

Trumponomics, firm governance and US prosperity

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Resume

This article focuses on Trumponomics from the perspective of firm governance. It argues that Trump is not interested in economics because the discipline does not offer a useful guide to his kind of management. On the other hand, it questions, using German stakeholder management as a comparative case, whether Trump's views of management, imbibed from his environment, can effectively restore prosperity to white middle class Americans living in rust belt communities. The argument is historical, the conclusion contemporary.

Trumponomics and economics

George Stigler observed that Donald Trump knows no economics, (which is a slight exaggeration, since the President claims a degree in economics, but true conditionally nonetheless, because he is not an economist by long-time practice and so does not have an economist's perspective). Few, however, would suggest that Trump does not understand at least a particular kind of management. MSNBC invited him to address students at his alma mater, the Wharton School, on January 2, 2008, to present management ideas expressed in a book written with Bill Zanker, entitled *Think Big and Kick Ass in Business and in Life*. Brian Halligan, founder of Hub Spot marketing, who attended the session and took notes, summarized with comment ten management lessons that Trump outlined:

1. Work Hard – This is a platitude uttered by every speaker at every event like this, but the Don gives this more than the usual lip service. He basically said that everyone he knew that made a lot of money and was ultra successful worked seven days a week...; they should be prepared for 80-hour weeks for a long time.
2. 'Love' What You Do – He discouraged the audience from joining or switching to a 'hot industry' (i.e. hedge funds) or from going into consulting in favor of getting involved with an industry you love..., even if that industry is not *currently* doing well as a whole. His message was that you will perform so well in your imperfect industry that you will ...end up being a star in the top 1%.... He thought the pay in the top 1% of a crappy industry (in a job you love) would top the 50th percentile in a hot industry (in a job you loathe).
3. 'Know' What You Do – Whatever industry you are in and whatever role you play in that industry, work hard to become a world class expert in it. For example, if you are a marcom manager in a security software company, he suggested that you ought not just focus on getting good at seo [search engine optimization] and email marketing campaigns

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horizontally, but that you ought to become an expert in that security industry yourself, so that you can communicate with all levels of people about the technology *simply*, so that you can have detailed conversations with analysts, so that you can write credible blog articles, so that you can explain the future competitive dynamics to potential investors, etc.

4. Luck – According to Don, ‘The harder I work, the luckier I get.’

5. Education – A huge advantage that is expensive in the short run, but cheap in the long run.

6. Management – Donald fought the platitude pattern and said ‘You want to be smarter than your people’. He thought the notion that you should hire people smarter than you was a poor one.

7. Persistence – He credited his success and the demise of many of his competitors to being patient and persistent over long periods of time to wait out market fluctuations.

8. Negotiation – Always do it face-to-face..., so you can read the other person’s body language.

9. Middle men – Donald is not a fan of middle men who do not add value and who extract outsized returns. ... There are so many industries that have middle men filled with old boys clubs that take money out of your pocket. If you want a good example, try leasing some office space or dealing with a technology ‘analyst’.

10. Marriage – Marry someone who understands #1 above and make sure to get a prenuptial agreement....”

Classical economics, spawned in an age when the UK was still largely proto-industrial and a forest of small and middle-sized firms, invented the invisible hand to assure consumers that open competition in free markets would serve the public good. Since poor management automatically fails in the firms that go under, the invisible hand regulating free markets guarantees the development of good management. The dictum of the invisible hand of market discipline became the folklore of US political wisdom and the guiding principle of economics. Markets, not management, were the focus of classical economic’s investigation.

In the 20th century, the “visible hand” of firm governance, in Alfred D. Chandler, Jr’s apt phrase, replaced the invisible hand of market discipline (Chandler, 1977). This led to a separation of ownership from the management, what I called “managerialism” and defined in 2009 as

“What occurs when a special group, called management, ensconces itself systemically in an organization and deprives owners and employees of their decision-making power (including the distribution of emoluments) – and justifies that takeover on the grounds of the managing group’s education and exclusive possession of the codified bodies of knowledge and know-how necessary to the efficient running of the organization” (Locke, 2009, 28).

Chandler and Redlich in 1961 described the managerial hierarchies that emerged in huge multifunctional firms:

“The centralized coordination, evaluation, and planning for the diverse activities of a large number of sub-units which often carried out several different functions of production, distribution, and transportation within a single, purely private enterprise, were something new in economic history. Such needs brought the managerial enterprise into being. The new enterprise

could not run efficiently without formal internal organizations. They required the generation of internal operating, financial and cost data. Only through a flow of internal impersonal statistics could control of these large enterprises be maintained” (Chandler and Redlich, 1961, 5).

