



GM's vast cadre of suppliers also would fare poorly. The carmaker currently owes \$62 billion in accounts payable and accrued expenses. In today's fragile economy, these essential suppliers to our nation's industrial capability would face a devastating loss of future business, along with the high likelihood of not getting paid for work they already performed.

Because many of these suppliers also provide parts or services to aerospace, agricultural equipment, machinery and other important industries, the country's industrial strength would be severely imperiled.

To the credit of the people involved in the U. S. auto industry, they still make good vehicles. Mercury, Buick, Cadillac and Lincoln all continuously rank near the top of J.D. Powers dependability surveys. Ford surpassed Toyota this past year with the most vehicles in first place in the Initial Quality Survey. True, GM and Ford do make more trucks than cars, but sometimes we need trucks. Try moving a refrigerator in a Prius and see how that works out. And GM and Ford are profitable overseas. For sure, both of these companies have the expertise to compete internationally.

Bold action is required

What will happen? I don't know. But clearly, the matter of our industrial presence should not be dealt with simplistically, of flippantly. Serious inquiry and bold management is required -- not just on the part of the people in these industries, but by the rest of us as well.

To be sure, management of Detroit's Big Three has not always been exemplary. But sometimes it has been more enlightened than it is now. Lee Iacocca worked for \$1 per year as Chrysler was recovering in the 1980s. Ford had excellent management with Phillip Caldwell and Donald Peterson (from Pipestone, Minn.) during this same period. GM had good management in the 1970s, not so much in the 1980s and sporadically since. Today, management needs to display more competence and more personal dedication than in the recent past.

Criticism of auto companies carries with it some irony. What activity is better run? Finance? Insurance? The airlines? Professional sports? Education? Government? As a practical matter, manufacturing, agriculture and mining have supplied nearly all of the U.S. productivity improvements in the past 30 years.

Legacy costs for pensions and health care create the major cost disadvantage for U.S. auto companies. But governments are far more imbedded with unfunded or underfunded pension and health care liabilities than any auto company. Minnesota teachers, as an example, are in retirement for an average of 27.4 years, nearly as long as some of them have worked. What should we say when the public-employee pension fund managers come clamoring to legislatures for more funds? Should we say, "Let them go bankrupt," as some have suggested with our industrial companies?

The problems of the auto industry belong to all of us and we are all likely to share in their resolution -- one way or another.

Minnesota's homegrown prosperity

Don Hall's "Generation of Wealth" recounts the state's bygone era of prowess in technology.



The United States has experienced annual trade deficits of \$700 billion, while countries like Germany boast an annual surplus of \$250 billion.

Above: A Chinese container ship above at a Boston port.

MINNEAPOLIS STAR TRIBUNE – March 31, 2014

Some books tell stories. Others trigger introspection. Don Hall's book, "Generation of Wealth," provides not only an informative history of important Minnesota companies but also a needed perspective on how vibrant economies were created in the past, and could be again.

Hall recounts the emergence of Minnesota's reputable computer industry after World War II and the springboard formation of other industries involving medical devices, precision manufacturing, instruments and special-purpose machinery. For decades, computers designed and produced in Minnesota were prominent in every national laboratory and in prestigious research facilities throughout the world. Other technical industries also gained prominence.

Much prosperity resulted from Minnesota's emergence as a high-tech industrial powerhouse. Tens of thousands of people were employed. Houses were built. Families were sustained. Other business sectors benefited from the prosperity resulting from Minnesota's technical prominence. Two Twin Cities-based airlines flew daily flights carrying technical and managerial people to all parts of the world. Banks and financial services firms grew and flourished. Venture capital firms gained national prominence by funding more new technical firms — many of them in Minnesota.

The prosperity was not limited to the private sector. Universities, hospitals, orchestras, theaters and social services enjoyed the vigor of Minnesota's emerging technology-based prosperity — which also drew major league sports teams. It wasn't the other way around.

These favorable developments seemed not to result from either diligent corporate planning or organized business strategy. Major product breakthroughs occurred quickly but haphazardly. One observer noted, "Probably 80 percent of the world's usable software and equipment came together within 24 hours of a trade show."

Hall also describes financing as different — often handled not by major financial institutions but by smaller and local "bucket shops" or by company principals selling stock to acquaintances — almost door to door.

Even the people part was unexpected. A few people were well educated, but many more were simply energetic locals with excellent "bailing wire skills." Minnesota's character as a supplier of resourceful people off the farm continued to show even during the growth years from World War II up through the mid-1970s. When the grass near Control Data's Bloomington complex appeared anemic, CEO and ex-farmer Bill Norris addressed the matter simply. "Hell! Spread some manure!" It was done, and the grass got greener.

Hall's well-written story describes a period of immense wealth creation with benefits that were widespread.

Along the way, though, things did change. People elsewhere learned to do what only the energetic Minnesotans had figured out. Some people retired or went on to start other companies. Leaders with high levels of firsthand technical competence gradually gave way to a more bureaucratic group — skilled in meetings, but unfamiliar with technology, products, markets, suppliers or customers. Profits declined, and in some cases, disappeared. With the declines of major industrial employers, Minnesota changed from being stellar to near average.

In his very detailed description of booms and busts, Hall makes the thoughtful observation that even pierced bubbles have silver linings. True, some of the companies most influential in Minnesota's glory years of technical achievement are no longer with us. Control Data, with its 60,000 employees, is gone, along with Univac, ComTen, Data 100 and a host of others. NCS, Possis, ADC and much of Honeywell have been acquired and in many cases greatly downsized. Even some of the medical device companies find themselves consolidated or no longer alone with leading technologies.

Minnesota's earlier prosperity unfolded because a cadre of daring forward-looking people attempted the accomplishment of exceedingly difficult tasks — a sound premise for prosperity.

Minnesota's earlier prosperity unfolded because a cadre of daring forward-looking people attempted the accomplishment of exceedingly difficult tasks — a sound premise for prosperity.

Minnesota now needs new science-based industries to restore the prosperity of earlier periods. There are so many world problems in need of technical accomplishment. Two billion people lack potable water. There are food shortages. Pollution is rampant worldwide.

Fortunately, Minnesota still has some fine companies involved in the solution of major problems: 3M, Pentair, Cargill and others. But shouldn't we be striving to create such a more robust economy again?

It's time to face tough questions about the economy

MINNEAPOLIS STAR TRIBUNE – January 15, 2015

The recent spate of encouraging data notwithstanding, questions persist about the true health of the Minne-



Workers in Minneapolis last fall protested low wages. A shift from manufacturing to a services-based economy has driven down wages.

sota and U.S. economies.

Are we better off due to enlightened government policies? Or, are we worse off because those policies weren't enlightened after all? Will there be opportunities for those who do not achieve a four-year college degree? And, will those who do receive such a degree earn enough money to pay off ever-escalating student loans?

Often, politics and not facts shape our discussions of these important questions. Scapegoats can be found in all political camps. Nonetheless, political leaders and the citizens they represent may wish to reflect upon the dramatic changes that have taken place over the past several decades and how these changes impact the opportunities and threats we have before us.

Change No. 1: An unfavorable shift in employment.

From 1939 to 2013, the United States added 105 million jobs. That's good, but the breakdown is more frightening. Of these 105 million, 19 million were in trade, transportation and utilities. Another 18 million were in government, and 80 million in private sector services. However, only 5 million jobs were added in construction, 2 million in manufacturing and virtually none in mining. Thus the share of goods-producing jobs of U.S. nonfarm employment declined from more than 40 percent at the end of World War II to less than 14 percent in 2013.

This dramatic shift away from tangible production to less direct activities (finance, insurance, real estate, services and government) means that we have created an economy plagued by a substantial burden of indirect costs.

Over a 50-year period, a disproportionately large share of the nation's productivity improvements have occurred in manufacturing, mining and agriculture, three sectors where employment is declining. Additionally, almost all of our exports come from agriculture and goods-producing sectors and imports arrive daily to replace the production capabilities which were once pre-eminent in the United States. Several unfavorable results occur when tangible production is neglected. Trade balances worsen, deficits grow and opportunities for younger people are less favorable.

Many of our developed industrial competitors have less overhead. Germany, for instance, still has about 22 percent of its employment in manufacturing. The U.S. has about 9 percent. German wages are not low — averaging \$40 per hour. Yet that country enjoys an annual \$250 billion trade surplus vs. the \$700 billion deficit we experience in the United States.

Moreover, the U.S. has experienced a gradual transition away from the more technological to less technical manufacturing. We produce fewer super computers and instruments, not as many machine tools, but more potato chips, soft drinks and junk mail — all classified as “manufacturing.” We still have some meaningful state-of-the-art products, of course. But, we are not quite as prominent as we once were.

The declining prominence of U.S. technology is evident on several fronts: shrinking shares of world patents, world-class machinery, scientific instruments and even in some chemical products. We are still prominent in paper production, however.

Change No. 2: Emerging jobs pay less than disappearing jobs.

From 1998 to 2012, the United States added about 9 million jobs. Some sectors expanded and some declined. But here is the problem. The declining sectors paid an average of nearly \$17,000 per year more than the expanding sectors. Many of the jobs we have created are temporary, part time, low in compensation and fringe benefits or in low value-added industries.

Our situation is problematic even within higher education. Only about 15 percent of U.S. college graduates major in science, technology, engineering or math vs. 22 percent in the U.K., 28 percent in Germany and 35 percent in Korea. Humanities and the liberal arts are of utmost importance and I am proud of the fact that the University St. Thomas requires a full complement of the liberal arts for degrees in science and engineering. But we should wonder if we are encouraging some of our young people to invest heavily in illusory non-substantive educational programs that are yielding credentials mismatched to the needs of a prosperous society.

We still have some good jobs, of course. But the United States is now conferring roughly three times the number of college degrees as in 1970. Progress, to be sure. But our pace of good, solid, high value-added job creation has not kept pace with the people who are attending college at this time.

Meanwhile, the U.S. continues to waddle along with massive public debt, enormous trade deficits, volatile financial markets, problematic student loans and a central bank keeping interest rates low by the excessive purchasing of low-grade securities other banks do not want.

We could be doing much better. Hopefully, our recently elected or re-elected public officials will realize that the attenuated fortunes of America's middle class have less to do with class warfare than the slow structuring of a society that is far more oriented to busywork than it is to the creation of good quality jobs aimed at the production of the goods and services that will enable broadly based prosperity.

Lawmakers need to remember you can't give what you don't have

MINNEAPOLIS STAR TRIBUNE – January 15, 2015

The June 29 Business Forum article “Working sick and broke doesn’t work,” described how lower wage workers find it difficult to support their families on the combination of low wages and minimal, if any, sick leave and other benefits. Many of us would agree, but the article glossed over some important facts that anyone interested in worker wages and prosperity should consider.

Average real wages are, in fact, declining and they have been since 1973. The principal reason is because we have shifted our employment from the production of higher value-added technical goods, such as instruments, computers and special machinery, to lower value-added activities and services. Many respected studies will verify that employee pay and benefits are strongly correlated to the value of the activities performed. There is more money involved in building the world’s fastest computers than there is in fast food restaurants, junk mail or turkey processing.

Imagine the Minnesota of 40 years ago. Booming computer companies: Control Data, Unisys, Data 100 and a premier IBM plant in Rochester with more than 8,000 employees. A solid aerospace industry with companies like Honeywell, which also had 8,000 employees, and Lockheed Martin. We had nationally recognized suppliers like Remmele, Hitchcock, Bermo, Kurt and others. Minneapolis-Moline had two large plants here. We had two major airlines based here and two large national banks.

Some of these still exist in one form or another, but our industrial profile has surely been reduced. We still have some excellent companies here, including jewels like 3M, Polaris, Andersen, Marvin, Park Industries and others. But since 1998, Minnesota has lost nearly 88,000 manufacturing jobs — many of them in the high value-added sectors with good wages and benefits.

I applaud the interest our legislators occasionally show in the prosperity of our workers, but the deeper problem of worker prosperity is unlikely to be solved by governmental fiat. Minnesota’s Civic Caucus has been examining this situation, with its yearlong study of workforce preparation. Its recommendations are worth reading by all legislators.

If we do want greater prosperity to be enjoyed by more of our citizens, here are some steps we could take:

1. Improve the effectiveness of Minnesota’s K-12 education program, which is unimpressive when compared with major industrial competitors whose students experience longer and more rigorous programs and commonly outshine Minnesota students in basic test scores. According to the U.S. Department of Education, Minnesota has fewer class hours per year than any state.
2. Improve Minnesota’s amateurish and nonstrategic economic development programs. In the past several decades, Minnesota missed opportunities to work creatively to save the Ford plant, Lockheed Martin and several other important employers.

The Twin Cities Ford Plant always ranked near the top of all Ford assembly plants in quality, productivity and environmental considerations. For years before its closure, it was known that the plant lacked one attribute essential to a modern plant — integrated metal stamping. Minnesota had well-established metal stampers willing to make investments to remedy this shortcoming, but state officials did not pursue cooperative programs that might have saved the plant.

And Minnesota made nearly \$1 billion in loans to the controversial takeover artists of Northwest Airlines without insisting on prudent managerial improvements. A few years later, Northwest Airlines, which at the time had Minnesota’s largest private payroll, filed for bankruptcy. The loss of these important high-paying companies has reduced the wages and benefits of Minnesota workers.

3. Work with the thoughtful MnSCU educators to improve relevance by shifting educational resources away from delusional and non-substantive, less-important general programs with questionable placement records toward the more sought-after technical programs such as welding, machinery and manufacturing, which are highly regarded by industry.

All of these would be actions open to legislators who might indeed be interested in the true advancement of worker prosperity.

The article by Rep. John Lesch and Sen. Sandra Pappas also states, “We hope that the Legislature will look more kindly in 2016 on our proposal to require Minnesota businesses to offer paid sick leave. We also hope that Minnesota’s legislators will consider making a living wage the standard.”

Not a bad goal, but as an undergraduate 60 years ago, I can recall a memorable instructor saying: “You cannot give what you do not have.” Some legislators are prone to give what they do not have. Too often, the burden of action is assigned to someone else instead of constructive steps in their own spheres of activity. The “hope” expressed by Lesch and Pappas implies nothing for the Legislature to do — only companies.

Many of us would like the situations of less fortunate citizens to improve. Legislators could help best by doing what they are supposed to do: Take the steps to attract and retain strong industry and adequately prepare our young people for meaningful participation in a more competitive world.

Part Three – The Stock Market

Financial markets harbor enormous responsibilities because they facilitate the life-giving investments that provide resources, vigor, and innovation to world economies. Because of their importance, it is imperative to treat stock markets with respect, but also with surveillance and discipline.

In practice, these world financial markets are becoming increasingly scattered, irregular, and increasingly self serving. Financial markets require access to savings so that investments can take place. Since other countries save more while this country saves less, a gradual but perceptible shift is taking place in the prestige, power, and location of world financial markets. Decades ago, U. S. financial markets accounted for the highly dominant share of world market values. In recent years, vigorous markets have emerged in Hong Kong, Shanghai, Jakarta, Sao Paulo, Mumbai, and other locations to supplement the already markets in Europe and the United States. This proliferation of respectable markets in many locations has provided investors with a plethora of attractive opportunities.

But market activity in the U.S. and in other places has not always been a reliable index of investment worth. Sometimes, these important activities have been permeated with the exuberant marketing of questionable investments. On other occasions, the prices of particular stock have varied with such enormity that it is hard to believe that the prices stem from rational investment analysis.

In any case, our markets are important and we are justified in scrutinizing market activities with the care and diligence they deserve. The essays in Part Three discuss some market characteristics that merit some concern.

Fundamentally less monkey business

The deflated market and slowing economy could help restore the virtues of thrift and hard work, ushering in an era with Fundamentally less monkey business

MINNEAPOLIS STAR TRIBUNE -- December 31, 2000

Groucho Marx visited the New York Stock Exchange in the 1930s and began to sing very loudly.

As the sole member of the Marx Brothers with a proclivity for investing, he had bought heavily in the 1920s only to see much of his net worth evaporate in the 1929 meltdown.

When upbraided by exchange officials for disrupting the decorum, Groucho offered one of his quick retorts: "Look, when anybody takes me for a quarter of a million dollars, I get to sing."

Other notables were affected too. Regretting the performance of his portfolio, gangster Al Capone remarked: "Some of these stock market guys are crooks!"

Well, it takes one to know one I suppose, but the country did survive the downturn. The 1930s was a period of great progress where the country got back to business basics. Circumstances forced companies and individuals to develop better products, work harder, be more honest with their customers and participate less in business chicanery.

Though the hardships of the 1930s were apparent, the era did produce many improvements. Cars got better. Refrigeration became common. Radio emerged. Television was invented. Working people achieved greater voice. Savings rates increased, and people returned to doing real work.

The United States needs some of these attributes today. It should be a surprise to no one that the overvalued NASDAQ is approaching more realistic levels. Yet it is still overvalued. Cisco Systems Inc. and Maplewood-based 3M Co. earn similar amounts of money, but even after a 50 percent decline, Cisco's market valuation is six times greater.

After its stock price declined from \$104 to under \$2, Priceline.com is still valued at \$210 million - a lot of money for a company that lost \$192 million last quarter. Still, my advanced age has taught me never to predict when a bubble will end. More irrational exuberance may be coming.

But in the short term, our business and governmental practices are likely to change for the better. Megamergers will receive greater scrutiny. Sound fiscal management is likely to return as a virtue. The investing public is likely to be more skeptical of quick returns from simplistic business models that ignore customers and do not involve doing anything that others cannot do. Trade deficits will matter.

The GE model.

Let's look at the General Electric model. Is it really effective? GE is, to its credit, a disciplined company. It has a huge market valuation of \$480 billion - more than Ford, GM, Target, Chevron, Merck, Hewlett-Packard and 3M combined.

GE also has been a notable exporter of CEOs to 3M, Allied Signal and many other companies - not all of whom have done well. But with only \$48 billion in equity, GE is also a company with \$121 billion in short-term debt, \$76 billion in long-term debt, more than \$100 billion in intangible and other assets, and a huge finance subsidiary with \$172 billion in receivables at a time when borrowers may find it more difficult to pay. It is a good company, but probably not the penultimate company.

Our emerging period of realism may provide us with an opportunity to reevaluate our business models - away from highly leveraged merger transactions to appropriate cash management. Away from the illusion of planning the future while losing money today. Away from the paradigm that pressuring suppliers is the quickest way to meet earnings goals and toward cooperative programs that ensure a strong supplier base in the future.

The build-by-acquisition strategy tends to work better when markets are expanding rather than when they are sliding back. In boom times, even unsuccessful acquisitions can sometimes get sold for even higher prices than originally were paid. In more sober times, the acquisitions have to be made to work, and that in-

volves confidence building, teamwork, product innovation, cost effectiveness and close cooperation with key suppliers.

Public sector's duties.

The government, too, should mend its ways. U.S. trade negotiations have exhibited a remarkably impractical view of how trade actually works. We are all free traders, but it is not free trade if companies in one country must abide by environmental regulations and labor laws, provide health insurance and comply with a myriad of locally imposed requirements while its trading partner does not. The United States currently is buying about \$6.25 worth of Chinese goods for every dollar's worth that it sells to China - hardly a two-way street. The U.S. trade deficit - now running at an annual rate of \$385 billion - must be addressed and corrected before the value of the U.S. currency is permanently eroded. We should remember that performance of the U.S. stock market has helped to attract money to the country - an attraction that might dim in the months ahead.

Government policies have been remiss on other fronts. Too many mergers have been permitted, resulting in an unfortunate concentration of economic power in several industries. Too much speculation has been permitted in equity markets. There is no energy policy. There are too many government employees who can retire in their mid-50s with cost-of-living-adjusted, defined-benefit retirement programs.

But many of the difficulties that our economy will face in the months ahead we brought on ourselves. We spent too much, saved too little, speculated in securities that weren't worth anything and squandered the technical expertise of some of our best companies as they attempted to expand beyond their base of expertise.

In the meantime, through our trade policies, the United States has provided a golden opportunity for people half a world away to move into our major markets without having to comply with the same requirements imposed here. As a result, workers, shareholders and the general public now appear to be losing ground.

Still, we shouldn't be surprised by it. Singer Eddie Cantor and Groucho Marx frequently would exchange stock tips. As the downtrend of 1930 unfolded, Cantor complained: "Julius (Groucho's real name), I lost a lot of money on that stock tip you gave me."

In his classic style, Groucho replied, "If anybody takes stock tips from the Marx Brothers, they deserve to lose money."

I am hopeful that the years ahead will be healthy for us as we move toward a more fundamental style of management and more practical public policies.

Infatuation with technology stocks just the latest in a long series of fads

ST. PAUL PIONEER PRESS -- May 1, 2000

Will Rogers once described the frenetic ambience of the 1920s as a drunk we had been on whereas the 30s provided an opportunity to sober up. Is the "irrational exuberance" of this era based on a sea change of economic fortune due to weighty technological advances or is due to mind altering forces that are less scientific? Perhaps history can provide some light on that question but history is unlikely to provide peace of mind. The instances where we have fallen off the wagon in the past are quite numerous – not just in the US but elsewhere.

History does show that stock market exuberance has escalated with each major technological advance; railroads, steel, the automobile, agricultural equipment, radio, aerospace, television, the computer and now the internet or "the information economy" as if information did not exist before. In the 1920s, General Electric stock rose to \$201 per share before falling back to \$8.50 a few years later. General Motors went from \$115 to \$7 5/8 while the Hudson Motor Car Company saw its stock decline from \$139 to \$2 7/8. When the fortunes of retailing proved to be less than the built up anticipation, Montgomery Ward stock fell from \$158 to \$3.50. Meanwhile in agricultural equipment, Case stock fell from \$467 to \$17 while Deere fell from \$690 to \$3 5/8. During the early computer era, University Computing stock declined from \$186 to \$13. History also shows that market exuberance can develop without technological underpinnings as it did with the tulip mania in Holland, the Mississippi Company in France and the South Sea bubble in England in the years long past or the fascination with recreational stocks in the 1960s. But mainly, history shows that investment enthusiasm peaked and then declined sharply as the rewards and exposure of each new industry became more widely understood.

In a landmark article from the *Journal of Political Economy* (1995), researchers Jovanovic and MacDonald tracked the tire industry from 1906 to 1973 where they tracked the number of tires sold, tire prices, revenues, and share prices along with the number of companies active in the industry. Share prices rose steeply as more companies entered the industry and then fell steeply as companies began to withdraw. There were 275 tire companies operating in the United States early in the life of the industry but as companies with unfulfilled goals began to withdraw, the average prices of tire companies declined – by seventy percent from 1919 to 1928, before the broad market crash began.

Over the long term, stock prices ultimately reach reasonable levels – levels dependant upon good products, honest and reliable customer service, and solid financial performance – not upon hype. Thus the ultimate competition for emerging industry stock values comes from the share prices of more established companies to which they will inevitably be compared.

Regarding the recent turmoil in the "technology" stocks, have they gone down enough? Probably not. First of all, there isn't very much technology. People all over the world are fully capable of bolting together a few off-the-shelf computer parts as Dell and Compaq both do. High school and college students are both capable of producing web sites. There is nothing particularly special to warrant such high price earnings multiples. The quality is ordinary and many of these companies have yet to develop a viable recipe for making money over the long term. More importantly, this sector is approaching the realism that so many companies have achieved before. In the long term, share prices reflect actual value of an economic investment.

What does the investor get in the "technology" stocks versus three "old economy" companies, Ford, Caterpillar and Winnebago?. The price earnings multiples of these companies range from 7 to 13 compared to a range of from 80 to infinity with Dell, Compaq, AOL and Amazon.com. Earnings are better, cash flow is much better, and future sales are more predictable even — if each must cope with some cyclicalities in their own markets. Furthermore, each of these old line companies has exceptional quality, highly automated production facilities, key technical content and most recognized brand names in their industries. Ultimately, markets always recognize fundamental differences. In spite of periodic glamour associated with new industries, share prices ultimately compete with those of established companies and are appropriately adjusted. Ford, Caterpillar and Winnebago have a combined market capitalization of \$81 billion and they very consistently earn around \$8 billion per year. AOL, Amazon.com, Compaq and Dell have combined market val-

uation of \$323 billion (four times as much) and they earn around \$2.3 billion (one fourth as much) – if it holds. So, even with the adjustments of the past few weeks, there is still a long way to go.

History suggests that stocks are best judged by comparative value. Microsoft is a good stock. But, even with its recent declines, the market valuation is still \$343 billion over four times the market valuation of Ford, Caterpillar and Winnebago combined. Judging by Microsoft's recent earnings announcements, the increase of competitors shelf space, IBM's announcement to boost Linux, and Microsoft's annualized current earnings of \$1.72 per share, it's a good \$20 stock. Meanwhile, as widely respected market scholar David Dreman observed in a recent Forbes article; "Stocks like Amazon.com and K-tel International are more of a crapshoot than an investment"

Popular isn't always prudent

Economic history lessons should temper our view of the Internet's "New Economy"

MINNEAPOLIS STAR TRIBUNE -- December 13, 1999

Wade Massad's article ("Digital powerhouse: A peek 'under the hood' at Net commerce shows the new economy is here to stay," Business Forum Nov. 22.) correctly articulates the huge business potential available with the development of the Internet, but takes too short a perspective on stock values.

No doubt, many of the Internet stocks being brought to market will blossom and create handsome returns for some investors. The question is, which ones and how many?.

Huge explosions in stock offerings and great inflations in stock values have happened before with railroads, and steel, auto, tire, farm implement and computer companies. As auto industry historian Arch Brown's father remarked about Cord Automobile Co. in an earlier day, "It makes an interesting speculation but a lousy investment."

Stock market trends associated with the emergence of new industries have been examined before, in both actual practice and the academic literature, with similar results. In actual practice, Deere & Co. stock declined from \$690 per share in the late 1920s to \$3 5/8 a few years later. Allied Chemical, U.S. Steel, Hudson Motor Car Co., Stutz Motor and others all were darlings of the stock market during the emergence of their industries. In more recent years, once-aspiring computer makers Scientific Data Systems, Honeywell, Burroughs, Univac, RCA and Digital Equipment Corp. all benefitted from the excitement surrounding a new industry. But most exited the industry. Some of us will remember when Control Data stock was \$145 per share in the late 1960s, only to plummet to \$13 a few years later.

'Madness of crowds'

In an earlier age, railroad stocks, many of them fraudulent, were fashionable speculations. In his excellent history of the U.S. railroad industry, historian John Stover suggested, "most of the post-Civil War railroads suffered from the evils of inflated construction costs, fraudulent stock manipulations and incompetent management."

The railroads contributed mightily to the nation's development, but not all of them were investment winners.

Steel was the darling following railroads, not only in the United States but elsewhere. Countries with even minimal industry seemed to lose face unless there was a prominent national steel company. In the United States, companies such as U.S. Steel, mostly a result of the acquisitive activities of J.P. Morgan, reached prominence in the 1920s, but few remain competitive today.

Conglomerates provided the major excitement of the 1960s. Gulf & Western, LTV, ITT and Litton Industries all created impressive revenue and profit histories by acquiring companies and adding the revenues and earnings to their base financials, well chronicled in Robert Sobel's book, "The Rise and Fall of Conglomerate Kings." The stock values of these companies escalated for a while and then plummeted, and the companies themselves drifted into obscurity.

In his well-written book "Extraordinary Popular Delusions and the Madness of Crowds," Charles Mackay describes the great speculations of the past, including the tulip mania that affected Holland in the early 1600s. The mania continued until an unthinking sailor mistook a valuable bulb for an onion and sliced it for his sandwich, thus digesting much of the owner's wealth.

The point of Mackay's book is more serious. Speculations have costs, and excessive speculations can reduce both the wealth and influence of entire nations.

Good companies and exciting new technologies were present in each of these industries, just as promising Internet companies are emerging today. The question now, as always, is "how general is the trend?"

In a landmark article from the Journal of Political Economy in 1994, researchers tracked the tire industry from 1906 to 1973. Tires are useful. The average U.S. family owns about 20 tires (cars, trailers, lawn mowers, etc.), so the tire business was a growth industry at some time during its history.

In their study, researchers followed the number of tires sold, tire company revenues, and share prices along with the number of companies active in the industry. In 1922, there were 275 tire companies operating in the United States. But share prices turned out to be related not to the number of tires sold, industry revenue or the selling prices of the tires sold. Share prices were related to the number of companies entering and leaving the industry. Share prices rose steeply as more companies entered the industry and then fell steeply as companies began to withdraw.

Will this happen again with Internet stocks? The older I get, the less need I feel to predict anything. But it might. AOL is good, but at \$181 billion in market capitalization, is it really worth three times as much as Ford Motor Co.? Is Amazon.com, which is losing even more money than in the past, really worth twice as much as Caterpillar?.

Opportunity cost.

The Internet is wonderful and revolutionary. But in the long history of world economic development, is it more important than electricity, railroads, the automobile, steel, plastics, aircraft, refrigeration or Borlaug wheat? (The wheat, by the way, is named for University of Minnesota graduate Norman Borlaug, who won the Nobel Peace Prize in 1970 for his research in hybridizing wheat to increase crop yields. Borlaug became known as the father of the Green Revolution).

The Internet is a phenomenon. But then, so was Fisk Tire Co.

The concern I have with the inflation of Internet-related stock values is the opportunity costs we may unwittingly be paying. Maybe it is to our benefit to be on the ground floor of an exciting new industry. And clearly there are opportunities there.

However, while this is happening, we are losing our position in some of the best wealth-creating industries we have had in the past. In many critical industrial components such as switches, encoders, bearings, compressors, pumps, ships, motors, valves and generators, the United States no longer is the leader or, in some cases, even a major player.

More recently, we have begun to see an erosion in the high-value end products made from these critical components, such as aircraft and even medical devices.

Sure, the economy is good now, and maybe we really are in a “new economy” that is fundamentally different from the revolutionary economies of the past created by the automobile, railroads, computers, electricity, metallurgy, pharmaceuticals and everything else.

If this new economy turns out to live up to its hype, none of us will be disappointed. But if it turns out that we have been mortgaging the family farm to buy rare tulips, we may wish to look more closely at the fundamentals.

Shareholders should look again at Honeywell buyout

Why trade shares in an excellent firm for stock in a mediocre one?

MINNEAPOLIS STAR TRIBUNE -- June 14,1999

The Honeywell-AlliedSignal merger has attracted much attention for its impact on Minneapolis neighborhoods, Honeywell workers and the larger Minnesota community.

Market purists will say that what is good for Honeywell shareholders should prevail. I do not quarrel with that position. But I think the Honeywell-AlliedSignal merger is quite likely to be bad for the community, bad for workers and bad for shareholders - all at the same time. Let's examine the situation more carefully.

At the root of the problem is the fact that AlliedSignal may not be a corporation that creates excellence over the long term. Since 1980, AlliedSignal has consummated 101 major acquisitions, divestitures, joint ventures and mergers. In order to accomplish these strategic initiatives, the company has raised \$3.7 billion in common stock and paid-in capital. At the end of 1998, the company balance sheet listed shareholder equity of \$5.3 billion.

But there is a catch. Much of this equity (77 percent, or \$4.1 billion) was tied up in intangible assets (goodwill and "other" assets) which, when subtracted from shareholders equity, leaves only \$1.2 billion in tangible net worth. That's not much for a large multi-national company seeking to finalize a deal worth \$15.8 billion.

Some of us occasionally use another term - "bankable equity" - to provide some insight into the reserve borrowing power of corporations. We can compute bankable equity, an admittedly conservative figure, by deducting half of the value of the company's inventory from tangible net worth. Why? Because bankers typically loan money on only half of a company's inventory. By doing this, we can approximate how much money a company can expect to borrow from a good banker. In the case of AlliedSignal, it's \$49 million - yes, million, not billion.

AlliedSignal also carries quite a lot of debt. The company had a current ratio (or current assets over current liabilities) of only 1.08 in 1998. In other words, for every dollar's worth of current liabilities, AlliedSignal has just \$1.08 in current assets - hardly a banker's dream - especially when the company has \$2.3 billion tied up in fairly slow-moving inventory.

Also, the company's tax accrual is growing - always a bad sign because it indicates that the earnings reported to the government are quite a bit different than earnings reported to stockholders. Perhaps these differences should be explained to the present owners of the 127 million shares of Honeywell stock.

Honeywell looks better than AlliedSignal both financially and technically. Honeywell products tend to be more respected and fetch a higher margin. AlliedSignal's gross profit rate is 24.1 percent while Honeywell's is 32.6 percent. Honeywell spent \$481 million on research and development last year, or 5.7 percent of revenue. AlliedSignal spent \$394 million or 2.6 percent.

Honeywell has a higher current ratio (\$1.47 in current assets for each dollar of current liabilities) and a better-looking balance sheet generally.

One of the reasons why the Honeywell balance sheet is better is because Honeywell has a better sense of how to create corporate excellence over the long term.

The company hasn't done everything perfectly. None of us has. But, over the years, Honeywell has nurtured a successful combination of employee development, solid research, efficient production and loyalty among customers. Its products are widely known and highly respected.

Hodgepodge collection.

AlliedSignal is a disjointed amalgam of unrelated businesses loosely sorted into remarkably diverse strategic business units. The aerospace unit, for instance, includes wheels, lighting and avionics. The transportation unit includes antifreeze, filters and spark plugs.

AlliedSignal's 1998 sales increased in aerospace systems and turbines, but were flat in specialty chemicals and declined in performance polymers and transportation products. Capital expenditures dropped 10 percent from 1996 to 1998.

Order backlogs declined slightly. Inventories of unsold finished products increased by \$269 million from 1997 to 1998.

We are all well aware that financial markets often respond favorably to big deals and highly leveraged transactions. But, the empirical track record of big deals is quite mixed. AT&T lost \$4.5 billion on NCR. Northwest Airlines is clearly not a better company since the leveraged buyout. Big banks make less money than medium-size banks.

Though AlliedSignal has done a little better than some, the formula of most acquisitive conglomerates is similar: Abide by the principle that if we cannot manage what we have, we had better manage something else. Then go buy something and lay off enough people to make the numbers work.

In the meantime, expertise is lost. Technical competence disappears. Customers drift away, often to foreign suppliers. Then, after the business is severely compromised, some new CEO can divest, restructure or spin off the same, but less-valuable, business with the argument that the unit is no longer a strategic fit.

The list of household-word industrial companies that have been touched by the AlliedSignal turbulence is long and prestigious. Bendix, Warner-Swasey, Ampex, Amphenol, Prestolite, Revere, Budd, Garrett Industrial Supply, AMP, and others. All of these companies were healthy and respected industrial companies at one time. Fragments of these operations still exist in some places but many have been closed, liquidated, restructured or sold.

In the aftermath, foreign competitors have often moved in to fill voids and trade deficits have increased to record levels. This brand of corporate cannibalism is hard on communities such as South Bend, Ind., which was a research center for Bendix, but it also not good business.

John Adams, a University of Minnesota geography professor, has a phrase for this process. He calls it "eating our seed corn."

The problem with a deal like the Honeywell-AlliedSignal merger is that AlliedSignal might screw it up. It won't be easy to transfer the technical expertise and managerial competence of a noble company like Honeywell to New Jersey - a high-cost, inefficient state that leads the nation in the percentage of manufacturing jobs lost.

Honeywell has long provided a reserve of managerial competence and technical expertise to Minnesota, which extend beyond its role as a good corporate citizen. Top managers of Medtronic, ADC and many other companies served their apprenticeships at Honeywell.

Engineering students at both St. Thomas and the University of Minnesota enjoy Honeywell scholarships. It has been a great company and I wish more people were concerned. I wish the governor would recognize the fact that the second-most-important company in the history of Minnesota industry is about to depart. (I rank 3M Co. first.)

But the concern of this article is for Honeywell shareholders. They, of course, have the right to exchange their shares in a world-renowned company for shares in a hodgepodge collection of businesses. But more information should be provided before they do so.

What were we thinking?

As investors grapple with their misfortunes and the post-bubble finger-pointing on Wall Street continues, it's worth asking how much we ourselves are to blame.

MINNEAPOLIS STAR TRIBUNE -- June 29, 2002

It was common until about 1952 for most frugal people to drive pre-World War II cars. Mike Curry was no exception.

Mike was a retired law enforcement official, a highly successful investor and a very kindly neighbor. One day, somebody ran into his '37 Ford and caved in the left door, but he continued to drive it.

Months later, when asked when he was going to get his car fixed, Mike quietly replied, "As long as it still has a right door, it is just as good for me as it ever was."

Mike thereby exhibited a quality that has come to be rare in recent times: the graceful acceptance of misfortune.

During this time of declining stock values, misbehavior at companies and chicanery on Wall Street, it is always comforting to have someone to blame. It couldn't be us, after all. Our losses should be covered - by someone. Let's find someone to cover us.

The 1990s produced market expansion, speculation, fraudulent behavior, ineffective oversight and, from early 2000 until now, dramatic market reversals. Accounting firms were weak and too compliant. The nation's securities laws were poorly enforced by both the Securities and Exchange Commission (SEC) and Department of Justice. The quality of investment analysis was low.

The scandals of the past several months are indeed troubling and should not be condoned. But they are not a surprise.

Every semester, I have the great privilege of reading about 100 term papers. Many of the students examine the strategies, tactics and competitiveness of individual companies and then compare them with other foreign and domestic companies operating in the same field. They examine operating ratios and balance-sheet integrity, as well as the company's customs and managerial practices.

Over the years, our students have correctly predicted the demise of Midwest Federal, K-Mart, Montgomery Ward, Control Data, WorldCom, LTV, Daewoo, Sun Country and Qwest, among others. They have correctly analyzed weaknesses at Enron, AT&T, Cisco, and, at an early stage, General Electric.

If the students can figure it out, why couldn't the fund managers, securities analysts and the SEC staff during the go-go years of 1993 to 2000?

Behind the bogus numbers.

Accounting laxity and the failures in corporate governance have been well-documented in today's press. What has been less well-covered are the weaknesses in enforcement and the general naivete of many investment bankers and investors.

In his 2000 book, "Irrational Exuberance," Yale professor Robert Shiller warned that the mass overpricing in speculative common stocks was far outstripping the economic fundamentals of that era. In 1996, Federal Reserve Chairman Alan Greenspan delivered a similar message to Congress, using the phrase that served as the title of Shiller's book. David Dreman and Warren Buffett have been preaching the virtue of sensible value investing for years.

A careful reading of the financial statements and filings of the now-defamed offending companies yielded plenty of warnings early on.

AOL had been challenged on revenue recognition as its market value was exceeding that of General Motors. New and peculiar accounting terms were employed to display progress in companies where no serious business model existed.

The financial statements of Honeywell's future acquirer, AlliedSignal, were not impressive, either, since it was burdened with huge debt, low margins, a weak balance sheet, slow-moving inventory, and peculiar looking financial statements well before its merger with Honeywell. There were many other examples.

Why would we ever have expected any investments in these companies to work out? The frenetic acquisition of companies went beyond the ability of management to make the acquisitions successful.

The predictable result? Demoralized employees; money stripped from research, product development and operations to pay for acquisitions at highly inflated prices, and offensive executive compensation. Why would we expect success?.

The Wall Street Journal recently reported that U.S. merger and acquisition activity reached 15 to 16 percent of the Gross Domestic Product from 1998 through 2000 but has fallen to 2 percent today. Among the big acquirers were:.

- WorldCom: more than 70 acquisitions.
- AT&T recently sold cable companies it acquired in the 1990s to Comcast at a loss exceeding \$35 billion.
- Cisco: 70 acquisitions.
- First Union: 90 bank acquisitions.

Many of these acquisitions have common attributes - heavy debt, low investment in products and manufacturing, out-of-touch management and the crass treatment of employees.

Solid companies exist.

Yet, all along the way, there have been many fine companies. These are the companies that stick to their knitting, spurn activities for which they have no expertise, operate frugally, employ reasonable executive compensation, and foster a sense of prudence and responsibility in their operations.

We have some big company examples such as Nucor Steel, Deere, Medtronic and others. And we have some well-run smaller companies, as well - companies that treat their employees, creditors, shareholders and their communities with respect.

The Old Log Theater in Excelsior has one of the longest records of profitability of any theater in the United States. One evening, I called to get tickets. A friendly voice promptly answered the phone and gracefully took my order. Since the voice was familiar, I then asked who it was.

"This is Tom Stolz," came the reply. Tom is one of the lead actors and I asked, "Aren't you in the play?" He replied, "Yeah, but I'm between scenes."

Now, if WorldCom, Qwest and Global Crossing would have operated as frugally, understood their business as well, and treated their customers with similar respect, maybe they would not be in quite so much trouble.

Is there something to be gained by suing everyone regarding our declining portfolio values? Certainly there were excesses that should be punished severely. I would like to see some offenders and lackadaisical enforcement officials not only go to jail, I would like to see them all in the same cell.

From what I understand, they all have obnoxious personalities, and perhaps prolonged imprisonment with Gary Winnick or Bernie Ebbers would serve as a powerful deterrent.

But, maybe part of the problem was our own behavior. Shouldn't we have known better?.

Mike Curry might have driven around with a big dent in his '37 Ford. But I cannot imagine him buying WorldCom stock.

Take a harder look at predatory investing

Concern has surfaced at the SEC and Congress about the potential downside of private-equity and hedge-fund activity on many of the nation's top companies.

MINNEAPOLIS STAR TRIBUNE -- January 14, 2008

The nurturing and encouragement of private equity is part of the American DNA, and most politicians are loath to tamper with it.

However, private-equity and hedge-fund activities have increased to such an extent that we should now take inventory of where we are. What are the benefits, exposures, risks and ramifications of the increasing tendency to put much of industrial America in the hands of people seeking a quick buck?

The volume of private-equity and hedge-fund activity is enormous and growing precipitously. In 2005, it was estimated that such funds were then managing around \$500 billion, with positions in about 4,000 companies. Two years later the activity is much larger, but details on these private investments are hard to find and harder to analyze.

Meanwhile, many of America's stellar companies have been affected. Chrysler, Allison Transmission, Rexnord, TRW, RJR Nabisco, Houghton Mifflin, Hertz and several other major firms already have been taken over. Alcoa, Dow Chemical and several other prominent companies are rumored to be candidates.

The sheer magnitude of recent private equity investments is mind-boggling: Among them have been a \$48.5 billion offer for a Canadian telecom group, a potential \$22 billion bid for a British cable television company, and the \$26 billion purchase of Hilton Hotels. The research group Private Equity Intelligence suggests that \$240 billion of private equity money was raised in the first half of 2007, well beyond the 2006 record of \$459 billion.

The Blackstone Group by itself reportedly has \$98 billion worth of assets under management. KKR has \$86 billion. About \$600 billion in buyouts were announced in the first half of 2007.

Yet there are honest questions regarding the role of what is often predatory investing.

Private equity managers have sketchy histories of bringing prosperity to companies where they invest. Often, they have no practical experience in managing the affairs of industrial companies. And the effects, such as with the disastrous 1989 leveraged buyout of Northwest Airlines, can be calamitous.

Frequently, the heavy debt needed to consummate takeovers or acquisitions weighs so heavily on the acquired firm that its competitive advantages erode.

Tax collections are invariably reduced because company profits are almost always diminished or eliminated by the heavy (and tax-deductible) interest payments associated with huge debts necessary to finance the transactions. Vendors, common targets for cost and cash savings, often suffer with dictated lower prices and delayed payments.

The cost to society

There is often a large societal cost because employees, communities, creditors and customers often find their own security has been severely compromised as a result of takeover transactions.

Concern about the potential downside of rampant private equity fund activity has surfaced at the Securities and Exchange Commission, the Federal Reserve and Congress. Greater regulation has been recommended on several fronts, but these initiatives are meeting strong resistance from the special interest groups directly and indirectly involved in these activities.

My concern is for the country's more robust and competitive manufacturers, utilities and transportation companies. These companies are especially appealing candidates for predatory investments because they often have something other companies do not: collateral that can be borrowed against.

As we look at the list of companies targeted, or rumored to be targeted, by leveraged buyout firms, it is not surprising that some of America's most prestigious and long-established manufacturers are among them.

Think of how much collateral Alcoa must have, or Dow, or the Allison Transmission unit of General Motors -- collateral that, in some cases, took more than a century to accumulate. What will become of these important companies if they fall into the hands of this inexperienced cadre of predatory investors?

Dividend recapitalization

One of the techniques employed to make sure the private equity funds look good and recoup their investments is through what is termed "dividend recapitalization."

It is not a complicated transaction: The acquired firm, now under the management of the private fund, borrows as much as it can against all available assets to declare a huge dividend to the acquiring fund -- often sufficient for the firm to recover its initial investment.



LinkedIn CEO Jeff Weiner speaks during the company's second annual "Bring In Your Parents Day," at LinkedIn headquarters in Mountain View, Calif. LinkedIn reports quarterly financial results on Thursday, July 30, 2015. (AP Photo/Marcio Jose Sanchez, File)

The fund shows profits, but the acquired firm is impoverished.

There is some evidence that the bloom might be off the rose on predatory investment activities. Blackstone Group stock has been hovering at around \$19 per share -- about 45 percent below its June high of \$35 per share the day after its June 21 initial public offering.

Shares of Fortress Investment Group, another New York-based private equity firm, is off about 57 percent from its 52-week high.

Although many of us might rejoice at the sudden reversal of fortunes for the predatory investors, we may find that the bulk of this misfortune will fall upon others, rather than to the managers of the private investment funds. The two founders of Blackstone, for instance, sold \$2.6 billion of stock during that company's initial public offering in June.

It always surprises me that elected public officials do not show more concern about the critical need to retain effective and high-quality businesses in the United States. Predatory investing needs review from the perspective of trade balances, tax collections, the orderly working of markets and employment.

Perhaps we should ask our public officials what they are doing -- besides raising money for their own campaigns.

When the next big thing fizzles, where will that leave us?

MINNEAPOLIS STAR TRIBUNE -- August 10, 2015

Financial history suggests that the valuations of the stocks of certain high-flying and profit-averse companies remain questionable and a sign of potential future misfortune.

No doubt, some high-flying stocks will continue to create returns for some investors. That begs the questions, which ones, how many, to what degree and for how long?

Huge explosions in stock offerings and inflations in stock values have happened before with railroad, steel, auto, tire, farm implement and computer companies. Allied Chemical, U.S. Steel, Hudson Motor Car, Lionel, Gulf and Western Industries, WorldCom, Global Crossing, Stutz Motor and others were all darlings of the stock market at one time or another. Now we have Facebook, Twitter, Amazon, Yelp, Tesla and many others — some credible and some questionable.

At the height of the dot-com bubble, we explored the question of peaking stock valuations in some of our classes at the University of St. Thomas. We collected some data on our own and then merged it with data from two respected books on the subject: Robert Sobel's book, "The Rise and Fall of the Conglomerate Kings," and "Extraordinary Popular Delusions and the Madness of Crowds," by Charles MacKay.

We then compared the stock prices of the high-flying companies at their peak to the prices of their stocks three years later. The comparison reflected a decline of 93.2 percent.

The pitfalls of irrational exuberance have been evident in recent years. In 2006, Citigroup stock was \$545 per share. Three years later, it was \$40 — a decline of 93 percent.

Some people say this could no longer happen. Perhaps, but let's look at where we are.

Morgan Stanley's ClientServ database provides market capitalization and many other useful financial ratios for nearly all listed companies. We downloaded data for July 31 on 707 of the larger companies and then supplemented it with other data. I was a little surprised to see the extraordinary valuations of the stocks of companies that do not earn very much or have less favorable financial ratios.

Amazon, for instance, makes little or no profit but had market valuation approximately equal to the combined total of 3M, Target, General Motors and Ford. These four well-established companies have combined annual profits around \$20 billion and employ 840,000 people in well-paying jobs. Amazon barely breaks even once in a while and employs 154,000 — mostly in lesser jobs. Yet it is valued higher than all of the nation's publicly traded railroads combined.

But there are other questionable valuations. LinkedIn, Tesla and Salesforce.com, all of which also lose money, are each individually valued higher than such established profitable companies as Paccar, Corning, Macy's, Cummins, Kellogg and Applied Materials — all of which are profitable, pay dividends and employ a great many people. Twitter loses money, but is valued at around \$20 billion.

True, social media is a phenomenon. But then, so was the Fisk Tire Co. At this time, LinkedIn, Tesla and Salesforce.com are losing money at the rate of \$1.2 billion per year and are still enjoying stratospheric share prices.

The important problem with overly inflated stock values is not only the hardships created when they ultimately reach normal levels but also the opportunity costs.

While we are basking in the pseudo prosperity of speculation, our country is losing its standing in some of the best wealth-creating industries that have made the country prosperous and its military first rate. In the manufacturing of many critical components, such as encoders, bearings, compressors, pumps, ships, motors, valves and electrical equipment, the United States no longer is the leader or, in some cases, not even a major player.

More recently, we have begun to see an erosion in the high-value end products made from these critical components, such as machine tools, aircraft and even medical devices. All this while we value the stocks of some money-losing companies engaged in little of importance at \$500 per share.

One may wonder why ordinary citizens would flock to these highly speculative investments. The answer is that they don't; the vast majority of these speculative securities are owned by institutional investors — pension funds and mutual funds, supposedly custodians of the nation's savings. Shouldn't we wonder what is going on here?

If these highly speculative stocks live up to their hype, none of us will be disappointed. But if it turns out that these speculations follow the patterns exhibited in the past, we may wish our fund managers looked more closely at the fundamentals.

In the meantime, we might reflect on the wisdom of allocating so much of the country's investment resources to enterprises that appear similar to bubbles we have experienced in the past. As auto industry historian Arch Brown's father remarked about the high price of Cord Automobile Co. stock of an earlier day, "It makes an interesting speculation but a lousy investment."

The larger question is whether speculation and lousy investments are best for the country.

