Chapter Eight.
Managerialism: Irrationality and Authoritarianism in the Large Organization

A. The Corporate Form and Managerialism.

We have already seen, in the section of Chapter Three on the corporate form, that apologists for the corporate legal form have been forced to abandon much of Mises' "entrepreneurial corporation" doctrine, and concede ground to the proponents of the managerial revolution like Berle and Means. Stephan Kinsella, for example, argued:

> It is bizarre that there is this notion that owners of property are automatically liable for crimes done with their property... Moreover, property just means the right to control. This right to control can be divided in varied and complex ways. If you think shareholders are "owners" of corporate property just like they own their homes or cars--well, just buy a share of Exxon stock and try to walk into the boardroom without permission. Clearly, the complex contractual arrangements divide control in various ways: the managers, etc., really have direct control; subject to oversight by the directors... etc. But even here--to get a loan, the company has to agree to various covenants w/ the bank, that condition its right to use property. Even though the law would not call the bank an "owner" praxeologically it of course has a partial right to control the property. If you have a contract allowing rentacops to patrol the building--hey, they are partial owners too. If you are leasing from a landlord--so do they. If you allow the plumber in to fix the building--he has temporary right of control too. So what?[1]

And in an email to the Libertarian Alliance's Sean Gabb, he "raise[d] doubts about the effective control that shareholders have over their companies, and wonder[ed] if they should not rather be placed in the same category as employees or lenders or contractors."[2]

He continued to develop the same argument, in his response at Mises Blog to Gabb's article on the subject:

> ....You conceive of a shareholder as the "natural" owner of the enterprise. I am skeptical of relying on the conceptual classifications imposed by positive law. To me a shareholder's nature or identity depends on what rights it has. What are the basic rights of a shareholder? What is he "buying" when he buys the "share"? Well, he has the right to vote--to elect directors, basically. He has the right to attend shareholder meetings. He has the right to a certain share of the net remaining assets of the company in the event it winds up or dissolves, after it pays off creditors etc. He has the right to receive a certain share of dividends paid *if*

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[1] Comment under Kevin Carson, "Corporate Personhood," Mutualist Blog, April 24, 2006 <http://mutualist.blogspot.com/2006/04/corporate-personhood.html>.

[2] Sean Gabb "Thoughts on Limited Liability" *Free Life Commentary*, Issue Number 152, 26th September 2006 <http://www.seangabb.co.uk/flcomm/flc152.htm>.

the company decides to pay dividends--that is, he has a right to be treated on some kind of equal footing with other shareholders--he has no absolute right to get a dividend (even if the company has profits), but only a conditional, relative one. He has (usually) the right to sell his shares to someone else. Why assume this bundle of rights is tantamount to "natural ownership"--of what? Of the company's assets? But he has no right to (directly) control the assets. He has no right to use the corporate jet or even enter the company's facilities, without permission of the management. Surely the right to attend meetings is not all that relevant. Nor the right to receive part of the company's assets upon winding up or upon payment of dividends--this could be characterized as the right a type of lender or creditor has.[3]

As I said in Chapter Three, this was a long step for Kinsella, considering that he initially argued (with Hessen) that the corporation was simply a contractual device for property owners to pool their property and appoint managers for it as they saw fit. In order to absolve shareholders of liability for the actions of their alleged "servants," he was eventually forced to concede most of the ground claimed by such theorists of the "managerial corporation" as Berle and Means.

Along the same lines Alchian and Demsetz suggested (as mentioned in passing in Chapter Six) that the "ownership" role of the stockholder might be largely a myth, and that the only real difference between stockholders' ownership of equity and bondholders ownership of debt (or more specifically the difference between preferred stockholders, and common stockholders and bondholders) was one of degree.

> Instead of thinking of shareholders as joint owners, we can think of them as investors, like bondholders, except that the stockholders are more optimistic than bondholders about the enterprise prospects....
>
> If we treat bondholders, preferred and convertible preferred stockholders, and common stockholders and warrant holders as simply different classes of investors... why should stockholders be regarded as "owners" in any sense distinct from the other financial investors?

The identification of stock ownership with voting rights over the corporation, in fact, was far less in earlier days:

> Investment old timers recall a significant incidence of nonvoting common stock, now prohibited in corporations whose stock is traded on listed exchanges.... The entrepreneur in those days could hold voting shares while investors held non-voting shares, which in every other respect were identical. Nonvoting shareholders were simply investors devoid of ownership connotations.[4]

In our discussions of the corporation's internal calculation problem in Chapter Seven, we saw that assertions of "entrepreneurial" control of the corporation assume one of two

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[3] Stephan Kinsella, "Sean Gabb's Thoughts on Limited Liability," Mises Economics Blog, September 26, 2006 <http://blog.mises.org/archives/005679.asp>.

[4] Armen A. Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," *The American Economic Review*, p. 789n.

alternative mechanisms: Mises' entrepreneur with double-entry bookkeeping, or Mises' and Manne's market for control. The interesting part is that, in addition to Mises' "entrepreneurial firm" subject to direct capitalist control, both thinkers propose a mechanism for entrepreneurial "control" short of direct control of the corporation hierarchy itself. That mechanism is the ability of the investor to shift funds in his portfolio away from firms that do not perform to his satisfaction, and to firms that maximize profits or otherwise meet his criteria for performance, in search of the investment vehicles with the highest rates of return. This last method, a version of "dollar democracy," treats the corporation largely as an autonomous, self-owned entity, with the capitalist rentier classes in the position of customers whose main instrument of control is the ability to take their business elsewhere. As we will see below, all these mechanisms are considerably less effective than their proponents believe: the "entrepreneurial" investor's direct control over the board of directors and senior management is largely a legal fiction; the threat of hostile takeover, although real at times, tends to arise at widely separated intervals and to be subject to mitigating responses by management; the threat of capital flight is limited by the corporation's reliance on retained earnings for the majority of finance and by minimal reliance on new share issues.

The arguments of Kinsella, and of Alchian and Demsetz, taken together, suggest that capitalist ownership of the individual corporation is a myth, in the sense that a particular corporation is the property of its stockholders (or preferred stockholders with voting rights) in any real sense.

Instead, the corporation is an agglomeration of unowned capital, under the control of a self-perpetuating managerial oligarchy. As Luigi Zingales quotes John Kay: "...if we asked a visitor from another planet to guess who were the owners of a firm... by observing behaviour rather than by reading text books in law or economics, there can be little doubt that he would point to the company's senior managers."[5]

This is borne out by Martin Hellwig's analysis, which shows that Manne's "market for corporate control" is more myth than reality. Hellwig argues that the concept of residual claimancy can be properly applied not so much to the shareholders as to management, which has the power "to disfranchise outside shareholders..., [and] that in all circumstances not otherwise provided for, ... has the effective power to set the rules of decision making so as to immunize itself against unwanted interference from outsiders."[6]

The theory that management is controlled by outside capital markets assumes a high degree of dependence on outside finance. But in fact management's first line of defense is to *mimimize* its reliance on outside finance. Management tends to finance new

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[5] John Kay, The Business of Economics (Oxford: Oxford University Press, 1996), p. 111, in Luigi Zingales, "In Search of New Foundations," *The Journal of Finance*, vol. lv, no. 4 (August 2000), p. 1638.
[6] Martin Hellwig, "On the Economics and Politics of Corporate Finance and Corporate Control," in Xavier Vives, ed., *Corporate Governance: Theoretical and Empirical Perspectives* (Cambridge: Cambridge University Press, 2000), p. 98.

investments as much as possible with retained earnings, followed by debt, with new issues of shares only as a last resort.[7] Issues of stock are important sources of investment capital only for startups and small firms undertaking major expansions.[8] Most corporations finance a majority of their new investment from retained earnings, and tend to limit investment to the highest priorities when retained earnings are scarce.[9] As Doug Henwood says, in the long run "almost all corporate capital expenditures are internally financed, through profits and depreciation allowances." Between 1952 and 1995, almost 90% of investment was funded from retained earnings, while new stock issues amounted to 4% of total investment.[10]

The threat of shareholder intervention is diluted, likewise, by stock buy-backs. According to Henwood, U.S. nonfinancial corporations from 1981-96 retired some $700 billion more stock than they issued.[11]

Hellwig makes one especially intriguing observation, in particular, about financing from retained earnings. He denies that reliance primarily on retained earnings necessarily leads to a "rationing" of investment, in the sense of underinvestment; internal financing, he says, can just as easily result in overinvestment, if the amount of retained earnings exceeds the value of available opportunities for rational capital investment.[12] This seems to bear out Schumpeter's argument, cited in Chapter Three, that double taxation of corporate profits promoted excessive size and centralization, by encouraging reinvestment in preference to the issue of dividends. Of course it may result in structural misallocations and irrationality, to the extent that retention of earnings prevents dividends from returning to the household sector to be invested in other firms, so that overaccumulation in the sectors with excessive retained earnings comes at the expense of a capital shortage in other sectors.[13] Henwood contrasts the glut of retained earnings, under the control of corporate bureaucracies with a shortage of investment opportunities, to the constraints the capital markets place on small, innovative firms that need capital the most.[14]

The high debt to equity ratio might seem to cast some doubt on the primacy of internal financing. For example "newson," a commenter at Mises Blog, challenged my claims on the insignificance of outside finance:

> i find this hard to square with the fact that the debt-to-equity ratio on the sp500 averaged at about one over 2007. the tax deductibility of interest makes debt financing particularly

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[7] Ibid., pp. 100-101.
[8] Ralph Estes, *Tyranny of the Bottom Line: Why Corporations Make Good People Do Bad Things* (San Francisco: Berrett-Koehler Publishers, 1996), p. 51.
[9] Hellwig, pp. 101-102, 113.
[10] Doug Henwood, *Wall Street: How it Works and for Whom* (London and New York: Verso, 1997), p. 3.
[11] Ibid., pp. 3, 72-73.
[12] Hellwig, pp. 114-115.
[13] Ibid., p. 117.
[14] Henwood, *Wall Street*, pp. 154-155.

> attractive vis-a-vis equity. look at the numbers on equity buy-backs in the past years. management certainly have had an interest in raising share prices, and maintaining eps in order to maximize their option-rich remuneration packages.[15]

But the primacy of internal finance refers to internal capital investments in new production capabilities, whereas--as Henwood shows--the overwhelming bulk of corporate borrowing goes to finance takeovers or stock buybacks, not new investment. The mergers and acquisitions of the 80s and 90s were the source of $1.9 trillion in debt.[16]

In short, the corporate economy finances new investment almost entirely independently of the capital markets.

Hellwig's thesis that management is the real "residual claimant" is reinforced by management's role in making the very rules by which the corporation is governed, including the rules by which shareholders exercise whatever power they have. Management insiders, as the primary influence on the internal bylaws of the corporation, have considerable power to dilute the power of shareholders.[17]

Likewise, the board of directors, which theoretically represents shareholders and oversees management in their interests, is in fact likely composed mostly of inside directors who take their positions at the invitation of management and are controlled by management's proxy votes. As a result, they are likely to engage in a mutual logrolling process in which management support the directors' continued tenure, the directors rubber-stamp large salary increases for the CEO, and the internal oligarchy perpetuates itself through cooptation rather than outside election.[18] Proxy contests are almost always lost by dissident stockholders, because management rigs the rules against them.[19]

Of course this still leaves the threat of hostile takeover, of which "entrepreneurial" theories of the corporation make so much. But it is overrated for the same reason as other alleged instruments of "entrepreneurial" control: management controls the rules. Hostile takeovers tend to occur in waves every few decades, and to run their course in a few years as management devises new strategies for deflecting the threat. That is very much the case with the much-ballyhooed wave of hostile takeovers of the '80s, which supposedly rendered the managerial corporation obsolete. In fact, as Hellwig argued, the rise in hostile takeovers in the '80s was the immediate result of some very specific innovations, like junk bond financing, and quickly ran its course as management developed new techniques like the "poison pill" and "shark repellent" to limit the threat of hostile takeover--i.e., they took advantage of their control, as incumbents, over the internal

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[15] Newson comment under Ben O'Neill, "How to Bureaucratize the Corporate World," *Mises Economics Blog*, January 23, 2008 <http://blog.mises.org/archives/007691.asp>.
[16] Henwood, pp. 73-76.
[17] Hellwig, pp. 109, 112.
[18] Myles L. Mace, *Directors: Myth and Reality*. Revised ed. (Boston: Harvard Business School Press, 1986), in Estes, op. cit., pp. 64-67.
[19] Ibid., p. 69.

governance rules of the corporation. There were a significant number of takeovers and mergers in the '90s, but they were for the most part friendly takeovers: strategic attempts to increase market shares and take advantage of alleged synergies, rather than hostile takeovers motivated by governance issues.[20] And in friendly takeovers, of course, the management of the acquired firm is much more likely to be in collusion than in opposition.

M. J. Roe argued, in *Strong Managers, Weak Owners*, that American law artificially increased the autonomy of management by weakening the direct influence of the financial sector and preventing the kind of direct industrial ownership by banks that is prevalent in Europe.[21] Hellwig questions this argument, showing that the financial sector is more accurately seen as part of the network of corporate insiders, and is more likely to side with management in protecting its autonomy from outside challenges.[22]

In addition, in the case of mergers and acquisitions, the "market for corporate control" argument used by Mises and Manne makes an unwarranted assumption: that the acquisition is motivated by the interest of the acquiring firm's stockholders, and not that of its senior management. In fact Ben Branch argued, not long after Manne wrote on the market for corporate control, that most mergers did not "work to the advantage of the acquiring fund's stockholders":

> Thus, either corporate officials are consistently misjudging merger opportunities, or a great deal of merger activity is motivated by managerial interests.[23]

Doug Henwood backs this up. Surveying the literature on post-merger corporate performance, in mergers and acquisitions from the turn of the 20th century through the '80s, he found that both acquiring and acquired firms tended to do worse, in terms of profits and stock performance, after a merger. The active parties in hostile takeovers were not, as Mises and Manne would have us think, "entrepreneurial" stockholders. They were empire-building managers.

> Managers feel richer and more powerful if their firm is growing, and if the business can't grow quickly on its own, then they can gobble up others. Related to this is the idea that while mergers may not result in a higher rater of return (profits divided by invested capital), they may result in a higher quantity of profits, that is more zeroes on the bottom line.[24]

The threats of hostile takeover and capital flight are also limited, in practical terms, by the cognitive problems we considered in Chapter Seven: the inability of investors to

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[20] Hellwig, op. cit., p.111.
[21] M. J. Roe, *Strong Managers, Weak Owners: The Political Roots of American Corporate Finance* (Princeton, N.J.: Princeton University Press, 1994).
[22] Hellwig, op. cit., pp. 126-127.
[23] Ben Branch, "Corporate Objectives and Market Performance," *Financial Management* vol. 2 no. 2 (Summer 1973), p. 26.
[24] Henwood, *Wall Street*, pp. 278-281.

accurately assess the meaning of market data on share value and returns. Even when the threat of hostile takeover is real, it is limited by the ability of outsiders to assess the meaning of performance data. Their basis for comparison is conditioned by the existence of a "normal" rate of profit for each industry, which in turn reflects the average level of managerialism. So given restraints on competition, and given the small number of oligopoly firms sharing a common institutional culture, the "good" profit-maximizing corporations that avoid takeover are pretty atrocious in terms of any absolute standard of efficiency. And the capitalist voting blocks, even when able to exercise relatively strong control over management, have been conditioned by the social and ideological hegemony of managerialism, and all its assumptions, in regard to what is "normal" management behavior and the normal corporate way of doing things. As Ben Branch argues,

> By not doing as well as they might, managers widen the gap between actual and potential market value. This encourages takeover bids and proxy fights....
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> [But s]ince it is often quite difficult for outsiders to evaluate management, there may be considerable sacrifice of shareholders' interests before management's position is threatened.[25]

For that matter, as we also saw in Chapter Seven, to the extent that pressure to maximize profits *is* effective, it is precisely the *effectiveness* of such pressure that may result in destructive behaviors that cripple long-term productivity.

Another possible instrument of shareholder control sometimes put forward is the concerted influence of institutional investors. But institutional stock ownership is often nearly as dispersed as ownership by individual shareholders. Henry Hansmann gives the example of General Motors, whose top five institutional shareholders together own only six percent of stock.[26]

Rakesh Khurana, one of the ablest historians of corporate managerialism, nevertheless buys largely into the conventional view that changes in corporate governance and managerial incentives amounted to a revival of the entrepreneurial corporation, and the reassertion of shareholder control at the expense of management. He portrays the changes in executive incentives (executive stock options and performance-based pay) and the alleged resurgence of the "market for corporate control" (the hostile takeover wave of the '80s) as part of a fundamental power shift from managerial to investor capitalism.[27]

In this, I believe he is fundamentally mistaken. With the exception of a relatively brief period of hostile takeovers, which (as Hellwig explains) was soon thwarted by management counter-measures, there was no real loss of managerial autonomy or shift of power.

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[25] Branch, "Corporate Objectives aand Market Performance," p.. 24.
[26] Henry Hansman, *The Ownership of Enterprise* (Cambridge and London: The Belknap Press of Harvard University Press, 1996), p. 57.
[27] Khurana, pp. 302, 318.

Managerial behavior did indeed change in response to the change in incentives; but it was a voluntary change in behavior by autonomous management, acting to maximize its own self-interest in an environment of altered incentive structures. The discretion was still management's. And it is questionable, at the very least, whether these changed incentives elicited behavior in the real interest of shareholders. As already described in Chapter Seven, such "performance-based" incentives have, in fact, encouraged management to maximize apparent short-term profit at the expense of long-term profitability, in order to inflate their own short-term stock options and leave a gutted shell to the "owners."

It's hard to deny, though, that the change in incentives led to a change in managerial culture. In place of the old organization man, the responsible and disinterested Weberian/Taylorist technocrat, arose the new entrepreneurial model of senior management, with superstar-CEOs like Jack Welch celebrated in the media. In the old days, CEOs tended to see themselves as being at the apex of the technostructure, rather than as entrepreneurs gaming the market to maximize their own compensation. After Iacocca, the focus of business culture shifted, in quite distasteful ways, to a cult of "leadership" and "vision,"[28] reflected both in the business press, and in the proliferation of wretched (see "Ken Blanchard") management theory and motivational books in the 1990s. But this new kind of cowboy CEO, arguably, was in his own way even more of a maximizer of self-interest at the expense of shareholder value than his managerialist predecessor (see, for example, the discussion of Nardelli in Chapter Seven). Arianna Huffington, in *Pigs at the Trough*, provides many examples of corporate CEOs collecting enormous compensation packages for running their companies into the ground.[29]

Khurana himself, interestingly, undercuts his own picture to a considerable extent by adding this qualification:

> For a while, investors and academics alike believed that pay-for-performance schemes such as stock option grants, an active market for corporate control, and the fiscal discipline of leverage would succeed in focusing managers on creating value for shareholders. Unforeseen by the intellectual architects of the revolution in economics and finance was that by deligitimating the old managerialist order and turning executives, in theory and practice, into free agents who owed their primary loyalty to a group who assumed no reciprocal obligations to them, they had cut managers loose from any moorings not just to the organizations they led or the communities in which those organizaitons were embedded but even, in the end, to shareholders themselves. The resulting corporate oligarchy had no role-defined obligation other than to self-interest. The unintended consequences of this revolution, first evident in the anomalies of executive pay in relation to individual and corporate performance first noticed in the late 1990s, have since the beginning of the current decade come to include the long string of corporate scandals involving misstated earnings,

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[28] Ibid., pp. 355-362.

[29] Arianna Huffington, *Pigs at the Trough: How Corporate Greed and Political Corruption are Undermining America* (New York: Crown Publishers, 2003), pp. 43-55.

> backdated stock options, and various exotic variations on such themes that have as their common thread the enrichment of individual executives at the expense of shareholders, employees, and the public trust in the essential integrity of the system on which democratic capitalism itself depends.[30]

That doesn't even take into account the problems with short-term stock value itself as a gauge of long-term profitability. Even when no fraud exists on the pattern of Enron or Tyco, the very incentive to maximize short-term share price (and with it one's stock options) only for the period until one moves on to another management job, creates a rational incentive for the kinds of milking and asset-stripping described here and in Chapter Seven.

In light of all these considerations, the arguments of C. Wright Mills and Martin Sklar on the "corporate reorganization of the capitalist class" and the "corporate transformation of capitalism"--that the interlocked corporate economy, rather than being directly "owned" by capitalist shareholders, is largely an instrument of indirect, collective control by the capitalist class, whose power is conditioned by the managers it has incorporated as junior partners)--make much more sense.[31] The capitalist hegemony over the economy is conditioned by the managerial instrument through which it must work.

So the corporate economy as a whole is capitalist. But the real, direct capitalist ownership is over investment funds only, and is exercised over the corporate organization only through the power to withdraw money from one investment and move it to another with higher yields. And that power itself, remember, is limited by management's tendency to rely whenever possible on retained earnings in preference to outside finance.

The managerialist corporation is profit-maximizing in some regards, but not in others. As seen in Chapter Seven, it indeed promotes short-term profit at the expense of long-term productivity, because of the perverse incentives to even the most destructive forms of profit maximization presented by the capital markets (including management stock options). As I argued in Chapter Three, the corporate form provides a convenient form of plausible deniability, by which investors are able to use the threat of withdrawal of funds to pressure corporate management to maximize profits "by any means necessary," while being able to maintain a plausible pose of ignorance and irresponsibility regarding the means actually taken by corporate management. And corporate management is able to hide behind the corporate veil in order to avoid personal responsibility for any harmful actions the corporation takes to maximize profits. That veil becomes a travesty, especially, when management is able to pump up its own stock options by ethically and

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[30] Rakesh Khurana, *From Higher Aims to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession* (Princeton and Oxford: Princeton University Press, 2007), p. 364.
[31] C. Wright Mills, *The Power Elite*. Revised edition (Oxford University Press, 1956, 2000); Martin Sklar, *The Corporate Reconstruction of American Capitalism, 1890-1916: The Market, the Law, and Politics* (Cambridge: Cambridge University Press, 1988).

legally shady actions taken under cover of the corporate form.

Outside pressures to maximize profits are quite effective in matters of cost-externalization. The most decent corporate manager, as an individual, will engage in the most anti-social acts as a manager, in the name of "shareholder value."

Profit maximization is far less operative, however, when it comes to the interests of management itself. The threat of capital flight is an effective disciplinary tool in cases of profit lowering policies like "corporate social responsibility" and the like, precisely because such policies are not a part of the normal corporate culture. There is, therefore, the potential for real competition between corporations based on whether they do or do not follow such practices. As a result, "socially responsible" corporations are largely limited to a niche market appealing to the psychic returns of Bobos and limousine liberals. Outside of this niche market, "social responsibility" consists largely of greenwashed rhetoric that involves little if any cost to the bottom line.

On the other hand, there is much less chance of competition between corporations based on the degree of internal management self-dealing, because the overwhelming majority of corporations operate with a shared managerialist culture that takes self-dealing for granted as a normal part of business. At the same time, the prevalence in most industries of oligopoly firms that derive large rents from consumers means that the inefficiency costs of managerialism cause little competitive harm; as a result, shareholders can afford to pay the high rents going to management.

As a result, the capitalists' control over outside investment funds, and their threat of capital flight, is only able to spur profit maximization in areas that do not directly affect the managerialists' class interests. The collective interests of the managers as a class are the limit to capitalists' control over the corporate economy.

To put it another way, there is a wide range of conceivable systems that are compatible with high returns on capital; the present system, out of all those possibilities, involves a tradeoff of less than an optimal return on capital in return for optimizing the interests of the managerial class. What we have is the highest rate of return on capital that's possible given the managerialist organization of production.

In many cases, the interests of stockholders would be better served if management ranks were drastically cut, resources were shifted into more production workers and higher wages, and workers had more control over the production process. But that would be a death blow to the managerial culture in the average large American corporation. Management has a great deal of autonomy in promoting its own interests within the corporation, along with the power to thwart outside interference. Any reform that management perceives as contrary to its self-interest will be killed. What's more, part of it is not so much mendacity as genuine cluelessness: they can't think of any way to improve how workers are doing things except to increase the number of managers swarming around and poking into everything they do.

Several years ago, Scott Adams wrote an appendix to *The Dilbert Principle* on his "OA5" management philosophy. That philosophy entailed, mainly, ruthlessly weeding out those not directly involved in producing or improving the product. As I understand it, that means in practice that the average American corporation would 1) streamline its hierarchy until it had managerial staff in the same proportions as its European and Japanese counterparts; 2) put the savings into increased production staff and increased pay; and 3) replace all the "quality" and "process improvement" committees with a great deal more direct worker control over how the production process is organized on the shop floor. The result would likely be skyrocketing productivity and morale.

None of this is to deny--far from it--the extent to which rentier incomes on land and capital reflect special privilege, or the fact that labor is exploited by the propertied classes under the present system. Certainly in the past few decades, the income of the very top plutocracy has exploded upward. But on the whole, I suspect that the average worker suffers as much from managerialism and the resources eaten up by bureaucratic overhead as from the income of rentiers. That is suggested by the statistics below on the compensation of supervisory employees now compared to thirty years ago--an increase whose value rivals the average rate of profit.

The rentier classes, to a large extent, are held hostage by their dependence on the managerial stratum. The monopoly profits of big business depend on cartelization by the state; and given this situation, even at bare minimum a considerable power is entailed for the managerial bureaucracy. The large corporate size promoted by state intervention increases the leverage of managers against shareholders. According to Khurana,

> "Really big" organizations required large numbers of managers, which i turn created more leverage for management vis-a-vis owners. The political and legal decisions that removed constraints on corporate growth thus aided managers in their struggle with owners for control of the corporation.[32]

The agency problems of absentee ownership and wage labor, with their attendant requirements for internal hierarchy and authoritarianism, also promote managerialism. Rationalistic legitimizing rhetoric of managerial authority, based on the "systems paradigm," scientific management, and production control, were most prevalent in periods of labor strife.[33] Empowerment of labor over the production process, despite its almost certain benefits to productivity in the short run, would greatly increase the bargaining power of labor in the long run, and likely imperil profits as much as management salaries.

The owners are also held hostage, somewhat counterintuitively, by the way the corporate form treats capital as the ostensible source of control rights. Management's

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[32] Khurana, *From Higher Aims to Hired* Hands, pp. 29-30.
[33] Ibid., p. 31.

freedom to promote its interests at the expense of workers leads, simultaneously, to the promotion of management interests at the expense of productivity, which reduces the overall returns. To a large extent the shareholders and workers have a common interest, versus management, in dividing the additional productivity gains that might result from the elimination of management self-dealing. A comment by John Micklethwait is interesting, in this light. After a survey of arguments for stakeholder capitalism, and his own dismissive comments about its performance in countries like Germany where it's been tried, he argued that stakeholder interests would be best served by strengthening shareholder interests at the expense of management:

> This defense of shareholding may sound horribly complacent. What about all those fat cats paying themselves gigantic salaries? And what about the golden parachutes that allow these weighty felines to get rich on failure? In fact, the best way to deal with the anxieties that have given rise to the recent stakeholder debate is to give more power to shareholders, not less. Study almost any corporate disaster... and you find a board acting without anybody looking over its shoulder.[34]

Micklethwait got it completely backward. He might have forgotten that the gigantic salaries and golden parachutes came about in the '80s, in the cowboy management culture that *resulted* from attempts to strengthen shareholder control. As those attempts (stock options, bonuses, hostile takeovers, etc.) have demonstrated, genuine shareholder control over management is as much a pipe dream as genuine citizen control over a continent-sized "representative democracy." Owing to Michels' Iron Law, corporate management can never be subject to effective control by those on the outside. But it *could* be effectively checked by others *on the inside*. Ironically, it's the myth of management responsibility to shareholders, as a legitimating ideology of managerial control, that insulates management from control by internal stakeholders. As a result, we get the problem we see described by Luigi Zingales in Chapter Nine: the portion of firm value created by its human capital is expropriated by management, and internal stakeholders exist in a zero-sum relationship with management in which it is in their interest to minimize personal investment of effort and skill in the firm. The firm runs far below optimal efficiency, because the system of ownership denies its main source of value-added a proportional share in the value they create.

To summarize the lessons of this section: Michels' Iron Law of Oligarchy applies very much to the corporation: regardless of the ostensible aims of an organization and the formal accountability of its leadership to some constituency, in fact it ossifies over time into a power structure whose primary purpose is to serve those directing the organization.

> Thus, from a means, organization becomes an end. To the institutions and qualities which at the outset were destined simply to ensure the good working of the party machine..., a greater importance comes ultimately to be attached than to the productivity of the

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[34] John Micklethwait and Adrian Wooldridge, *The Witch Doctors: Making Sense of the Management Gurus* (New York: Times Books, 1996), p. 184.

machine.[35]

> ....By a universally applicable social law, every organ of the collectivity, brought into existence through the need for the division of labor, creates for itself, as soon as it becomes consolidated, interests peculiar to itself. The existence of these special interests involves a necessary conflict with the interests of the collectivity. Nay, more, social strata fulfilling peculiar functions tend to become isolated, to produce organs fitted for the defense of their own peculiar interests. In the long run they tend to undergo transformation into distinct classes.[36]
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> ...."It is organization which gives birth to the dominion of the elected over the electors, of the mandatories over the mandators, of the delegates over the delegatorsw. Who says organization, says oligarchy."[37]

Oliver Williamson, in *Markets and Hierarchies*, elaborated on the relevance of Michels' principle to the corporation:

> ....[The] special significance [of Michels' remarks] for present purposes is that bureaucratic insularity varies directly with organizational size.... Given finite spans of control, increasing firm size leads to taller hierarchies in which leaders are less subject to control by lower-level participants. The resulting bureaucratic insularity of the leadership permits it, if it is so inclined, to both entrench and engross itself.
>
> As compared, however, with a voluntary organization, the matter of legitimacy in the business firm is less in relation to lower-level participants than it is to the stockholders. The control problems in each case nevertheless turn on identical consideration, namely, the information-impactedness issue. Since problems of stockholder control in this sense typically become more severe as the firm grows in size and complexity..., larger size is associated with greater opportunities for discretion. Where the leadership exercises these opportunities by permitting slack and indulging in personal consumption, size limitations follow--especially if lower-level performance varies directly with higher-level example, which normally is to be expected.[38]

In a footnote, Williamson adds that the issue of the firm leadership's insularity from lower-level participants is "also relevant," particularly in regard to "the status pathology of large organizations" and distorting rewards in favor of those at the top, at the expense of those at the bottom.[39]

Robert Shea, in his aptly titled article "Empire of the Rising Scum," argued that any organization--regardless of its ostensible external mission--would eventually be

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[35] Robert Michels, *Political Parties: A Sociological Study of the Oligarchical Tendencies of Modern Democracy*. Translated by Eden and Cedar Paul (New York: The Free Press, 1962), p. 338.
[36] Ibid., p. 353.
[37] Ibid., p. 365.
[38] Oliver Williamson, *Markets and Hierarchies, Analysis and Antitrust Implications: A Study in the Economics of Internal Organization* (New York: Free Press, 1975), pp. 127-128.
[39] Ibid., p. 127n.

dominated by those whose primary skill was the acquisition and maintenance of power.