The new managerial hierarchy diversified. Engineers on the shop floors and in the manufacturing divisions of M-form corporations made artifacts. Top management, in which controllers trained in accounting, increasingly replaced the engineers and thought about money, that is, about constantly improving return-on-investment. The controller (today the Chief Financial Officer) became the board of director’s indispensable man. He was generally a vice president in the company, with direct access to the chief executive. His function made him a fount of information for policy decisions of a financial, technical, and/or commercial nature. He also had an instrumental role in policy implementation once decisions were taken.

These developments and their consequences drew public attention. In 1932 Adolf Berle and Gardiner Means, in *The Modern Corporation and Private Property*, described the role of management as a functional caste in executive circles; Simone Weil about the same time (1933) recognized that the separation of ownership from control had created a new “oppressive” class, as opposed to the older idea, derived from Marx, of the bourgeoisie as an “exploitive” class (Grey, 1996, 597); James Burnham’s *The Managerial Revolution* appeared in 1937. By World War II the management caste became, to use Heinz Hartmann’s words, “a fourth production factor... a strategic variable for the development of the firm” (Hartmann, 1963, 113). The emphasis at the top was on financial outcomes.

Concurrently a new management science emerged. A lot has been written about this subject. Suffice it to say that up to the 1930s the study of management focused on firm practice, but the operational difficulties encountered in the war brought scientific methods into the management equation (Locke, 1989, 1-29, Khurana, 2007, 233-290, Locke and Spender, 2011, 10-15). The reference is to science, not to scientists, for it was not just a question of intelligent men and women helping out, but rather of their deploying science’s methods to solve unprecedented strategic planning, logistics, and operation problems. Operations research (OR) projects drew on statistical and mathematically informed techniques, such as queuing and transportation theories that were particularly suited to maximizing efficiency in large-scale military operations.

During the Cold War the use of science in government-affiliated OR agencies expanded. In 1946 the US Army Air Force funded a new think tank, the Rand Corporation, to help solve operations problems. In 1947, George B. Dantzig and his Rand associates developed the simplex linear programming algorithms for decision-making. The procedure utilized modern mathematics (vector algebra, matrix theory, symbolic logic) and statistical techniques in an effort to take the guesswork out of decision-making.

Since mathematics and scientific methods prevailed in them, departments of industrial administration, especially in engineering institutions, pioneered the work in higher education. The Case Institute of Technology in Cleveland started the first operations research unit at the urging of industry (with financial support from the Chesapeake and Ohio Railroad Co. and the US Air Force). The institute organized a national conference in November 1951 on OR in business and industry attended by 150 people from all over the country (Page, 1952).

If neoclassical economists still ignored the subject of management, OR's science impressed them, because they had a problem in their own discipline. Since its birth in the late 19th century, it aspired, as it still does today, to become a prescriptive science; consider León Walras' attempt to make it a "mathematical science". (*Elements of Pure Economics*, 1874) In 1944 John von Neumann and Oskar Morgenstern in the foreword to *Theory of Games and Economic Behavior* observed that after decades of effort they had failed. They wrote:

"The concepts of economics are fuzzy, but even in those parts of economics where the descriptive problem has been handled more satisfactorily, mathematical tools have seldom been used appropriately. Mathematical economics has not achieved very much" (Neumann and Morgenstern, 1944, Introduction).

Economists post World War II came to believe that the new OR scientific toolkit would make the discipline a prescriptive science. Immediately post war, after working at Rand, Kenneth Arrow used it in his work on Rational Choice Theory. His book *Social Choice and Individual Value* (1951) was the "first real classic" on what "is now taken as a given in economics and has spread out into many neighboring disciplines" (Bellah, Introduction 2000, 7). The neoclassical economists Joseph Dorfman, Paul Samuelson, and Robert Solow applied linear programming to their subject (Dorfman, Samuelson, and Solow, 1958). In 1954, Kenneth Arrow and Gerard Debreu announced that they had achieved a mathematical solution of general equilibrium, "the theoretical core of neo-classical economics," which Edward Fullbrook states "has become the central showpiece of academic economics ever since" (Fullbrook, 2003, 5; Arrow and Debreu, 1954).