Part Four – Manufacturing

From its peak in 1979, the U.S. has lost roughly seven million manufacturing jobs. Improved methods and automation have perhaps reduced manufacturing employment but the empirical evidence is interesting. We are not currently losing much employment in the industries that are investing in better methods. We are losing employment in industries where investment is low. We have too many laid-back companies that lack the skills necessary to compete aggressively in world markets. Their task is no doubt made more difficult by an ever-burgeoning public sector — even during a period of supposed budget-balancing. During the same period that U.S. manufacturing employment declined by seven million, government employment increased by six million. Higher taxes from a healthy economy are providing more revenue but government employment is continuing to grow—and with it, ever-expanding future retirement obligations.

The decline of manufacturing is sinister enough nationally, but devastating to some communities. Regrettably, manufacturing is declining more where the jobs are most urgently needed — in major cities. The statistics are frightening. From 1988 to 1995, during a period of high prosperity, manufacturing employment declined by 31 percent in Baltimore, 33 percent in Brooklyn, 34 percent in Philadelphia and 27 percent in Union County, New Jersey. Most major metropolitan counties, including both Ramsey and Hennepin in Minnesota, lost manufacturing jobs during this prosperous period. Some of the lost jobs are made up by increasing employment in services, but there is a catch. Many services do not do well in recessions.

To the employees and the general community, the variance in economic yield between industrial segments is huge. Consider these facts:

The U.S. trade deficit can be greatly reduced, but attention is needed. In an effort to apply broad economic theories, public officials (both executive and congressional) have lost touch with the detail. Our trade policies have often focused on the protection of movies and music—perhaps with an eye to the huge political contributions available from the entertainment industry. However, governmental initiatives have resulted in a flood of imports and diminished exports. Wages are not the driving factor in trade deficits. Much of our trade deficits over the past twenty years actually occurred with higher-wage nations than the United States; companies like Germany and Japan.

The U.S. runs trade deficits because we have not regarded the matter as important. We have failed to understand the connections between the industrial economy of today and prosperity in the future. The matter deserves attention.

Expanding the city through manufacturing

CITYBUSINESS -- March 21, 1997

As Minnesota citizens consider metropolitan expansions such as new stadiums or additional retail capacity, it might be useful to examine the trends taking place in the location of industry both within the United States and in other countries. Industry is not all of the economy, of course, but industry is one principal driving force, along with agriculture, mineral extraction and the provision of key services such as medicine. The studies we have available suggest that the employment multiplier (new jobs created) is much higher for manufacturing than it is for either retail trade or most services. If we hope to accurately assess the economy of our future, we should closely follow industry trends.

Minnesota's competitive position has improved in recent years less because of government policy than because of the strong competitive showing of certain Minnesota companies such as 3M, Medtronic, Kurt Manufacturing, Remmele, Honeywell, Bermo, HTI, HEI and others. But industry throughout the United States is dynamic and we continue to see a gradual but frightening shift of industry away from metropolitan core cities to medium- and smaller-sized communities such as Sioux Falls, Hutchinson and Warroad. In 1979, about 30 percent of the U.S. manufacturing payroll took place in the 24 largest manufacturing counties. By 1993, these major centers accounted for under 26 percent and 18 of the 24 had experienced industrial growth rates lower than the average for the nation — which is essentially zero when adjusted for inflation.

The relocation of industry is more far-reaching than from core-city to suburb. Interestingly, metropolitan statistical areas with major league sports teams have been growing only at about 73 percent as fast as counties not connected with any metropolitan area at all. In fact, metropolitan statistical areas with major league sports teams accounted for only about one-sixth of the growth in manufacturing payroll from 1979 through 1993. Again, if adjusted for inflation, real manufacturing payroll growth in major league metropolitan areas would probably be negative. Meanwhile, smaller manufacturing centers saw their manufacturing payroll increase by 113 percent. Gradually but unmistakably, industry is voting with its feet. Rather than put up with the high costs, poor education systems and compromised services of the core cities, industry is seeking the more dependable surroundings of exurban America.

Yet, we should not necessarily be pleased with this trend, for the social consequences are enormous. Due to extravagant spending patterns of the past, many cities are already pressed financially. With industry fleeing the cities at a time when welfare-to-work programs are emerging, we might wonder if sufficient jobs will be available to make this transition. Recent data on 77 cities made available by the US Census Bureau indicated that city taxes per capita were substantially higher when employment in manufacturing is at lower levels. Those cities with less than 15 percent of employment in manufacturing (which includes Minneapolis) had per capita city taxes 56 percent higher than the cities with more than 15 percent of employment engaged in manufacturing.

Manufacturing in the inner cities could provide plenty of products that are now being produced overseas. Shoes, computers, steel, transformers, machinery, apparel — these are all industries where we definitely have the technical knowledge and capability to produce and where we were formerly self-sufficient, but now have huge trade deficits. We could provide job growth in the inner city, reduce welfare, and reduce our burgeoning trade deficits simultaneously by implementing policies more holistic than those we have used in the past.

Yet, we should resist the temptation to meddle with manufacturing at the aggregate level. We do not need government programs to solve the problem of declining manufacturing in core cities; we need the removal of impediments. Manufacturing could be restored to the inner city if some changes were made. Cities could become vastly more efficient in their administration so that taxes might be reasonable. The disproportionately high taxes for commercial and industrial property could be reduced — especially this year when the state has the money to do it. Education, both public and private, could become more capable and more cost-effective. Joint-and-several liability, which almost systematically screens out the most desirable employers, could be removed from Minnesota's tort statutes as it has already been in many other states. Land use discussions can be made more expeditious and less influenced by "Not In My Backyard" advocates. Courts could become more practical. Impediments to employers wishing to be selective in the hiring of permanent workers might be eased. None of these would involve the expenditure of governmental funds but these steps would help re-interest manufacturing in central locations.

Enterprise zones, economic development incentives and specialized tax abatement schemes have rarely been successful in attracting industry. Companies move cautiously and gradually to locations with long-term advantages. If we want industry to return to the core cities, which is a step necessary for their survival, permanent fixes are needed. Some steps by the state might be welcomed, such as the complete removal of all sales taxes on replacement industrial equipment or permanent reduction in commercial and industrial property tax rates. Other steps will have to be taken by the cities themselves to better serve their constituencies. The unusual early retirement programs available to teachers and some city employees, for instance, might need to be set aside in favor of programs that better serve students and citizens.

Some of the proposals currently being discussed at the state Legislature are nonsensical. At a time when our trade deficit continues to escalate and so many people in the core cities lack a meaningful future, it is not the time to fund new stadiums or to provide additional funding for education without a major overhaul.

There are a variety of special studies by Robert Baade and others on the economic impact of stadiums and other economic development initiatives. They pretty much say the same things: Stadiums are rarely sound investments — particularly for mediocre teams. There are also many studies by Art Rolnick and others on the wisdom of overly aggressive economic development programs. They pretty much say the same things: that the “war between the states” is counterproductive. There is much written on the quality of U.S. education — which has become something of an international embarrassment. We need to get back to basics — higher quality and greater efficiency. If we can improve the quality and cost effectiveness of the inner-city existence, there will not be a problem in industry developing there, nor will there be a problem in attracting suitable sports teams — and that will be better for all Minnesota citizens.

Reexamining the Cost of Labor

MINNESOTA PRECISION MANUFACTURERS JOURNAL -- July-August 1997

As manufacturers struggle to remain competitive in the face of ever-increasing international competition, many are forced to re-examine the cost of labor. Much has been written about this subject — often with emotion. Some people suggest that it is necessary to locate new facilities where labor cost is low. Others suggest that the wages of labor are stagnant and even decreasing and if this trend continues, the United States will ultimately compromise its buying power, its standard of living and, ultimately, the viability of supporting service businesses. Labor cost indeed has domestic policy overtones as well as having an impact on industrial competitiveness. From the manufacturer's perspective, the principal question is where can I get dependable labor at a reasonable cost. A better understanding of labor cost and how it operates is pertinent to all of these perspectives.

Generally speaking, labor cost for all US manufacturing runs about 18.6 % of shipments in 1992. This is total labor cost for all people employed in manufacturing including factory labor, sales people accountants, managers and everybody else. Factory wages consume only about 9.4 % of total shipments — a percentage much smaller than that of materials which is 52.3 %. Looking at the problem another way, the average manufacturer spends about five and a half times as much money on materials as they do on wages to process those materials into finished products. The average US manufacturer also spends as much money on other wages and salaries as is spent on factory labor. So, factory labor is an important cost — but it is certainly not a cost large enough to account in any meaningful way for the trade deficits now being faced by the United States. These deficits, in a large part, are often caused by other transactions — some of which are not voluntary. External costs for such things as taxes, litigation, permitting and mandated requirements are all significant enough to be considered factors impacting a firm's competitive position.

The impact of external factors on competitive position was recently borne out by the renown European management school, IMD in Lausanne, Switzerland, in the recently completed World Competitiveness Report 1994 which ranked 41 nations for their effectiveness in competing internationally. The researchers examined each country on 381 variables. The United States finished first overall followed by Singapore, Japan, Hong Kong, Germany and Switzerland. The final tally did not square precisely with the Executive Opinion Survey that was a part of the report which placed the USA in tenth position. None-the-less, the report did describe many observable US strengths. Among these were agriculture, basic research, the ability to attract talent from overseas, entrepreneurship, foreign investment overseas, scientists & engineers, total value added and the availability of finance. The US ranked close to the top of the list in other advantages such as the use of information technology, willingness to delegate, worker motivation and living standards. Clearly, the US is a nation with many advantages and many strengths. We have much to be thankful for.

In addition to the ratings on matters such as economic strength, internationalization, finance and science, the World Competitiveness Report by IMD had some interesting assessments of social factors relating to world competitiveness and in these areas the United States did not fare as well. The US ranked below the 25th percentile among the 41 countries on the following items:

Lobbying by Special Interest Groups	National Debt	International Experience
Attitude of the Young People	Management Long Term Orientation	Tourism
Self Sufficiency in Natural Resources	Managerial Constraints	Aids
Product Liability	Alcohol & Drug Abuse	Justice & Security
Environmental Infrastructure		

Manufacturing: the vital cog in state s economy

State should do more to ensure the industry remains strong

MINNEAPOLIS STAR TRIBUNE -- September 13,1999

Minnesota manufacturer Excelsior-Henderson recently announced that it was restructuring and could use some additional money.

I will leave it to the investment community to decide if the company's case has merit, though as an unregretful Excelsior-Henderson stockholder, I am hopeful that things will work out.

The larger concern I have is whether our state is attempting to do enough difficult things. Minnesota remains healthy economically but, to some degree, we are living off of our past.

The last really big factory built in Minnesota was the Rochester IBM plant, built in 1957. The Ford plant was built in 1925. The United Defense plant, once known as the Northern Pump plant, was built in 1942.

Medtronic is a wonderful company and still expanding, but the medical device maker does most of its manufacturing elsewhere. Same with ADC Telecommunications, though its new Shakopee plant is marvelous. Honeywell has closed some of that company's largest plants, including the St. Louis Park plant that, at one time, employed 3,500 people. Now the land houses a Home Depot, just as the space where tractors once were made now houses a Target store. 3M has closed one of its two Hutchinson plants.

Manufacturing employment is increasing in Minnesota, but not so much in the higher value-added industries. Minnesota's industry is growing but at a rate slower than some other states. From 1988 to 1996 (the most recent detailed federal statistics), Minnesota's payroll increased 41.4 percent (not adjusted for inflation). That was impressive but not as good as 19 other states. Minnesota's manufacturing payroll growth was outstripped by Wisconsin, Tennessee, Texas, South Dakota, Washington, Kentucky and 13 other states. Minnesota was only slightly better than Iowa, Delaware, Indiana and the Carolinas.

Minnesota is doing well at the moment, but so is most everyone else. Of course, the economy is not always this robust, so it is fruitful to assess the status of the industrial base so essential to Minnesota's prosperity in the future. In particular, it is important to assess whether we are doing things that are sufficiently difficult that they cannot be easily duplicated by somebody else.

Manufacturing directly accounts for only about 18 percent of Minnesota's employment. Yet it accounts for about 24 percent of the state's wages and about 28 percent of the state's income taxes.

Even these figures greatly understate the true impact of Minnesota manufacturing, because manufacturing spawns so many other businesses. When we consider the number of jobs in finance, wholesale trade, insurance, service and government that are categorically separate - but still exist because of manufacturing - it is not hard to believe that the manufacturing sector sponsors around 1.2 million jobs in Minnesota.

The backdrop to this situation is the current trade deficit - \$24.6 billion in a single month - enough to cause some volatility in the value of the U.S. dollar. The major significance of the trade deficit is not so much the money but the transfer of expertise.

Competitor know-how.

Other people, often hard-working and well-educated people, now know how to do what we used to do - build precision instruments, ball bearings, machine tools, optics and a variety of other high value-added products. These products have been the foundation of our prosperity, and Minnesota's prosperity in particular. We will have to develop expertise and make investments to remain special in this regard. Large trade deficits are almost irrevocably a leading indicator of future economic problems.

It takes a lot of investment, a continuous flow of new products and high-quality management to keep a company competitive. And, in order for communities to remain competitive, good companies - good industrial companies - are essential to community prosperity. It won't be the lack of professional sports teams

that retards the growth of the Twin Cities, it will be the reduced prowess of key industrial companies - if we let it happen.

Yet, how to revitalize companies remains an enigma to many managers. The emphasis now seems to be on acquiring, divesting, merging and restructuring - often at great expense to both employees and the home communities. In many cases, these activities are of virtually no benefit to the long-term competitive position of the company.

In the pursuit of rapid revenue growth, we have often gravitated to the excessive promulgation of simplistic, me-too products, rather than more-difficult, longer-lasting products that are less easily duplicated by others.

I have to admit that I am biased in favor of manufacturers, but I particularly like Excelsior-Henderson because the company is attempting something difficult - the establishment of a quality new brand in a major industry. I've toured the plant several times and have been impressed with the new paint facilities and the precision assembly of a high-quality, well-designed product. Sure, the company has faced some obstacles, but these should make them even better prepared for what lies ahead.

If the company does succeed, it would be one of the most significant new manufacturing start-ups in a long time for this area of the country.

Managerial resurgence.

The task at hand is to develop companies, as they exist, into world class operations. I am confident that someday there will be a resurgence of basic managerial skills - abilities to attract and garner the trust of good people, conceive and develop superior products, operate frugally, market effectively and produce efficiently. None of this is easy and companies that pursue difficult but meaningful goals should be respected.

The need for money has cropped up before in the history of U.S. business. We should remember that it was less than 20 years ago that Chrysler Corp. teetered on the brink of bankruptcy, within a great cloud of debate. Should anyone interfere? Is Chrysler worth saving?.

The company went on, of course, to become the world leader in innovative new vehicle products. The pity is that it is no longer a U.S. company and the promised synergy with Daimler Benz has yet to reach fruition.

Minnesota is a long way from becoming a giant wrestling ring surrounded by casinos, but we should not be too smug. International competition is intensifying and, in part because of financial problems in Asia and South America, it is being conducted with renewed vigor - and at very low, competitive prices.

The preservation of rural manufacturing is especially important given the current farm crisis. A recently completed study found that in two-thirds of rural counties, manufacturing employs more people than agriculture. I hope the farm situation eases as well but, until it does, rural manufacturing employment might help keep some communities afloat.

When we realize the importance of manufacturing to our general prosperity, a few million for a major manufacturing plant is minuscule - especially when compared to stadium proposals, the cost of a good right fielder or multibillion-dollar mergers and acquisitions.

Manufacturing is too important to be taken casually. World-class manufacturing is good for all of us.

Manufacturing Deficits

The sheen from Minnesota synthetic prosperity has worn away, exposing worrisome shortcomings.

MINNEAPOLIS STAR TRIBUNE -- February 2, 2003

Minnesota's weakening economic situation has prompted some well-prepared analysis in recent weeks, including the Jan. 19 Business Forum by Dave Senf ("Has employment peaked in Minnesota's manufacturing sector?").

Several of us have been concerned about Minnesota's gradually shrinking industrial prowess for many years. It has not always been a popular crusade.

When the precarious market position of Minnesota's mainframe computer companies was called to the attention of state officials in the early 1980s, we were told "it couldn't happen to our companies." But it did.

In the mid-1980s, when we suggested that Minnesota's herculean efforts going into the procurement of the Saturn plant might be better aimed at securing a replacement for the vintage Jeep plant in Toledo, Ohio, which was then scheduled for closing, the reply was "Minnesota will get Saturn."

But the low-priced Saturn car had to be built close to suppliers. Jeeps were higher-margin vehicles that sold well in the colder regions of the country. Ultimately a new Jeep plant went to Canada and the Saturn plant to Tennessee.

When it was suggested that Minnesota's manufacturing employment was holding up numerically because we were adding jobs in lower-paid industries while we were losing employment in the higher-paid industries, we were told that the idea was "ridiculous."

Now Minnesota's economy is clearly weaker - a bit weaker than other Midwestern states. As others have observed, Minnesota has lost all of the manufacturing job gained during the synthetically prosperous 1990s. The decline started in mid-1998, when poorly negotiated trade agreements, lack of enforcement of security and antitrust laws, and burgeoning capricious litigation combined to weaken U.S. industry.

Worse, the jobs aren't as good. The computer companies are gone. Honeywell's headquarters has left town. ADC Telecommunications has shrunk. The sales of many of the well-equipped supplier companies are off substantially. Not surprisingly, the shrinkage in the number of good industrial jobs has left Minnesota with astronomical budget deficits.

Yet we are all in this together. Minnesota must improve in order to compete and we are not going to make progress as a community if each segment rigidly protects its own position while suggesting that others take all of the adjustment.

When the British scholar Eric Trist was a visiting professor at the University of Minnesota a few years ago, he suggested "a systematic view of the environment is always a necessary prelude to improvement."

Reviewing perceptions.

Minnesota's view of the environment has been proud, often smug, occasionally naive, sometimes wrong, but almost never systematic. Even when it has been provided, practical factual analysis has not always been appreciated.

Some of our commonly held perceptions should be reviewed, including:

- Minnesota is a high technology state. When? We are living off the legacy accumulated when we made the big computers here. Technology is increasing throughout the world. From 1990 to 2000, the U.S. share of the refereed articles in science, engineering and mathematics dropped from 40 percent to 30 percent. What does that say about the geography of technology?.
- Minnesota schools are outstanding. Baloney! We have some highly dedicated teachers but Minnesota has been aiming at the wrong targets - other states. Many countries rank far above

the United States in the proficiency of their students in math, science, reading and languages. This is not surprising. Most of these students spend a lot more time in school.

- Investments in education pay off in a stronger economy. Sometimes, but it depends upon which investment. The yields vary greatly. Expenditures, such as lucrative early retirements for teachers, do not improve the classroom experience.
- Nearly half of Minnesota's science and math majors come from the private colleges and most of the rest from the University of Minnesota - a premier land grant university and a great treasure for the state. Some of the technical college programs also seem to have paid off well. But just because we have a publicly supported institution of higher learning roughly every 30 miles does not mean people are learning the skills necessary in an ever more competitive world.
- Minnesota's high quality of life attracts companies. What companies? Industry moves in response to economic conditions, mostly related to serving customers. Minnesota is a very long way from international ports and emerging markets. That means we must be more creative and more efficient to overcome our remoteness.
- The medical device companies will lead the way. They are excellent companies and we are extremely fortunate to have them. However, they are not large enough to carry the Minnesota economy.
- The downturn in the economy is cyclical. Some of it is, but much of the weakness is structural. As outsourcing grows, supplier bases are being strengthened elsewhere. People in other lands are working hard to achieve the American standard of living they see on television. They are building factories while we are closing them. They are investing heavily in modern production equipment. Their quality is improving. We can compete, too, but not if we treat the matter casually.
- The service economy will bail us out. No way. Some hospitals, such as Mayo, Abbott-Northwestern and Minneapolis Children's, are prominent enough to attract customers from far away lands. Although medical services typically are viable on their own, most other services companies depend heavily on industrial companies for many of their customers. In our study of 232 manufacturing counties over 20 years, we found that when the industrial economy was declining, there was essentially no growth in the service economy, except for some limited growth in health care. Conversely, when manufacturing was growing, the service sector grew substantially.

Opportunity knocks.

Minnesota's current economic downturn presents an opportunity we should not miss. Prof. Dan Schendel of Purdue provided convincing evidence for a postulate long recognized in business: Abrupt falloff promotes action. Gradual drift does not.

Minnesota has been drifting for years. During this current downturn, we should work together to find creative and cost-effective ways to revitalize the state's economy. There are helpful examples. Indiana's economic development programs appear to be more cost-effective and more professional than ours in Minnesota. Wisconsin's higher-education system is probably better and more focused than ours.

Tennessee has developed some innovative programs involving land development, utility coordination and permitting. Singapore routinely benchmarks governmental and supplier systems in other parts of the world and then fills the gaps. Sweden has unfolded some novel approaches to handling bankruptcy.

Minnesota does not have to have the problems that it has. It is a far higher-cost state than those other states and nations that are gaining employment. But, the state does have many strengths - some excellent companies, some dedicated public officials, some enlightened executives, a strong industrial supplier base and some excellent colleges and universities. We should be able to make things better.

Of course, this will involve both sacrifices and much greater efficiency on the part of all of us. But unless Minnesota's industrial economy can be restored, we will have budget deficits and a weak economy forever.

Manufacturing is the key to welfare reform

CityBusiness – January 31, 1997

As state legislatures grapple with welfare reform, we should consider the characteristics of U.S. job availability that might impact welfare-to-work programs being considered. No doubt the task is worth the effort. There are now about 14.5 million AFDC recipients in the United States, equal to nearly 80 percent of our manufacturing work force. The resulting cost of having such a large fraction of our people out of the economic mainstream is huge, both to society and the people on AFDC. It would be good if we could help them. My own concern is somewhat personal because our family has housed more than 70 foster children.

It remains to be seen, however, whether the initiatives emerging from the current welfare debate will be meaningful. In discussions of governmental policy, there is often a tendency to articulate platitudes rather than develop programs that deal effectively with specifics.

Half of all AFDC recipients reside in 72 of the nation's 3,144 counties. About 10 percent alone live in Los Angeles County and Kings County (Brooklyn), NY. These 72 counties lost about a third of their manufacturing jobs, or 480,000, between 1972 and 1987. Cook County (Chicago) lost a quarter of a million. Cuyahoga County (Cleveland) lost 70,800; Wayne County (Detroit) 123,000; and Philadelphia 107,000.

We know from studies conducted by the Economic Policy Institute, the Department of Commerce and other organizations that the multiplier effect of manufacturing jobs is several times higher than it is for jobs in either services or retail. If we gain 50,000 new manufacturing jobs, maybe another 150,000 other jobs are created — versus 40,000 to 60,000 additional jobs if we add employees in services or retail. But the effect is bidirectional: If we lose 50,000 manufacturing jobs, desperation in other industries soon follows.

Some state officials claim we now have an economy so robust that companies cannot find enough workers. In a way, this is true — particularly in more dispersed manufacturing centers like Hutchinson, Minn., Sioux Falls, S.D., or Forest City, Iowa, where sheer population figures have provided some limits to hiring during high points of the business cycle. But it isn't so true of inner cities. Unemployment in many urban counties often approaches 10 percent, though this is the best economic period we've seen since the late 1970s. Of course, unofficial unemployment is much higher.

There has been a resurgence in U.S. manufacturing in recent years, but it is very spotty. It's only occurring in a few key industries, and this cyclical resurgence has not made up for jobs lost in prior periods. We are doing fairly well in autos, due in part to a highly valued yen for the past several years. But with the recent declines in the value of the yen and a softening market, U.S. auto makers will be under more competitive pressure. Still, the auto industry is one of our strongest — far stronger than some others where we formerly held worldwide prominence, such as electrical generation equipment, steel and computers. We should remind ourselves that our trade deficits have been running at near-record levels (\$11 billion per month for three months running last fall).

Labor cost is not the root cause of our trade deficits — the vast majority of our non-oil trade deficits occur with countries paying higher average wages than the United States. Our trade deficits result from low levels of investment, poor education, lack of organization, and a surplus of non-productive activities (such as gambling and excessive government) that drag down the rest of the system. We are retaining for reinvestment only about one-third the corporate revenue we did during the 1960s, when we had both higher profit rates and lower dividend payout ratios. We have one of the shortest school years in the world. There are six times as many science and engineering graduates coming out of Southeast Asia as from the United States. We have some well-run companies but many poorly run ones where executives dissipate corporate resources on poorly thought-out mergers and acquisitions. And we have a million more people working for the government as we have in manufacturing. Since the mid-1960s, we have lost about 1 million manufacturing jobs but added 9 million government jobs.

For those of us who would like to see welfare reform amount to something more than another hollow policy shell, the approach is clear: Revitalize manufacturing, particularly within the cities where the welfare is used. It's only manufacturing that has the potential to lift the yoke of poverty from people who seek a better future. It won't happen by expanding an already bloated and inefficient service economy, nor will it happen by building more casinos or taller office buildings to hold more intermediaries. If we want prosperity to increase, we will have to produce.

Filling the need for competitors

The U.S. economy is going to need people with skills and companies with imagination and integrity.

MINNEAPOLIS STAR TRIBUNE -- August 30, 2004

Recently announced anemic job growth has reignited anxiety among workers and business owners about the security of their jobs and their incomes. In reality, total U.S. nonfarm employment for July stood at 131.3 million, within 771,000 of the all-time seasonally adjusted high for July and nearly 2 million higher than any year of the 1990s.

But the United States is not alone in its anxiety over an increasingly competitive world economy. Just last week, articles appeared describing the anxieties of Germany (Volkswagen needs to cut labor costs by 30 percent), Korea, Austria, Taiwan, Australia, Japan and several other countries. The days when the U.S. economy could be considered a single entity are over. Like it or not, we are now all part of a world economic system that has the power to curb our excesses, spur our efficiencies, make us more competitive or deliver us consequences.

If the world wants to hire some people to make trucks, it can choose between the highly capable people at the heavily automated Twin Cities Ford plant, which is 79 years old, or at newer plants elsewhere, also with impressive automation and capable people. I have a lot of friends at the Ford plant, and the company is near to my heart. So, I do not take a detached view. I very much wish the best for one of the most significant promulgators of wealth in Minnesota.

But we must compete, and the Ford organization does a pretty good job. We have less capable competitors in some industries, such as consumer electronics, and other capable competitors in a few industries.

But the list is shrinking. The United States is home to many fewer world-class competitors than it was 15 years ago.

Part of the blame can be placed on company managers who have often concentrated on mergers, acquisitions or just plain mediocrity as they overpaid themselves. But part of the problem rests with those of us who are employees as well. Have we prepared ourselves for the intensity of world competition? Are our skills adequate to the task? Are our costs reasonable? Are our attitudes and expectations realistic? If we were running the world, would we hire us?.

The United States must do (and is doing) some soul searching.

Our education system is not strong enough. The costs for our support services are too high, and we have too much wasteful litigation. But, we have some talented young people coming into the workforce. The United States has 80 million people under the age of 20, the fourth-largest of any country behind India (440 million), China (415 million) and Indonesia (90 million).

Unfortunately, as a nation we have not prepared all of these people for the competitive realities they will be facing.

Before joining academia in the mid-1980s, I spent nearly 30 years at three computer companies; IBM, Control Data and NCS. I was a group vice president at NCS and had responsibility for about 40 percent of the company. Quite a few of the new hires came through that part of the company. I quickly noticed that some managers hired very promotable people while others did not seem to enjoy the same success. One day, while trying to get a better handle on our recruiting, I wrote to six of the best recruiters and asked them what they looked for.

It was an amazing list. Some managers liked immigrants. Several sought people who fixed their own cars or had experience building houses. The recruiting questions became somewhat bizarre and might not conform to hiring procedures today.

We sought measurements like the wrench-to-stereotape ratio; we wanted people who owned more wrenches than stereo tapes. We asked them where they went on spring break. We liked answers such as: "I went home and helped plow," and we were not too interested in people who visited Fort Lauderdale. At NCS, we adopted the IBM dress code in a manner that seemed to enhance respect for our organization.

Perhaps such procedures are out of style now - but I am not sure. Somehow, it seems important to convey to our young people that preparation is important. Skills must be developed. Professionalism is appreciated by customers. Individual contributions help make our country competitive.

In contrast, we seem to be promulgating expectations of entitlement. High school graduation might be a little too automatic. Colleges permit too much grade inflation. Employers and governments make promises they cannot fulfill.

The highly competitive world will not be that simple. We are doing no one a favor by allowing them to nurture a belief in the unrealistic.

My good friend Bud Ruvelson, one of the first federally chartered venture capitalists in the country, has visited my classes at St. Thomas several times. He explains the four “Bs” that cause companies to lose focus and become investment “losers.” These are bucks (people dipping into the till), boy-girl problems (or other inappropriate behavior), booze (or other substance abuse) and ballots (people more disposed to office politics than to productivity). The students always enjoy these sessions as practical testimonies to the characteristics we should avoid if we want to remain competitive.

It is possible, I believe, to address our concerns about job creation in a nonpolitical way. We have no God-given right to the prosperity we enjoy. We are going to have to earn it by better preparation, more extensive investment, less frivolity, better work habits and more lasting character traits.

Regarding the concern for job creation, we can borrow an ancient phrase from the comic strip “Pogo”: “We have met the enemy and he is us.”

How to make Minnesota a maker

State officials must respond to challenges of international boom in manufacturing

MINNEAPOLIS STAR TRIBUNE -- November 16, 2003

In the past weeks, the state of Minnesota has announced agreements with two Minnesota companies for tax abatement and training credits coinciding with the planned location of expansion facilities within the state.

There will, of course, be controversy surrounding the Polaris Industries and Andersen Corp. arrangements. Some people will resent the Pawlenty administration's proclivity to corporate welfare. Others will see greater needs in other programs. However, because strong manufacturing is so absolutely essential to Minnesota's overall economy, let us consider these matters in some depth.

Some might suggest that the need to dole out subsidies to two of our historically most loyal corporate citizens is an acknowledgment that Minnesota's appeal as a place to manufacture has slipped some.

And it has.

Since the tail-off in U.S. manufacturing began in mid-1998, Minnesota has lost more than 58,000 jobs that had been created by local manufacturers. At one time, Minnesota compared favorably with most other states in creating manufacturing jobs. However, since 1998, employment declined significantly in all manufacturing groups except chemicals and food products.

Minnesota has enjoyed a noble and robust industrial history. But make no mistake: The status of manufacturing in Minnesota is precarious. It is not slipping as much as it is in New England and the Middle Atlantic states, but it is uncertain enough that it should make us uncomfortable.

Employment has been stagnant. Industrial payrolls have languished. Perhaps most importantly, the number of world-class industrial companies expanding in Minnesota has been reduced.

Past is not prelude.

Too often in the past, Minnesota has compared itself with other states in such important economic indicators as employment rates, changes in manufacturing employment, gross state product and other factors.

While useful, such comparisons are of diminishing importance as the state finds itself competing in an ever-more-international economy. This new world is characterized by widespread technical capability, rapidly expanding industrial capacity, aging populations in industrial countries, worldwide stresses on employment and burgeoning public budget deficits.

And these changes run deep. Test scores in science and math achieved by eighth grade students in many developing countries should make us pause. Singapore students score from 10 to 20 percent higher than U.S. students. Scores are higher in much of Asia, Canada and Europe as well. Science, math and engineering are the college subjects of choice in most of these countries, and this preparation is beginning to show up in the high-technology portion of their exports.

Industrial production capacity is mushrooming throughout the world in steel, vehicle production, chemicals, instruments, machinery and many other industries. Some of these new plants are exceedingly well-equipped and the products produced are first rate. Many of them are in Asia.

ESTIMATED INCOME TAXES BY INDUSTRY.

Manufacturing accounts for about 18.4 percent of Minnesota's overall employment, but about 24 percent of the state's payroll, and an estimated 27.5 percent of state and federal income taxes paid in Minnesota. But even though manufacturing employment is increasing in Minnesota, it is growing at a rate slower than 19 other states. From 1988 to 1996 (the most recent detailed federal statistics), Minnesota's payroll increased 41.4 percent (not adjusted for inflation), but was outstripped by Wisconsin, Tennessee, Texas, South Dakota, Washington, Kentucky and thirteen other states. Minnesota's growth was just slightly better than Iowa, Delaware, Indiana and the Carolinas.

If the United States does not keep pace in modernizing its industrial infrastructure, employment declines will continue and we can look forward to a less-prosperous future. There is no evidence that the service economy can replace manufacturing as a font of prosperity.

Fortunately, we have some weaker competitors. While developing nations increase both their industrial capabilities and production capacities, the developed nations are responding by getting older. Japan and the industrialized countries of Western Europe all have about 80 percent as many people over 65 as they have people under 20.

Burgeoning retirement obligations are likely to make it far more difficult for these countries to compete.

The U.S. has a younger population: The comparable percentage is about 44 percent. However, many of our emerging competitors are much lower: Brazil, 14 percent; Mexico, 10 percent, and China 21 percent.

The sheer quantity of young people entering the labor force also is something to ponder. India has 440 million people under 20, China 415 million, Indonesia 92 million. The United States has 80 million.

By contrast, France has 15 million and Germany 17 million. Retirement obligations, worker availability, technological advancements and economies of scale are all likely to be affected by the huge numbers of capable people who will be entering the labor force in developing countries, as opposed to the relative scarcity of young people in developed countries.

The substantial manufacturing investments on the part of some developing countries, coupled with their plentiful supply of young people entering the labor force - along with modest legacy costs, when compared with U.S. and European pension obligations - are all helping to build new competitors in places where we did not have them before.

The intensity of this competition has led to high unemployment rates and mushrooming budget deficits in Europe.

But we should not take our situation in the United States too lightly. In short, manufacturing, worldwide, is becoming highly competitive and Minnesota will need carefully thought-out programs to sustain our prosperity.

Policy choices.

There are two things I like, and one thing I don't like, about the Andersen and Polaris deals. I like the fact that these grants were offered to long-time, high-quality industrial companies - as opposed to shopping centers or casinos, or for the bail-out of financiers who turned our local airline from the most solvent in the industry to one of the least solvent.

The state's focus on manufacturing is sound policy and the focus on good companies is a wise course.

I do not like the general propensity to offer subsidies. Although we can all applaud the Department of Employment and Economic Development's vigor in pursuing industry, I suspect there might be other Minnesota companies with an interest in 12-year tax holidays, training credits and interest-free loans.

Programs like the governor's Job Opportunity Building Zones (JOBZ) might turn out to be like the rebates on new cars - easy to start but hard to constrain. Still, I am glad to see the state do something.

For the benefit of Minnesota's overall economy and the social stability that a healthier economy will bring, the state is at a point where it must undergo a serious critique as to whether its industry is progressing or in a long, gradual slope toward mediocrity.

We would like to be optimistic, but cheerleading is not what we need. A thorough examination of the issues surrounding manufacturing is in order, with the hope of developing strategies and policies that will improve Minnesota's prospects.

Could a Detroit-style fall happen here?

A failure to implement solutions to widely known challenges is the hallmark of civic folly.

MINNEAPOLIS STAR TRIBUNE -- July 29, 2013

In her thoughtful book, “The March of Folly,” Pulitzer Prize-winning historian Barbara Tuchman skillfully describes the long-term catastrophic consequences for societies that follow irrational strategies and fail to take corrective action on problems when needed.

The bad part about folly is that it affects everyone: the teacher, the worker, the merchant, the churchgoer and CEO. Folly, like rain, falls on both the just and the unjust.

But, in an encouraging way, Tuchman points out that folly, or the perversity of reason, seldom occurs in the absence of thoughtful consideration. In all the cases she



cites, caution was advised, reform was sought, remedial actions were proposed, but never implemented.

Within that framework, it is worthwhile to evaluate the recent financial problems of important public entities such as Harrisburg, the capital of Pennsylvania, the Chicago School District, and the city of Detroit — all within a two-hour flight from the Twin •Cities. The question is: Could the foibles that led to the decline of these once-major entities be subtly beginning here?

Detroit manufacturing prowess was crucial to Allied success in World War II and the city emerged from the war with strong competitive industry. Nearly 350,000 manufacturing jobs existed within the city in 1947.

But competitive pressures and high costs took its toll on Detroit and by 2002, manufacturing employment was down to 38,000 — a decline of nearly 90 percent even before the most recent recession. Retail employment declined by 87 percent.

Declining industry always spills over to other industries. Tax receipts plummet, stores go out of business, buildings are abandoned, churches cease operating, city services worsen, hope disintegrates, crime increases and a •difficult-to-reverse decline is set in motion.

Meanwhile, city debts •accumulate and underfunded pension benefits consume much of the available money. With so much money owed, schools, social programs, all major city functions and public pension funds are jeopardized. Everyone is affected.

The question for Minnesota is could it happen here? Of course it could. It may not and we would all pray to avoid such a catastrophe. But, let’s be practical. Detroit had its General Motors, Packard, Hudson, and many others.

Minnesota had its Control Data, Unisys, Honeywell, Ford plant, Northwest Airlines, Lockheed Martin, and a premier-but-now-shrinking IBM plant in Rochester.

Remnants remain of our once-formidable industrial sector, but it is not nearly what it was when so many industrial companies employed thousands on lucrative payrolls with good benefits.

Declines are nearly always a combination of both private and public foibles and it is rarely fruitful to identify which is the principal cause. The competitive decline of some auto companies combined with short-sighted public policies to make Detroit an impractical place to operate.

Meanwhile, Minnesota's once-stellar performance in key economic statistics began the state's long gradual trend toward the less distinctive. Manufacturing payroll has been increasing more rapidly in every neighboring state than it has in Minnesota and unemployment rates are mostly lower. To be sure, many states are worse, but we are less distinctive than we were.

Minnesota's trend toward mediocrity can be found elsewhere. In 1988, the Minnesota Legislative Auditor produced a report saying "we found strong evidence that Minnesota's reputation [for exceptional education] is overstated and out of date." Things have worsened since.

Minnesota's K-12 system compares favorably to a few states but ranks well below those in many developed and developing countries. For instance, Korea's school year is 240 days long, 48 percent longer than Minnesota's, and much more intense.

Minnesota has 665 units of government per million people. Virginia has 64. Too many units of government creates extensive duplication and makes permitting a nightmare for most companies.

Minnesota public pension funds need both updating and increased scrutiny. When two new accounting standards take hold within a year, Minnesota's unfunded liability will probably be around \$20 billion.

Many responsible officials, legislators, and students of policy can no doubt create a more extensive list of redesigns to consider. But, shouldn't we do something? In view of the pressures we face, would it not be "folly" to avoid making improvements where we can?

Working together to sustain a strong industrial economy is in everyone's interest. We are all in this together.

Manufacturing in America needs a recharge; here's what we can do

We should concentrate on a few key facts, not heated political dialogue, to fuel a resurgence.

MINNEAPOLIS STAR TRIBUNE -- December 2, 2018

A worker at Jamestown Industries in Youngstown, Ohio, which supplies parts for GM's Chevy Cruze. GM will stop making the car at its Lordstown Ohio, plant.



The recent announcement of five plant closings by General Motors has justifiably triggered emotional reactions, but less thoughtful analysis as to what might be done to rekindle manufacturing in the United States.

I have enjoyed associations with manufacturing companies in many areas of the U.S. and overseas. Manufacturing is a noble enterprise — essential to the prosperity of the nation. But, if we are serious about

strengthening manufacturing, we must ignore much of the shallow and uninformed political dialogue and concentrate on a few key facts that must be addressed for industrial resurgence.

Fact 1: Excessive overhead, and not labor cost, is the principal headwind facing American manufacturing. By world standards, the U.S. has extraordinarily high overhead costs, which dwarf production costs as an inhibitor of competitive strength.

The causes: excessive costs of litigation, health care, financial services, pointless speculation and poorly coordinated governmental activities. These are much more significant as headwinds than the 8.5 percent of the civilian labor force employed in manufacturing. In 1950, that figure was 31 percent. In Germany, it is still close to 20 percent.

Fact 2: The U.S. has many dedicated professionals in education. But by world standards America's education system is expensive, disorganized, inefficient and frequently off target. At the K-12 level, U.S. education is too easy and compares unfavorably to the systems in place in most developed countries. According to the Pew Research Center, American students rank an unimpressive 38th out of 71 countries in math and 24th in science. The U.S. compares better at the post-secondary level, but there is a catch. Much of our post-secondary education is aimed less at educating and more at training people for overhead roles for an already overhead-bloated society.

Fact 3: Our financial investments are not helping America remain competitive. U.S. stock market valuations are often irrational speculations oblique to both reasonable financial values and any long-term societal benefits. Twitter, a company that mainly provides a forum for unsubstantiated political rants, has a market value greater than our largest steel company. And Canopy Growth Corporation (with a stock market symbol of WEED) has achieved a market capitalization three and a half times greater than US Steel by selling pot to our citizens.

Meanwhile, predatory retailer Amazon is valued 25 percent higher than the combined value of 3M, Caterpillar, GM, Ford, Deere, Dow Dupont, General Electric, General Mills and the nation's largest homebuilder.

We should ask, are our investment portfolios supportive of a promising economy for the future?

Fact 4: Some of our policies are short-sighted and counter-productive and are working against us.

The Dutch re-engineer their land to prevent catastrophic floods. We provide funds for rebuilding in the same flood-prone places.

We abruptly blurt out policy additions and reversals without sufficient regard to consequences. As a result, industrial behavior is shifted in ways that impact both our environment and the competitive position of major employers.

Today, I listened attentively to Rep. Tim Ryan of Ohio — a credible speaker with some cogent observations on what makes a lasting economy. Over time, I have met thoughtful union officials such as Douglas Fraser and Minnesota's Bob Kileen and listened to Damon Silvers, who currently works on policy for the AFL/CIO. Manufacturers have thoughtful leaders such as Greg Page of Cargill, Jeff Ettinger of Hormel and, yes, Mary Barra of General Motors.

Industrial strength should be a national project. We have some good workers, some responsible executives, and occasionally a thoughtful politician.

We are all in this together and we can do better — if we stop and think about what we are doing.

Part Five – Management

Management is neither a specialization nor a privilege. It is a responsibility. If we do our jobs well as managers, investors, creditors, workers, and members of the community are better off. If we do not do our jobs well, we may still be compensated, but nearly everyone else suffers.

Some executives accept this stewardship role without hesitation and they do their best to fulfill it. Others are more detached from their responsibilities and focus more than they should on prestige, notoriety, and compensation. Before long, I will have spent six decades in business including serving of the board of directors of one company or another for several decades. Over this span of time, I have come to know many executives; some very dedicated, some less so, some sort of medium in terms of their long-term contributions.

The essays in this section are not profound. They are merely a collection of loosely associated experiences and observations. I hope they will provide some insights into the multi-faceted nature of good management.

Modest overhead key to corporate success

CITYBUSINESS -- October 17, 1997

Timing is everything for an instructor wishing to have classes be relevant and on-target. It worked out well for our Management for Profit class this week.

We had devoted a session to “modest overhead” the same week the listings of Minnesota’s highest paid executives appeared in the press. Modest overhead is an important concept for students to learn — old-fashioned traits of frugality, dedication, responsibility and a sense of purpose.

Both successful and unsuccessful companies spend money, but the successful ones spend the money on what the customer is buying and spurn excesses.

Exemplary managers of the past scrimped on unnecessary expenditures to get their companies through harsh economic times but supported expenditures to improve quality, efficiency and customer satisfaction. They were also evenhanded in their cost reductions — often cutting their own pay before asking employees to sacrifice.

I once interviewed the very talented person who served as secretary to George Romney when he was CEO of American Motors during its golden years from 1957 to 1963. Her description was telling; “I can tell you this about George. When cost reductions were needed, they started with him.”

Similar stories are told about executives who headed Deere, Nucor and other successful companies over time. These historical traits of frugality, dedication, responsibility and a sense of purpose deserve our attention — even today.

Actually, I was pleased with this year’s list of highest paid executives. None of my friends were on there. Over time, I have come to know quite a few CEOs through a variety of associations including serving on 14 corporate boards.

Conspicuously absent was 3M, which typically makes higher profits than all of the companies that were listed combined — over \$1.5 billion in 1996. Also absent were Minnesota’s other large industrial companies; Honeywell, ADC, Medtronic, St. Jude Medical, Horton, Kurt, AgChem, HTI, Pentair, Rosemount and Bermo, even though profits from these companies have been excellent.

The list of 10 highest paid executives included six executives from banks or finance companies, two from Northwest Airlines, one from Dayton’s and one from Ceridian, who finished with the second highest pay.

We know the story on Northwest Airlines. The company would probably not have survived at all had it not been for the emergency loans from the state and the timely concessions from employee unions. That company, with its huge debt, finished 1996 with over a billion dollars of negative tangible net worth.

The case of Ceridian is interesting as well since the cumulative total of company-retained earnings is also negative. All of the shareholder equity that exists in Ceridian has been paid-in-capital. None of it has been earned through profits during the near 40-year history of the company.

Banks are interesting too as the heroic effort to increase fees to customers, along with one of the largest spreads between rates paid on savings and rates charged on loans in recent memory, all combined to make 1996 a good year for banks. It would require a contribution of \$32 from every man, woman and child in Minnesota to pay for the compensation of the six financial executives on the list. But the fees, and the compensation, continue to rise. Perhaps that is why some of us have moved our accounts to Liberty State.

But I have great respect for capable executives and I don’t begrudge them the opportunity to share in the good fortunes of the companies they helped to create.

My point is another one. The better-run companies act more prudently. What we are worth is always subjective — depending whether we work forward from Mother Teresa or backward from Larry Coss. In relation to the world, perhaps we are all overpaid. I can recall discussing the matter of executive compensation with Tom Peters who indicated that his studies found that companies finishing in the first quartile of long-term performance finished in the third quartile of executive pay.

Executive compensation can be appropriate and well-deserved. But perhaps executive compensation has reached the point that the general public does not see it as appropriate — which might not be good for business in the long term.

There are now, and have been in the past, many highly dedicated and capable executives who see themselves as more of a part of a team. I once met Ken Iverson, the long-time CEO of the most profitable steel company in the United States, Nucor. For years he worked with a base pay of \$65,000 per year and then operated under the same incentive program as everyone else in the company. Nucor is still a frugal company with overhead rates well below those of the major steel companies, both domestic and foreign, with which they compete — very successfully. But the Nucor annual report had the names of company employees embossed onto the cover.

Crown Cork moved from being the nation's fourth largest container company to being first with very modest overhead. There are many other examples in the grand business history of the United States.

Executive compensation is certainly not our biggest expenditure, but outlandish compensation, in sports or in business, is usually problematic. Is it necessary to attract talent? The White Sox spent \$11 million for the services of Albert Belle for a year with poor results.

The problem with high compensation is that, in order to carry it off, something has to be lovable — like Kirby Puckett. 3M is lovable with its generous giving through its many foundations, its technical excellence and its favorable treatment of people. Medtronic is lovable with a corporate purpose of saving people's lives.

But, I can recall very vividly the comments of dedicated Control Data employees when top executives received millions upon retirement during the years that the company shrunk in sales, profits, employment and competitive strengths. And I can recall the reaction of the business community to the bailout of leveraged acquirers of Northwest Airlines.

There is more to compensation than just the money spent. That is why so many of the successful companies choose frugality, dedication, responsibility and a sense of purpose as the better path.

Much treasure was lost when Control Data was saved

Despite shortcomings, the company was the best at what it did

MINNEAPOLIS STAR TRIBUNE -- February 8,1999

The article on the accomplishments of Larry Perlman in resuscitating Control Data as Ceridian (Star Tribune, Jan. 25) stirred some emotions among the tens of thousands of us who worked at Control Data at some time during its 41-year history.

No doubt, that company is better off than when it teetered on the brink of insolvency a decade ago. But there is one fact that the well-written article failed to consider - 50,000 fewer employees.

Perhaps there were too many people, of course, and perhaps the company did cling too long to the hardware habit. But there is more to the story because at one time, Control Data was the best.

I joined Control Data as a young reliability engineer in December 1963 after several years in five locations with IBM. Big Blue was a good company, too, and it was certainly good to our family. But we were from the Midwest and we had tired of living in New York City and taking the long commute to IBM's headquarters on Madison Avenue in Manhattan. Savages, I thought they were, these New Yorkers on the subway. Nice people at other times, but not during the commute.

Joining Control Data was an awakening, technologically. While in New York, another IBMer and I had written a multi-variate regression program that ran on the large 1410 computer prominently on display at IBM's World Headquarters at 590 Madison Avenue. The program ran for six minutes for 200 observations.

Upon arriving at CDC, I wrote a similar program that processed about the same amount of data on the CDC 1604 in six seconds. Everything except the printers worked better. Control Data clearly had the technological lead.

Control Data did many things well; range switching on transistors, pneumatic capstans on card readers and tape drives, memory banks strategically organized to increase speed, world leaders in the development of high-speed disk drives. The architecture of the CDC 6600 was marvelous when compared with any unit then on the market. Beating the competition.

When I served later as a vice president of another company, we were evaluating the CDC disk drive against another make. We had rigged up a counter to keep track of the "seek errors," which were 10,000 times greater on the competing unit. We had a CDC Cyber 73 computer too, which enabled our service bureau to far outstrip its competition.

Control Data's revenue was \$4 billion in the early 1970s. Ceridian's is \$1 billion today.

As time passed, though, something happened to Control Data. The huge headquarters building was built in Bloomington, which made it possible for most managers and staff to go for weeks without seeing either a computer or a customer.

The Field Engineering organization - which had for so long served as a talent pool for other technical parts of the company - somehow seemed to lose its influence, and maybe even its relevance.

Corporate bureaucrats were often hired from the outside directly into higher positions without accumulating a background in company products and customer needs. Meetings were too numerous and often inconsequential.