> That the more authoritarian organizations survive and prevail goes generally unnoticed because people focus on the objectives of organizations, which are many and varied, rather than on their structures, which lend to be similar...
>
> But the more an organization succeeds and prospers, the more it is likely to be diverted from its original ideals, principles and purposes...
>
> Why does this happen? Because the better an organization is at fulfilling its purpose, the more it attracts people who see the organization as an opportunity to advance themselves.
>
> The ability to get ahead in an organization is simply another talent, like the ability to play chess, paint pictures, do coronary bypass operations or pick pockets. There are some people who are extraordinarily good at manipulating organizations to serve their own ends. The Russians, who have suffered under such people for centuries, have a name for them--apparatchiks. It was an observer of apparatchiks who coined the maxim, "The scum rises to the top."
>
> The apparatchik's aim in life is to out-ass-kiss, out-maneuver, out-threaten, out-lie and ultimately out-fight his or her way to the top of the pyramid-any pyramid....
>
> Unfortunately, the existence of this talent means that every successful organization will sooner or later be taken over by apparatchiks. As such people achieve influence within the organization, whenever there is a conflict between their own interest and the interest of the organization, their interests will win out. Thus, over time, the influence of apparatchiks will deflect the organization further and further from its original intent....
>
> Whatever the original aim of the organization, to publish books, to heal the sick, to share information about computers, once it has been taken over by apparatchiks, it will acquire a new aim--to get bigger. It doesn't matter whether a bigger organization will fulfill its purpose as well, serve its customers or constituents as well, or be as good a place for people to work. It will get bigger simply because those at the top want it to get bigger. Apparatchiks do to organizations what cancer viruses do to cells; they promote purposeless growth....[40]

B. Self-Serving Policies for "Cost-Cutting," "Quality" and "Efficiency"

We already saw, in Chapter Six, Jensen's and Meckling's argument that management has an incentive to shift capital investment from allocations that maximize productivity, to allocations that feather their own nests.[41] If management are relatively free to choose their level of perquisites, subject only to their diluted loss of returns from ownership of a

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[40] Robert Shea, "Empire of the Rising Scum" (1990). The article originally appeared in the now-defunct Loompanics catalog, and is now preserved on Carol Moore's website <http://www.carolmoore.net/articles/empirerisingscum.html>.

[41] Jensen and Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," op. cit.

small fraction of corporate stock, "[their] welfare will be maximized by increasing [their] consumption of non-pecuniary benefits."[42] Oliver Williamson, in *The Economics of Discretionary Behavior* (originally his PhD dissertation), anticipated their argument and elaborated on it at great length.[43] One term he coined, "expense preference," is especially useful:

> ...[M]anagers do not have a neutral attitude toward all classes of expenses. Instead, some types of expenses have positive values attached to them: they are incurred not merely for their contributions to productivity (if any) but, in addition, for the manner in which they enhance the individual and collective objectives of managers.[44]

Further, as we already saw in Chapter Seven, the market's perverse incentives to maximize short-term profit by gutting long-term productivity will mean that even the profit-maximization incentive presented by management's stock options will more likely than not cause them to game the system to maximize their options at the expense of the organization's long-term welfare.

Although Meckling and Jensen expect shareholders to pay monitoring costs to the point at which they cease to pay off in increased productivity, the added agency costs of separating ownership from control will still "not... result in the firm being run in a manner so as to maximize its value."[45]

As one might guess, given all these considerations, any time it is left to management to find new ways of improving "quality," their solution is likely to be everything *but* increasing the resources and autonomy of production workers; again, as you might expect, it will rather involve expanding the power of management with even more committees, meetings, tracking forms, etc., so that production workers have even more interference and paperwork to deal with, and less time to get their real work done.

This is true even when management pays lip service to a management theory fad that calls for empowering workers, and eliminating process inefficiencies resulting from bureaucratic interference. The problem is that any such theory is implemented by *bosses* --which means that any theory, no matter how empowering its rhetoric, will translate in practice into rewarmed Taylorism.[46] If corporate management adopted Jeffersonianism as a management philosophy, it would ignore the part about inalienable human rights and local self-government, and just keep the part about screwing your slaves.

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[42] Ibid., p. 18.
[43] Oliver Williamson. *The Economics of Discretionary Behavior: Managerial Objectives in a Theory of the Firm* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1964).
[44] Ibid., p. 33.
[45] Jensen and Meckling, p. 30.
[46] I should mention that this and all other references to Taylorism, unless otherwise specified, are to the conventional understanding of Taylorism. The actual approach of Taylor himself, arguably, was considerably more nuanced and less authoritarian. I am indebted to Eric Husman of *Grim Reader* blog for pointing this out to me. [cite article]

Such management initiatives have one thing in common: they all fail. "Empowerment" fads, which depend more than anything on employee support and enthusiasm, are killed for want of support and enthusiasm when employees inevitably perceive the self-serving reality behind the official happy talk.

> All too frequently, years of work and millions of dollars in salaries and consulting fees are wiped out by a single thoughtless bureaucratic memo or insensitive authoritarian comment, an unanticipated top-down change in organizational policy, resistance to change brought about by managerial miscommunication or misunderstanding, or lack of genuine employee enthusiasm for implementing the change.
>
> What is missed in these efforts is that the system of management, regardless of the skills and dedication of individual managers, reduces morale, and prevents employees from dedicating their efforts to improving quality, productivity, and customer service.[47]

Although most managers are probably not as frank (even with themselves) as this senior executive of a London tech company, quoted by Jeffrey Nielsen, his comment is a pretty good statement of management's real, operational attitude toward "empowerment" lurking behind all the official happy talk:

> I was trying to help them organize a decision-making process that would gather input from all the employees, when I encountered stiff resistance from the senior executive. He bluntly informed me that employees should have no influence on the direction or decisions of the company. They were, he told me, as if imparting some esoteric management knowledge, "meant to be used like light bulbs: you screw 'em in, you turn 'em on, you burn 'em out. Then you replace 'em."[48]

By the way, here's a neat little example of empowerment: Chloe at *Corporate Whore* blog received an email from the VP for Human Resources, proposing a bulletin board of "wanted" and "for sale" items. The idea was to reduce the large volume of emails, addressed to "All," listing such items. The problem?

> The bulletin board would be glass-covered--behind lock and key. Never mind the fact that we already **have** a bulletin board in the kitchen with NO glass covering it, which is already being used for that purpose.
>
> How would it work?... They plan to have the 'associate' submit the ad for approval to HR, which will then post the ad on the board for 10 business days. On the 7th day, the 'associate' will receive a notice that their ad is about to 'expire' and that if they wish to 'renew' it, they need to notify HR.[49]

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[47] Kenneth Cloke and Joan Goldsmith, *The End of Management and the Rise of Organizational Democracy* (San Francisco: John Wiley and Sons, Inc., 2002), p. 45.
[48] Jeffrey Nielsen, *The Myth of Leadership: Creating Leaderless Organizations* (Palo Alto, Calif.: Davies-Black Publishing, 2004), p. 9.
[49] Chloe, "Important People," *Corporate Whore*, September 21, 2007

That still sounds like it leaves entirely too much discretion to the workers. Perhaps it would be safer to require two people to turn their keys at the same time, like in a missile silo. Any time you find yourself wondering why the "wikified enterprise" or "Enterprise 2.0" has such a hard time catching on with management, just go back and read about that bulletin board.

We have also seen, in Chapter Seven, that each level of a hierarchy creates slack. Whenever possible managers, like all bureaucrats, like to increase the size of their domain and the number of staff under their control. The number of "direct reports" is a mark of prestige. They will increase the size of their domain even when it interferes with the efficient running of their existing domain. A good example of this is the behavior of Pentagon apparatchiks who divert funds to new weapons programs, at the expense of providing adequate pay, training, fuel, ammunition, and maintenance for existing personnel and equipment. Considering a couple of news items in the '90s--the Strategic Rocket Forces having their electrical power cut off for non-payment, and the main munitions storage facility for the Murmansk fleet blowing itself into the stratosphere for want of proper storage or maintenance--it appears these tendencies are cross-national. Anthony Downs describes the phenomenon, as it appears in the public sector bureaucracy:

> An official can more easily add to his power by obtaining more subordinates than by increasing his degree of control over his existing subordinates.
>
> ...Officials tend to react to change by attempting to increase their overall appropriations rather than by reallocating their existing appropriations.[50]

But when absolute cuts in a firm, division or department are necessary, managers will direct them primarily to production workers, while preserving as much as possible of the staff attached to their offices. Management's approach to "increasing productivity" and "cutting costs" will mean decimating productive resources while leaving their own petty empires intact. As the downsizing of production workers and increased workloads lead to the proliferation of errors, management will respond by devoting still more resources to what Deming called "exhortations," "slogans," and "revival meetings," and Drucker called "management by drives." Any "reform" carried out by management will serve mainly to increase the power of managers.

Cost-cutting in corporate bureaucracies closely resembles its counterpart in government bureaucracies. Lacking any explicit budget line-item for "waste, fraud, and abuse," senior management simply sets arbitrary figures to cut, say 20 or 30%, and leaves

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<http://www.corporatewhore.us/important-people/>.

[50] Anthony Downs, *Inside Bureaucracy*. A RAND Corporation Research Study (Boston: Little, Brown and Company, 1967), p. 267.

the details to subordinates in the bureaucracy. In private industry, this takes the form of cutting out entire categories of production workers and consolidating their job descriptions, or reducing entire categories of workers by some arbitrary percentage. Of course, the last thing to be cut is management--and management itself is cut only from the bottom up. Their petty bureaucratic empires, the *real purpose* of the organization from the perspective of those actually running it, remain intact.

Robert Jackall, in *Moral Mazes*, recounts just such a process after the new CEO of "Covenant" corporation took over. He ordered the presidents of its subsidiaries to carry out thorough reorganizations with "census reduction," but left the details entirely up to them (aside from setting aside some top management posts for his cronies). In the "Alchemy" subsidiary, the new president ("Smith") carried out a series of firings Jackall refers to as "the purge," and promoted his personal clients from his former division of the company to leadership positions.

Smith met the Covenant CEO's financial targets in 1980, but the company entered a period of falling profits during the 1981 recession. Alchemy met only 60% of the profit target, and even then only with considerable accounting sleight-of-hand. In the ensuing period, the atmosphere of fear and paranoia resembled that of the Stalinist purge era, with rumors of Smith's disfavor flying wildly and everyone attempting to divert any potential disfavor from himself by betraying his colleagues. Senior management people positioned themselves for advancement in the event of Smith's fall, and betrayed him and each other. One senior management figure, notorious as an amoral "troubleshooter," publicly accused everyone who missed a staff meeting held during a record blizzard of disloyalty to the company.

As the recession worsened in 1982, the Covenant CEO pressured Smith to "aggressively cut staff" and "streamline operations" in order to "emerge lean and poised" for the recovery. Later that year, the CEO demanded a 30% reduction in staff at Alchemy. Smith fired 200 people, *mostly technical support people rather than management*. Alchemy's earnings continued to fall, however, and pressure from the CEO increased.

> By this point, the watchword in the corporation had become "manage for cash," and the CEO wanted some businesses sold, others cut back, still others milked, and costs slashed. Particular attention began to be focused on the chemical company's environmental protection staff....

In the fall of 1982, Smith resigned as president of Alchemy. The Byzantine rumor mill reached a new high among the courtiers in senior management, speculating on the identity of Smith's successor and the patronage networks that might result. Again, the waves of backstabbing and betrayal began in anticipation of an organizational shakeup.

The CEO's choice for a new president, "Brown," was a former division head earlier demoted by Smith to make way for his own cronies. Brown was identified as "the CEO's boy," who owed everything to him, and had a mandate to pursue further staff cuts ruthlessly in order to cut costs to the CEO's satisfaction. The scrambling for position and the betrayals kicked up yet another notch. Brown fired another 150, this time however mainly from management. The surviving managers saw this as a violation of the unwritten management code, and management became increasingly hostile.

In the meantime, the CEO began an aggressive campaign of acquisitions--mostly mature companies, which belied his claim to be focusing on tech startups with high growth potential.[51]

This concurrent gutting of productive assets (especially staff), and irrational capital investments, is a common pattern in the corporate world.

For reasons we examined in Chapter Seven, what large capital expenditures are made are typically made in an environment of calculational chaos, with little idea of their opportunity cost and no realistic estimate as to their likely effect on the organization's productivity.

When management decimates productive resources, at the same time it chooses some productive resources to leave largely untouched; and as we saw in Chapter Seven, the choice of what to cut and what to leave intact reflects no discernable criterion of efficiency. In fact the calculation problems in the corporation make any such efficiency judgments largely arbitrary, so that management has little idea of the opportunity costs of the capital investments it does make.

Bob Lewis uses the analogy of a hot-air balloon.[52] When the balloon's losing altitude, the pilot can either jettison ballast or heat up the air inside. The problem is that management is so out of touch with the production process that it can't tell the air heating device from the ballast. And since that heater is pretty damn heavy, jettisoning it ought to give the balloon a nice boost (at least for a few quarters, until the air cools off).

In this analogy, of course, the air heater refers to the productive resources that generate revenue. Daniel Gross puts it into concrete corporate terms:

> This type of self-defeating cost-cutting often occurs at knowledge businesses whose only real asset is smart, motivated employees....
>
> To be sure, if companies were indifferent to costs across the board, they wouldn't be in business. But the penny-pinching is aimed squarely at the vast productive middle. Top executives are generally unaffected.[53]

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[51] Robert Jackall, *Moral Mazes: The World of Corporate Managers* (New York: Oxford University Press, 1988), pp. 25-32.
[52] Bob Lewis, "Don't cut off your own head: Corporate cost-cutting as a goal is always a mistake," *InfoWorld*, September 11, 2000 <http://www.infoworld.com/articles/op/xml/00/09/11/000911oplewis.html>.
[53] "Pinching the Penny-Pinchers: idiotic examples of corporate cost-cutting," *Slate*, September 25, 2006

After all, an MBA is someone who would break up every stick of furniture in his house and throw it in the furnace, and then brag about how good the numbers look this month without the fuel oil bill. Now, a production worker could tell you that anyone who rewrites mission statements or core values, or has anything to do with Fish! Philosophy, is almost certainly ballast, in Lewis's analogy. The problem is that the real ballast in a company is in a position to give itself a huge bonus for throwing the air heater overboard. The company is *run* by ballast, which creates something of a conflict of interest when it comes to "maximizing productivity."

One of my favorite writers on corporate culture, Jerome Alexander, puts it in appropriately jaundiced terms:

> I will predict that these same “leaders” will eventually move on to enjoy hefty salaries and lofty positions with different firms. They are heroes you know. They’ll commiserate with other executives at their new establishments and share stories about how the employees at their old companies let them down, couldn’t see the big picture, couldn’t execute their brilliant strategies, etc. They’ll probably even play off their newly acquired “expertise” at closing down operations, disposing of assets, etc. Then they’ll be allowed to work their magic all over again.
>
> I wonder when the garage sale will occur? Maybe they’ll sell the forklifts and office equipment to help fund their exit packages. It’s a shame but predictable because they have no shame.[54]

And when management makes large capital investments, they are apt to resemble Hayek's predictions for a planned economy: uneven development, with productive resources underfunded or gutted in some sectors and overbuilt in others, and no clear idea of the comparative cost or likely productive returns of spending anywhere.

A survey by *McKinsey Quarterly* found that, on average, corporate-level executives considered many of their firms' capital investment decisions to be bad ideas in retrospect:

> corporate-level executives responding to the survey with an opinion indicate that 17 percent of the capital invested by their companies went toward underperforming investments that should be terminated and that 16 percent of their investments were a mistake to have financed in the first place. Business unit heads and frontline managers say 21 percent of investments should not have been approved and indicate another 21 percent should be terminated.
>
> In addition to worrying about underperforming investments, a sizable number of survey

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<http://www.slate.com/id/2150340/>.

54 Jerome Alexander, "Honey, We've Shrunk the Company!" *The Corporate Cynic*, July 20, 2007 <http://thecorporatecynic.wordpress.com/2007/07/20/honey-we%e2%80%99ve-shrunk-the-company/>.

> respondents also indicate that a significant number of investments should have been made but were not. Corporate-level executives who have an opinion say it was a mistake not to provide funding for 21 percent of all rejected investments even though the forecast rate of return for the projects met or exceeded their companies' benchmarks. Business unit heads and frontline managers say nearly twice as many should have received funding.
>
> It's worth noting that these figures exclude a significant number of survey respondents: roughly 40 percent, for example, don't have a point of view on how many investments should be terminated. This figure could be a warning sign that postmortem analysis is infrequent at many companies. A consistent finding is that nearly 40 percent of frontline managers don't know their companies' typical rate of return on investments over the past few years.
>
> Corporate-level executives generally have a much better sense of the returns the company earned on its investments. Yet the level of awareness among senior executives doesn't necessarily translate into effective input: when asked what best explains the approval of the company's least successful project in recent memory, 45 percent of executives at all levels say it was approved because "a senior leader advocated the project."[55]

This strongly suggests that capital investment decisions are made in a prevailing atmosphere of groupthink and bureaucratic toadyism in which critical analysis is unwelcome.

> ...the less-than-ideal combination of optimism, risk aversion, and one-off decision making is perhaps exacerbated by the prominence of corporate politics. Respondents say that behind-the-scenes lobbying and logrolling—and sometimes outright deception—are fairly frequent and seem to inhibit constructive debate and dissent throughout the resource allocation process.

Corporate politics interferes not only with the free expression of opinion on the wisdom of courses of action being considered, but with the availability of information needed for assessment:

> In many organizations, corporate politics appear to play a significant role in resource allocation decisions, adding an additional layer of complexity to the other problems that interfere with a company's initial sound financial approach to decision making.
>
> For example, more than 60 percent of respondents say business unit and divisional heads form alliances with peers or lobby someone more senior in the organization at least "somewhat" frequently.... Interestingly, frontline managers report more lobbying—some 70 percent say it occurs more than "somewhat" frequently—than do corporate-level executives (51 percent). Also, respondents at public companies report a greater incidence of lobbying than do those at private ones.
>
> Beyond simple politicking, 36 percent of respondents say managers hide, restrict, or

[55] "How Companies Spend Their Money: A McKinsey Global Survey," *McKinsey Quarterly*, June 2007 <http://www.mckinseyquarterly.com/article_page.aspx?ar=2019&L2=21>.

> misrepresent information at least “somewhat” frequently when submitting capital-investment proposals. (On this measure there is almost no difference in the views of respondents from public and private companies.)
>
> As executives maneuver for position behind the scenes and sometimes even deceive one another, constructive debate and dissent appear to suffer. Only about a third of respondents, for instance, say executives frequently disagree about the attractiveness of future growth opportunities—hardly a topic that would seem to lend itself to unanimity. What’s more, a majority of respondents say it’s at least “somewhat” important to avoid contradicting superiors. The closer to the front line the respondent, the more important he or she rates the avoidance of such conflict.

Corporate capital investments are also apt to be made in "an environment in which it’s common for estimates of project duration and sales to be excessively optimistic..."

> Another indication of executive optimism comes from the responses of a subset of executives who were asked to estimate a single project’s rate of return compared with other similar projects approved in the past. Roughly half say the new investment would have a return greater than 25 percent—a figure hard to reach in competitive market economies. Such findings are consistent with a strong tendency toward managerial optimism highlighted in other research.

Management is especially prone, as Oliver Williamson writes, to persistent refusal to abandon sunk costs. He quotes Drucker's quip that "[n]o institution likes to abandon anything," and elaborates that "budget based institutions are more prone to persist with unproductive or obsolete projects than are revenue based institutions...."[56]

Most downsizing is counterproductive in terms of its stated rationale. According to Richard Sennett, downsizings typically lower the productivity of the organization and result in lower profits. Early '90s studies by the American Management Association and the Wyatt Companies found that repeated downsizings resulted in "lower profits and declining worker productivity..." Less than half of the companies carrying out downsizings actually achieved their expense reduction goals, less than a third increased profitability, and less than a fourth increased productivity. Worker morale and motivation fell sharply after downsizing.[57]

One reason, in addition to the degrading of productivity through understaffing and poor morale, is that savings from staffing cuts often go to subsidize increased management self-dealing and featherbedding, rather than to improve the bottom line. For example, Jackall refers to Covenant's expenditure of $100,000 on paint alone to repaint a plant whenever the CEO visited, and spending $10,000 to produce a single copy of a

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[56] Oliver Williamson, *Markets and Hierarchies, Analysis and Antitrust Implications: A Study in the Economics of Internal Organization* (New York: Free Press, 1975), p. 122.

[57] Richard Sennett, *The Corrosion of Character: The Personal Consequences of Work in the New Capitalism*, p. 50.

lavishly illustrated book on the plant's history and operations as a gift to the visiting CEO.[58] Another example:

> ...just after the CEO of Covenant Corporation announced one of his many purges, legitimated by "a comprehensive assessment of the hard choices facing us" by a major consulting firm, he purchased a new Sabre jet for executives and a new 31-foot company limousine for his own use.... He then flew the entire board of directors to Europe on a Concorde for a regular meeting to review, it was said, his most recent cost-cutting strategies.[59]

I'm reminded of an old news parody from *National Lampoon*: the federal government spent $5 billion to print two copies of a consumer pamphlet entitled "How to Save Money," and then burned them both.

Another reason is that downsizing undoes the long-term and painstaking process of building human capital. It amounts to hollowing out a company, the moral equivalent of burning every stick of furniture in your house to save on this month's heating bill.

> Impressive short-term results can frequently be produced by hard-hitting managers who are generating a long-term catastrophe. Such conduct, says [Rensis] Likert, is encouraged by company reward systems that "enable a manager who is a 'pressure artist' to achieve high earnings over a few years, while destroying the loyalties, favorable attitudes, cooperative motivations, etc., among the supervisory and non-supervisory members of the organization." Such steamroller managers are frequently even promoted in recognition of their talents after, say, two or three years, which is just about the period that elapses before the damage begins to show up in the figures, leaving someone else to clean up (and no doubt take the blame for) the wreckage....
>
> What is happening, in effect, is that valuable resources are being disposed of and earnings given a short-term, artificial boost. No management would stand for such cavalier treatment of physical assets, and even if management were willing, the auditors would not be. Since human resources do not appear on the balance sheet, they can be liquidated at will by managers oriented to "the bottom line" (where net profit appears), in order to give a spurious injection to earnings.[60]

A good example comes from Jerome Alexander of *Corporate Cynic* blog, an MBA and accountant who's spent his entire career in one middle management hell after another:

> Ann was an AP clerk whose position was eliminated last month due to co-sourcing. Prior to making the decision to let her go, no one bothered to ask Ann what she actually did or how she did it. It wouldn't have mattered anyway because the new brainiacs at corporate HQ mandated that her position be eliminated on a date certain. Ann is gone.

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[58] Jackall, *Moral Mazes*, pp. 22-23.
[59] Ibid. p. 144.
[60] David Jenkins, *Job Power: Blue and White Collar Democracy* (Garden City, New York: Doubleday & Company, Inc., 1973), p. 237.

Poor Marie! Her misfortune was geography. She just happened to occupy the cubicle that was next to Ann's. Marie is a staff accountant who has been with company for two years. Her only interface with Ann was the fact that they sometimes ate lunch together. Now Marie is being inundated with piles of mail, requests for emergency checks and investigations into why suppliers are not being paid. The operating and purchasing folks could care less about the co-sourcing project. They need things done.... Although Marie protests and tells them that she has nothing to do with accounts payable, they pester her incessantly anyway. Some will even wait for her to vacate her cubicle and then secretly swoop in to drop requests on her desk or chair. Marie's voicemail and E-mail inbox are now full to overflowing. Marie is overwhelmed.

Marie's boss, Jim, is in the same boat. He's only been with company for six months. Jim was initially told about the co-sourcing project and the fact that Ann would be leaving. Coming to work for a large corporation, Jim assumed that that the project had been well thought out. Get real Jim! Jim is now being attacked by even higher level operating and purchasing folks over the same issues. In Jim's case, however, the frenzy goes beyond simply dealing with the needs of that constituency. It seems that Ann performed a lot of other accounting related tasks that were not exactly of an accounts payable nature. Ann had been with the company for over ten years and had survived a variety of previous reorganizations and downsizings (sorry "rightsizings"). Over the years and through necessity, Ann had taken on a variety of different tasks, all of which were mundane but no less essential. No disrespect to Ann, but in a lot of cases, she was really unaware of how important some of these duties were. She just performed them with aplomb. Now Jim is finding out exactly how deep in the hole he is.

Jim has complained to the co-sourcing project leader at corporate HQ. He was informed that only certain accounts payable functions were being co-sourced and that many related duties were still his responsibility. But never fear, the bulk of the tasks had been transferred and he was only being left with a few. Uh Huh! He was also reminded of the cost savings associated with the project. In other words, "Too Bad." Jim has also gone to his superiors to make them aware of the other problems. Tough luck, Jim! YOU should have thought of that earlier! Now Jim and Marie are stuck "holding the bag". They are frantic, frazzled, and overwhelmed. Marie is actively seeking employment elsewhere.

If my hunch is correct, you can multiply this story a hundred fold throughout the many divisions of the corporation....

Instead of analyzing the workload first to eliminate the arbitrary, superfluous and redundant tasks and requirements, *the focus is always on cutting the resources* [emphasis added--from his mouth to God's ear!]. What a back-asswards approach to problem solving! Even after reducing staff, they will continuously come up with new requirements and even more compressed timetables - turning the arbitrary, the goofy, and superfluous into the essential.[61]

[61] Jerome Alexander, "'Outing' Some of the Downsides of Outsourcing," *The Corporate Cynic*, April 3, 2008 <http://thecorporatecynic.wordpress.com/2008/04/03/%e2%80%9couting%e2%80%9d-some-of-the-downsides-of-outsourcing/>.

Or again:

> Last week, I watched as the company that I used to work for chopped another 35 administrative and technical positions. The "non-surprise" for the survivors was that none of the work was eliminated and none of the deadlines were changed. Those who remain will just have to do more. But the few keep getting fewer, more tired, cranky and scared to death of what could be next. What a great way to work and live! To top it all off, the corporation has embarked upon one of those "Help us define the 'values' of our company" programs. Talk about adding insult to injury![62]

Or again:

> When the consultant asks, "Tell me what you do?" The accounts receivable clerk answers, "I post cash receipts to open invoices." The consultant then responds with the infamous set up question," And how long does that take you every day?" "Oh, I can get that done in an hour or so," beams the clerk trying to impress the consultant with their prowess and efficiency. I cringe every time I hear this because I can see the wheels turning behind the consultant's beady little eyes. "Hmmm, an hour a day! What are they doing for the other seven...? ....The report back to the executive suite will be devastating. It will reinforce the notion that the function is easy and equally unimportant....
>
> What's never asked about is the time and effort spent on supplier account maintenance and customer account housekeeping, collection calls, straightening out paychecks or payroll tax issues, inventory cycle counting and correcting bills of material issues. These are the items that take the time and require the experience of the employees. This is the tender loving care that will be lost when the positions are cut or consolidated. The effects won't surface immediately, but when they do--look out below. [63]

What Alexander describes, the job-specific experience of employees, is human capital. Management has little idea just how much the profitability of their organization depends on such human capital, or how much of the organization's value comes from it. To MBAs, schooled in the orthodoxy of Sloanism, human capital is not a productive asset, but a cost. It follows naturally from such cluelessness, Harold Oaklander (a specialist on workforce reductions at Pace University) argues that "many 'cost-cutting' layoffs are actually counterproductive," because they interfere with "the firm's knowledge system."[64]

Alex Markels and Matt Murray, at *The Wall Street* Journal (in an article appropriately

[62] Alexander, "Distressed about Job Stress? Don't Worry, Your Employer Isn't!" *The Corporate Cynic*, March 25, 2008 <http://thecorporatecynic.wordpress.com/2008/03/25/distressed-about-job-stress-don%e2%80%99t-worry-your-employer-isn%e2%80%99t/>.

[63] Alexander, "What would "The Duke" say about the Trivialization of Non-executive Functions?" *The Corporate Cynic*, April 10, 2008 <http://thecorporatecynic.wordpress.com/2008/04/10/what-would-%e2%80%9cthe-duke%e2%80%9d-say-about-the-trivialization-of-non-executive-functions/>.

[64] Alvin Toffler, *Powershift: Knowledge, Wealth and Power at the Edge of the 21st Century* (New York: Bantam, 1991), p. 222.

titled "Call it Dumbsizing"), describe the long-term effects of ill-advised and indiscriminate downsizings, as practiced by most corporations:

> Eastman Kodak Co. expected to save thousands of dollars a year when it laid off Maryellen Ford in March in a companywide downsizing. But within weeks, Kodak was paying more for the same work.
>
> Ms. Ford, a computer-aided designer and 17-year Kodak veteran, was snapped up by a local contractor that gets much of its work from Kodak. "I took the project I was working on and finished it here," she says. But instead of paying her $15 an hour plus benefits, Kodak now pays the contractor $65 an hour, and Ms. Ford earns $20 an hour (but gets no benefits).
>
> Kodak's layoffs have left its engineering group in Rochester, N.Y., overworked and demoralized, Ms. Ford contends. "They're burned out and they don't even care. When they send a job over here and we say, `It's going to cost you X,' they just say `Go ahead,'" she says....