Managerialism also affected the economists' views about the nature of the firm. Susan Holmberg and Mark Schmitt call this theoretical development the Milton Friedman Doctrine:

"[Friedman] wrote in 1970 that 'a corporate executive is an employee of the owners of the business [i.e., the shareholders]; he has direct responsibility to them as his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible, without breaking the law or cheating people.' ... Michael C. Jensen and William H. Meckling codified Friedman's argument with their seminal 1976 article, 'Theory of the Firm'. The purpose of corporate governance, they argued, is about finding ways to align the incentives of shareholders (whom they referred to as 'principals') and executives ('agents' of the shareholder owners). This theory enraptured economics departments and business and law schools for decades and profoundly shaped how corporate officers, shareholders, taxpayers, policy-makers, and even most Americans think about the roles and responsibilities of corporations" (Holmberg and Schmitt, 2016, 1-2).

Because of the value their performance added to the firms they managed, CEOs' high salaries were worth it.

If neoclassical economics borrowed so heavily from OR methodologies, why would managers not find economics useful? The answer is that the traffic between OR and economics was a one way street; economics borrowed OR science methodologies, but despite taking on its scientific toolkit, the discipline did not subsequently succeed prescriptively, as I noted in

chapter two (“The New Paradigm Revisited”) of my book *Management and Higher Education Since 1940* (Locke, 1989), and as repeatedly attested to in the blog and articles of the *Real-World Economics Review*.

Nor for similar reasons could managers benefit from the Milton Friedman Doctrine. Holmberg and Schmitt noted that the doctrine’s prescriptive value was questioned “at the 2013 annual meeting of the Allied Social Science Associations [when] the French financial economist Jean-Charles Rochet in the keynote address... skewered the very foundation of pay for performance. Cornell Law School professor Lynn Stout calls ‘shareholder value a myth’ – the idea that corporations exist for shareholders and no one else. Rochet told the conference: ‘Everyone knows that corporations are not just cash machines for their shareholders, but that they also provide goods and services for their consumers, as well as jobs and incomes for their employees. Everyone, that is, except most economists, [for whom] shareholder primacy has never been challenged in a serious way’” (Holmberg and Schmitt, 11).

Holmberg and Schmitt continued, citing and quoting Lucian Bebchuk and Jesse Fried’s earlier book, *Pay Without Performance* (2004), “...that executive pay could not even be said to be based on stockholder-owners subjective appreciation of executive performance. They (Bebchuk and Fried) ‘wrote that skyrocketing executive pay is the blatant result of CEOs’ power over decisions within US firms, including compensation’” (quoted in Holmberg and Schmitt, 12). It reflected director, not stockholder, primacy. (On the subject also see Bainbridge, 2006)

Accordingly, why should Trump or any active manager pay attention to the Milton Friedman Doctrine if economists have failed to bring economic thought into line with developments in firm governance. As Gunnar Eliasson concluded:

“The management teacher as well as the economic theorist needs a realistic model of the firm, [but] no good model of the firm has been created. The moral is... that we have excellent firms, not thanks to but despite management teaching” (Eliasson, 1998, 9).

Trumponomics and social prosperity

The management principles Trump evokes in *Think Big and Kick Ass* are those for self-enrichment reminiscent of robber barons during the Gilded Age. In his election campaign Trump promised to use his knowhow to restore prosperity to the dispossessed white middle class in rust belt communities. Will his management principles, if they served him and other billionaires well, do the same for the white middle class communities? This is a question economists seldom ask since they exclude management systems and methods from their analytical purview. It is also a question that Trump has not asked, inasmuch as he attributes the impoverishment of industrial America’s white middle class to NAFTA and other trade agreements, misguided environment policies that destroy jobs, e.g., in coal-mining regions, and tax provisions that encourage corporations to move manufacturing off shore. If economists and Donald Trump ignore the management question, historians have not, and for good reason.

History involves specificities that differ in time and place. The specific time referred to here in US history is when in the 1980s and 1990s the old staple mass production industries

(automobiles, steel, rubber, consumer electronics, and their suppliers) succumbed to Japanese competition. Trump is a great believer in what the Germans call the Führerprinzip (leadership principle), which he thinks is the key to success. A good leader is needed to harness the will and energy of the people in the enterprise and the nation, for “without leadership,” he says, “organizations slowly stagnate and lose their way... Leaders influence behavior, change the course of events and overcome resistance and therefore leadership is regarded as crucial in implementing decisions successfully.”

But in the timeframe under consideration, American director primacy forms of management did not protect American mass production industry and the blue collar populations it succored nearly as well as the stakeholder forms of management that had developed in Germany (and other northern European countries) after the war as alternate forms of firm governance (Albert, 1993).