Foreign travel became a perquisite rather than being rooted in operational purpose. Many travel junkets became laughable - especially to some of the employees who were expected to play host to an unending entourage of high-level bureaucrats in loosely defined jobs.

The number of vice presidents grew to astronomical levels - many of them ill-prepared for their assignments and ill-equipped to lead. Routine and necessary decisions became almost impossible to achieve. At the same time, acquisitions were often ill-considered and impetuous.

People who cared.

Underneath it all, though, there were people who really cared, people who were good at what they did. They worked hard to improve the company and remedy its emerging cost, product suitability and decision-time problems.

I know of one general manager who paid a great deal of money out of his own pocket to buy dinners for the families of people considering leaving the company. He was never reimbursed for this. The company had a ban against employee entertainment, which he honored while some of his superiors did not.

For these dedicated people, I have the most profound respect. Some were in engineering, some were on the staff, some were maintenance people, some were in sales.

I referred to Control Data when I wrote the book, "The Turnaround Experience," which McGraw-Hill published in 1991. Two points are worth repeating here:.

- There are some good people in every troubled company. We can't go in like a white knight and change everything because everything may not need to be changed. Our job as managers is to appreciate the good that exists. That did not always happen in the long years of Control Data history.
- What concerns me more in this age of high executive compensation and huge stock escalations is that we have underplayed the need for stewardship in the performance of the managerial task. We managers have a job to do - to keep the company competitive - because many people have a stake in it. Today, it seems somehow OK to change strategic direction to the point that the personal investment made by so many is discounted or ignored.

That happened to my friend, Pete, who was laid off abruptly after 23 years of faithful, high-quality service. It happened to Bill, whose operation was sold. Mild-mannered and polite Bill has a description he used to describe the Control Data executives who exited with millions as the company veered toward oblivion - "pigs at the trough."

What happened to Pete and Bill also happened to many of the 50,000 employees who used to work at Control Data and now no longer do.

We all have our ways of recalling events and I would agree that Larry Perlman has certainly improved the fortunes of Control Data in recent years.

But, over its long history, could it have done better? I think so.

High-quality service

For me, the real heroes of Control Data were the people like Duke Bernier, who worked on printers, Bob Anderson, who kept track of sales, Sam Slais who developed some of the smaller computers and Mike Riggle, who worked on tape drives. My hat goes off to them. They, and many others there, could make computers work when no one else could. They built what at one time was the best computer company in the world.

Too bad we couldn't have kept it.

Companies with real strategies experience real results

Successful execs focus on details to keep customers, employees happy

MINNEAPOLIS STAR TRIBUNE -- May 3,1999

Many years ago, while working at IBM's headquarters - then, it was in Manhattan - I frequently joined my coworkers for lunch at the local delicatessen.

IBM had excellent factories, but the delicatessen was even more efficient. The volume of people served and the efficiencies of the micro-movements of those behind the counters were something to behold.

I got to know the owner quite well. He was sending his son to Columbia University to study business. When the father asked what his son had learned, the son reported that he was studying business strategy but was having trouble grasping exactly what it was. The father then said something like this:

"Business strategy? What's business strategy? When I come to the shop in the morning, I check to see that the sidewalk is hosed off and the tables are clean. That's important in the food business. I see that the bagels are fresh and the pickles have enough salt. I put the cigars with the best markup next to the cash register.

"I tell the waiters not to give anyone menus between 11:30 and 1:30, because most people know what they want and they will order right away so we can serve more people.

"After lunch, it's OK, we've then got the space. I tell the cook to hurry up. I ask him if he wants I should go broke. I make sure all of the regular customers get a little something extra. Some of it we might not sell anyway.

"I manage this business in little pieces. That's business strategy."

Genuine approach.

There was something very genuine about the delicatessen. The owner was there. Tangible work was being done. There was an intrinsic appreciation for the contribution made by employees and true respect for the clientele. I enjoyed and learned from the experience.

Some of us still are studying business strategy, but it seems less real.

The owners aren't there anymore. The managers are not close to the work being done. In-depth understanding of how the company works often is missing. Some corporations are doing things they may not know how to do. Strategy statements seem abstract, off-target and too global to be useful.

My friend, George Gleeson, an adjunct professor at the University of St. Thomas, has a phrase for obscure strategy statements: "It's like trying to paint the Mona Lisa with a 4-inch brush."

Unlike the delicatessen, there does not always appear to be a recipe for success.

The economy has been the best it has been for at least 30 years, of course, so we should not complain. But we should be concerned for our medium-term future. The trade deficit reached yet another record in February - \$19.4 billion in one month - a fact that ultimately will trouble both U.S. companies and U.S. workers but seems to get little attention.

Meanwhile, an unprogrammable initiative in the Balkans threatens not only U.S. prestige but also the only balanced budget we have enjoyed in several decades.

Banks are acquiring other banks for more money than the banks are worth. Companies are merging and staffs are being reduced. Debt continues to increase. Bankruptcies are very high.

On the one hand, we read that we are prosperous. On the other hand, this virtual prosperity seems to be neither real or widespread.

The genuine article.

Real business strategy is in place in some companies, however. For instance, my students experienced the dichotomy of calling Nucor Steel and Bethlehem Steel during the same week.

Calling Bethlehem was like calling another planet - very difficult. But when they called Nucor to ask for CEO John Corrente, he answered the phone and cheerfully answered the students' questions.

I've visited plants of both companies. Quite a difference. Nucor is modern, considerate and in touch. Bethlehem is rusty and losing money. Nucor made \$61 million last quarter, while Bethlehem lost \$23 million and LTV Steel lost \$61 million.

They all claim to have business strategies, but Nucor has well-equipped plants and minuscule headquarters. Bethlehem has a well-equipped headquarters and unimpressive plants.

Winnebago took an unusual step regarding its own corporate headquarters a few years ago. It gave it away. All the officers and staff moved into a mezzanine over the factory. The corporate offices are now 12 feet above the sales offices, 100 feet from engineering, a block from the prototype lab and adjacent to 2.8 million square feet of well-automated production space. After several difficult years in a tumultuous industry, Winnebago is rapidly developing into the premium company in the recreational vehicle industry. Revenue is up. Earnings are way up. The company has no debt. Quality is terrific. The stock price has doubled, and it's all being run by the people who came up through the ranks.

Winnebago has a nationally recognized employee suggestion program and the CEO knows most of the people in the company. The production employees conduct a dealer appreciation day every year to show how its vehicles are made. Customers enjoy the highest-rated service in the industry.

That's business strategy.

Liberty State Bank in St. Paul has a strategy too - not unlike the delicatessen. The president, Tim Macke, opens the place in the morning and has an open office on the bank's main floor, where he can see and be seen by customers. Real people answer the phone - usually on the first ring.

People are friendly, and when the place gets busy everybody helps out. Loan rates are a bit lower than average. Rates paid on savings are a bit higher. The bank is a sterling community citizen and very successful.

It's refreshing to see companies do well, and many of our companies are doing well. But the good ones seem to be more enthralled with their responsibilities than with their own importance. The executives come to work, pay attention, handle the problems of the day and prepare meaningfully for tomorrow.

They promote investment, cheerfully greet customers and employees, and listen to their ideas and then implement them. They share center stage. They manage their businesses in little pieces.

That's business strategy.

Worry but don't organize

by Fred Zimmerman

When academics and policy makers try to plan for the future, there's no guarantee of a positive outcome

MINNEAPOLIS STAR TRIBUNE -- June 5, 2000

Recent articles in the press have drawn attention to the thesis that Minnesota might not be ideally positioned for the international economy that is emerging so rapidly.

A grade of "C-" rendered by the Great North Alliance contrasts with a rosier picture outlined by others. And proposed remedies range from strong support for the University of Minnesota to more of a *laissez faire* approach: Leave things alone.

Perhaps there is a third position: Worry, but don't organize because we may do it incorrectly.

I can recall discussing the future of Minnesota's then-burgeoning computer industry with businesspeople and some state officials in 1982. The point was made that an increasing technical trend toward much more powerful chips would increase the advantages of distributed processing over main frames and that this emerging reality was quite likely to alter where computers were produced.

At the time, we had Control Data, Sperry Univac, Honeywell and other companies, plus the IBM plant in Rochester, focused on the mainframe business but the circuitry was produced elsewhere.

The almost universal response was disbelief. Bank officials, public officials and many people in business pointed to how well Minnesota had fared in the early 1980s recession and said it was quite unthinkable that these noble companies would not prevail in such an important industry.

Now, of course, the companies have severely downsized and part of IBM's Rochester business has been sold to a contract manufacturer.

A central feature of today's international economy is that things happen quickly. So it is right for us to worry about whether any of us are prepared for the competitive challenges we have before us. The pressures of worldwide competition already have caused a shrinking of margins in some of our important companies.

There is so much price pressure from major end-product aerospace, automotive and electronic companies with access to Asia that some respected Minnesota companies are having difficulty sustaining profits even during boom times. Any slowing of the economy will worsen this situation.

But what to do?.

Minnesota has many strengths, but it is not invincible. A harder question is what to do about it.

Education frequently is mentioned as something we should strengthen, but the discussion often focuses on the money provided rather than the effectiveness of the educational process.

Minnesota's K-12 system is not stellar when compared with systems in place in other countries where school years are longer and more intense. World competition might require us to do something more creative than to pour money into a system that seems not to achieve very good results.

Yet perhaps we could better support the teachers who do achieve good results.

Higher education is more difficult. Universities do interact with the industrial community to enable stronger economies for the future. But it's hard to organize universities.

Many universities across the country have had the development of bellwether technologies aimed at strengthening local economies as a principal objective. Research activities, though, often follow the interests of individual faculty members.

In general, organizing faculty is a little bit like herding squirrels. But it is particularly hard when a consensus regarding what to do is required. Margaret Thatcher once described consensus as “the gradual process of surrendering all standards and principles.”

The problem with reaching consensus at any university is that many of the best faculty members often are busy on other things. This has prompted a description that has informally circulated at St. Thomas: “Faculty committees get wrong answers slowly.”

So if we fostered any initiative to mobilize university activities in support of the state’s economy, we have little assurance how it would turn out.

Yet there is a connection between university research and economic well-being. At places such as North Carolina’s Research Triangle, cooperation between state and private universities has helped to create nearly a million manufacturing jobs.

Other schools such as Purdue, Ohio State, Harvard, Texas, Wisconsin and Princeton - some public and some private - have measurably added to the prosperity of their regions.

The question is, was it a managed outcome?.

The innovation journey.

In his excellent book, “The Innovation Journey” (Oxford Press, 1999), the esteemed University of Minnesota professor Andy Van de Ven describes the innovation process as being a mixture of divergent and convergent forces, which combine to produce results that are not always fully predictable.

The divergent forces are creativity, freedom to explore and multi-disciplinary perspectives. The convergent forces are organization, accountability and management. Both forces are needed, but at different times.

Specialization, which may be the foundation of many academic careers, may not be exactly what is needed to create innovation or support an economy. Good fundamental education might be.

A complicating factor is that public opinion often is on the wrong side of what to do anyway.

If we were to attempt to organize entrepreneurial efforts at the moment, for instance, I suspect that the Internet would receive a lot of attention. Yet this is an industry with more costs than revenue and probably in line for a great fallout. I suspect water, materials and energy will be seen as some of the key opportunities in the future. But nobody seems to be talking about them now.

It also is true that public funding might not always be necessary to technology development. Minnesota has an institution of higher learning, a collection of colleges and universities, most of them public, about every 30 miles - many more than in Wisconsin, for instance.

Minnesota’s private colleges, however, account for about 28 percent of the students, 35 percent of the graduates and nearly half of the science and math majors.

Although very healthy at this time, Minnesota’s economy, along with other states’, will face more competition in the future. Minnesotans are a bit too smug.

The efforts of academia, business and individuals will be needed for the state to retain its competitive edge. Academia contributes to economic well-being of society, but its direct involvement in the economy is difficult to program and organize.

David Kidwell, dean of the University of Minnesota’s Carlson School of Management, deserves some real credit for pointing out that Minnesota’s economy is not invincible. Art Rolnick, research director for the Federal Reserve Bank of Minneapolis, deserves credit for reminding us of the efficiencies of market forces.

Minnesota needs to be concerned about its future, but market forces may provide the most dependable organizer of entrepreneurial initiatives.

Disturbing Disparities

A daughter's visit to one of Africa's poorest nations leaves this corporate board member coping with executive compensation in a world of .. Disturbing disparities

MINNEAPOLIS STAR TRIBUNE -- July 16, 2001

Well, once again I was done in by one of our kids.

Our daughter, Brigitte, and her friend, Christina Saunders, just returned from teaching school for three weeks in Malawi, Africa, as their senior project in high school.

They came back with many pictures and some vivid memories of a country with an average life expectancy of 39 years, a per-capita gross domestic product of \$750 and with nearly one-third of the people over the age of 10 infected with HIV.

In the mornings, they taught in a church-related international school. In the afternoons, they taught orphans in Chimbalame village with 200 kids in the class, as explained in one of her e-mails:

"We brought the children markers and paper, and they colored and did math yesterday. They have amazing attention spans. I wrote problems on the board and they worked at them for about 1.5 hours, some of them kneeling in the dirt when there wasn't enough space on the benches.

". . . When I gave one girl named Ruth the markers, she said in broken English, 'God bless you, oh God bless you so much. You are wonderful!' It was so touching. Today they are throwing us a party. I know I will cry. They are so sweet."

When she returned, Brigitte fixed a typical Malawian meal for us - rice, beans and a bland form of cornmeal. She explained that the orphans get only the cornmeal once a day. Yet they still share and take care to make sure the younger children get something to eat.

Income disparities.

I anticipate that someday our daughter will be asking why some people have such high salaries while there are so many poor people in Africa. Such a question causes me to reflect because of my role as a corporate director, and, in particular, because I was recently appointed chairman of the compensation committee at one New York Stock Exchange company.

The question is, how should we evaluate the executive compensation this year? Should we use as our reference the often-excessive executive compensation being awarded in other companies?.

Somehow, the experience of these two young high school students makes this task more difficult.

In January, Chuck Denny, retired CEO of ADC Telecommunications, authored one of the Star Tribune's most memorable articles. In "Silent no Longer," he lamented the outlandish executive compensation awarded to some CEOs.

"Regretfully, these incidents are reported to a public already soured by brazen corporate practices such as showering obscene wealth on the executive class while afflicting lower-level employees with massive layoffs and parsimonious compensation."

This said by one of the most successful CEOs in Minnesota history.

In an earlier news story, columnist Neal St. Anthony chronicled the executive receipts awarded to Larry Bossidy and Michael Bonsignore for what might be charitably described as the sub-optimal merger of AlliedSignal Inc. and Honeywell Inc. Allied's Bossidy received \$46.9 million, while Bonsignore made \$12.2 million.

The principal questions we should be asking ourselves are what compensation do we deserve, what do others deserve, and what obligations do we have to use our gifts for the productive good?.

Fortunately for me, the company where I have the committee assignment does not have ostentatious executives. Low-key, honest and replete by years of up-through-the-ranks preparation, the executives at this company are at the top of their game.

The company is respected for the high quality of its products, has the highest profit rate in its industry, ranks first in dealer satisfaction, has no debt and has tens of millions in excess cash. The company has a program of sharing the company's good fortune with employees, and base salary increases for officers and employees are the same - all at the request of the CEO.

Even though the economy has been soft this year, this company has done far better than any other company in the industry.

The pay dilemma.

But there still is a dilemma. What should these executives be paid? One could argue that they certainly are more deserving than Bossidy or Bonsignore. On the other hand, there are the people in Africa.

Influential CEOs of the past have helped frame our thinking in this regard. 3M Co. was Minnesota's undisputed profit leader under Lou Lehr and Alan Jacobson, yet neither of these two people figured prominently among the state's highest-paid executives.

Several of the best-run U.S. companies, such as Deere & Co., Crown Cork & Seal Co. Inc. and Nucor Corp., have been headed by people who spurned excessive compensation. So it can be done.

In fairness to the executives being compensated, there are a couple of things that should be considered. Corporate executives pay a lot of taxes, and many corporations now require executives to own company stock of some multiple of their annual compensation - often two to four times and sometimes more. It is not impossible that after buying the required stock and paying the various taxes, a comparatively young CEO is quite likely to have less disposable money than before he or she was appointed.

Yet in compensation as in other matters, we should resist the temptation to conclude that the solution to all problems is the modification of someone else's behavior. There are other forms of excessive compensation that should concern us.

In the spirit of Denny's article, I have been somewhat embarrassed by the complaints about funding issued by some people in education this year.

Let's face it - very few people in education are truly underpaid. We teach few classes, have a lot of time off and, if we are public school teachers, we can retire in our mid-50s.

If we work in academia, we have one of the few jobs in America where we can do nearly anything we want as long as somebody will print it.

Here's a medical example. Some years ago, I had orthopedic surgery on my knee at about the same time that one of our sons had exceedingly complicated surgery for cancer performed by two of the most highly regarded surgeons in this part of the country. Couldn't tell it by the price, though. The two famous surgeons charged only one-sixth as much per hour as the fellow who snagged a small piece of cartilage from my knee.

Variation in compensation exists in all fields - and sometimes we are the beneficiaries. Yet there are ramifications to overpayment. Companies become less competitive - especially in world markets. Other people in the hierarchy begin to think they should be paid excessively, too, and costs rise generally. Respect from employees is reduced.

Of course, there are corporate executives, teachers, surgeons and people in all professions who honestly attempt to deliver good value for what they do.

Yet we have been fortunate as a country. Christina's and Brigitte's trip to Africa has caused me to think just a bit.

Perhaps we should all focus a bit more on our responsibilities and what we have to offer and then recognize that, by world standards, we all probably are overpaid.

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Serving as a Director of a Manufacturing Company: 10 Principles of Success

**DIRECTORS MONTHLY - NATIONAL ASSOCIATION OF CORPORATE DIRECTORS
-- March 2003**

Manufacturers have seen a variety of environments in recent years. Over time, I have seen them take many steps to adapt to rapidly changing conditions. Below are some ideas that seemed to work, though never without the need for fine-tuning and modification. The suggestions are written for directors. I hope they will be helpful to those people entrusted with the sober responsibility of working with management to keep their company viable—not an easy task in this highly competitive global economy.

1. Start with quality

Most companies assume quality is high; good companies make quality an overriding first principle—in action, not with slogans. Top executives visit customers, visit dealers, understand their problems. People at good companies like customers and want them to enjoy the company's products. These well-run companies try to improve quality even when they are already the best in the industry. Profits, sales, and incentives all come later. Quality must be achieved first.

2. Worry about results, not plans

Some companies spend too much time planning. Plans can be helpful, but in an uncertain world, plans must be adaptive. Instead of spending precious time developing a highly precise plan, just pick something that seems about right and move on. Then gear incentive programs, bonuses and employee compensation to actual results in profits, quality and development.

3. Invest

It takes a lot of money to keep a company competitive in the 21st century. The average machine tool in the United States is nearly twenty years old. Many factories are older still.

Director Summary: A veteran director shares his expertise on board service when your company still makes something other than money. Invest in equipment and employees; keep executive compensation and acquisitions in check.

A rule of thumb is that if a manufacturer is not spending several thousand dollars per employee in capital equipment every year, it will be difficult for the company to remain competitive in world markets. Many Asian companies receive massive support from their governments in the form of equipment or facility loans or grants. Many companies spend money on big offices, high executive compensation, and grandiose corporate meetings. Good solid investments that improve product quality, reduce costs, and spur prompt delivery benefit customers; frills do not.

4. Manage by subtraction

Most well-run companies prune routinely rather than axing into the meat of the organization whenever a crisis develops. They look over what is being done, reduce non-value-added tasks, and then reallocate resources. This takes wisdom, empathy for the people involved, and enough tact to enlist the support of the organization. The managers of the company, together with its directors, are ultimately purveyors of justice. They have to judiciously decide what is necessary to keep the company in business for the benefit of stakeholders. This awesome task will not be fulfilled unless the company systematically withdraws resources from tasks unessential to the main business.

5. Advance the dignity of employees

Virtually every corporate mission statement says employees are important but corporate behavior does not always walk the walk. Yet the evidence is clear. When employees believe their tasks are important, companies are almost always successful. Fostering an atmosphere of dignity does not mean running a loose ship.

Quite the contrary, the employees of most well-run companies resent it when someone who is not doing their job is kept on. Fortunately, the remedy is low-cost. Provide enough dignity to the team and the team will make sure things go well, even if personnel changes have to be made.

6. Keep executive compensation reasonable

The best CEOs are reserved in articulating their accomplishments and modest in their pay. Most of the good ones came up through the ranks and can easily identify what life was like at lower levels. And they appreciate the contributions of all. Executive compensation in the United States has been goofy. Even the people who deserve what they get do not believe high compensation is an ingredient to success. Directors have a responsibility to be practical.

7. Resist the temptation to acquire

Very few acquisitions work out and even fewer of them are worth the cost. Do the math. Figure how much the acquisition will cost and then figure out what would happen if you put the money into product development, quality improvements, and marketing initiatives. Usually the acquisition is unnecessary. There have been a few good, investment-driven acquisitions; they differ from bad ones in an important way: one company acquires another and then invests to improve the competitive position of its newly acquired property. Cost-driven acquisitions show less promise and are often wealth-destroying rather than wealth-enhancing. Cost savings, justified by illusory economies of scale, become necessary for the acquisition to pay for itself; costs must be quickly reduced to show that the merger has the “synergistic” potential promised to Wall Street. Instead of investing in a valued property or building new capabilities, managers concentrate on reducing the cost of what was done before in order to pay for the acquisition. They place relatively less value on their workers as a part of the company, despite rhetoric to the contrary.

8. Be cautious about outsourcing

With the onslaught of reverse auctions and the flood of component parts from overseas, a lot of people are talking about the advantages of outsourcing. Unfortunately, they may not have thought the matter through. Good, reliable suppliers are always a blessing and it pays to cooperate with them and to fully utilize their strengths. However, a company that farms out all of its proprietary capabilities may sow the seeds for its own ultimate destruction. What remains may be too simplistic and too easily duplicated. The bankruptcy of onetime pacesetter Schwinn Bicycle, after extensive outsourcing to Asia, provides a good example. If a company outsources its important competitive strengths, rather than building upon them, the company compromises its future reason for existence.

9. Ask the same question of many people

Successful directors are rarely absolutists and do not claim to be quick learners. They have to think about things for a while and they appreciate different perspectives. Successful directors have an appreciation of what they do not know. Therefore, they need multiple interpretations.

10. Remain as a helper in the background

Directors do not represent the company. They have no official role other than to provide advice and counsel to the management team on behalf of the shareholders, whom they do represent. Directors can be most helpful if they are available when needed, candid in their observations, true to the mission of the company and appreciative of the difficult role managers have in this era of intense global competition. They may have a good idea but, if they are smart, they will not take credit for it. A good director has a lot in common with John the Baptist—firmly grounded in what is important, but appreciative of more essential roles. Once in a while, directors have to make a difficult call. When that happens, the task will be made easier by humility, study, prayer, and a sense of obligation. Good luck to all.

Some modest, and not-so-modest, exec pay comparisons

High pay often a red flag; Legal reforms would help

MINNEAPOLIS STAR TRIBUNE -- May 25, 2003

Along with many others, and as chairman of the compensation committee for a successful company listed on the New York Stock Exchange, I read with interest the 2002 Executive Compensation Survey in last Sunday's Star Tribune. After serving as a director of many companies in the past 30-plus years and after reflecting on my time in industry, I am often intrigued by the compensation questions raised by the St. Thomas students and others.

What level of compensation is appropriate?.

Any review of executive compensation is likely to result in respect in some instances, and utter disbelief in others.

The Star Tribune accurately pointed out past mismatches between pay and performance: Larry Coss of Green Tree Financial, Bob Price of Control Data Corp., Kenneth Lay of Enron Corp. and many others.

But the offensive situations of the past, along with many on the current list, are in disrepute. There are companies that behave better.

Take Nucor. As the CEO of the nation's most profitable steel company, Daniel DiMicco's total compensation would rank him about 30th in compensation, were the company in Minnesota. Nucor, based in North Carolina, has been profitable every quarter since the 1960s, while once-larger competitors such as Bethlehem and LTV entered bankruptcy.

Why? the company's regard for its people is reflected in the cover of the annual report, which lists the name of every Nucor employee. Nucor's consistent profitability in a slow-growth, tough industry, together with its highly automated plants and its no-layoff policy have garnered international respect, even though the executives are not listed as highly paid.

Steel Dynamics, the nation's other well-run big steel company with a similar philosophy, had record revenue, earnings and earnings per share during the tough market of 2002. The picture of modestly paid CEO Keith Busse received 3.5 square inches of print space in the annual report vs. 305 square inches for company employees.

I still have some stock in Eden Prairie-based ADC Telecommunications Inc., left over from when it was one of the best-managed and most-promising companies in Minnesota. As I was recently reviewing the proxy statement, I noted that the cost to relocate ADC's CEO from the East Coast to Minnesota (about \$780,000) was about equal to half of the base pay for the entire management team at Winnebago Industries Inc., the Iowa-based recreational vehicle maker. (I know those figures well, as I am a Winnebago director and a member of the compensation committee.)

ADC's CEO is No. 12 on the Star Tribune compensation list - slightly ahead of far-more-profitable and much-better-run 3M Co. ADC lost about \$1 billion and half of its equity last year. Winnebago is the most profitable company in its industry, has the highest quality and continues to receive awards and accolades from customers and dealers.

You can see the differences in these two companies in the pictures. One company has a smashing new headquarters. The other a smashing new factory. The corporate headquarters of the second company can barely be seen. It is in an attic above part of the factory.

At Winnebago, no executive has a window and no executive has obscene compensation but the CEO personally hands out the award checks for the nationally recognized employee suggestion program.

Employee voting.

I have long felt that Liberty State Bank in St. Paul is the best bank in the world. Although Liberty is deep in talent, it doesn't take much to be the best bank in the world these days. Real people there answer their phones. They talk to you. Interest rates are reasonable. Extra charges are almost nonexistent. The bank sponsors numerous community activities. When you enter the bank, Tim Macke, the president, is likely to wave to you from his glass-walled office with no door. People are friendly and there is free popcorn on Fridays. What else defines a good bank?.

I suppose there are other good banks, too, but none of them come immediately to mind. First Bank (now U.S. Bancorp) merged and changed its identity. Norwest (now Wells Fargo & Co.) merged and left town. Liberty will soon enter into a friendly affiliation with a Wisconsin bank, but there is something different. All of the employees get to vote on the merger.

I wonder how the Honeywell employees would have voted had they had the chance to cast ballots on the merger with Allied Signal?.

Perhaps the most interesting example of compensation is St. Mary's Hospital in Rochester. With proceeds from their knitting and the unused dowry of the mother superior, the Sisters of St. Francis built Rochester's first hospital, which gave rise to the Mayo Clinic.

While William McGuire comfortably counts his \$9.5 million in compensation, plus \$28 million worth of new options, the founders of the best-known hospital in the world, who also ran it for the first 100 years, operated with the vow of poverty.

Compensation for all of us might be more than it should be. Business is not alone in its propensity to over-pay for mediocre performance. Maybe the Minnesota Vikings' Dante Culpepper isn't worth \$102 million either. Some public retirements are permitted at too-early an age. People in education should work a full year. There are other examples.

But as we look at the economy we have before us - the trade deficit of \$500 billion, our growing fiscal deficits, our country's situation as the world's largest debtor, and the much-lower compensation of our emerging competitors - we have cause to reconsider. As a nation, we can do better.

Below are some measures that might help bring compensation into line and reduce further instances of the corporate scandals that have plagued U.S. industry for too long.

- - Lift the ceiling on the FICA payroll taxes and have them apply to all forms of compensation; wages, salaries, bonuses and bonuses to retire early. This should raise \$13.6 million from one quarterback and his employer alone.
- - Change security laws to require shareholder approval of total compensation packages and all executive severance agreements of more than \$1 million per year.
- - Adopt FASB Accounting Standard 106, which requires the booking of future retirement obligations as liabilities, for all units of government. This would make governmental units use the same accounting systems as private industry.

The assertion that high compensation levels are necessary to attract talent is without foundation. Some of the most lasting institutions in the world, in business and outside of it, have been run by people who did not make very much.

Some of the best companies in the country are run by people with modest pay. And some of us, who have been following companies for years, are increasingly of the opinion that high executive compensation is a telling mark of a poorly run company.

Executive rationalization gets in the way of ethical conduct

MINNEAPOLIS STAR TRIBUNE -- December 15, 2003

Being of advanced age and having been a part of the business community for many years, I have had the displeasure of observing ethical problems, and I have long wondered about the disparity in effectiveness in addressing these problems.

Some companies take effective action right away. Others seem to yodel in the broccoli.

Deeply rooted and extensive rationalization is common within ethically challenged organizations. Delusion becomes a major theme.

"These are minor problems, but in the large context, we are effective." Or, "We deserve the compensation we are receiving, and other executives make even more." Or, "I am trying to build a great company here. These problems are a distraction."

The human power to rationalize and justify behavior, even in the most despicable circumstances, is a long-enduring trait. One of my favorite quotes from the 1920s was attributed to Al Capone:

"I've been spending the best years of my life as a public benefactor. My booze has been good and my games have been square. Public service is my motto. I've always regarded it as a public benefaction if people were given decent liquor and square games. And all I get is abuse."

Executive rationalization remains in full swing today. Billions have been lost and whole companies have been destroyed, but nobody admits either negligence or wrongdoing. To the contrary, the brazen looting of corporate and shareholder assets occurred even during times when mismanagement of the firms involved was widely acknowledged. The tokenism seemed pathetic. After selling \$730 million of Global Crossing stock before the company declared bankruptcy, CEO Gary Winnick announced he would pledge to set aside \$25 million in a trust fund for Global Crossing employees who lost their savings when the value of the company's stock plunged.

Nearly 20 years ago, I conducted a review of cornerstone themes in the classics of management literature written from the late 19th century through the 1950s. These writings stood the test of time and still are reviewed today in the beginning chapters of most management textbooks. Four prominent themes emerged:

- - The enterprise is an integral part of the community.
- - Success depends upon a coincidence of interest between workers and organization.
- - The effective practice of management requires a high degree of integrity on the part of both managers and employees.
- - Shared value systems, objectives and beliefs must be established and inculcated within the organization.
- These are not difficult concepts, nor are they new. In spite of business history interspersed with occasional transgressions, these basic concepts have worked well for many companies for a very long time. When we deviate from them, the attainment of objectives becomes much more difficult.

The recent Business Forum piece on "Ethical Re-engineering" by Ken Goodpaster, Dean Maines and Arnie Weimerskirch underscored the need for a more systematic approach to appraising ethical conduct and managerial responsibility.

Recent experiences have made it clear that we cannot assume that responsibilities will be carried out. Corporate and individual behavior will need to be systematically assessed with the same attention to detail that we now employ in the production of world-class products. Then, when deviations occur, corrective actions will need to be taken or the product of American business enterprise will lose ground in the world market.

Is your boss genuine or synthetic?

MINNEAPOLIS STAR TRIBUNE -- May 17, 2004

A few decades ago, I was visiting our British subsidiary with the objective of gently cajoling them into collecting more of the money that was due our company. The phone rang while I was in the visitor's chair in the managing director's office and I encouraged him to take the call.

Meanwhile, I observed the splendid collection of business books on his shelf, which seemed strategically placed to be of notice to all visitors. After the managing director finished his call I remarked, "Peter, those are some very interesting books. Which is your favorite?"

Without hesitation, he replied; "Oh, my good man, we don't read these books. We have a service that comes in and stocks the shelves."

This true story illustrates an awkward problem that plagues many companies today: the synthetic manager. The synthetic manager might project competence, confidence and understanding of important issues - but these precious qualities are not internalized to the point that the manager is held in high regard in his own organization. Organization members are almost universally well-equipped to sort out the genuine from the synthetic.

A few weeks ago, some longtime friends invited my wife, Joanell, and me to a charity fund-raising event. While chatting with a son of our hosts, I asked the young man how the CEO of his company was treating him. This particular CEO ranked very high in the Star Tribune's recently published 2003 executive compensation survey.

The response was interesting and telling. "You know, we bring in one-fifth of the company's revenue and a larger percentage of its profits, and we never see him. He makes several hundred times what the rest of us make, but he is not well-liked internally."

Some business and government leaders are very sincere, dedicated and unobtrusively genuine. These are the people who earnestly care for people, care for their communities, and possess a deep enough understanding of their industries to keep their companies competitive. They have that rare combination of professional will and personal humility that Jim Collins so skillfully describes in his classic book, "Good to Great: Why Some Companies Make the Leap and Others Don't."

The leaders also possess the qualities capable of meeting the challenges outlined by Bill George in his book, "Authentic Leadership: Rediscovering the Secrets to Creating Lasting Value."

We seldom see the genuine managers in headlines. They rarely make the top ranks of executive compensation lists. They spurn gigantic acquisitions. They are not featured on TV shows. They just do their jobs.

Synthetic managers get lots of publicity because of mega-mergers (many of them poorly thought-out), high compensation, dramatic reductions in staff, great changes in strategy and, occasionally, encounters with the law. But name recognition rarely coincides with business success.

The difference between genuine and synthetic managers is apparent in their use of time at the company. Genuine managers meet with customers, walk through the operations, greet employees and listen to their ideas. Data from outside the firm help situate the company's role in society and improves the quality of planning. These processes are informal but quite thorough.

Synthetic managers try to sound intelligent at meetings. However, limited attention to data external to the firm, the lack of familiarity with key company processes, disinterest in the ideas of employees and inattention to the needs of customers usually limit both organizational effectiveness and employee morale.

There are some bright spots. It was a great pleasure to visit a major plant of Charlotte, N.C.-based Nucor Steel several years ago, now the most profitable steel company in the United States. At the time, the revenue per person at that plant was \$1.3 million per year and it was clear that the company was positioned for greatness. The late Ken Iverson, the company's well-regarded chairman, flew coach, did not allow reserved parking spaces or company cars, answered his own phone and operated on the same incentive plan as the rest of the employees.

Steel Dynamics, Park Industries and many other companies operate similarly with quietly performing, stage-sharing CEOs who take more pride in their skills as listeners than they do as speakers. These companies exhibit broadly based genuine qualities. Their cultures demand it and employees and customers recognize it.

Corporate who-done-it.

Over the years, I've thought many times about the British managing director and his books with the idea that this experience would make a good plot for a play. Imagine the setting - the manager of a troubled company who will not read the books, but the employees develop an interest. They sneak into the manager's office after hours, take the books, and exchange them for a discarded old book, which they then wrap in the jacket from the original book.

Then the employees read the books, get many ideas and improve the company until it is highly profitable. But an ethical dilemma develops. The employees are having fun being a part of this success, but the dramatic upturn in the company's fortunes threatens to uncover their plot. How can the sudden surplus of money be explained? And, of course, there is the question of who should share in the bounty.

However, perhaps such a scenario would not make the cut with Donald Trump and the producers of "The Apprentice." The larger point is that people invariably know leadership when they see it. Conversely, synthetic managers are rarely able to fend off under-the-table criticisms within their own companies. Neither are politicians.

A few years ago, one of our sons had a pet parakeet. One of us had to take care of the bird when he was in the hospital, so I volunteered to line the bottom of the cage with newspaper pictures of a particularly synthetic politician from that era. It doesn't matter which one because there are synthetic and genuine politicians in both parties.

There are, however, hidden advantages in being a genuine, as opposed to a synthetic, manager. The annual report picture of Keith Busse, the highly regarded CEO of Steel Dynamics who was mentored by Ken Iverson, is only about 1 square inch - the same size or smaller than the pictures of the many Steel Dynamics employees who are also shown. A picture that small would be pretty hard for a bird to hit.

And, I do wonder if the rankings in the Star Tribune's executive compensation survey could be rearranged to reflect the best value executives, rather than the ones who make the most money.

Management by getting out of the way

MINNEAPOLIS STAR TRIBUNE -- August 1, 2004

The organizational structure of church ushers is appropriately streamlined.

There are no meetings. There is no executive direction. There are no detailed job descriptions. Nobody tells the ushers what to do.

Nonetheless, since our particular parish was founded in 1959, everyone has had a seat and no collection has ever been missed.

Good companies are organized like the ushers. By virtue of dependable people knowing their jobs, the essential tasks of creating success are accomplished - in part because no one interferes.

Many years ago, I served as a field engineer in three branch offices of IBM before moving on to other assignments. Most of our managers were quite good, but there was one whose section was chronically burdened by reduced productivity, low morale and sub-optimal customer service.

For a few weeks I worked in that manager's section, and it was easy to see why there were problems. The manager, who had previously been demoted from a higher position by IBM, was in charge of everything. He would tell us where to go, what to do and when to do it. Unfortunately, he did not have enough specific knowledge to handle these responsibilities effectively.

On the other hand, there are companies that achieve outstanding things with minimum levels of executive intervention. The people know their jobs and the executives are smart enough to not interfere.

The late Kenneth Iverson, longtime CEO of steelmaker Nucor Corp., explained this principle in his book, "Plain Talk: Lessons from a Business Maverick."

"Shaping the work environment has always been an acknowledged part of the manager's responsibility. But to my way of thinking, it's the manager's primary job. Instead of telling people what to do and then hounding them to do it, our managers focus on shaping an environment that frees employees to determine what they can do and should do, to the benefit of themselves and the business. We've found that their answers drive the progress of our business faster than our own."

Iverson's approach reveals a time-tested managerial secret. Managers and executives must actively prevent the vast organizational bureaucracy from impeding the creativity and best efforts of employees.

Chester Barnard, the oft-quoted classical author of business philosophy and himself a high-ranking executive in the 1930s, saw the functions of the executive as limited to three important tasks:

- - Formulate and design a purpose for the organization.
- - Provide a system of communication.
- - Promote the securing of essential personal efforts.

In Barnard's view, it was management's job to define a purpose and maintain communications in such a manner that the securing of essential personal efforts could be achieved. The employees would take care of the rest.

Perhaps with empowerment schemes, job enlargement, quality circles and Six Sigma, we have somehow misunderstood the true nature of employee contributions. Managers often see meetings as a way of getting people involved in these programs. But sometimes the managers are not trusting enough to permit employee responsibility on major events - only minor events. Meaningful responsibility is therefore not achieved. Too often, a broad consensus on trivial issues is all that is achieved and employees yawn.

Pointless, irresponsible, time-wasting meetings permeate companies, government and academia. Importantly, these meetings often have the effect of impeding organizational progress rather than advancing it.

Why? Because the wrong people attend. Good people, contributors, have work to do. They meet customers, satisfy their needs, design appropriate products, produce efficiently and ensure high quality. Contributors are often busy with tasks more important than the meetings.

Who attends the meetings? Often people who are not busy - chronic bureaucrats who lack the skill to accomplish the essential tasks listed above. Or, worse, politically oriented conniving charlatans aimed at insulating their own positions from the burden of improvement.

Not all meetings are bad, of course, but some are quite slow. A recent meeting took eight people more than an hour to change two minor words in a document. If Tolstoy had achieved such productivity in the writing of "War and Peace," he would have had to start the book during the time of Charlemagne.

More important than the matter of efficiency, leaders must ensure the meetings support organizational purpose and are not corrupted by people with other agendas.

As Nucor's Iverson observed, shaping the work environment is the manager's primary job. Yet, the in-depth understanding of purpose and the corresponding link to impediment removal seems to be missing in some organizations. Like ushers, organizational members want to accomplish important tasks. They do not want to be impeded because their activities are naively over-orchestrated or because they do not happen to be a "black belt" or because managerial direction competes with true organizational purpose.

Virtually every corporate mission statement says employees are important, but some executives do not walk that talk. Yet the evidence is clear. When employees believe their tasks are important, and are not impeded from high achievement, their companies are successful.

Fair play in compensation game

Even 5-year-olds know a raw deal when they see one. It's time for boards of directors to correct the unfairness.

MINNEAPOLIS STAR TRIBUNE -- August 7, 2005

The 2005 Executive Compensation survey published in the Star Tribune in May should interest all of us. Companies are integral components of our communities and the ultimate font of most of our prosperity. As citizens, we all should be concerned as to how these important members of our society are governed.

Executive compensation is crucial to effective corporate governance. If the matter is handled well, employees, suppliers, creditors and shareholders will be enthusiastic supporters of the company and its management team. If it is handled poorly, disorganization, plummeting morale and reduced effectiveness are the nearly inevitable consequences.

I've seen executive compensation handled well and handled poorly during my own business career, which includes 30-plus years as a corporate director and several years as chairman of the compensation committee of a highly successful company listed on the New York Stock Exchange. Boards of directors are supposed to be effective stewards of corporate assets. Yet boards created the list published in these pages May 14.

A few weeks ago, I was invited to participate in the Fortune Boardroom Forum, a colloquium of corporate directors held in Chicago. It was an excellent program organized by Geoff Colvin, an editor and columnist with Fortune magazine and the co-host of "Wall Street Week with Fortune" on PBS. Several of the speakers had taken over troubled companies in the aftermath of scandals.

Jeffrey Rodek, who led the turnaround at Hyperion, said he "likes to see if the out-of-company lifestyle of the management is consistent with the values of the company." Ed Breen described some of his earlier duties at Tyco after taking over from the now-convicted Dennis Kozlowski. Breen found a check to Trump Towers for nine apartments, another check to Tiffany & Co. jewelers for \$100,000 and 14 corporate jets. Robert May, who took over from scandal-plagued but ultimately acquitted Richard Scrushy, then added; "HealthSouth had 14 jets, too."

The excesses described by the speakers are both offensive and ridiculous, but they also provide testimony to the fact that our collective performances as directors have room for improvement.

Robert Bennett, the prominent corporate attorney and special counsel to the U.S. Senate Special Committee on Ethics, offered some sobering advice for directors: "I would think long and hard about going on a board with a larger-than-life CEO - one of these messianic type of people." Earlier he had warned; "You have to go beneath the information that is provided to you in a pretty box with a ribbon on it."

Questionable rationale.

The conventional arguments in favor of high compensation have little evidence to support them. Is the high pay what the market demands for talent?.

Baloney. What did Rick Roscitt ever do for ADC? Did the \$45 million signing bonus and other multimillion-dollar payments for CEO Gary Wendt stave off bankruptcy for Consec? Did the compensation of Robert Price bring prosperity to Control Data?.

Simultaneously, with a base salary of less than \$100,000 per year, Kenneth Iverson was building up what is now the country's largest and most profitable steel company in a tough industry. His disciple, Keith Busse, also modestly paid, has put in place another good steel company, Steel Dynamics.

The formation of Minnesota's leading health care institution, the Mayo Clinic, was initially spearheaded by Sister Alfred, a nun with a vow of poverty. Using proceeds from their knitting and unused dowries, the Sisters of St. Francis built St. Marys Hospital in Rochester in 1889.

With an insignificant salary and minuscule net worth, A.P. Giannini built Bank of America (initially the Bank of Italy on the San Francisco waterfront) into the largest bank in the world. He articulated his attitude toward high compensation with this statement: "No man owns a fortune. The fortune owns him."

Clearly, the talents of any of these modestly paid executives would outshine many of the people on the Star Tribune May 14 list.

Execs aren't the only ones.

Yet, any discussion of executive compensation should include two more important points.

First, our excesses in compensation are not limited to executives. If any of us retire with a defined-benefit plan at age 55, as many public employees do, the imputed cost for the remaining 30 years of life expectancy is a multimillion-dollar transaction for most positions. Retirements for school superintendents and higher governmental positions would be much more.

Athletes usually are paid even more than executives and many of them still want subsidized stadiums. College football coaches are highly paid, too - even those at public universities.

Many of us are part of the high compensation problem. It isn't just executives. Perhaps we all should take less from the system.

Second, executives often pay a large share of the taxes we need to run our society, and many of them are quite generous in their charitable giving.

Minnesota long has benefited from the charitable giving of executives from 3M, Honeywell, Dayton's, Best Buy, Waldorf Paper, Bremer Bank, Blandin Paper, Andersen Windows and many others. Many of our best executives see charitable giving as part of their jobs as stewards of an important community asset.

Yet, in the aggregate, the process of executive compensation remains troubling. Seeking a more fundamental understanding of how compensation works, I conducted an experiment with three of our grandchildren, who then were 5 years old.

Paid in M&Ms.

Peyton became the worker and she received one M&M. Cooper was the manager and he received two. Emma, who was the executive, received a whole bag. Then we videotaped their responses.

The experiment produced predictable anguish on the part of the manager and worker, but none of them, including the executive, thought the system was a good one.

Now, my wife and I always knew these three wonderful children were exceptionally talented. However, I did not think that at such a young age, they were smarter than corporate boards of directors.

The United States has many good companies and many responsible corporate directors who do see their role as stewards of important community assets. But our compensation systems, probably for all of us, are in need of review.

The high levels of U.S. compensation are no doubt contributing to our mushrooming and unsustainable trade deficit and probably to our fiscal deficit as well. It will be very hard to remain in business if we pay ourselves substantially more than our competitors. In this regard, the boards of directors of American firms could lead the way by establishing reasonable compensation levels for their management teams.

It is time to correct the unfairness that Emma, Peyton and Cooper so wisely detected at the age of 5.

Emma, Peyton and Cooper are the grandchildren of Fred and Joann Zimmerman. For use in his classes, professor Zimmerman filmed a short segment on executive compensation after the Star Tribune's Executive Compensation Survey was published in 2005. To view the video, visit www.startribune.com/348.

Filling the need for competitors

The U.S. economy is going to need people with skills and companies with imagination and integrity

MINNEAPOLIS STAR TRIBUNE -- August 21, 2004

Recently announced anemic job growth has reignited anxiety among workers and business owners about the security of their jobs and their incomes. In reality, total U.S. nonfarm employment for July stood at 131.3 million, within 771,000 of the all-time seasonally adjusted high for July and nearly 2 million higher than any year of the 1990s.

But the United States is not alone in its anxiety over an increasingly competitive world economy. Just last week, articles appeared describing the anxieties of Germany (Volkswagen needs to cut labor costs by 30 percent), Korea, Austria, Taiwan, Australia, Japan and several other countries. The days when the U.S. economy could be considered a single entity are over. Like it or not, we are now all part of a world economic system that has the power to curb our excesses, spur our efficiencies, make us more competitive or deliver us consequences.

If the world wants to hire some people to make trucks, it can choose between the highly capable people at the heavily automated Twin Cities Ford plant, which is 79 years old, or at newer plants elsewhere, also with impressive automation and capable people. I have a lot of friends at the Ford plant, and the company is near to my heart. So, I do not take a detached view. I very much wish the best for one of the most significant promulgators of wealth in Minnesota.

But we must compete, and the Ford organization does a pretty good job. We have less capable competitors in some industries, such as consumer electronics, and other capable competitors in a few industries.

But the list is shrinking. The United States is home to many fewer world-class competitors than it was 15 years ago.

Part of the blame can be placed on company managers who have often concentrated on mergers, acquisitions or just plain mediocrity as they overpaid themselves. But part of the problem rests with those of us who are employees as well. Have we prepared ourselves for the intensity of world competition? Are our skills adequate to the task? Are our costs reasonable? Are our attitudes and expectations realistic? If we were running the world, would we hire us?.

The United States must do (and is doing) some soul searching.

Our education system is not strong enough. The costs for our support services are too high, and we have too much wasteful litigation. But, we have some talented young people coming into the workforce. The United States has 80 million people under the age of 20, the fourth-largest of any country behind India (440 million), China (415 million) and Indonesia (90 million).

Unfortunately, as a nation we have not prepared all of these people for the competitive realities they will be facing.

Before joining academia in the mid-1980s, I spent nearly 30 years at three computer companies; IBM, Control Data and NCS. I was a group vice president at NCS and had responsibility for about 40 percent of the company. Quite a few of the new hires came through that part of the company. I quickly noticed that some managers hired very promotable people while others did not seem to enjoy the same success. One day, while trying to get a better handle on our recruiting, I wrote to six of the best recruiters and asked them what they looked for.

It was an amazing list. Some managers liked immigrants. Several sought people who fixed their own cars or had experience building houses. The recruiting questions became somewhat bizarre and might not conform to hiring procedures today.

We sought measurements like the wrench-to-stereotape ratio; we wanted people who owned more wrenches than stereo tapes. We asked them where they went on spring break. We liked answers such as: "I went home and helped plow," and we were not too interested in people who visited Fort Lauderdale. At NCS, we adopted the IBM dress code in a manner that seemed to enhance respect for our organization.

Perhaps such procedures are out of style now - but I am not sure. Somehow, it seems important to convey to our young people that preparation is important. Skills must be developed. Professionalism is appreciated by customers. Individual contributions help make our country competitive.

In contrast, we seem to be promulgating expectations of entitlement. High school graduation might be a little too automatic. Colleges permit too much grade inflation. Employers and governments make promises they cannot fulfill.

The highly competitive world will not be that simple. We are doing no one a favor by allowing them to nurture a belief in the unrealistic.

My good friend Bud Ruvelson, one of the first federally chartered venture capitalists in the country, has visited my classes at St. Thomas several times. He explains the four “Bs” that cause companies to lose focus and become investment “losers.” These are bucks (people dipping into the till), boy-girl problems (or other inappropriate behavior), booze (or other substance abuse) and ballots (people more disposed to office politics than to productivity). The students always enjoy these sessions as practical testimonies to the characteristics we should avoid if we want to remain competitive.

It is possible, I believe, to address our concerns about job creation in a nonpolitical way. We have no God-given right to the prosperity we enjoy. We are going to have to earn it by better preparation, more extensive investment, less frivolity, better work habits and more lasting character traits.

Regarding the concern for job creation, we can borrow an ancient phrase from the comic strip “Pogo”: “We have met the enemy and he is us.”