At my own employer, a hospital, management has imposed several waves of drastic downsizing: of nursing staff, physical/occupational therapists, and respiratory techs, among other job categories. And guess what? First of all, they have suffered horribly from the bad word of mouth in the surrounding community, thanks to the deterioration of quality in patient care. Second, exactly as with Kodak, they wound up actually paying more in staffing costs than they were before. The hospital pays for travel RNs from a staffing agency, with the agency's fee probably over $100/hour, sometimes to do the job of an orderly. It has contracted a husband-wife team of respiratory techs, high-paid travel workers, from a staffing agency. Last December, half the physical and occupational therapists on the rehab ward where I work gave notice, because a local nursing home paid therapists several bucks an hour more and had better working conditions. As a result, the hospital was forced to cap the ward's census at twelve patients for several months, and to run it at even that capacity had to hire highly-paid therapists from a staffing agency. The going agency fee for medical staff is typically three times the wage of a permanent employee, with the agency worker making about 150% the wage of those working in-house; so their attempt to "cut costs" through understaffing and skimping on pay caused them to pay three times as much to replace the staff they downsized or drove off through uncompetitive pay. This doesn't even touch on the costs from abysmal employee morale, on wards where one orderly often has twenty or thirty patients, from the skyrocketing rates of absenteeism among nursing staff who dread coming to work under such conditions, and the very high rates of turnover and costs of training replacements.

But the damage to an organization's human capital, Markels and Murray continue, goes far beyond the mere cost of replacing staff:

> Despite warnings about downsizing becoming dumbsizing, many companies continue to make flawed decisions -- hasty, across-the-board cuts -- that come back to haunt them, on the bottom line, in public relations, in strained relationships with customers and suppliers, and in demoralized employees. Sweeping early-retirement and buyout programs sometimes eliminate not only the deadwood but the talented, many of whom head straight to

competitors. Meanwhile, many replacements arrive knowing little about the company and soon repeat their predecessors' mistakes.

"Cost-cutting has become the holy grail of corporate management," says Rick Maurer, an Arlington, Va., management consultant. "But what helps the financial statement up front can end up hurting it down the road."

In Digital Equipment Corp.'s 1994 reorganization, its second in as many years, the company eliminated hundreds of sales and marketing jobs in its health-industries group, which had been bringing in $800 million of annual revenue by selling computers to hospitals and other health-care providers world-wide.

Digital says it cut because it had to act fast. It was losing about $3 million a day, and its cost of sales was much higher than that of its rivals. Robert B. Palmer, the chief executive officer of the Maynard, Mass., company, saw across-the-board cuts in all units, regardless of profitability, as the way to go. Indeed, Digital has reported profits for the past five quarters and has positioned itself for future growth by forming alliances with Microsoft Corp. and other software vendors.

But in the health-industries group, the cutbacks imposed unexpected costs. Digital disrupted longstanding ties between its veteran salespeople and major customers by transferring their accounts to new sales divisions. It also switched hundreds of smaller accounts to outside distributors without notifying the customers.

At the industry's annual conference, "I had customers coming up to me and saying, `I haven't seen a Digital sales rep in nine months. Whom do I talk to now?'" recalls Joseph Lesica, a former marketing manager in the group who resigned last year. "That really hurt our credibility. I was embarrassed."

Resellers of Digital computers, who account for most of its health-care sales, also complained about diminished technology and sales support. "There were months when you couldn't find anybody with a Digital badge," complains an official at one former reseller who had been accustomed to Digital sales reps accompanying him on some customer calls. "They walked away from large numbers of clients." Adds Richard Tarrant, chief executive of IDX Systems Corp., a Burlington, Vt., reseller that used to have an exclusive arrangement with Digital: "Now, they're just one of several vendors we use."

Many Digital customers turned to International Business Machines Corp. and Hewlett-Packard Co., and so did some employees of Digital's downsized healthcare group. Mr. Lesica says some laid-off workers went to Hewlett-Packard and quickly set about bringing Digital clients with them. "That's another way DEC shot itself in the foot," he says.

Such wounds aren't unusual when longtime sales relationships are disrupted. "Nobody sits down and asks, `What's going to be the impact on our customers?'" says D. Quinn Mills, a Harvard Business School professor. "It falls between the cracks all the time."...

The question is, to what extent are [payroll] savings offset by the new hires' lack of experience? Ms. Shapiro, the consultant, contends that a company is set back severely by the loss of "knowledge and judgment earned over the years. That's the stuff that gives you a real competitive advantage in the long run." Human-resources experts estimate that it typically costs $50,000 to recruit and train a managerial or technical worker....

> Others try to reduce employment costs by replacing experienced veterans with less expensive contract workers. But that can heighten a company's chances of being represented by people who perform poorly -- or worse. That's what happened at Peoples Natural Gas Co., which hoped to save more than $1 million last year by replacing its 35 meter readers with contract workers. "We thought we would be able to get the same quality by outsourcing as we would with our own employees," says Elmore Lockley, a spokesman.
>
> But on March 19, one of the new meter readers allegedly raped a Peoples Gas customer while on a call. Overnight, the Pittsburgh company faced "a major challenge, not only from a public-relations standpoint but from a human-tragedy standpoint," Mr. Lockley says....
>
> Nynex's early-out programs for managers and craft-level employees, which have trimmed about 12,000 jobs since 1993, have caused labor shortages as well. Nynex has hired back hundreds of former employees, including managers already receiving pensions....
>
> Even greater than the rehiring expense is the blight on Nynex's reputation for customer service -- right when its core market is opening up to competition for the first time. "Their past reputation for customer service is their key competitive advantage," says Joe Kraemer, a management consultant at the A.T. Kearney subsidiary of Electronic Data Systems Inc. in Rosslyn, Va. "But they've put all that at risk, just to gain a few cents per share in a given quarter. It's just plain dumb."[65]

As Charles Derber put it, "[c]ontract workers are usually clueless about inside knowledge specific to the firm, and lack key social ties in and out of the company necessary to close deals and maintain relations to customers.[66]

Self-serving management policies undermine the trust which is required for workers to invest their human capital in the enterprise. Gary Miller, in *The Political Economy of Hierarchy*, argues that trust is the main distinguishing feature of firms that make the most productive use of human capital. He cites work in behavioral economics and game theory on how relationships of trust are built up through repeated interactions, when the parties know they will be dealing with each other in the future. The lesson for the firm, in particular, is illustrated by piece rates. In the short run, management may have a rational incentive to elicit greater effort through piecework pay, and then cutting piece rates. But in the long run, it will only be possible to elicit greater effort if workers are confident that management will not change the rules of the game to screw them over; otherwise, the rational strategy for workers is deliberate shirking combined with social sanctions against ratebusters. Management can elicit greater effort through prolonged confidence-building measures to demonstrate, in a credible manner, their lack of intent to expropriate the

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[65] Alex Markels and Matt Murray, "Call It Dumbsizing: Why Some Companies Regret Cost-Cutting," *Wall Street Journal*, May 14, 1996 <http://www.markels.com/management.htm>.

[66] Charlers Derber, *Corporation Nation: How Corporations are Taking Over Our Lives and What We Can Do About It* (New York: St. Martin's Griffin, 1998), pp. 111-112.

productivity gains of greater effort. To generalize beyond piece rates, management can only elicit workers' investment of their human capital in the productivity of the enterprise by giving them long-term property rights in their share of productivity gains, with credible safeguards against expropriation.[67]

Unfortunately, Miller continues, because such cooperative cultures are established by "mutually reinforcing expectations," they are highly dependent on "the beliefs of the various players about the likely responses of other players." That means that they are extremely fragile when one party acts to undermine trust. He illustrates the lesson with a case study of an Indiana gypsum mine in the 1950s. The management had an informal and egalitarian relationship with the workers, and generally showed up in work clothes. The management style was extremely lax about things like clocking in late or clocking out early, sick days, etc., and relied heavily on employee initiative and motivation in solving problems without micromanagement. The work force was willing to pull long hours of overtime in emergencies; rather than hoarding their tacit knowledge, they were willing to invest it in increasing productivity.

A new Pharaoh arose, however, who knew not Joseph. When the old plant manager died, his replacement was a Barney Fife type who was horrified at the lax enforcement of rules. He strictly enforced clock-in and clock-out times, hired foremen who would micromanage production and treat thinking as a management prerogative, and generally instituted an adversarial culture.

Of course, the workers responded in kind. They decided that, if management was going to stand on the rules, they would do the same. Remarking on the new "zero tolerance" time clock policy, one worker said:

> Well, if that's the way he wants it, that's the way he wants it. But I'll be damned if I put in any overtime when things get rough and they'd like us to.
>
> O.K., I'll punch in just so, and I'll punch out on the nose. But you know you can lead a horse to water and you can lead him away, but it's awful hard to tell how much water he drinks while he's at it.[68]

All this is closely related to our discussion immediately above of human capital and "dumbsizing." An organizational culture of cooperation and mutual trust is a very important form of human capital--one that takes a great deal of time and effort to build up, and can be destroyed overnight by the typical idiot MBA who thinks he can goose his stock options by laying off half the work force.

One of the most important ways to safeguard a culture of trust is through confidence-

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[67] Gary J. Miller, *Managerial Dilemmas: The Political Economy of Hierarchy* (New York: Cambridge University Press, 1992), pp. 201-202.
[68] Ibid., pp. 207-210.

building measures, which make it more costly for management to defect and reassure the workforce that the productivity gains from their investment of effort will not be expropriated. This brings us back to the observations of Rajan and Zingales (which we will see in Chapter Nine) on the importance of stakeholder equity rights in the corporation.

> Many firms that are most successful at encouraging high levels of commitment and non-monitored effort from subordinates have effectively reallocated to employees some of the property rights to the assets owned by the firm, creating a sense of what is significantly called "employee ownership," or long-term control over those aspects of the workplace that are most important to employees.[69]

This quote from Jeffrey Nielsen, which we already saw in Chapter Six, is worth another look:

> With rank-based logic, people see work as a burden and organization as a necessary evil. We only grudgingly join up with organizations and then find life within them to be nasty, boring, and deadening to the spirit.. When the organization encounters hardships, the assumption is that those below should be sacrificed to protect the privilege of those above. All too frequently we read in the financial section of the paper about this type of logic in action: another CEO who laid off hundreds of workers is awarded with a fat bonus at the end of the year.

Nielsen continued to write, directly after the material quoted above:

> Author Jason Jennings, in a *USA Today* (2002) editorial, said that many leaders believe downsizing in tough economic times is the right leadership thing to do. Citing a major 2002 research project of the Business Roundtable on the relationship between layoffs and productivity, Jennings challenges this conventional wisdom. The research revealed that the world's most productive firms make an explicit promise never to balance the books through layoffs.[70]

But we must always keep in mind that "the right leadership thing to do," from the perspective of leaders, is tacitly defined in terms of the private *interest* of those leaders. I have no doubt that Jennings' preferred course of action is more effective by *his* standards of productivity: increased sales, lower costs, and more profit per employee. But for corporate management, the "productivity" of an organization means something entirely different: the support of management in the lifestyle to which it is entitled. By way of analogy, a self-managed cooperative would have been a vast improvement in productivity for an ante-bellum cotton plantation. That is, it would have meant an improvement in productivity in every measure except the one that mattered: from the perspective of the slave-owner, eliciting effort from slaves is the most unproductive form of economic

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[69] Ibid., p. 226.

[70] Jeffrey Nielsen, *The Myth of Leadership: Creating Leaderless Organizations* (Palo Alto Calif.: Davies-Black Publishing, 2004), p. 53.

organization except for the alternative of looking for honest work. For management, getting the most of a small pie is preferable to a smaller piece of a big pie; their goal is not to maximize the size of the pie, but the size of their piece. We must never forget that the real goal of the organization, from the perspective of management, is to serve management; all that smarmy rhetoric in the mission statement is for outside consumption. From management's perspective, it's hard to imagine an organization being more "productive" than GE was for Welch or Home Depot was for Nardelli. While Nielsen's peer-based organizations may be more productive for "everyone" (probably not for Welch and Nardelli), the hierarchical organization is more productive for the people who count.

We already saw, in Chapter Seven, how Robert Nardelli inflated Home Depot's short-term profits by stripping it of productive assets. This is quite common in the managerialist culture. Jackall described that culture from first-hand observation:

> The growing dominance of new professional managers has helped emphasize the already existing corporate premium on quick returns. In the process, it has placed a new premium on fast deals and on money made in paper transactions rather than on the arduous and necessarily long-term task of taking material out of the ground and creating wealth. Within such a framework, plants and the whole production process become, as one manager notes, "a bother"....
>
> Moreover, the capital markets are increasingly dominated by big institutional investors--among them, large corporations, the insurance companies, the investment funds, and the brokerage houses--whose "quick in, quick out" philosophy wreaks havoc with corporate stocks. This sets the stage for financial sharpshooters who, in takeover strategies, buy large chunks of a company's stock at devalued prices only to be "greenmailed" ...by the target company's management into surrendering these blocks of holdings at premium prices. In such unsettled times, where virtually any large corporation could become a takeover target, managers feel that they have to keep their companies' stock properly valued.[71]

This pressure from the financial markets is reinforced by corporate pressure on managers, who are evaluated on short-term results. Making correct decisions for long-term productivity may be politically disastrous; the effects will not be seen until long after the decisionmaker is no longer around to take credit.[72]

General Motors is a good example of this tendency to strip corporations of productive assets and turn them into hollow shells. As Eric Husman observed,[73] GM has become, increasingly, a company that brands, markets, and finances cars, rather than building them. Their main source of profit is now GMAC, the auto sale finance arm of the company. And if they turn a large profit in a given year, there's a good chance it's the result of selling off another couple of plants.

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[71] Jackall, *Moral Mazes*, p. 83.
[72] Ibid., p. 84.
[73] See Chapter Ten.

All these tendencies are reinforced, in American corporate culture, by the Sloan management accounting system, which is described in unflattering clinical detail by William Waddell and Norman Bodek in *Rebirth of American Industry*.[74]

Waddell and Bodek contrast the Sloan system to the Toyota Production System, or lean manufacturing, which measures profitability by revenue stream. If there's more money coming in this week than going out, the operation is profitable. Assets are of interest only when applying for a loan or liquidating the enterprise. Inventory that isn't bringing in real cash from outside is a cost, not an asset. The best way to reduce costs is to fully utilize equipment and reduce cycle time through increased flow, to avoid waste and rework through designing defects out of the production process rather than inspecting for quality after the fact, and to minimize inventory through just-in-time production. And these things are all achieved mainly with the help of the company's chief asset, its human capital.

The Sloan system (or DuPont/Sloan/Brown system), on the other hand, attempts to maximize Return on Investment (ROI), which translates into share value: i.e., the book value of the company divided by the number of shares. The larger the sum that could be raised by auctioning off the company's assets in the event of bankruptcy, the better managed it was.[75]

> Pierre DuPont devised a system to be sure that the salvage value of the companies in which he invested was high. From one end of the country to another, GE and GM plants can be had for salvage value.[76]

And corporate management's primary activity for the last twenty years has been living off the salvage value of the organizations whose assets it has gutted.

Perversely, the Sloan system counts inventory toward this book value (a metric that works directly at cross-purposes to the lean system, which treats inventory as a cost).

> With inventory declared to be an asset with the same liquidity as cash, it did not really matter whether the next "cost center," department, plant, or division actually needed the production output right away in order to consummate one of these paper sales. The producing department put the output into inventory and took credit.[77]

This is referred to as "overhead absorption," which means fully incorporating all production costs into the price of goods "sold" to inventory, at which point they count as

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[74] William H. Waddell and Norman Bodek, *Rebirth of American Industry: A Study of Lean Management* (Vancouver, WA: PCS Press, 2005).
[75] Ibid., pp. 68-69.
[76] Ibid., p. 108.
[77] Ibid., p. 75.

an asset on the balance sheet.[78] American factories frequently have warehouse shelves filled with millions of dollars worth of obsolete inventory, which is still there "to avoid having to reduce profits this quarter by writing it off."[79]

At the same time, it defines production labor as the primary "variable cost," so that all "cost-cutting" and "efficiency" measures focus almost entirely on downsizing the labor force. This, despite the ways that (as we saw above) human capital increases the productivity of an organization--and the ways that, as we will see in Chapter Nine, human capital increases the organization's book value. Yet other intangibles, like "goodwill" and "intellectual property," are treated, oddly, as assets, on the grounds that they contribute to book value. Since inventory is as good as cash, and management salaries are a fixed rather than variable expense, management understandably filters out overhead when it comes to finding ways to cut costs; the overall effect is that corporate management automatically thinks of downsizing production workers, as the first and only alternative, when it comes time to reduce costs.

> Brown's contribution was primarily that he could take this definition of ROI, look out over General Motors operations and envision islands of cost awash in a sea of assets. Those islands of cost were basically people. Well-supervised, they could turn one form of inventory into another with little of their time left over to detract from profits. Left uncontrolled, however, they could waste a lot of money with nothing to show for it. So "responsibility accounting" came to be, when each of those islands was deemed to be a cost center, which added up to plants which added up to divisions which added up to corporate.[80]
>
> ...While Sloan, Brown and the rest may have looked out over the plants and seen islands of cost in a sea of assets, they knew that around the edges and lurking beneath the surface there were other costs in the form of overhead. The problem was that these costs, such as the costs of moving things around, fixing machines, inspecting parts, and supervising, were awfully hard to assign to a specific operation. They went along with everything in general, but nothing in particular. Without any means of directly assigning and controlling them, these costs were simply assigned percentages in the hope that they would stay reasonably in proportion to the direct labor costs which could be controlled, and that was good enough.
>
> Without any direct link, all that could be measured with great confidence was the direct, easy to correlate part of the job: labor. It did not take much of a mathematician to figure out that, if all you really care about is the cost of performing one operation to a part, and you were allowed to make money by doing that single operation as cheaply as possible and then calling the partially complete product an asset, it would be cheaper to make them a bunch at a time.
>
> It stood to reason that spreading set-up costs over many parts was cheaper than having to set-up for just a few even if it meant making more parts than you needed for a long time. It also made sense, if you could make enough parts all at once, to just make them cheaply, and

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[78] Ibid., pp. 135-141.
[79] Ibid., p. 132.
[80] Ibid., p. 68

then sort out the bad ones later.

> Across the board, batches became the norm because the direct cost of batches was cheap and they could be immediately turned into money--at least as far as Mr. DuPont was concerned--by classifying them as work-in-process inventory.[81]

Or, to put it in more colorful terms, "the typical factory went from Ford's flowing river of material to a Sloanesque oozing swamp..." The obsession with lowering direct labor costs, and direct labor costs only, caused costs from correcting defects and storing inventory to skyrocket. Not to mention recalls, which frequently run around half of total production--for example, over 45 million from 1966 to 1975.[82]

H. Thomas Johnson and Robert S. Kaplan, in *Relevance Lost*, also discussed the perverse effects of treating direct labor as the main source of cost. If a production manager achieves savings in overhead costs, the savings are diluted over all the cost centers in the factory because of the allocation procedure. "Therefore, rational managers focus their attention where it does the most 'good'": direct labor. "Consequently, less attention is devoted to escalating overhead costs than to small increments in labor costs." This also creates a perverse incentive to outsource or offshore production of components to take advantage of cheap labor, even though it only affects the cost of direct labor which may be relatively minor compared to the part of factory overhead not driven by direct labor, and therefore "saves only a relatively small fraction of the component's costs." In fact, the transaction costs involved in subcontracting tend to increase overhead costs. "But these newly added costs are not traced to the purchased component because it has zero direct labor content. Instead, the higher overhead costs are shifted to the labor-intense products and processes still remaining in the plant."[83]

David F. Noble discussed the same phenomenon in *Progress Without People*, referring to the standard accounting practice of measuring productivity in terms of "output per person-hour.":

> An overriding assumption of almost all discussion about automation is that productivity increases result from the subordination of machines for hourly production workers. That is, a reduction in factory jobs is *ipso facto* understood to mean a gain in productivity.... [But], as Thomas Gunn argued in 1982, "Direct labor accounts for only ten to twenty-five percent of the total cost of manufacturing....
>
> John Simpson, Director of Manufacturing Engineering at the National Bureau of Standards, took this same message a bit further: "In metalworking manufacture, direct labor amounts to roughly 10 percent of total cost, as opposed to materials at 55 percent and

[81] Ibid., p. 98.
[82] Langdon Winner, *The Whale and the Reactor: A Search for Limits in an Age of High Technology* (Chicago and London: University of Chicago Press, 1986), p. 77.
[83] H. Thomas Johnson and Robert S. Kaplan, *Relevance Lost: The Rise and Fall of Management Accounting* (Boston: Harvard Business School Press, 1987), pp. 188-189.

> overhead another 35 percent. Yet, as of 1982, management was expending roughly 75 percent of managerial and engineering effort on labor costs reduction, as compared to 15 percent on material cost reduction and 10 percent on overhead cost reduction. This is a striking disparity."
>
> It certainly is. As *Business Week* discovered in its 1982 survey of executives, few managers anticipated much use of the new equipment to displace management, even though such reduction in overhead, as Simpson suggests, would no doubt serve the goal of increased productivity.[84]

In my own experience, the obsession with cutting patient care staff as a "variable cost" in most hospitals (especially after the corporate chains take them over) leads to the phenomena described in the fourth section of Appendix 8A of this chapter. Costs from patient falls, hospital-acquired infections, and errors, as a direct result of understaffing, rise until they more than offset the ostensible labor cost savings. The gutting of human capital ("dumbsizing") described earlier in this section drastically reduces the quality of care, and the effect is further exacerbated by disgruntlement and low morale among those who are left to handle the workload. Hospitals are even forced to turn away patients (what is called "diversion mode") for want of sufficient staff to care for them. As a result, they suffer catastrophic losses to their reputations and lose business. This is the direct, inevitable result of treating human capital, which takes years to build up and years to acquire its network of human relationships and distributed knowledge, as a "variable cost" to be fired and rehired as often as demand shifts--and meanwhile treating management as a fixed expense to be paid in both fat times and lean.

As we will see in the next chapter, human and organizational capital--the human relationships, trust, and tacit knowledge of processes that take years to build up, and cannot be rebuilt in a short time at any cost--are the reason a firm's equity is greater than the book value of its tangible assets. It really is capital, and a productive asset. As we saw above, "dumbsizing" disrupts and mutilates this human capital, and guts an organization's long-term productive capability. But the Sloan system treats labor as "the biggest profit detractor [a] company [has]..."[85] The Sloan system's "arrogant and demeaning" approach to people "assured that employee involvement in production would not happen."[86]

> Direct labor is not a variable cost as a result of some mystic truth or a law of either nature or physics. It is a variable cost because management decided it would be so. Calling inventory an asset, while people are not an asset is also a distortion of the truth.[87]

For this reason, the right-wingers and corporate apologists in this country who spend

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[84] David F. Noble, *Progress Without People: New Technology, Unemployment, and the Message of Resistance* (Toronto: Between the Lines, 1995), p. 105.
[85] Waddell and Bodek, p. 152.
[86] Ibid., p. 153.
[87] Ibid., p. 207.

so much time tisk-tisking about Japanese "lifetime employment guarantees" miss the point. The irony is that the people who are quickest to observe that "nobody washes a rental car," in regard to the benefits of and "ownership society" outside the workplace, are the same idiots who complain the most about the evils of job security *inside* the workplace.

"Lifetime employment" is just another way of saying the Japanese treat human capital as an asset rather than a direct cost, which is precisely the lesson we learned above from Waddell and Bodek. Employment security builds trust, and hence human capital, by reassuring workers that they have a secure property right in their contributions to productivity, that the productivity gains they create won't be expropriated by management, and that their increased effort and productivity won't be used against them through rate-busting, speedups and downsizing. It elicits the kind of behavior that Rajan and Zingales describe: workers investing their human capital in the productivity of the enterprise. To quote William Ouchi,

> The first lesson of Theory Z is trust. Productivity and trust go hand in hand, strange as it may seem....
>
> ...Thomas Lifson... has studied in detail the Japanese general trading firms, those firms like Mitsui, Mitsubishi, and Sumitomo that maintain offices worldwide and have traditionally served as the sales force for Japanese-produced goods.... According to Lifson, the central feature of the [Japanese] trading firm is an extensive management system that maintains a sense of trust between employees in the trading company.... [The employees] work in an environment of tremendous uncertainty, buying and selling copper ore, crude oil, wheat and televisions.... Often, the firm's overall profitability will be maximized if an office takes a loss, which will be more than made up in another office so that the company benefits overall. The success of the trading company depends critically upon the willingness of individual offices and employees to make these sacrifices. That willingness exists because the Japanese trading firm uses managerial practices that foster trust through the knowledge that such sacrifices will always be repaid in the future....
>
> One American company that has a definite uniqueness but at the same time resembles the Japanese management style is Hewlett-Packard.[88]

The problem, for the right-wingers, is probably that "increasing productivity" is something the John Galts do, while workers are passive dullards who contribute nothing to the production process. An extreme example of this is George Reisman, who continually rewrites the same article at Mises.Org: the only way to increase the worker's standard of living is to increase the wealth of the capitalist, who invests his capital in increasing the worker's productivity, which drives up wages. The concept of human capital, or the possibility (as we saw in Chapters Two, Five and Seven) that the worker's unique knowledge of how best to *employ* existing physical capital matters more to

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[88] William Ouchi, *Theory Z: How American Business Can Meet the Japanese Challenge* (New York: Avon Books, 1981), pp.5-6. Ouchi wrote, obviously, before Carly Fiorina destroyed "the HP Way."

productivity than the *amount* of capital employed, is lost on such people. If the reader suspects me of exaggeration, consider these quotes, first from Mises himself and then from Reisman:

> You have the courage to tell the masses what no politician told them: you are inferior and all the improvements in your conditions which you simply take for granted you owe to the effort of men who are better than you.[89]

> Carson is simply unaware that innovation is the product of exceptional, dedicated individuals who must overcome the uncomprehending dullness of most of their fellows, and often their hostility as well.[90]

One of the most interesting proposals for countering this perverse treatment of human capital as a cost is the idea of "human resource accounting." It came out of a research project which Rensis Likert (mentioned above) inspired, at the University of Michigan's Institute for Social Research, aimed at correlating management styles to profitability. The idea is to transform the management bromide that "employees are our most valuable asset" from a mere hypocritical slogan into reality, and develop a metric for counting the actual equity value of human capital toward the bottom line.

> The Michigan team has laid out three basic approaches to the problem, by computing figures for (1) the value of investments in human resources (approximately corresponding to book value for physical assets); (2) replacement values; and (3) economic values, that is, the capitalized value of earnings directly attributable to these resources.
>
> A good start has been made on the first two, which include "expenditures in recruiting, hiring, training, developing, and organizing employees into effective work groups...." Since 1966, the R. G. Barry Corp.... has been developing, with the help of the Michigan team, methods of calculating these figures. By 1970, "book value" figures had been computed for all 147 managers in the company and 425 factory and clerical personnel....
>
> In 1969, Barry drew up, for internal use, a "capital budget for human resources," believed to be the first of its kind, which can answer questions in such areas as new expenditures for training programs, the real costs of employee turnover, and whether the human resources in any particular department are rising or falling. In this way, if any manager attempts to juice up short-term profits at the expense of company resources, top management will be alerted immediately.... [The 1969 annual report showed] that, because of heavy employee-development costs (which, logically, might be better capitalized than expensed), reported earnings were understated by about 10 percent, and that when "net investments in human resources" were added to the asset side of the balance sheet, total

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[89] Mises' letter to Ayn Rand, quoted in Bettina Bien Greaves, "To What Extent Was Rand a Misesian?" *Mises.Org*, April 11, 2005 <http://mises.org/story/1790>.

[90] George Reisman, "Freedom is Slavery: Laissez-Faire Capitalism is Government Invasion: A Critique of Kevin Carson's *Studies in Mutualist Political Economy*," *The Journal of Libertarian Studies* 20:1 (Winter 2006), p. 55.

assets rose by some 15 percent.[91]

The Sloan system is at the heart of the American MBA curriculum, and the ruling paradigm in American corporate governance.

As leader of a Dana Corporation management study group visiting Japan, Bodek--who had been a frequent visitor to the country for many years and had become familiar with the Toyota Production System--let slip that he considered the ROI a faulty measure that Dana should abandon.

> You would think that I just allowed the dam to break. Virtually every manager on the bus shot me down and made me feel like two cents. In one short moment I lost all credibility with them. The Japanese managers taught me that ROI was misleading because it leads you to focus only on the short-term, to the long-term detriment of the company.
>
> A few months later, Woody Morcott, the next chairman of Dana, keynoted one of my Productivity "The American Way" conferences and told the audience that ROI was key, and the only important measure for his managers. I knew then why I had been so quickly shot down in Japan.[92]

Sloan cost metrics, which focus almost entirely on reducing the "direct cost" of labor involved in every operation, have seriously skewed the direction of production technology.

> ...[M]anufacturing engineers... were directed more and more to focus only on direct labor savings. Machines that were more accurate or flexible could not be justified in a batch environment. Where Ford's engineers built machines to speed flow and assure quality, American engineers were pushed more and more into focusing on labor elimination technology.[93]

As an illustration of the Sloan system's obsession with reducing the cost of every operation, regardless of its effect on the overall production process, was illustrated by the conversational stalemate between Ernie Breech (whom Eleanor Ford brought in in 1946 to impose GM methods on Ford) and a Ford manufacturing manager. Breech demanded to know the cost of mounting steering wheels, attempting to figure the "profit" resulting from steering wheel assembly independent of its necessary role in the overall manufacturing process.