That the German story is radically different from the American can be demonstrated through comparative analyses of the top twenty firms in each country, ranked by revenues (2012):

USA

- | | |
|-----------------------|----------------------------|
| 1. Exxon | 11. AT&T |
| 2. Wal-Mart | 12. Valero Energy |
| 3. Chevron | 13. Bank of America Corp |
| 4. Conoco-Philips | 14. McKesson |
| 5. General Motors | 15. Verizon Communications |
| 6. General Electric | 16. JP Morgan Chase & Co |
| 7. Berkshire-Hathaway | 17. Apple |
| 8. Fannie Mae | 18. CUS Caremark |
| 9. Ford | 19. IBM |
| 10. Hewlett-Packard | 20. Citi Group |

(Source: Stahl, 2013, 59)

Germany

- | | |
|---------------------|-------------------|
| 1. Volkswagen | 11. Aldi Group |
| 2. E.ON | 12. BP Europa SE |
| 3. Daimler | 13. Robert Bosch |
| 4. Siemens | 14. RWE |
| 5. BASF | 15. Rewe Group |
| 6. BMW | 16. Edeka Group |
| 7. Metro | 17. Audi |
| 8. Schwarz | 18. Thyssen Krupp |
| 9. Deutsche Telekom | 19. Deutsche Bahn |
| 10. Deutsche Post | 20. Bayer |

(Source: *ibid.*, 61)

Some firms on each list are classifiable under the same rubric, e.g., retail giants (in the US, Wal-Mart and McKesson; in Germany, the Aldi and Edeka Groups). Others are famous oil

and energy firms, mostly on the US list. But there are two big differences between the lists that are of interest here.

Financialization

One is that among the top twenty US firms there are many drivers of financialization (Berkshire-Hathaway, Fannie Mae, Bank of America, JP Morgan Chase Co, Citi-Group, and GE Financial), or US firms that are the creation of financialization (Hewlett-Packard: IPO 1957; Apple: IPO 1980). On the German list, there are none, i.e., not one is a financial institution, not one is a stock market IPO creation.

The financialization referred to is not limited to the concentration on financial outcomes that had become the preoccupation of top management in large firms, although that is part of it. Rather it is the change during the last three decades of the 20th century from viewing a business as a vehicle for earning “returns on investment... based on the value created by productive enterprise” to viewing a business “as assets to be bought and sold for maximizing profits through financial strategies” (Ball & Appelbaum, 2). This is the world that Donald Trump knows and in which he operates.

Dünhaupt describes five ways in which financialization changed executive behavior: 1. It shifted the basis of enterprise finance from banks to capital markets; 2. It reinvigorated the “rentier” class that had been on the decline by creating institutional investors (e.g., pension funds) that base investment decisions solely on stock prices and short-term return on investment; 3. It linked financial trading to new financial institutions (e.g., investment banks, hedge funds, and private equity firms) and new financial instruments (e.g., derivatives, stock options, and credit swaps); 4. It stressed profit-making through financial activities instead of through real productive activity; 5. Under the guise of increasing shareholder value in a firm, it subordinated the interests of stockholders in nonfinancial firms to those of directors (and, implicitly, those of Wall Street analysts, investment bankers, and large investors) (Dünhaupt, 2011, 10).

Financialization of US capitalism expanded the emphasis on maximizing financial gain that top management emphasized in large firms in broader institutional ways – through the spawning of venture capitalist firms, angel investor networks, and IPOs, through the promotion of private equity buyouts, amalgamations, and other schemes of privatization that whet the appetites of the investor class and fill the wallets of their agents with lucrative commissions for dealmakers in hedge funds, private equity firms, and investment banks.

The growth of finance inevitably transformed US management education. Carnegie Institute of Technology’s Graduate School of Industrial Administration (to become the Tepper School of Business in 2003) set up a Financial Analyst Security Trading Center (FAST) in 1989, one of the first US educational institutions to replicate successfully the live international data feeds and sophisticated software of Wall Street trading firms. (Bach, 1958) The business school at Carnegie Mellon introduced an MBA in computational finance, an MS in quantitative economics and an MS in computation finance in which the students studied equities, bond portfolio management, and the stochastic models upon which derivative trading, i.e., the Black-Scholes formula, is based. Although early off the mark, there was nothing exceptional in the last decade of the 20th century about the program in mathematical finance at Carnegie-Mellon; all the top business schools developed them.