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History teaches what's best in a leader

Choosing a chief executive is a major challenge because it's easier to "look good" than to "be good." But history and experience offer a template for finding the truly successful ones.

MINNEAPOLIS STAR TRIBUNE -- December 12, 2005

"I belong to the common people and I'm proud I do. I honestly treasure the goodwill and the respect and the confidence of the people working with me, and for me, more than all of the money I have ever made. If I didn't have that - if I gave them cause to lose it - well, I guess I wouldn't sleep nights."

So said one of the nation's most successful industrialists, Charles Nash, the very capable president of General Motors from 1912 to 1915 and the founder of what later became American Motors. His concept of executive stewardship is one that can benefit companies today.

The United States has produced some exemplary, innovative and duty-conscious chief executives. It surprises me, though, that there has been such a wide variation in the caliber of management. There have been many competent executives with the sense of stewardship displayed by Charles Nash. But regretfully, there have been others with a less-cultivated sense of responsibility who lack the competence necessary to build the industry of our country.

Several companies in our region, and elsewhere, are searching for new chief executives, and one of them, 3M Co., named one last week.

History offers valuable lessons about which types of people might be best to lead America's companies during this era of intensified global competition.

And some very good books might serve as guides, too. "Good to Great" by Jim Collins, "Authentic Leadership" by Bill George, "The Functions of the Executive" by Chester Barnard and "Plain Talk" by Kenneth Iverson all provide well-thought-out templates for what characteristics might be most important to truly genuine long-term business success. Note that three of the above authors, George, Barnard and Iverson, were highly respected and successful CEOs themselves.

It is easy, of course, to find people who look the part of a CEO. A lot of people are impressive on paper. But if we read deeply the above books and couple them with our own experiences and the verdict of history, the profile of the successful CEO that emerges is often counterintuitive.

Instead of being pre-eminent, successful CEOs often work quietly in the background. They are not always articulate speakers but they are good listeners. They make time to listen to new ideas, technologies and insights.

Consequently, crowded, hectic schedules are rarely the mode of the effective CEOs. Such schedules would interfere with their listening.

Successful CEOs are available when needed. Bruce Hertzke of Winnebago, Keith Busse of Steel Dynamics, Kenneth Iverson of Nucor and others answer their own phones. No screening takes place. Customers, employees, suppliers and members of the community are all welcomed to communicate personally with the top managers in these companies. The idea is not new. In the early days of the auto industry, Walter Chrysler would walk about the factory informally chatting with workers. One of his favorite questions was: "How can I help you?"

The successful CEOs are comfortable sharing center stage. Instead of drawing attention to themselves, they provide the environment for others to excel.

They welcome the notoriety and success of organization members. They avoid the frailty of assuming they have most of the answers. Instead of being certain about what will happen in the future, they are more inclined to nurture many smaller and more cost-effective projects, which will be useful under a wider variety of unforeseen conditions. Thus they are tolerant of setbacks.

Highly successful William McKnight of 3M would say: "You can't stumble if you are not in motion."

Importantly, effective CEOs are frugal - spending money on activities most likely to be appreciated by customers and spurning pointless excesses.

“Oriental rugs and administration buildings with imposing granite columns and uniformed office attendants have no place in the successful conduct of business,” Charles Nash proclaimed as he articulated his lasting corporate philosophy.

By being frugal on superfluous things, more resources are available to make their companies great.

Good CEOs are effective champions of milestone ideas - often initiated by others within the organization and often emanating from unprogrammed experimentation.

Honeywell’s unfortunate acquisition by AlliedSignal, the implosion of Control Data, the recent bankruptcy of Northwest Airlines and rumors circulating about the closing of U.S. auto plants all should cause us to wonder about the strength of our economy going forward.

It is a bit alarming to see the number of CEOs that have been sacked in recent years. Some of them are in jail. But during a time when infamous scandals were unfolding and many companies could not compete, there was another class of hardworking, sincere and dedicated chief executives who saw their roles as stewards of the one of the community’s most precious assets - an effective and competitive company. The world longs for genuine CEOs who can help build solid companies for the long term. We’ve had enough of the impressive-looking CEOs who “always make their numbers” (even when they should not be made). Now we need leaders who will nurture innovation, provide employees with a platform for achievement and enable our companies to perform effectively over longer periods.

Deere thrives by values others just claim

Companies that lived up to their mission and value statements would do better for their customers, workers and stockholders.

MINNEAPOLIS STAR TRIBUNE -- March 6, 2006

Feb. 6 was a wonderful day. My wife, Joannell, and I had the great privilege of visiting the John Deere Pavilion in Moline, Ill.

Deere is not just an ordinary company. At the ripe age of 169 years, this unionized company has retained remarkable vigor, a reputation for superb quality and a world-class competitive position.

The Deere story contains some valuable lessons that could be applied by other companies today.

I've been following Deere since working for the Moline branch of IBM earlier in life. Later I wrote a case study on the company for the book, "The Turnaround Experience." My purpose here is to draw attention to the critical need for deeper and much more extensive critiques on what we mean by "good management."

Quality, innovation, integrity and commitment have been the core values at Deere & Co. since founder John Deere articulated them in the mid-19th century.

Too important to be relegated to mere plaques or published documents, those values were reinforced by Deere's everyday behavior.

Reinforcing values by behavior is harder, of course. It takes little effort to whip up mission, vision and value statements. It is much more time-consuming and expensive to live those missions, visions and values in ways that enlist the willingness of organization members to serve in the causes being articulated.

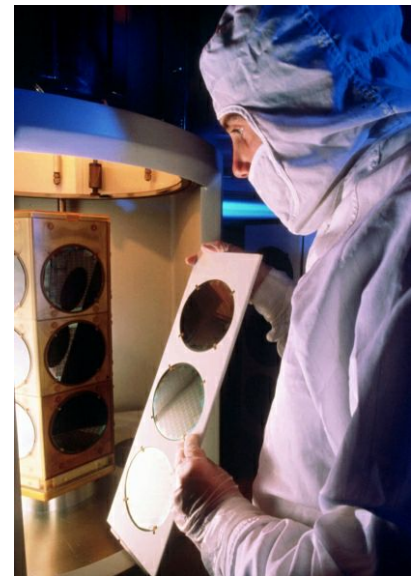
Living values creates meaningful involvement. Publishing values often is synthetic window dressing.

Throughout its history, Deere's values were integrated with the interests of the company's employees. Deere developed its first employee pension program in 1907. It hired people on the basis of moral character and good personal habits, including a sound work ethic, sobriety and thrift. Deere's management steadily urged employees to save money against a reversal in the farm economy.

The Great Depression dealt very harshly with Deere & Co. Losses reached nearly 40 percent of revenue in 1932, and the company was only one-eighth the size of International Harvester, which dominated the industry at the time.

During the Depression, Deere's stock tumbled from \$690 per share to \$3.50. Dividends on preferred stock were cut from \$7 to 20 cents and common dividends were eliminated. Executive compensation was cut by 25 percent, managers' salaries were cut by 10 percent, and employees' hourly wages were cut by 4 percent. Elaborate schemes were worked out to give each family some work. Yet it was in this atmosphere that Deere's management and owners elected to use their personal resources in a manner that illustrates what living values really means.

Many Deere employees had deposited sizable amounts of their savings in the People's Savings Bank of Moline. But during the Depression, the bank was hit by a disgraceful embezzlement of \$1.25 million. The bank seemed destined to fail — and with the failure, much of the savings of the Deere employees and the community would vanish.



An employee at the IBM plant in Essex Junction, Vt., worked on manufacturing microchips. Evolution of the industry may in part explain IBM's recent slippage. Many people in many countries now possess the important skills of circuitry fabrication, software development, systems design and large scale manufacturing.

So top management and members of the Deere family gathered together with the company directors. Collectively, they decided to levy an assessment on themselves and put the money back into the bank to preserve the savings of the community.

Compare that with Northwest Airlines' actions.

Nearly every company has a mission statement that says the company exists to serve the community, and nearly every value statement lauds the value of employees. Unfortunately, in too many cases, that's where it ends.

For instance, Enron's values statement before bankruptcy included the following: "We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment." Or so it said.

Deere's successful record as a responsible company is not merely because of its good will. Deere plants are modern in their methods, well-equipped and well-staffed with competent employees — many of whom are unionized. Deere's management historically has avoided the counterproductive embarrassment of obscenely high executive compensation.

Good management invests wisely, encourages efficiency, spawns innovation, insists on quality, operates with integrity and keeps commitments.

However, very few of those qualities necessary for success get much attention in the major business periodicals. Instead, we read about the latest resource-wasting acquisition or sophomoric cost-reduction programs implemented without integrity, cooperation, efficiency or commitment.

Good management is stable. In 169 years, Deere has had only eight CEOs.

Shouldn't we wonder what the world would be like if the leadership of Northwest Airlines, Control Data, Enron, WorldCom, Qwest and many others could have managed with the quality, innovation, integrity and commitment exhibited by Deere?

Maybe they would have lasted longer. Maybe there are some lessons here that other companies could use. Or, maybe companies should just start doing what their mission and value statements say.

The managers of the company, together with its directors, are ultimately purveyors of justice. They have to judiciously decide what is necessary to keep the company in business.

The Big Blue blues

IBM's strategies and managerial priorities, including heavy stock repurchases, could underlie its problems.

MINNEAPOLIS STAR TRIBUNE -- June 24, 2013

It is with both sadness and trepidation that I have come to read about the recent profit slippages and layoffs at my former employer, IBM. It's been many decades since I was there, but IBM provided me with my first career job — a field engineer fixing IBM equipment in the 1950s. I was with IBM for eight years in five locations; three branch offices, a major factory, and their headquarters on Madison Avenue in New York.

IBM was a wonderful company in those days; solid growth achieved by offering good products, excellent service and never any layoffs. IBM was a bastion of both employee satisfaction and financial stability. It is interesting to note that one of the country's first company-paid-for major medical plans was financed not by the corporation per se, but by the Watson Fund — a fund set up by the CEO.

IBM's situation is much different today. As has been reported recently in the Star Tribune and elsewhere, the company is now plagued with revenue shrinkages, missed earnings estimates and layoffs. Employee satisfaction appears to be diminishing. Revenue for the latest quarter was down more than 20 percent vs. a year earlier. Profits were off, too.

There may be some evolutionary explanations for IBM's recent slippage. Expertise in computers is now far less rare than earlier. Many people in many countries now possess the important skills of circuitry fabrication, software development, systems design and large scale manufacturing. It is therefore more difficult to maintain exceedingly high profit rates when everyone can do what you do.

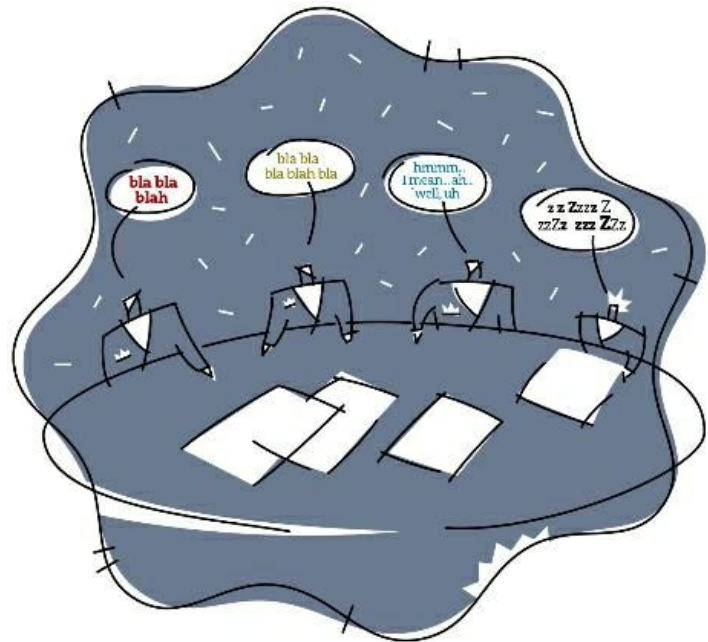
But we should wonder if internal strategy and managerial priorities are more responsible for the company's recent problems. IBM has repurchased huge amounts of its stock— roughly \$126 billion in recent years.

The heavy stock repurchases, combined with more competitive market conditions, plus a huge amount of intangible assets (\$33 billion) have left IBM with a rather fragile balance sheet — especially compared with what it was in former years.

Bankers often look attentively at tangible net worth, which is stated total equity (\$19 billion in IBM's case) minus the intangible assets (\$33 billion) — on the grounds that bankers do not lend money on intangible items. IBM's tangible net worth is therefore a negative \$14 billion.

IBM is still big and has relatively high margins. Still we might wonder if IBM has fallen prey to the illusory instincts of financial operators who find it easier to employ financial manipulations than make meaningful long-term investments for a strong future. It is extraordinary for any company buy back \$126 billion in stock and perhaps quite negligent to put the company in a position of negative tangible net worth.

Unfortunately, IBM is not alone in the dubious practice of repurchasing stock as a method of increasing earnings per share. Standard & Poor's 500 corporations repurchased \$2.7 trillion of their own stock from



2004 to 2011 and the practice is still on the upswing. But IBM remains a prominent lead purchaser of its own stock. Some observers have wondered about potential conflicts of interest surfacing when stock repurchases occur in concert with aggressive executive compensation plans closely linked to stock performance and growth in earnings per share.

Others have wondered how on Earth a company can keep doing it financially as they get closer to practical borrowing limits.

Records in the Securities and Exchange Commission's Edgar database have revealed that IBM officers and directors have recently been aggressive sellers of IBM stock. Former CEO Sam Palmisano sold \$560 million since July 2011. Current CEO Virginia Rometty sold \$66 million. Twenty-four IBM officers and directors reportedly sold or disposed of \$1.7 billion worth of IBM stock in less than two years.

Not a bad deal. Get the company to buy back \$126 billion in stock, which will make earnings per share grow — even if real progress is medium. Then, incorporate incentive programs so officers and directors can profitably sell or dispose of millions of shares. The only problem is that one of the world's most noble companies ends up with negative tangible net worth and now finds it has to lay people off because they didn't invest enough to keep the company going the way it was.

The question we should all ask is whether this is a good way to build a company or a country, let alone create long-term shareholder value. The economic foundations of our country are built upon the presence of strong, hardworking, creative companies. Perhaps the incentive plans surrounding the repurchase of stock need review.

Beware of too much communication

Organizations flounder when too many people are communicating and not enough are actually working to solve problems and get things done.

**MINNEAPOLIS STAR
TRIBUNE -- December 23,
2013**



When Joannell and I were married in 1962, there were two Christmas presents. She gave me one and I gave her one.

Now, if every one of our 16 extended family members gives other members a present, there would be 240 presents under our tree at Christmas. That assumes that grandmothers can constrain themselves to one present per grandchild, which is of course a highly improbable assumption.

Organizational communications and interactions follow the same geometric pattern. Communications expand exponentially with the number of people involved. After a while, large fractions of an organization's employees spend nearly all of their time communicating with one another. Little actual work gets done.

This is why companies, governments, universities and other organizations flounder and often ultimately fail — too many people are communicating.

In 1974, I attended a meeting with 22 vice presidents and a general manager at Control Data Corp. to review an order for an \$11 million supercomputer system for processing oil exploration data in the Soviet Union. It was a highly profitable order with all of the cash up front.

The contract required Control Data to build a controller capable of transferring data from Russian seismic magnetic tapes. That task was not difficult, but the engineering department wanted extra money because of the added cost of deciphering the documentation. There were other minor changes desired. Finally I asked, "Why don't we turn the order down? Then we can go back and negotiate a little better deal."

After a long silence, one of the dignitaries asked, "Are you sure we have the authority to turn the order down?"

His question turned out to be a precursor of the bureaucracy that eventually did so much to bring down that respected technical company with nearly 60,000 employees worldwide.

Companies do need some communication, of course. But successful and unsuccessful companies handle communications differently. The formula isn't magic. Successful companies insert more work between meetings.

These differences can be illustrated by examining how General Motors and Ford approached product development in the 1980s. Both companies were doing poorly, but Ford was doing much worse. Both needed to develop new-model cars that would sell well and rejuvenate rapport with key customers.

General Motors started first, with what became the Chevrolet Lumina, introduced in 1989. Ford started a year later with what became the Taurus, which came out in 1985.

General Motors CEO Mary Barra is a 34 year veteran of GM, which will benefit her and the company greatly as the pick themselves up.

These two companies differed in how they handled product development. General Motors had lots of meetings aimed at deciding what kind of a car to build. The meetings consumed vast amounts of precious time.

Ford people spent time examining best practices among competitors and other industries and, then, building prototypes to see what might be “best in class.” Unknown to many, Ford built 43 separate engines to see which one would best fit their new car, given the fact that gas prices were fluctuating wildly. Then, Ford would occasionally assemble members of “Team Taurus” to assess what had been done and to see what might be accomplished.

Importantly, only a few of the people attending the Ford meetings were dignitaries. Team Taurus consisted of production workers who suggested design changes to speed up assembly, lawyers experienced in handling product liability cases, acoustical engineers knowledgeable in sound abatement, and many women who were far better at choosing fabrics and designing car interiors than even the highest-ranking vice presidents.

The results were dramatic both in sales and cost. The Taurus became the bestselling car in the United States between 1992 and 1996. By 1992, Ford was enjoying a roughly \$4 billion cost advantage over General Motors.

Why do these differences exist? Why are organization communications so ineffective at transferring individual effort into collective results? Five reasons:

Blindness — leaders who do not see what might be done to improve performance.

Lethargy — people who would rather meet than work.

Emptiness — or lack of clearly defined purpose.

Ego — people who want to sound intelligent in large groups.

Detachment — people afraid to take action but who want to be working on a problem.

Perhaps the late Harvard professor John Kenneth Galbraith best captured the frailty of organizational communications: “Meetings are indispensable when you don’t want to do anything.”

For me, however, the major goal is to systematically accomplish work between meetings. Otherwise there is nothing to talk about.

Separation of Powers and GM's Decline

MINNEAPOLIS STAR TRIBUNE -- July 21, 2014

In 1980, Harvard professors Robert Hayes and Bob Abernathy published an ominous-sounding but award-winning article in the Harvard Business Review titled, "Managing our way to economic decline."

This seminal article described then-recent trends in U.S. industry as a "marked deterioration of competitive vigor" owing principally to so many more senior executives arriving with major backgrounds in finance vs. engineering, production or marketing.

We should keep this important article in mind as we now review the problematic recall of vehicles produced by General Motors and its emergence from government takeover and bankruptcy. On the surface it may seem that the company is simply defective in its managerial approach. But let's look at the matter historically.

In the 1970s, General Motors produced almost half the cars sold in the United States. An important tradition existed: The chairman of the board of GM would stay in New York and have lunch with the bankers. The president of GM would stay in Detroit and build cars.

Indeed, until 1980, only two people had ever moved from GM president to CEO. The first was Alfred P. Sloan, who initiated the system. The second was James Roche, who was asked to take over for a short time when GM Chairman Frederic Donner was asked to step down during a public debacle surrounding criticism of the Chevrolet Corvair.

The separation of power principle worked well at GM. Sales were good. Finances were strong. Products were distinctive, and technology was first-rate. In addition to its prowess in vehicle manufacturing, General Motors built heavy-duty trucks, refrigerators, military equipment, aircraft engines and dominated in the production of railroad engines. GM products were backed by first-rate research and innovation.

On the heels of the Arab oil embargo and radical increases in oil prices, automotive manufacturers struggled to update their products to accommodate a stranger environment. GM was one of the first leaders in downsizing with its 1976 models — large by today's standards, but much more efficiently designed and more compact than earlier models. Engines, transmissions and other components got updated. By 1985, GM still had 40 percent of the U.S. market.

In 1980, an ex-accounting clerk, Roger Smith, became CEO of GM for 10 years. Without a full appreciation of the wisdom of GM's separation of power principle, Smith attempted to do both jobs. He started Saturn, acquired several new companies, merged product divisions, spent \$40 billion on factory automation before robots were ready, and formed the General Motors Assembly Division, which had the effect of having all GM cars, regardless of price class, look very much alike. The bureaucratic influence at GM meant long meetings of senior managers in intense discussions of what kind of cars to build.

Meanwhile, things were approached differently at archrival Ford. Laboratory prototypes replaced abstract meetings. Development teams included autoworkers, lawyers handling product liability cases, more women, and less emphasis on how to build cars efficiently and more emphasis on making cars easier to build. The Ford Taurus was started a year later than the Chevrolet Lumina, but finished a year earlier with many labor-saving design improvements that carried over to other Ford models. By 1992, Ford had a \$4 billion annual cost advantage over GM.

Meanwhile, the separation of power policy was largely lost at GM. Most of GM's leaders in recent years have been financial people or people from other industries. Ed Whitacre came from AT&T. Rick Wagoner and Fritz Henderson were from the financial sections of GM. Dan Akerson was from the communications industry. Only Jack Smith was a GM car guy who presided for a few years when GM did improve.

During GM's era of financial domination, finances got much worse. GM's peak real value profits were in 1965. Earlier acquisitions were later sold at a loss. Product strategies were ambivalent. More than a million Oldsmobiles were sold in 1985, but the make was discontinued later, as were Pontiac and Saturn. Detroit

Diesel, Allison Transmission, EDS, Delphi and Hughes Electronics were divested. GM's shares in Daewoo, Isuzu, Suzuki and the German company Opel were sold or greatly reduced. Losses mounted. Confusion reigned. Bankruptcy followed.

The problems that GM faces today may not be the problems of GM alone. It is how we run so many of our precious companies today, with the detached shallow and superficial pseudo-analysis lamented by Hayes and Abernathy 34 years ago. Many of our most important corporations are now headed by people with backgrounds similar to those who participated in GM's dramatic decline.

But there is hope. GM's current leader is Mary Barra — a 34-year veteran of GM who started work in the Detroit Hamtramck Assembly Plant as an electrical engineering co-op student at General Motors Institute. She has had a plethora of real car experiences since. It is nice to have a GM chief executive who is familiar with what it takes to put good products together and how to keep them attractive to customers. We can only wish both her and the company the best.

Part Six – Education

The education of the nation is one of our most expensive activities – yet one that is often managed amateurishly. At the K-12 level, we have chosen some of the weakest students to do the teaching, augmented this shortcoming with one of the shortest and least intensive school years in the industrial world, surrounded the activity with relaxed work schedules and lucrative early retirements, and then we make it nearly impossible to remove teachers who are less effective. Post-secondary education has fared better but, in the professional and technical programs, we have sometimes left the responsibility of college teaching to individuals with only scattered experience in what they are attempting to teach to others.

At the same time, we have many highly dedicated people in all levels of education and they deserve our support and admiration. Our problem is not that we do not good capable people in education, but that we permit too much variance.

The essays presented in Part Six express appreciation for those who have contributed so much to education, but provide hope for those believing we should improve this critical activity which is so related to the destiny of our nation.

Re--engineering Could Aid Stalled Budget Process

CITYBUSINESS -- February 9, 1996

Over seventy years ago, the famous sociologist and authority on management, Mary Parker Follett wrote extensively on the process of conflict resolution. Her book, *Dynamic Administration*, is now in its 23rd printing and was printed again in 1995. She described the three kinds of conflict resolution as domination, where one party gets what it wants, compromise, where neither party gets what it wants and goal integration, where the problem is reexamined and the solutions re-engineered so that both parties end up better off than they would have been had the problem not been solved. This is the style of conflict resolution that has been lacking in Washington for many years.

With both major parties championing entrenched positions, there has been a reluctance on both sides to examine the problems before us for their practical impact. Creative solutions go wanting as we continue to go further in debt by funding programs that are often beneficial only to the people who administer them. At the same time, enforcement of the public interest goes wanting as we allow individuals of many stripes to take unfair advantage of confused and ineffective enforcement mechanism — some of which are needed. The average American sees through this situation, of course, which is one of the reasons why neither Bill Clinton or Newt Gingrich are very popular.

Yet, there are many instances where we could re-engineer to approaches to be far more effective at lower cost. Education is one. Most of the money has not gone to benefit the children. It has gone for earlier retirements, higher pay and more time off for teachers. Experienced teachers who now earn about twice the average yearly wages of most full time workers in the US. The work considerably fewer hours per year and yet can often retire, with excellent benefits when they are 52 or 55. We have one of the shortest school years in the entire world and one of the shortest school days among industrial countries. We have almost systematically driven anyone with work skill or work experience from being able to teach in local schools. Yet, there is a mountain of evidence suggesting that what our education system needs is closer association with work readiness, better role models, and more time spent on the fundamentals. Education in the US has become very costly as it has become a bit of an international laughing stock.

We could conduct education differently. We could allow people with experience in industry to teach in local schools. We could make extensive use of part time adjunct instructors to provide specialized knowledge and skills. We could increase the number of school hours per year to more closely approximate what takes place elsewhere. Instead of having conflict over whether Spanish or English will be the language of the future, we could build upon the fortunate presence of our Spanish speaking population (three languages are required in many countries). We could hold some of the classes in places of work to provide the students with a better appreciation of how our economy works. We could be less timid about Most of all, we could dismiss those teachers who are neither effective at what they do or interested in improving their effectiveness. We could either make tenure a meaningful badge of academic excellence or get rid of it. In trade, we could become less tolerant of those students who disrupt school and we could provide better support to those teachers and school officials who find it necessary to implement disciplinary action.

The good teachers would have nothing at all to fear from these changes and many of them champion the need for educational reforms now. Tenure does nothing for the good professors —only the marginal ones. If we were to have widespread re-engineering in education, the schools would be more orderly, students would be more invigorated, we could better prepare them for later life, and cost would be lower. We could pay the good teachers better.

Education system gets failing marks

CITYBUSINESS -- July 4, 1997

The recent standoff between the Legislature and the governor was both healthy and overdue. There are five teachers in our immediate family and I would like to join with the many other educators who are interested in educational reform. People, in every profession, want to be part of a class act. Unfortunately, if we were to give education a grade for its achievements during the past 30 years compared to world standards, it could not be a favorable grade. Education is failing the American people and many dedicated people within education feel this keenly. Education is not failing because it lacks resources. Education is failing because the resources are rarely used to benefit students. Many of us have the concern that we are missing a key ingredient to the quality of U.S. education — the work ethic and preparation of the nation's teachers.

Education majors historically score very low on tests themselves. Out of 47 fields of study with national norms on the Graduate Record Examination, the norms for education majors are at or near the bottom. Engineering, science and humanities majors all score much higher. And yet, irrelevant certification requirements make it quite difficult for a physics, engineering or foreign language major to obtain a job teaching school. Most of the first-rate scholars I know would not be able to legally teach school — nor would experienced practitioners from industry, which is one thing that education sorely needs.

This shortfall in qualifications is not because of teacher pay. Teachers in our district, Hopkins, had W-2 earnings averaging \$48,300 per year in 1995 — about twice the average for full-time Minnesota workers. The shortfall in qualifications occurs because it is a closed club. It is too difficult for people with good training and experience to break into the system. This applies particularly to highly qualified teachers who may wish to transfer from one school district to another. It also applies to the many energetic young teachers who cannot find teaching appointments while we continue to employ others who have limited zeal and effectiveness.

Neither is it because of other resource limitations — even for Minneapolis. The U.S. spends lavishly on education compared to other countries and gets much poorer results. I was highly impressed with the engineering students at the Czech Technical University (where Einstein once taught) who were making do with facilities well over a hundred years old filled with improvised equipment which served to amplify and make more relevant their learning experiences. The faculty, however, was highly dedicated.

Nor are our problems due to a lack of time. Teachers in Minnesota are required to teach about 22 to 25 hours a week for about 34 weeks of the year. In our district, teachers are allowed 18 paid days off out of this already abbreviated work year. Many teachers put in much more time, of course, but we all know that many do not. The variance in dedication is huge and we have few established mechanisms for dealing with these variances. Few companies would be able to stay in business with the work-time practices employed in education.

Unfortunately, the money appropriated for education in Minnesota rarely benefits students. The money goes for shorter hours, more time off, more benefits, earlier retirements and extra bonuses to retire early. In 1995 and 1996, 30 teachers retired from the Hopkins School District at an average age under 58 years and with special retirement cash bonuses averaging \$34,000 which they received in addition to their retirement pay in addition to medical benefits. In some cases, in the past, retirees from that district have also received lucrative severance pay just in addition to early retirement bonuses. The average machinist stands in front of his or her lathe about 80,000 hours before retirement. The average Minnesota teacher is in front of his or her classroom somewhere around 20,000 hours before retirement. Retirement eligibility reportedly occurs even earlier in some metropolitan districts and, looking ahead, it is not impossible that we will have some teachers in retirement twice as long as they worked — an enormous cost to the system. Yet we are timid in our exploration of how these limited number of work hours impact education.

Students the Czech Republic routinely take math through differential equations, three languages and lots of humanities before graduating from high school. The students I had in Uruguay were also excellently prepared. I've also visited and taught in other universities in the United States — including the University of Minnesota. U.S. students are coming to college unprepared to participate meaningfully and we put up with it. But the ramifications are huge. There are six times as many science and engineering graduates coming out of Southeast Asia as are graduating from the United States and many of ours are from other countries.

Most nations with whom we compete in world markets have school years averaging around 220 days a year or more, vs. 171 in Minnesota, and days that are also more intense.

In the past 10 years, I spent quite a bit of time on the international education committee for one of the major professional societies. Every dean or professor or representative from industry that I met in connection with that assignment was seriously concerned with the quality of U.S. elementary and secondary education — as well as higher education.

Yet, mere attendance at college is no index of educational progress. Over the past 30 years, we have seen a great upsurge in the number of graduates in political science, theater arts and business administration. Yet the number of graduates in the sciences has remained approximately constant for many years. Minnesota's private colleges have about 20 percent of the state's enrollment but graduate about half of Minnesota's science graduates.

Obviously, there are many dedicated teachers and my heart goes out to them. Education has some excellent teachers — but not enough. If someone purchases a new car that has two flat tires, they will no doubt complain. But, if our courses are uninspiring or poorly taught or insufficient in terms of the material covered, that is a quality problem too. One of our daughters, who is an excellent high school teacher, made an interesting observation regarding student testing: "The people they should really test are the teachers."

It is important for legislators to differentiate between what people in education really think vs. what the people who purport to represent them say in public. Representatives of the Minnesota Education Association would have us believe that what is needed is more money and more formal credentialing. Many people in education believe that the most useful thing we could do is to rid the system of some of the people who are less dedicated and up the expectations.

Yet, I can understand the concerns of people in organized labor and I can fully recognize the fact that today's teachers are asked to put up with too much. Teachers should be given more latitude to discipline students. The public is entitled to a great deal more accountability on the part of the people involved in education — students as well as teachers. We should treat the good teachers well and then remake the system so it can be more effective at lower cost. In order to do this, we will need to address the work-time requirements, preparation, and retirement practices of teachers. If we retain only the competent teachers, make the work schedule similar to what other employees experience, institute more traditional retirement programs, and re-instill a sense of pride, the educational progress of students should increase with no more money being spent. If we cannot do these things, parents and students should be able to choose private schools.

I applaud the governor for his concerns in this regard.

How to cut college costs? Easy as Pi

MINNEAPOLIS STAR TRIBUNE -- June 16, 2002

The Star Tribune recently has run a series of articles on the cost of higher education and how college costs might be better financed. They all were interesting to me, a college professor and a father of five. I have roughly guesstimated that our family already has spent about \$400,000 on tuition and we still have a junior in high school and a freshman in college. College tuition is costing more, and the time is upon us when those of us involved in education should examine our role in it. Perhaps there are some things we can do.

Over the years, I have taught or lectured at universities in the United States, four times in South America and in Europe. Our older children have taught at Stanford University, the University of Washington and Ohio State University. Among my friends at many other schools are many insightful scholars who are asking the question, "Are we doing things in the best way that we can?"

We could take several steps to improve the cost-effectiveness of education. We could convert to a full work year, which most conscientious faculty members observe already. If education is important, which it is, why not work a normal-length year?

We could reduce the influence of tenure or hold systematic annual reviews, as several universities do now. We could reduce much of education's non-value-adding overhead. And we could hold fewer meetings.

The paid time of most college faculty members simply cannot be accounted for by teaching or research. Professors at teaching institutions usually teach classes for about 330 hours per year; at research institutions, about 165. An ordinary work year in industry is around 1,925 hours. The word count for all of the published academic articles and books per year works cannot account for the full available faculty time and even this is highly skewed to a relatively small number of people.

In reality, many of us neither teach nor do research - very much. Instead, we meet. We have search committees and curriculum meetings and policy meetings and innumerable other meetings but very few decisions.

Many conscientious faculty members hate these meetings, and they avoid them because nothing ever happens and they have better things to do. This all works to the peril of the institution because it leaves the affairs of the university in the hands of people who like meetings.

The poem below was written during a protracted faculty meeting. I won't say where. It illustrates the dilemma often created by the consensus style of management so prevalent in academia. As educators, we have responsibilities. Our institutions were not built to serve us but to serve students in as cost-effective a manner as we can. Collectively, we aren't there yet. We have too much time off. We waste the time that we have. We don't always expose our best scholars to the students. We rarely practice the cost-vigilance that has been necessary for survival in industrial companies. Perhaps the matter can be discussed further.

The Committee on the Value of Pi

MINNEAPOLIS STAR TRIBUNE -- June 16, 2002

A long time ago at Fernpepper U.,
Dean Quigley struggled with what to do.
Now the dean was a man of very good heart,
Gentle and kind and unwilling to part.
From his key objective of widespread bliss.
No contention, no challenges, just things left amiss.
Whenever a problem would need a solution,
A faculty committee was the key to resolution.

A new problem developed, which required much tact,
 On the value of pi. Was it exact?
 So Quigley decided it would be a great pity.
 To resolve the matter without a committee.
 He appointed 16, but this proved too restrictive,
 And the committee grew more and became somewhat addictive.

Now, academic committees have key characteristics:
 Include all opinions, ignore all statistics.
 Deal only with emotion and tenure and rank.
 Never, ever, be concerned about money in the bank,
 Or whether or not the classes are good,
 Or whether the students are paying more than they should.
 One rule above all makes committees very nice:
 Never consider an option that involves sacrifice.
 Procedures like these which function so lowly.
 Are why faculty committees get wrong answers slowly.

The committee faced the pi problem with glee.
 “When we get done with pi, we’ll then take on E.”
 They all agreed that pi was all wrong -
 Too complicated, too messy and much, much too long.
 Three-point-one-four-one-five-nine.
 Two-six-five-three-five-eight-nine.
 Seven-nine-three-two-three-eight-four-six.
 This was truly a problem the committee should fix.
 So the committee continued its arduous work,
 Meeting weekly on release time, a wonderful perk.

One faction wanted the number reduced.
 Because of the awkward trouble it induced.
 To have a value of 2 would be much more astute,
 Much easier to remember, to use and compute.
 Others wanted the value increased -
 Pizza lovers mostly, from out in the East.
 Some suggested its length was ridiculous,
 Preferring instead to be much less meticulous.

Some suggested not much could be rearranged -
 Pi was a ratio that could never be changed.
 “Pi is irrational, one can easily see.”
 “That may be true, but then, so are we.”
 But most concluded that it was absolutely imperative.
 That pi be considered a faculty prerogative.

The contention soon engulfed both physics and theology,
 Sociology and English, engineering and zoology,
 Journalism and German and French and geology.
 Chemistry, history, economics and psychology.
 The debate continued year after year,
 While Fernpepper slipped to a much lower tier.

Quality declined because of this digression,
 And enrollment plunged to a deep recession.

Money became scarce, as we might have suspected,
And worthy projects were always rejected.
Younger faculty who showed the most potential.
Were let go - having tenure was essential.
Quigley passed on, as did three deans following.
But the committee continued, undaunted and wallowing.

Not all participated in the fervent debate.
Some continued doing work that was really first-rate.
They taught and researched and inspired the students,
Had new ideas and new concepts as they covered the rudiments.
But these able few could not reverse the trend,
And Fernpepper continued its trend toward the end.

The question we ask is, could we have saved it.
By taking strong action, if we had braved it?.
Could we have made our classes much better.
Or focused our attention on things that really did matter?.
If we had helped the students to find sufficiency.
Or done some things to improve our efficiency?.
Could we have been more demanding of ourselves and our peers.
And exemplified greater scholarship those past many years?.

At the time of the Pi Committee, we were all overjoyed.
But as of this writing, we are all unemployed.
And the name Fernpepper is remembered by only a few,
Along with Studebaker and Hudson and Dien Bien Phu

Note: Pi is the ratio of the circumference of a circle to its diameter. It is about
3.14159265358979323846..

Let's make education a class act

MINNEAPOLIS STAR TRIBUNE -- February 20, 2005

The status, financial condition, needs and quality of Minnesota's education system are likely to keep the Legislature busy this session, examining proposals for vouchers, starting the school year after Labor Day, funding increases for higher education, merit pay and other important issues. These deliberations are of interest to those of us involved in education and everybody else.

Clearly, all citizens benefit from the competence and dedication of so many people in education. First-rate scholars like John Adams, Ed Schuh, Andrew Van de Ven and Ann Markusen, from the University of Minnesota, J.T. Black of Auburn, Dick Chase of the University of Southern California and many others all shoulder the solemn responsibility of educating, stimulating and revitalizing our entire nation.

Minnesota's private colleges, which supply nearly half of the state's science and math graduates, have dedicated and effective educators as well: Mike Naughton, Meg Karraker, Tom Ippoliti, Mike Mikolajczak and others.

There is much good in education at all levels; at universities, technical colleges, and in the K-12 system. Last spring, I was privileged to serve as "Principal for a Day" at North High School in Minneapolis, where I witnessed first-hand the dedication of students, faculty and staff.

Yet the dedication of some students, some faculty and some staff cannot be generalized to all of education. The disparity in effectiveness and efficiency is enormous - within schools, between schools, and at different levels - quite often unrelated to the funding involved.

Educators cause some of this disparity because we too often consider what is good for us rather than what is good for students or the community. As educators, we have responsibilities. Our institutions were not built to serve us, but to serve students in as cost-effective a manner as possible.

In spite of some heroic efforts by individuals, education as a system is in need of much improvement. We have too much bureaucracy and too much time off. We often waste time with inconsequential meetings. Some administrators do little more than spawn busy work and consume resources.

Our best scholars are often not available to students. We rarely practice the cost vigilance that has been necessary for survival in industrial companies.

Indifferent parents who watch too much television, overzealous sports enthusiasts and citizens with competing priorities also detract. The motivation for this piece was in part provided by the proposal recently advanced in the Legislature to start school after Labor Day for the sake of the resort business. Given the fact that students who score at the median in science and math tests in Singapore would score at the 87th percentile in the United States, shortening Minnesota's already abbreviated school year does not seem like a good idea. If education is important to our future, it deserves serious consideration.

Although some argue the need for more funding, generally speaking, educators are well-paid - especially on a per-hour basis. The annual compensation of K-12 educators is about twice the average for full-time workers who normally work 40 percent more days per year and retire about 10 years later. And, the defined-benefit retirement plans provided to K-12 teachers are generous compared with the defined-contribution plans common in industry.

At the college level, we should remember that there are now eight college football coaches making more than \$2 million dollars per year and many who make more than \$1 million. The head coaches at the University of Iowa and Iowa State are among the highest-paid people in the state. Does this activity really have the earmarks of being underfunded?.

We spend a lot of money on education, but much of it never reaches the classroom. The projected cost of the lucrative retirement programs for public employees is attracting more attention. By 2008, Michigan teacher retirement programs, though less lucrative than those in Minnesota, will annually cost \$1,200 per pupil. Yet the costs for retirements and time off seem never to be considered as we evaluate "funding" for education.

There are many hard-working and dedicated teachers who earn every cent of their pay and we should appreciate them. Still, the world economic environment is highly competitive. It is not surprising that some of these pressures permeate education.

We could ignore both the pressures and the facts. We could ignore the fact that students in several competing countries experience longer school years, more rigorous instruction and receive significantly more homework than students receive here. We could avoid updating our retirement programs in the face of rapidly increasing life expectancies.

We could let gradual drift take its ultimate toll - the infusion of greater cost and the compromising of results.

The governor or the Legislature are not the chief enemies of education. Most of the enemies are within; insufficient quality assurance, unenforced discipline, compensation systems excessively skewed toward older teachers, poor resource utilization, too much bureaucracy.

Nor are the perils facing education the result of union presence. The heavily unionized school district in Edmonton, Alberta, is one of the most innovative in the Western Hemisphere. Leading companies such as Southwest Airlines, Deere and Ford have been unionized for many decades and still turn out quality products and make good returns. But, with these companies, the threat of capable competition has motivated labor and management to work productively together. This has not yet happened in education, but it should.

I sometimes wish the Legislature could do something practical like make provisions to fire the very few less-dedicated teachers, bring sanity to the emphasis on athletics, close costly operations that contribute little to the state's economy, allow the dedicated teachers to enforce their own discipline in the classroom, make the state's public retirement schedule similar to that of Social Security, and levy a modest tax on television sets and video games to provide additional funding for the quality education we will need to compete.

Were these things to happen, my belief is that the people in education would rally in support. People in education want to be part of a class act.

Boosting quality and productivity not impossible

MINNEAPOLIS STAR TRIBUNE -- February 14, 2011

Much of the current debate on Minnesota's pressing fiscal budget problems often involves the practical imperative to find ways to do things better -- to improve quality and productivity simultaneously. This is difficult, but not impossible.

My purpose here is not to advance one position or another but to reflect on some of the individual character traits of leaders who have been effective in finding solutions to similar problems before.

After all, this is not the world's first need for adjustment. In the past, some of America's best companies such as Ford, Deere, Winnebago have successfully lived through difficult times in which revenue declined by 60, 70, and even 80 percent -- far more than Minnesota's current shortfall. Yet, these companies survived and became better.

My years in industry and as a long time corporate director have allowed me to know many business leaders. At the same time, I have had the privilege of knowing quite a wide variety of labor leaders. Though there are clearly variances in both groups, it has been encouraging to see the good spirit and competent foresight existing among the more highly regarded labor and management leaders. Indeed, there are often more similarities than differences. The similarities would include realistic understanding of the issues, a bias toward getting problems solved and a more appreciative view of the problems on the other side of the table.

A couple of decades ago, several high ranking auto executives and Douglas Fraser, the recently retired president of the United Auto Workers (UAW), spoke to our students at St. Thomas. We were pleased that everyone seemed to know one another -- and their problems.

Fraser was a very dignified speaker -- often sounding much like an Oxford don. On one occasion, he was approached after his speech by an attendee saying, "Sir, you don't sound much like a labor leader. I always thought a labor leader would be a cigar-smoking, fist-pounding person with a loud voice."

Fraser kindly replied: "My good man, you've just described Lee Iacocca," a long time personal friend of Fraser's.

On another occasion, I interviewed a top-ranking executive from General Motors who said in candor, "I think Don Ephlin [then No. 2 person at the UAW] had as much to do with the resurgence of the U.S. auto industry in the late 1980s as anyone in the industry."

Making adjustments

Minnesota has been blessed with some forward-looking union officials of its own. Bob Killeen of the UAW at the St. Paul Ford plant became a state and national leader encouraging union members to enthusiastically back both quality and productivity improvements "so our employers don't go broke." After retiring from Ford, Bob Killeen became co-director of the Minnesota Council on Quality.

Industry provided its own slate of capable executives who knew enough to see a coincidence of interest between management and labor: Donald Peterson, Philip Caldwell, and Lew Veraldi of Ford, Lee Iacocca and Robert Lutz of Chrysler, among others.

American industry survived the troubled early 1980s, and much of it is surviving today, due in part to practical cooperation in reducing the bad practices that did neither side any good.

These lessons should inform efforts to solve Minnesota's current budget dilemma.

We are all in this together. Adjustments need to be made. There will not be anywhere enough money to do everything as we did in the past. Enlightened leaders of labor and industry recognize that reality and they work together to reduce costs and improve quality simultaneously. Otherwise there is no future for anybody. It is very foolish for either side to claim immunity from improvement.

Education provides a good example of where cooperation is desperately needed. In spite of many dedicated teachers, the country's K-12 schools are a national embarrassment. More of the costs need to be directed to the classroom and away from time off and early retirements for employees and to less-effective administra-

tion. Yet the dedicated teachers I know would appreciate greater ability to control classroom discipline and the weeding out of teachers who are not serious about their jobs.

At the college level, it is not fair to the students to be increasing tuition at three times the rate of inflation while faculty members and staff spend so much time in unproductive non-essential activities. We have too much time off and we have too many meetings. Here, also, we could weed out some people. The lessons we are teaching in our classes have relevance to our own performance.

Greater efficiency and productivity are needed in other areas; regulation, permitting, economic development, health and human services, and more.

The labor and management leaders who have been memorable in the past would know what to do: understand the issues and work productively together to get the problems solved. I am hopeful this could still happen in Minnesota.

Education as an Endeavor Can it be Better?

Precision Manufacturing -- July/August 2011

As we know from our experience in manufacturing, progress in both quality and productivity is first achieved by a reduction in variance. Education today employs a wide variety of practitioners, often utilizing unverified methods, teaching students of varying skills, with some of the most lenient work-time requirements existing in the world today. The results of these sizeable variations is predictable. Our results in educating our students is mediocre to poor.

There are, of course, some highly competent, hard working, and richly motivated people in education -- some of the most exemplary people we have in our country. But yet, in spite of so many fine practitioners, the systems we employ are mediocre and our results are well below what our customers deserve.

It is this enormous variation, rather than the lack of capability of the dedicated contributors, that is lowering the quality of both our K-12 and post secondary education system in ways that are reducing our prowess in manufacturing and science, weakening our economy, contributing to our fiscal deficits and unacceptable levels of unemployment. The reduction of variance in education is in everyone's best interest.

The Enormous Increase in the Costs of Education

Education costs have been increasing much faster than the rate of inflation at both the K-12 and higher education levels. Inflation-adjusted K-12 education costs have risen three and a half times since 1970 while test scores among students have been flat to declining. Meanwhile, college tuition has been increasing about three times the rate of inflation of either homes, or the Consumer Price Index.

Emerging Concerns among Many Educators:

Many of my academic friends, respected scholars and competent educators, have similar concerns. We have some excellent teachers. However, in the main, we are not giving our customers, the community and our students, good value for the amount of money being spent on education. Instead of consistently high quality services, we are providing services with such wide variations in quality that we should be ashamed to present them to a deserving public. We have variations in the length of the school year, in hours spent in school, in the depth of material covered, in magnitude and quality of home work, and in the dedication of work practices of those providing education.

Education is not alone in facing the imperative to improve quality and productivity simultaneously. Most industrial companies have been experiencing these pressures for decades. In many cases, unions have joined with management to work together to improve or eliminate practices that impede the ability of the firm to compete internationally. The more enlightened labor leaders of the past, such as Douglas Fraser, Don Ephlin, Bob Killeen and others, have long recognized that the most serious threat to the welfare of workers is the bankruptcy of major employers.

Unfortunately, many of us in education have not always adopted pro-active efforts to improve the quality of our end product, our productivity, and the sustainability of our livelihood.

Variation #1 -- School days per year:

Reliable comparative statistics on the education systems existing in other countries is rare, but not absent. The information that is available indicates that most of the world's students attend school more days per year, often for more hours per day, and quite often perform better on standardized tests than do students in the United States. Students in Australia attend school for 200 days a year. The school year in both China and Slovenia runs from the beginning of September to mid-July. China's average school day runs from 7:30 a.m. to 5 p.m., but with a longer lunch break. Students in Iran go to school for 10 months a year, from September to June.

Students in Japan study academic subjects, such as Japanese language, math, reading, social studies, music, and art, but also receive courses in health and safety, living a disciplined life, courtesy, understanding and confidence, public manners, and environmental awareness.

South Korea school years typically run 220 days from 8 a.m. to 4 p.m. It is not uncommon for many students to continue their studies well into the evening.

Table 1 provides an approximation of the number of school days per year for selected countries along with some of the average eighth grade test scores achieved on Trends in International Mathematics and Science Study (TIMSS) developed by the International Association for the Evaluation of Educational Achievement. Although the correlation is not perfect, it does appear that the higher scores are achieved by students attending school for more days per year. In any case, the United States does rank lower in both days in school and eighth grade scores in science and mathematics.

My own experiences of teaching courses overseas, along with the experiences related of others including foreign graduate students in this country, have provided with a deep respect for quality of education in many other countries. Almost all countries have longer school years than Minnesota (Table 1). Not only are the school years longer, the days are often longer as well and the home work is more intense. As a result, the students finishing at the 50th percentile in the United States would be approximately at the 13th percentile in Singapore.

Country	Length of School Year in Days	Average Score 8th Grade Science Test (TIMMS)	Average Score 8th Grade Math Test (TIMMS)
Korea	220	553	597
Czech Republic	206	539	504
Slovenia	201	538	501
Hong Kong	201	530	572
Netherlands	200	523	
Northern Ireland	200		
Singapore	200	567	593
Australia	200	515	496
Italy	200		
Germany	198		
South Africa	197		
New Zealand	194	504	
England	190	542	513
Canada	190		
Scotland	190		
Wales	190		
Hungary	185	539	517
Sweden	182	511	491
Ireland	181		
United States	180	520	508
France	180		
Spain	177		
Japan	175	554	570
Russia	175	530	512
Minnesota	172		

Source: INCA Comparative Tables, INTERNATIONAL REVIEW OF CURRICULUM AND ASSESSMENT, September 2009 and U. S. Department of Education, Institute of Educational Sciences, 2011.

Variation #2 -- Who is Doing the Teaching

As legislatures across the country grapple with the arduous task of addressing the quality of our education system while simultaneously attempting to hold costs in line, we should examine more precisely who is doing the teaching. Are these the people best prepared to teach our students?