The production manager didn't know how much the specific operation cost, and was utterly perplexed as to why Breech wanted to know. Was Breech suggesting the steering wheel assembly operation was the source of a bottleneck in the flow of the line? No.

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[91] Jenkins, *Job Power*, pp. 238-240.
[92] Waddell and Bodek, p. 65.
[93] Ibid., p. 106.

Was there some inefficiency in the operation? No. Since it had to be done, and done right, it could only be considered as part of the overall process. And the only proper way to increase efficiency, and reduce costs, was to lower unit costs by improving the flow of the overall process.

> The lean accounting companies define making money as receiving cash. Incremental work is not good--it is a waste of money.... Money is made only by selling to customers, not by transferring dollars between accounts or by moving parts from one inventory pile to another.[94]

Between the accounting people Breech brought in from GM, and the "whiz kids" Bob McNamara brought in from the war department, Ford was cured of that kind of thinking.[95]

Interestingly, the mostly uneducated workers of recuperated enterprises in Argentina, forced to use their own common sense after the managers and accountants abandoned the plants, spontaneously rediscovered Ford's system of cash flow accounting on their own.

> How did these men (none of whom have a university degree and most of whom do not even have a high school diploma) administer, manage, market, and run nothing less than an entire factory in the complex reality of today's market, economy, and finances?
>
> We wanted to go with a very small-time economy. Nothing complicated. Buy this, sell that, this much is left, and that's it.[96]

The Sloan system focuses, exclusively, on labor savings "perceived to be attainable only through faster machines. Never mind that faster machines build inventory faster, as well."[97] As the authors of *Natural Capitalism* argue, batch production results from attempts to optimize each separate step of the production process in isolation ("optimizing one element in isolation from others and thereby pessimizing the entire system"), without regard to its effect on the flow of the overall production process. A machine can reduce the labor cost of one step, by running at enormous speeds, and yet be out of sync with the overall process, so that it simply produces excess inventory that waits to be used by the next step in the process.[98] The giant cola-canning machine and Pratt & Whitney's robotic grinders, which we saw in Chapter Two, are good examples. The Toyota Production System, on the other hand, emphasizes *takt*: pacing the output of each stage of production to meet the needs of the next stage, and coordinating all of the stages in accordance with current orders.[99]

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[94] Ibid., p. 92.
[95] Ibid., pp. 89-90.
[96] The Lavaca Collective, *Sin Patron: Stories from Argentina's Worker-Run Factories.* Translated by Katherine Kohlstedt (Chicago: Haymarket Books, 2007), p. 190
[97] Waddell and Bodek, p. 119.
[98] Hawken et al, *Natural Capitalism*, pp. 129-30.
[99] Waddell and Bodek, pp. 122-123.

As Waddell and Bodek argue, lean production isn't primarily a matter of shop floor organization. Shop floor organization, rather, tends to follow automatically from the incentives the management accounting system puts in place.

> However the accounting system is set up, it defines "making money" for the company and becomes the basis for all decision making. The quality system, production and inventory control systems and policies, people policies and so forth are all structured to enable the company to make the most money. How these systems are structured is a direct result of how the management of the company defines making money.
>
> ....Early Ford and later Toyota defined money in a lean accounting manner and lean practices resulted. General Motors defined making money as optimizing ROI and we all know the practices that arose as a result. Henry Ford and the Toyoda family did not personally go out and implement assembly lines or kanbans any more than Alfred Sloan went out and personally created batch production. These men defined 'profitability' for their companies, then urged and pushed their organizations to aggressively and creatively attain that version of profitability.[100]

Success, in lean terms, barely shows up as such by Sloan metrics. Of the United Defense plant in Aberdeen, South Dakota (one of the few American lean experiments that actually "got" the Toyota system), Waddell and Bodek write:

> A balance sheet prepared according to DuPont would miss the value of the plant in Aberdeen entirely. According to the statistics in the most recent Best Manufacturing Practices award from the Navy, inventory is down 78% from where it was just a few years ago, and it was low by industry standards to begin with. A balance sheet, however, would not reflect that as much of an accomplishment. The same balance sheet would assign no value to the 150 cross-trained,, self-directed, customer-focused employees who generate very profitable, sustained manufacturing results.[101]

Indeed, most American companies would lay half of them whenever business slowed down, warn the remaining workers to work hard to pick up the slack (with a little Fish! Philosophy and a catchy new core values statement thrown in to jolly them into enjoying being screwed), and figure they could hire more help from a temp agency when things picked up.

But "imagine," Waddell and Bodek write, a software or tech company declaring that "computer science is a commodity--"

> basically any warm body from the local temp agency can do it--and that the key to success in running these technology companies is not technology, but finance and marketing. Imagine further that they all but declare war on their programmers and system design folks,

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[100] Ibid., pp. 92-93.
[101] Ibid., p. 159.

classifying them as variable costs and devising a management system aimed directly at cutting their numbers and minimizing their pay.[102]

> Sloan and Brown were dead wrong. Peole are not interchangeable commodities, to be fired and laid off every time the wind blows from a different direction. Manufacturing is too complicated; there are far too many variables. There is no computer big enough or fast enough to plan and control it. Toyota knows this It takes a factory full of trained, focused, committed people to get all of the details right in the midst of so many dynamic events. They are not commodities.
>
> A new accountant can be hired and pretty much become as effective as he or she is going to get within a month or two. A production employee is more likely to take six months or more--a year according to the self-directed teams at United Defense. Yet the accountant is a fixed expense with a fair amount of job security, while the production worker is a commodity.
>
> ....The best way to develop the work force quickly and increase balance sheet accuracy for the sake of the investor is to capitalize the cost of training and educating people....
>
> Only in the world of F. W. Taylor, Pierre DuPont, Alfred Sloan and Donaldson Brown can kicking trained, experienced, capable people out of a company be seen as a positive move. There is nothing positive about it. It is proof of a basic failure of management. To do so within months of paying the top manager better than $10 million in performance bonuses ought to be proof enough that the system is broken.

To anticipated objections, from those steeped in the Sloan management culture, to capitalizing an intangible like human capital, Waddell and Bodek respond, "[t]hat has never stopped the Sloan companies from capitalizing goodwill and intellectual property, often on far shakier ground than capitalizing people."[103]

One thing Waddell and Bodek fail to pick up on, perhaps being more charitable than I am, is how incredibly well the Sloan system's cost and profit metrics dovetail with the class interests of management. If management is simply a fixed cost to be paid in both lean times and bad, but production work is a "direct cost" to be minimized and constantly adjusted--by layoffs and firings--to the current level of demand, management (not surprisingly) are the last to lose their jobs or suffer pay cuts. The metrics of the Sloan system coincide so closely with management's pecuniary and careerist motives, in fact, that it's a bit of a chicken and egg problem figuring out whether American managerialism as it currently exists results from the Sloan system's incentives, or the Sloan system was adopted because American management found it so conducive to their interests. There's probably a mutual synergy involved.

Waddell and Bodek do see the implications of the system very clearly, however, even

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[102] Ibid., p. 223.
[103] Ibid., pp. 240-242.

if they don't see how well it reinforces management venality.

> It is so commonly accepted in the United States that direct labor is a variable cost that the consequences of this arbitrary decision are rarely appreciated. At the top of the hierarchy are the policy makers, strategists and those charged with controlling the factories. Their salaries are a fixed cost, which means their jobs are relatively safe regardless of business results, within a broad reasonable range. In the middle are manufacturing management whose jobs have been, as a result of refinements to the cost accounting system, categorized as semi-fixed or step function costs. Their jobs are only secure to a point. At the bottom are Taylor's workers who should have no input to how things are made. They should be expected to simply produce to the maximum efficiency. Their jobs are purely variable, meaning their job security is purely a function of sales volume.
>
> Those variable cost people--the ones Taichi Ohno points out are not even whole people in American cost accounting--are not people at all. They are "headcount". That simple fact makes lean manufacturing virtually impossible in Sloan companies. Lifetime employment, such as that at Toyota, is nothing more than changing the system to categorize production labor as a fixed expense.[104]
>
> Just about every company says they want their people to work smarter not harder. Few of them understand that people cannot and will not work smarter when they have supervisors and industrial engineers hovering over them dictating and measuring their every move. They especially will not work harder if management has defined the ultimate goal to be a lights out factory, while they soar like hawks over the plant hunting for jobs to eliminate and people to lay off. People everywhere will work smarter and harder for the customer, but people will not work harder for someone who has defined them as a variable cost.[105]

Contrast this to the Japanese approach, as described by W. Edwards Deming based on his experiences in Japanese industry.

> In Japan, when a company has to absorb a sudden economic hardship such as a 25 per cent decline in sales, the sacrificial pecking order is firmly set. First the corporate dividends are cut. Then the salaries and the bonuses of top management are reduced. Next, management salaries are trimmed from the top to the middle of the hierarchy. Lastly, the rank and file are asked to accept pay cuts or a reduction in the work force through attrition or voluntary discharge. In the United States, a typical firm would probably do the opposite under similar circumstances [except for the relative priority of dividends and management pay, of course--KC]."[106]

To the usual suspects at the *Wall Street Journal* and on *CNBC* money programs, it goes without saying that the Toyota approach is wrong-headed. It makes perfect sense to pay Bob "Sucks at Job" Nardelli or "Chainsaw Al" Dunlap a multi-million salary for all

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[104] Ibid., p. 153.
[105] Ibid., p. 158.
[106] W. Edwards Deming, *Out of the Crisis* (Cambridge, Mass.: M.I.T., Center for Advanced Engineering Study, 1986), p. 147.

that "productivity." But guaranteeing lifetime employment to production workers--to the host organism rather than the parasite--is *just plain wrong*. As the analyst community's reaction to Costco demonstrates, even if you can afford to pay good wages and provide job security, it falls into the same moral category--vaguely decadent things that just don't seem right--as putting a diamond collar on a dog. Such pampering makes companies "bloated," "fat," and "lazy," don't you know!

Never mind that the Toyota approach to lifetime employment is perfectly consistent with their understanding of the importance of painstakingly acquired human capital as a source of organizational value. And never mind that it works. For example, John Micklethwaite reports, before a Range Rover factory made a lifetime employment pledge in the early '90s, only 11% of employees entered the annual employee suggestions competition, "because they were worried that increased efficiency might cost them their jobs; afterward the proportion rose to 84 percent." And a single one of those proposals saved the company 100 million pounds.[107]

> When employees are a fixed cost, the source of their job security is plant profitability. When employees are a variable cost, they find job security by assuring that the work is never complete. Lean companies outperform Sloan companies because profits are in the best interests of the production employees in lean companies. It is hard to imagine how Sloan and Brown could have expected a system to work that polarized workers and management so thoroughly.[108]

But again, never mind. What matters is that no decent person puts a diamond collar on a dog, and no decent company (despite all the Official Happy Talk about "teamwork" and "our most valuable asset") actually *treats* its production workers like valuable assets. You don't take money from starving kids to pamper a dog, and you don't take money from Nardelli or Welch to pay production workers a living wage. It doesn't matter whether it's profitable; it's a matter of *decency*. And in any case, when management is the de facto owner of the corporation and runs it in its own interests, it's obviously not going to hurt its own interests for the sake of productivity. It may fake productivity to game its stock options, but it won't attempt the real thing when it requires treating workers like human beings.

Sarcasm aside, the difference in companies like Toyota may have something to do with our discussion of managerialism and the corporate form at the beginning of this chapter. I argued there that while the idea of shareholder ownership, as a legitimating ideology, did not reflect any actual shareholder control over management, it did play into management's hands by insulating them from *internal* stakeholder control. American corporate management, by pretending to be constrained by their duty to shareholders, can actually promote *their own* interests without interference. Toyota, on the other hand, has

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[107] John Micklethwait and Adrian Wooldridge, *The Witch Doctors: Making Sense of the Management Gurus* (New York: Times Books, 1996), p. 209.
[108] Waddell and Bodek, p. 169.

no pretense of being the "property" of shareholders, and its management has no pretense of representing shareholders. Because of the prevailing capital structure in Japan, corporations like Toyota, generally, function as unabashedly self-governed entities that deal with the banks as their main source of outside finance. The Japanese corporation approaches, if not perfectly, the ideal of a stakeholder cooperative.

To the extent that companies like Toyota have problems, it comes from the distorting effects on their structure resulting from the requirements of existing in a larger capitalist system. That is, profit-maximization pressure from creditors, and excessive size and hierarchy resulting from a state capitalist system that subsidizes corporate size. But Toyota is, at the very least, an example of the kind of "liberal capitalist" firm we mention in Chapter Fifteen, with high degrees of worker equity and worker self-management. And at best, it allows us to extrapolate what things would be like if the Toyota system functioned in a decentralized economy with free credit. As we will see in Chapter Fourteen, H. Thomas Johnson argues that Toyota's lean production system, stripped of its present distortions which result from the global corporate system, can serve as the basis for sustainable local production. The Toyota system, applied to a local network of small cooperative manufacturers like that in Emilia-Romagna, organized around local supply chains rather than a continent-sized just-in-time system of "warehouses on wheels" (or container ships), will have found its true purpose.

Blogger Richard Posner once argued that Lawrence Summers should not be accountable to the faculty for his conduct as President of Harvard University. The reason, he said:

> They [the faculty] should not be the owners. The economic literature on worker cooperatives identifies decisive objections to that form of organization that are fully applicable to university governance. The workers have a shorter horizon than the institution. Their interest is in getting as much from the institution as they can before they retire; what happens afterwards has no direct effect on them unless their pensions are dependent on the institution’s continued prosperity. That consideration aside (it has no application to most professors' pensions), their incentive is to play a short-run game, to the disadvantage of the institution--and for the further reason that while the faculty as a group might be able to destroy the institution and if so hurt themselves, an individual professor who slacks off or otherwise acts against the best interests of the institution is unlikely to have much effect on the institution.[109]

Given the material so far in this section, Posner's bizarro-world description of workers' short time horizons sounds like a clinically accurate description of corporate management--but with the word "workers" substituted for "management." If anything, a trained chicken would probably have a longer time-horizon than the average corporation's senior management.

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[109] Richard Posner, "Summers' Resignation and Organization Theory," The Becker-Posner Blog, February 26, 2006 <http://www.becker-posner-blog.com/archives/2006/02/summers_resigna_1.html>.

The short time-horizons involved in hierarchy mean that making correct decisions from the long-term perspective will result in someone else taking credit. On the other hand, living off of seed corn to inflate short-term returns (at the cost of long-term disaster) may pay off spectacularly, by enabling a careerist to outrun the consequences of his bad decisions.[110]

At the plant level, this means neglecting necessary maintenance and upgrades to inflate short-term earnings. The manager who does this can be sure that he will get a bump up the career ladder for the immediate returns of his short-sighted policy, and the career of a successor will be ruined instead of his own when the bills come due.[111]

Indeed, corporations' internal policies are often designed to facilitate such strategies. Top management deliberately avoids any long-term tracking of the consequences of individual decisions because it would threaten *them* with accountability.[112]

The overall effect is pressure on managers to "hit desired numbers... by squeezing the resources under one's control..." Deferring capital expenditures, including maintenance as well as new investment in improving the production process--referred to as "starving" or "milking" a plant.[113] Jackall quoted an upper-middle manager from the chemical subdivision in a corporate case study:

> We're judged on the short-term because everybody changes their jobs so frequently. As long as we have a system where I'm told that I am not going to be in a job for the long term, you're going to have this pressure. And you're not tracked from one job to the next, so you can milk your present situation and never have it pinned on you in the future.... If a piece of fairly large capital equipment needs to be replaced--well almost anything can be fixed and you can just keep patching things up, just putting absolutely no money at all into the business. Or you can just make an edict that will cut supplies by 25 percent, [things like] pumps, motors, tools, and so on.... My favorite thing are not to replace my stores inventory and that shows up as direct profit on your balance sheet; not replace people who retire, and stretch everybody else out.... In the chemical business, another way to do it is to let waste accumulate, shutting off any capital expenditures and anything that is an expense. And you know what happens when you do that? The guy who comes into that mess is the one who gets blamed, not the guy who milked it."[114]

Jackall comments:

> Some managers become very adept at milking businesses and showing a consistent record of high returns. They move from one job to another in a company, always upward,

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[110] Jackall, *Moral Mazes*, pp. 86, 90-91..
[111] Ibid., p. 87.
[112] Ibid., p. 88.
[113] Ibid., p. 91.
[114] Ibid., pp. 91-92.

rarely staying more than two years in any post. They may leave behind them deteriorating plants and unsafe working conditions..., but they know that if they move quickly enough, the blame will fall on others....

In fact, the manager who "takes the money and runs" is usually not penalized but rewarded and indeed given a license to move on to bigger mistakes.[115]

In one case, a manager in the chemical division Jackall studied was notorious for having "milked and milked thoroughly every plant he ever supervised." When challenged in a meeting for this practice, by a vice president who was his superior, he responded: "...[H]ow can you sit there and say that to me? How in the hell do you think you got to where you are...?"[116]

Jackall adds that milking is more prevalent among policymakers at corporate headquarters than at the individual plant level, because the former are more insulated from the consequences when things go bad:

Of course, the closer one is in the hierarchy to a business being milked, the greater the potential danger of being caught in a catastrophe and the more sure one has to be that one gets out in time. For this reason, managers feel that most milking, though not all, is done by those at the top of the hierarchy who are well removed and insulated from a local situation.[117]

Jackall also gives a specific example of milking leading to a catastrophe. A large coking plant in the same chemical subdivision was under pressure from the CEO to defer "unnecessary" capital expenditures, in order to use the subdivision as a cash cow to finance new investments. As a result, a decaying battery was patched up for four years in lieu of the needed replacement. When it finally collapsed, the consequences to the company were disastrous (including breach of contract with a steel producer and costly pollution lawsuits)--total costs running from $100-150 million, compared to $6 million for simply replacing the battery.[118]

The CEO's interference, and its consequences, remind me of an anecdote from Russia's Great Patriotic War with the Nazis. The political officer of an artillery unit forbade the commander to withdraw a short distance, despite the commander's frantic attempts to explain that the apparent "retreat" was necessary to get proper range on the main road along which a German column was moving. (Another, more facetious anecdote claims that the Egyptians lost the 1967 war by literally adhering to the advice of Soviet military manuals: "Retreat into the heartland and wait for the first snowfall.")

Another author gives a less dramatic example, in which pennywise pound-foolish cost cutting policies severely degraded the customer service capability of a privatized utility:

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[115] Ibid., p. 94.
[116] Ibid., p. 96.
[117] Ibid., p. 93.
[118] Ibid., pp. 81-82.

> Management attempted to "sell" the new structure to the staff by claiming that its sole purpose was to improve standards of service for the customer. However, the fact that management was perceived as wishing to introduce the Beta structure "on the cheap" (minimizing on staff training and keeping staffing levels low, pressing on with inadequate systems because of the expense involved in correcting them quickly and so on) undermined the claim that change was primarily intended to improve service.... This was of enormous significance for workers who dealt constantly and directly with the customer. Management was forcing them to provide an unsatisfactory service....[119]

Of course, management engages in asset-stripping, or starving or milking an operation, not just because of pressure from outside. It also does so, as we remarked above, because the funding of the organization's productive resources comes at the expense of management self-dealing.

It's amusing that Deming knockoffs like TQM and Six Sigma have been such popular fads in the corporate world, from the '90s on. Despite all their lip-service, the typical management approach to "solving" any problem is the direct opposite of the substantive ideas of McGregor, Drucker and Deming.

Douglas McGregor, for example, blamed "management's methods of organization and control" for any lack of worker motivation:

> Another fallacy is often revealed in management attempts to control human behavior. When we fail to achieve the results we desire, we tend to seek the cause everywhere but where it usually lies: in our choice of inappropriate methods of control. The engineer does not blame water for flowing downhill rather than up.... However, when people respond to managerial decisions in undesired ways, the normal response is to blame them. It is *their* stupidity, or *their* uncooperativeness, or *their* laziness which is seized on as the explanation of what happened, not management's failure to select appropriate means of control.[120]

As we will see below, Fish! Philsophy is the ultimate outgrowth of this tendency. Rather than attempt to provide positive incentives in any way, in order to elicit the desired behavior, Fish! attempts to manipulate the worker into liking whatever management wants to give.

Both Peter Drucker and W. Edwards Deming opposed attempts to solve problems and reduce costs through sloganeering. They rejected the "behavioral" approach to solving problems (see Appendix 8A, "Blaming Workers for the Results of Mismanagement"), and saw genuine solutions as possible only by means of structural changes in the production process. Deming, for instance, wrote:

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[119] Julia O'Connell Davidson, "The Sources and Limits of Resistance in a Privatized Utility," in J. Jermier and D. Knights, editors, *Resistance and Power in Organizations* (London: Routledge, 1994), p. 85.
[120] Douglas McGregor, *The Human Side of Enterprise* (New York, London, Toronto: McGraw Hill Book Company, Inc., 1960), pp. 10, 48.

> Eliminate targets, slogans, exhortations, posters, for the work force that urge them to increase productivity. "Your work is your self-portrait. Would you sign it?" *No*--not when you give me defective canvas to work with, canvas not suited to the job, brushes worn out, so that I can not call it my work. Posters and slogans like these never helped anyone to do a better job....
>
> "Do it right the first time." A lofty ring it has. But how could a man make it right the first time when the incoming material is off-gauge, off-color, or otherwise defective, or if his machine is not in good order, or the measuring instruments not trustworthy? This is just another meaningless slogan, a cousin of zero defects.
>
> "Getting better together." Production workers have told me that this slogan makes them furious. Together! What is that when no one will listen to our problems and suggestions?[121]

Drucker, likewise, dismissed "management by drives," with pennywise/pound-foolish "economies" that degrade long-term productivity. To focus on individual effort rather than process only produces, at best, a short-term bump in productivity that quickly evaporates.[122]

Robert Jackall observed that most managers take a fairly cynical view of management theory fads like reengineering and quality. They serve more as a legitimizing ideology than as a serious guide to action--much as did appeals to the old libertarian and humanistic symbolism of the historic socialist movement, for the authoritarian Party apparatus in the Soviet oligarchy.

> Of course, senior managers do not themselves necessarily believe in such programs. In one seminar I attended, the senior manager in charge startled a room of juniors by saying:
>
> *Fellows, why aren't any of you asking about the total lack of correspondence between what we're preaching here and the way we run our company?*
>
> But such outspokenness is rare. Managers privately characterize such programs as the "CEO's incantations over the assembled multitude," as "elaborate rituals with no practical effect," or as "waving a magic wand to make things wonderful again."…. Publicly, of course, managers on the way up adopt with great enthusiasm those programs that have caught their bosses' fancy, participate in or run them very effectively, and then quietly drop them when the time is right.[123]

Management is also prone to a sort of magical thinking, thinking that to put something into writing has some corresponding effect on reality. As Paul Goodman said,

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[121] Deming, *Out of the Crisis*, pp. 65-66.
[122] Peter F. Drucker, *The Practice of Management* (New York: Harper & Brothers Publishers, 1954), pp. 127-128.
[123] Jackall, *Moral Mazes*, pp. 142-143.

It is to will to be in control, without adjusting to the realities.... In this fantasy they employ a rhetoric of astounding dissociation between idea and reality.... For example, they claim that they are depolluting streams, but they allot no money; ...the depressed area of Appalachia has been reclaimed, but the method is an old highway bill under another name; poor people will run their own programs, but any administrator is fired if he tries to let them; ...this seems to be just lying, but to my ear it is nearer to magic thinking.[124]

This has been true of management thinking since it first emerged as a separate discipline, as Yehouda Shenhav describes it:

The systematizers' emphasis on formalization through systems was promoted as rational, but it was a particular type of rationality, labeled by economist Friedrich Hayek as "constructive rationality" or "plan rationality"....

Formalization was also to include the company rules. Some suggested the company rules and policy should be posted in industrial bulletins.... For example..., "The rate of pay is a personal matter between the individual employee and employer, and must not become the business of other persons." It was suggested that each bulletin "established harmony at once". Furthermore, "everyone seemed to be infused with a desire to make a good record" and with "loyalty".[125]

Some of this, no doubt, is plausible deniability or "C.Y.A." If a written policy is in place, management can blame systemic problems on subordinates who disregard policy. For example, consider Tyson's response when an undercover PETA activist working in a Tyson facility filmed inhumane slaughter of poultry:

[Tyson] said the man had signed a document confirming he had completed the company's animal-welfare training "and was responsible for ensuring that no birds remained alive. His job gave him the responsibility to process any live birds, stop the line or sound an alarm if there was a problem."....

Responding to the company's statement, PETA said its investigator had been "taught to rip the animals' heads off by a plant supervisor, for when there are too many who miss the neck slicer."[126]

Auschwitz and Treblinka no doubt had a "written policy" against killing Jews.

Corporate hierarchies, as Robert Jackall describes them, have a strong tendency to "push down detail." One purpose is to avoid responsibility for failure. By setting general objectives and leaving subordinates responsible for the details, those at the top retain the

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124 Paul Goodman, *Like a Conquered Province*, p. 339.

125 Yehouda Shenhav, *Manufacturing Rationality: The Engineering Foundations of the Managerial Revolution* (New York and Oxford: Oxford University Press, 1999), pp. 87-88. Quotes are from *American Machinist*, Oct. 22, 1914.

126 "Tyson Foods Under Fine for Inhumane Slaughter of Poultry," *Agribusiness Examiner*, June 6, 2005 #408 <http://www.organicconsumers.org/OFGU/tyson060605.cfm>.

right to shift the blame for failure--even if the general objective assigned was unrealistic given the resources senior management was willing to allocate.

> ...[P]ushing down details relieves superiors of the burden of too much knowledge, paticularly guilty knowledge.
>
> ...[B]ecause they are unfamiliar with--indeed distance themselves from--entangling details, corporate higher echelons tend to expect successful results without messy complications. This is central to executives' well-known aversion to bad news and to the resulting tendency to kill the messenger who bears the news.[127]

But as much of the "management mentality" results from the need for plausible deniability, a great deal also results as well from the psychotically distorted and isolated world in which management operates, thanks to the informational filtering mechanisms described by R.A. Wilson and Kenneth Boulding in Chapter Five. Management is under the illusion that its policies are actually carried into effect, at the bottom end of the hierarchical filtering mechanism, in a fashion even remotely resembling their intentions. For example, here's how Peters and Waterman describe the "manager's mentality":

> We behave as if the proclamation of policy and its execution were synonymous. "But I made quality our number one goal years ago," goes the lament.... [The] president's subordinate clarified the message, "Of course, he's for quality. That is, he's never said, 'I don't care about quality.' It's just that he's for everything. He says, 'I'm for quality,' twice a year and he acts, 'I'm for shipping product,' twice a day."[128]

Management may pay lip service to quality, but any subordinate who reduces short-term income for the sake of a long-term improvement in quality is taking his life in his own hands.

Cut off almost completely from an understanding of the production process and the prerequisites for real efficiency, management puts production workers in a double bind by officially demanding particular results while systematically stripping them of all the resources needed to achieve those results. Or in the words of a *Dilbert* character, "Boss World: where the laws of time, space, and logic do not apply." In boss-think, when one says something in a mission statement or in "educational" handouts, the language has a magical effect on reality: a verbal formula "makes it so" without the expenditure of any money (and especially without the diversion of resources from management featherbedding to production).

The information filtering mechanisms described by Wilson and Boulding don't just work automatically. They're actively enforced from above. It's true, as Wilson said, that people tend to self-censor based on what they think those in authority want to hear. But

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[127] Jackall, *Moral Mazes*, pp. 20-21.
[128] Thomas J. Peters and Robert H. Waterman, *In Search of Excellence: Lessons from America's Best-Run Companies* (New York: Warner Books, 1982), p. 73.

those at the top of the pyramid also *suppress* negative feedback on the effects of their policies. According to Joyce Rothschild and Terance Miethe, whistleblowers usually start out attempting to work within the system, naively expecting that management wants to improve the system and will welcome their feedback in good faith. Only when management responds by trying to destroy them do they air their message to the outside world, in self-defense.

> ...[W]e find that whistleblowers start out expecting a constructive or at least modest organizational response to their disclosures. In our interviews, whistleblowers told us time and again that they started out believing that because they were respected and valued employees, their information presented to "higher-ups" would be taken seriously and would be the catalyst for the constructive organizational change they sought. As a result, few were prepared for what was about to happen to them....
>
> Often, what we find is that once employees reveal they possess and might use information that challenges management's judgement, the full resources of the organization will be brought to bear against them.... In cases we studied, upon learning that an individual had a concern and information that could be used against them, management *immediately* fired the individual, or if that was not possible, then they set up the process by which they could be later fired, by abruptly downgrading their job performances.
>
> If their claims of "incompetence" could not be sustained, then we found that managers sometimes resorted to a tactic that we had not anticipated: they would endeavour to get the whistleblower labelled "crazy". Towards this end, management would direct the whistleblower to see an agency or company psychologist and would inform the psychologist that the person was being sent because they appeared to be "out of their mind" or a "paranoid schizophrenic"....
>
> It is important to understand that as soon as management first hears of the concerns and information of the whistleblower, they often act immediately to downgrade the individual's job performance and begin explicitly to build a case for firing the individual. In other words, management reprisals begin as soon as management becomes aware that the individual *might* become a whistleblower.[129]

More generally, the same corporations that slavishly professed Kwality as the management fad du jour in the '90s blatantly ignored one of Deming's central principles: "Drive out fear." Fear systematically shapes and distorts the information that moves up the hierarchy, while reaffirming the official picture of reality is a test of loyalty. For example, a survey at a number of companies attempted to discover what issues employees considered "undiscussable," and found the number one answer was "management practices."[130] Thus, management suppresses exactly the kind feedback from subordinates that is most needed to assess the effectiveness of company policy.

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[129] Joyce Rothschild and Terance D. Miethe, "Whistleblowing as Resistance in Modern Work Organizations: The Politics of Revealing Organizational Deception and Abuse," in A. Baum and J.E. Singer, eds., *Advances in Environmental Psychology* (Hillsdale, N.J.: Earlbaum, 1980), pp. 264-266.
[130] Cloke and Goldsmith, *The End of Management*, p. 49.

