Historical Perceptions of the Good Company

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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 is 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 1980's 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 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 colleagues 25 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 Sheldon 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 nature of service to the community. Such principles are – Firstly, that the policies, conditions, and methods of industry shall conduct communal well being. It is therefore part of the task of management to value such policies, conditions, and methods, by an ethical measure.”

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.”

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 Bolshevists as well as Bankers.”

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 his 1938 treatise, THE FUNCTIONS OF THE EXECUTIVE. 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.” 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:

“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.”

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 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. 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.

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

“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 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. The 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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Public Policy
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, its 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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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.
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 us 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 profes-
sional 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 benefited 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 preamplifier assemblies for use with the new magnetoresistive 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 benefited 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.
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, 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 demean.

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 industrial
peace of the world as the autocratic military power of the Kaiser was a menace to international peace. This applies to Bolshevists 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 involves 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.


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.

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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 substandard 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 the 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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