The Graduate Record Examination (GRE) is perhaps the main test required for admission into a wide assortment of graduate program in the social sciences, humanities, natural sciences, engineering, and education. The Education Testing Service routinely publishes the norms for this test -- the average and percentile scores by major field of study. Table 2 represent the most recent norms published for 2007-08. Table 2 ranks these intended fields of study by the mean score on the Quantitative portion of the test but the mean scores are also shown for the Verbal and Analytical Reasoning portions.

(1) Intended Graduate Major	(2) Academic Group	(3) Verbal Score	(4) Quantitative Score	(5) Analytical Writing Score
Physics & Astronomy	Physical Sciences	531	735	4.5
Mathematical Sciences	Physical Sciences	501	732	4.4
Material Engineering	Engineering	493	726	4.3
Chemical Engineering	Engineering	490	726	4.3
Electrical Engineering	Engineering	459	725	4.0
Mechanical Engineering	Engineering	472	724	4.2
Other Engineering	Engineering	495	714	4.4
Economics	Social Science	504	708	4.5
Industrial Engineering	Engineering	440	705	4.0
Civil Engineering	Engineering	458	698	4.1
Computer & Information Sciences	Physical Sciences	462	696	4.0
Chemistry	Physical Sciences	486	678	4.3
Philosophy	Humanities	590	635	5.0
Earth, Atmospheric & Marine Sciences	Physical Sciences	495	634	4.4
Biological Sciences	Life Sciences	489	629	4.4
Humanities - Other	Humanities	567	599	4.8
Natural Sciences - Other	Physical Sciences	470	596	4.3
Political Science	Social Science	525	585	4.7
Agriculture	Life Sciences	455	583	4.1
Foreign Language & Literature	Humanities	532	571	4.6
Art History & Theory	Humanities	537	565	4.6
Anthropology & Archeology	Social Science	534	565	4.6
History	Humanities	542	554	4.7
Health and Medical Sciences	Life Sciences	446	551	4.2
Performing Arts	Humanities	489	551	4.3
English Language & Literature	Humanities	561	550	4.8
Sociology	Social Science	489	545	4.5
Psychology	Social Science	471	544	4.4
Education Curriculum & Instruction	Education	459	543	4.3
Social Science - Other	Social Science	464	526	4.3
Education - Elementary	Education	440	522	4.2
Education Administration	Education	426	520	4.2
Education - Early Childhood	Education	420	498	4.1

Source: Graduate Record Examinations - Guide to the Use of Scores 2007-08, Educational Testing Service, www.ets.org/gre, 2011.

The Educational Testing Service lists the mean scores for the people intending to do graduate work in 33 major fields of study. Applicants for graduate programs in education have, for decades, scored well below many other intended fields and near the bottom of the list on all three sections of the Graduate Record Examination. Applicants for the four education fields populated four of the bottom eight positions on the Verbal section, four of the bottom five positions on the Quantitative portion, and four of the bottom twelve positions on the Analytical Reasoning section.

We would all agree that there are many fine personal attributes that extend well beyond the ability to score well on tests. However, perhaps we should reappraise whether all bachelors, masters, or doctoral degrees represent comparable levels of subject mastery. We might also ask if someone with credentials in a major field like chemistry, philosophy, or some other major field might be better equipped to convey knowledge to our young people than some individuals with degrees in education. It could be argued that in our attempts to ensure that teachers are properly "credentialed," we have somehow turned the education of the nation over to the weakest students.

Variation # 3 -- Time Spent Working

The vast majority of people in education are not underpaid – especially on a per hour basis. K-12 educators work a 35 week year. Most are required to be in front of their classrooms about 25 hours per week for a total of around 900 contact hours per year. Yet, provisions for extra time off for personal or other reasons are quite generous. The teacher's contract for our school district allows for sixteen paid days off out of an already abbreviated work year. The average number of paid days off is about seven per year in this district. I am sure the conscientious and dedicated teachers are absent far fewer days. None the less, the required contact hours averages about 865 hours per year.

It is certainly true that conscientious and dedicated teachers spend more time in preparation, in grading the work of their students, and on other activities important to schools and students. Some teachers are very conscientious about these responsibilities.

Sometimes significant compensation is received for performing additional tasks. But those we know in education often express concern that many teachers do not expend very much time or effort in performing this critical function of educating the youth of our nation. The question should be asked, just how much out-of-classroom work is being done and what are the ranges in the time that is it taking?

Higher education, of which I was a part for quite a long time, has even a more relaxed schedule than the K-12 system. A typical teaching load at a "teaching institution" generally averages around 330 to 400 contact hours per year -- occasionally more when laboratory courses are taught. At major "research institutions," where three of our children have taught, the faculty loads are more in the range of 165 to 200 contact hours per year. Here, as with the K-12 system, there is much extra work that needs to be done and some people do it.

The average work year is about 1800 hours per year in private industry.

Variation #4 -- Retirement Provisions

The ages at which employees are eligible for retirement contrasts sharply with typical practices outside of education. Many private sector employees retire in their 70s. Public employees are often allowed to retire at much earlier ages – sometimes as early as 52 and often in the mid50s.

A few years ago, an interesting situation occurred at the University of St. Thomas. One of our most reputable faculty members retired in his 70s. His son, a teacher in one of the large metro districts, retired about the same time. Together, they bought a cabin in Northern Minnesota. I have been to the cabin.

The early and generous retirement provisions available to teachers in Minnesota are likely to emerge as significant anchors to the quality of Minnesota education in the future. The actuarial value of Minnesota Teachers Retirement Association assets has fallen for the past four years due to the partial recognition of investment losses sustained from mid-2007 through March 2009. However, as of June 30, 2010, the Minnesota Teachers Retirement Association showed an Unfunded Actuarial Accrued Liability of \$ 4,758,488,000. TRA had additional yet to be recognized losses of approximately \$2.4 billion because of the five-year smoothing of investment gains and losses. The total of both recognized and unrecognized

pension benefit shortfall was approximately \$7.1 billion or a bit more than the highly publicized shortfall that Minnesota's legislature and governor are dealing with this session.

The actual shortfall might be greater if the rather optimistic assumptions on the estimated gains on investments are not fulfilled.

These gigantic future obligations will be costly to both school districts and younger plan participants. School districts will find that funding contributions for retirement programs will impact the money available for instruction. If the situation is not corrected, pension obligations will crowd out the availability of money for instruction, supplies, and programs. At the same time, younger plan participants are likely to face greatly increased contributions to satisfy the employee paid portion of retirement funding. In the meantime, older teachers are likely to be able to retire at ages quite unavailable to most other citizens while their coworkers and employers are left to pay the bill.

Variation # 5 -- Tenure

Tenure emerged in the 1940s to provide established college faculty with the freedom to publish meaningful research that may conflict with conventional wisdom of the times – academic freedom. It was not intended as a lifetime employment guarantee for all people in education regardless of accomplishment, performance or merit. After all, what is the relevance of academic freedom if nothing is being said or written?

There have been efforts in Europe and other parts of the world to redefine tenure and to link it more tangibly to performance. In some countries, shorter term contracts of one or two years are now being substituted for what had been lifetime employment arrangements.

Recently, Bill and Melinda Gates funded a project through the Center for American Progress entitled "Ring the Bell for K-12 Teacher Tenure Reform." Included in the report were several recommendations for both the Federal and state governments:

- Federal government should continue to leverage education funding to push states to develop and deploy more meaningful teacher evaluation systems based on a clear definition of teacher effectiveness.
- The U.S. Department of Education should fund research and pilot demonstration programs that will provide empirical evidence of how effective different kinds of teacher tenure policies are on raising teacher quality and student achievement.
- Empirical evidence should be the basis for a serious and unprecedented conversation among policymakers as well as the general public about the costs and benefits of teacher tenure and the circumstances under which it should be granted and revoked.
- States should change their tenure statutes to explicitly mandate that teacher retention and dismissal decisions incorporate teacher effectiveness data.
- Legislators should ensure that state-level tenure reforms are not overridden by local collective bargaining agreements by articulating explicit statutory language to this effect.
- States should improve their teacher licensing processes to ensure that the effectiveness of all teachers is assessed on a regular basis as a condition for the granting and renewal of a state teaching licenses regardless of the particular criteria for evaluation and tenure laid out in state tenure laws and collective bargaining contracts.
- Teachers unions should embrace efforts to streamline the removal process for ineffective teachers and only contest those dismissals that clearly violated due process or were unsubstantiated by the teacher evaluation process.



Completing an employment application form with focus on heading

Cost of Education

Some would argue that education does not pay enough to attract better talent into what admittedly can be a difficult profession at times. To some degree, this may be true at the entry level because much of today's education compensation, and a very high proportion of the benefits, are skewed to the older teachers. The case could be made that younger teachers subsidize older teachers.

It is true that many of us are disappointed to see the egregious bonuses, absurd executive pay (in far too many instances), and inappropriate corporate behavior on Wall Street or in other instances. These are all great barriers to national progress and an impediment to any possible feeling of fairness that the public may have and many of us hope that these excesses can be corrected. However, the fact that we have imperfections in some portions of our society does not mean that the segment we are examining, education, should be immune from improvement. Much of the public is having very difficult time at the moment, and most of them have less pay, fewer benefits, and a far weaker safety net than most people in education.

One problem contributing to our slipping educational quality is that almost everyone in education is treated the same way. Of the 601 teachers in our local school district, 600 received the extra Minnesota Q Comp compensation designed to reward the best teachers.

Currently, the United States has about 15 million people who are unemployed, plus another 9 million people working part time for economic reasons. There is little question that, whatever we do, there will be some unemployed people. The question is, who will they be? Perhaps there are capable people among our 24 million unemployed or underemployed who would perform better in the classroom than some of the people we now have. After all, the ranks of the unemployed or underemployed include some very well educated people including some promising younger teachers.

In the meantime, we are shifting the costs of our inefficiencies to our customers. Outstanding student loans now stand at about \$700 billion and are expected to double in the next six years. The true total costs of education are growing and often hidden.

Summary:

We do have some outstanding educators who deserve our admiration and our support. I continue to respect, admire, and appreciate good teachers. At the same time, our citizens are paying enough that they should be able to expect higher quality, more intensified effort, and better dedication on the part of some educators. There is too much variance time spent, qualifications, work practices, retirements and tenure. In many cases, we are not receiving what we are paying for.

People in education want to be part of a class act. Given Minnesota's current financial dilemma and the serious requirement to educate our people to be able to function in an increasingly competitive world, I am hopeful that the financial constraints surrounding our country in 2011 will prompt us all to seek meaningful quality and productivity improvements in all aspects of education. If we do not manage education in a more responsible way, it will have the financial potential of bankrupting the entire state while simultaneously maneuvering our younger citizens into the corner of lasting poverty and deprivation.

Attention job applicants ...

Be realistic about your skill set and choose your future employer carefully.

MINNEAPOLIS STAR TRIBUNE --July 29, 2012

In his well-written Business Forum of July 16, Bill Blazar articulates a situation long of concern to many of us: The "new normal" condition of the state's workforce includes a continuing shortage of qualified workers for the available jobs.

This observation is consistent with many of my own visits with industrial employers in Minnesota and elsewhere. As Blazar points out, there is much that can be done by companies, colleges and universities, and workforce development organizations to better prepare people for employment. Having worked as an employer, corporate director and college professor, I've been exposed to some suggestions that might be useful to job applicants and the role they can play in their own future.

Realistically appraise where employment is needed. Some sectors, such as finance, professional and business services, and government, may very well contract in the next few years. If so, the decline would be overdue, because from 1962 to the present, these three sectors have accounted for 42 percent of U.S. employment growth. Health care and education accounted for an additional 22 percent. All of these sectors, for a variety of reasons, are quite likely to experience pressures to improve efficiency and reduce employment for the next several years.

Recognize that, among employers, the single most appealing characteristic of applicants is not necessarily education, but character. Education is, of course, is a desired attribute. But it's not, by itself, sufficient. Employers want people who are dependable, have good values, are honest, come to work regularly and on time, and are not prone to use addictive substances -- even casually.

Every company has some trusted managers who possess the knack for hiring capable people who are ultimately promoted. Several decades ago, as a corporate officer, I asked six of these extraordinary recruiters what questions they asked of applicants during the first interview. It was an interesting list involving some of the following questions: "Where did you go on spring break?" "How many wrenches do you own?" "Do you have any relatives who are immigrants or have you helped immigrants?" "Have you fixed many cars?" "How much time do you spend watching TV?" "Which of your former employers did you most admire?" These were all questions aimed more at character and attitudes than at subject matter and future aspirations.

Be practical about where people get their start. One of the great tragedies is that many college graduates are trained for positions they may not hold for several decades, if ever. Relatively little time is spent teaching students how to get the first job and do it well.

Two good friends of mine recently retired as CEOs of large, nationally recognized companies. Both started out in entry-level positions on assembly lines. Many highly successful people in business share similar beginning assignments. My own formative period of fixing IBM machines in the 1950s was perhaps the most fruitful period as preparation for later assignments. It is always prudent to develop the skills enabling you to do the first job well.

Understand that it is better to get a job with a good company than it is to get a good job with just any company. Some companies are good employers, some are not. Good employers have ethical and responsible



A member of the New England College of Business graduating class of 2014 stands during commencement exercises in Boston.

leadership and well-thought-out strategic plans that work effectively in adverse as well as expanding environments. They have tuition reimbursement and other programs to help employees develop their capabilities. Perhaps most importantly, the leaders of good companies can share center stage. They rejoice, and give credit, when subordinates initiate improvements that company leaders never would have thought of by themselves.

Many lesser companies operate quite differently on each of the above scales. Top management monopolizes the credit, consumes a disproportionate share of corporate resources, and generally fails to recognize the constructive role ordinary people play in the destiny of their companies.

These dichotomies between good and poor companies are well documented in business history. I am reminded of slogan of Lew Veraldi, leader of the highly successful Taurus Sable project at Ford: "Common people doing uncommonly good things." Veraldi, who died in 1990, started as an apprentice tool-and-die maker, was named Automotive Executive of the Year in 1987 for his leadership on the Taurus project.

In roughly four decades as a corporate director, I have come to believe that the raw capabilities of CEOs are perhaps less important than their nurturing of their organization's culture. A corporation's cultural attributes should be of interest to aspiring job seekers.

As Bill Blazar points out, there is much that institutions within our society can do to alleviate the skill gaps we now appear to be experiencing. However, aspiring job applicants might find it useful to assess realistically what they might do, individually, to improve chances for employment.

Education: Substantive or delusional?

It's time for those of us in education to re-examine the value proposition we offer our customers.

MINNEAPOLIS STAR TRIBUNE --June 23, 2014

Education has been in the news lately. The New York Post reports that only 17 percent of this year's college graduates had jobs lined up before graduation. A Federal Reserve study indicates a large and increasing fraction of college graduates are unemployed or under-employed and that these rates are rising. Tuition is rising at three times the rate of inflation. Student debt is running at astronomical levels. The president is attempting to reduce discomfort by permitting students to pay off student loans later or at reduced rates.

Yet, education remains popular. State and national officials and policy advocates continually list education as the essential determinant of economic progress. This supposition is, in a way, true. But doesn't it matter whether the education is thorough, of high quality and applicable to the problems we have before us?

And, from the standpoint of students, society and parents, do investments in education always produce a positive return?

Proper education has long been an essential catalyst to technological accomplishment, community prosperity and world order. But with today's tepid employment opportunities for emerging college graduates along with mushrooming student debt, it may be time for those of us in education to examine the value proposition we are offering to our customers.

There are two kinds of education; substantive and delusional. Substantive education is meaningful, thorough and provides useful knowledge and skills which are usable in later life. The essential quality of substantive education is rigor and enough actual practice to attain proficiency. Substantive education is difficult. It can occur in technical fields, but also in the humanities and social sciences.

Delusional education provides illusory credibility, an easy degree in something following the superficial completion of a shallower and less insightful educational experience. Rigor is replaced by simplicity. Proficiency gives way to simple awareness. Hence delusional education arms students with the mistaken impression that mere possession of a degree is, by itself, a ticket to success and prosperity — which is not only delusional but will not be what employers are seeking.

A few weeks ago, I attended the display of 25 senior class engineering projects at the University of St. Thomas engineering school. The projects were all sponsored by companies or institutions; 3M, Mayo Clinic, Banner Engineering, Stratasy, Starkey, Emerson, Par Systems, and many others. Every senior participates in yearlong projects involving serious engineering efforts aimed at new products and solving real-world problems. The projects displayed involved measurement, material selection, cost-effectiveness, heat transfer, robotics and manufacturing. Almost all students had jobs before graduation. Such education is substantive.

There are many other substantive educational programs and there are many dedicated and competent educators. Some of these are at the K-12 level. Some are at the university level. Many in Minnesota are in the technical colleges. But most of the dedicated educators I know admit that it is time for us to productively critique our own product. We are delivering an educational product that is supposed to last a lifetime. It is important for our customers to get what they are paying for. Is there any possibility that too much delusional education is simply delaying entry into maturity and responsibility?

There are many questions those of us in education could ask. Are we encouraging our students to embrace rigorous education? Are we admitting people who are less serious? Do we have faculty members who do not do enough work? Do we put up with them? Do we have too much time off? Have we allowed high-cost sports and other activities to crowd out needed educational programs?

The average teaching load of college faculty is around 200 to 500 classroom hours per year. Many faculty members do much more by advising and counseling students, providing extra instruction, doing meaningful research and getting students jobs. But, do all faculty members do this?

And what about administrators? We have many. They have offices, fringe benefits and parking spaces. True, there is much non-academic work to keep a university running. But are we balanced? There are roughly 2 million fewer Americans in the 10 to 14 age group than in the 20 to 24 group. What does that mean — especially if tuition keeps rising?

Maybe we should start using some of the productivity methods we cover in our classes.

There are many fine people and many exemplary programs in education and the activity is important enough for us to apply all of our creativity and energy to preserve it.

Isn't it in the long-term best interest of everyone — people, policymakers, students and educators — to begin asking some questions?

Part Seven – Public Policy

Because we are optimistic, we can believe that public policy can make a difference. It is not inconsistent to on the one hand lament the mixed record of governmental achievement and on the other hand hope that public policy might one day fulfill its potential of bringing peace, order, tranquility, and prosperity to an otherwise deeply troubled world.

Public policy is often only loosely planned — thereby creating an enigma. Since weighty goals such as peace, prosperity, and tranquility are seldom achieved without effort and resources, how we use resources is an absolutely crucial part of the planning process. The imperative to utilize our increasingly scarce resources on the highest priorities necessitates a programmatic approach that realistically considers our economic, social, and resource balance sheets.

Elections after election is held within a background of slipping industrial prowess, chronic trade deficits, astronomical budget deficits, world instability and diminished job opportunities for our citizens. In spite of these problems, enormous by past standards, we should resist the temptation to blame. Instead, we should work together to some needed practical solutions and then put them into place – fast.

Yes, we have made mistakes – all of us; Republicans, Democrats, and the rest of us. But identifying who made the most mistakes will not help us find a better future. With record fiscal and trade deficits, unstable currencies, shrinking industrial employment, massive environmental problems, and rapidly depleting natural resources, we have neither the luxury nor the time to establish blame. The time has come for us to subordinate our party affiliations and instead work together to address at least some of the pressing problems we have before us.

Practical assessment and cross-party cooperation have existed in the past. During the 1960s, Democratic Senator Mike Mansfield was Majority Leader of the U. S. Senate. Senator George Aitkin was the Republican Minority Leader. These good friends would frequently have breakfast together with the aim of finding ways both sides could cooperate in making progress for the country. A decade earlier, Speaker of the House Sam Rayburn was asked by a Democrat running against the Republican House Minority Leader at the time, well-respected Joe Martin if he visit the district and speak in favor of him. Rayburn replied, “Speak against Joe? Hell, if I was in his district, I’d vote for him.”

Today, the political atmosphere is vastly more partisan than either practical or effective. After all, under both Democrats and Republicans, the trade deficit has been building steadily since 1993 and reached \$760 billion last year. The resulting industrial job losses are staggering. We now have fewer people employed in manufacturing than we had in 1951, and 2.6 million fewer production workers. But we have fifteen million more people employed by the government. Only ten percent of all U. S. Jobs added since 1939 have been in any form of tangible production (manufacturing, mining, or construction). Yet we have added massively to our overhead positions. Apart from a short respite during the artificial economy of the late 1990s, the fiscal deficit has been out of control for forty years. Government employees are being offered retirement benefits that cannot possibly be fulfilled, while private sector benefits are eroding daily.

Ironically, some good ideas are being proposed, but special interests rise to block them – with even more massive spending on campaigns. The United States is a fine country. We do not have to have the problems that we do have. It is time for us to pull together and work productively to reduce the serious problems we now face.

Carl the Worker

ST. THOMAS MAGAZINE -- Winter 1992

Carl came from Sweden in nineteen thirty three
 as a worker making chairs in the land of the free.
 The shop grew and prospered until it became
 the best known of any, the most recognized name.
 Through the thirties, the firm survived
 while others, less capable, stumbled and died.

During the fifties, chairs grew in demand
 as more people sat and few liked to stand.
 The sixties provided an increasing trend
 in lawyers and bankers and officials no end.
 All of these people needed chairs for their labor,
 chairs for themselves and their visiting neighbor.

The chairs grew in size and in comfort and price.
 The industry got bigger. The profits were nice.
 At the time, Carl wondered if all this was good.
 People weren't working the way that they should.
 During the seventies, it seemed even more fitting
 for people to work by conversing and sitting.
 Though more chairs were sold, some costs were imposed
 through regulations and taxes and lawsuits composed
 to draw funds from producers and workers alike
 so the sitters could experience a lifestyle hike.
 Government officials came to implore
 more inspections and forms and reports galore.
 Before the sawdust was put in the trash,
 it had to be separated between pine, oak and ash.
 Taxes went higher and went through the roof,
 while government officials became more aloof.
 Carl's workers were working and doing a good job
 but they were losing ground to the rest of the mob.

Taxes rose even further to build more schools
 to train people for sitting instead of using tools.
 It was explained to Carl that it was his obligation
 to fund activities and pay for litigation
 and for race tracks and shopping malls and other endeavors
 while his own costs kept rising, forever and ever.
 Meanwhile, foreign producers, unburdened by torts
 sent more and more goods streaming through U.S. ports.

The banker noted with some indignation
 that company income was far short of inflation.
 He said that without a strong profit trend,
 the bank could no longer continue to lend.
 Consultants came by and began to entreat
 that the company could no longer compete.
 It's outdated, they said. It isn't strategic.

No acquisitions, no mergers. It's truly anemic.

So the chair plant was sold to a firm from New York
financed by the state, a new form of pork.

Carl soon died and his sins he confessed
to St. Peter who listened and thoughtfully assessed.

"That ain't too bad," Peter said with a smile.

"But, go down and shovel coal for a while."

So down to purgatory Carl descended
"A short sentence," Peter said. "It soon will be ended."

But, he wasn't there long when Peter intruded.

"Carl!" he said, "You've been re--routed.

Your going back to earth. They need you there now.

The place is in chaos. They do not know how
to sharpen the drills or to lay out the job,

to set up the Bridgeport or turn the right knob.

They can't read a print and the grinding isn't right.

They can't use a gantry with all of their might.

Welding and painting are way beyond their scope.

Everyone just stands around like a dope.

The chairs ordered for the church picnic are late

We must hurry. It's important. A very big date.

The bishop has made an appeal to upstairs

for you to return and to finish these chairs.

So drop your shovel and leave with great speed.

It's urgent. It's crucial. We have a great need."

"How can I?" Carl said. "I can't leave my post."

"Forget it." said Peter. "You'll go back as a ghost."

So up from purgatory and back to earth

came Carl the worker as in a new birth.

The plant was closed when Carl walked in,

deserted, neglected, a truly great sin.

But Carl knew just how to proceed

and he began working which he did with great speed.

The chairs for the picnic were delivered on time.

The bishop was happy, the parishioners sublime.

But, Peter had forgotten that Carl was gone

and Carl kept working on and on and on.

The factory prospered again, of course,
a one--man performance, or really one ghost.

It was awkward, at first, because it wouldn't be right
for a ghost to be selling, especially at night.

But, the chairs were so good and the service so true,
people called in their orders and picked them up too.

Business was booming with much lower expenses,
no bankers, no consultants, a much improved census.

The firm, by itself, still prospers today,
with very few bureaucrats getting in the way.

The enforcement people cannot say desist
to someone who officially doesn't exist.
The cashflow is good with such low overhead.
When taxes are due, he just says that he's dead.

What this story shows is what we all know.
It's not the workers, it's the rest of the show.
We have some good people but we get in their way.
We harass them and burden them and make them all pay.
We keep our best companies on the brink of despair,
but competing in the world is a family affair.
And, if we could learn that we must all work together
to improve our situation, we could make it better.
If services and overhead could be made more efficient,
American producers are surely sufficient.

Nation has squandered the prosperity of everyone

MINNEAPOLIS STAR TRIBUNE -- February 20, 1995

Peter Rachleff always makes some interesting points and recently he did so again, (Forum, Feb. 6, 1995) with his description of the fading American Dream.

It is true, as Peter suggests, that the American worker is losing ground. But to suggest that the decline in incomes can somehow be reversed by the retention of massive government spending and higher rates of unionization misses the deep underlying causes that we have neglected for the past 40 years.

The fact is that our nation has squandered the prosperity of everyone by rampant opportunism and a great proliferation of activities that neither promoted communal well-being nor helped to solve problems. In this difficulty, there are neither class victims nor class culprits. We are all a part of a slipping national prosperity.

Rather than attempt to pin the blame on one group or another, we all need to scrutinize each of our professions to ensure that we are fulfilling our responsibilities in ways that support the well-being of our citizens. We will not gain ground by suggesting that investors are bad or companies are bad or even that all lawyers are bad. Instead, we should employ a quality perspective. In each of our professions there is waste, inefficiency, fraud and some inappropriate opportunism. The United States still has widespread competence, honesty and good will. The problems of workers are not much different than the problems of small business owners, companies and people generally within our society. After all, both real wages and profits are declining at the same time. We are all in this together.

Nonetheless, our problems are substantial and we do have to take some action. In 1960, we had approximately 17 million people employed in manufacturing in the United States while we had 8 million people employed by the government. In 1993, we had 12.5 million people in manufacturing and 18.5 million people employed by the government. No country can avoid financial chaos when its government is larger than its industry.

Drains on the economy.

What have we gotten for these investments in government? Stagnant, ineffective bureaucracies. Poorly thought-out social programs that are of more benefit to the bureaucrats than to the people for whom the programs were developed. Foolish forays into the affairs of other countries. And, a rapidly mushrooming financial liability for millions of public retirement obligations that are vastly in excess of what is usual in industry.

None of this means there is not a legitimate role for government, nor does it mean that there are not dedicated public employees, which there are. But, quality, efficiency and the efficacy of purpose are the major issues.

And the government is not the only source of our problems. The rampant opportunism in the nation's financial sector has done more than a little to reduce job-creating investment while frittering huge sums away on problematic speculative schemes. During the past decade, the major investment houses in our country; E.F. Hutton, Prudential Bache, Bankers Trust, Drexel Burnham Lambert, Salomon Brothers and others have been implicated in outright fraud. Is this appropriate behavior for the custodians of the nation's savings?.

Our legal system is another source of wealth erosion for working Americans. Excessive and frivolous lawsuits drain capital from what might otherwise become investments that could promote high value-added employment leading to higher wages. When the capital of productive companies is expropriated in courts more known for capriciousness than for justice, the money is no longer available to design new products, build plants or hire workers. Not all courts are capricious, of course, but some are.

Quality of education.

But my largest concerns are with the profession where both Rachleff and I are employed - education. Education has drained as much money from our productive system as anything and the results are very disappointing. We owe our customers more - both at the K-12 level and in higher education.

High schools and elementary schools are better overseas, in part because more time is invested and teachers have more scientific training. If education is important, and it is, then should not people in education be required to work a full year as is the case with other professions?.

If education is important, would it not be appropriate to muster out of the system those people who neither teach well, research well nor do community service well? If science and technology are useful objectives for competition in a modern world, would it not be appropriate to draw people into education who have majored in science, math or engineering? If we want to build character, would it not be appropriate to put more emphasis on the personal characteristics of those doing the teaching?.

One practical aspect of the diminishing American Dream is the economics of the situation. The average machinist stands in front of his or her lathe about 80,000 hours before retirement. Those of us in education may spend 10,000 or 20,000 hours at the front of our classrooms. Sure there are other things for us to do and some people do them. But, others do not. While there is talking about extending the time when we can become eligible for Social Security to above age 70, many teachers can now retire at 55 or 52. These situations, and others, have combined to make the burden of public employee retirement programs one of our most pressing fiscal problems.

The problem of U.S. competitiveness cannot be so simply described as the transfer of wealth from the middle class to the upper class. It is much more pervasive and much more qualitative.

Executive salaries provide a case in point. It isn't the major industrial companies that rank first in executive compensation. Compensation is skewed to questionable financiers, opportunistic attorneys, insurance company executives, hospital chain executives and others of dubious merit. The 3M Co., which typically earns half of the state's profit's usually ranks about 14th in executive pay.

Nurturing class conflict would be the easy approach to the nation's problems - but ineffective. Instead, we must pull together. We need to have higher productivity in all professions and a great deal more honesty. Each of us has privilege in some way and we should all recognize that we will not be able to sustain it and compete effectively in a modern world. We put up with too much opportunism and outright non-performance. We speculate too much and invest too little. We spend money on ridiculous things such as lotteries, basketball arenas, entertainment and a great proliferation of retail space.

World competition.

Meanwhile, our major international competitors are expanding their harbors, building transportation systems, building new plants and upgrading their factory equipment. Their schools are open 220 days per year vs. 171 days for ours. These countries have well-established apprenticeship programs vs. the cleavage between education and industry that exists here. We dissipate much of the nation's savings on poorly thought-out takeover attempts while other nations develop new patents and spawn new technologies. Then we wonder why it is that the American Dream is slipping from our grasp.

Yet, there is cause for optimism. The U.S. auto industry, perhaps our most unionized industry, has had a great resurgence. We are doing better in some electronic components. After a decline of over 15 years, we are making some progress in machine tools.

But, we have much more to do. Since 1980, we have lost approximately 1.5 million jobs from our high value-added industrial companies. These jobs were not lost because we experienced any great shift from one economic class to another but because the industrial sector of the United States has too much baggage to carry. We have too much inefficient government and too much profiteering in our financial sector at the expensive of real investment. We spend too much money on things we don't need and we settle for high-cost marginal performance on the part of some of our most essential services such as law, transportation and education. We have gradually eroded the moral character of the country as we pump out, for world consumption, movies and music of low quality with inappropriate messages.

We can keep doing these things if we want to, but the impact on the American Dream is very substantial.

Rising Overhead is Destroying US Standard of Living

Rising Tide, Leaky Boats

MINNEAPOLIS STAR--TRIBUNE -- April 28, 1996

Wages are stagnating. However, the problem is much more complicated than any simple shift of wealth. Profit and wages are stagnating simultaneously.

In spite of higher profits in 1994 and 1995, corporate profit rates are far below the much higher rates we achieved 25 years earlier and reinvested profits are about one-third as high. Yes, wages are stagnating and insecurity is rising, but even more worrisome are some intensely competitive underlying conditions that are affecting all of us.

Wages within individual industries are only part of the story. We have been losing employment in high value-added industries such as aircraft, instruments and sophisticated manufacturing, and adding back about a third of these jobs in lower-wage manufacturing industries that have never provided comparable wages or benefits.

These shifts have resulted in a declining overall wage. Even within manufacturing, average hourly wages of declining industries exceed those of expanding industries by about 9 percent - a fact bound to influence future tax receipts and social programs.

Value-added (revenue minus materials and direct expenses before labor) is an important determinant of economic prosperity, and it is, of course, the whole basis for the European tax system. Industries vary greatly in value-added from about \$40,000 per employee per year to around \$200,000. Obviously, it is difficult for those industries generating only \$40,000 or \$50,000 per year in value-added activities to pay high wages because, with all of the other expenses a corporation incurs, it would go broke.

Independent of sociological considerations, the world is willing to pay far more per hour for a 747 jetliner or a precision instrument than it is for office furniture or commercial printing. Regarding wages and prosperity, it matters a great deal what we do.

Nonetheless, wages are not the principal reason we have trade deficits. About 85 percent of our non-oil trade deficits occur with countries having higher production wages than the United States - countries like Germany and Japan. We have a trade surplus with lower-paid countries such as Taiwan and Argentina.

Production wages are not our biggest problem in competing internationally. We have difficulty competing internationally because, as a nation, we have too much overhead. This mushrooming cost of overhead is hurting the standard of living of U.S. citizens.

For example, we've added about 10 million government jobs in the nation since 1960. In the same time, we've added 1 million manufacturing jobs, and some of these now seem to be disappearing. For much of our history, we had well over twice as many people working in manufacturing as in government; now we have over 1 million more people in government than in manufacturing.

But government is not alone. Financial services, education, the legal profession and many other intermediate institutions have also found ways to extract more money from the nation's value chain. For every person employed in producing industries, the United States has approximately twice as many people employed in finance, insurance, real estate, services and government as our major competing nations.

Competitive pressures will ultimately cause America's huge bureaucracy to shrink. At the same time, wages are rising in some other countries because savings are high, investment is high and overhead is low - enviable characteristics for being competitive.

Those of us in the service industries need to look at our part of the problem. In finance, are the investments we're making in casinos, entertainment, derivatives and hostile takeovers really resulting in a stronger America? Does my own profession of education have the quality, productivity and innovation that we have in auto manufacturing? If education is really important, should not those of us who are in it work a full year?.

The average student in Asia or Europe puts in substantially more classroom hours than U.S. students. Language skills, math and science skills and apprenticeship programs are all much better in Asia and Europe. We cannot sustain our present position with a weak education system that primarily trains people for what we can no longer afford - overhead.

Many years ago in a neighboring town, what had once been a highly successful implement dealer filed for bankruptcy. When I asked how this could be, one of the townspeople remarked, "It is pretty easy to understand. When Frank and Walt had the business, they came to work at 7:30 and went into the shop and fixed tractors. Then their sons took over, and they came to work at 9 a.m. and went into the office." That is essentially what we have been doing to our country.

The problems of international competition cannot simply be relegated to people on the factory floor, because there are not enough of them. The problem of stagnating wages accrues to all of us.

We need to spur investment but not speculation. We cannot educate our people poorly, waste our investments, promulgate huge staffs of public and private overhead and expect to have high wages and be competitive in world markets.

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Misguided policies cause stagnating wages

CITYBUSINESS -- July 26, 1996

In his July 19 Forum article, Congressman Martin Sabo would have us believe that workers stagnating wages are the result of corporate irresponsibility high executive pay. Personally, as a director in four corporations, I do not have objections to limiting tax deductibility of a whole variety of unnecessary transactions, among them unusually high executive pay. However, the problem is much more complicated than any simple shift of wealth within our society. Profit and wages are stagnating simultaneously. In spite of higher profits in 1994 and 1995, corporate profit rates are far below the much higher rates we achieved twenty-five years earlier and reinvested profits are about one third as high. Yes, wages are stagnating and insecurity is rising but the principal problem is how we have structured our current economy.

Over the past thirty five years, we have added employment in segments of the economy that are least likely to sustain a high standard of living for US citizens. Government provides one example, but there are others. We have added about 10 million government jobs in the United States since 1960. During the same time, we have added one million manufacturing jobs and some of these now seem to be disappearing. For much of our history, we had well over twice as many people working in manufacturing as in government but now we have over one million more people in government than in manufacturing. The situation is not sustainable economically.

But, government is not alone. Financial services, education, the legal profession and many other intermediate institutions have all found ways to extract more money from the nation's value chain. For every person employed in producing industries, the US has approximately twice as many people employed in finance, insurance, real estate, services and government as our major competing nations and about four times as many as our emerging competitors. Meanwhile, wages are rising in some other countries because savings are high, investment is high and overhead is low — enviable characteristics for being competitive.

Wages are not the principal reason we have trade deficits. About 85% of our non-oil trade deficits occur with countries having higher production wages than we have in the United States — countries like Germany and Japan. We have a trade surplus with lower paid countries such as Taiwan and Argentina. Production wages are not the reason why we have trade deficits. We have difficulty competing internationally because, as a nation, we have too much overhead. Some of it is public, some of it private, but we have far too much of it to be competitive in world markets. It is this mushrooming cost of overhead that is impacting the standard of living of U.S. citizens.

The Congressman is correct in his assertion that Congress could take some actions to improve the situation of workers. Tort reform is one. Every year, billions of dollars are transferred out of the value creating activities of productive Americans to the coffers of opportunistic litigators who have found clever ways (such as venue shopping) to distort the nation's justice system for their own private benefit. The amount of money lost in this way is both astronomical and unaffordable. The rapid expansion of tax exempt financing has resulted in heavy investments in casinos, entertainment, sports facilities and public office buildings. Are any of these investments supportive of higher worker's wages?

The public sector also has some things to be ashamed about regarding compensation. When school teachers can retire in their early or mid fifties with a year and a half's salary as a bonus to retire early, that is a compensation bill that someone must pay. A recently retired superintendent, who made \$106,000 per year received an additional \$150,000 in cash and then was able to collect retirement pay from both Minnesota and another state. And, when people in education receive several months off during the year, that is a compensation bill that someone must pay. When we employ millions more people in government than we need or can afford, that is a compensation bill that someone must pay.

The problem of stagnating wages cannot be corrected simply by limiting higher executive pay — even though many of use feel that these accelerations are among the most nonsensical of our time. The problem of stagnating wages is with us because we have structured a society which provides handsome rewards to people who have nothing to do with building a healthy industrial society. We have too much speculation on Wall Street. We are putting too much money into entertainment and subsidized professional sports. Our governments are employing about seven million too many people — vis-a-vis what we have twenty-five years ago as a percentage of our total employment.

Congress could help alleviate some of these problems. Congress could make venue shopping illegal and then pass an even stronger tort reform bill. Congress could pass legislation aimed at improving the nation's dismal savings rate. Congress could write tax laws that differentiate between investment and speculation. Congress could insist that funding for education be linked to more practical staffing and work requirements. We cannot educate our people poorly, waste our investments, promulgate huge staffs of public and private overhead and expect to the nation's citizens to have high wages.

Any diversion of tax receipts should be equal

CITYBUSINESS -- November 14, 1997

The latest effort by some members of the Minnesota Legislature to salvage stadium deals by an unprecedented allocation of income and sales taxes could have broad application in many industries. Manufacturing, for instance, accounts for around 18.5 percent of Minnesota's employment, but an estimated 27.5 percent of the state's income taxes — because the wages are higher than they are in retailing and some service industries.

Perhaps what is proposed would be a good system — to let every segment of society use the taxes it's paid for its own specific benefit. A solid case could be made for this approach.

After all, the Twin Cities Ford plant was built in 1925 and it could probably use some updating and new automation because now it must compete not only with its present competitors, but also with the new multibillion dollar Toyota truck plant that is being built in Evansville, Ind. Perhaps one source of funding might be to capture all of the state income and sales tax receipts from the Ford plant and put that in a separate fund that would support additional investment to ensure the plant remains competitive.

The United Defense plant was built in 1942, the IBM plant in 1958. Many of the 3M plants date from this era as well. Imation could use some help too. A strong case could be made that many industries in our state could benefit from having the Minnesota taxpayers pay for facilities where they operate.

Some states have actually done this. The large new plants going into Kentucky, Tennessee and Alabama have benefitted greatly from contributions made from the public coffers. The resulting impacts on the economies of these states have been quite pronounced. Manufacturing value-added has been increasing much faster in these states than in Minnesota in recent years.

Importantly, the programs associated with these new plants involve less public money than is being talked about for the Twins and the Vikings. So, perhaps the legislators have hit upon an idea that will be applicable to many industries.

But then, again, the idea may not be that good after all. Who wouldn't want their tax money to benefit only them directly? Many of us could make the case that these expenditures would enrich the community to a far greater degree than some of the expenditures we now have — such as the excessively early retirements common in education.

But are we not all citizens? Somebody, somewhere, has to pay for the worthwhile activities of government — even if a few controversial things are mixed in. We may all wish to debate whether we need more government or less government, but an unclothed scheme to divert the taxes for something that provides only a specialized, preferential and narrow purpose is probably not in the state's best interest. At minimum, if we are going to use this approach, we should examine carefully what might be the most beneficial test case.

On a more positive note, there may be some advantages to the Twins and the Vikings leaving anyway. Minnesota might be a better state without them, as it was before.

Before the arrival of professional sports teams in 1961, Minnesota had a much higher percentage of the nation's gross national product than it has now. This state had spawned the development of several new, important industries — mainframe computers, sheet abrasives, pacemakers and flight-control systems.

Many of the companies involved are still with us, of course, but it has actually been quite a few years since our state spawned a new industry. Minnesota's industrial employment has shifted somewhat from the higher value-added industries such as computers, to lower value-added industries such as commercial printing.

When we look over the vast set of alternatives of what we could do with \$500 million, there are many choices. Some might be industrial, some might be social, and I suppose some might be oriented to entertainment.

My impression is that the public has voiced its opinion on this issue with a crescendo of opposition to all stadium proposals. Perhaps someday our Legislature will stop debating it.

Although the Twins and the Vikings have contributed some nice memories to Minnesota over the years, both teams have been indirectly involved with huge amounts of lost time.

Think of what we could have done with the hours we spent watching these mediocre teams over the past few decades. How many families could have been improved if we had spent the time with our kids? Should we have gone for a walk with our spouse? Could we have participated in some of the enriched activities associated with our universities or community projects? Or by becoming more active in the Citizen's League or just spending more time helping others and perhaps even improving ourselves?

The fact is that many of us have turned into couch potatoes who really do not contribute very much. Now, we seem to want the tax money diverted so that we can remain on the couch and watch some of the highest paid people in the world play games at public expense.

There are, after all, some matters that do require our attention. Education in Minnesota has been slipping for many years — especially in the inner cities. Though the current economy is robust, closer scrutiny reveals a moderate erosion in the competitive positions of some of our key industries. Many of our plants are old and there are questions as to how well we can weather a prolonged recession if one were to arrive. On the medical front, antibiotic resistant bacteria and a variety of new illnesses pose problems for the future. Transportation systems need efficiency improvements and some redesign. Or, we could simply return the money to the taxpayers and let them decide for themselves what they would like their entertainment to be.

Most Minnesotans have tired of the stadium debate. But, in addition, there will still be important things for us to do in the event that both of these teams leave.

Hostile Takeovers: are we aware of the costs

CITYBUSINESS -- July 10, 1998

HEI Inc., a successful designer and manufacturer of precision miniature microcircuits headquartered in Victoria, Minn., is currently the target of a hostile takeover. I don't want to speak for the company, HEI, nor do I want to respond to the comments made by those launching the contest. But, as a director for that company for several years, I would like to share the thoughts of someone who is currently witnessing a hostile takeover attempt at close range. The experience is academically interesting and troubling at the same time, regarding what builds shareholder value in the long term.

Over the years, I have studied, discussed and written many cases of companies involved in acquisitions, divestitures, mergers and hostile takeover attempts. These are not encouraging stories. AT&T lost \$4.5 billion on the hostile acquisition of NCR, which was nearly wrecked in the process. A hostile takeover attempt of Allis-Chalmers in the late 1960s set in motion the long gradual decline of the largest employer in the state of Wisconsin. The acquisitive activities of Greyhound Corp. (which was originally founded in Minnesota) emptied a noble company of its gradually accumulated financial strength and diminished the nation's capability for over-the-road transportation. After its hostile takeover, Northwest Airlines would most probably have failed completely were it not for concessions from workers and the package provided by Minnesota — for which we were rewarded with some of the highest ticket prices in the nation. The company that developed alternating current and for many years supplied much of the world with electrical generation equipment, Westinghouse, is now out of manufacturing and in the broadcast business — but very heavily in debt. The hostile-takeover era has narrowed our list of viable companies and helped to create worrisome trade deficits in key industries where we did not have deficits previously. These situations influence my thoughts about HEI.

Last year, HEI had net profits of \$2.55 million on sales of \$30 million. In recent years, HEI had been an important supplier to the disk drive industry because it produced complex pre-amplifier assemblies for use with the new magneto-resistive heads that are on many of the higher-density hard drives. The company is also a leading supplier of hearing-aid amplifiers and other miniature circuits used in medical devices, fiber optic communications and other applications.

About two years ago, HEI was approached by a major customer with the request to set up a plant in Southeast Asia to feed that company's disk drive production there. The argument of cheaper labor was advanced, but HEI's processes were so automated and so technical that at the time the analysis was done, direct labor expense at HEI's Minnesota plant was very small as a percentage of revenue.

HEI politely declined the offer for several reasons: Sufficient cost advantages were lacking, the movement of production from the Minnesota plant might have raised costs here, and the company was also skittish about possible future problems in Asia. Instead, the company continued to grow the capabilities of its Minnesota facility. HEI recently expanded a world-class electronics manufacturing plant with a complement of state-of-the-art production equipment. Minnesota's Economic Development Commissioner, Jay Novak, came out to dedicate the expansion in 1996.

The decision to pursue other markets proved to be a wise one, as the disk drive business softened in 1997. In spite of HEI's excellent quality, a major customer shifted the preamp production to their in-house supplier in Asia. This was clearly the customer's right. HEI had been concerned about the disk drive business for some time and the company was continuing to expand into other, more promising, business segments. With no debt except an industrial revenue bond on the new factory addition and with \$13 million in cash, the company had resources to pursue other entrepreneurial initiatives. We had hired a consultant to help in this task.

HEI's narrowly traded stock was impacted, however, and the company did report its first loss in 27 quarters in its first quarter ending in November, but it was a loss of only \$103,000. HEI's stock price remained many times the 38 cents it was in 1991, as management concentrated on less-cyclical and more-profitable segments of their business: microcircuits devoted to medical devices, instruments and communications. By the second quarter of 1998, profitability had returned, both for the second quarter and for the year to date, providing evidence that the company's plans were working. By the third quarter, profits were again healthy.

In February, however, HEI was hit with a hostile takeover attempt by an investor in an unrelated business in another state. Although HEI's management team is confident of the outcome at this time, the experience is both disruptive and expensive. The event has made the implementation of the company's well-thought-out strategy more complicated.

I don't know what would happen if the takeover attempt prevailed. HEI is involved in a highly technical and rather tough business. It is not easy. Before the current CEO was appointed in 1990, the company struggled for many years. From the near-demise of HEI in 1990, the company has built up a solid balance sheet and a healthy cash reserve. This cash, which has been carefully accumulated over the years for future expansion, is a key element of the company's strategy for the future. For some time, we have been exploring ways in which this cash might be used to expand and strengthen the company.

If the \$13 million could remain in the company and not be milked from it, perhaps HEI could survive for a while — even with some employee and managerial attrition in a tight labor market. If the company gets milked, however, as some do, then the probability of survival could change and HEI shareholders, employees and the community that is home to HEI could be adversely affected.

This is the crux of my concern with the hostile takeover attempt of HEI. It's not because I won't complete my 29th year as a corporate director without this particular assignment. I worry because what is necessary to develop both lasting shareholder value and prosperous industry is rarely enhanced by hostile takeover attempts.

HEI is among the largest manufacturers of hearing-aid circuits in the world, and it has many other specialty products. The company has one of the most modern plants in its industry along with other distinctive capabilities. It serves exciting growth markets. Here is a company that has invested in research, built a modern factory, equipped it with the best equipment, spent money wisely, has good rapport with its labor force, kept the jobs in Minnesota and created substantial shareholder value. Yet that company is at risk, not because of sound managerial direction to steer the company to less-volatile and more-promising markets, but because of other factors.

Hopefully, the company will survive under any of the possible scenarios. I make no accusation here. I am not saying that the people launching the hostile takeover are incapable or ill-suited to further responsibilities. I am not saying anything about them. I've never met any of them. If the upcoming proxy contest should be lost, I sincerely wish the new board and the company the very best good fortune.

But, what is happening to the industry of this nation needs some attention and review. We continue to set record trade deficits for the United States — another all-time record of \$14.7 billion last month. "Not to worry," many people say, "We have a service economy." However, it is doubtful that a service economy will produce enough cash flow to pay society's bills. Few countries have sustained long-term prosperity with massive trade imbalances.

The HEI situation will play itself out one way or another. But, if we continue to eat our seed corn in ways that have impacted some of the most well-known industrial companies in the United States, we are going to have great difficulty competing in world markets and our standard of living will ultimately suffer.

If we want to compete effectively we have to do real work, accomplish difficult tasks, make investments, engineer better and perfect our expertise. We will not compete effectively by managing portfolios nor will we create value for shareholders by shuffling money.

Trade with China should be developed in ways that give Americans opportunity

MINNEAPOLIS STAR TRIBUNE -- May 20, 2000

Next week's congressional vote on whether to grant permanent normal trade relations with China is an important policy decision that needs more attention. Everyone and their dog seems to favor it: four present or former presidents, several secretaries of state, countless businesspeople and even some labor leaders such as Leonard Woodcock.

I'm not against trade with China, but how we do it should receive more scrutiny and the details of our current trade with China should be more thoroughly understood.

The volume of potential exports to China is often cited as a principal reason why our trading relations with China should be made permanent. Last year the United States exported \$13 billion in merchandise to China - nearly as much as a full year's sales at 3M. But we also imported \$81 billion, resulting in a trade deficit with China of \$69 billion.

For every dollar we exported, the United States imported \$6.23. Our exports to China were 16 percent of our imports from China - not exactly a two-way street.

Those interested in exporting will point to China's huge potential market - a consideration easy to acknowledge. However, there may be a question as to who will share in it. The United States has found through experience, the hard way, that providing access to its own vast market does not automatically translate into being able to sell more overseas. Too often, even the sales that are made are conditional to providing some manufacturing work to the buying country.