> Most employees are reluctant to discuss morale-reducing behaviors openly with their managers, primarily because of management's superior power, causing employee morale to decline even further due to a lack of open, honest, authentic, timely communication or genuine efforts at resolution. In nearly all organizational cultures, employees speak more freely with each other than they do with managers, and monitor their communications with managers to make sure they do not risk termination....
>
> Many common managerial behaviors silence employees and reduce morale: giving orders, micromanaging, reproving, repeating the company line, listening bureaucratically, ducking difficult issues, hiding behind superiors, refusing responsibility for mistakes, passing the buck, and punishing those perceived as troublemakers. If we added up the damage caused and opportunities wasted by these personally and organizationally destructive behaviors, the figure would be astronomical and far outweigh the salaries of the managers who engaged in them.[131]

At Jackall's "Covenant" corporation, managers stated the importance of, variously, "aligning oneself with the dominant ideology of the moment," or "bowing to whichever god currently holds sway."

> ...[T]he belief of insiders in abstract goals is not a prerequisite for personal success; belief in and subordination to individuals who articulate organizational goals is. One must, however, be able to act, at a moment's notice, as if official reality is the only reality.... The knowledgeable practitioners of corporate politics, whether patrons or leaders of cliques and networks, value nothing more highly than at least the appearance of unanimity of opinion among their clients and allies, especially during times of turmoil.[132]

The ideology of "team play" is a powerful weapon for enforcing groupthink, by suppressing dissent. As one of Jackall's mid-level managers at Covenant said,

> Someone who is talking about team play is out to squash dissent. It's the most effective way to tell people who have [different?] perspectives to shut up.... [Bosses] say they don't want a yes man, but, in fact, most bosses don't want to hear the truth. And this is particularly true if it disagrees with what they want to do.[133]

The information filters in hierarchies are not only effective in suppressing information that contradicts the official picture of reality. They are also quite adept, if not at making policies that deal effectively with reality, then at least at constantly tweaking the official ideology to explain why reality didn't work as predicted:

> What's interesting and confusing at the same time is the way guys around here will switch explanations of things from day to day and not even notice.... Like they explain the current stanation of our stock one day by referring to the Falkland Islands war; the next day, it's the

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[131] Ibid., p. 55.
[132] Jackall, *Moral Mazes*, pp. 52-53.
[133] Ibid., pp. 54-55.

> bearish stock market; the next, it's the Fed's interest policy; the next, the unsettled political conditions. And so on and so on. And they don't remember the explanation they gave a month ago. They end up going around believing in fairy tales that might have no relationship to reality at all.[134]

For the most part those at or near the top of a hierarchy will suffer few moral qualms in adapting to its requirements for suppressing the truth. As Gordon Tullock said, the greater the extent to which advancement in a hierarchy demands the sacrifice of ordinary personal morality, the greater the advantage the amoral climber will have over his more scrupulous colleagues; as a result, the hierarchy selects against morality and that undesirable trait has been effectively weeded out at the top.[135]

Given all these phenomena, it's not surprising that career advancement within the corporate hierarchy is generally perceived to have little to do with genuine achievement. Robert Jackall writes:

> Managers rarely speak of objective criteria for achieving success because once certain crucial points in one's career are passed, success and failure seem to have little to do with one's accomplishments.

The corporate hierarchy relies, instead, on credentialling for the presumption of competence, and on a culture of obedience and careerism to guarantee the correct attitude toward the values of the hierarchy.[136]

> Profits and other kinds of results matter, but managers see no *necessary* connections between performance and reward. Although meritocratic ideologies are constantly invoked in the corporate world to explain or justify promotions, demotions, or other organizational changes, such rationales are always viewed by managers with a measure of skepticism....
>
> ....Merit pay systems, for instance, are widely considered to be used simply as sophisticated, highly rational legitimations for what is in practice a complicated political patronage system....
>
> Work comes to be seen as separated from reward. One might surmise that bonus systems, tied to specific accomplishments, could mend such a breach at least for those included in such plans.

But there is often a built-in inequity between the classes of management which are included or excluded from such programs. At Covenant Corporation, "even during the... rocky red-ink years [of the 1981 recession]..., generous bonuses were regularly passed out to the chosen few."[137]

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134 Ibid., pp. 146-147.
135 Gordon Tullock, *The Politics of Bureaucracy* (Washington, D.C.: Public Affairs Press, 1965), p. 22.
136 Jackall, *Moral Mazes*, p. 41.
137 Ibid., pp. 62-64. It's interesting, by the way, how the corporate culture views the motivation of senior management compared to that of production workers. It is considered perfectly normal and legitimate for

As a result, there is an understandable fear of showing initiative or sticking one's neck out. Those at the top either seek plausible deniability, or seek "buy-in" from subordinates in order to implicate as many people as possible in the shared blame if a decision leads to bad results. Those at the bottom, on the other hand, keep their heads down and avoid making commitments, and wait for those at the top to take the initiative. One manager at Covenant said:

> People try to cover themselves. They avoid putting things clearly in writing. They try to make group decisions so that responsibility is not always clearly defined....
>
> [These tendencies are] rooted in the pervasive social uncertainty of the organization..., [i.e.] management's sense of organizational contingency, of authoritarian capriciousness, and of the lack of firm connections between risk and reward.[138]

Management's approach to corporate governance was ably summed up by Preston Glidden, a frequent commenter at my blog with a fifteen year background in corporate quality control and quality assurance:

> Modern management's goal is to squeeze the last drop of blood out of a company's quarterly numbers, while fooling customers and investors about the actual long-term health of the company. If it kills the company in the long term, so be it. The golden parachute awaits senior management, and employees pay the price.[139]

C. The Authoritarian Workplace: Increased Hierarchy and Surveillance.

The elites who run our state capitalist economy made a strategic decision, in the 1970s, to cap real wages and transfer all productivity increases into reinvestment, dividends, or CEO salaries. So while real wages have remained stagnant for thirty years, the wealth of the top few percent of the population has exploded astronomically. The percentage of wealth owned by the top 1%, which as of the mid-70s had held steady at around 25% for decades, is now close to 40%. To impose this policy on society, obviously, required increasing authoritarianism in all aspects of social life. I quote at length from my account, in *Studies in Mutualist Political Economy*, of the considerations

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CEOs to require multimillion salaries and bonus packages to overcome their natural tendency to screw over the shareholder, whereas production workers are expected to enthusiastically carry progressively heavier workloads with stagnant pay with gimmicks like "values statements" and "Fish! Philosophy" as their only motivation.

[138] Ibid., p. 79.

[139] Preston Glidden comment under Kevin Carson, "Liberation Management, or Management by Stress?" Mutualist Blog: Free Market Anticapitalism, August 28, 2006 <http://mutualist.blogspot.com/2006/08/liberation-management-or-management-by.html>.

that went into that elite policy[140]:

> The American corporate elite reacted in the 1970s to the combination of fiscal, accumulation and legitimation crises by adopting a neoliberal agenda of curtailing consumption and subsidizing new accumulation. Along with these new policies, it adopted the forms of political control necessary to force them on a recalcitrant population.
>
> Until the late 1960s, the elite perspective was governed by the New Deal social compact. The corporate state would buy stability and popular acquiescence in imperialist exploitation abroad by guaranteeing a level of prosperity and security to the middle class. In return for higher wages, unions would enforce management control of the workplace. As Richard K. Moore put it, prosperity would guarantee public passivity. But starting in the Vietnam era, the elite's thinking underwent a profound change.
>
> They concluded from the 1960s experience that the social contract had failed. Besides unprecedented levels of activism in the civil rights and antiwar movements, and the general turn toward radicalism among youth, the citizenry at large also became less manageable. There was a proliferation of activist organizations, alternative media, welfare-rights organizations, community activism, etc.
>
> Elite intellectuals like Samuel P. Huntington lamented the drastic decrease in the level of trust of government and other leading institutions among the general public. In *The Crisis of Democracy*, written by Huntington and others as an inaugural paper for the Trilateral Institution (an excellent barometer of elite thinking), the authors argued that the system was collapsing from demand overload, because of an excess of democracy...
>
> For Huntington, America's role in maintaining the global state capitalist system depended on a domestic system of power; this system of power, variously referred to in this work as corporate liberalism, Cold War liberalism, and the welfare-warfare state, assumed a general public willingness to stay out of government affairs. For the first two decades or so after WWII, the U.S. had functioned as "*the hegemonic power in a system of world order*." And this was only possible because of a domestic structure of political authority in which the country "*was governed by the president acting with the support and cooperation of key individuals and groups in the Executive office, the federal bureaucracy, Congress, and the more important businesses, banks, law firms, foundations, and media, which constitute the private establishment*."
>
> America's position as defender of global capitalism required that its government have the ability "*to mobilize its citizens for the achievement of social and political goals and to impose discipline and sacrifice upon its citizens in order to achieve these goals*." Most importantly, this ability required that democracy be largely nominal, and that citizens be willing to leave major substantive decisions about the nature of American society to qualified authorities. It required, in other words, "*some measure of apathy and non-involvement on the part of some individuals and groups*."
>
> Unfortunately, these requirements were being gravely undermined by "*a breakdown of*

[140] Kevin Carson, *Studies in Mutualist Political Economy*

traditional means of social control, a delegitimation of political and other means of authority, and an overload of demands on government, exceeding its capacity to respond."

....The task of traditional state capitalist elites, in the face of this crisis of democracy, was to restore that "measure of apathy and noninvolvement," and thus to render the system once again "governable."

In response to the antiwar protests and race riots, LBJ and Nixon began to create an institutional framework for coordination of police state policy at the highest levels, to make sure that any such disorder in the future could be dealt with differently. This process culminated in *Department of Defense Civil Disturbance Plan 55-2*, *Garden Plot*, which involved domestic surveillance by the military, contingency plans for military cooperation with local police in suppressing disorder in all fifty states, plans for mass preventive detention, and joint exercises of police and the regular military....

The New Deal social compact with organized labor was reassessed in the light of new events. The country was swept by a wave of wildcat strikes in the early 1970s, in coal mining, auto manufacturing, and the post office. These disruptions indicated that the business unions could no longer keep their rank and file under control, and that the Fordist system was no longer serving its purpose of maintaining social control in the workplace.

At the same time, the business press was flooded with articles on the impending "capital shortage," and calls for shifting resources from consumption to capital accumulation, by radically scaling back the welfare state and hamstringing organized labor. This shift was reflected in traditionally corporate liberal think tanks like Brookings and the CED, which both produced studies acknowledging the need to impose limits on consumption in the interest of accumulation; for example, the Brookings Institution's 1976 study *Setting National Priorities: The Next Ten Years*.

Business journals predicted frankly that a cap on real wages would be hard to force on the public in the existing political environment. For example, an article in the October 12, 1974 issue of *Business Week* warned that

Some people will obviously have to do with less.... [I]*ndeed, cities and states, the home mortgage market, small business and the consumer will all get less than they want....* [I]*t will be a hard pill for many Americans to swallow--the idea of doing with less so that big business can have more.... Nothing that this nation, or any other nation has done in modern history compares in difficulty with the selling job that must now be done to make people accept the new reality.*

This only heightened the imperative to curb the excess of democracy and make the state less vulnerable to popular pressure.

Corporations embraced the full range of union-busting possibilities in Taft-Hartley, risking only token fines from the NLRB. They drastically increased management resources devoted to workplace surveillance and control, a necessity because of discontent from stagnant wages and mounting workloads (aka increased "productivity").

....Wages as a percentage of value added have declined drastically since the 1970s, and real wages have been virtually flat. Virtually all increases in labor productivity have been channeled into profit and investment [not to mention management salaries], rather than wages. The new Cold War military buildup, from the late '70s on, still further transferred public resources to industry.

A series of events like the fall of Saigon, the nonaligned movement, and the New International Economic Order were taken as signs that the transnational corporate empire was losing control. The national security community saw America's "system of world order" coming under increasing pressure from national liberation movements. An excellent example of foreign policy elites' view of the near future is the work of RAND analyst Guy Pauker, who wrote in 1977 of a "possible world order crisis in the 1980s."

Reagan's escalating intervention in Central America was a partial response to this perception. But more importantly, the collapse of the USSR ended all external restraints on the global system designed during WWII, and deprived internal resistance to that system of the Soviet Union's patronage. In the aftermath of this snatching of total victory from the jaws of defeat, the Uruguay Round of GATT ended all barriers to TNCs buying up entire economies, locked the west into monopoly control of modern technology, and created a world government on behalf of global corporations....

In the meantime the U.S. was moving toward radical polarization of income. The general effect of the neoliberal reaction was to blur the lines between imperial core and periphery: the comprador bourgeoisie, living in heavily fortified luxury sectors of Third World cities, coexisted with the gated communities of America as elements of the core; at the same time, something resembling a Third World society has arisen in parts of what was traditionally the First World. The inner city and the depopulated countryside, the seats of urban and rural squalor, respectively, were subject to increasing surveillance and brutality under the guise of the War on Drugs. "*Most of the world has been turned into a periphery; the imperial core has been boiled down to the capitalist elite themselves....*"

As policy elites attempted to transform the country into a two-tier society, a kinder and gentler version of the Third World pattern, the threat of public discontent forced the government to greater and greater levels of authoritarianism.

The most obvious means of social control, in a discontented society, is a strong, semi-militarized police force. Most of the periphery has been managed by such means for centuries. This was obvious to elite planners in the West, was adopted as policy, and has now been largely implemented....

So that the beefed-up police force could maintain control in conditions of mass unrest, elite planners also realized that much of the Bill of Rights would need to be neutralized.... The rights-neutralization project has been largely implemented, as exemplified by armed midnight raids, outrageous search-and-seizure practices, overly broad conspiracy laws, wholesale invasion of privacy, massive incarceration, and the rise of prison slave labor.

"*The Rubicon,*" Moore concludes, "*has been crossed--the techniques of oppression long common in the empire's periphery are being imported to the core.*"

With the help of the Drug War, and assorted Wars on Gangs, Terrorism, etc., the apparatus of repression continued to grow....

This authoritarianism, in response to perceived disgruntlement over the clampdown, has been reflected to an especially strong degree in the workplace. This was the theme of David M. Gordon's *Fat and Mean: The Corporate Squeezing of Working Americans and the Myth of Managerial Downsizing*. As the title suggests, management downsizing in the 80s and 90s has largely been a myth. In fact, the proportion of the labor force in supervisory positions has grown, along with the proportion of total compensation going to management salaries. Hierarchy, authoritarianism, and internal surveillance have increased, largely from their perceived necessity for dealing with a workforce disgruntled over stagnant wages and rising work loads.

As Gordon observes, real hourly take home pay for production and non-supervisory workers fell over ten percent from the mid-70s to the mid-90s, reaching roughly the same levels as in the late '60s--this, despite the fact that per capita GDP in constant dollars was 53% higher.[141] Average non-supervisory wages skyrocketed, in 1994 dollars, from $6.40 in 1948 to $10.50 in 1972. Then from 1972 to 1992 they fell to $9.40.[142] During the 1980s, while productivity growth averaged 12% a year, real wages actually *fell* by 0.6% a year.[143]

Meanwhile, despite the conventional view to the contrary, the proportion of managers and supervisors actually *grew* during the 1990s.[144] Executive, administrative and managerial employees in private, nonfarm employment rose from 12.6% to 13.2% of the labor force. Managers made up 26.6% of nonfarm job growth from 1991-95.[145] In 1995, the Wall Street Journal debunked the myth of management downsizing: the "corporate giants," associated with the most dramatic stories of managerial layoffs, had "more managers per 100 employees today than... in 1993."[146] What's more, the percentage of national income going to management was increased drastically. In 1973 40.4% of national income went to production workers, and 16.2% to supervisory employees. In 1993 the figures were 34.5% and 24.1%, respectively.[147] In other words, over twenty years management salaries rose from 28.6% to 41.1% of total employee compensation. The difference would have been enough to increase the hourly pay of production workers by almost 25%.

Cross-national comparisons are just as informative. Compared to 13% of the U.S. nonfarm private sector workforce, management was a much smaller proportion in Europe and Japan. On the European continent, the percentage ranged from 2.6% in Sweden to 6.8% in Norway; in Japan, it was 4.2%.

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[141] David M. Gordon, *Fat and Mean: The Myth of Management Downsizing*, p. 4.
[142] Ibid., p. 19.
[143] Ibid., pp. 68-69.
[144] Ibid., p. 5.
[145] Ibid., pp. 52-54.
[146] Alex Markels, "Restructuring Alters Middle-Management Role But Leaves It Robust," *Wall Street Journal*, Sept. 25, 1995, in Ibid., p. 58.
[147] Gordon, *Fat and Mean*, p. 82.

And bear in mind, as Seymour Melman points out, that the proportional increase in management was almost entirely for the sake of control, not efficiency:

> Within firms, managerial activity and costs proliferate independently of their effects on production. Studies of the relation between the costs of managing and the volume of industrial production have found either a negative correlation or the absence of any significant linkage at all. From 1977 to 1980, for example, the value of goods and services produced in the United States rose 7.9 percent, while employment of blue-collar and white-collar workers grew 2 and 12 percent respectively. The jobs of the blue-collar people were clearly linked to output; the tasks of the much-enlarged white-collar group were mainly undertaken for control rather than production.... Evidently the extension of such control has been given priority, even over profitability, in the mores of management....
>
> ...[T]he largest part of the growth [in administrative employees] has been in the functions that enhance control, not in those that increase production.[148]

Gordon's thesis is that the two trends, "the wage squeeze" and "the bureaucratic burden," are directly connected:

> In one direction, stagnant or falling wages create the need for intensive management supervision of frontline employees. If workers do not share in the fruits of the enterprise, if they are not provided a promise of job security and steady wage growth, what incentive do they have to work as hard as their bosses would like? So the corporations need to monitor the workers' effort and be able to threaten credibly to punish them if they do not perform. The corporations must wield the Stick. Eventually the stick requires millions of Stick-wielders.
>
> In the other direction, once top-heavy corporate bureaucracies emerge, they acquire their own, virtually ineluctable expansionary dynamic. They push for more numbers in their ranks and higher salaries for their members. Where does the money come from? ...One of the most obvious targets is frontline workers' compensation. The more powerful the corporate bureaucracy becomes, and the weaker the pressure with which employees can counter, the greater the downward pressure on production workers' wages.[149]

As the cross-national statistics on the management burden above suggest, the facts tend to bear out this correlation. Gordon observes that high bureaucratic burdens tend to be associated with "conflictual" labor-management relations:

> ...the wage squeeze and the bureaucratic burden in the United States are integrally connected; each contributes directly to the other. They comprise two essential components of a system of production and management in the United States that builds on conflict and hierarchy, insecurity and coercion. "The United States has the highest amount of conflict between business and labor of any democratic nation," concludes MIT labor expert Thomas Cochan....

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[148] Seymour Melman, *Profits Without Production* (New York: Alfred A. Knopf, 1985), pp. 70-71.
[149] Gordon, *Fat and Mean*., pp. 5-6.

> In short, "fat" and "mean" go together like the proverbial horse and carriage. In our economy, it would appear, you can't have one without the other. The international data certainly feed such a suspicion, since the United States has recently featured *both* the slowest real wage growth *and* the top-heaviest corporate bureaucracies among the leading advanced economies.[150]

When workers have a high degree of job security and expectations of steady wage increases corresponding to productivity growth, they can be trusted "to coordinate many of their own activities in production, relieving their corporate owners of the need for intensive and continuous monitoring and supervision."

> With a coercive approach, by contrast, a much more fundamental conflict between owners and workers is likely to persist over workers' labor effort. Corporations are naturally interested in their employees working as hard as possible. In the absence of strong wage benefits and employment security, however, what provides the worker with the incntive to work anywhere nearly as intensively as the corporation would prefer? Indeed, why should he or she work very hard at all?....
>
> The solution to such motivational problems in the absence of strong wage incentives and well-established job security in general, is a combination of intensive supervision of employees and the threat of job dismissal. If the worker can't be trusted to work diligently when left to him- or herself, the firm needs to watch the worker closely, monitoring nearly every move, alert to those unwanted moments of shirking, evading, and lollygagging that undermine firm performance....
>
> And so in the absence of the carrot, conflictual systems are likely to display legions of stick-wielders as one of their central features, armies of supervisors and managers saddled with the principal direct or indirect responsibility for ensuring that production and nonsupervisory workers don't shirk on the job....
>
> Can't trust your workers when left to their own devices? Peer over their shoulders. Watch behind their backs. Record their movements. Monitor them. Supervise them. Boss them. Above all else, don't leave them alone....
>
> Increasingly intensive supervision grew more and more necessary after the early 1970s because, far from sharing productivity dividends with employees as a way of spurring their effort, corporations on balance have been driving down wages and taking away other employee benefits and protections as well.[151]

The important thing to note about all these trends described by Gordon is that management doesn't just have a zero-sum relationship with workers. It has, to almost the same extent, a zero-sum relationship with stockholders. Gordon cites a meeting of twenty-one experts on corporate management in the late '70s; all of them agreed or agreed strongly with the statement that "In many cases control and power are more important to

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[150] Ibid., p. 62.
[151] Ibid., pp. 65-66, 68.

managers than profits or productivity." The management hierarchy possesses a great deal of autonomy, and tends to promote its own expansion at the expense of both wages and profits. Management prestige is reflected in the number of subordinates in one's petty bureaucratic empire, much like the feudal magnates whose prosperity was judged by the number of liveried retainers. Management tends to engage in featherbedding at the expense both of worker compensation *and* returns on equity.[152]

Note, especially, some indicators in Gordon's account--you might miss them if you don't look closely--of corporate management's veto-power over organized capital. For one thing, note that the policy elites of the early '70s did not see high *management* compensation as competing for the resources needed for capital investment. Although the compensation of hourly workers declined drastically from 1973 to 1993, according to Gordon's figures above, they were *more than offset* by the rise in management salaries. In fact, the total compensation of production workers and management together *rose* from 56.6% to 58.6% of national income during that period. So if there were a zero-sum relationship between employee compensation and investment, then the workplace policies of the past thirty years have increased, not reduced, total employee compensation at the expense of funds available for investment. It's just that a lot more of it goes to useless eaters. On the other hand, once the decision was made to disipline production workers, the increased levels of hierachy and supervision required made capital even more dependent on management and more vulnerable to management self-dealing and other agency problems.

Work monitoring has become much more intensive. For example, consider this new, intrusive system for monitoring warehouse workers in Britain:

> Workers in warehouses across Britain are being "electronically tagged" by being asked to wear small computers to cut costs and increase the efficient delivery of goods and food to supermarkets, a report revealed yesterday.
>
> New US satellite- and radio-based computer technology is turning some workplaces into "battery farms" and creating conditions similar to "prison surveillance", according to a report from Michael Blakemore, professor of geography at Durham University.
>
> The technology, introduced six months ago, is spreading rapidly, with up to 10,000 employees using it to supply household names such as Tesco, Sainsbury's, Asda, Boots and Marks & Spencer....
>
> Under the system workers are asked to wear computers on their wrists, arms and fingers, and in some cases to put on a vest containing a computer which instructs them where to go to collect goods from warehouse shelves.
>
> The system also allows supermarkets direct access to the individual's computer so orders can be beamed from the store. The computer can also check on whether workers

[152] Ibid., pp. 75-78.

are taking unauthorised breaks and work out the shortest time a worker needs to complete a job....

> Martin Dodge, a researcher at the centre for advanced spatial analysis at University College London, said: "These devices mark the total 'disappearance of disappearance' where the employee is unable to do anything without the machine knowing or monitoring."....

In a typical example of Official Happy Talk, management's assessment of the results of their own policy is (predicatably) positively glowing:

> But the companies say the system makes the delivery of food more efficient, cuts out waste, reduces theft and can reorder goods more quickly.
>
> One firm, Peacock Retail Group, claims workers like the system. The company, which has a modern centre in Nantgarw, south Wales, where employees have 28 wearable computers and six mounted on trucks, says the system has a positive impact on team morale. "Everybody likes the wearables because they are comfortable and easy to use. The result is the team finds it easier to do the job," it says on the company website.
>
> A spokeswoman for Tesco last night insisted that the company was not using the technology to monitor the staff and said it was making employees' work easier and reducing the need for paper.

Happy workers, united in joy, under the far-seeing guidance of Dear Leader! As you might expect, those doing the actual work in that authoritarian environment see things a bit differently:

> But at the GMB's annual conference in Newcastle yesterday one of the union's national officers, Paul Campbell, said: "We are having reports of people walking out of jobs after a few days' work, in some cases just a few hours. They are all saying that they don't like the job because they have no input. They just followed a computer's instructions."[153]

Peter Skott and Frederick Guy suggest that the introduction of automation and monitoring capability, more generally, is responsible for the stagnation of wages in service industry over the past generation. "Power-biased technological change," by enabling management to monitor unskilled and semi-skilled labor more closely, has reduced the bargaining power of labor--thus simultaneously increasing work intensity and exerting a downward pressure on wages.[154] With such technology, management can control the pace of work in service industry in the same way that an automated production line does in manufacturing. Of course, as we will see in the next chapter,

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[153] David Hencke, "Firms Tag Workers to Improve Efficiency," *The Guardian*, June 7, 2005 <http://www.guardian.co.uk/supermarkets/story/0,12784,1500851,00.html>.

[154] Peter Skott and Frederick Guy, "A Model of Power-Biased Technological Change," September 14, 2006 <http://www.people.umass.edu/pskott/SkottGuyFinalVersion13Sept2006.pdf>.

such a strategy has built-in limits. While management may be able to monitor selected aspects of effort expenditure, there are always some aspects of the workplace environment that are not amenable to effective monitoring. As Oliver Williamson showed, workers are apt to maintain adequate levels of effort in areas of job performance that are monitored, while shifting to perfunctory compliance (or worse) in areas that are not effectively monitored. And if workers become disgruntled enough over the pace of work, they can probably find ways to impose astronomical cost increases in the areas not amenable to monitoring, with little or no chance of getting caught. I can testify from personal experience, in an increasingly downsized and sped-up hospital, that this is no mere theoretical possibilities. The costs from employee disgruntlement--deliberate waste and destruction, and supplies given away free to patients rather than being charged to their accounts--probably exceed by far what would have been the cost of hiring adequate levels of staff and raising their pay to acceptable levels.

The need for monitoring and surveillance probably has a lot to do with the failure of telecommuting to live up to the early hype. Chris Dillow, of *Stumbling and Mumbling* blog, writes on the culture of "presenteeism":

> [A]n often overlooked feature of the new economy... [is] that many workers now have more and better capital equipment at home than they do at work.
>
> This destroys the traditional reason for going out to work; in industrial societies we had to go to factories because that was where the machinery was.
>
> With this reason no longer applying for many of us, one would expect to have seen an explosion in the numbers of people working from home. After all, there are enormous costs to having workplaces separate from our homes; commuting and rent to name but two.
>
> However, teleworking is still rare....
>
> ...I suspect the main obstacle to the growth of teleworking is not technology but power. Offices (and maybe factories too) exist not because they are technically efficient but because they provide easy ways for the boss class to supervise and control workers.

In the course of his argument, he cited Stephen Marglin's excellent article "What Do Bosses Do?"[155] which argued that the advantage of the factory lay less in its superior technical efficiencies over home production, than in its superior efficiency at securing effort and extracting surplus value from the laborer. As evidence that the surprising failure of telecommuting to take off reflected similar interests, he cites the fact

> that teleworkers contain disproportionate numbers of self-employed. In the US, the self-employed account for two-thirds of all teleworkers even though they are only 7 per cent of

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[155] Steven A. Marglin. "What Do Bosses Do? The Origins and Functions of Hierarchy in Capitalist Production--Part I" *Review of Radical Political Economics* 6:2 (Summer 1974).

> all workers. In the UK, the self-employed are 11 per cent of the labour force but 43 per cent of teleworkers. Is it really plausible that this is purely the result of different technologial requirements between the self-employed and the employed? Or is it not evidence that working for others means subordination, which means working in offices even when it is not technically necessary to do so?[156]

Claire Wolfe attributed the conspicuous absence of telecommuting, at least on the scale predicted fifteen years ago, to similar power motivations:

> Although computer-based "knowledge work" hasn't enabled millions of us to leave the corporate world and work at home (as, again, it was supposed to), that's more a problem of corporate power psychology than of technology. Our bosses fear to "let" us work permanently at home; after all, we might take 20-minute coffee breaks, instead of 10![157]

Personality profiling and testing are also becoming much more intrusive. Increasingly paranoid about employee disgruntlement (probably in part because of their own bad consciences), management tries ever more obsessively to root out any evidence their workers may be concealing non-Stepford Wife opinions behind a facade of obedience.

For example, Barbara Ehrenreich mentions an interview with Wal-Mart at a job fair, of which the centerpiece was a four-page "opinion survey" ("no right or wrong answers," according to the rather dubious assurance of the interviewer). Among other things, it asks "whether management is to blame if things go wrong...."[158] Well, I guess that depends on whether the guy who cuts you off at the knees is responsible for you falling down.

> What these tests tell employers about potential employees is hard to imagine, since the "right" answers should be obvious to anyone who has ever encountered the principle of hierarchy and domination. Do I work well with others? You bet, but never to the point where I would hesitate to inform on them for the slightest infraction. Am I capable of independent decision making? Oh yes, but I know better than to let this capacity interfere with a slavish obedience to others. At The Maids, a housecleaning service, I am given something called the "Accutrac personality test," which warns at the beginning that "Accutrac has multiple measures which detect attempts to distort or 'psych out' the questionnaire." Naturally, I "never" find it hard "to stop moods of self-pity," nor do I imagine that others are talking about me behind my back or believe that "management and employees will always be in conflict because they have totally different sets of goals." The real function of these tests, I decide, is to convey information not to the employer but to the potential employee, and the information being conveyed is always:

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[156] Chris Dillow, "Capitalism and Presenteeism," *Stumbling and Mumbling* blog, June 21, 2005 <http://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2005/06/capitalism_and_.html>
[157] Claire Wolfe, "Dark Satanic Cubicles," *Loompanics 1995 Catalog* <http://www.loompanics.com/cgi-local/SoftCart.exe/Articles/darksatanic.html> (Loompanics site now defunct; link no longer active).
[158] Barbara Ehrenreich, *Nickel and Dimed: On (Not) Getting By in America* (New York: Henry Holt and Co., 2001), p. 58.