MBA's increasingly found jobs in the banks, hedge funds, and investment houses of the expanding financialization sector. Khurana's study of Harvard Business School MBA's cites a survey of first jobs for graduating Harvard Business School students: Between 1965 and 1985 students' entry into financial services and consulting "rose from 23 percent to 52 percent" of graduates (Khurana, 2007, 328-29). The same shift happened in "other elite schools, such as Wharton and the business schools at Stanford and the University of Chicago." By 2005 "among the 180 principals and managing directors in the 20 largest investment firms, 73...[held] an MBA from one of the six elite schools (Harvard 51, Chicago 7, Columbia 6, Stanford 5, Dartmouth's Tuck 3, and Northwestern 1" (349).

British and American financialization affected the business of German private commercial banks in their own country; the Anglo-Saxon firms so dominated internationally that by 2004 German financial institutions only transacted 38.3% of the German merger and acquisition business, 21.8 percent of the German equity market business, and 16.3% of the debt market business (*The Economist* 1.11. 2004, 82).

German private commercial banks, fighting back, began trading in securities and engaging in business consultancy. They also, following the UK and US banks, marketed new products and services, including selling loan packages, credit cards, and insurance, and organizing electronic banking through automated machines and on-line services.

But educational and banking traditions hindered Germany from developing institutional arrangements that followed those pushing US and UK financial development. One difference was educational. In the US, the UK, and France members of an ambitious elite, like Trump, study in top-ranked schools; that is, **where** people study is more important to their careers than the subject studied. In Germany **what** people studied was more important than **where**. The absence of national elite schools made recruitment of financially savvy high flyers more difficult, especially when there were few MBA study programs in German institutions of higher education.

When big German commercial banks in the 1990s decided to adopt the US-UK investment banking model, therefore, they had trouble recruiting in Germany. The banks decided to acquire the required expertise through acquisition. Deutsche Bank bought Morgan Grenfell, the British merchant bank, in 1989 and Bankers Trust, the US specialist in hedge funds, in 1999, and moved its investment banking headquarters to London. Dresdner Bank acquired UK-based Kleinwort Benson in 1995 and US-based Wasserstein Parella in 2000, attempting to expand into the global big leagues of underwriting, sales and trading, and merger advice. In other words, running the risk of generalization, it could be said without exaggeration that US and UK financialization, because first off the block and more highly developed globally, co-opted German.

Manufacturing

The second big difference gleaned from a comparison of the top twenty German and US firms pertains to manufacturing. Few of the manufacturing firms on the US list were famous before World War II (Ford, GM, GE), but such firms dominate the list of the German top twenty, many of them prominent even before World War I (Deutsche Post, Robert Bosch, Daimler, BASF, Thyssen Krupp, Bayer, and Deutsche Bahn). The US list would have been different had it been drawn up before the Japanese challenge to mass production US manufacturing

had taken effect. In 1996, I described the rapid disappearance of the American staple industries in the early 1980s that the Japanese challenge caused in automobiles and in the related industries of steel, glass, and tires:

“The total number of workers in the automobile industry declined from 802,800 in December 1978 to 478,000 in January 1983. By 1980 Japan had become the world’s major automobile producing nation. American automakers’ world market share declined from 27.9 percent in 1970 to 19 percent in 1982. The story in steel was even worse. In 1982 eighteen major steel companies recorded a combined loss in that year of \$3.2 billion. Half of the routine steelmakers’ jobs vanished between 1977 and 1988 (from 489,000 to 260,000.) To these horror stories could be added many others about American failure in mass-production industries – transistor radios, cameras, binoculars, sewing machines, color televisions, VCRs, compact discs, as well as in glass and tire manufacturing...” (Locke, 1996, 160).

Whatever Donald Trump thinks about the prowess of US management, it is clear that US mass production firms suffered an existential crisis after 1980, and a plethora of comparative management books and articles published in the 1980s and 1990s blamed the outcomes on the superiority of Japanese management to American.

H. Thomas Johnson, for one, traced the US failure in an industry they once dominated (automobiles) to the transformation of management through the financilization of top management, expressed in firm control mechanisms, whose philosophy of managerialism had permeated management school research and teaching. He wrote

“[US] managers believed they could make decisions without knowing the company’s products, technologies, or customers. They had only to understand the intricacies of financial reporting ... [B]y the 1970s managers came primarily from the ranks of accountants and controllers, rather than from the ranks of engineers, designers, and marketers. [This new managerial class] moved frequently among companies without regard to the industry or markets they served... A synergistic relationship developed between the management accounting taught in MBA programs and the practices emanating from corporate controllers’ offices, imparting to management accounting a life of its own and shaping the way managers ran businesses” (Johnson and Bröms, 2000, 57).