Since the products being sold are often high in technology, it is rarely easy to provide the work and still maintain both quality and proprietary content without the disclosure of important trade secrets. Yet, many companies cooperate - often with the encouragement of U.S. trade officials.

The question is, are we nurturing meaningful long-term trade relations with meaningful customers or are we unwittingly providing our most precious technologies to aggressive future competitors? Many people I know - people experienced in China - are unclear about this.

In examining our situation with China, it is not necessary to deny important economic principles such as comparative advantage. The question is, has this particular administration negotiated trade agreements that are in the long-term interest of the United States?.

Some people prefer to debate this issue on the basis of human rights and environmental protection, and perhaps these also have relevance. For my part, though, I would like to see our trade with China developed in ways offering more opportunities to U.S. agriculture and industry.

Restoring the Balance

By some important measures, Minnesota's economy is not as mighty as it once was. The question is, what are we going to do about it?

MINNEAPOLIS STAR TRIBUNE -- January 21, 2002

Minnesota's slowing economy, and the projected budget shortfall, surprised some of us, but not all of us. These events, along with the circumstances surrounding the Twins, are blows to the psyche of a state that long has perceived itself to be doing so well.

However, many of Minnesota's attributes have changed over the years, and we can benefit by examining these developments to better prepare for the big question: What will the future hold?.

Like most Minnesotans, I was happy with the arrival of the Twins in 1961. Minnesota was different then. Its economy was growing rapidly - in part because of the state's preeminence in one of the most promising of all new industries - computers. Univac, Control Data and Honeywell all were based in Minnesota, as were numerous suppliers. The IBM computer plant in Rochester was one of the largest in the United States.

Later, exciting new companies would emerge from this core - companies such as Cray Research, which became a leader in supercomputers, and Network Systems, which in the 1970s did much of what Cisco Systems does now.

Minnesota was prominent in other industries as well. Wilson Co. was a successful meat packer and sporting goods supplier with big operations in Albert Lea. Diamond Tool and Horseshoe Co. produced some of the best hand tools in the world at its forging operation in Duluth. The University of Minnesota had developed an enriching process to produce taconite, which provided a rebirth to Minnesota's ore-depleted Iron Range. Minneapolis-Moline still was making powerful tractors.

BurmaShave, Vicks VapoRub, Toni Home Permanents and Greyhound buses all originated in Minnesota.

"Manufacturing on upswing" was the headline when the Ninth Federal Reserve District issued its 1961 Annual Report. The lead article stated, "The rise in the number of factory workers has been concentrated in the durable goods industries which, in this district, are located largely in Minnesota."

The state's finances were healthy as well, in spite of the fact that there was no sales tax and no state lotteries and that most other taxes were much lower. The simple reason for it was fewer government employees - not only in Minnesota but across the nation. State, county and federal governments employed only 8.5 million civilian people in 1961 while 16.8 million people were employed in manufacturing.

Public jobs soar.

Forty years later, manufacturing employment has increased to 17.3 million - a gain of a half-million jobs or 3 percent. Nationwide, government employment has increased to 21.3 million - a gain of 12.8 million or 151 percent during the same period.

Although service and retail jobs have increased markedly since 1961, manufacturing, construction, mining and a few other professions that contribute very heavily to tax revenue have not kept pace. Those sectors are important to a state's economy, in part because they tend to spawn high-paying jobs. Thus both tax revenue and general prosperity are linked to industries that expand or contract.

Baseball also was different in 1961. Hall of Famer Yogi Berra, who starred in 15 World Series with the New York Yankees, made between \$5,000 and \$65,000 per year in his years as a major-league player. Twins Hall of Famer Rod Carew, who played later, never made more than \$110,000 a year.

The manufacturing-driven prosperity of Minnesota's past contrasts sharply with its economy today. Minnesota's vast computer operations are largely gone. Diamond Tool ceased operations years ago. The Wilson operations were taken over by a poorly run conglomerate named LTV. Cray Research, Honeywell and Network Systems all have been acquired by less-capable companies.

Financial institutions such as Reliastar, U.S. Bancorp and IDS have merged or been acquired, too. Norwest Bank merged with Wells Fargo and moved its headquarters to San Francisco. Republic Airlines was acquired by Northwest, which then fell prey to an ill-conceived leveraged buyout that has benefitted neither shareholders, employees nor the community. (In fairness, friends tell me that the current management is the best the airline has had for several years.).

Minneapolis Moline, is gone as are Vicks, BurmaShave and Toni. Minnesota still has some good companies, but are there enough? During the past decade or so, the state that has so long claimed to be above average has had quite average industrial performance.

Minnesota created 1.83 percent of the U.S. gross domestic product in 1977 and 1.86 percent in 1999 - not much change. During the same period, Georgia's share increased from 2.07 to 2.96 percent. Many Eastern states have lost even more of their industry, and with those losses have come emerging social problems, high taxes and even bigger budget difficulties.

The economy has slowed further since 1999, in Minnesota and elsewhere. American Express, which acquired IDS, is cutting back. ADC Telecommunications has turned down, and Northwest Airlines continues to suffer during a difficult time for the industry.

If history is any indicator, when the Legislature convenes this month, people quickly will choose political sides on the issue of Minnesota's emerging fiscal difficulties. Some will say recent tax cuts and rebates were ill-advised. Others will say one project or another is too important to curtail. Both perspectives gloss over a situation that has been apparent for a long time to those of us familiar with industry.

Industrial slowdown.

Minnesota's industrial economy is slowing. Other states also are slipping - some of them more severely. But we should not kid ourselves. Minnesota no longer is the industrial power it once was. There still are some good things, but not enough.

In the meantime, we continue to accumulate massive publicly supported activities: public colleges every 30 miles or so, huge state agencies and the rapidly accelerating retirement programs for public employees.

Whether these expenditures are worthwhile is not the issue here - nor is the question of whether public benefits are deserved or undeserved. The issue is one of balance. How can a state with a gradually shrinking industrial economy pay for rapidly expanding public activity and remain solvent?.

Minnesota is blessed with many dedicated public servants and teachers. Some are close friends or relatives. However, the time is upon us when it is imperative to examine our expenditures arithmetically. Many of these dedicated people can retire at age 55 (and sometimes sooner) with cost-of-living-adjusted, defined-benefit plans - often including health care.

The current life expectancy of someone now 55 is 30 years for women and 25 years for men - about seven years longer than it was in 1961. These are huge future obligations, and we are losing talented people at the peak of their careers.

It seems quite unlikely that the Minnesota economy will be strong enough to pay for the huge obligations of the sort we are incurring and we should figure it out now so that no one is disappointed.

We also should consider who is most affected. As the system is now, the burden of adapting to fluctuating economic conditions often is borne by the youngest among us.

Young teachers and public employees not only are paid much less than older ones for doing essentially the same work, they must worry from year to year whether they will have a job at all. The rest of us have tenure, which insulates us from downturns, which does not seem fair.

The system must be terribly demotivating to the younger people and probably contributes to the exit of some talented public servants and educators.

Perhaps we can design a system that is more cost-effective, more up-to-date regarding life expectancy and more even-handed.

Our economy must have balance. It is in everyone's best interest for Minnesota to have a strong industrial economy, and we should avoid taking actions that would cause it to retrench further. Industry has plenty of problems too, such as trying to stay afloat in a highly competitive world. That isn't easy either, and few people in that sector have tenure.

As the stadium issue, the budget issue, funding for education and the shrinking economy all compete for time in the next legislative session, I hope there will be time for the big issue.

Without a strong industrial economy, there won't be stadiums, there won't be much income and the state will have to make the painful choice between supplying public services today or merely fulfilling the obligations that were unwittingly promised in years past.

Sports teams aren't worth the cost

MINNEAPOLIS STAR TRIBUNE -- January 18, 2004

My first car was a 1927 Essex available from a neighboring farmer for \$15. Although the car was more than 20 years old, it looked pretty good. When I went to pick it up, the battery was dead, so the farmer reduced the price by \$3.50. We got it going, and I drove it home at a net price of \$11.50.

But my dad, who was quite knowledgeable about automotive technology, made me take it back because he didn't think it was worth the money.

This is how I feel about stadiums.

Now that the Legislature is heading back into session, the citizens of Minnesota soon will face the annual assault on the state's coffers to build new stadiums. This time, we are told, we should consider three; for the Twins, Vikings and Gophers.

Yet there seems to be no supportable evidence that investments in either professional or college athletics are reasonable priorities for Minnesota.

In addition to the obvious policy and preferential-treatment questions surrounding public support for stadiums, there also is the issue of opportunity cost.

Recently, I heard a sobering statistic. Within 10 or 15 years, 80 percent of the world's scientists will be educated in other countries. With declining U.S. prowess in education, with huge budget and trade deficits, and with the number of world-class U.S. firms being reduced almost monthly by ill-conceived mergers, chicanery or mismanagement, we have a lot to worry about. Although many of us expect the industrial economy to improve in 2004, there is much we must do to sustain Minnesota's future prosperity.

We all can appreciate the constructive role that professional athletes can play in a community, if they do. Some players do give back to the community in unselfish ways. Several have visited kids at Minneapolis Children's Hospital and have provided other services. Yet negative roles also surface. Within the past year or so, Minnesota Vikings players have been in court for sexual assault, driving while under the influence and running into a public safety officer. Does such behavior merit public subsidy? It would make about as much sense for the public to build a giant house of ill repute for the Mafia.

Perhaps we should evaluate our interest in athletics in general. Is it really appropriate for kids to get hauled off to hockey rinks at all hours of the day or night? As a nation, we neglect education, character formation and moral development and then wonder why we have Enrons.

It is interesting to note that the Minnesota athletic team achieving the highest national ranking in recent years is the St. John's University football team - a team known for its modest practices, its equal treatment of players, its absence of scholarships, its cultivation of character traits as well as athletic ability, and its windswept open-air playing field. St. John's is not asking for a stadium, nor is the University of Minnesota women's basketball team, yet these are two of the most distinguished teams.

Athletic impact.

The growth dividend from stadiums is dubious. In 1940, before the arrival of any major-league sports teams, Minnesota had 2.1 percent of the nation's population. By 2000, after 40 years of major-league athletics, it had 1.7 percent. Minnesota had moved from the 18th to the 21st most-populous state.

From 1988 to 1997, the states with the fastest-growing manufacturing payrolls were South Dakota, Nevada, North Dakota, New Mexico and Idaho - with Nebraska and Wyoming also in the top 10.

Counties not part of metropolitan areas, and not home to major-league sports teams, added 308,000 jobs between 1972 and 1997. Meanwhile, 685 metropolitan counties, many in areas with major-league sports teams, lost 1,354,000 jobs. These trends have continued in recent years.

Minnesota had more-stable families, less crime, better schools and a higher percentage of the U.S. gross national product before major-league sports arrived than it does now.

Several years ago, one of baseball's most innovative and talented executives, Mike Veeck of the St. Paul Saints, spoke to one of my classes. Veeck was very much in demand as a speaker that year, and the only way I could get him was to have Father Lavin say a Mass for Darryl Strawberry. One student asked Veeck whether any thought had been given to a new stadium. His answer was interesting. "We've had offers, but we polled our customers and 70 percent of the fans said they didn't want one." (In recent months, there has been talk about a replacement for Midway Stadium, where the Saints play, although no consensus has been reached.)

In the 50 years since the Essex, I have often wondered why my father would turn down an \$11 car. It might have been the two-wheel externally contracting brakes that made stopping both prayerful and probabilistic. Or maybe it was one of the other maladies for which that company was famous. In any case, he looked beyond the initial cost of the project to its overall societal benefits.

We should do that with the stadiums. There seems to be no evidence that the huge preferential attention that we award to professional sports pays off either economically or culturally. The Legislature should work on other matters.

Jobwise, we're all in this together

When it comes to our economic future, think like one country - not a bunch of interest groups

MINNEAPOLIS STAR TRIBUNE -- March 7, 2004

The Star Tribune's February articles on manufacturing, the economy and job outsourcing are helpful in making us all aware of the critical role that healthy industry plays in the prosperity of our communities. This year's rapidly heating political campaign is laced with references to disappearing jobs, shrinking industrial prowess and a soft economy.

Many of us who have studied these issues for years are pleased that these important matters are at last drawing attention. During the 1990s and the presidential campaign of 2000, the strength of the nation's industry and the trade deficit received almost no attention at all. Perhaps there will at last be some interest shown in improving the U.S. economy for the future.

But I wonder. The steps needed will not fit neatly into one political camp or another. The choices we must make involve sacrifice, dedication, investment and moral development. Such choices might not appeal to voters.

But we must improve. Consider these politically neutral facts:

- - The economy began to weaken in the summer of 1998. Crucial manufacturing employment has declined by 3.3 million since that time.
- - The U.S. trade deficit was \$31 billion in 1991 but mushroomed to \$375 billion in 2000 and \$489 billion in 2003.
- - In 1954, 15 million people worked in manufacturing and fewer than 7 million worked for the government. Now 14 million people work in manufacturing and 22 million people work for the government - not including the military.
- - Life expectancy has increased by seven years since 1961, yet we have changed the retirement age only modestly.
- - The United States still has world-class competitive companies but many fewer than 20 years ago.
- - Eighth-grade math students scoring at the 50th percentile in the United States would finish in the 11th percentile in Singapore. Most emerging nations have education systems much more rigorous than ours.
- - Ninety percent of the world's engineers are educated outside of the United States.
- - The United States has become the world's largest debtor.

No surprise.

Considering these circumstances, it is not surprising that the economy is not robust. Strong remedial steps are needed to keep it from eroding further, and most of these steps will be unpopular politically.

The rhetoric of political campaigns is disappointing. Many candidates are "fighting" for this group or that group as if these groups were not part of a whole society. Fighting is not what we need.

Thoughtful programs based on meaningful analysis and aimed at improving prospects for the country are what we need.

No one should be able to retire at age 52 or 55. The nation cannot afford it. Nobody can afford it. Nor can anyone afford the fringe benefits being promised. There simply is not enough money coming in, and not enough people in the revenue-producing sectors, to satisfy the obligations we are promising.

Tax shelters are abused and tax collections are not sufficiently rigorous. Blatant tax evasion goes undetected and sometimes receives executive pardon.

Executive and sports compensation should either be made reasonable, as it is in some companies, or be made fully subject to the F.I.C.A. payroll tax. (Currently, only the first \$87,900 in wages is subject to Social Security withholding.).

Do the math.

It will be helpful for us to look at our problems arithmetically. If industrial America is not strong, service employment also will lag, in part because industrial companies buy many of the services. Tax collections will be weak, limiting many of the good things government can do.

U.S. job losses, though regrettable, should not be unexpected. Other societies have stronger education systems, better work ethics, higher savings rates and hence more investment - and occasionally more sensible economic policies.

Any close examination of industrial costs will show rapidly escalating expenses unrelated to production. The costs for health insurance, regulation, frivolous lawsuits and excessive taxation are all increasing far faster than the direct costs of producing products.

All of these contribute to the exporting of jobs. We are all in this together. We are all contributing to the nation's slipping prosperity, and we all have a vested interest in arresting that slippage.

The way out.

If we want to compete internationally and stop the export of jobs, we must lengthen and strengthen our education system, reduce our non-value-added costs, work harder and save more money. These are not new ideas. Our parents told us these things repeatedly.

Few countries have been able to compete if large fractions of their population indulge in highly expensive premature retirement. Few countries have prospered with governments larger than their industry. Few countries can afford the luxury of pouring billions of dollars into projects they do not need.

Yet some of the work of governments is valuable and we should seek to preserve and strengthen it. We should resist the temptation to blame particular classes or sectors.

As citizens we have been living only for the moment. We are asking for things we do not deserve. Instead we should leave a little of the country for those who come after us. We cannot blame all of our problems on politicians. As citizens, we have contributed heavily to job losses in our country.

We can be optimistic. Within each component of society - company management, organized labor, education, finance and government - there are some thoughtful, enlightened and conscientious people. These capable people might be able to pull together and establish systems that will stop the exporting of jobs.

I hope so.

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Cognitive dissonance

The country is beset by a host of seemingly intractable problems, and Americans are finding new and different ways to go broke. At the federal level, the state level and the personal level, we must cooperate and innovate.

MINNEAPOLIS STAR TRIBUNE -- November 21, 2004

As Congress and the Minnesota Legislature gear up for action after the recent election, I am hoping that we can pull together and deal effectively with some of our thorniest problems.

Among our needs are the restoration of fiscal discipline, the rebuilding of our industrial base, tort reform and a more realistic approach to funding retirement obligations.

We are, after all, going broke in three ways: individually, governmentally and on the stage of world trade.

At less than 1 percent, the U.S. personal savings rate is near an all-time low. We enjoyed a 10 percent rate during the 1970s and early 1980s when our earnings were lower. And our far-less-wealthy emerging competitors are achieving much better rates. At a time when we should be retooling our industry, developing alternative energy technologies and rebuilding of our infrastructure, we are setting aside practically no money to accomplish these tasks.

How are we going to accomplish these important goals with a savings rate of under 1 percent?.

At the federal level alone, the on-budget fiscal deficit amounts to close to \$2,000 per man, woman and child every year. The cumulative federal debt is about \$100,000 for a family of four. Our trade deficits mushroomed during the 1990s and remain at record levels now. These deficits cannot persist without consequences, such as the decline in the value of our national currency and the appeal of our nation as a haven for investment.

It might be OK if the dollar declines some, then stabilizes. But if world investors fear that dollar-denominated investments might decline in value, investment flows into this country are likely to subside, especially if attractive opportunities exist elsewhere. Any reduction of money flows into the United States would greatly reduce our ability to finance our debts.

Our demographics should also cause us concern. We are living longer. In its rather dire annual report, the government-backed Pension Benefit Guarantee Corp. noted that the average number of years in retirement has increased by seven years since the 1950s, but we have made essentially no adjustments to the retirement age. Nor are governments, companies or individuals saving enough money to fund this longevity.

In the '50s, the United States had about 10 million more people working in manufacturing than we had working in the government. Now, we have 7 million fewer. If the relationship between industrial and governmental employment is not kept in some sort of balance, the country risks falling into the same sort of economic stagnation that has made other countries poorer.

Social Security is one of our lesser fiscal problems because at least some money is coming in to support the obligations. A potentially larger and more pressing problem exists with the burgeoning public retirement and health care obligations to government employees. The combination of higher government employment, lower retirement ages, defined benefit plans and escalating life expectancies is likely to produce future retirement obligations of an enormous magnitude. Such obligations will compete directly with education, health care, defense, the environment and other needed programs for future revenue streams, which might be smaller if we do not modernize our industrial base.

Politics and reality.

It must be hard to be a political candidate these days. The expectations of citizens do not seem fair. We want medical care so we can live longer, but we don't want to work longer to help fund our retirement.

Nor do we want to save for it.

We want affordable health insurance, but we don't want to eat less to help make it affordable. Then we want to be able to sue the doctors if we are still sick.

We want jobs, but we don't want to go to school more days per year so we can effectively compete for world jobs. Nor do we want to study the material that would help to prepare us. Instead, we watch sitcoms and sporting events on television.

In the face of undeniable emerging energy shortages, we still want air conditioning and large vehicles. We want reliable and cheap electric power. But try to put up a power plant or a transmission line.

We want a pristine environment, but we continue to buy products with expensive and voluminous packaging, one of the most significant contributors to a degraded environment.

Then we purchase many goods from China, whose firms have pollution rates several times the levels of U.S. firms.

As citizens, we are not realistic about our need to leave resources on the table for future generations. We are consuming crucially important raw materials at a rapid rate. Oil for sure, but chromium, platinum, cobalt and many other precious materials also are in limited supply.

Imbedded in the situation of the nation's prosperity is the condition of its industrial base. For so many years, manufacturing has driven U.S. prosperity, directly and indirectly. In Minnesota in the 1980s, manufacturing directly accounted for about 18 percent of the jobs, 22 percent of the pay, and an estimated 27 percent of income taxes paid. Today, 13 percent of Minnesota jobs are in manufacturing. This important sector accounted for 24 percent of the gross state product in 1988 vs. 16 percent today.

No wonder the state has deficits.

Perhaps we should try some new ideas. How about a substantial tax on television sets, DVDs and video games, with the proceeds going to support education? How about repealing the tax on savings and instead provide more resources for detecting tax evasion? Such efforts might reduce the nearly \$300 billion of missed taxes every year - more than enough to fund Iraq and several other programs. Perhaps we should have lower levels of taxation on the gains from solid industrial investments that create jobs and higher taxes on the gains from speculative activities. A first step might be to eliminate the earnings ceiling on Social Security payroll taxes. That would raise a lot of money.

At the state level, modifying the qualifications for public retirement are overdue. The rule of 90 (years of service plus age) is too low and often permits able-bodied people in their 50s to retire. A rule of 110 would be far more practical and would bring public retirement ages closer to what is common in other industries.

In any case, our fiscal house must be put in order. At the same time, we must make solid investments to improve education, strengthen our industry and improve our efficiencies. This will require cooperation, dedication, some new ideas and some sacrifices on the part of all of us.

I hope we are up to it.

Pulling together or pulling apart?

The presidential campaign has made Big Business a target. But history shows public and private interests can (and must) be reconciled for society's benefit.

MINNEAPOLIS STARTRIBUNE September 24, 2000

Like most folks, I have zig-zagged down the ballot over the years voting for a Democrat here, a Republican there, once in a while an independent and, every 12 years or so, a winner.

Initially, I was looking forward to the 2000 presidential election but I am a little disappointed in the quality of this year's campaign. There appears to be a great proliferation of promises and too little attention to the inner workings of the economy that could help fulfill them. The campaign seems to be a mix of corporate bashing, reality avoidance and overextended simplicity.

The big issues seem to be prescription drugs and tax cuts. These are meaningful topics, but there are other issues that should merit our attention. Worldwide oil consumption is on the rise and prices right along with it. Will we be able to adapt?.

Our trade deficit has been running at about \$30 billion a month for more than a year now - not only because of oil prices but also because of the reduced number of world class U.S. companies capable of exporting. Prolonged trade deficits often bring currency instability that could, if we became unlucky, undermine much of our financial system. Perhaps we might wonder if the trade agreements of the past few years have been effectively negotiated.

The savings rate has again turned negative - a fact bound to ultimately affect our preparedness for world competition.

Then there is the pitiful state of so much of the world not sharing in the benefits of the present economy. Will these disparities create friction? Clearly, there are matters to discuss if anyone wants to.

Classical lessons.

Both major candidates seem to take as a given that the surplus will be there. In the past 41 years, we have had three years of surpluses: 1960, 1999 and 2000. But the surpluses have been exceedingly thin. Even in Fiscal 2000, government on-budget receipts are expected to exceed expenses by a whopping 1.3 percent during one of the most prosperous years in the history of the nation. The off-budget items, mostly trust funds such as Social Security and other retirement funds, are running a surplus, but they should. They are trust funds. Whether the minuscule real surpluses can fund prescription drugs, a national revision of education, a build-up in defense, and tax cuts remains to be seen.

This year's campaign seems to feature the evils of "the big corporations." While it might be effective rhetoric (because some of the criticism is deserved) there is still a flaw: the corporations became bigger in a gigantic merger wave with the approval of an administration possessing an alarming disregard for the concentration of economic power. If there is such concern about the "big corporations," perhaps these mega-mergers should not have been approved.

The free-enterprise system has worked well for U.S. citizens over time, but the ways in which we integrate the workings of the large corporation with the needs of society is something we should discuss but not de-mean.

About 15 years ago, I compiled a review of classical management literature in a search for some prevailing themes. Perhaps the most important of those themes is this: The enterprise is an integral part of the whole community.

The concept of the enterprise as part of the community was fundamentally economic. In the view of these writers, the firm would not succeed over the long term without adhering to the basic concept of service. The savings rate has again turned negative - a fact bound to ultimately affect our preparedness for world competition.

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Oliver Sheldon expressed this in his 1923 essay; "A Philosophy of Industrial Management:"

"Industry exists to provide the commodities and services, which are necessary for the good life of the community, in whatever volume they are required. These commodities and services must be furnished at the lowest prices compatible with an adequate standard of quality, and distributed in such a way as directly or indirectly to promote the highest ends of the community."

Industrial engineer Frank Gilbreth, a central figure in the book "Cheaper by the Dozen," also recognized the integration of proper and effective management, the general prosperity of the peoples of the world and the health of the firm itself. The closing paragraphs of his 1923 essay, "Science in Management for the One Best Way to do Work," says:

"Nothing will stand for a long time and continue to exist and to give satisfaction unless there is a real reason for it so doing. It may stand for a long while because no one has changed it, but the day of comparison and struggle for survival will come, and unless it can show logical reason for its existence, it must go. Therefore, development of national prosperity that is to have permanent stability, that is to be evolution and not revolution, that is to attain and perpetuate the all-essential element of maintenance, does depend upon science, upon measurement; and it is for this reason that the science of management is an essential factor in the development of national prosperity, of international prosperity and of the prosperity of the whole world."

Henry Gantt, developer of the Gantt Chart, underscored the necessity of service to the community as a foundation to efficiency and success in his essay, "The Parting of The Ways," which was written at the time of World War I.

"The community needs service first, regardless of who gets the profits, because its life depends upon the service it gets.

"The business man who says profits are more important to him than the service he renders . . . has forgotten that his business had its foundation in service, as far as the community is concerned.

". . . Any reward that business arbitrarily takes, over and above that to which it is justly entitled for service rendered, is just as much the exercise of autocratic power and a menace to the in-

dustrial peace of the world as the autocratic military power of the Kaiser was a menace to international peace. This applies to Bolsheviks as well as bankers."

Harmony, not discord

These writers were management consultants - primarily efficiency experts. Many of their methods are in common use today. They were interested in what conditions are necessary for a corporation to grow and prosper. They were seeking better methods.

As the fabled efficiency expert Frederick Winslow Taylor put it, they were looking for "harmony not discord" and "the substitution of hearty brotherly cooperation for contention and strife; of both pulling hard in the same direction instead of pulling apart; of replacing suspicious watchfulness with mutual confidence; of becoming friends instead of enemies."

We have some excellent U.S. corporations with companies such as Medtronic, 3M, Ford, Goodyear, DuPont and others. They are a part of our national community. They are not intrinsically evil, though some corporate behavior is worrisome. Though the United States has been prosperous recently, we have some important tasks before us. The research, the world experiences and the expertise of the private sector can help as we approach a future with higher energy prices, more formidable foreign competitors and increasing national demands to provide for an aging population.

The role of U.S. corporations should be discussed, but we should remember that there could be an alternative that would pose even more problems: large foreign corporations.

The United States is prosperous, but the receipts of great prosperity may not have been well spent. We have some problems before us that need attention. Both candidates should look to larger issues with greater science, more practicality and an intensified appreciation for all elements of our society and the constructive roles they might play.

Fundamentally less monkey business

The deflated market and slowing economy could help restore the virtues of thrift and hard work, ushering in an era with fundamentally less monkey business

MINNEAPOLIS STARTRIBUNE April 9, 2001

Groucho Marx visited the New York Stock Exchange in the 1930s and began to sing very loudly.

As the sole member of the Marx Brothers with a proclivity for investing, he had bought heavily in the 1920s only to see much of his net worth evaporate in the 1929 meltdown.

When upbraided by exchange officials for disrupting the decorum, Groucho offered one of his quick retorts: "Look, when anybody takes me for a quarter of a million dollars, I get to sing."

Other notables were affected too. Regretting the performance of his portfolio, gangster Al Capone remarked: "Some of these stock market guys are crooks!"

Well, it takes one to know one I suppose, but the country did survive the downturn. The 1930s was a period of great progress where the country got back to business basics. Circumstances forced companies and individuals to develop better products, work harder, be more honest with their customers and participate less in business chicanery.

Though the hardships of the 1930s were apparent, the era did produce many improvements. Cars got better. Refrigeration became common. Radio emerged. Television was invented. Working people achieved greater voice. Savings rates increased, and people returned to doing real work.

The United States needs some of these attributes today. It should be a surprise to no one that the overvalued NASDAQ is approaching more realistic levels. Yet it is still overvalued. Cisco Systems Inc. and Maplewood-based 3M Co. earn similar amounts of money, but even after a 50 percent decline, Cisco's market valuation is six times greater.

After its stock price declined from \$104 to under \$2, Priceline.com is still valued at \$210 million - a lot of money for a company that lost \$192 million last quarter. Still, my advanced age has taught me never to predict when a bubble will end. More irrational exuberance may be coming.

But in the short term, our business and governmental practices are likely to change for the better. Megamergers will receive greater scrutiny. Sound fiscal management is likely to return as a virtue. The investing public is likely to be more skeptical of quick returns from simplistic business models that ignore customers and do not involve doing anything that others cannot do. Trade deficits will matter.

The GE model.

Let's look at the General Electric model. Is it really effective? GE is, to its credit, a disciplined company. It has a huge market valuation of \$480 billion - more than Ford, GM, Target, Chevron, Merck, Hewlett-Packard and 3M combined.

GE also has been a notable exporter of CEOs to 3M, Allied Signal and many other companies - not all of whom have done well. But with only \$48 billion in equity, GE is also a company with \$121 billion in short-term debt, \$76 billion in long-term debt, more than \$100 billion in intangible and other assets, and a huge finance subsidiary with \$172 billion in receivables at a time when borrowers may find it more difficult to pay. It is a good company, but probably not the penultimate company.

Our emerging period of realism may provide us with an opportunity to reevaluate our business models - away from highly leveraged merger transactions to appropriate cash management. Away from the illusion of planning the future while losing money today. Away from the paradigm that pressuring suppliers is the quickest way to meet earnings goals and toward cooperative programs that ensure a strong supplier base in the future.

The build-by-acquisition strategy tends to work better when markets are expanding rather than when they are sliding back. In boom times, even unsuccessful acquisitions can sometimes get sold for even higher prices than originally were paid. In more sober times, the acquisitions have to be made to work, and that in-

volves confidence building, teamwork, product innovation, cost effectiveness and close cooperation with key suppliers.

Public sector's duties.

The government, too, should mend its ways. U.S. trade negotiations have exhibited a remarkably impractical view of how trade actually works. We are all free traders, but it is not free trade if companies in one country must abide by environmental regulations and labor laws, provide health insurance and comply with a myriad of locally imposed requirements while its trading partner does not. The United States currently is buying about \$6.25 worth of Chinese goods for every dollar's worth that it sells to China - hardly a two-way street. The U.S. trade deficit - now running at an annual rate of \$385 billion - must be addressed and corrected before the value of the U.S. currency is permanently eroded. We should remember that performance of the U.S. stock market has helped to attract money to the country - an attraction that might dim in the months ahead.

Government policies have been remiss on other fronts. Too many mergers have been permitted, resulting in an unfortunate concentration of economic power in several industries. Too much speculation has been permitted in equity markets. There is no energy policy. There are too many government employees with cost-of-living-adjusted, defined-benefit retirement programs who can retire in their mid-50s.

But many of the difficulties that our economy will face in the months ahead we brought on ourselves. We spent too much, saved too little, speculated in securities that weren't worth anything and squandered the technical expertise of some of our best companies as they attempted to expand beyond their base of expertise.

In the meantime, through our trade policies, the United States has provided a golden opportunity for people half a world away to move into our major markets without having to comply with the same requirements imposed here. As a result, workers, shareholders and the general public now appear to be losing ground.

Still, we shouldn't be surprised by it. Singer Eddie Cantor and Groucho Marx frequently would exchange stock tips. As the downtrend of 1930 unfolded, Cantor complained: "Julius Groucho's real name, I lost a lot of money on that stock tip you gave me."

In his classic style, Groucho replied, "If anybody takes stock tips from the Marx Brothers, they deserve to lose money."

I am hopeful that the years ahead will be healthy for us as we move toward a more fundamental style of management and more practical public policies.

Hardly Working

The sun has been shining on the U.S. economy in recent years, but fewer of us are making hay - or any other tangible product, for that matter. Can it last?

MINNEAPOLIS STARTRIBUNE April 9, 2001

As a young field engineer with IBM in the late 1950s, I was expected to wear a suit. I went to the local Penneys store in a small town and said I needed to buy one. The man replied, "We don't sell suits here - not much demand for them."

Forty years later, I went to the Penneys store in Ridgedale and asked whether I could buy some work clothes for working around the yard. The salesperson politely responded, "Penneys doesn't sell work clothes in the store anymore. Not much demand for them."

The above story is true and, I think, provides an indication of why the U.S. economy may stagger for a while yet before it rebounds.

We, as Americans, do not do enough work.

There are, of course, honorable professions in the service sector of our economy and there are many talented people in indirect occupations. But it may be a matter of balance. Compared with other countries, we have far more people involved in finance, insurance, real estate, services and government and far fewer people in mining, construction, manufacturing and agriculture.

The differences are striking, with the more successful economies being rather thin on overhead. From 1979 to 1999, the United States added 39 million people to service-economy payrolls while it lost 1.2 million in manufacturing, construction, mining and agriculture.

Another way to look at this is from the perspective of overhead loading. In 1946, we had about 24 million people in tangible production (manufacturing, construction, mining and agriculture) - close to the number we have today. We had another 24 million people employed in everything else - a 1-to-1 ratio. We now have about 28 million people in tangible production but about 105 million in everything else.

Some highly important things are being done, of course, and no criticism of the people is intended. Productivity has increased greatly in manufacturing, agriculture and mining in recent years. But still we have to wonder: Do we have enough people doing useful work?

If things get tough in mining, manufacturing and agriculture, the service economy will not be far behind. The prosperity of the nation depends, as it always has, upon productive output of industries capable of generating outside cash.

History lessons

Societies throughout history have attempted to forgo production and still remain prosperous. But the track record of this approach has been quite poor. Rome neglected production in favor of discourse, comfort and debauchery. Great forums and palaces were built with slave labor. More than 180,000 spectators could fit into the Circus Maximus, and 100 holidays permeated the Roman year. But as the Romans were entertaining themselves, their empire went further into debt and ultimately was overrun by tribes less formally educated but in possession of some usable skills.

Eighteenth-century France neglected production as did mid-20th century England. Both countries found that sustaining prosperity was difficult if large fractions of society were not doing anything - or at least not doing things that someone wanted to pay to have done.

In January, the U.S. merchandise trade deficit again reached \$40 billion. In recent years, the United States has been importing \$6.27 in goods from China for every dollar in U.S. exports to China - not exactly a two-way street.

Boeing has been our most notable exporter for several years, but each year the fraction of that product produced in the United States declines - not because our workers aren't good but because we have surrounded them with huge costs - for government, for legal expenses, for finance, even for frivolity.

We haven't built a Circus Maximus yet, but we have several structures that come close.

The United States has been able to avoid chaotic financial upheaval resulting from these deficits for one reason: bigger problems have existed elsewhere. Money flowed here as a haven when traumatic events occurred in Europe, South America, Africa and Asia. Fortunately for us, the continuing supply of world trouble spots has enabled us to fund our deficits without saving anything. However, we run the risk that things may not always be worse elsewhere.

Shocks to our own economy due to excessive speculation in worthless stocks, a slipping competitive position in manufacturing and a bankrupt energy policy may come home to roost. Even minor economic shocks could greatly change our way of life. If investors sense a greater potential for appreciation in other lands, they will quickly move funds. And the movement of funds out of a country that saves very little, is heavily in debt and produces less than it should, could change the economic landscape as quickly as the declining NASDAQ has taken the wind from the sails of American finance.

Affordable affluence

Then there is the matter of our affluence. All of us. I am no exception. When I was a small child, our rural Minnesota home had neither running water nor electricity. We never thought of ourselves as poor because nobody near us had them either. Now, our family house has three bathrooms. This progression from no bathroom to three bathrooms in one generation has always troubled me - though I do find it convenient.

We have to contemplate how much affluence we can afford and still be competitive in world markets. The disregard of this precious relationship between production and consumption permeates today's society.

We want air conditioning but no power plants. We want sport- utility vehicles but no oil refineries. We want universal health care but we want someone else to pay the bill. We want to live longer and retire earlier without saving for our later years. We want to prohibit all fossil fuel power plants other than natural gas and then pay energy assistance when heating bills skyrocket. We want to consume 30 percent of the world's fossil fuels but produce 3 percent.

There is a tendency among all of us to blame someone else for our shrinking net worth - the Federal Reserve chairman, the president, energy producers . . . somebody. But in those famous words of Albert the alligator from the mid-century comic strip "Pogo": "We have met the enemy and it is us."

If we pull together and improve efficiency in all activities, develop a better education system, negotiate more realistic trade agreements, economize in our use of resources and develop sound energy programs, this slowdown could be over in a year or so.

But if we continue to block every needed infrastructure improvement, work less, retire early, save very little, sue more, and if the 105 million of us not in tangible production insist on meeting in our air-conditioned offices to discuss how the remaining 28 million people in manufacturing, mining, construction and agriculture should be more efficient, the slowdown could go on for a while yet.

What the wolves have wrought

MINNEAPOLIS STARTRIBUNE September 25, 2005

“It is jarring to watch Northwest, an airline that once paid cash for aircraft and had no debt, traverse the country, hat in hand, seeking funds. But times change. In 1989, Northwest experienced a structural makeover: From a conservatively managed public company of undervalued assets to a privately held, deeply indebted organization.”

So wrote Joan Feldman in a July 1991 issue of *Air Transport World* as Northwest Airlines struggled for survival during the early 1990s recession.

The recent bankruptcy of Northwest Airlines should cause us to reassess the unfortunate hostile takeover the airline experienced in 1989. True, the takeover did not produce the higher fuel prices or intensified competition of recent years, but it did turn the most solvent airline in the country into one of the least solvent. The takeover made Northwest more vulnerable to all future events — even including normal business hazards.

The debt load incurred by the leveraged buyout made survival difficult even in good times. In tough times, high debt almost always proves lethal.

Think how much better equipped the airline would have been to face the recent higher fuel prices and intensified competition if all of its planes were paid for, if there was no debt, and if it was operating just one make of airplane and one kind of engine today.

I was a small Northwest shareholder in 1989. Because of suspicion of the inexperienced and questionable people involved in the buyout, I voted against accepting the bid.

Not that the hostile investors did badly for themselves. According to public records, from Sept. 16, 2003, until Aug. 22, 2005, Al Checchi sold \$29 million worth of NWAC stock, Fred Malek sold \$ 1 million, and Gary Wilson sold \$34 million.

Over the years, our students at St. Thomas have studied, discussed and written case studies of companies involved in acquisitions, divestitures, mergers and hostile takeover attempts. These are not encouraging stories. AT&T lost \$4.5 billion on the hostile acquisition of NCR, which was nearly wrecked in the process.

A hostile takeover attempt of Allis-Chalmers in the late 1960s set in motion the long gradual decline of the largest employer in the state of Wisconsin.

The acquisitive activities of Greyhound Corp., which started in Minnesota, emptied a noble company of its gradually accumulated financial strength and diminished the nation’s capability for over-the-road transportation.

Important industrial suppliers such as Amp fell prey to the blindly ambitious Tyco International, whose former CEO has just been escorted to a federal prison.

The takeover events of the past few decades, and ill-formulated acquisitions of other sorts, have reduced the number of viable companies and created substantial trade deficits in key industries where we did not have deficits previously. Hostile takeovers are not sound strategic management, and they almost never develop lasting shareholder value. They are selfish, clandestine raids on the fabric of U.S. prosperity. They cost jobs, reduce service, infuse financial upheaval, cause financial losses in investment markets and often decimate pensions.

Ultimately, when bankruptcy occurs, the employees, creditors, shareholders and the government end up taking the financial losses. The wheelers and dealers prosper.

Is this as it should be?

It generally takes about 10 percent down to buy a car and 15 percent down to buy a house. Why is it that we permit someone to buy a company with 50,000 employees with just 2 percent down, most of which is borrowed? There is something wrong with this picture. What has been done with Northwest Airlines is equivalent to feeding our seed corn to ravenous wolves.

The state of Minnesota's 1992 bailout of Northwest was not pretty, either. With their back to the wall and in immediate danger of losing their full investment, the leveraged buyout team was not in a strong bargaining position. Minnesota could have insisted on new management and a reconstituted board of directors as a condition for any loan. Instead, the state restored the fortunes of reckless investors and perpetuated the organization that brought bankruptcy 13 years later.

Meanwhile, after the bailout, the citizens of Minnesota experienced several years of paying some of the highest ticket prices in the nation.

If we want to compete effectively, we have to do real work, accomplish difficult tasks, make investments and perfect our expertise. We will not compete effectively by managing portfolios, nor will we create value for shareholders by shuffling money.

Given the serious nature of the Northwest bankruptcy, some investigations should take place. Was there illegal insider trading here? Were there changes in the long-term compensation of directors or officers that were inconsistent with pending bankruptcy?

At the time of the leveraged buyout in 1989, Northwest Airlines had the largest private payroll in Minnesota. Some adjustments would have had to be made under the old corporate structure to meet today's challenging conditions. But the resources were there.

Now they are gone. Checchi, Wilson, Malek and the others have their proceeds from the sales of their stock. But what do the creditors, the employees, the government and the community have?

Less squabbling, more solving

The nation - and the state - have a load of serious problems that won't get fixed until we start working together.

MINNEAPOLIS STARTRIBUNE May 15, 2005

Jim Farrell, an English professor at the University of St. Thomas when I joined the faculty, was from an ethnic section of Milwaukee. A close neighbor of his had a well-known and growing plumbing business. The family became quite prosperous, but with six kids, they remained active in the community and never moved. The father continued his plumbing activity, often on a no-cost basis to neighbors with leaking or plugged pipes. The mother was fond of fixing pie for the children walking home from the local school, one of whom was Jim Farrell.

As time passed, the children grew older, the plumbing business expanded further and more prosperity was evident. Soon the family had five cars: a Packard, a Pierce-Arrow, a Cadillac and two other prestigious makes.

One day when the students stopped for pie, the five prestigious cars were all gone. In their place were five identical black Fords. When Jim asked the family patriarch what happened, he was told, "Oh, I just got tired of people bickering about what car they should drive."

Such practical wisdom would benefit our nation right now.

The United States is a wonderful country, but we do have some problems to fix. We are spending far more than we are bringing in. We have massive and unsustainable trade deficits. Our education system is sub-standard internationally. We are using increasingly scarce energy resources frivolously. Our retirement and health care obligations are far in excess of what our economy can yield to support them.

Each of these substantial problems is attracting conversation - but not much cooperative resolution. It's more like bickering. Yet the problems are pressing. It is time we pulled together.

It is true that solutions might involve something many of us are hesitant to consider - sacrifice. We all might have to sacrifice. We will not all be able to insulate ourselves from overdue corrective action if we want the country, and our young people, to have a better future.

The Business Journal recently published a list of Minnesota's 50 largest employers - excluding school districts. The list displayed a great paucity of manufacturers, especially compared with the 1980s, when Control Data, Unisys, Honeywell and 3M were among the very largest Minnesota employers.

These are now dwarfed by the state of Minnesota (55,321 employees), federal government (35,000), University of Minnesota (30,240), Hennepin County (12,459), Ramsey County (4,119), city of Minneapolis (3,942), and the Metropolitan Council (3,707). These seven governmental units employ 144,788 Minnesotans, in addition to school district employment, which was not included in the Business Journal survey.

In contrast, the nine manufacturers still on the list employ a total of 64,289, or 44 percent of the listed governmental employees.

The U.S. Bureau of Economic Analysis publishes a history of personal income between 1969 and 2002. During those years, the share of U.S. personal income from production-related activities - manufacturing, construction, mining and agriculture - has declined from more than 30 percent to less than 16 percent. Manufacturing's share has declined from 23 percent to 10 percent. Meanwhile, personal income from activities less related to production - finance, insurance, real estate, services and government - has increased from 31 percent to 47 percent.

Shouldn't we wonder what our future will be like when our industrial sector is so dwarfed by burgeoning public and service sectors? Shouldn't we question the direction of our investments when a casino employs several hundred more people than Boston Scientific, one of our most lauded and important manufacturers? Shouldn't we question whether the future we are creating is viable economically?.

Though many hard-working and honorable people are involved in these important service-related activities, it is difficult to see how such an economy can be sustained in the longer term. We all want prosperity, but our efforts in the production of goods related to that prosperity are waning and unfocused.

Some people suggest that the quality of national transportation, education and medical systems can be restored by raising taxes. This might make sense in some situations, such as raising the ceiling on payroll taxes. It isn't fair for highly paid athletes and executives to have lower tax rates than the rest of society.

But let's look at the matter quantitatively. *BusinessWeek* magazine recently published a list of the "Top 50 companies for 2005." The total yearly profits for these 50 huge companies, which included Exxon Mobil, Johnson & Johnson and other mammoth firms, was \$137.4 billion. If we taxed all of the yearly profits of these leading corporations, it would not cover government operations for a single month.

The U.S. trade deficit in goods and services increased to \$61 billion in February. Although the deficit shrank a bit in March, to \$55 billion, the long-term trend is up. Meantime, our currency and the value of our assets are diminishing.

It is easy for each of us to resist change and, above all, any modification of our own behavior. But it is essential to our long-term interests that we get something done.

As an example, much of Europe makes extensive use of nuclear power while it heavily taxes gasoline. The adoption of a standardized retirement age would ease the nation from the crushing burden of funding early public-sector retirements. We could collect more from tax cheaters. Perhaps we could tax video games, TV and entertainment media that detract so much from effective national education. But let's do something.

Perhaps we would be better off if someone would take exception to our bickering and mandate that we all drive black Fords.

And, from the perspective of the Minnesota economy, we might hope that they would be Ranger pickups, produced in St. Paul.

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The *Business Journal* recently published a list of Minnesota's 50 largest employers — excluding school districts. The list displayed a great paucity of manufacturers, especially compared with the 1980s, when Control Data, Unisys, Honeywell and 3M were among the very largest Minnesota employers.

These are now dwarfed by the state of Minnesota (55,321 employees), federal government (35,000), University of Minnesota (30,240), Hennepin County (12,459), Ramsey County (4,119), city of Minneapolis (3,942), and the Metropolitan Council (3,707). These seven governmental units employ 144,788 Minnesotans, in addition to school district employment, which was not included in the Business Journal survey.

In contrast, the nine manufacturers still on the list employ a total of 64,289, or 44 percent of the listed governmental employees.

The U.S. Bureau of Economic Analysis publishes a history of personal income between 1969 and 2002. During those years, the share of U.S. personal income from production-related activities — manufacturing, construction, mining and agriculture — has declined from more than 30 percent to less than 16 percent. Manufacturing's share has declined from 23 percent to 10 percent. Meanwhile, personal income from activities less related to production — finance, insurance, real estate, services and government — has increased from 31 percent to 47 percent.

Shouldn't we wonder what our future will be like when our industrial sector is so dwarfed by burgeoning public and service sectors? Shouldn't we question the direction of our investments when a casino employs several hundred more people than Boston Scientific, one of our most lauded and important manufacturers? Shouldn't we question whether the future we are creating is viable economically?

Though many hard-working and honorable people are involved in these important service-related activities, it is difficult to see how such an economy can be sustained in the longer term. We all want prosperity, but our efforts in the production of goods related to that prosperity are waning and unfocused.

Some people suggest that the quality of national transportation, education and medical systems can be restored by raising taxes. This might make sense in some situations, such as raising the ceiling on payroll taxes. It isn't fair for highly paid athletes and executives to have lower tax rates than the rest of society.

But let's look at the matter quantitatively. BusinessWeek magazine recently published a list of the "Top 50 companies for 2005." The total yearly profits for these 50 huge companies, which included Exxon Mobil, Johnson & Johnson and other mammoth firms, was \$137.4 billion. If we taxed all of the yearly profits of these leading corporations, it would not cover government operations for a single month.

The U.S. trade deficit in goods and services increased to \$61 billion in February. Although the deficit shrank a bit in March, to \$55 billion, the long-term trend is up. Meantime, our currency and the value of our assets are diminishing.

It is easy for each of us to resist change and, above all, any modification of our own behavior. But it is essential to our long-term interests that we get something done.

As an example, much of Europe makes extensive use of nuclear power while it heavily taxes gasoline. The adoption of a standardized retirement age would ease the nation from the crushing burden of funding early public-sector retirements. We could collect more from tax cheaters. Perhaps we could tax video games, TV and entertainment media that detract so much from effective national education. But let's do something.

Perhaps we would be better off if someone would take exception to our bickering and mandate that we all drive black Fords.

And, from the perspective of the Minnesota economy, we might hope that they would be Ranger pickups, produced in St. Paul.

Sacrifice, efficiency needed for Minnesota

Minneapolis/St. Paul Business Journal - April 28, 2006

The recently announced closing of the Twin Cities Ford plant is merely the latest indicator of Minnesota's gradually shrinking industrial prowess. Gov. Pawlenty at least tried. Several of us have been in discussions with public officials regarding the long-term viability of the plant since the '80s. Few other public officials from any party showed interest. Yet the competitive position of manufacturing affects all aspects of our economy and everyone's standard of living.

The idea that the industrial economy is crucial to the economy as a whole is only becoming apparent as we witness the after-effects of shrinking industry. The implosion of the computer industry, the bankruptcy of Northwest Airlines, the ill-fated acquisition of Honeywell, the shrinkage of ADC Telecommunications, and several other business calamities, have brought home the reality that industry matters. Governmental budgets are under assault. Service industries have to scramble for sales. The market for homes has softened. None of these problems will ease until Minnesota industry experiences a resurgence — if it is not too late.

These were all problems that were seen by many — but ignored. When it was suggested that Minnesota's manufacturing employment was worse than it appeared because we were adding jobs in lower-paid industries while we were losing employment in the higher-paid industries, we were told by public staff members that the idea was "ridiculous." When we met several years ago with public officials on the Ford Plant, copious notes were taken, but no actions were forthcoming.

Now Minnesota's economy is clearly weaker — a bit weaker than several other states.