You will have no secrets from us. We don't just want your muscles and that part of your brain that is directly connected to them, we want your innermost self.[159]

Now, my approach to preemployment personality tests has been zero tolerance vis-a-vis the obvious "crimes"--drug use and theft--but to leave a little wriggle room elsewhere, just so it doesn't look like I'm faking out the test. When presenting yourself as a potential employee, you can never be too much of a suck-up. Take the test proposition that "rules have to be followed to the letter at all times": I had agreed to this only "strongly" rather than "very strongly" or "totally" and now Roberta wants to know why.[160]

...Job searches take their toll, even in the case of totally honest applicants, and I am feeling particularly damaged. The personality tests, for example: the truth is that I don't much care if my fellow workers are getting high on the parking lot or even lifting the occasional retail item, and I certainly wouldn't snitch if I did. Nor do I believe that management rules by divine right or the undiluted force of superior knowledge, as the "surveys" demand you acknowledge.... Equally draining is the effort to look both perky and compliant at the same time, for half an hour at a stretch, because while you need to evince "initiative," you don't want to come across as someone who might initiate something like a union organizing drive.[161]

D. Authoritarianism: Contract Feudalism.

The term "contract feudalism" was coined by Elizabeth Anderson in a post at *Left2Right* blog:

...Under feudalism, wealthy landlords employed hundreds of retainers, servants, and tenants who depended on them for subsistence. The price of dependence was servility: the duty to obey any arbitrary whim, however humiliating, called out as an order to them by their lord. Commerce and manufactures liberated individuals from such abject servility, by enabling people to live off sales to thousands of customers instead of one master. It enabled large numbers of people to enjoy personal independence for the first time....

Of course, matters were different for wage laborers than for independent shopkeepers and craftsmen. Wage laborers *did* have to obey an arbitrary master on the factory floor.

But their subjection to this authority was mitigated, and their personal dependence from the employer secured, by

the separation of work from the home. However arbitrary and abusive the boss may have been on the factory floor, when work was over the workers could at least escape *his* tyranny (unless they lived in a factory town, where one's boss was also one's landlord and regulator

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[159] Ibid., p. 59.
[160] Ibid., p. 124.
[161] Ibid., p. 127.

> of their lives through their leases). Again, in the early phase of industrialization, this was small comfort, given that nearly every waking hour was spent at work. But as workers gained the right to a shortened workday--due to legislation as well as economic growth--the separation of work from home made a big difference to workers' liberty from their employers' wills.
>
> Nevertheless, to the extent that this liberty is secured by competition for workers and convention alone, rather than by legal right, it is vulnerable to invasion.[162]

And sure enough, as the bargaining power of labor has decreased over the past thirty years (and to repeat what we said above, that's the result of a very deliberate policy decision by the corporate state), the separation of work from the home has undergone steady erosion. A growing portion of the workforce finds itself subject to management whims even away from the job, and personal time subject to intrusion from work, in a way quite reminiscent of the feudal vassal's 24/7 subjection to his master's whims. Hence Anderson's term "contract feudalism": the contractual alienation of personal independence by propertyless people, whose lack of bargaining power renders them vulnerable, in return for subsistence, and the corresponding conversion of the propertied classes' ownership into dominion over people.[163]

Contract feudalism covers a wide range of events that have been in the news lately. One is described by Anderson in her blog post. According to the New York Times,[164] Howard Weyers, president of Michigan-based Weyco, in early 2005 forbade his workers to smoke--"not just at work but anywhere else." The policy, taken in response to the rising cost of health coverage, requires workers to submit to nicotine tests.

Guardsmark, a security company, forbids its workers to socialize with each other off the job--a policy upheld by an NLRB ruling. The *Washington Post*'s Harold Meyerson compares the employer's power to issue such arbitrary commands to the power of--you guessed it--a feudal lord:

> There's a word for the kind of employer-employee relationship that the NLRB has just sanctioned. It's "feudal." The brave new world that emerges from this ruling looks a lot like the bad old world where earls and dukes had the power to control the lives of their serfs -- not just when the serfs were out tilling the fields but when they retired in the evening to the comfort of their hovels. But then the Bill of Rights in America has never reached very far into the workplace. And now, the strictures on workers' rights within the workplace are being extended without.[165]

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162 Elizabeth Anderson, "Adventures in Contract Feudalism," Left2Right blog, Feb. 10, 2005 <http://left2right.typepad.com/main/2005/02/adventures_in_c.html>.
163 Elizabeth Anderson, "How Not to Complain About Taxes (II): Against Natural Property Rights," Left2Right blog, Jan. 20, 2005 <http://left2right.typepad.com/main/2005/01/why_i_reject_na.html>.
164 *NYT*, Feb. 8, 2005 <http://www.nytimes.com/2005/02/08/business/08smoking.html>.
165 Harold Meyerson, "Big Brother on and Off the Job," Washington Post, Aug. 10, 2005 <http://www.washingtonpost.com/wp-dyn/content/article/2005/08/09/AR2005080901162.html>.

An especially alarming trend is "Doocing," i.e. the firing of bloggers for public comments written on their own time: for example, Joe Gordon, editor of the Woolamaloo Gazette[166] blog, who was fired from Waterstone's (a UK chain bookstore roughly comparable to B&N) when it came to his bosses' attention that he'd made the occasional venting post (quite mild, from my perspective) after a particularly bad day at work.[167] Gordon, who arranged book promotions and was friendly with a number of prominent science fiction authors (including post-Trot/libertarian/cyberpunk fusionist Ken MacLeod, via whose blog I originally heard of the story),[168] brought Waterstone's business worth many times his salary; and although he was ostensibly fired for bringing them into "disrepute," Waterstone's clueless and ham-fisted management have themselves done more to that end by firing Gordon than a thousand employee blogs could possibly have done.

Blogger B.K Marcus, in discussing his experiences with libertarian writers who later attempt to remove their writings from the Web, hints that some of them might be motivated by the fear of what a prospective employer might stumble upon.[169] The danger is a very real one. As someone who was hunting a job myself only three years ago, and as a prolific writer with a large body of online material on radical political and economic themes, I well remember my paranoia that the HR Nazis might Google my name during the application process.

Workers are increasingly required to be on-call for extended periods, or reachable at all times, during what used to be called "their own time." Consider, for example, the "open availability" policy of some Wal-Mart stores, which regional management also tried to make official company policy:

> Wal-Mart officials in Cross Lanes told employees on Tuesday they have to start working practically any shift, any day they're asked, even if they've built up years of seniority and can't arrange child care....
>
> "We have many people with set schedules who aren't here when we need them for our customers," said John Knuckles, a manager at the store, which is located in the Nitro Marketplace shopping center and employs more than 400.
>
> "It is to take care of the customers, that's the only reason," he said.
>
> Workers who have had regular shifts at the store for years now have to commit to being available for any shift from 7 a.m. to 11 p.m., seven days a week. If they can't make the

166 <http://www.woolamaloo.org.uk/>
167 Patrick Barkham, "Blogger sacked for sounding off," *The Guardian*, Jan. 12, 2005 <http://www.guardian.co.uk/online/weblogs/story/0,14024,1388466,00.html> (link defunct).
168 Ken Macleod, "The Case of the Blogging Bookseller," *The Early Days of a Better Nation*, Jan. 12. 2005 <http://kenmacleod.blogspot.com/2005_01_01_kenmacleod_archive.html#110551826393727206>.
169 B.K. Marcus, "The Memory Hole," *lowercase liberty* blog, Jan. 19, 2005 <http://www.bkmarcus.com/blog/2005/01/memory-hole.html>.

commitment by the end of this week, they'll be fired.

"It shouldn't cause any problem, if they [store employees] are concerned about their customers," Knuckles said.

Several single mothers working at the store have no choice now but to quit, said one employee, who would not give her name for fear of retribution.

"My day care closes at 6 and my baby sitter can't work past 5," said the employee, a mother of two who has been a cashier for more than three years. Neither of the services is available over the weekends, she added. "I have to be terminated; I don't know what I'll do."

"Wal-Mart is supposed to be a family-oriented company, but kids don't matter," the worker said.

Along with the "open-availability" policy, the store is requiring all floor employees to learn how to run cash registers, several employees said. They suspect this is an attempt to brace for the departure of many of the employees who now work as cashiers.

When announcing the new policies, store managers said they expected to lose about 60 people, according to another employee who asked not to be named.

"They said sales were down so much, they had to make a change," the worker said. "The past year they've really been nitpicking" longer-term employees, who are paid more.

"A lot of people were mad and there were women crying — it's just terrible," said the worker, who has been at the store six years. "I've put up with a few things, but this has got to be the worst thing I've seen them do."

Other Wal-Mart stores have open-availability rules, but it does not appear to be required of each store by company headquarters. Managers at Wal-Marts in South Charleston and Ripley refused to comment, but one employee at the store in Spencer, also speaking on condition of anonymity, said there was no such policy in place there.[170]

Although the Wal-Mart stores involved in the story beat a hasty retreat in the face of intense public criticism, there is some indication similar policies have since been implemented on a store-wide level.

....Sally Wright, 67, an $11-an-hour greeter at the Wal-Mart in Ponca City, Okla., said she quit in August after 22 years with the company when managers pressed her to make herself available to work any time, day or night.

....The company says it gives employees three weeks' notice of their schedules and takes their preferences into account, but that description differs from those of many workers interviewed. Workers said that their preferences were often ignored and that they were often

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[170] Joe Morris, "Wal-Mart institutes availability requirement," *The Charleston Gazette*, June 15, 2005, in *Wake Up Wal-Mart* blog <http://www.wakeupwalmart.com/news/20050615-cg.html>.

> given only a few days' notice of scheduling changes....
>
> But some workplace experts point to the downside of the policies. Susan J. Lambert, a professor of social sciences at the University of Chicago who has written several research papers on retail workers, called it a burden for employees to cope with constant schedule changes.
>
> "You have to set up child care for every day just in case you have to work," she said, "and this makes it hard to establish routines like reading to your kids at night or having dinner together as a family."...
>
> A big area of discrepancy between what Wal-Mart says and what the workers say is whether the company has a policy of "open availability," requiring employees to make themselves available around the clock. Ms. Clark, the Wal-Mart spokeswoman, said the company had no such a policy, adding, "Our main goal is to match the ratio of associates to customers shopping in our stores resulting in better customer service hour by hour." Wal-Mart says it pays higher wages to night-shift workers.
>
> But in March, workers from a Wal-Mart in Nitro, W.Va., held a small protest rally in the center of town after Wal-Mart managers demanded 24-hour availability and cut the hours of workers who balked. And workers from other stores around the country said in interviews that similar demands had been made on them.
>
> Houston Turcott, the former overnight stocking manager at the Wal-Mart in Yakima, Wash., said that managers had told workers, "Either they had full, open availability so we can schedule them when we would like or we would cut their hours."
>
> Tracie Sandin, who worked in the Yakima store's over-the-counter drug department until last February, said, "They said, if you don't have open availability, you're put on the bottom of the list for hours."[171]

The use of "concern about the customers" to justify such policies is especially telling. A major aspect of contract feudalism is the extension of the "professionalist" ideology into even unskilled service jobs. The minimum wage housekeeper, retail or restaurant worker is now expected to have the same sense of "calling," of dedication to customer service, and of career as a source of identity, as members of the traditional professions--but without the pay or the autonomy.

E. Authoritarianism: The Hegemony of "Professionalism."

The professionalist ideology is closely linked to the related phenomenon, described above, of contract feudalism.

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[171] Steven Greenhouse and Michael Barbaro, "Wal-Mart to Add Wage Caps and Part-Timers," *The New York Times*, October 2, 2006 <http://www.nytimes.com/2006/10/02/business/02walmart.html>.

Consider, again, our discussion above of the level of single-minded dedication to "customer service," the 24/7 availability, and the identification with one's job as a career, required even from unskilled service workers. The only area of the job market where such things were expected, before the 1970s, was the white collar salariat of "professional" employees. (I'm leaving out anomalies like Southern sharecroppers and workers in company towns, where employees were considered to be "property" of the employer to a large extent; but by the middle of the 20th century, that was looked on as a relic of the past, not the wave of the future--as it's becoming now).

For a good fictional example, take a look at Darren Stevens on the TV series Bewitched. He was a white collar "professional" in the advertising industry. Most of the comic situations on the show hinged on frequent "visits" to Darren's house by his boss, Larry Tate, a partner in the advertising firm, and Darren's need to entertain clients at home. Darren was constantly having to explain his unusual lifestyle to Larry, who obviously felt entitled to an explanation. And that intrusion in itself, remember, wasn't meant to be viewed as especially comical by the audience; it was just a set-up for all the wacky comic situations resulting from Samantha's witchcraft. The background itself was just based on the common understanding of what life was like for the "organization man."

And as a comedy of "how the other half lives," it was especially humorous to the blue-collar manufacturing worker just because it was so unlike his own way of life. Imagine a master machinist in the IAM tolerating constant drop-in visits from a foreman, who felt entitled to demand explanations for odd happenings in the machinist's home! At the time, such intrusion of the "career" into one's homelife was associated entirely with white collar work. As Orwell's character George Bowling put it in *Coming Up for Air*,

> There's a lot of rot talked about the sufferings of the working class. I'm not so sorry for the proles myself.... The prole suffers physically, but he's a free man when he isn't working. But in every one of those little stucco boxes there's some poor bastard who's NEVER free except when he's fast asleep and dreaming that he's got the boss down the bottom of a well and is bunging lumps of coal at him.

But except for a very small and shrinking remnant of unionized manufacturing workers, "we're all organization men now." The ethos of white collar "professionalism" has contaminated a major part of wage labor.

The concept of professionalism has achieved an unprecedented hegemony in society at large. For a very large part of the population, one's identity as "a professional" is the main source of reference. People commonly, in situations where they are required to sum themselves up, simply identify themselves as professional. The "professional" self-designation appears in the same social contexts as "citizen" did fifty years ago. In the 1950s, it was common for someone to refer to himself, in situations completely removed from politics or government, as "just an ordinary citizen," or the like. Today, for many in the white collar middle class, it's "a professional." Professionalism has acquired the same ideological significance once held by civic culture and citizenship. In either case, the individual was defined in terms of some particular authority relation in which he existed.

Letters to advice columnists commonly begin with some phrase like this: "Dear Abby, my husband and I are both professionals in our 40s...." The implied subtext, of course, is "...so obviously this isn't something we caused by our own stupidity," or "...so this is a legitimate problem, unlike those of most of the beer-swilling yahoos who read your column."

The concept of the profession has also largely supplanted that of the skilled trade in the occupational realm. The adjective "professional" is used almost exclusively to describe work or behavior that once would have been described as "businesslike," or characterized by a sense of craftsmanship. "Professional" and "unprofessional" are used as words of praise and blame, respectively, in occupations that were never regarded as professions back when the term had any meaning. People in virtually all white collar or service jobs, regardless of the level of training associated with them, are expected to display "professionalism" in their work attitudes and dress.

The ideology of "professionalism" has spread like a cancer and contaminated most occupations. Originally, the culture of the professions grew out of the skilled trades. A master of arts, for example, was analogous to a master of any other trade, with bachelors and undergraduates corresponding to journeymen and apprentices; a university was a place where one apprenticed to a master scholar. As we saw in Chapter Four, in the nineteenth century even the professions of medicine and law were generally perpetuated by some sort of informal apprenticeship system, rather than standardized education and occupational licensing. But I'd gladly compromise on the original five professions--letters, medicine, law, holy orders, and arms--if we could only reclaim the concept of the skilled trade for everything else.

So why has professionalism so successfully colonized the entire realm of work? Who benefits from promoting it as an ideology? What functions does it serve?

The fundamental purpose of professionalism, like that of any other ideology, is to get people's minds right--in this case, workers.

Professionalism fosters a house-slave mentality by getting large categories of workers to identify with management (Good ole Massa knows we're really like him, white on the inside--we're not like those shiftless old field slaves), setting white collar against blue collar workers, and enabling management to rule through a divide-and-conquer strategy. There's a saying that a dishonest man is the easiest target for a con artist. Likewise, it's a lot easier to exploit a status-insecure snob, as long as he can be a notch or two above someone else who's exploited worse.

Professionalism undermines the separation of work and home. Throughout the entire service sector, increasingly, low-paid wage workers are expected to think of their job as a calling, and of customer service as something to sacrifice "ownlife" for. In nursing, a trade that fell under the spell of professionalism long ago, this is old news. For all of living memory, hospital managements have cynically manipulated nurses' concern for their patients to guilt them into working unwanted overtime. This is often done, deliberately, in preference to hiring enough staff to avoid overtime, because it economizes on the costs of benefits.

But the phenomenon has spread far beyond licensed nurses. As we saw in the reference in the section above to Wal-Mart's 24/7 availability policy, the same kind of selfless "professional" dedication is now required in the lowest levels of the two-tier economy.

Ken Blanchard has expressed great dissatisfaction with the TGIF mentality, speaking for many managers who resent their workers' view of the job as a means to an end, and of their life in the outside world as the end their job serves. As Blanchard put it in his introduction to *the Fish! Philosophy* book, "too many people are trading time on the job to satisfy needs elsewhere..." Imagine that! People view going to a place where they're treated like a disposable resource, worked like dogs, and required to take orders, as a necessary evil, rather than looking forward to it as the central source of meaning in their lives. Next, he'll be complaining about the people in prison who count down the days until they get out. Come to think of it, I guess it's only a matter of time until prison inmates join the ranks of "professionals," and are expected to volunteer for "overtime" after they complete their sentences. After all, a good professional is willing to do whatever it takes to avoid inconveniencing all those customers who are waiting on their license plates or laundry.

Finally, management tries to identify "professionalism" with obedience and docility. This means, in concrete terms, that talking back to management and fighting for one's rights are forms of conduct unbecoming "a professional." Pressuring management to improve working conditions, reduce hours, increase staffing or pay, and the like, are the kinds of "low-class" behavior that proles engage in. Unions are for the Ralph Kramden types, not for respectable wannabes like us.

In the old days, before the metastatic spread of professionalism diluted its meaning, professions tended to maintain a collegial mentality, an internal solidarity, against the demands of authority--much like the master craftsmen who resisted the watering down of quality in the industrial revolution. A professional might resist unreasonable demands from outside, like a demand to do substandard work or cut corners to compensate for understaffing, because of professional pride. Today, outside the old-line professions, professionalism has ceased to be a moral basis for resistance to authority, and instead become another force for promoting obedience and identification with authority.

This aspect of professionalism gets back to the divide and conquer function I mentioned above: "professionalism" means seeing oneself in the same social category as management (albeit at a lower rung), and as part of the same "team." It's the vicarious self-esteem acquired by a house slave who identifies with the owner rather than with the field slaves. Professionalism, along with the rest of the meritocratic ideology of which it is a part, is used to legitimize job segmentation and hierarchy within the enterprise. The effect is to set blue and white collar workers in competition against each other, and to coopt white collar workers into identification with management rather than labor.

> In U.S. economic life, legitimation has been intimately bound up with the technocratic-meritocratic ideology.... Several related aspects of the social relations of production are legitimized, in part, by the meritocratic ideology. To begin with, there are the overall characteristics of work in advanced U.S. capitalism: bureaucratic organization, hierarchical lines of authority, job fragmentation, and unequal pay. It is essential that the individual accept and, indeed, come to see as natural, these undemocratic and unequal aspects of the workaday world. Moreover, the staffing of these positions must appear egalitarian in process and just in outcome, parallel to the formal principle of "equality of all before the law" in a liberal democracy.
>
> This legitimation of capitalism as a social system has its counterpart in the individual's personal life. Then, just as individuals must come to accept the overall social relations of production, so workers must respect the authority and competence of their own "supervisors" to direct their activities, and justify their own authority... over others....
>
> The hallmark of the meritocratic perspective is its reduction of a complex web of social relationships in production to a few rules of technological efficiency. In this view, the hierarchical division of labor arises from its natural superiority as a device to coordinate collective activity and nurture expertise. To motivate the most able individuals to undertake the necessary training and preparation for occupational roles, salaries and status must be clearly associated with level in the work hierarchy....
>
> This meritocratic ideology has remained a dominant theme of the mainstream of social science since the rise of the factory system in the United States. The robustness of this perspective... is due, in no small part, to its incorporation in major social institutions--factories, offices, government bureaus, and schools. For the technocratic justification of the hierarchical division of labor leads smoothly to a meritocratic view of the process by which individuals are matched to jobs. An efficient and impersonal bureaucracy, so the story goes, assesses the individual purely in terms of his or her expected contribution to production. And the main determinants of job fitness are seen to be those cognitive and psychomotor capacities relevant to the worker's technical ability to do the job. The technocratic view of production, together with the meritocratic view of hiring, provides the strongest form of legitimation of alienated work and social stratification in capitalist society. Not only does it strongly reinforce the notion that the hierarchical division of labor is technically necessary..., but it also justifies the view that job assignment is objective and efficient and, therefore, just and egalitarian....
>
> The linking of technical skills to economic success indirectly via the educational system strengthens... the legitimation process. First, the day-to-day contact of parents and children with the competitive, cognitively oriented school environment, with clear connections to the economy, buttresses, in a very immediate and concrete way, the technocratic perspective on economic organization.... Second, by rendering the outcome (educational attainment) dependent not only on ability but also on motivation, drive to achieve, perseverance, and sacrifice, the status allocation mechanism acquires heightened legitimacy. Moreover, such personal attributes are tested and developed over a long period of time, underlining the

> apparent objectivity and achievement orientation of the statification system. Third, frequent failures play an important role in gradually bringing a student's aspirations into line with his or her probable career opportunities.[172]

The talking head commentariat of the corporate center (the New Deal liberal, New Democrat, and neoconservative strands of maninstream politics are almost equally managerialist) are decidedly meritocratic in their view of contemporary economic issues. For all of them, the main cause for the ill fortunes of the bottom tier of the labor force under globalization is the lack of adequate education to get with the program, and the solution for everybody is education and more education. Stern but avuncular figures ranging from Dr. Phil to Bill Cosby solemnly remind teenagers that the only way to success is to "get an education." Neoconservative practitioners of "tough love" stridently assert that the solution to all our educational ills is more "discipline," hierarchy, school uniforms, along with a greater homework burden and the dedication of every waking hour to drilling for the SATS or testing mandated by "No Child Left Behind." Correspondence school commercials show grousing workers confronted by a boss who says "I used to have a 'dead end job' just like you, until I went back to school to become a boss--and you can too!"

This is a classic example of the fallacy of composition, as we saw Joe Bageant argue in Chapter Four. The state capitalist system can only use so many managerial and technical workers. The effect of expanded managerial and technical education is merely to overproduce white collar workers, so that the educational requirements for menial labor are inflated and those who manage to win out in the musical chairs competition for white collar jobs wind up adopting a dog-eat-dog mentality toward those whom they beat out.

The managerialist-meritocratic perspective also ignores several central, salient facts: 1) in most cases the education and credentialling imposed by professionalism are far in excess of any level that could be justified by the objective requirements of any actual tasks to be performed; 2) the system selects for the most hierarchical and technocratic ways of organizing production, even when the same quality of output could be achieved by less deskilling technology, for the sake of rendering the workforce more amenable to control; and 3) for most tasks involved in coordinating and organizing production, the most important source of qualification is direct experience in the process, and the typical pointy-haired boss is often clueless as to the real effect of his decisions on the production process.

F. Motivational Propaganda as a Substitute for Real Incentives.

Ever since social science was applied to the workplace in the early 20th century, there

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[172] Samuel Bowles and Herbert Gintis, *Schooling in Capitalist America: Educational Reform and the Contradictions of Economic Life* (New York: Basic Books, Inc., Publishers, 1976), pp. 104-106.

has been no dearth of humanistic theories of employee relations; the Human Relations movement and Theory Y management are the most prominent early examples. Unfortunately, their implementation has been limited almost entirely to lip service. More than one commentator has observed that they amount, in practice, to sugar-coated Taylorism or Theory X management.[173] Tom Peters, for example, dismissed the great majority of corporate motivational programs, despite all the "respect for others" and "golden rule" rhteoric, as either "lip service" or "gimmicks," intended mainly to "serve as a smoke-screen while management continues to get away with not doing its job of real people involvement."[174]

The reason isn't hard to find: it's because all such management theory fads, no matter how humanistic and empowering their rhetoric, are implemented by bosses. And the primary interest of management is in cementing its control of the workplace and its ability to derive status and perks from that position of control. Real "people involvement" wastes resources that might otherwise fund more of those perks. So the main thing adopted from fashionable theories of worker empowerment is the jargon. The jargon of "empowerment" is used as motivational propaganda to elicit more effort from workers who have no real share in decisionmaking, no real control over the work process, and no real share in the productivity gains from working more efficiently. As we said earlier, if corporate management ever adopted Jeffersonianism as a management theory fad, they'd pay lip service to the empowering parts, and really put into practice only the part about screwing your slaves.

And from the start, the empowering part of humanistic theories of management was largely superficial. As Thomas Frank said, "Whether Taylorist or humanist, theories of management were sold as a way of defusing class conflict while keeping control of the shop floor firmly in the hands of the owners."[175] That's especially true of the fads of the '90s: Deming, quality circles, Six Sigma, and the like. While Deming himself was a brilliant observer of the production process, the managers who have ostensibly adopted his ideas have in fact adopted only the rhetoric. The very workplaces that most energetically used Kwality rhetoric were also most likely to try fixing process problems with slogans and exhortations, and to take behavioral approaches to solving problems caused by management (see Appendix, "Blaming Workers for the Results of Mismanagement").

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[173] I should mention that although I'm using the term "Taylorism" in the conventional sense, there is considerable evidence that Taylor himself wasn't a Taylorist. Eric Husman of Grim Reader blog helpfully referred me to the following article, which places Taylor on a comparatively libertarian part of the scientific management spectrum and indicates he was quite friendly to the idea of worker input into the production process: Chris Nyland, "Taylorism and the Mutual Gains Strategy," *Industrial Relations* 37:4 (October 1998), pp. 519-542. What is normally called "Taylorism" would more accurately refer to the broader "scientific management" movement, which was by no means uniformly authoritarian or managerialist.
[174] Waterman and Peters, *In Search of Excellence*, p. 241.
[175] Thomas Frank, *One Market Under God: Extreme Capitalism, Market Populism, and the End of Economic Democracy* (New York: Anchor Books, 2001), p.227.

Thomas Frank noted the contrast between the empowering rhetoric, the talk about "openness" and "flattening hierarchies," and the actual practice of tightening control:

> Plenty of average Americans, having considerable personal experience with the way the corporation worked, could easily have made their own contributions to the national conversation about the nature of the "business revolution." They could have pointed out that the most noticeable change that swept through the workplaces of the late eighties and nineties was the diverging fortunes of top management and everyone else; that the workplace was becoming ever more arbitrary; that they increasingly worked under an omnipresent threat of instant termination; that regardless of how they toiled they seemed always to be losing ground....[176]
>
> Talk to many of those blue-collar workers and you will discover that they are quite right to fear the "new openness." Great displays of soulfulness by top management, they find, often go hand in hand with a species of shop-floor Taylorism so advanced and concentrated as to be almost inhuman. Management talks of the liberating power of "craziness"; workers get a life so regimented and rationalized that I have even heard rumors, from blue-collar workers whose sensitive managers put them on twelve-hour rotating shifts, of deliberate corporate plans to wear them out, shave a year or two off their lives, and thus save millions in pension outlays. In this experience, talk of empowerment, participation, and reeingineering is followed automatically by intensification of management demands.[177]
>
> In practice... post-Taylorism generally means intensified Taylorism; workplace democracy means getting workers to make efficiency suggestions--efficiency suggestions that invariably lead to layoffs or speedup.... Every new theory, new buzzword, new movement, new consultant seems... merely to offer another means to the same goal: fewer workers, more output.... What is an intellectual playground for an entire class of consultants and gurus is, for the vast majority of working Americans, a living hell of surveillance and degradation in which every emotion is faked and every response is anticipated.[178]

We will reserve for another chapter most discussion of management fads like reeingineering, as they affect the actual organization of production. Our main concern in this section is with programs aimed at motivating workers.

Probably the most notorious such programs in recent years have been *Who Moved My Cheese?* and Fish! Philosophy. *Who Moved My Cheese?* was the premier motivational fad of the '90s, and Fish! essentially recycled the very same themes for this decade. As the saying goes, I hated the Backstreet Boys back when they called themselves New Kids on the Block.

Actually, many of the themes of *WWMC?* were foreshadowed in Tom Lagana's *Chicken Soup* series. Lagana and his *Chicken Soup* books were described in this way by the--unfortunately now defunct--Molotov Cocktail for the Soul site:

> Snatching hypocritical victory from the jaws of defeat, this electrical engineer turned

176 Ibid., p. 171.
177 Ibid., p. 246.
178 Ibid., p. 248.

> mind engineer is now complicit with his old "redundancy eliminators." He now helps "organizations who want to get the most out of people;" and those people would, of course, be the Prozac-plied personnel now doing twice the work they would have at the same position twenty years ago and are too sedated to feel the boss's whip cracking across their backs. "[Lagana] put a smile on my face and it stayed there even after I went back to work," gushes one successfully sheered sheep, her organization now getting the most out of her. "I already feel less stress as I apply some of the techniques," bleated another after scampering from a Lagana seminar payed for by the Firm.[179]

Lagana repeatedly asked that this "hateful" review be taken down, so apparently it must have struck home.

Who Moved My Cheese?, by Spencer Johnson, was created as a management tool for dealing with "change resisters." So naturally, it's a big favorite of HR departments everywhere, who order it by the gross for employee consumption.