“At first the abstract information compiled and transmitted by these computer systems merely supplemented the perspectives of managers who were already familiar with concrete details of the operations they managed, no matter how complicated and confused those operations became. Such individuals, prevalent in top management ranks before 1970, had a clear sense of the difference between ‘the map’ created by abstract computer calculations and ‘the territory’ that people inhabited in the workplace. Increasingly after 1970, however, managers lacking in shop floor experience or in engineering training, often trained in graduate business schools, came to dominate American and European manufacturing establishments. In their hands the ‘map was the territory.’ In other words, they considered reality to

be the abstract quantitative models, the management accounting reports, and the computer scheduling algorithms” (Johnson and Bröms, 186-87).

Johnson observed, in his comparative study of US Big Three automakers with Toyota’s Georgetown, Kentucky plant, that the American firms operated under different forms of management than their increasingly successful competitor. He called the American mass production system “management by results”, which he presented under seven rubrics:

1. the individual is responsible
2. control results
3. follow finance-driven rules
4. manipulate output to control costs
5. increase speed of work
6. specialize and decouple processes
7. the individual is the cause – blame

By comparison the Toyota Kata at Georgetown operated under “management by means”, a system wherein:

1. relationships are reality, and management
2. nurtures relationships,
3. masters life-oriented practices,
4. provides output as needed on time,
5. changes how work is done,
6. enhances continuous flow, and
7. when troubleshooting, considers mutual interaction as the cause of a problem – not individuals (Johnson and Bröms, 2000, 186-87).

Toyota’s management at Georgetown reflects Japanese classroom education K-9 of intragroup cooperation that stresses “the process through which results are obtained, not the results themselves” (Locke, 1996, 141); US automobile production management mirrors educational traditions that evaluate an individual’s performance (Cummings, 1980, 117).

The US system of management by results is not only different from management by means but inimical to its adoption. Management by results served the needs of top managers and firm outsiders (stockholders, capital markets, and institutional investors) who based decision-making on financial results, but it frustrated management by means, which required attention to work process and people. In the competition between the two, management by means was more efficient.

Johnson’s studies have been taken up and explored by other production engineers. Mike Rother and his team spent five years investigating the Toyota Kata (2004-2009), a system of “unseen management routines and thinking” through which the investigator has to find his way “along unpredictable paths through a systematic process of discovery and adjustments”. This became particularly challenging to this group of management consultants when they tried to teach management by means in Western firms whose executives have a command and control mindset. Rother ran into the difficulty especially when teaching Western managers about empowerments. “[A command and control approach] is insufficient for tapping the brainpower inside an organization in a purposeful way. If people in organizations

are expected to make decisions and navigate rapidly at their level, rather than waiting to be told what to do, they need to be taught effective skills for how to do it” (Rother, 2014, 4).

To appreciate management by means requires the historian’s investigative methods, not just those of a mathematically shaped scientific paradigm codified and taught in departments of economics and business schools.

American manufacturing, therefore, has not ignored the Japanese challenge, but the impulse came primarily from manufactures themselves, production engineers, and from regionally or nationally organized associations like the Deming societies, the Association of Manufacturing Excellence organized in 1985, and the current Kata movement in industrial management, which economists ignore.

US business schools in their MBA education neglected the Japanese challenge. Only 1-2% of them had truly been affected, as of early 1991, by the Total Quality Management revolution that sought to install and make permanent a management climate in which the organization continuously improves its ability to deliver high-quality products and services to customers. Instead, beginning in the 1980s, financial strategists in academia and practice increasingly worked with corporate lawyers, stockholders, and financial promoters in various kinds of deal making.

Some converted quite successful public firms through leveraged buyout schemes into private equity companies. Only firms with significant untapped borrowing capacity, undervalued assets, and high cash flows – “common characteristics of many, if not most, of America’s largest and more prosperous corporations” (Shad, 1984, 6) – could get involved because buyouts were financed from money borrowed on a target company’s own credit line, and the huge debt incurred was paid back from a target company’s own cash flow (Kosman, 2010, 151-52).

These deals made money for institutional investment funds that lent the money (e.g., public employees’ pension plans), the deal makers, the target company shareholders (who received 50 percent to 100 percent premiums over the current market price of their stock), and managers, who were given golden handshakes. But the buyouts did not do much for stakeholders in the target firms.