Minnesota has been drifting for years. Though the short-term effects are now only emerging, the long-term situation is rapidly becoming critical. With burgeoning annual trade deficits, a near-zero savings rate, low investment in plant and product development, weak education systems by international standards, and rapidly emerging unmet infrastructural needs, Minnesota and the nation are risking economic problems of major proportions. Yet, neither the legislative nor the executive branches of either state or federal governments are taking steps to reverse the decline of American industry and the harmful effects it will have on the standard of living of all citizens.

Instead of encouraging industrial investment we are building stadiums — even though the behavior of professional athletes seems not to merit subsidy.

The Twin Cities Ford plant could have been saved. The remedies would not have to involve subsidies. Organization and commitment would be more helpful. As it was advised to do, the state could have helped orchestrate coordination with some of Minnesota's excellent metal fabricators to alleviate the plant's major production bottleneck — the lack of integrated metal stamping, which all of the modern plants have. Gov. Pawlenty's interest in multifuel vehicles has merit, but it is an idea that would take more years to develop than Ford has time. There still may be some potential there.

Minnesota does not have to have the problems that it has. Indiana's economic development programs are more cost-effective and more professional than Minnesota's. Wisconsin's higher-education system is probably better and more focused. Tennessee has developed some innovative programs involving land development, utility coordination and permits. Singapore routinely benchmarks governmental and supplier systems in other parts of the world and then fills the gaps. Sweden has unfolded some novel approaches to handling bankruptcy.

The steps needed to prepare Minnesota's economy for the future will involve both sacrifices and much greater efficiency on the part of all of us in the industrial, educational, governmental and service sectors. But unless Minnesota's industrial sector is restored, we will have budget deficits and a weak economy forever and everyone will be paying the price.

Is it, 'GM, Ford and fall on our sword?'

America's industrial bench is not as deep as it once was. Can we still field a competitive team?

MINNEAPOLIS STARTRIBUNE – September 4, 2006

During the late 1940s, the Braves, then the National League baseball franchise in Boston, had two good pitchers, and that was all. Hall-of-Famer Warren Spahn won 363 games in his long career. Johnny Sain won 24 games in 1948. The Braves made it into the 1948 World Series but didn't win. Lamenting the team's lack of pitching depth, the Boston Post coined the phrase "Spahn and Sain and pray for rain."

Just as depth can be a factor in the success of sports teams, depth can influence the health of a nation's economy as well. This summer I found a copy of the Fortune 500 Directory for 1977 (1976 financial data). I picked out the 50 largest manufacturers and compared them with the 2005 list (2004 data).

There was some good news: General Motors, Ford, Deere, Caterpillar, Dow Chemical, Weyerhaeuser, Alcoa, Boeing, General Electric, among others, survived with inflation-adjusted revenue higher in 2005 than in 1977. The margins were lower in 11 of 17 cases. Of these 17, however, only eight added employees.

Twenty of these 50 largest manufacturers have disappeared as stand-alone companies, including the conglomerate kings Gulf & Western, ITT, Litton and Beatrice Foods. Others, such as American Can, Continental Can and Bendix, fell prey to poorly conceived programs of diversification. Others, namely Firestone and Union Carbide, missed customer and employee safety as central factors to success. Some, such as Bethlehem Steel and LTV, suffered under decades of mismanagement and entered bankruptcy.

Some problems exist among the survivors as well. W.R. Grace ranked No. 50 on the 1977 list but plummeted to number 696 in 2005 with substantial losses, negative shareholder equity and 11 percent as many employees as the company had 28 years earlier. Among the other big slippers were Unisys, Monsanto, Tenneco, Eastman Kodak and U.S. Steel.

Is our industrial team fielding enough depth for our nation to be sufficiently competitive to sustain the prosperity we have all enjoyed? I would like to be optimistic, but I wonder.

Bethlehem was an important producer of tool steels and stainless steels; Eastman Kodak was a leader in imaging. Goodyear is our only remaining significant rubber company. Even prestigious chemical producer DuPont has slipped. Monsanto has slipped further. The situations of our two largest industrial companies, General Motors and Ford, are precarious. Shouldn't we wonder what it means for our nation's prosperity when so many of our companies are losing ground?

In many cases, the slippage has been the result of poor management, flawed strategies and money spent on the wrong things.

In other cases, however, naive public policies took their toll. Poorly negotiated trade agreements, unrestrained litigation, sophomoric approval of mergers or leveraged buyouts have helped to weaken what at one time was the world's most prominent industrial fortress.

Productivity contenders

Productivity differences alone cannot account for the sagging fortunes of U.S. auto producers. The 1.5 percent difference in labor-hours-per-vehicle between Honda and GM is not significant given that GM has so many large and complex vehicles -- many with V8 engines, heavy transmissions, four-wheel drive and large towing capacities. Although it might be increasingly difficult to sell such large vehicles, we cannot say that either GM or Ford lacks assembly efficiency. Indeed, Ford has been a world-class productivity leader.

Neither can their situations be explained by differences in quality. The Ford Ranger, the Pontiac Grand Prix, the Chevrolet Silverado and the Chrysler Town & Country were all recognized as the highest-quality vehicles in their market segments in the 2006 J.D. Power Initial Quality Study. Mercury, Buick and Cadil-

lac all ranked near the top in the longer-term J.D. Power 2006 Durability Study -- all ranking higher than Toyota, Acura and Honda and much higher than most European nameplates.

Each more than 100 years old, Ford and GM are victims of being successful for too long. GM has 476,000 retirees. Ford provides health insurance for 590,000 people at an annual cost of \$3.5 billion. Both Ford and GM have health insurance costs of about \$1,100 per vehicle. Neither Asian nor European producers are burdened by such costs.

The Asian companies are too young to have many retirees, and the European producers function under systems where health care and retirement obligations are primarily off-loaded to other entities. U.S. producers have the awesome responsibility of providing for much of society's needs while dealing with intense international competition.

Whether the decline of industrial America is attributable to inferior management or misguided public policy is worthy of discussion. But there is little doubt that the decline is taking place. The question for the rest of us is: What will our lives be like if they are gone? Where will people work? Who will pay the taxes? Who will bear the costs for health care and retirements? Who will provide work for the service economy?

A new world series is upon us. To compete effectively, our nation will need industrial depth, not just a few token players. The competitive position of U.S. industry merits public attention. We won't be able to "pray for rain."

GM-UAW pact may be just the beginning

MINNEAPOLIS STARTRIBUNE – September 4, 2006

The United Auto Workers (UAW) and U.S. automakers are locked in an epic struggle to hammer out new contracts that are likely to affect all of American industry, public policy and the locus of world commerce for decades to come.

But those agreements, the first of which came last week at General Motors (GM) after a brief strike, are unlikely to remove the source of anguish for those in the U.S. auto industry. (UAW members returned to work at GM before a vote on accepting the agreement.)

In this struggle, it is entirely possible to have empathy for both sides. GM had its back to the wall in providing nearly free health care coverage for 1.1 million people while supporting 400,000 retirees. The union was coming off a long string of significant concessions allowing the company to close 12 plants and increase medical co-pays by retirees and employees.

Ironically, both the union and the company can look back on more than a century of progress for both workers and American industry. General Motors is, after all, a highly successful 110-year-old company. Auto workers, members of one of the nation's most-forward-thinking unions, have paved the way for wage-and-benefit improvements for many of us as they cooperated with management in building one of the world's largest industrial enterprises.

The plight of GM, Ford and Chrysler and their workers is apparent when analyzing the cost structure of U.S. manufacturing. According to the Annual Surveys of Manufacturers, as conducted by the U.S. Bureau of the Census, manufacturing value-added as a percent of payroll increased 57 percent from 1977 to 2005 in a string of real and significant productivity increases. Direct and indirect labor costs declined from 18 percent of shipments to 12 percent. Materials costs declined as well, from 57.5 percent to 54 percent.

From other studies, we know that manufacturing profit rates also declined during the same period. What changed for manufacturers were "all other costs" -- which rose substantially. Those include health care and pension costs.

This is the crux of the problem facing U.S. industry and its workers. Labor and management are making improvements, but the fruits of those efforts are being siphoned off by third parties. Frivolous lawsuits, rapidly accelerating health care costs, higher property taxes, the blessing of longer life expectancies, company takeovers by predatory hedge funds, higher taxes to support early retirements of public employees, and many other difficulties are taking their toll.

Heaped upon those difficulties is the propensity of politicians to impose upon industry the costs and responsibilities for programs they would like to see, but for which they are unwilling to provide funding. Those rising external costs are the principal dilemma facing industrial companies and their workers.

Within this chaotic framework, the U.S. auto industry and its dedicated workers have produced many excellent vehicles. It was Ford, and not Honda or Toyota, that received the most top ratings in this year's J.D. Power Initial Quality Study. In the longer-term Dependability Survey, where Ford and GM captured more than half of the top 13 spots, Buick, Mercury, Cadillac and Lincoln all rate well above nearly all European and most Asian brands.

The perception that foreign producers somehow lead the American companies in either technology or productivity is without substance. The U.S. plants of Asian producers are newer, to be sure. But even with that important advantage, both Ford and GM continue to make productivity improvements and turn out high-quality products. It should also be noted that both companies have profitable operations in other countries. The social systems within those different countries have large effects on each company's costs.

The funding of retirement in Europe is largely the responsibility of government. Most Asian producers are not old enough to have many retirees. Only in America does the principal responsibility for both health care and retirement fall to the employer.

It's difficult for U.S. companies to compete internationally with those burdens. Companies and unions know this. So do foreign producers aiming to capture U.S. market share.

Americans should take the combined plight of the U.S. auto producers and their workers very seriously. GM is the nation's largest industrial company. If it, and others like it, suffer prolonged difficulties, the ultimate result will be an expansion of already successful overseas operations and a lowering of investment in our domestic industry. That will be exceedingly bad for all of us.

We are all part of the same American economic system. Many of us have friends on both sides of the bargaining table. We wish them all well! And we wonder if there are things we could do to help.

That money is washing away

**There's a growing public workforce, retiring early but living longer while drawing benefits.
Do the math.**

MINNEAPOLIS STARTRIBUNE – October 25, 2009

British scholar John Argenti said that failing organizations rarely go under because of severe external conditions. They usually fall prey, he said, to normal hazards after the organization has been weakened by incompetent management. Weaknesses of this kind are plentiful in American public policy today -- consider deficits and energy policy, among others. But there may be no better example than the festering problem of mushrooming and underfunded public retirement funds. The basic problem is that pension funds created to finance retirement benefits for thousands of public employees -- teachers, police officers, firefighters, and state, city and county workers of every description -- lack sufficient funds to meet their obligations. The result could be sharp reductions in future benefits, significant tax increases, or both.

Minneapolis Mayor R.T. Rybak brought the scale of the situation home in his budget address last summer. He reported that nearly two-thirds of an 11.3 percent property tax hike next year would go to fund the city's pension obligations.

There are, of course, many dedicated public workers across Minnesota and the nation. Indeed, their numbers have soared, and that's part of the challenge.

In 1950, about two-and-a-half times as many Americans were employed in manufacturing as in government -- 15 million in manufacturing, 6 million in government. Today, governments have 22.5 million employees, while manufacturing has 13.4 million.

No state has added either construction or manufacturing employees in the past recessionary year. But 32 states have added government employees.

These dramatic shifts in the nature of the American economy raise questions about the future of tax revenues.

Early retirement ages for public employees worsen the retirement funding problem. The stresses of a competitive global economy have forced many people in the private sector to work well into their later years, often into their 70s if they can find work. Public employees often retire much earlier, sometimes during their mid-50s, usually with richly provided defined-benefit programs -- and sometimes with substantial bonuses to retire early.

Meanwhile, life expectancy has been rising, while retirement ages have largely remained unchanged. The combination is fiscally lethal.

The Minnesota Teachers Retirement Association has reported that the average teacher is now expected to receive defined retirement benefits for more than 27 years. Total cost: roughly \$1 million per retiree.

Retirees in the program range in age from 52 to 108.

Predictably, retirement rolls have grown as more and more workers reach the easily achieved age. California's retiree ranks grew by 36 percent in just nine years, while benefit payments increased by 127 percent. Many states experienced similar growth rates.

Costs escalated further partly because of built-in benefit raises inherent in many public pension systems. Minnesota retirees receive 2.5 percent annual increases and, occasionally, additional increases. Inevitably, such arrangements cause benefit payments to outstrip the abilities of active employees and employers to make sufficient contributions to keep the funds whole.

Rapidly accelerating retirement payments have made it difficult for fund managers to earn large enough investment returns to keep the funds financially secure. Fund managers have responded by seeking higher yields, and returns have occasionally been quite good -- when the markets were high. But higher yields often come with greater risk, and that well-established axiom proved true in the past year's turbulent markets.

Minnesota's basic retirement fund lost 19.6 percent of its value from July 2008 to July 2009.

Delaying the reckoning

The escalating burden of retirement benefits has strained the finances of core government functions such as education and law enforcement. Additional contributions to public pension funds are urgently needed. But recipients, administrators and timid legislators are unwilling to acknowledge this.

Minnesota sidestepped the pension crisis during the past legislative session. But a massive infusion of funds is being proposed for the next session. The added costs will make balancing the state's budget even more difficult.

Several water-muddying mechanisms have been devised by public officials to reduce anxiety and further delay the day of reckoning. Insiders might describe it as carefully formulating actuarial assumptions about future revenues and costs. Others might describe it as cooking the books.

State administrators appear reticent to own up to an obvious but unrecognized problem requiring billions of dollars to correct. Retiree organizations seem reluctant to call the public's attention to the true cost of the benefits they have been receiving. Courts seem reluctant to interpret the constitutional requirement of a "balanced budget" in accordance with proper accounting conventions.

Three responses to the problem of unfunded public pensions seem possible: First, retirement ages could be increased to the age of 70 or so, and benefits could be reduced to levels more common in the rest of the economy.

Second, taxes could be increased to cover the current shortfalls. However, any proposed tax increase will seed its own conflict -- a sort of "prisoner's dilemma." Who should pay the tax? Nonpublic employees who are working into their 70s who did not get the money? Or retirees who did get the money? Or current public workers who may never get the money? Widespread satisfaction is unlikely.

A third possible response seems imprudent, but more likely: Kick the can down the road again. Ignore arithmetic and pretend the problem does not exist -- a technique now employed in several states.

The likely epicenter

On the surface, the pension problem may seem like a classic conflict between taxpayers and public employees.

That is too simple. Given government's tendency to leave serious problems unattended, the eventual conflict is more likely to erupt within the ranks of the public employees themselves. There will probably be enough money to provide older employees and existing retirees with more lucrative benefits than they would normally receive in the private sector. But when the money runs out, as it inevitably will, younger employees might well face devastation and a cruel curtailment of what they have been contributing toward and counting on.

In the end the problem of underfunded public pensions is not a political problem. It is an arithmetic problem. There is simply no way that an economy engaged in intense international competition can generate enough disposable income to fund premature retirements of able-bodied, often-dedicated public employees when life expectancies are increasing as they are.

We should approach the problem without rancor. It is in the best interest of all to work out a realistic solution that does not tax those who have not benefitted.

Are we really worth what we're being paid?

CEOs are often blamed for economic struggles, but compensation for the average employee is also a problem.

MINNEAPOLIS STARTRIBUNE – July 5, 2010

The Star Tribune's annual survey of executive compensation published a week ago nurtures some respectful questions. CEOs are well-paid, that is true. But there are larger questions. How does our compensation here in the United States compare to the rest of the world -- not only for CEOs, but for all of us? And, given the contributions we are making to a lasting and wholesome world, are we worth what we are getting paid?

Average compensation has been increasing in the developing countries in recent decades. In comparison to our world competitors, where do our compensation levels fit? Can we compete with the compensation levels we have? Are we really worth what we are getting paid?

I am not a stranger to compensation questions. I've served on the boards of directors of one company or another for many years. As an outside director, I was almost always on the audit and compensation committees. I've had professional exposure to the financial community and the legal profession. Our family has had extensive first-hand experience with the medical profession. And, of course, I am quite familiar with compensation levels in my own profession of education.

But, there are other exposures. Two of our five children have served extensively in Africa -- in some of the poorer countries. Another spent time in Asia. I've taught several times in South America and also in Eastern Europe. We have friends in organized labor who are concerned with declining wages and increasing unemployment. Other friends have thoughtfully studied world economies from an academic perspective. Still other friends have been caught in the vortex of a shrinking and less competitive economy. All of these exposures stimulate questions of how much we, as citizens, should take from the system.

No one wants to change

The case could be made that excessive compensation is eroding our competitive strength. There are many facets to this erosion. Excessive bonuses on Wall Street, higher-than-necessary fees for professional services, retirements of people in their mid-fifties, too much time off and payment for work not actually performed -- all raise societal costs and contribute to the erosion of our nation's competitive edge.

Most discussions of our current economy sidestep this important question of compensation. Analysts commonly focus on the cyclical aspect of the economy but not the structural. We keep wondering when the economy will turn around, but no one seems to want to modify their own behavior to help with this transition. We all want to receive our own personal expectations. Whether we deserve the prosperity we have experienced is a question that's seldom explored.

There are, however, ramifications to compensation levels above what we truly deserve. Inappropriate compensation levels tend to spread -- to the just and the unjust. People begin to question, if this mediocre individual is paid so much, what am I worth? Is there any connection between a possible nurses strike and the \$102 million compensation awarded to the CEO of UnitedHealth Group or some of the compensation elsewhere in the health care system? I do not know, but perhaps the question should be explored.

Vow of poverty

Last year, I ran into Sister Generose, the last Sister of St. Francis to serve as president of St. Mary's hospital in Rochester -- now part of the Mayo Clinic. A wing of St. Mary's, one of the largest and most respected hospitals in the world, is named after Generose. We talked briefly about management in the health care industry. She remarked that the mother house was never too interested in executive compensation. It is amazing what motivation, and what accomplishments, can co-exist with the vow of poverty.

It would be a grave injustice to assign too much of the blame for America's accelerating, but unwarranted, compensation to the CEOs. First of all, some of them are behaving responsibly. I met with one last week, a CEO of a well-regarded company listed on the New York Stock Exchange. In spite of no corporate debt, there will be no bonuses this year. But the morale of both workers and the management team remains high and the company's strong reputation for quality has allowed them to put more people back to work.

There are many responsible, dedicated, thoughtful and community-minded CEOs. To the detriment of our country, there are others who appear to not be worth what they are getting paid.

But shouldn't we all wonder if we're taking too much from the system?

Do we truly deserve to retire in our mid-50s? Do those of us in education really merit months of vacation in the summer along with breaks at other times during the year? As service providers, are our hourly rates appropriate? Do those of us who are managers operate with enough efficiency to justify our pay?

Perhaps both Europe and the United States should ponder the consequences of fueling highly compensated societies with money borrowed from poorer nations. The problems of our weakened economy are not cyclical, but structural.

Prosperity is unlikely to return until we are willing to change our ways. We cost too much, borrow too much and deliver too little.

If we could each make some modifications in our own behavior, so the return on investment of our own activities is positive, there would be a far better chance that our nation could return to the prosperity that has made life better for so many people in the past.

Europe's Protests offer lesson to Minnesota, US

We must find a way to fix our deteriorating finances.

MINNEAPOLIS STARTRIBUNE, October 11, 2010

The protests and rioting going on in Europe regarding budget cuts and pension revisions are relevant to our situation in Minnesota and the United States. Europe does have many benefit programs that are, indeed, unaffordable, and many developed countries are rapidly approaching the arithmetic certainty there will not be enough money to pay all bills — independent of any social concerns. Yet the argument made by the protesters is that tens of billions were spent bailing out reckless banks with the result that our pensions and salaries are being cut.

These situations provide background material for how we might solve, or not solve, budget problems in this country and in Minnesota. Very predictably, one foolish deed deserves another. Regardless of where we reside in the political spectrum, I am sure we would all have to agree that our country would be far better off if we could purge the system of its most harmful behaviors. Early retirements are indeed a festering unsolvable financial quandary, but so are foolish banks, unreasonable executive compensation, exorbitant medical fees and one of the shortest school years in the industrialized world. Too much time off on the part of those of us in education is inappropriate, but so are some pernicious legal activities.

Can we come together?

Clearly, there are enough infractions to go around. What might it be like if we could band together and collectively get rid of most of our expensive counterproductive activities — if not all?

While some of us might suggest that some other group is worse than our own, the fact remains that our country has serious fiscal problems that must be dealt with while there is still time to avert chaos. That time will not last forever. Cooperation in the short run will be important — even essential.

The Minnesota of my childhood was different. Business was basically honest. Our schools were rigorous. Elected officials of different persuasions talked to one another. Manufacturing employed more people than it does now, but government was about one-quarter of its present size. The state was solvent and could tout its growing economy and near-full employment.

As the November election approaches, perhaps we can utilize the collective experiences of Europe and our own past to elect some true leaders capable of enlisting the broadly based cooperation that will be entirely necessary for any solution to Minnesota's budget and economic problems.

Since 2001, Minnesota has lost 85,000 manufacturing jobs -- the equivalent of about 45 plants. We have lost 37,000 construction jobs, 16,000 information jobs and 2,000 mining jobs. Northwest Airlines and several other major employers are either gone or have greatly downsized. None of these trends makes balancing the state's budget easier. They also limit the practical effectiveness of simplistic tax and fiscal policies.

I am hopeful the 2010 election will provide us with an opportunity to seek candidates who are more cooperative and less blameful. There will not be any one big knob to turn to improve Minnesota's rapidly deteriorating financial situation. Simplistic partisan solutions are unlikely to either be enacted or be successful.

But there are probably thousands of ways we could make our situation better by coming together and jointly ending those public and private practices that cost lots of money and produce mediocre or poor results.

If we do not pull together, we are likely to wind up like so many countries in Europe -- hopelessly rioting in the streets with no place to go.

Does Health Care Cost Reduce Employment?

Precision Manufacturing May/June 2011

In 2008, in a study entitled, "Rising Health Care Costs: The Effect on Employment Outcomes," Indiana and Purdue University at Indianapolis professor Anne Beeson Royalty, reported the following:

Some caution in interpretation is necessary here due to the imprecision of the estimates but overall we argue that the patterns we find suggest a negative effect on employment, with the impact occurring mostly through reductions in new hires.

There are also other studies which we will not review here. Instead, this article will examine some of the factors impacting the costs of healthcare for all Americans, along with the unfortunate result of reduced employment.

Generally speaking, the United States is a very expensive place to get sick. We are the top ranking country in the whole world in health care expenditures as a percent of our gross domestic product (GDP) -- about sixteen percent. Table 1 displays the percent of GDP devoted to health care with the average of most industrialized countries being about nine percent.

These vast expenditures do not seem to translate into improved outcomes, however. Twenty one of the 29 countries listed in Table 1, those identified with an asterisk, enjoy life expectancies longer than what we experience here in the United States.

Country	% of GDP	Country	% of GDP
United States	16.00%	OECD Participating Countries	9.00%
* France	11.20%	* Ireland	8.70%
* Switzerland	10.70%	* United Kingdom	8.70%
* Austria	10.50%	* Australia	8.50%
* Germany	10.50%	* Norway	8.50%
* Canada	10.40%	* Finland	8.40%
* Belgium	10.20%	* Japan	8.10%
Portugal	9.90%	Slovak Republic	7.80%
* Netherlands	9.90%	Hungary	7.30%
* New Zealand	9.80%	* Luxembourg	7.20%
* Denmark	9.70%	Czech Republic	7.10%
* Greece	9.70%	Poland	7.00%
* Sweden	9.40%	* Korea	6.50%
* Italy	9.10%	Turkey	6.00%
* Spain	9.00%	Mexico	5.90%

Source: OECD Health Data, 2010
 * = life expectancy longer than the United States according to the United Nations World Population Prospects 2006 Revision

Manufacturing employers often describe health care benefits as the most rapidly escalating cost they experience. But rather than revisit the myriad of anecdotal evidence which we all have, this article will focus on published data from established sources.

In March of 2011, the US Department of Labor released a study entitled "Employer Costs For Employee Compensation - December 2010" – USDL-11-0304.

Private industry employers spent an average of \$27.75 per hour worked for total employee compensation in December 2010, the U.S. Bureau of Labor Statistics reported today. Wages and salaries averaged \$19.64 per hour worked and accounted for 70.8 percent of these costs, while benefits averaged \$8.11 and accounted for the remaining 29.2 percent.

Total compensation costs for state and local government workers averaged \$40.28 per hour worked in December 2010.

Total employer compensation costs for civilian workers, which include private industry and state and local government workers, averaged \$29.72 per hour worked in December 2010.

Table 2 shows the breakdown of employer compensation costs by major category as reported by the US Department of Labor.

Compensation component	Civilian Worker	Private Industry	State & Local	Gov- ernment
Wages and salaries	69.70%	70.80%		65.60%
Benefits	30.30%	29.20%		34.40%
Paid leave	7.00%	6.80%		7.50%
Supplemental pay	2.30%	2.70%		0.80%
Insurance	8.80%	8.00%		11.90%
Health benefits	8.40%	7.50%		11.60%
Retirement and savings	4.50%	3.50%		8.10%
Defined benefit	2.70%	1.50%		7.30%
Defined contribution	1.80%	2.00%		0.80%
Legally required	7.80%	8.20%		6.00%
Average Hourly Compensation	\$29.72	\$27.75		\$40.28
Health Care Employer Costs/ Hour	\$2.50	\$2.08		\$4.67
Source: "Employer Costs for Employee Compensation news release text," US DEPARTMENT OF LABOR USDL -11-0304, March 9, 2011				

The total cost of health insurance is not shown in the above table because it includes only the employers share, not the amounts paid by the employee. According to the Kaiser Family Foundation Health Research and Educational Trust, the employee portion of annual family health care premiums has risen from \$1,543 in 1999 to \$3,997 in 2010. As shown in the following exhibit on health care premiums, the Average Annual Premium for both the employer and employee portions of family coverage have increased from \$5,791 in 1999 to \$13,770 in 2010 – an increase of 138 percent. Total premiums for single employees have risen by 129 percent from \$2,196 in 1999 to \$5,049 in 2010. In the past eleven years, 31 percent of family coverage health care premium increases have been paid by employees, 69 percent by employers.

So, if we are concerned with the rising costs of health care and the impact it is having on employment, perhaps we should spend some time examining some of the factors that seem to be raising cost beyond those being paid in other countries.

What drives higher health care costs?

Compensation. Health care providers are paid a lot. They do valuable work, that is true. The experience of our own family provides testimony to the dedication and the expertise of so many of these competent and exemplary physicians, surgeons, nurses and providers of other specialties. However, there are disparities.

Table 3, compiled from data supplied by HealthJobsUSA.com shows a sampling of the salaries for a few selected occupations within the health care field. The Median salaries are shown along with the 25th and 75th percentiles for the Minneapolis and St. Paul areas for 2010.

Most all of these occupations have distinct specialties. Yet, a physician of the pediatric specialty makes about 41 percent as much as a radiologist, half as much as an anesthesiologist, and 35 percent as much as a neurological surgeon.

The largesse received by elements of health care is, by no means, restricted to the providers themselves. The \$102 million of 2009 compensation of the CEO of UnitedHealth was fifteen times the compensation of the CEO of 3M, historically Minnesota's most profitable corporation.

Problems always develop when compensation levels are perceived to be above what is appropriate. Inappropriate compensation levels tend to spread -- to the just and the unjust. People begin to question, if this individual is paid so much, what am I worth? Is there any connection between the narrowly averted nurses strike of a few years ago and the \$102 million compensation awarded to the CEO of UnitedHealth Group, or compensation elsewhere in the health care system? Perhaps the question should be explored.

	25th Percentile	Median	75th Percentile
Surgeon - Neurology	\$418,668	\$514,157	\$650,589
Surgeon - Orthopedic	\$340,121	\$447,316	\$626,375
Physician - Radiology	\$366,993	\$441,310	\$498,976
Surgeon - Pediatric	\$317,840	\$388,789	\$448,914
Physician - Anesthesiology	\$312,844	\$364,160	\$414,303
Chief Nurse Anesthetist	\$174,194	\$189,016	\$204,019
Physician - Geriatrics	\$171,523	\$185,722	\$210,144
Physician - Pediatrics	\$161,178	\$181,742	\$206,702
Certified Nurse Anesthetist	\$158,737	\$168,234	\$179,420
Assistant Pharmacy Director	\$133,268	\$143,507	\$153,440
Community Relations Manager	\$77,507	\$91,984	\$107,417
Transplant Nurse Coordinator	\$75,338	\$82,532	\$89,895
Staff Nurse - RN - Infection Control	\$74,352	\$80,585	\$88,112
Charge Nurse	\$70,216	\$76,963	\$86,665
Case Manager	\$67,133	\$73,285	\$80,160
Medical Records Administrator	\$60,006	\$72,347	\$85,908
Admitting Manager	\$62,836	\$72,212	\$87,258
Staff Nurse - RN - Outpatient Care	\$56,907	\$64,475	\$72,266
Insurance Verification Specialist	\$32,352	\$37,413	\$41,881
Medical Billing Clerk	\$31,190	\$34,942	\$37,866
Certified Nursing Assistant	\$27,946	\$30,594	\$33,595
Nursing Assistant	\$25,994	\$28,648	\$32,064

Source: Absolutely Health Care (HealthJobsUSA.com) I a healthcare and medical job board available on the Internet today providing data from more than 1,000 clients nationally offering ~ 300,000 health care job posting. Data is from March 2011.

Citizens should ponder whether all of this makes sense. Does it really require that much more skill to analyze an X-Ray than it does to interpret the three dimensional documentation for a multi-cavity triple-shot plastic injection mold? Perhaps, but to what degree? Are orthopedic surgeons really two-and-a-half times better than pediatricians? Should a nurse anesthetist be paid more than twice as much as a charge nurse? True, human life is involved – as it is with airline pilots, medical device manufacturers, food manufacturers, and others in our society. These are important questions relating to whether or not rising healthcare costs impede employment.

Compensation is not the only cost variable. Variations exist also in the amount of time spent – and the charges levied. According to the Dartmouth Institute on Health Policy, from 2001 to 2005, health care providers in New Jersey, California, New York, Massachusetts, the District of Columbia, and Maryland all received about \$55,000 in Medicare funding for the final two years of patients life. Providers in North Dakota, Iowa, and South Dakota all received about \$33,000. Minnesota providers received about \$38,000. The outcomes were the same – death.

In a recent article published in MINNESOTA MEDICINE entitled "Differences in the Cost of Health Care Provided by Group Practices in Minnesota," researchers John Kralewski, Bryan Dowd, and Yi Wu studied the cost and quality of fifty-three group practices involving 1500 physicians during 2007 and 2008. The researchers found that both costs and quality varied widely from \$2,400 to \$4,700 per member (patients) per year. Quality was not found to be related to cost. In fact, the highest quality scores were achieved by those charging around \$3,000 per member per year – or about 65 percent of the highest cost groups, which had below average quality.

Established in 1970, the Institute of Medicine (IOM) is the health arm of the National Academy of Sciences, which was chartered under President Abraham Lincoln in 1863. IOM is an independent, nonprofit organization that works outside of government to provide unbiased and authoritative advice to decision makers and the public. During the Fall of 2009, the IOM sponsored a series of conferences involving highly respected authorities of the costs and practices of health care in the United States. The result was an extensive report entitled *The Healthcare Imperative: Lowering Costs and Improving Outcomes*. Their conclusion was that the United States annually spends approximately \$765 billion more than it would have to spend to achieve present, or more favorable, outcomes. The tabulation of their estimates is shown in BOX S-2.

Clearly, there are many dedicated and competent and reasonably priced providers of healthcare. It is also accurate to say that the health care system is fraught with numerous enormous variations in cost, quality, and compensation. These variations sum to provide us with a system nearly twice as costly as those existing in almost all industrialized countries with no substantiated evidence that quality is any better, overall.

In the meantime, health care has emerged as an important factor in job dislocation, governmental budget deficits, trade imbalances, and the limiting of employee wages.

Before any inflation adjustments, the average weekly earnings of all manufacturing employees have increased 13.7 percent in the last five years. Among production workers, wages have increased 26.6 percent in ten years. However, health care premiums have increased 87 percent for single coverage and 95 percent for family coverage.

To cross check my own interpretations of what is happening in this essential activity, I enlisted the thoughts of Professor Frederick J. Zimmerman, Chairman of the Department of Public Health at UCLA. Here was part of his analysis:

A constructive way to think of these issues is to look at where this money comes from at the margin. That is, as healthcare costs have increased, where does the money to pay for that increase come from? Over the last 30 years, the overall US economy has increased by 86% in real per-capita terms; healthcare premiums have increased by 300% and real wages have declined by 4%. In a real sense, all of the gains to the economy are accruing to those in the healthcare sector, which the average worker gets none of the benefits. Of course, inequality has also increased dramatically during this time, and the financial services industry has run amok, but healthcare is undeniably a big part of this problem. Recent articles also point out that one of the reasons that state budgets are so bloated is because of medical expenditures -- Medicaid, prisoner healthcare, state employee health premiums, retiree health benefits, and so forth. As these expenditures have ballooned, states have taken money away from other purposes, especially education. There is a very real sense in which we are taking from schoolchildren to pay radiologists.

Perhaps the healthcare system is taking money from manufacturing as well. In any case, it is unlikely that any significant changes in either health care costs or health care coverage will ever come about without some attention being drawn to the highly sensitive topic of compensation.

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Economic fix lies in math, not politics

Business forum: Fed's bet on housing cause for alarm

The Fed is no panacea, but it is the only agent capable of tackling the economy.

MINNEAPOLIS STARTRIBUNE, September 24, 2012



Now that the Federal Reserve has committed to buying additional mortgage-backed securities at a pace of \$40 billion per month, it's worth examining this extraordinary strategy more closely.

The Fed action is perhaps a noble effort to revitalize the struggling U.S. economy -- but

also an unprecedented one with possible adverse side effects. According to its charter, the Federal Reserve System is supposed to conduct America's monetary policy, supervise and regulate banks and maintain the stability of America's financial system.

It could be argued that, in most cases, but not all, these responsibilities have been carried out with responsible professionalism. In this case, however, reservations have been expressed -- along with some important considerations that have not yet been part of our discussions. The Fed's move is an attempt to spur the housing sector, which was devastated by the credit crisis and has continued to hobble the economy even as other sectors have largely recovered from the recession.

Richmond Federal Reserve President Jeffrey Lacker was the lone dissenter from the Fed action saying: "Channeling the flow of credit to particular economic sectors is an inappropriate role for the Federal Reserve."

With the Teton Mountains behind them, Federal Reserve Chairman Ben Bernanke, left, and Bank of Israel Governor Stanley Fischer walk together outside of the Jackson Hole Economic Symposium, Friday, Aug. 31, 2012, at Grand Teton National Park near Jackson Hole,

Indeed, there is reason for citizens to contemplate the appropriate role for the nation's central bank. The Federal Reserve's balance sheet has grown enormously over the past several years, from \$775 billion in assets in January of 2005 to \$2.8 trillion on September of 2012.

The Federal Reserve is a rather thinly capitalized bank. It is large enough with \$2.825 trillion in assets. But it is also large in liabilities at \$2.77 trillion, leaving a surplus of \$54 billion, or less than 2 percent of assets. Even troubled Bank of America has a reported surplus of 10.9 percent of assets. Wells Fargo is higher.

Of more interest is the growth in categories of assets owned by the Fed.

Treasury bills have a little bit more than doubled from \$718 billion to \$1.65 trillion today. But mortgage-backed securities held by the Fed have grown from nothing to \$860 billion.

The credit-worthiness of mortgage-backed securities (MBS) has been a topic of great concern in the past five years. Lehman Brothers, Bear Sterns, Merrill Lynch, Bank of America, Wachovia, among others, have either disappeared or become endangered by dabbling in them.

Of course, there may be differences in the quality of both the securities and the due diligence of the institutions. Nonetheless, the reputation of mortgage backed securities is not pristine. In July of 2007, 90 percent of the triple A rated mortgage-backed securities issued in 2006 and 2007 were downgraded by the rating agencies to junk status.

But, there are two other questions beyond risk for the critically important central bank. Will the program work? And, what will be the collateral damage?

With the prime rate holding steady at a historically low 3.25 percent for five years, will any further reduction really stimulate additional demand? Perhaps there are other considerations limiting investment. One might wonder if uncertainties of fiscal stability, the dysfunctionality of government, the lack of preparation of America's workforce, and the escalating costs for health care and other services are not more important.

And what about the collateral damage to retired people and pension funds? Under the new, more reasonable rules from the Government Accounting Standards Board, state and local governments are now required to employ more realistic assumptions for both potential liabilities and expected gains. Reportedly, Illinois, New Jersey, Indiana and Kentucky have less than 30 percent of assets needed to meet projected obligations.

Although some of the lucrative public benefits may be in need of review, it might also be said that it is very hard for pension fund managers to keep abreast of obligations when the Federal Reserve Bank is holding interest rates at near-zero levels.

Retired people are also disadvantaged. Life savings, long thought to be nest eggs for retirement, are yielding nearly nothing -- thus curtailing the expenditures on the part of an important economic sector.

Businesspeople are also puzzled. Tax rates in the 1990s were workable for businesses. Unpredictability, rampant spending and chronic deficits are not. Who would make investments to expand under these conditions?

In fairness to the Federal Reserve, they are at least trying to reduce the economic problems of our country.

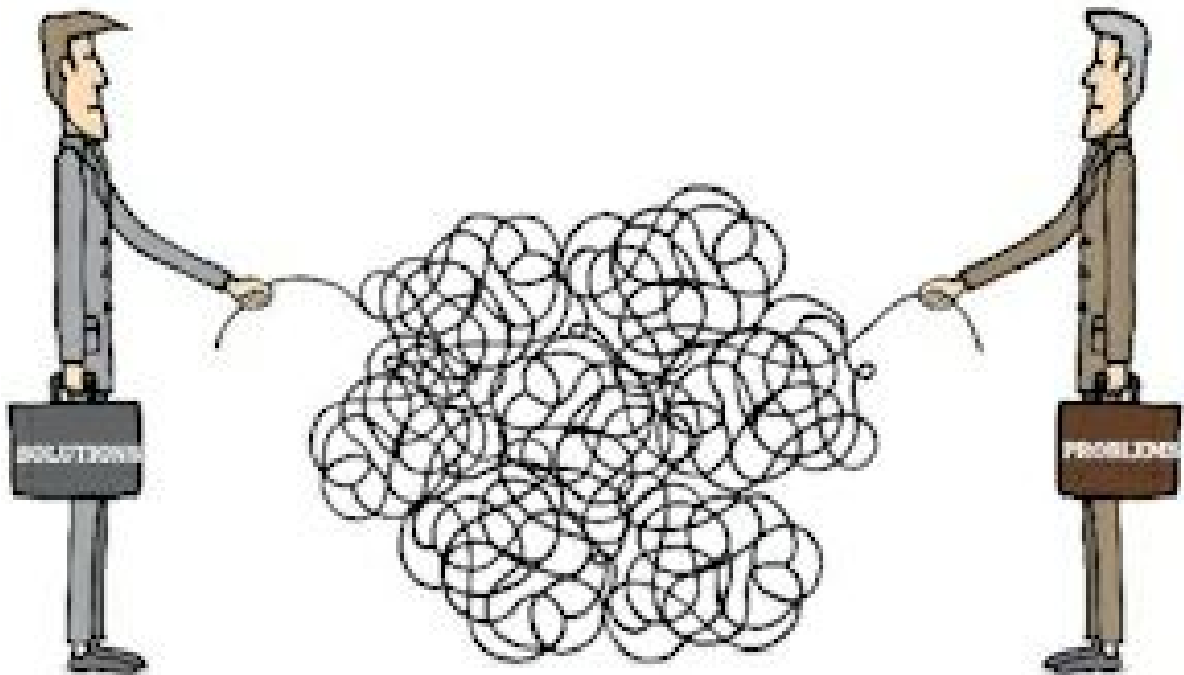
No other unit of government is -- at least in any serious way. But prosperity is likely to remain beyond our reach unless we all work with less partisanship, more innovation, accept more reasonable compensation, retire later, stay healthier, embrace practical financial regulation, incorporate reasonable taxation, collect the taxes we have and make meaningful investments for the future.

If we can work together to take these necessary steps, the Federal Reserve will not be the only game in town. Meanwhile, the Fed could help by fulfilling one of its major responsibilities -- maintaining the stability of America's financial system.

Most solutions create other problems

Minnesotans cannot rest assured that our economy will be restored to full health anytime soon.

MINNEAPOLIS STARTRIBUNE, September 24, 2012



Now that Minnesota has grappled with yet another budget crisis, it is appropriate to remember Russell Ackoff's famous caveat from his notable book "Redesigning the Future":

"No problem exists in complete isolation," Ackoff writes. "Every problem interacts with every other problem and is therefore part of a set of interrelated problems. ... Solutions to most problems produce other problems; a financial problem, a maintenance problem and conflict among family members for its use."

As legislators adjourned last week, I could not help wondering how Minnesota's problems are interrelated and what adverse side effects are being created as a result of actions taken.

Though Minnesota continues to look better than some other states on selected statistical measures, our state no longer enjoys the distinctively robust economy of decades past. Minnesota's March unemployment rate was lower than many states at 5.4 percent, but not better than several nearby states such as Iowa (4.9), Nebraska (3.8), South Dakota (4.3) and North Dakota (3.3).

Minnesota's 12-month change in manufacturing employment, a bellwether of future economic strength, is rather anemic at two-tenths of 1 percent. Manufacturing employment in Kansas grew at 1.5 percent; Nebraska, 2.2; South Dakota, 2.5; and Wisconsin, 1.9. On May 16, the Star Tribune reported that Minnesota lost 11,400 jobs in April.

Minnesota has many favorable attributes, but we are not at the stage where we can rest assured that our economy will be restored to full health.

The Minnesota Legislature, our national government, and the Federal Reserve all make a false assumption that our economy is the same way it was in former years and that cyclical prosperity can be restored by stimulative spending and low interest rates. Though there are some brighter spots, our economy is not the same.

As author Paul Clemens points out in his book “Punching Out: One Year in a Closing Auto Plant,” the United States “has more choreographers than metal casters, more people dealing cards in casinos than running lathes, and almost three times as many security guards as machinists.”

Minnesota’s economic growth rate has tailed off in recent years as our influence in major industries has waned. We no longer are pre-eminent in computers or instruments. Northwest Airlines and Republic are gone. Honeywell and IBM are both smaller. Gone, too, are Lockheed Martin and the Ford plant, among others.

Along with other governmental units, Minnesota has the questionable habit of dancing around problems without really solving them. Take, for instance, the unfunded liabilities of the state’s public pension plans — reported as more than \$12 billion last June.

But with the new Government Accounting Standards 67 and 68 taking effect shortly, that liability is probably more like \$20 billion. Only about 20 percent of employees in private industry have pensions, and many people wonder how this enormous public bill can ever be paid. A plan to pad pension funds with a tax on the auto and personal insurance policies of all Minnesotans, few of whom benefit from the generous and early retirement benefits of public workers, was dropped as the Legislature rushed to adjourn.

When journalist Dave Beal and I did an extended study of industrial strength and relocation leading to the book “Manufacturing Works: The Vital Link Between Production and Prosperity,” we found that both repelling and attracting forces influence the relocation of industry.

Repelling forces include shortages of land, the movement of major customers, the objections of residents and the unavailability of competent and dependable labor. Attracting forces include such factors at potential locations, the proximity of major customers, the perceived local work ethic, transportation advantages, and legislative, legal and tax climates perceived to be favorable.

Our studies also indicated that repelling forces seem to act first. The attracting advantages of new locations appear to be seriously considered only after industrial decisionmakers feel repelled from their current locations.

Many, perhaps most, of Minnesota’s pre-eminent manufacturers and businesses are loyal to our state and strongly desire to stay here. But others are influenced by shifting markets, the unavailability of capable labor and differentials in the cost of operating. Ironically, Minnesota’s best companies and most generous employers often are faced with the most opportunities to expand elsewhere. So, in the long run, the outcome of Minnesota’s current efforts to remedy its fiscal problems from the revenue side are quite unknown.

Elected officials should recognize that budget balancing does not exist in isolation. Budget deficits occur mostly because vibrant private industry is underappreciated as the principal driver of prosperity. It is a mistake to jeopardize our future with poorly-thought-out programs where the impacts are not understood.

Economic fix lies in math, not politics

Elections matter less than we think. Economics, education and demographics matter much more.

MINNEAPOLIS STARTRIBUNE, June 3, 2012

One of my mid-20th century history professors was fond of asserting that wars were inconsequential to the pattern of history. He argued that technology, economics, demographics, education and moral development were more influential. In addition to wars, the professor might have added elections as less meaningful events in the long term.

Much of the world is embroiled in election fervor in 2012. Citizens in France, Ireland, Egypt, Greece, Russia, several German states and the United States are fervently championing one candidate or another in the hope of restoring the prosperity and comfort of past decades.

Yet, given our collective abhorrence of any sort of behavior modification or sacrifice, prosperity and comfort may no longer be within our reach. As an informed friend has noted, "We have one party that will never increase any taxes and another that will never stop spending. Where will it end?"

Europe, the United States, and many other countries have something in common. Many of their citizens have absolutely no personal interest in participating in either responsible fiscal policies or qualitative improvements in their own activities. Yet, they insist that greater prosperity is due them and harbor the mistaken belief that deep societal problems such as neglect, waste, declining production, over-compensation, premature retirements and profligate spending can be reversed by elections. As we all become energized in identifying the evils of opposing political parties, we perhaps have overlooked the dysfunctional influence that we, the citizens, have played.

Did Greece's economic fortunes improve with elections? Will France fare any better if that new administration repudiates recent European initiatives to forestall financial contagion? Will U.S. citizens really support the tough remedial actions necessary to avoid similar problems in this country?

It is easy to blame elected officials, and many of them do have grievous faults. But, perhaps their greatest fault is listening too much to us, the constituents. We want to retire earlier than we should and we want someone else to fund it because we don't save anything.

Collectively, we want more social programs, no taxes, and the complete freedom to conduct all of our affairs without regulation -- even if that sometimes results in financial catastrophe. We want a highly technical modern society, but we don't want to spend any money maintaining the infrastructure. Almost all of us,



The debt crisis was on Greek Prime Minister Panagiotis Pikrammenos and European Commission President Jose Manuel Barroso's agenda.

individually, want any economic adjustments to be borne by somebody else. We tend to deny any responsibility for ourselves.

While we fight with one another about which political party is the personification of the greatest evil, we are rocketing forth to an economic situation that is unmistakably arithmetic rather than political. The debts we are accumulating are so large that they are not payable without stifling growth, scaling back needed programs, raising unemployment and neglecting further our already deteriorating infrastructure.

Whether we are Republicans, Democrats or Independents, this endemic denial of responsibility is likely to end poorly for us. We forget that interest payments are part of a sovereign nation's budget that has priority over such worthy endeavors as education, health care, construction, maintenance and national defense. Interest rates are held to artificially low levels now. But what happens if the Chinese ever need their money to address their many unsolved social problems? What will interest rates be like then?

The way out of the developed world's difficult financial quandary is unlikely to be solved by electing anybody. We need to change ourselves. Serious modifications of our own behavior are overdue. In order to avoid financial implosion we are going to have to work with more dedication and innovation, accept more reasonable compensation, retire later, stay healthier, embrace practical financial regulation, incorporate reasonable taxation, collect the taxes we have, and make meaningful investments for the future. These steps should not be that difficult or that surprising. As recently noted in the *Financial Times*, "Billions of people around the world would give anything for what Europeans (and Americans) call austerity."

By taking these needed and overdue steps, our country and others like it, will have reasonable chances of avoiding the long gradual descent to far more problematic and less pleasant societies. Then, whoever is elected might have a chance of succeeding.

Business forum: 'Goal integration' can break U.S. impasse

Domination and compromise don't seem to work in Washington. It's time to creatively rework the problem.

MINNEAPOLIS STARTRIBUNE, October 6, 2013



The United States appears to be handling its politics incorrectly.

Years ago, the noted management theorist Mary Parker Follett observed: “There are three main ways of dealing with conflict: domination, compromise and goal integration.”

Neither domination (where one party gets what it wants) nor compromise (where neither party gets what it wants) are satisfactory ways of resolving conflicts, she concluded. The best way, she explained, was creatively reworking the problem so both parties end up better off than when the conflict arose.

This she called “goal integration.”

Both federal and state governments seem to be operating with successive “dominations.” One party gets into power, rolls over the other party, does a bad job and gets voted out of office. Then the other party gets into power and does the same thing. Meanwhile, citizens of all persuasions get disgusted.

Decades ago, compromise was employed — at least much of the time. True, neither party got what it wanted, but the United States did progress within an atmosphere of cross-aisle cooperation and respect.

Republican Sen. George Aikin and Democratic Sen. Mike Mansfield, both leaders in their factions of the U.S. Senate, frequently had breakfast together to work through what could be done to make the country better off. President Reagan and House Speaker Tip O’Neill worked well together. When Democratic Speaker of the House Sam Rayburn was asked to give a speech on behalf of the fellow Democrat opposing the Republican Majority Leader Joe Martin, Rayburn replied “Speak against Joe? Hell, if I was in his district, I’d vote for him.”

True goal integration has been tried less regularly, but has enabled some extraordinary accomplishments: the interstate highway system, the GI Bill providing education to veterans, the Marshall Plan for rebuilding Europe, and the nurturing of science and technology that has helped to create so many jobs.

There are ways the problems of the nation could be reworked to provide better systems today — if only we could work together creatively

Maybe all aspects of the Affordable Care Act are not perfect, but the U.S. health system was roughly twice as expensive as those in most industrial nations while still leaving millions out of the system. Maybe the good parts can be retained and the problematic parts improved.