In Spencer Johnson's world, change, like cheese, is something that "just happens"; it's presented in much the same way Tom Friedman presents "globalization": not as the product of human action, but as an inevitable and impersonal force of nature. We're expected to accept "change" as it comes, and deal with it within whatever framework is established by the anonymous gods in white coats who structure the maze. The fact that some authority figures are in a position to dole out cheese, and that we must jump through whatever hoops they require in order to get it, goes without saying.

In fact, Johnson's recipe for "dealing with change in your work and in your life" is a lot like the medieval peasant's fatalistic acceptance of one ruler after another, washing over him in succession like a series of tidal waves. "Keep your head down, do your work, pay your rent, don't look beyond your station in life--and don't, above all, meddle in the affairs of the great lords."

It's also a bit like Parsons' enthusiastic embrace of "change" in 1984: "The choco-ration's been increased to 20 grammes. Doubleplusgood, eh?"

The fundamental, unquestioned assumption of *Who Moved My Cheese?* is that "change" is the prerogative of management, and that it's our job to adjust to it. As Thomas Frank pointedly observes, there's one question we're never to ask:

> While most of us must "adapt to change," others get to make change; while most of us are expected to smilingly internalize management theory, to learn our place in the world from vapid fairy tales, others buy the insulting stuff in bulk in order to cram it down the throats of thousands who have the misfortune to work in the bigperson's insurance agency or box factory.

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[179] Rejuvenal, "Molotov Cocktail for Tom Lagana's Soul," July 1998. *Molotov Cocktail for the Soul* site <http://www.connect.ab.ca/~mctsoul/lagana.htm> (defunct--available only through Internet Archive).

> Will the time ever come, Americans might well ask, when *we* get to move *management's* cheese?

This assessment of *WMMC?* is fairly common. Consider these excerpts from my favorite Amazon reviews of it:

> If you are a manager who wants to be excused for his/her bad decisions by disguising them as "change" that "just happens," this is the book you should make mandatory reading for your employees.
>
> That's how a lot of corporate America works, after all: companies do not make mistakes, it's the employees who cannot adapt to "change."
>
> * * *
>
> This book is wrong. It teaches that you must accept change without regard to whether it is appropriate it not. It teaches that you must not struggle, you must not fight. You must simply accept whatever change happens. This is the perfect book to distribute when a company is going through reorganization....
>
> * * *
>
> The message of this book is meant to squelch personal ambition and encourage its readers to resign themselves to corporate slavery.

I was especially amused that so many employees have come to recognize their employer's distribution, promotion, and forced reading of *Who Moved My Cheese?* as a prelude to layoffs.

That's the common perception of the book, and if Spencer Johnson's comment in an endpaper blurb is any indication, he resents the hell out of it:

> Some even fear it suggests all change is good and that people should mindlessly conform to unnecessary changes imposed by others, although that is not in the story.[180]

No, it's just implicit in *every single page* of this wretched little turd of a book. The real question is, how could a reader *not* make such an interpretation?

First of all, Johnson's pissing and moaning is directly across from a facing page full of enthusiastic endorsements from "organizations" that used the book to get their employees' minds right. This is our first clue that there might be a hidden agenda. The fact that WMMC?'s website is geared toward corporate clients might also raise some eyebrows. Like both the earlier *Chicken Soup for the Soul* series and the later Fish!, the book's prime customer is HR departments.

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[180] Spencer Johnson, *Who Moved My Cheese? An A-Mazing Way To Deal With Change In Your Work And In Your Life* (New York: G.P. Putnam's Sons, 1998, 2002), p. iv.

As more than one Amazon reviewer noted, the "book" is a heavily marked up piece of fluff, specifically designed to be marketed in bulk to HR departments, who in turn pass it on to a captive audience of wage-serfs. And a lot of those employees, mindful of Haw's slogan "Noticing Small Changes Early Helps You Adapt To The Bigger Changes That Are To Come,"[181] see the distribution of this book as a prelude to downsizing or a general tightening of the screws on the "littlepeople." If your employers start passing out *WWMC?*, just remember what Victor said in that *Ren and Stimpy* cartoon: "Relax and think happy thoughts, because this is really... gonna... HURT!"

Just about every page of *Who Moved My Cheese?* has something to bear out the interpretation that Johnson finds so objectionable. It is full of examples of people wisely adapting to "change" and being rewarded, and obstinate "change resisters" who suffer the consequences of their folly. The leading character, Haw, at first questions change and then discovers the error of his ways. But there is not one single, solitary example of a character questioning change, deciding that it was unjustified, and turning out to be right. The only character in the book who even raises the question of who is responsible for change and whether it is justified, Hem, is portrayed as unattractively as possible.

> "What? No Cheese?" Hem yelled. He continued yelling, "No Cheese? No Cheese?" as though if he shouted loud enough someone would put it back.
>
> "Who moved my Cheese?" he hollered.
>
> Finally, he put his hands on his hips, his face turned red, and he screamed at the top of his voice, "It's not fair!"[182]

When Hem even raises the question of who moved the cheese, and why, it's portrayed as the moral equivalent of a toddler's temper tantrum.

> "Why should we change?" Hem asked. "We're littlepeople. We're special. This sort of thing should not happen to us. Or if it does, we should at least get some benefits."
>
> "Why should we get benefits?" Haw asked.
>
> "Because we're entitled," Hem claimed....
>
> "Why?" Haw asked.
>
> "Because we didn't cause this problem," Hem said. "Somebody else did this and we should get something out of it."
>
> Haw suggested, "Maybe we should simply stop analyzing the situation and go find some

[181] Ibid., p. 68.
[182] Ibid., p. 33.

New Cheese?"[183]

It's kind of hard to make a reasoned evaluation of whether change is "unnecessary" when it's out of bounds even to raise the question of who's responsible for it. For that matter, Spencer makes his "change" the work of anonymous forces which are never identified, conveniently making the question of who moved the cheese impossible to answer. No scientist in a white lab coat ever reaches in to move the cheese. "Change" is not the product of human agency--it's just "there." I'm surprised Johnson didn't name his "littlepeople" Spit and Swallow, since those seem to be the only possible responses to what's done to them.

It's also hard to imagine, in Johnson's little world, just what the identifying features of unnecessary or unjustified change would be, although in his endpaper blurb he appears to recognize it as a theoretical possibility (like antimatter or wormholes, or something).

In fact, Barbara Ehrenreich reads *WMMC?* in light of another book, *QBQ! The Question Behind the Question*, in which "we are told that questions beginning with 'who' or 'why' are symptoms of 'victim thinking.'"[184] In every concrete example in this sorry excuse for a book, the very act of questioning whether a change is necessary puts one squarely in the camp of Hem. For example, consider this anecdote from Ken Blanchard's introduction:

> One of the many real-life examples comes from Charlie Jones, a well-respected broadcaster for NBC-TV, who revealed that hearing the story of “Who Moved My Cheese?” saved his career....
>
> ...Charlie had worked hard and had done a great job of broadcasting Track and Field events at an earlier Olympic Games, so he was surprised and upset when his boss told him he’d been removed from these showcase events for the next Olympics and assigned to Swimming and Diving.
>
> Not knowing these sports as well, he was frustrated. He felt unappreciated and he became angry. He said he felt it wasn’t fair! His anger began to affect everything he did.
>
> Then, he heard the story of “Who Moved My Cheese?”
>
> After that he said he laughed at himself and changed his attitude. He realized his boss had just “moved his Cheese.” So he adapted. He learned the two new sports, and in the process, found that doing something new made him feel young.
>
> It wasn’t long before his boss recognized his new attitude and energy, and he soon got better assignments. He went on to enjoy more success than ever and was later

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[183] Ibid., p. 38.
[184] Barbara Ehrenreich, "Who Moved My Ability to Reason?" *The New York Times*, August 14, 2005 <http://www.nytimes.com/2005/08/14/books/review/14EHRENRE.html>.

inducted into Pro Football's Hall of Fame – Broadcaster's Alley.[185]

So Job, though sorely tempted to doubt, finally recognized that the Lord moves in mysterious ways, his wonders to perform. And "the LORD blessed the latter end of Job more than his beginning..." For Charlie to question his boss was akin to Job questioning the voice from the whirlwind. "My boss decided it, I accept it, that settles it."

And Johnson's own book, apparently, has itself become a form of cheese-moving to be accepted without question. As Blanchard put it in his introduction,

> it stimulated their [his employees'] thinking about how they might apply what they'd learned to their own situation.[186]

See, whether or not they agreed with what they read wasn't even an issue--just how to "apply" what "they'd learned."

The fictionalized Discussion in the last part of the book, between the class reunion attendees, includes an extended anecdote by "Michael," the meta-story's fictionalized author of the "little story," who invented it to deal with "change resisters" in his own "organization." At one point, he actually appears to be about to address the question of resisting change imposed from above:

> Well, the further we went into our organization, the more people we found who felt they had less power. They were understandably more afraid of what the change imposed from above might do to them. So they resisted change.
>
> In short, a change imposed is a change opposed.

But having skirted the edge of heresy by raising this question, he apparently dismisses it as unworthy of serious consideration. The book helped all these recalcitrants to improve their attitude toward change, and the issue of its legitimacy was set aside with no further mention:

> But when the Cheese Story was shared with literally everyone in our organization, it helped us change the way we looked at change. It helped everyone laugh, or at least smile, at their old fears and want to move on.[187]

There it is again: management assigns (er, excuse me, "shares") this shitty little book to "literally everyone in [the] organization," and they all stop asking about who's imposing this change from above, who it benefits, and whether it's a good idea. They get their minds right.

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[185] Ibid., pp. 14-16.
[186] Ibid., p. 18.
[187] Ibid., p. 91.

> ...practically everyone, those who left and those who stayed, said the Cheese story helped them see things differently and cope better.
>
> Those who had to go out and look for a new job said it was hard at first but recalling the story was a great help to them....
>
> ...[I]nstead of complaining about the changes that were happening, people now said, "They just moved our Cheese. Let's look for the New Cheese." It saved a lot of time and reduced stress....[188]

I'll just *bet* it did, at least for management. "They just moved our Cheese. Let's look for the New Cheese" is certainly less stressful to hear than "They ran the company into the ground, cashed in their stock options just before the earnings report came out, and flushed our pension fund down the toilet! Let's lynch the bastards!"

> Before long, the people who had been resisting saw the advantage of changing. They even helped bring about change.

Michael was then asked why he thought this happened. The answer: people naturally have a good attitude about getting screwed, in the absence of "peer pressure."

> "I think a lot of it had to do with the kind of peer pressure that can exist in a company.
>
> "What happens in most organizations you've been in when a change is announced by top management? Do most people say the change is a great idea or a bad idea?"
>
> "A bad idea," Frank answered.
>
> "Yes," Michael agreed. "Why?"
>
> Carlos said, "Because people want things to stay the same and they think the change will be bad for them. When one smart person says the change is a bad idea, others say the same."
>
> "Yes, they may not really feel that way," Michael said, "but they agreed in order to look smart as well. That's the sort of peer pressure that fights change in any organization....
>
> "People changed because no one wanted to look like Hem!"[189]

Workers who question a "change... announced by top management" (a change that may involve downsizings, a freeze in pay, or a hike in the health insurance deductible), are just like the wayward kid in an episode of *Davey and Goliath*, where Davey is pressured to smoke so he can be one of the kewl kidz--or maybe Timmy falling down a well, or something, on a dare by one of the "bad kids." The point is, if Davey and Timmy would just listen to Mom and Dad, they wouldn't be led into trouble by bad influences.

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[188] Ibid., p. 92.
[189] Ibid., pp. 92-93.

But there were, alas, still a few Hems who failed to respond to the glorious visions of change presented by the Dear Leader. Pay attention, because this is really important:

> "Unfortunately, the Hems were the anchors that slowed us down.... They were either too comfortable or too afraid to change. Some of our Hems changed only when they saw the sensible [by definition] vision we painted that showed them how changing would work to their advantage...."
>
> "What did you do with the Hems who didn't change?" Frank wanted to know.
>
> "We had to let them go," Michael said sadly.[190]

Again, I've scoured this narrative for the slightest hint that the changes imposed by "leaders" could ever be unnecessary or a bad idea. Nothing. In every example in this book, the pattern is: Leader imposes change, the Haws get with the program, and the Hems get the door. In Laura Lemay's words,

> You will read the cheese book, and you will like the cheese book. It will change your life. Or we will fire your ass.[191]

Or as Spencer Johnson himself helpfully put it, "all change is good and... people should mindlessly conform to unnecessary changes imposed by others."

While we're on the subject of that Discussion: it probably says a great deal about Johnson. Outside of the Bible in a Sunday School class, or *Quotations from Chairman Mao* in a Red Guard study circle, it's hard to imagine any book getting such a relentlessly positive and uncritical reception from a group of readers. One almost expects somebody to stand up and ask "Mr. Johnson: Your book's sales have the momentum of a runaway freight train. How do you explain its popularity?"

The only conclusion I can draw from all this is that Spencer Johnson is a dishonest, cowardly weasel. His book was obviously written, with deliberate intent, to impart the very message that he so strenuously disavows: "all change is good and... people should mindlessly conform to unnecessary changes imposed by others." He just doesn't have the guts to own up to it. So when the kitchen light is clicked on, he furiously scuttles under the refrigerator, all the while affecting outrage. He's shocked--*shocked!!*--that anyone could possibly so misconstrue his book as to get the message that he deliberately wrote it to convey.

If anything, Fish! is more vile than *WMMC?*. The aim of the latter fad was simply to

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[190] Ibid., p. 86.
[191] Laura Lemay, "The Cheese Stands Alone" (2001), lauralemay.com.
http://www.lauralemay.com/essays/cheese.html

secure worker acquiescence to the downsizings and increased workloads of the '90s. Fish!, on the other hand, seeks to elicit positive *enthusiasm* from the employee whose work conditions have deteriorated so much; in fact, it explicitly stresses the fact that the worker is working up positivity and enthusiasm *despite* his lack of control over working conditions. Fish! is an attempt to manufacture intrinsic motivation where there is no rational cause for it whatsoever. Its basic purpose was described by C. Wright Mills several decades ago:

> To secure and increase the will to work, a new ethic that endows work with more than an economic incentive is needed. During war, managers have appealed to nationalism; they have appealed in the name of the firm or branch of the office or factory.... They have repeatedly writtten that... "job enthusiasm is a hallmark of the American Way." But they have not yet found a really sound ideology.
>
> What they are after is "something in the employee," outwardly manifested in a "mail must go through" attitude, "the 'we' attitude," "spontaneous discipline," "employees smiling and cheerful."[192]
>
> Any clear idea of "morale" requires that the values used as criteria be stated. Two relevant values would seem to be the cheerfulness or satisfaction of the worker, and the extent of his power to determine the course of his work life....
>
> In contrast... the "morale" of the human relations expert is the morale of a worker who is powerless but nevertheless cheerful.... Assuming that the existing framework of industry is unalterable and that the aims of the managers are the aims of everyone, the experts of "human relations" do not examine the authoritarian structure of modern industry and the role of the worker in it. They define the problem of morale in very limited terms, and by their techniques seek to reveal to their managerial clients how they can improve employee morale within the existing framework of power. Their endeavor is manipulative.[193]

In Fish! Philosophy, unlike *WMMC?*, mere acquiescence to power is not enough. "It's not enough to obey Big Brother, Winston. You must *love* him." To repeat, its purpose is to manufacture intrinsic motivation where there is no objective reason for it. It is to evoke, in people with no control over their work and whose wages have been stagnant for thirty years, intense feelings of commitment to a vocation. Corinne Maier described the principle as she observed it in the French workplace:

> One day, in the middle of a meeting on motivation, I dared to say that the only reason I came to work was to put food on the table. There were fifteen seconds of absolute silence, and everyone seemed uncomfortable. Even though the French word for work, "*travail*," etymologically derives from an instrument of torture, it's imperative to let it be known, no matter the circumstance, that you are working because you *are interested in your work*. Even when put on the rack for hours on end by your pitiless jailers, you'd better not say

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[192] C. Wright Mills, *White Collar: The American Middle Classes* (London, Oxford, New York: Oxford University Press, 1951), p. 234.

[193] Mills, *The Sociological Imagination* (New York: Grove Press, Inc., 1959), p.

otherwise.[194]

One thing the Fish! pimps especially want to stamp out is the tendency to distinguish one's real life, in which one is in charge of one's own time and follows one's own priorities and values, from life inside the corporate walls, in which one executes the tasks assigned by a master. Ken Blanchard, in his introduction to *Fish!*, referred to that heresy as the "TGIF mentality." In my opinion Orwell's term "ownlife" is more apt.

> As the book suggests, "When we choose to love the work we do, we can catch our limit of happiness, meaning, and fulfillment every day."
>
> How important is that? Incredibly important, especially when you consider that people spend about 75 percent of their adult wake time doing work-related activities--getting ready for work, traveling to work, working, contemplating work, and decompressing after work. If we spend that much time in that part of our lives, we ought to enjoy it and be energized by it. And yet, too many people are trading time on the job to satisfy needs elsewhere; "Thank God It's Friday" is still a way of life for many people."[195]

"...*still* a way of life..."? With the structural changes in the workplace--the stagnant wages, the downsizings, the insecurity, the increased workloads, the increasing authoritarianism and surveillance, even increasing exposure to demeaning, manipulative agitrpop like Fish!--it's probably *more* of a way of life than it's been in decades.

And what kind of sense does it make to say that the percentage of our lives we're forced to spend at work is an argument for *identifying with* work? The amount of time we're forced to spend doing wage labor under the direction of bosses is the result of a long series of structural changes, starting with the Enclosures and the forced proletarianization of the peasantry on the eve of the Industrial Revolution--structural changes carried out by the very same people who today constitute the market for demeaning, manipulative gimmicks like Fish! It's likely the slave on a Georgia cotton plantation or a Roman *latifundium* worked *more* than 75% of his waking hours; does that mean he should have tried even *harder* to like exploitation, to get his mind right and learn to enjoy the taste of shit? It's certainly a great way, though, to divert workers from directly addressing the causes for their jobs colonizing the rest of their lives, and just adapt to it. That's probably why it's such a favorite with HR departments.

Far beyond even the mere substitution of extrinsic for intrinsic motivation, Fish! is a way to save management the cost of providing even *extrinsic* motivation, by manipulating the worker into liking whatever he gets: "learning to love what we [sic] do, even if at the moment we may not be doing exactly what we [sic] love."[196] Chester Barnard's

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[194] Corinne Maier, *Bonjour Laziness: Why Hard Work Doesn't Pay*. Translated by Sophie Hawkes (New York: Vintage Books, 2005), p. 34.
[195] Blanchard introduction, in Stephen C. Lundin, Harry Paul, and John Christensen, *Fish! A Remarkable Way to Boost Morale and Improve Results* (New York: Hyperion, 2000), pp. 9-10.
[196] Ibid., p. 11.

discussion of coercion as a way to adjust the worker to make previously insufficient levels of motivation sufficient (see Chapter Six) is relevant here.

The theme of powerlessness is central to Fish!. The theme is repeatedly stated, not only in the book itself:...

> There is always a choice about the way you do your work, even if there is not a choice about the work itself.[197]

> We don't have a lot to do with selecting the work that needs to be done, but we can choose how we approach that work.[198]

...but in the even more dumbed-down literature of institutional Fish! programs:

> We can either give in to external events and pressures, *few of which we can control*, or we can take control of our own happiness. Our choices are, after all, the only things that no one can take from us in this world.[199]

> Many of us believe our attitudes are caused directly by outside influences like unpleasant experiences or negative people. While these things may act as triggers for our feelings, we can choose to either be subservient to these events, *few of which we can control*, or we can take charge of our own responses.[200]

> *We can't control what happens to us*, but we do have a choice about how we respond.[201]

> *You can't always control what happens*, but you can control how you respond.[202]

> *You can't always control circumstances*, but you can control your own thoughts.[203]

Powerful people control *events*. Powerless people control their *attitudes* about those events. It's that simple.

Fish! Philosophy is a lesson from the powerful to the powerless. It involves an enormous sleight of hand, carried out through that ubiquitous word "we." One of the

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[197] Ibid., p. 36.
[198] Ibid., p. 58.
[199] Fish Philosophy official site <http://www.charthouse.com/ffc/goods_collegiateCapsule_choose.asp?whoenter=>.
[200] "The Fish Philosophy," New South Wales Country Areas Program <http://www.cap.nsw.edu.au/QI/TOOLS/def/fishphil.html>.
[201] "Fish Philosophy," Mr. Stepien's Science Page, Buffalo Academy of the Sacred Heart <http://www.myteacherpages.com/webpages/RStepien/fish.cfm>.
[202] "Create a Great Work Environment," *A Special Report* (Council of State Governments--West) <http://www.csgwest.org/Publications/s_rep_work.pdf>.
[203] "Appreciative Inquiry: Application and Celebration. Two WLA Sessions presented at Wisconsin Dells Conference, 2006" (Wisconsin Library Association) <http://www.wla.lib.wi.us/conferences/2006/documents/wlahandouts2006.pdf>.

Fish! reviewers at Amazon.Com drew, as the central message of the book: "since you're being raped, you might as well enjoy it." In the bizarro world of Fish!, the rapist and the victim are equally powerless: "Gee, I sure hate doing this to you. If only there were some other way.... Ah, well, at least we can both have a good attitude about it!" And to be sure, the rapist usually manages to accommodate himself to his fate.

Fish!, by sleight of hand, conceals the elephant in the living room: "we" are not all equally powerless in the face of circumstances. Some people *make* circumstances, and some people *adjust* to circumstances.

Take, for example, the godawful "Third Floor" in the Fish! narrative, which the protagonist is brought in to turn around. The bank's management, as the book repeatedly stresses, is horrified at the negative atmosphere on that floor.

> Words like *unresponsive*, *entitlement*, *zombie*, *unpleasant*, *slow*, *wasteland*, and *negative* were used frequently to describe this group....
>
> Supervisors swapped stories about the latest fiasco on the third floor.[204]

But golly, why is management being so negative about the atmosphere on the Third Floor? Isn't the whole lesson of Fish! that they're supposed to learn to love it? They can't control what employees on the Third Floor do, but they can *choose their attitude* about it. Oh, wait.... that's right. It's only those on the *bottom* who must adjust their attitudes to circumstances imposed on them by others; those at the *top*, on the other hand, get to adjust reality to suit their own attitudes.

To grasp just how presumptuous Fish! really is, just try a thought experiment: imagine management's reaction if the circumstances were reversed. Imagine the bosses' reaction if you and your coworkers matter-of-factly announced that, henceforth, you would be working at a slower pace for the same amount of money, or that you would be receiving a higher hourly wage. Imagine telling the boss "you can't do anything about these changes, but you can choose to have a good attitude about them!" My guess your boss would demonstrate in short order that he *does* have control over events, and that it's not *his* attitude that has to be adjusted. That's because, while *you* may be powerless, your bosses most certainly are *not*.

This assymetrical power relationship is implicit in Fish! Philosophy. And you'd better believe that the people who push it are fully aware of their agenda. If you have any doubts of what the agenda is, and who's pushing it, just Google "Fish! Philosophy"+"your organization." As with *Who Moved My Cheese?*, the people who control organizations are the primary market for Fish!, and the audiences they buy it for are the "human resources" they manage.

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[204] Lundin et al., *Fish!*, p. 18.

They are the ones who *do* things. We are the ones that things are done *to*. Learn to enjoy it, or else. That's the message of Fish! Philosophy.

We saw the common theme, on the left side of the comma in all those snippets quoted above, that we "can't control" what happens to us. But there's a second part to the slogan: we can "control how we respond," or "control our own thoughts." In short, we can "*Choose Our Attitude*." And what "attitude" is it we are to "choose"? Why, taking the interests of management as our own and doing everything to maximize our output for their gain! Like Aristotle's idealized slave, the worker must become a living tool, an obedient instrument of goals and priorities chosen by someone else.

The Fish! authors, quoting John Gardner, unwittingly give a glimpse of the man behind the curtain:

> There is something I know about you that you may not even know about yourself. You have within you more resources of energy than have ever been tapped, more talent than has ever been exploited, more strength than has ever been tested, and more to give than you have ever given.[205]

And we will take, and take, and take, until you have given every last drop you have to give, and then we will replace you. Reading the quote above, I can't help thinking of the human batteries in *The Matrix*.

The reason for burnout in most workplaces is that management has deliberately and systematically downsized staffing levels, trying to get more and more work out of fewer and fewer people. The management of the average corporation manufactures burned out employees like Carter manufactures liver pills. Through Fish! Philosophy, management attempts to deal with burnout entirely through cheerleading and slogans--Stakhanovism--without having to increase staffing levels or pay, or otherwise alter its own contribution to the problem. Fish! Philosophy, at its core, is an attempt to get something for nothing.

Burnout is the natural reaction to prolonged stress: a survival mechanism that involves shutting down, withdrawing, and breaking connections to the sources of stressful stimuli. It's what happens when people are doing their own work plus that of the downsized, often with no time for meal breaks, with less and less control over the structure and pacing of their jobs. Fish! Philosophy reminds me a lot of the military's attempts at creating pharmacologically engineered super-soldiers, robocops who can go 72 hours without sleep and never feel guilt or develop PTSD. In both cases, it's an artificial attempt to squeeze more out of people who've been pushed to the breaking point, rather than doing anything about the stresses they're subjected to.

In such an environment, all the motivational appeals to serving internal and external customers, and viewing coworkers in other departments as part of the same team, is a sick

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[205] Ibid., p. 51.

joke. When the workforce in every department are systematically deprived of the staffing levels needed to do an adequate job, they naturally come to see any source of additional work as the enemy. Every request from an external or internal customer is another weight added to an unbearable load. Workers see increased business as nothing but an increase in their already intolerable workload, from which management or shareholders will appropriate all the increased income for themselves, and workers will never see a dime of increased income. Therefore, they are increasingly hostile to the customer, and seek to avoid extra effort at all costs. At the same time, different departments see each other as sources of additional work, and attempt to push off their insupportable workloads off on each other. A cooperative social order breaks down in an atmosphere of scarcity.

A good example is a 1973 experiment based on the Biblical story of the Good Samaritan. Seminary students were assigned a short talk on a Biblical theme, and sent to a nearby building to deliver it. On the way, they encountered a person who appeared to be seriously ill and unconscious. The one variable that affected their willingness to stop and help was whether they'd been told they were late and needed to hurry, or whether they'd been told they had time to spare. Only 10% of those who were told they were late stopped to help, as opposed to 65% of those who felt they had plenty of time.[206]

Likewise, understaffing and increased workloads inevitably pit workers against each other and against the customer. For the stressed out worker in a downsized organization, any potential source of additional work is viewed as one drowning man views another pulling him down. All the official management happy talk about "internal customers" to the contrary, all the smarmy rhetoric about the "golden rule" in the "core values" statement, is just so much hypocritical blather. Under those conditions, management's cynical exhortations to "teamwork" are about as effective as throwing a bone into a yard full of hungry dogs and then saying "y'all play nice now, y'hear?"

Here's the thing: management doesn't care about what they've done to people, or whether it's right or wrong. And they don't care about internal or external customers, or their mission statements (and vision and values statements, either). What they care about is management featherbedding--more and more quality and process improvement committees--and the value of their stock options. All their oleaginous Hallmark Cards rhetoric notwithstanding, both the production worker and the customer are means to an end for them. They're riding the gravy train, and they want to keep right on riding it. To keep the things that matter to them, they have to keep us running on the treadmill. And when they notice we're not putting out like we used to, they need to figure out what buttons to push to get their human resources back to producing value-added. Fish! Philosophy is a way of pushing those buttons.

That's what it's all about: squeezing more effort out of fewer people, without increasing their pay. Management helpfully informed us, in the monthly official happy

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[206] Jeffrey Nielsen, *The End of Leadership*, pp. 42-43.

talk newsletter at the hospital where I work, that "if we [sic] choose to provide extraordinary patient care" we could do do, "regardless of our [sic] abundance or lack of resources." This is reminiscent of Pharaoh, decreeing that the Hebrew slaves continue to make as many bricks as before, "regardless of their abundance or lack of straw." This was the same management, by the way, who were high-fiving each other behind closed doors on their successful downsizing at the very same time they were churning out saccharine motivational agitprop. While they were publicly gushing that we were their "most important asset," all of us one big happy "team," they were privately congratulating each other on how effectively they'd screwed us over and got away with it.

It's interesting to hear the fictionalized managers in *Fish!* complain about the sense of "entitlement" on the Third Floor. After all, *management's* sense of entitlement comes through loud and clear in *Fish!* Management is *entitled* to a workforce that's enthusiastic and dedicated and constantly goes the extra mile, regardless of how it gets screwed. Management is *entitled* to a workforce that greets every new steaming pile with a joyous cry of "Oh, boy! Shit again!" Management is *entitled* to something for nothing.

It's important to take note of the dog that doesn't bark. A moral tale told by someone in a position of authority, with the intention of inculating some attitude in those subject to that authority, is a lot like a magic act. What's important is the part of the act that the illusionist doesn't want you to see--or the part of the story that's left out. As in *Who Moved My Cheese?*, the one subject the Fish! authors strenuously try to avert attention from is the nature and causes of this objective reality that we're supposed to adjust our attitudes to.

Issues of power, ownership and control are entirely absent from the Fish! book. Things just are the way they are, like the moving cheese, as the result of blind impersonal forces; even to ask the identity of those forces is an act of insubordination. The fact that our society has been transformed from one made up almost entirely of the self-employed, to one in which giant authoritarian hierarchies control the vast majority's access to livelihood, goes completely unremarked.

In one of the most obscene parts of the book, one character, Lonnie, actually compares the homely atavism of his grandmother's kitchen to the modern corporate workplace, as an illustration of "choosing your attitude," as if the two were remotely comparable.