Other deal makers targeted firms in economic trouble, especially older firms with high legacy costs (e.g., retirees defined-benefit pensions), in which management sought to shed the fixed costs in a variety of legal ways provided for in takeovers, mergers, and chapter eleven bankruptcies.

The management caste’s desire to break pension and benefit agreements motivated it the most. There were 112,000 defined-benefit private pension plans, entered into during the pre-1980s, in the US in 1983, each guaranteeing fixed levels of income to retirees. Many were not fully funded, that is, management, pressed by stockholder desires for good quarterly income statements and dividends to keep the stock price high, had made funding the employee pension plan a low priority.

Tough-minded managers preferred to eliminate pension and benefit plans altogether and to move employees into undefined contribution schemes that did not guarantee fixed incomes

for retirees, or, failing that, to establish individual pension savings accounts that greatly reduced company contributions and obligations.

The ruthless, relentless, and radical transformation of private pension plans that the financial management caste carried out during the chaos and restructuring of failed US mass production firms, impoverished white middle class Americans in the country's industrial heartland.

"From Reagan through [George W.] Bush," Jack Rasmus reported in 2004, "business schools and financial crisis corporations have been terminating and undermining group pension plans by shutting down plants and moving companies, underfunding the plans, diverting funds to other corporate use when they can get away with it, and then, when the plan is in jeopardy, with the assistance of government and the courts, funneling whatever remains into 401-K type personal savings plans. From the passage of the Employee Retirement Income Security Act (ERISA) in 1974 until 2003, more than 160,000 Defined Benefits plans have gone under in the US" (Rasmus, 2004, 3).

During the same time the number of personal retirement accounts mushroomed. Very few households had such accounts in 1982, but by 1995 23 percent of households had a 401-K or an equivalent individual retirement account. That percentage reached 67 in 2004.

Management justifies its behavior on practical grounds: it is looking after shareholder interests. Those who terminated legacy costs even became management heroes, like Richard S. Miller, CEO of Bethlehem Steel, who jettisoned the company's \$3.7 billion unfunded pension obligation to its retirees. This obligation removed venture capitalist Wilbur Ross bought the firm, combined it with four other derelict steel firms, and then sold the amalgamated firm, which had cost him \$400 million, for \$4.5 billion (Walsh, 2005).

The language that managers and business school academics use in articles about restructuring, mergers, acquisitions, leveraged buyouts and the like rarely, if ever, touches on how employees are affected. Mostly discussions focus on stockholder benefits, profits, and stock market valuation, before and after a deal, and on firm survival rates.

These are the concerns of people in the proprietary firm; and it is they who determine judgments about agency conflict. Since an entity conception of the firm is not in their consciousness, they as management scientists care little about what happens to the firm's employees or retirees. Moreover, they do not look for entity solutions to these problems because employees are not integral to management structures. It is the management caste's show, with the unions kept on the outside.

"What bothered Mr. Conway, the union leader [at the demise of Bethlehem Steel]," New York Times reporter M. W. Walsh wrote, "was not so much Mr. Ross's inability to wring more money out of the pension system or his remarkable profit on the deal. What troubled him, he said, was that the country seemed unable to take any lessons away from the demise of the steel companies and how it affected so many working people. 'It just staggers us that America's not caught on to what's happening to it,' he said" (Walsh, 2).

American managerialism, therefore, failed the white middle class manufacturing communities twice: once, when it did not save the US mass production firms in which they worked from the Japanese managerial challenge, the second time, when in the shakedown of these industries in the 1980s and after, it made employees pay the price of this failure.

On the other hand, the finance instrumentalities financial deal makers invented promoted the ever yawning income gap between the bottom 90 percentile of income earners and the top one percent. Dünhaupt in fact claims that the increased inequality in incomes can be attributed almost exclusively to one of them: stock options, i.e., that the introduction of stock options into American CEO pay is solely responsible for increasing their share of total incomes from two percent in 2000 to eight percent in 2007 (p. 19).

Why did German manufacturers not fail too? It could not be said that Asian manufacturers did not threaten them. They did, Germans were aware of it, and they, with those allied with them in government and education, carried on a twenty-year campaign to save their manufacturing firms – with success as the 2012 list of German top 20 firms reveals.

One advantage the Germans had over the US when confronting the Japanese challenge was their relative failure in financialization. Whereas it consumed US educational and business energies, its relative absence in Germany meant that it could and did not there.