As with many other impasse situations, both sides have thoughts worth considering. Our nation is perilously in debt to a level that is unsustainable. That fact is not debatable. On the other hand, too much of the nation’s compensation is supporting activities not helping the country or its citizens. That isn’t debatable either.

Improving education is a laudable goal. The U.S. education compares unfavorably to other emerging and developed countries. But shorter school years, shorter days, limited homework and lucrative-but-unfunded retirements of much of the educational talent is not helping to achieve that goal.

Most citizens seem to believe that some selected governmental actions can be helpful. Our nation is safer than many other nations. Yet, in the 1960s, when the U.S. economy was providing healthy job growth, there were nearly 7 million more people employed in manufacturing than in the government. Now, there are 10 million more in government. So, there is concern about spending.

While the back-stabbing members of Congress bicker, the United States is racking up huge fiscal and trade deficits that both marginalize the country’s influence and limit its ability to create jobs. Fewer people invest, because nobody knows what is going to happen. Then we rely on the Federal Reserve Bank to hold interest rates at near zero.

For those people who plan on living off their savings during retirement, the Fed action might be viewed as theft.

Government performs important services, but these are not always where the money goes. In 40 of 50 states, the highest-paid public employees are athletic coaches.

David Noble, highly regarded American Studies professor from the University of Minnesota, has detailed the need for both governments and citizens to recognize that limitless economic growth is not possible within the fixed resources of our planet. His book, “Debating the End of History,” suggests that more intelligent cooperation will be necessary in order for us to survive at all.

While major political parties employ uncooperative my-way-or-the-highway tactics, our collective behavior is choking off both investment and job formation.

Maybe if we all instructed our elected officials to stop trying to put the other party out of business and work more intelligently and cooperatively, we might be surprised at what could be accomplished.

Attack poverty with manageable steps

A manufacturing revival could help reverse the decline in real wages and provide opportunities for those who need it most.

MINNEAPOLIS STARTRIBUNE, February 3, 2014



Fifty years after President Lyndon Johnson's "War on Poverty," the issue is still with us. Some say LBJ's programs didn't work. Others say they did work, but were abandoned. Today's debate is now supplemented by the emerging issue of income inequality. Citizens, both here and in other countries, yearn for a more generally prosperous world. However, our discussions are so partisan and devoid of sufficient reflection that neither political rhetoric nor advocated policies are likely to reduce poverty. Here are some facts we should consider.

Most economic studies indicate that the year 1978 initiated a long, gradual decline in real wages. The U.S. economy has created about 47 million additional jobs since, but it is not clear that our employment additions are aimed at providing opportunities for those who need it most.

Since 1978, we have 8 million more jobs in trade and transportation, 7 million more in education and health care, 3 million more in finance, 8 million more in leisure and hospitality, 6 million more in government, and about 15 million in other services. During the same time, we have 1.3 million fewer people in agriculture, a small gain in construction, and 7.3 million fewer people in manufacturing. Our hiring is out of balance.

Lynda Johnson Robb, President Lyndon B. Johnson's daughter, was joined by members of the Congressional Black Caucus and others last month as she spoke during an event on Capitol Hill marking the 50th anniversary of LBJ's declaration of the War on Poverty.

Which of our expanding activities are aimed at reducing poverty? We have lots of casinos. Do casinos reduce poverty? We allow bridges to decay, but we are rapidly constructing lavish sports facilities at taxpayers expense. Do stadiums reduce poverty? We are just beginning to crawl out of the deepest financial crisis in several decades. Did the 3.2 million additional people in finance help to reduce poverty? The U.S. now has mushrooming video game and electronic gadget industries. Are these devices preparing people for meaningful participation in an increasingly competitive world economy?

Manufacturing has historically been particularly important to the reduction of poverty for two reasons. It has provided a large fraction of American jobs — more than 30 percent in the 1960s (now it is 8.8 percent). It has provided opportunities for young people to get a meaningful first job.

The reduction of poverty is made more difficult by the fact that poverty and job opportunities are in different places geographically. Industrial employment has been rapidly shrinking in core cities across the nation and with that decline, poverty has grown. Metropolitan counties with more than 100,000 manufacturing employees in 1998 lost 40 percent of them by 2011.

Poverty rates display the differences between core cities and healthier medium-sized towns. The poverty rates of people under the age of nineteen is about 31 percent in both Minneapolis and St. Paul. Cleveland's rate is 53 percent, St. Louis 43 percent and Youngstown, Ohio, is 63.5 percent. Meanwhile, St. Cloud, Fargo, Cedar Rapids, Iowa, and Appleton, Wis., all are 16 percent or below.

Too often, political rhetoric regarding poverty centers around possible changes in taxation — and maybe our antiquated tax code should be changed. But if we really want to reduce poverty, we have to take more meaningful steps.

Cities will have to become more efficient so that employers are motivated to create jobs there — because cities are where much unemployment exists. Schools will have to improve. Law enforcement will have to get better. Substance abuse will have to decline. Public pensions will have to be in line with contributions. Subsidies, when they exist, should be for something we need done.

We educators could do better, too, by making our students more aware of what jobs and what places have the greatest potential for meaningful employment. Industry, particular non-metro industry, is clamoring for welders, machinists, engineers, assembly workers and just about anybody with good skills and a reliable work ethic. As citizens, we might all take note of poverty in other places, and what we might do. Last spring, my wife, Joanell, and I spent some time in Malawi, an East African nation whose average per capita income is \$900 per year. Lots of poverty, but a cheerful spirit nonetheless.

The Fox and Hounds breakfast group in Minnetonka provided \$3,000 worth of materials for the construction of a school in the village of Mbalme. The highly capable villagers did the construction. It was a one-room schoolhouse. Before that, children had classes in the dirt. Everyone was pleased and thankful for the school building.

I couldn't help wondering what folks could do around here. If we really want to reduce poverty, we can't just discuss it. We have to take some manageable steps.

The high cost of concentration for an informed citizenry

Citizens or profitable businesses often don't benefit from market dominance.

MINNEAPOLIS STARTRIBUNE, August 25, 2014

My father and mother were frugal — not an unusual trait for people who had weathered the Depression of the 1930s. Their rural neighbors were the same. Frugality and conservation were essential survival traits. One fellow of my era observed, “These people have such a feel for money that they can drive over a dime and tell whether it was heads or tails every time.”

But the desire to preserve wealth was only part of it. Also endemic in the rural Minnesota psyche was a strong belief in healthy and appropriate competition. When I asked my father why he never bought cars made by General Motors, he replied, “The cars are all right, but they already make half the cars, and I'm not sure it is good for the country.”

So we made do with Hudsons, Nashes, Packards, and an occasional Ford — which worked out fine.

Perhaps the same reflections should be made of the sources of our information today. Are they becoming so concentrated that it may not be good for the country?

From 1999 to 2012, U.S. newspaper advertising revenue has declined 64 percent. We now have about half the number of daily newspapers we had in 1987. True, we have the Internet, which is of prime value. But is the information presented on the Internet rooted in the time-consuming investigative reporting that we need to remain informed citizens?

Then there are books. Nearly half of books sold in the United States are sold online. The number of U.S. bookstores has also declined by 40 percent since 1994.

Nowhere is the change of availability in what we read more apparent than with Amazon.com. Online retailers already account for nearly 45 percent of all books sold in the United States with Amazon being by far the largest supplier with, according to CNN MoneyTech, an ever-tightening “grip on the entire book-publishing chain.”

Yet Amazon appears to be aiming for market dominance rather than profitability. Amazon lost \$18 million during the first half of 2014 and the net profit rate for all of 2013 was less than four-tenths of 1 percent of its revenue. In 2012, the company lost \$39 million.

One wonders how Amazon would look financially if the firm were to collect sales taxes on all transactions.



Amazon, while vying for market dominance, also lost \$18 million during the first half of 2014. Their net profit rate for all of 2013 was less than four-tenths of 1 percent of its revenue. Meanwhile, online bookselling has led to a 40 percent decline in bookstores.

Researchers at Ohio State University recently studied how the required collection of sales taxes on online purchases would affect Amazon's profitability. Significantly, was their conclusion. Sales would decline nearly 10 percent on smaller purchases and more than 20 percent on purchases exceeding \$300.

The question of whether it is legal and proper for companies to engage in predatory pricing and price discrimination to drive out competitors has long been left to judicial bodies dating back to the Sherman Antitrust Act of 1890, the Robinson-Patman Act of 1936, and in other cases. Unfortunately, enforcement officials have pursued these situations with only anemic vigor in recent years. But it is not impossible that there will be renewed interest as the distribution of printed and published material becomes more and more concentrated.

The question we should ask as citizens is, "Where will this all end?" Market share increases seem to cause stock prices to go up — even when not much money is being made. According to Morgan Stanley, Amazon's price-earnings ratio is 840 vs. an average of 19 for all stocks in the S&P 500. Clearly, escalated stock values have provided disposable wealth to founders that can also be used to establish an even broader media footprint, such as Amazon CEO Jeff Bezos personally purchasing the Washington Post newspaper.

After a span of many decades, I have finally concluded that there was some wisdom in my father's caveat. We should be cautious of the ultimate ramifications of our spending. Aristotle once said, "Nothing enters the mind but through the senses." Perhaps we should give some thought regarding the source of what is entering our mind and who determines it.

In the meantime, I appreciate the role that newspapers and independent publishers have played in providing the information we need to function as citizens. Perhaps the abbreviated sound-bite method of conveying news and information is somehow connected to the extensive uninformed and unproductive political bickering we see currently.

Decades of economic fecklessness have left us vulnerable in this crisis

How perpetual, the bailouts? And at what consequence?

By Fred Zimmerman

Minneapolis StarTribune March 20, 2020 — 6:13pm

There can be four kinds of business periods: true growth, challenges, synthetic and disastrous. As Northwestern University economist Robert Gordon has chronicled in his excellent book “The Rise and Fall of American Growth,” our nation is not and never was preordained to enjoy unlimited prosperity. Our prosperity has been influenced by demography, innovation, productivity trends, and by patterns in corporate, governmental and individual behavior. In the sobering last chapters of his book, Gordon makes us aware of some significant headwinds facing the United States today. It is a highly informative read.

The decades following World War II did deliver true growth. Houses were built, cars sold, computers were developed and became reasonable in cost. Farsighted public policies, such as the interstate highway system and other infrastructure projects, helped make our economy both productive and efficient.

The late 1970s and early 1980s were more challenging, with intensified global competition, the emergence of duplicitous financial engineering, high interest rates, and shakeouts in many industries. But many of these challenges were met, as some of our most important companies responded with better products and services delivered at reasonable costs. Companies such as Nucor Steel helped to improve our effectiveness in key industries.

The U.S. economy has experienced periods of challenge again, after 9/11 and during the mortgage meltdown of 2008 to 2010. We got through those challenges, too, but it was not easy.

Unfortunately, the U.S. also has endured some significant periods of synthetic economics. Several of these synthetic periods were particularly harmful.

Missteps during the 1990s permitted too many mergers, coupled with lax enforcement of tax and financial regulations. All this laid the groundwork for the very serious mortgage meltdown and Great Recession.

We have made some of the same mistakes in the last few years. As our economy gradually recovered from the Great Recession, we threw gasoline on the fire of an already improving economy by coupling huge federal budget deficits with interest rates artificially held at very low levels. Deficits essentially tripled from 2016 to 2019 to exceed \$1 trillion in a single year. Things seemed good at the time, as unemployment was reduced and the stock market surged to record levels. But several unfortunate consequences developed.

Companies and governments did not always make good use of the prosperity of these years. Corporate repurchases of stock surged. These stock repurchases fueled unrealistic stock market valuations for many companies — well beyond what the companies were actually worth.

One example might be my old employer, IBM. IBM was a well-managed and frugal company when I started with it in the 1950s. But during the last decade or so, it repurchased nearly \$170 billion of its own stock, often at prices 50% higher than where the stock is now. IBM’s balance sheet has correspondingly suffered. After its extensive share repurchases, and several costly acquisitions at premium prices, IBM now has a negative tangible net worth of around \$52 billion — heading into a probable downturn.

IBM was by no means alone. Boeing, our nation's largest exporter, has repurchased \$55 billion worth of its own stock, leaving that company with a negative tangible net worth of \$20 billion. Meanwhile, it struggles with enormous financial and legal problems emanating from the disastrous handling of its 737 Max program. And it looks as if Boeing will now be facing this exceedingly difficult situation during a severe downturn triggered by the coronavirus.

Boeing and IBM have plenty of company. CVS, AT&T, Verizon, General Electric, Kraft Heinz and many other U.S. corporations have negative tangible net worth as the economy weakens. In fairness, other companies — Ford, Intel and several utilities, for example — have avoided these unsavory practices and are better prepared for more challenging environments.

The problem with synthetic economies is that their prosperity is illusory, as ill-advised financial practices are employed to present a picture of economic progress when the long-term competitive position of major companies, and the entire nation, have been seriously eroded. Meanwhile, executive pay and retirement packages have fed on the same synthetic illusions and grew well beyond customary levels — thus endangering broad community support for companies at a time when it may be needed.

Absent any inclination to critique their own behavior, corporations, public officials and citizens often lobby for more federal action during a downturn — usually suggesting even greater fiscal deficits and even lower interest rates. But, will there be consequences? For example, in the viability of retirement savings, pension funds and banks?

According to the Center for Retirement Research at Boston College, many of the nation's pension funds are seriously underfunded and have been for many years. How are they going to fulfill their important obligations with near-zero interest rates?

And what about seniors who have saved for their retirement? When interest rates are arbitrarily reduced to below normal levels, is the action in any way similar to theft?

The British scholar John Argenti made an important finding in his landmark book "Corporate Collapse: The Causes and Symptoms." He noted that through several identifiable stages of mismanagement, a company can become so marginal that normal business hazards can mean the complete collapse of even major corporations. Will this happen to some of our important companies? I don't know, but the huge buildup of corporate debt is something that should worry us.

As problems associated with the coronavirus intensify, so has the clamor for safety nets and bailouts at a time when both corporate and governmental balance sheets are precarious. And where can the clamor for bailout end? Is anyone to be excluded from the generosity of a bankrupt and dysfunctional government? Are companies that might fail because they inappropriately bought back so much of their stock that they face insolvency entitled to the same largesse as companies that have behaved more prudently?

The economic slowdown that is apparently facing us is not a problem of the moment. It is the product of inappropriate policies, unwise business practices and compromised integrity dating back to the 1990s. These things produce predictable results. The solution to these problems will not fit neatly into the published propaganda of either our major political parties.

We need character, integrity, sound judgment and enough analysis to understand the deeper causes of our dilemma. It won't get better by each party mobilizing its storm troopers.

The 2016 election: Out of millions of Americans, this is our list?

Surely, there must be people with more-practical qualifications and better political temperament who'd be willing to run for president.

MINNEAPOLIS STARTRIBUNE, April 4, 2015



We voters have a quandary. We aren't impressed with the most frequently mentioned presidential candidates. In our vast nation, there are no doubt thousands, or maybe even millions, of people who would be better qualified by character, ability and temperament to be presidents of our country, but they do not run. Instead, others do run — party hacks, ideologues with narrow perspectives, spokespersons for interest groups, relatives of former officials and recipients of excess money.

I am not totally discouraged, yet, because so much of the campaign is ahead of us. Perhaps someone of quality will emerge.

Many of us are not hyperconcerned about exactly where the candidates sit to the right or the left of the political spectrum. We take a more orthogonal view. We care about integrity, character, good judgment, appreciation of others' views and trustworthiness. We seek these characteristics among the candidates of both major parties — so we can have a restful choice. If teamwork and good leadership are in place, there are enough checks and balances in the system to make some progress. Our greatest problems develop when one party becomes dominant and when no one is appreciating the concerns of the other side.

A patient review of history should give us cause to seek a richer assortment of candidates. Although some may be disappointed in President Obama, he probably compares favorably to either of his two most recent predecessors. The Clinton administration did a poor job of enforcing antitrust laws by permitting huge mergers of some of the largest companies in the world — Pfizer and Warner-Lambert; Citicorp and Travelers; Bell Atlantic and General Telephone; WorldCom and MCI; Qwest and US West. The string of unprecedented megamergers of major oil companies — Exxon and Mobil in 1999; BP and Amoco in 1998; Atlantic Richfield into BP in 2000, and others — under Clinton prompted Louis Rukeyser, then host of "Wall Street Week," to remark, "John D. Rockefeller must be cackling now."

Then there were the free-trade agreements, which were not wrong in spirit but were negotiated with such laxity that much of the industrial base of the United States was forced into abrupt contraction, resulting in the ultimate loss of 7 million manufacturing jobs. Similar laxity was present in the enforcement of securities laws, which gave rise to the WorldCom, Enron and Global Crossing fiascos.

George W. Bush's subsequent administration was not better. The ill-considered land wars in Asia have worsened American prestige, alliances and financial strength. Meanwhile, foolish tax cuts and the practice of funding the longest war in American history by borrowing from China has left the country in a dubious financial position, exposed to unnecessary leverage from overseas forces.

In the United States, we do have some reliable, thoughtful politicians, including several here in Minnesota: Tom Bakk, David Hann, Terri Bonoff and Tom Horner. No doubt there are many highly competent, up-standing leaders at the national level. I hope they come forth.

Wouldn't we prefer to be able to select from a respected slate of candidates from both major parties? But as we look at the list of prominent front-runners and potential nominees, we cannot miss unfavorable characteristics. Huge contributions from sources with vested interests, catering to vocal interest groups, name recognition because of relatives — and the substitution of sound-bite rhetoric for thoughtful dialogue.

Nearly 320 million people live in the United States, and many of them have credentials, experiences and values quite in excess of most of the candidates frequently mentioned. How about some of these people?

Our damaged world has vast problems with resource scarcity, water, nutrition, health care and the environment. It strikes me as a bit odd that among the rumored candidates there is no scientist, no engineer, no one commercially experienced in how to make large organizations achieve their objectives more efficiently, no one who seems to really understand the economics of health care and no one who has lived in a far-less-prosperous country. For instance, imagine what it could be like if we could develop modern combined-cycle power and resource-recovery plants that could more economically convert saltwater to fresh water. Think what effect that would have on world hunger, health and the environment. Instead of running around the world blowing things up, our country might become known for doing something useful.

Our candidates appear to have one skill: the articulation of opponents' shortcomings. I wonder what the public reception might be if any candidate would say, "My opponent has offered a good idea. Let's consider it."

With the urgent problems we have before us, I do hope that something can be done to keep the 2016 presidential election from turning into what we have seen a few times in the country's past — the evil of two lessers.

Free-trade pact could work if U.S. lays a solid foundation

U.S. must strengthen the fundamentals, like education, infrastructure and accountability.

MINNEAPOLIS STARTRIBUNE, May 28, 2015

There has been more coverage of the politics surrounding the proposed Trans-Pacific Partnership trade pact than of how the agreement might actually work. We have evidence from the past about what might transpire — transformation, opportunity, business expansions and shrinkages, dislocations, regional impoverishment and localized wealth.

It all depends on where you are.

It is hard to argue against the economic theories that traditionally favor free trade. David Ricardo developed the classical theory of comparative advantage in 1817, observing that if two countries operating in a free market are capable of producing similar commodities, then each country will be better off by exporting the good where a larger comparative advantage in cost exists, while importing the goods where there is less of a cost advantage.

Over the decades, economists and government officials have leaned heavily on the principle of comparative advantage to justify extending the reach of free trade. U.S. exports and imports have both risen, but imports have grown faster, resulting in a \$505 billion trade deficit in 2014. Perhaps more important, the U.S. share of industrial high-value-added exports in strategic materials, machinery, and instruments appears to be shrinking.

There is nothing wrong with either the theory of comparative advantage or the intent to promote world trade. But there is more to the story. We also need to understand how comparative advantage is created — and destroyed.

Comparative advantage is created by educated workers, sound investments, smoothly operating support systems, and efficient health care, government, education, finance, and law.

Comparative advantage is destroyed by poorly trained workers, mismanaged companies, destructive financial mechanisms, dishonesty and rampant inefficiencies throughout the economic system.

So whether you favor or oppose the proposed Trans-Pacific Partnership trade pact may depend on your perception of where the United States stands in comparison to our major competitors.

Almost all exporting countries have longer school years than the United States — not only in more school days, but longer days with more homework. These more rigorous education systems show up in test results, where U.S. students commonly rank well below most of our industrial competitors in both science and mathematics — and quite probably languages as well.

We might wonder, also, if the caliber of U.S. management has been up to the task of intense international competition. Some are, of course. But for every Caterpillar or 3M, we may have a Bethlehem Steel, an Enron or a Global Crossing.

Is our financial system adequate to handle complex international transactions? In 2011, the internationally involved U.S.-based firm, MF Global, then 228 years old, was run by a former governor, U.S. senator and CEO of one of the nation's most prominent investment houses, Goldman Sachs. Yet MF Global suffered a financial meltdown and ultimate bankruptcy, directly caused by improper transfers of over \$891 million from customer accounts to an MF broker-dealer account to cover trading losses.

Several hundred people went to jail for illegalities in the late 1980s savings and loan scandal, which was minor compared with the havoc wreaked from the financial meltdown of the past decade. Yet how many people have gone to jail this time? What does this say about the importance we place on orderly and proper financial markets?

On several measures, the United States does come off better than many other countries, so it's not that we cannot compete. But if we are going to greatly expand our trading networks, there may be a few things we should put in place first — better preparation of our workers, solid investments, well-maintained infrastruc-

ture and effective enforcement of the laws. We will need to strengthen our waning education system; improve the integrity of our financial systems; beef up the efficiency and cost-effectiveness of industry and our governments; foster better work habits among our people; and amend our outdated and underfunded retirement systems. And shepherd more carefully the precious resources we will need in order to compete.

The proposed TPP pact might potentially have great benefits for our country, and other countries. But if we treat the matter casually and take no remedial or preparatory steps, we may find ourselves with more boarded-up industrial sites with long grass and rusty fences — and many fewer good jobs. How we will have to get ready should be a central part of our discussion.

The 2016 campaign: A list of presidential qualifications

Beyond the rhetoric, there are characteristics we should seek.

MINNEAPOLIS STAR TRIBUNE September 9, 2015

To many of us, the already started 2016 presidential campaign has been disappointing. Perhaps we as voters have not been approaching the matter properly. We have been listening to what people say instead of asserting what kind of a president we would like to have. I suspect many people are looking for a rather basic set of attributes necessary for our next president.



Trustworthiness

It seems quite doubtful that any president could be successful while carrying an ambience of mistrust. Let us hope that the next president will possess both the personal attributes and personal history that will enable both citizens and those with whom power is shared to work effectively with the president.

Empathy

Presidents deal with complicated situations that can be analyzed from a nearly infinite set of perspectives. The president should possess the ability to at least appreciate different situations and different perspectives. The president will need friends — in the private sector, in other leadership positions, among the ranks of workers, overseas, and in both major parties. Working only one side of the aisle rarely leads to lasting success.

Prudence

Presidents need to be informed enough to be able to question “facts” as they are presented. Not all presidential advisers are good at what they do. The president should have enough well-cultivated and investigative curiosity to confidently appraise the wisdom of advice received from both adversaries and advisers. The president should be able to recognize what information is needed in order to make a proper decision, then have the tenacity to require the presentation of that essential information.

Justice

The president should avoid demonizing whole groups when individual behavior is what needs to be addressed. Horrific catastrophes have unfolded in the world when particular groups have been demonized — bourgeoisie, Jews, immigrants, police, the rich, the poor, minorities, others. The president should be wise enough to recognize that each of our groups contains saints as well as sinners, then have the skills to mobilize progress on the legitimate problems that so desperately need to be addressed.

Appreciation of the executive job

The president has an executive job. Our constitution awards the primary policymaking job to Congress. The president is supposed to enforce the laws of the land and effectively manage the huge responsibility of ensuring that vast bureaucracies and powerful military units operated both frugally and effectively. That, by itself, is a full-time job. Wouldn't it be refreshing to have a president who made sure the Securities and Exchange Commission, the Department of Justice, and all of the Cabinet ministers were all operating with both efficiency and effectiveness? Too often, performance of the executive function has been set aside in favor of policy initiatives — which are OK if the executive task is accomplished.

Do the leading candidates in both major parties possess these attributes, or any other set of favorable attributes? Perhaps a few do, but most do not. Should not we as citizens expect that our elected officials have the attributes we would like them to have? And, if already declared candidates do not meet our criteria, should we not ask someone else to run?

The 2016 campaign: Saved by write-in votes? Consider it, maybe.

Minnesota voters did it in 1952 and changed the course of the election for Eisenhower.

MINNEAPOLIS STAR TRIBUNE February 22, 2016

For those of us who are disappointed in the unfolding of the 2016 election campaigns, there is one small glimmer of hope. The Minnesota primary election of March 18, 1952, was historically memorable. Minnesotans flocked to the polls to cast 108,692 write-in votes for Dwight Eisenhower for president. That huge unexpected write-in vote captured national attention and served as a significant boost to Eisenhower in gaining the Republican endorsement in 1952 over such party stalwarts as Robert Taft, Earl Warren and Harold Stassen.

I wonder if we could do that again.

Most of the people I meet are less than fully enamored of the current front-runners in either major party. There appears to be widespread distrust of single-issue and class-oriented voters totally intolerant of achieving practical consensus in solving the pressing problems we have before us. There also appears to be widespread distrust of entrenched political power groups and special interests in backing candidates that many of us seem not to prefer.

Many of today's candidates are uninspiring, unimaginative and often malicious. They have a few poorly-thought-out proposals, but no practical sense of how to make the country better through science, organization, discipline and thoughtful consensus. It's a my-way-or-the-highway attitude, with most of the highways leading to nowhere.

Today's toxic and unproductive political atmosphere contrasts sharply with the more exuberant tone of the early 20th century. During that century's first three decades, the U.S. built schools and universities, became the world's strongest industrial complex, developed a sound energy industry, gave birth to aviation, built the Panama Canal, permitted votes for women, established the Federal Reserve System, adopted needed labor and safety laws, and welcomed 18 million immigrants into this country.

What major ideas are being proposed today? What progress is envisioned? A few ideas in distant circles seem far more interested in protecting the turf of special intransigent interests than in solving the deep problems we have in finance, industrial capability, job creation or program efficiency.

Maybe, once again, write-in votes could prove to be meaningful. None of the candidates leading in the polls — in either major party — seems to have the attributes of trustworthiness, empathy, prudence, justice and appreciation of the executive job that so many of us would like to see in a president. But our country does have some good people in both parties. Maybe Joe Biden or maybe Paul Ryan or maybe somebody else would be perceived as preferable over existing front-runners. What would happen if there were massive write-in votes for people whom we feel could meaningfully fulfill the requirements we are seeking for the most important job in the world?

Minnesota's primary election of 1952 proved significant. Maybe it could happen again. After all, it is our election.

Is Amazon the right company for Minnesota to pursue with subsidies?

Amazon's profits are slim and its net worth is due to shareholder investments. Minnesota should try to make sure the company will be of long-term benefit.

MINNEAPOLIS STAR TRIBUNE October 6, 2017

Many of us have a strong interest in the orderly expansion of Minnesota's economy. With respect to Amazon's search for a second-headquarters location, however, some important questions should be explored before Minnesota neglects other opportunities to focus on preferential subsidies for the retailing giant.

1. Is Amazon's profit recipe sustainable over the long term?
2. Does Amazon have an established track record of being good for employees, customers, suppliers, business partners and the communities in which they reside?

Amazon is a very large, minimally profitable company, whose fortunes depend upon a long list of anticompetitive practices and the systematic avoidance of taxes wherever possible. In the second quarter of 2017, Amazon's revenue was nearly 25 percent larger than one year earlier. That's impressive, but profits declined 77 percent. Net profits were one half of 1 percent of revenue, compared with 20.2 percent at 3M. The highest rate Amazon ever earned in any quarter was 1.8 percent.

Amazon has a tangible net worth of \$18.96 billion, of which \$19.13 billion was supplied by shareholder investments. Thus, more than all of Amazon's tangible net worth has been contributed by shareholders, rather than accruing because of company operations.

It is certainly true that Amazon has been a darling of the stock market in recent years, but huge explosions in stock values have happened before with many companies. Enron, Hudson Motor Car, Lionel, WorldCom, Global Crossing, Stutz Motor and others were all darlings of the stock market at one time or another.

Yet there is no guarantee that a darling of the stock market in one year will be an asset to the community in the next. In 2006, Citigroup stock was \$545 per share. Three years later, it was \$40 — a decline of 93 percent, with mammoth layoffs and restructurings.

Amazon's price-to-earnings ratio is 241. 3M's is 24. Amazon's stock price might someday reach a normal valuation, which could precipitate an enormous decline in the price of its stock and thus curtail the company's dominant source of cash — shareholder investments.

At a time when online competition is ever-increasing and becoming more capable, Amazon is planning on an additional corporate headquarters with 50,000 more overhead people — all on the basis of exceedingly slim profits. Is that indicative of the solid management that warrants publicly subsidy?

I favor expansion of Minnesota industry. But whether Amazon qualifies as a suitable corporate partner should be thoroughly examined. Empirically, the company has a controversial history regarding tax payments, business practices, community relations and employee relations. Before Minnesota makes preferential investments not available to our current companies, should we not make sure any potential recipient will be of long-term benefit to Minnesota's community and economic health?

Beyond the specific case of Amazon, perhaps we should also examine the efficacy of lavishing huge subsidies on companies and individuals with unknown or questionable behaviors and financial histories. Minnesota bailed out the inept predatory financiers who took over Northwest Airlines when it was the most solvent airline in the nation and then drove it into bankruptcy as the financiers were selling \$61 million of their own stock — curiously proximate in time to when the bankruptcy papers were being prepared. How did that work out?

We might also ask if it is in Minnesota's interests to subsidize any company that has played such a role in devastating our local retailers. These retailers have invested in our communities and paid their sales taxes. What has Amazon done for the communities in which it does business?

Minnesota's economic development programs, and the philosophies behind them, should be reviewed and discussed. Well-thought-out economic development programs are needed, but they must be discerning. During the past few decades, Minnesota has lagged in both investment and discernment.

Part Eight – Will Real Leadership Emerge?

As the author rattles about – spending time with factory workers, business leaders, labor leaders, public servants, and ordinary people, he is worried. With massive deficits, slipping industry, soft employment, massive borrowings, and the complete absence of a national consensus, we should all be worried. The author has many friends, many of whom are experts in one field or another. These friends are also worried.

Our worries, however, are coupled with belief -- belief in our system and the fundamental capabilities and good intentions of most of our people. Many of us believe that we do not have to have the problems we have. The United States has been a richly endowed and competent country. And yet, the problems we have today are both serious and obvious.

Numbered among my worried friends are scholars, labor leaders, corporate executives, workers, clergy, ushers, parishioners, social workers, industrialists, engineers, sales people, and farmers. Democrats, Republicans, independents, and politically less active citizens also seem to be worried. But, perhaps the time has come when we should join hands and make the changes we need to make.

This section of the book will include only one reading; a chapter written more than twenty years ago on "Real or Illusory Leadership," drawn from the 1991 version of the book, *The Turnaround Experience*. The chapter was initially written to describe situations occurring in troubled companies, but perhaps it will pertain to our situation today. We should all hope that the simple maladies and human frailties that put asunder some of America's most important industrial companies will not be extended to even larger and more important arenas.

In any case, I wish you all well.

Americans can't afford to bicker

MINNEAPOLIS STAR TRIBUNE June 18, 2019

A critique of our challenges demonstrates the value of orthogonal politics — that is, at right angles to traditional left-right positioning.

Many of us are not hardened partisans. We may lean toward one party or another, but we also see as essential the capabilities, experiences and character traits that lead to effectiveness in public office. Among them: trustworthiness, empathy, prudence, justice, scientific knowledge and appreciation for the executive job.

These essential traits are often at right angles to the left/right positioning of American politics, yet are most often critical to the attainment of a successful and tranquil society. They are neither complicated nor recent. Cyrus of Persia had many of them. Caligula of Rome had few. But the differences in results were appreciable. Cyrus was, and still is, revered. After Caligula was assassinated, Rome's Senate ordered the destruction of his statues in hopes of eradicating him from history.

I promote the value of orthogonal politics not with any official or candidate in mind. Although the U.S. enjoys a noble history and a strong legacy of impressive accomplishments, it is prudent for us to critique both our situation and our politics for these reasons:

- Our fiscal deficits are climbing to the point where our country is now listed among the most indebted countries of the world in relation to its annual output (GDP).
- U.S. industrial output is increasing at a slower pace than many competitors, and the industries in which we are the industrial leaders are shrinking.
- U.S. corporate debt is higher now that it was before the Great Recession.
- Although the U.S. spends more on K-12 per-student education than nearly any other country, our students achieve mediocre scores on internationally standardized tests in science and mathematics — well below nearly all developed countries.
- At roughly double the cost levels of Western Europe, the U.S. is the world leader in health care costs, but with outcomes similar to less costly healthcare systems.
- The U.S. monthly non-petroleum trade deficit is worsening greatly, indicating both a weakening competitive position and a problematic future for industrial communities.

It is important for us to realize that none of the solutions to the above problems will dovetail neatly into the platforms of either of our major parties. We are going to have to work together. We will need new ideas, and we will all need to make some sacrifices. It is delusional for any of us to think that these serious realities can be resolved by some other group modifying their behavior while we remain static in our own behavior. We are going to have to pull together, explore new ideas, employ more rigorous analysis, and implement a more systematic and better engineered system than what we have currently. To pull this off, we will need credible leadership that can tap the best talents from societies many factions. We do not have the luxury of partisan bickering.



So, as I look to elections in the years hence, I don't care much whether the winners are from one party or another. I do pray that our future leaders will have trustworthiness, empathy, prudence, justice, scientific knowledge and appreciation for the executive job.

Real or Illusory Leadership?

From *The Turnaround Experience: Real World Lessons in Revitalizing Corporations and Organizations*

Published by McGraw-Hill in 1991 and Zimmerman Co. in 2011

Quality in the Managerial Process

This study of 16 turnaround cases provides both reassurance and sadness. It is reassuring to see companies come back from disaster to become strong and healthy contributors to our industrial society. It is reassuring, also, to see how the companies turned around. The processes involved would seem to be available to most companies facing financial crisis, because the key characteristics of turnaround success were business strategy, managerial competence, technical skills, and personal character traits rather than the availability of resources.

But this study of turnarounds is also sobering, because so many people and so many other companies and communities were affected by the failure of the unsuccessful companies. During their peak periods of employment, these major companies directly employed more than 270,000 people (Table 14-1). Many additional people, probably several hundred thousand people, were associated with the dealer organizations, supplier companies, and other businesses in the communities where the companies operated.

In some instances, the people employed by the unsuccessful firms were ultimately absorbed by other companies, although the numbers were probably small. The competitive positions of the unsuccessful firms had already seriously deteriorated when other firms took over the remnants of these once-major companies. With the demise of the unsuccessful firms came the inevitable decline in the number of people gainfully employed in the continuation of these businesses — even under different names. Hudson's major plants were closed completely. The Willow Run plant of Kaiser-Frazer was sold to General Motors for an entirely different purpose. Many International Harvester plants now stand idle. The West Allis, Wisconsin, plant of Allis-Chalmers, which at one time employed more than 20,000 people, is now a modest shopping center.

Some people may suggest that no special problem exists in this regard. Old businesses are constantly failing as new businesses are born. Through this ongoing process of failure and rebirth, the economy strengthens itself and adapts to changing conditions and changing markets. This perspective has validity for analyzing some problems, but at this time in our present economy, we need answers to some fundamental questions. Is rebirth really happening, or are some of our basic and essential industries in the process of failing permanently, with no suitable replacement in sight? What will our economy and our society be like when they are gone? We should remember that the once-glamorous, high-tech industries are now under feverish attack and that the service industries have proved to be poor substitutes for profitable and vibrant basic industries in terms of providing employment.

Case	Peak employment (estimate)	1989 employment (estimate)	Percent of peak employment
Willys-Overland	21,000	0	0
Hudson	21,000	0	0
Studebaker-Packard	38,000	0	0
International Harvester	105,000	17,000	16
Allis-Chalmers	33,500	1,000	3
Kaiser-Frazer	20,000	0	0
AMC/Renault	33,000	8,000	24
Total	271,500	26,000	9.6
Number of cases	7	3	

Also, we must be concerned about quality in the managerial process. How can we be satisfied with failure? If we give the turnarounds before us our most serious study and our most conscientious efforts and we still fail, perhaps that is one possible outcome. But, as professionals, we must be concerned with the quality of our managerial process.

Our recent economic history supports an argument for greater precision in the turnaround process. South Bend has never really recovered from the demise of Studebaker. Several cities have been seriously damaged by the problems of International Harvester. Our trade balance gets more serious every year. Unemployment has ranged between 9 and 12 million people in recent years. Governments face ongoing deficits of enormous magnitude with the present level of receipts from our malfunctioning economy.

Does Management Understand Its Job?

This study of turnaround cases surfaces important questions regarding the quality of our managerial execution during times of stress: How well does management understand its job? Do the managers of companies undergoing difficult times know what needs to be done?

In the successful cases, this knowledge did exist — at least most of the time. Management trimmed cost, improved efficiency, nurtured the improvement of products, and concentrated on crucial events which were pertinent to the firm's business at the time. Management encouraged the successful firms to focus on familiar market segments and spurn diversions. Management provided leadership based on technical expertise, on relevant experience in the industry being served, and on personal integrity. During times of cash shortage, managers set examples by taking less pay.

Regarding the unsuccessful cases, there is evidence that management often did not know what needed to be done and did not know how to do what was needed. Management diverted scarce resources into poorly thought-out plans for expansion while critical day-to-day problems of high product cost and product quality were neglected. Management allowed the unsuccessful firms to drift ineffectively from one market segment to another without sufficient proactive attention to historically important markets. Management approved the adoption of inconsistent strategies which were beyond the resource base of the firm. Management changed more frequently, played less of an exemplary role, and exhibited less appreciation of old values as foundations for new beliefs.

This is a serious indictment, of course, but the problems are serious too. All the unsuccessful companies were, at one time, substantial components of the industrial complex of the United States. None ranked lower than the fourth-largest firm in their industries at some point in their history, and most reached higher levels. Now, they are virtually gone. Many factors played a role in the demise of these once-substantial firms, but one of the questions that should arise is whether management knew what to do.

This question of whether management knew what to do should not be viewed as too simple or too basic. Consider the evidence in the cases studied here. International Harvester built up huge inventories, against the advice of experienced company personnel, to support out-of-date production methods and in response to an utterly false reading of the market demand for the company's products. Management did not know enough about the business to structure an appropriate forecasting system or to organize a critique of its own perceptions. The lack of good forecasting, coupled with limited knowledge of the business, led to an enormous buildup in inventories that severely pinched cash and played a major role in the demise of the company's historical mainline business. Studebaker and Hudson both remained high-cost producers for decades prior to the actual demise of the firms. Allis-Chalmers, Kaiser-Frazer, and AMC/Renault (in recent years) were all high-cost producers at critical times during their attempted turnarounds. In none of the unsuccessful cases did management display sufficient expertise in organizing the firm's production or in managing the firm's major business.

The inability of management to manage efficiently affected product differentiation as well. In several cases (IHC, Kaiser-Frazer, Studebaker, and Hudson) the high cost of operations limited funding so severely that programs of product differentiation were either eliminated or severely curtailed. These same companies then worsened their situations by dissipating shrinking resources on poorly planned new ventures — with disastrous results. The successful companies were also short of funds, but these companies had the advantage of resource savings from production efficiencies and, in addition, found ways to develop better prod-

ucts within the framework of limited resources. Top management in the unsuccessful companies lacked these skills.

There is also evidence that management of the unsuccessful companies was not sufficiently in touch with markets to effectively deliver well-thought-out product strategies. In the case of International Harvester, much of the company's top management was unacquainted with the businesses the company was in, and the lack of appreciation for the views of the more experienced Harvester executives contributed to a growing mismatch between the company's actions and the needs of the marketplace. Similar events took place at Studebaker, Kaiser-Frazer, and American Motors in recent years. In other cases, such as Hudson and Willys-Overland, top management had industry experience (not in product development or manufacturing), but then compounded problems by dabbling in outside affairs. The executives of these firms were not trained in the habits of efficiency. They did not know how a plant should operate. With respect to understanding the theories and practicalities of low-cost production and product differentiation and being able to mobilize effective competitive offerings, management was operating outside of its domain.

In the cases where management was operating outside of its domain, the results were internally inconsistent strategies — strategies which did not hang together logically. Some strategies presumed that the fortunes of the companies would rebound with increased sales when variable costs were close to or above 100 percent of revenue. Some strategies involved high-cost producers offering products in the low-priced field. Some strategies involved offering brand-new products to new markets when the products being offered were rushed into production, were poorly tested, and were of shoddy quality. There were strategies involving actions which almost systematically alienated the firm from its historical customer base.

The successful firms operated differently. They knew the markets. They had experience in serving the markets. They knew how to build the products at an acceptable cost, and they knew how to differentiate the products from competitive offerings. Successful companies had real leadership.

What seems to have emerged in the unsuccessful companies was not leadership but the illusion of leadership. The companies were paying for leadership. James Nance of Studebaker-Packard made more money than the entire officer corps combined at Nash Motors when that company faced troubled times in the 1930s. The compensation of the executives of International Harvester was high enough to exacerbate relations with company employees during a time of crisis. Roy Chapin of Hudson had one of the largest houses in Michigan, but the company was crumbling from within. Managers of the unsuccessful companies had adequate incentives available to them. They just didn't know what to do.

This illusion of leadership was not an easy situation to detect initially because many of the unsuccessful managers were impressive-looking and impressive-sounding people. Roy Chapin of Hudson was impressive enough to become secretary of commerce. John North Willys of Willys-Overland became an ambassador. Several of the unsuccessful turnaround agents had reputations for being impressive, outgoing public speakers, but there is no long-term evidence that outwardly impressive people necessarily have sufficient depth, sufficient experience, and sufficient character and generate sufficient trust to effectively manage a turnaround. What in fact happened is that these once-noble companies were ruined as viable competitors in their principal markets.

The long-term notoriety of one unsuccessful turnaround agent can be described by an incident extracted from Barbara Marsh's book *Corporate Tragedy*, which described the demise of International Harvester:

Inside the milk house, where several farmers have stopped for fresh pie, one man asks if anybody remembers the name of the executive who didn't know anything about tractors who ran the company into the ground. (Marsh 1985, 299)

The question being raised here is fundamental to the system of recruiting managers in the United States. As Hayes and Abernathy (1980) pointed out, a decline has taken place in the number of top managers who have technical and marketing backgrounds, whereas the number with legal and finance backgrounds has increased. However, the question is only partly related to the experience of the individuals. The problem isn't as simple as having too many people in finance, for the expertise of the finance departments varied widely too. Some finance people, such as B. F. Hutchinson with the early Chrysler Corporation, Red Poling with Ford, or Gerald Greenwald with Chrysler in later years, were thorough, trustworthy people who understood very well the technical details of the business. In order to turn companies around, managers with meaningful technical knowledge are needed in all aspects of the business. It is important for people in the finance or accounting departments to have an intimate understanding of what drives the costs they are measuring. Hutchinson understood what influences real cost in part because he, at one time, had been a production supervisor himself.

The successful turnaround agents understood how to design products for both low cost and product differentiation. During its 1956 to 1964 turnaround, American Motors built five basic engines, three sixes and two V8s, from one very similar set of pistons and valves. Cars of different sizes had the same door frames — which greatly reduced tooling expense. Right and left taillights, front and rear bumpers, and many other parts were often identical. These actions led to a tooling cost per unit that was substantially lower than that of any other manufacturer in the business, and the firm survived.

In contrast, when Chrysler Corporation was getting into trouble in the 1960s and 1970s, as many as eight different engines were offered with certain car models. Product development took too long, which often resulted in the firm being out of step with the market. When the Chrysler turnaround became successful, it was to a very large degree because of the innovative handling of product design and manufacturing engineering. Chrysler's design teams learned how to make a broad spectrum of product offerings from a smaller assortment of component parts. The Chrysler turnaround was not a financial restructuring. It was a major engineering and production accomplishment, which resulted in vastly improved product differentiation at a much lower cost of production, a turnaround made possible by the accommodating cooperation of organized labor.

The unsuccessful turnaround agents did not understand these things. They were busy with other matters. They were pressuring their sales organizations to sell more without understanding that variable costs were near to or above the prices received for the products. They were making deals to get into new businesses or out of old businesses without any deep understanding about what was required for any of these businesses to operate profitably. The planning logic seemed to be, If we can't manage what we've got, we had better manage something else.

The successful turnaround agents appeared to differ in character traits as well as in industry awareness and technical knowledge. The perception of fairness (or lack of it) influenced the willingness of members of the organization to put forth the extra effort necessary to mobilize a turnaround. The proxy indicators available in these cases suggest that the successful turnaround agents exhibited honesty and trustworthiness, were not preoccupied with their own importance, and allowed others to share in the accomplishments. Further, when things were not going well, these executives first reduced their own compensation and then prevailed upon the organization to reduce costs.

Many people, not just one or two, played key roles in the successful turnarounds. The successful turnarounds had deep managerial teams. Similarly, the blame for corporate failure cannot be laid at the door of one or two people. Many people were involved in both the successful and the unsuccessful cases. The seeds of failure or success are sowed over long periods of time. That is why we need longitudinal studies to examine business situations.

We do need to keep in perspective the fact that no one company did everything perfectly and no one company did everything wrong. Mistakes were made in successful cases, and there were high points in the attempts that failed. But, certain patterns did emerge. Successful turnaround agents exhibited industry knowledge, production knowledge, engineering knowledge, rapport with customers and dealers, incremental improvements, an appreciation for the company's history, honesty, humility, and a sense of fair play. These are some of the factors that distinguished the successful firms. Of these, the most prominent were low-cost operation, product differentiation, and leadership. It could be that a more thorough study at another time will find that character traits and value systems have great untapped potential to mobilize the organizational learning necessary for a successful turnaround.

Turnaround Management as a Skill

The economic and financial measures we have before us collectively suggest that we must greatly improve our industrial and economic performance if the citizens of the United States are to continue to enjoy the social stability that has blessed our country in the past. We do have the capability to get some of our problems resolved, but this capability exists only in potential form. We must transfer it to the kinetic form, and that means developing the skills not only to analyze problems but to remedy them.

Our business schools, our business publications, our informal networks within business itself, and our government have deluded us into thinking that mere analysis of the problem is the principal skill. It is not the principal skill, though it is helpful. To cope effectively with today's problems, we need skills that may be

entirely different from those which served our nation during better times. We must develop skills that will equip us to remedy troubled situations when they occur, and at cost levels that are affordable to stockholders, employees, creditors, and communities. We must know more about how to accomplish more with less. We must be more efficient in our practice of management, more cost-effective, and more professional. In order for us to continue as a meaningful participant in the world economy, we must modify our behavior, particularly our managerial behavior.

The evidence provided in this study should be reassuring because many individuals have demonstrated the remedial skills sufficient for the task before us. But we need more people with remedial skills, and we need them in positions of influence. One of the more sobering aspects of this study is that many of the individuals who have most actively demonstrated the remedial skills we so desperately need are either sick, old, or dead. Lewis Veraldi passed away in the fall of 1990. Donald Petersen has retired from Ford. George Romney is in his 80s. Iacocca is nearing retirement. Hans Matthias has retired for a second time. It is to be hoped that new people are being trained to take their places. Surely a country with the vast population of the United States can field suitable replacements. But perhaps the early conditioning of these people — the deprivation of the 1930s, the hardships of the World War II, the long climb from immigrant status to positions of influence — was in fact preparing these individuals with the remedial and survival skills that the country now so desperately needs.

Those of us in education may wish to believe that education is the appropriate vehicle for preparing leaders for the future. After reflecting upon the evidence gathered here, I am less sure. Indeed, there may be reasons to question whether education, as we presently practice it here in the United States, is a help or a hindrance to the development of remedial skills. Even the recipients of our most technically advanced degrees seldom receive first-hand experience with production as a part of their training anymore. Their knowledge of theory is excellent, but we may wonder whether we are falling into the trap identified by Charles Kettering, one of our greatest inventors: we may be “confusing symbols for things.”

Lew Veraldi started out as an apprentice tool and die maker in 1944 and then got his engineering degree in night school. By the time he ascended to the position of vice president of Ford, he intimately knew many of the tasks that needed to be done at Ford, and he knew the people who could do them well. Walter Chrysler, Henry Leland, B. F. Hutchinson, George Mason, Charles Nash, William Knudsen, and Charles Kettering had similar beginnings. None of these great industrialists were exposed to the style of education that exists in our modern world today.

Now our conditioning is different. We graduate from college and move directly into management without the benefit of first-hand execution of some of the tasks we are managing. Instead of learning about real management in courses like operations management, we learn the ground rules for selecting unit, batch, or mass production systems, probably a once-in-a-lifetime decision for most companies. In courses on strategy we learn about a portfolio style of management, the implication being that management is basically a selection process and not an accomplishment process. We learn how to detect and analyze problems, but we learn less about how to remedy them. Even in engineering programs, we are learning less about how goods are actually designed and produced. In our marketing programs we seldom cover how to get an order, and in our finance courses, we seldom cover how to collect money. Perhaps the remedial skills will unfold from our present educational system. In many ways it is a good system, and one that is certainly capable of making corrections.

As the United States continues to struggle with its economic and industrial difficulties, higher levels of managerial professionalism will be needed, not only to analyze but to remedy the problems being faced. Remedial management will become an increasingly precious skill. Whether it is a skill that emanates from an elaborate formal education system or one that is nurtured and developed by thorough first-hand exposure, interspersed with periods of deprivation, remains to be seen.