> Let me tell you about my grandmother. She always brought love and a smile to her work. All of us grandkids wanted to help in the kitchen because washing dishes with Grandma was so much fun. In the process a great deal of kitchen wisdom was dispensed. Us kids were given something truly precious, a caring adult.
>
> I realize now that my grandma didn't love dishwashing. She *brought* love to

dishwashing, and her spirit was infectious.[207]

There's one big difference between Grandma's kitchen and the contemporary corporate workplace: the word "her." It was *her* kitchen. It was *her* dishes. She didn't have a boss. She could control how she did the dishes, not just in the lame sense of how enthusiastic an attitude she chose to adopt, but in the real sense of how fast she washed, how many spells of work she wanted to break the job up into and how long to rest in between, what order she washed them in, whether she had separate sinks of wash water and rinse water, what kind of soap to use, whether to dry them with a towel or let them air dry, etc.--all the decisions you'd *better believe* a boss would make for her if she was on a time clock. And unlike the wage serf in the corporate workplace, she was working entirely for herself and her family: she was washing the dishes that she and her loved one's ate off of, and she and her family appropriated all the benefits from washing them.

If Grandma worked in a corporate kitchen, using a hellish institutional dishwasher; if the kitchen staff were downsized until Grandma was handling the load previously handled by three dishwashers, and the dishes just kept piling up faster than she could wash them; if there were repeated inservice meetings and "counsellings" over the kitchen staff's failure to keep up with the increased workload; if she went three years in a row without a cost-of-living raise because "these are lean times and the organization can't afford it," while the CEO's stock options went through the roof and he made a bigger bonus than she'd earn in a lifetime; and if all this time she and her coworkers were barraged with relentlessly upbeat propaganda about "choosing our attitude" and our "core values".... Well, I'm guessing that Grandma would probably get through her shift about the same way I do at the hospital where I work: by muttering "God damn this place. God damn this place. God damn this place. God damn this place" the whole eight hours, and damning the entire management team to hell by name as well.

The difference between *work*, as it existed in a society of free and self-employed producers, and the *job*, is exactly the difference between self-directed *learning* and the *schooling* one receives inside a K-12 prison. The one is an expression of one's self, in a world under one's own control; the other requires internalizing a set of goals imposed by others, out of their own self-interest. To seriously equate the one with the other requires an almost superhuman feat of false consciousness.

Colin Ward quotes Nigel Balchin, a novelist who was invited to address a conference on incentives in industry.

> Industrial psychologists must stop messing about with tricky and ingenious bonus schemes and find out why a man, after a hard day's work, went home and enjoyed digging in his garden.[208]

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[207] Ibid., pp. 37-38.
[208] Colin Ward, *Anarchy in Action* (London: Freedom Press, 1982), p. 95.

The answer, of course, was that it was *his* garden, and he worked it to suit himself without a boss looking over his shoulder.

The good Lord may have sentenced us to earn our bread by the sweat of our brow, but he never said anything about being harassed while we were doing it by some peckerhead in a suit and tie. An anarchist whose program appeared on the local cable access channel once made a very pointed observation: it's wired into us, she said, when somebody follows us around and won't stop bugging the shit out of us, to do one of two things--either get away from them, or beat the crap out of them. A situation in which we're bugged by a boss for eight hours a day, with this "fight or flight" instinct revving our nervous and endocrine systems at 80 mph in first gear, is something we're not designed for by the evolutionary process.

For the Fish! authors, the unpleasantness of a job has absolutely nothing to do with the objective conditions created by those in authority. For example, the authors never spend a moment considering *why* the Third Floor has such abysmally low morale. There's obviously no cause or reason--it happened "just because." So obviously, the only thing needed to fix it is for the staff to get their minds right, without regard to any change in objective, external reality. And management, seemingly, are the only parties who don't have a choice. None of their decisions or policies has anything to do with whether the job is a humanly tolerable one, or whether it is an overstressed, understaffed shithole. They *have no choice* but to react negatively when they can't get more work out of people for the same pay--it's just the objective nature of things. So while management lives in a world bounded by material constraints and limited by objective conditions, workers live in a world created entirely by pure thought.

Another character in the book, Wolf, actually compares working conditions to a car wreck, and his choice of attitude during recovery to one's choice of attitude in the workplace.[209] There's one big difference, though. The race car wasn't a conscious being with a will. It wasn't "treating" him *any* way. And it especially wasn't trying to manipulate him into "choosing" to have a good attitude about being hurt, so it could hurt him again more easily in the future. "Change" isn't something that "just happens" like a car wreck. It's something *done* by conscious agents with an agenda, to promote their own perceived self-interest.

As Barbara Ehrenreich demonstrated in *Bait and Switch*, the required attitudes of relentless upbeat enthusiasm and embrace of authority extend to everyone in the job market--not just those actively employed. For example, participants at one "executive boot camp" were taught in no uncertain terms to take responsibility for all success and failure; anyone giving the slightest hint that structural forces or a sysem of power might be at work quickly learned that they'd touched the third rail: they'd questioned the cheese-mover. Patrick, the counselor, relentlessly cut off any reference to external or

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[209] *Fish!*, p. 80.

institutional conditions.

> ...Billy... observes briskly, "They want ten to fourteen hours a day now.... It's a challenge."
>
> "They?" Patrick interrupts. "Who are *they*?"
>
> It turns out that we are not to talk about "them"; we are to confine ourselves to speaking "experientially".... The market is of no interest to us; it's just another "they"--some external force or entity that can be used as an excuse for our failures.

The job search industry, apparently, has a lot in common with the "name it and claim it!" culture of Pentecostal TV preachers and the "blame the victim" philosophy--so beloved of Oprah Winfrey--in *The Law of Success*. In response to one personal account of impending layoffs and the dangers involved in going into business for oneself,

> Patrick "freezes" Kevin and turns to us: "The person who is stopping Kevin is who?"
>
> Everyone, myself excepted, answers in unison: "Kevin!"[210]

This is exactly the attitude demanded by *Who Moved My Cheese?* and *Fish!*. And in a world where so much obviously unfair "change" has been imposed from above by those who benefit from the injustice, the beneficiaries desperately need for us to accept the "change" with a "good attitude." As we saw with Fish!, a sense of powerlessness and acceptance is a virtue of the ruled:

> Cheerfulness, upbeatness and compliance: these are the qualities of subordinates--of servants rather than masters....[211]
>
> ...[F]rom the point of view of the economic "winners"... the view that one's fate depends entirely on oneself must be remarkably convenient. It explains the winners' success in the most flattering terms while invalidating the complaint of the losers. Patrick's clients, for example, came to the boot camp prepared to blame their predicament on the economy, or the real estate market, or the inhuman corporate demands on their time. But these culprits were summarily dismissed in favor of alleged individual failings: depression, hesitation, lack of focus. It's not the world that needs changing, is the message, it's *you*. No need, then, to band together to work for a saner economy or a more human-friendly corporate environment, or to band together at all.[212]

The culture of the corporate job search industry also requires that the would-be cubicle returnee maintain the habits, even in unemployment, of organizing his life around a job. In other words, the job search must be treated as a job in itself:

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[210] Barbara Ehrenreich, *Bait and Switch: The (Futile) Pursuit of the American Dream* (New York: Metropolitan Books, Henry Holt and Company, 2005), pp. 70-71.
[211] Ibid., p. 230.
[212] Ibid., p. 85.

> You have to structure it hierarchically, complete with someone playing the role of boss.... Thus the one great advantage of unemployment--the freedom to do as you please, to get u when you want, wear what you want, and let your mind drift here and there--is foreclosed. Just when you finally have a chance to be fully autonomous and possibly creative, for a few months anyway, you have to invent a little drama in which you are still toiling away for the man.[213]

This sheds a great deal of light on the aversion of "HR professionals" to periods of self-employment or any other "gaps" in one's resume. The danger is that the human resource may no longer have his mind right, that he has gotten out of the habit of viewing himself as someone else's property under the corrupting influence of being a "masterless man."

> The frequent admonitions on attitude go beyond any simple, common-sense warnings to behave pleasantly in an interview, and instead demand that positive feelings be fully internalized. One website catering to the white-collar job search culture warns that any "negative attitude"--like anger toward a former employer--will show despite your best effort to correct it.[214]

In short, all the "flexibility" and "openness to change," all the positive attitude, are entirely one-sided. The worker is obligated to "think happy thoughts" about whatever is done to him, but is entitled to appeal to absolutely no corresponding obligation on the part of those with power. The worker's duty was ably summed up by Julia O'Connell Davidson: "Employers require workers to be *both* dependable *and* disposable."

Managers themselves, of course, for the most part do not take such motivational blather seriously.

> High morale is variously thought to improved productivity or, at the least, to "make for a family spirit." Only a few managers are willing to voice what a top official of Weft Corporation thinks is actually a widespread managerial sentiment about workers' happiness: "Let them be happy on their own time."[215]

More than a few workers see through all the official happy talk, as well. For example, one worker's reaction to a "corporate culture" campaign at a heavy vehicle manufacturing company in Lancashire: "They give the impression we work together when it suits them, but when it gets rough, we're the ones who get it."[216]

A good example is Robert Jackall's "Covenant" corporation, the locus of the great

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[213] Ibid., p. 89.
[214] Ibid., p. 220.
[215] Robert Jackall, *Moral Mazes: The World of Corporate Managers* (New York: Oxford University Press, 1988), p. 138.
[216] David Collinson, "Strategies of Resistance: Power, Knowledge, and Subjectivity in the Workplace," in J. Jermier and D. Knights, eds., *Resistance and Power in Organizations* (London: routledge, 1994), p. 33.

downsizing described earlier in this chapter. Immediately after the purge of 600 Covenant employees, and in the midst of all the Byzantine maneuverings, betrayals, and other bureaucratic warfare fought to avoid responsibility for losses during the 1982 recession, the company held a "Family Day." Afterward, the CEO bloviated:

> I think Family Day made a very strong statement about the [Covenant] "family" of employees at [Corporate Headquarters]. And that is that we can accomplish whatever we set out to do if we work together; if we share the effort, we will share the rewards. The "New World of [Covenant]" has no boundaries only frontiers, and each and everyone can play a role, for we need what *you* have to contribute.[217]

"Lenin," of Lenin's Tomb, gives an inside reaction to his experiences with Fish!-like attempts at "fun" on the job:

> Today is dress-down Friday. Don't forget the funny tie or the outlandish hat. Don't forget the ribtickling Kermit the Frog shirt. Friday is funday. These employers really take the fucking piss, don't they? Not content with sucking the lifeblood out of you for the working day and tacitly getting free overtime out of you (they call it 'flexibility', almost as if your free labour was a fact about your personality, something you willingly and charitably part with because you aren't one of those inflexible assholes), they have the nerve to try and structure your fun. Office drinks with people you fucking hate, at which you can expect flirting from middle managers who would ordinarily be pushing you around, and fun-filled news items about other departments in the company that you didn't ask for and you don't need. Days out, where you are invited to humiliate yourself in some sporting event like bowling or baseball while getting slowly drunk. Team games, the weekly cake whip-round, the birthday cards. Your fun. Your affections. Often your time. On their orders. Apparently, this sort of thing boosts productivity and team cohesion, but it seems more likely that it reinforces an ideological norm of cheerful willingness to be fucked around, to participate in official lies, to tolerate hypocritical wall-to-wall grins and bonhomie with people who will tomorrow be undermining you or overworking you by any means possible. Hey - you don't want to be a bad sport do you?
>
> In one of my previous jobs, shortly before a wave of redundancies that caught yours truly, the manager thought it was a good idea for an Easter fun stunt to travel round the country in a bunny outfit with a dull power-point presentation filled with appalling attempts at humour. He called it the 'Mad Hatters Tea Party' (there was cake and various beverages). I mean it. He really did that shit. If I'd had time to prepare for this absurdity, I'd have been waiting with a shotgun behind the door: "Hewwo wabbit!" As it is, the worst that happened to him was a ubiquitous blank non-committal stare that the British seem to have honed to perfection, and which disarms bogus humorists in seconds. I believe I did my part. Why do we put up with this? Why don't we reassert our right to be miserable bastards? Be a bad sport. Be uncooperative. Be inflexible. Be prepared to poop a party in an instant. Hey, if you want some real fun, unionise the place, strike and drive them out of business. It's the best years of your life they're sucking out of you, dammit.[218]

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[217] Jackall, *Moral Mazes*, p. 37.
[218] Lenin, "Capitalism Orders You to Have Fun," *Lenin's Tomb*, December 7, 2007 <http://leninology.blogspot.com/2007/12/capitalism-orders-you-to-have-fun.html>.

Management's real attitude toward employee relations and motivation is probably best summed up by this little anecdote:

> At the Manhattan offices of Steelcase, Inc., an office furniture-maker, workers and visitors are greeted in the lobby by a 6-by-4-foot ant farm: ...[I]t was chosen by the company to make a statement about work. In an article in the *Wall Street Journal*..., the company said it was looking for a metaphor to describe how people live and work. "Work is dramatically different than it used to be," Steelcase manager Dave Lathrop told the *Journal*. "For more people, work and nonwork are blending." He explained that the company liked that the ants were able to "silently represent that, simply by doing what they do."[219]

Appendix 8A
Blaming Workers for the Results of Mismanagement

"Employee error," increasingly, is scapegoated for whatever goes wrong in today's downsized, understaffed, sped-up workplace. Four items on the same theme:

1. SENATORS WERE WARNED OF LEXINGTON AIR CONTROLLER UNDERSTAFFING[220]

> JEFFREY MCMURRAY, ABC NEWS - Months before the Comair jet crash that killed 49 people, air traffic controllers at the Lexington airport wrote to federal officials complaining about a hostile working environment in the tower and short-staffing on the overnight shift, according to letters obtained by The Associated Press. In identical letters sent April 4 to Kentucky's senators, Republicans Mitch McConnell and Jim Bunning, a control tower worker said the overnight shift, or "mid," is staffed with two people "only when convenient to management."
>
> The Federal Aviation Administration's guidelines called for two people to be there the morning of the Aug. 27 crash, but only one was present. "We had a controller retire last month and now we are back to single man mids," wrote Faron Collins, a union leader for the Lexington control tower workers. "I ask you one simple question. Are two people needed on the mids for safety or not? If they are, why are they not scheduled?" . . . Besides the letter to the senators, another Lexington control tower operator wrote to the FAA's Accountability Board on Dec. 1, 2005, complaining about a hostile work environment in the tower. That employee requested anonymity, fearing discipline against him.

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219 Daniel S. Levine, *Disgruntled: The Darker Side of the World of Work* (New York: Berkley Boulevard Books, 1998), p. 237.

220 ABC News <http://abcnews.go.com/US/wireStory?id=2427312&CMP=OTC-RSSFeeds0312>. Link now dead. Originally linked in Progressive Review; quotes are from originally quoted text preserved in blog post: Kevin Carson, "Blaming Workers for the Results of Mismanagement," Mutualist Blog, Sept. 17, 2006 <http://mutualist.blogspot.com/2006/09/blaming-workers-for-results-of.html>.

2. Dian Hardison. "I F-ing Warned Them!"[221]

I told them that the technicians and engineers were overworked. I told them that there were too many managers and too many meetings and "dog-and-pony" shows. I told them that their senior "face time" play games, while they spent all their time plotting how to give each other pay raises, and left the guys on the floor to struggle day to day with obsolete and overpriced and unqualified equipment, was going to result in another Challenger.

I was there for Challenger.

I saw the same exact conditions happening again. Overpaid, lazy, irresponsible managers concerned solely with their climbing up their ladders.

I told them they were skimping on inspections. I told them that the ground crews were asleep on their feet from exhaustion. I made as much noise as I knew how to make about the top-heavy bureaucracy sitting around in their fancy panelled offices, giving whorish press interviews in their smugness, while they did not have a clue what was going on in the real world where I was working....

Like Challenger, those who are most guilty are the ones who will attempt to make the most political capital out of it. But the blame for Columbia lies entirely and totally with the NASA administrators. They should all be investigated for their criminal negligence. They should all serve time in jail.

3. MSHA Makes The "Wrong Decision" To Blame Workers For Accidents[222]

That management likes to blame worker behavior for accidents will come as no surprise to American workers. That this "blame the worker" theory is not consistent with the facts, that it doesn't get to the root causes of workplace incidents is also not a surprise to American workers.

So this new Mine Safety and Health Administration program comes as a great surprise to all of us.

MSHA Launches New Safety and Health Initiative[223]

ARLINGTON, Va.- The U.S. Department of Labor's Mine Safety and Health Administration (MSHA) today launched "Make the Right Decision," a safety and health initiative that helps miners and mine operators focus on human factors, such as decision-

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221 Dian Hardison, "Shuttle Crash & Smug NASA Managers 'I F-ing Warned Them!'" *Counterpunch*, Feb. 1, 2003 <http://www.counterpunch.org/hardison02012003.html>.

222 "MSHA Makes The 'Wrong Decision' To Blame Workers For Accidents," *Labor Blog*, July 28, 2005 <http://www.nathannewman.org/laborblog/archive/003252.shtml>.

223 Department of Labor press release, "MSHA Launches New Safety and Health Initiative," July 13, 2005 <http://www.msha.gov/MEDIA/PRESS/2005/NR050713.asp>.

making, when at work. The campaign encourages miners and mine management to work together on safety and health issues.

"MSHA will increase its focus on safety decisions during this campaign, which is not a limited-time initiative," said David G. Dye, deputy assistant secretary of labor for mine safety and health. "We want miners and management to make the right decisions to ensure the safety and health of America's miners."

So what's the problem with encouraging workers to make the right decision?

First, the assumption of this program is that most accident happen because workers make the wrong decisions. In other words, all you need is a little education, training and enlightenment and all will be well. If accidents continue to happen, they're caused by worker carelessness, incompetence, stupidity, suicidal tendencies -- and just plain dumb decisions.

In other words, "Make the Right Decision" is just your same old "behavioral safety" program under a new name. Behavioral safety theories say that worker carelessness or misconduct is the cause of most accidents, and disciplining workers is the answer. But behavioral theories don't hold up to a closer look at the root causes of most workplace accidents: generally management system and organizational problems that lead to unsafe conditions....

So what about these two "unavoidable accidents" reported last year? Would they be alive today if they had just made the right decision?

Two miners killed in pair of incidents

After badly burning his hands in a coal-mining accident earlier this year in Perry County, Edwin Pennington said he was finished with mining work, but he returned for the money, his father said yesterday.

On Wednesday night, Pennington, 25, of Harlan County, was crushed to death in a rock fall at a Bell County Coal Corp. mine — one of two underground mining deaths hours apart in Eastern Kentucky.

Eric Chaney, 26, of Pike County, was crushed in a roof collapse early yesterday at a Dags Branch Coal Corp. mine in Fedscreek in Pike County, officials said.

The deaths were the second and third fatal mining accidents in Kentucky this year, and the first underground fatalities. Nationally, 14 miners have died in accidents this year.

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Bill Caylor, president of the Kentucky Coal Association, an industry group, said the two deaths were unavoidable accidents. "We don't want things like this to happen, but they will," Caylor said. "Mining is very safe, but you have to be careful because you're working around big pieces of equipment."

Or maybe Kevin Lupardus died because he made a bad decision:

Investigation of fatal accident at Boone mine continues

CHARLESTON, W.Va.- State and federal authorities are trying to determine what caused a section of high wall to fall onto an excavator at a Boone County surface mine, killing the machine's operator. The accident occurred at about 2 a.m. Saturday November 21, at Independence Coal's Red Cedar Surface Mine near Clothier. Independence Coal, a subsidiary of Richmond, Va.-based Massey Energy, operates the mine as Endurance Mining, according to federal Mine Safety and Health Administration records. Kevin Lee Lupardus, 41, of Mabscott, was operating the excavator when a "large section" of the highwall fell onto the machine's cab, said Terry Farley, an administrator with the state Office of Miners' Health Safety and Training.

It is somewhat ironic that this program is starting now. Clearly acting Assistant Secretary Dye hasn't read the June 2005 issue of *Occupational Health & Safety* which contains an article by Fred Manuele entitled "Serious Injury Prevention."

Manuele cites experts who point out that what may look like "human error" are actually system errors:

R. B. Whittingham, in his book *The Blame Machine: Why Human Error Causes Accidents*, describes how disasters and serious accidents result from recurring, but potentially avoidable, human errors. He shows that such errors are preventable because they result from defective systems within a company.

Whittingham identifies the common causes of human error and the typical system deficiencies that lead to those errors. They are principally organizational, cultural, and management system deficiencies. Whittingham says that in some organizations, a "blame culture" exists whereby the focus in incident investigation is on individual human error, and the corrective action is limited to that level. He writes: "Organizations, and sometimes whole industries, become unwilling to look too closely at the system faults which caused the error"

He notes that although humans may be involved in the errors that lead to accidents, James Reason and Alan Hobbs, in *Managing Maintenance Error: A Practical Guide* point out that one needs to look deeper:

Errors are consequences not just causes. They are shaped by local circumstances: by the task, the tools and equipment and the workplace in general. If we are to understand the significance of these factors, we have to stand back from what went on in the error maker's head and consider the nature of the system as a whole . . . this book has a constant theme . . . that situations and systems are easier to change than the human condition

In other words, look at the safety systems and find the root causes. If managers (and MSHA)continue to attempt to prevent accidents by focusing on human errors and "wrong decisions," the same accidents, injuries and deaths will continue to happen.

4. Labor Relations in the Health Care Industry for Nurses[224]

More Nurses Needed

* Understaffing: There are not enough nurses to do what needs to be done on any given shift and the nurses who are on duty are exhausted and stressed. A 2003 study by the Institute of Medicine (IOM) found the environment in which nurses work a breeding ground for medical errors which will continue to threaten patient safety until substantially reformed. The IOM points to numerous studies showing that increased infections, bleeding and cardiac and respiratory failure are associated with inadequate numbers of nurses. A 2002 report by the Joint Commission on Accreditation of Healthcare Organizations called the nursing shortage “a prescription for danger” and found that a shortage of nurses contributed to nearly a quarter of the anticipated problems that result in death or injury to hospital patients.

* Low Nurse-to-Patient Ratios: With managed care restructuring the health care industry in the 1990s, hospitals reduced staffing levels to lower costs. Nurses care for more patients and patients who are more acutely ill due to shorter hospital stays. One study of hospital staffing found that decreases in the number of LPN/LVNs added to RNs’ patient load. Studies have linked low nurse-to-patient ratios to medical errors and to poorer patient outcomes, as well as to nurses leaving patient care. A 2002 study by Linda Aiken, et al., found that for each additional patient over four in an RN’s workload, the risk of death increases by 7% for hospital patients. Patients in hospitals with eight patients per nurse have a 31% higher risk of dying than those in hospitals with four patients per nurse. The IOM study recommends that nurse staffing levels be raised in all health care facilities.

* Mandatory Overtime and Floating: Because of the nursing shortage, many hospitals routinely require nurses to work unplanned or mandatory overtime and to “float” to departments outside their expertise. On average, RNs work 8.5 weeks of overtime per year according to a recent union survey. Mandatory overtime was an issue in several recent strikes and 77% of RNs favor a law banning it except when an emergency is declared.

* Burnout: Among nurses there are high rates of emotional exhaustion and job dissatisfaction which are strongly associated with inadequate staffing and low nurse-to-patient ratios. The Aiken study found each additional patient per nurse corresponds to a 23% increased risk of burnout, as well as a 15% increase in the risk of job dissatisfaction.

What's even worse, management's penny-wise, pound-foolish policies, which attempt to cut costs by deliberate understaffing, don't really even save money:

Statistical model shows [sic] that when nursing units are understaffed the additional

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[224] Michigan State University, School of Labor and Industrial Relations, "Labor Relations in the Health Care Industry for Nurses: Online Credit Program" <http://www.lir.msu.edu/distance_learning/MNAArticleandWebPage.htm>.

costs associated with patients who develop complications are greater than the labor savings due to understaffing....

While immediate personnel costs are less with short staffing, long term costs were higher because patients with complications often stay longer in the hospital and require other expensive treatments....

Institutions attempting to decrease costs through health care worker reductions may, in the final analysis, incur higher costs as a result of higher rates of nosocomial infection, longer hospital stays and use of expensive antimicrobials and increased mortality.[225]

It's just another example of the MBA disease: stripping organizations of productive assets and milking them in order to inflate short-term returns.

By the way: the healthcare industry has its very own "behavioral safety" approach to hospital-acquired infections, directly analogous to the "human error" approach described above in the mining industry. The spread of MRSA and other infections in hospitals is the direct result of downsizing and understaffing--also the primary cause of patient falls, medication errors, wrong site surgery, etc., etc., etc., etc., ad nauseam. Healthcare workers know they need to wash their hands--but *knowing* and *being able to do* are two different things when the only orderly on the floor is literally running from one call light to another, and he's got three patients sitting on bedside commodes at the same time as two other fall-risk patients are setting off their bed alarms. Rather than deal with the root cause--the dangerous levels of understaffing that have resulted from the downsizings of the past decade--hospital administrators resort to asinine gimmicks like the "Partners in Your Care" program (designed by a manufacturer of hand disinfectants):

Patients and families are asked to be Partners in Your Care by asking all healthcare workers that have direct contact with their family member patient “Did You Wash Your Hands?” or “Did You Sanitize Your Hands?”[226]

Dilbert effectively parodied a similar program: the company response to on-the-job accidents was a "safety dog" who admonished "Woof, woof! Don't use scissors!"

Attempts to deal with safety issues through such behavioral approaches, rather than by addressing the structural and process causes, are what Peter Drucker called "management by drives" and Deming dismissed as "slogans, exhortations, and revival meetings." But in the modern workplace, such slogans and gimmicks are likely to appear on the very same bulletin board as kwality jargon from Six Sigma or ISO-9000.

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225 Wisconsin Federation of Nurses and Health Professionals, "A Summary of Recent Research Supporting the Need for Staffing Ratios and Workload Limitations in Healthcare" <http://www.wfnhp.org/setlimits/researchsummary.html> Link no longer active, but available through Internet Archive.

226 Official Steris corporate website. http://www.steris.com/aic/partners.cfm

Appendix 8B
Corporate Rhetoric vs. Corporate Reality: The Case of "Chainsaw Al" Dunlap

In a 1995 *Wall Street Journal* article by Alex Markels and Joann S. Lublin,[227] I saw one Albert J. Dunlap, referred to as simply a "turnaround specialist" and CEO of Scott Paper, quoted on the wisdom of eliminating employee longevity awards.

> To some managers, rewarding long service reinforces the very attitude of entitlement they are trying to stamp out.
>
> Last year, Scott Paper dropped its entire service-award program as part of a broad restructuring. "We [were] rewarding longevity and the status quo; the status quo had been an abysmal failure," says Albert J. Dunlap, a turnaround specialist hired as chairman and chief executive last year to revive Scott's sagging fortunes. Mr. Dunlap concedes that he "got some grief" over the move, but he wasn't swayed.
>
> Like other companies cutting awards, Scott also cited a desire to cut costs. "Everybody likes to go to big dinners and get nice awards," Mr. Dunlap says. "But it's not right. You're using shareholders' money," he adds.

When I read that quote, my only immediate reaction was to wonder just how enormous an executive compensation package Mr. Dunlap received, whether he felt "entitled" to it, and whether he thought it came from shareholders' money. But the name seemed to ring a bell, for some reason. Having read Arianna Huffington's *Pigs at the Trough* a few weeks earlier, I checked to see if I might have seen Dunlap mentioned in there. And boy, howdy, was he![228] Contrasting his pious rhetoric above to his swinish behavior is a lesson in hypocrisy.

I mentioned Dunlap, in Chapter Seven, as evidence that Mises' much-vaunted double-entry bookkeeping, which he promoted as a panacea for the agency problems resulting from the separation of ownership from control, is of little avail when the agent is keeping the books. Dunlap was a master of the game when it came to massaging the numbers, gaming the short-term profits and maximize his stock options and bonuses, taking off with the loot, and leaving a gutted shell behind.

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[227] Alex Markels and Joann S. Lublin, "Management: Longevity-Reward Programs Get Short Shrift," *The Wall Street Journal*, April 27, 1995 <http://www.markels.com/management.htm>.

[228] Arianna Huffington, *Pigs at the Trough: How Corporate Greed and Political Corruption are Undermining America* (New York: Crown Publishers, 2003), pp. 62-65.

Dunlap didn't just massage the numbers. He gave them a thorough rolfing. And the scale of downsizing he practiced, which earned him the nickname "Chainsaw Al," make Bob Nardelli look positively prodigal.

His final downfall resulted from his performance at Sunbeam, a Boca Raton appliance maker. His approach to "turning around" that underperforming company was to fire half the workforce, close 18 of 26 plants, and eliminate 80% of the product line. That, in itself, wouldn't be so remarkable. That's just an extreme version of the typical MBA playbook these days.

What's really remarkable is the appalling lengths he went to, in using accounting jugglery to deceive shareholders. His gutting of productive capability didn't make the company profitable, or increase the value of the shares. So, as Huffington said, "[i]f he couldn't actually make the company profitable, Dunlap decided, he could at least make it look profitable on paper."

> With a little help from the corporate criminal's best friend, the master chefs of book-cooking at Arthur Andersen, Dunlap used illegal accounting tricks to shift revenue around, which had the effect of increasing Sunbeam's reported losses under previous management. Millions of dollars of expenses incurred in 1997, his first full year at Sunbeam, were charged to 1996 instead. Dunlap then dipped into the artificial reserve to inflate accounts and "increase" earnings. Here's how an SEC spokesman later described Dunlap's scam: "You load up the cookie jar with improper reserves and then when you need a sugar jolt, which in this example is positive earnings, you reach into the cookie jar."

We've already seen, in Chapter Seven, Martin Hellwig's reference to the standard corporate practice of accumulating large reserves of real estate and other investments, in order to smooth out cash flow in bad years.

It's especially comical to read the *WSJ*'s reference to Dunlap above as exemplifying opposition to ordinary production workers' "attitude of entitlement," and his pious words about "the shareholders' money," in light of his performance at Sunbeam. The extent of his respect for "the shareholders' money" should be pretty clear from the account above.

As for "attitudes of entitlement," how's this: When called to account before the Sunbeam board of directors, he went shouted, "I'm much too rich and much too powerful to have to take this shit from you!"