Moreover, German business economics (BWL, Betriebswirtschaftslehre), when the crisis began, had a special hybrid degree in business economics (Wirtschafts-Ingenieur) – that Willy Prion, a business economist (no engineering degrees) organized in the technical university of Charlottenburg (Berlin) in 1923 and from where it spread to other venues – which kept professors in BWL and their students, unlike in US business schools, from turning their backs on industrial reform. By the late 1960s 11.11% (2,614) of students in German business economics (19,294) were in economics-engineering programs.

A third advantage German reformers enjoyed was the legacy of shareholder management that grew up postwar at the same time director primacy took control over American firm governance.

In 1994 I visited Germany to investigate the German response to the Japanese challenge to their manufacturing. I learned how the difference in management and management education just mentioned helps explain German success and the US failure. Before leaving for Europe, I asked Robert W. Hall, founding member of the Association of Manufacturing Excellence, about Germans to contact. In his response, he described Horst Wildemann as the “repository of nearly all the coming of manufacturing excellence practice to Germany, a part of it almost from the beginning” (Letter, June 25, 1994).

In 1994, Wildemann was professor of business economics, with emphasis on logistics, in the Munich Technical University, teaching courses primarily to engineering students on work-process innovation. He headed a substantial group of over 100 research-consultants (30% with degrees in business economics, *Diplom-Kaufleute*, 50% with *Wirtschafts-Ingenieur* degrees, 20% with engineering degrees, *Diplom-Ingenieur*), which included 35 graduate assistants. Their work was heavily oriented to mathematical modeling and computer simulations.

By 1994 the team had already introduced Japanese inspired production processes in 200 European (mostly German) firms, including Daimler-Benz, Grundig, Philips, and Volkswagen, over an eleven-year period. At Volkswagen his group had just (1994) spent three years teaching small-group quality control management techniques in five-day courses to over 2,500 managers. Thirty to fifty percent of German industry had already by that year successfully implemented Total Quality Management, including Just in Time, *Kaizen*, and/or other Japanese work-process techniques. German business economics through its *Wirtschafts-Ingenieur* engineering education tradition made a significant contribution to their work.

Wildemann also reported that in the four years at Volkswagen his group worked closely with works councils and IG Metall shop stewards. The group taught the new techniques to the shop stewards at the same time that they taught them to management. He reported that the works councillors fully appreciated the need to improve work processes but also understood the impact that the changes would have on jobs numbers in the workplace and on the need to reduce work time and pay. The union (IG Metall) not only promoted the implementation of Just-In-Time and other work processes but often led management in their implementation.

The success of the reform did not require German working communities to make heavy financial sacrifices in order to keep their firms. German supervisory boards in large German joint stock corporations have been generous to their managing directors, but never as generous as boards in America's system of director primacy, under which CEOs set their own salaries. With the inclusion of stock options in executive pay packages, adopted in 1997, German executive income in stock market-listed public corporations started to track the skyrocketing incomes of America's CEOs. CEO-to-worker pay ratio in Germany reached a ratio of 1:147 in 2012 compared to US CEO-to-worker pay ratios that year of 1:354, the highest income disparity in the developed world.

Conclusion

Donald Trump is famous for having a sense of his own infallibility. This character trait suits the American director primacy mode of management. Trump and his team of billionaires might jawbone US companies into keeping production facilities in the country, but it is highly doubtful that they will restore the private pension plans and other benefits managers jettisoned over the past quarter century that underpinned white middle class rank and file prosperity. As comparative discussions of the German case illuminate, this would require a shareholder form of firm governance where, as in Germany, employee-elected members of works councils and supervisory boards share in management, for in today's amoral business world employees can protect their interests only if given a voice in the running of firms.

Nor is it possible that the Republican-controlled Congress will do anything to promote government-sponsored entitlement for working people in order to redress the losses in the private sector. This is an important point, because, as Stephen Paul Miller notes,

“We have not passed beyond the New Deal's assumption, since we have institutionalized much that saves us. Medicare, Medicaid, disability and unemployment insurance, progressive income taxes, and food stamps prevent[ed] a full scale depression after the 2008 economic collapse by keeping consumer demand and the economy afloat” (Miller, 2016, 15).

As Congressional Republicans set their sights on the elimination of the programs, the prospect that a new Trump administration will restore prosperity in white middle class rust belt communities, through governmental any more than through private means, is dim.

With regard to how economists as well as Trump can benefit from this presentation: Until they include systems of firm governance in their calculations, they will never appreciate European economic achievements that the German example in the paper illustrates.

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