

In This Issue

Snow's "Crisis as Status Quo"

Professor Roberta Snow explores obstacles to the processes of transformation from bureaucratic monopolies to democratic self-managing systems.

Most hierarchy-based societal institutions are in the state of crisis: none of them flourishes. Prof. Snow speaks of *prolonged deterioration*: "crisis" implies a remedy, solution, quick fix; prolonged deterioration implies "death" and systems need redefinition, restructuring and restatement. Viewing the U.S. "crisis" as crisis, rather than as prolonged deterioration, leads only to what it has led to so far: bureaucratic "fixing", politics before rationality, increased government spending, increased taxation, etc. Nobody is analyzing any "prolonged deterioration".

Americans remain at the cutting edge of the world social order: self-employment, work at home, informational (not "roads and bridges") infrastructure, employee ownership, self-management, total quality management, self-service and self-reliance. Yet, their own government hardly knows it.

Economics has been reduced to numbers (preferably aggregate numbers) capturing the symbolic, financial and non-productive flows in the economy. Nobody studies the institutions of capitalism: these are taken as given. Yet, it is the institutions that are so profoundly changing and affecting the U.S. economy most significantly.

Professor Snow pays attention to institutions. She acknowledges the post-industrial (or service) era, but realizes that the self-service activities of the old American kinship system has now been transformed to a productive, self-reliant and autonomous business unit of a new kind.

Yet, the government still does not get it although it provides, supports and regulates fire protection, recreation facilities, "bridges", utilities, theaters, refuse removal, health care and education. The results are everywhere to be seen.

Public service monopolies are dysfunctional. Integration of services into self-managing and self-reliant communities is forced to proceed spontaneously, through the "back door". This is a tremendous waste of human energies, potential and autonomous self-control. It adds to the cost, size and complexity of bureaucracy.

Cutting the spending, cutting the cost, becoming "lean and mean" are only inadequate responses: they do not redefine our institutions and do not enhance their slow and tortuous process of spontaneously re-inventing themselves. Society has changed, stupid!!!

Richter and Meshulam's "Telework at Home"

One of the fastest growing sectors in developed industrial economies is work at home. Work at home includes self-employment, part-time self-employment, work after regular office hours, work instead of regular office hours, typically using a computer, modem, fax or multiple telephone lines. Work at home is the most potent job-generating sector, moving the population towards the most productive self-service activities, reducing pressures on energy, stress, congestion and cost-intensive physical commuting of the past century.

Professors Richter and Meshulam have studied the telecommuting phenomenon from the traditional corporation perspective, not as self-service or self-employment. Even so, telecommuting presents a powerful alternative to old-fashioned "railroads and highways".

One stops to ponder how a politician can advocate information superhighways and "roads and bridges" at the same time at the end of the twentieth century. Production is processing of information; instead of hauling goods, one can haul the information to produce goods; information travels through telecommunications networks.

Employees working at home are in control of their time, can take care of their children, can invest

in home-technology, do not have to pay for gasoline, insurance, kindergarten and waste most of their off-work hours on roads, rails and bridges.

The U.S. is already waking up to the challenge of the twenty-first century, although its government is not. The U.S. government is still “building bridges”: fighting the work at home, penalizing home offices, penalizing multiple phone lines, taxing self-employment, self-help, self-reliance or any other expressions of employee empowerment, autonomy and self-management.

Yet, in spite of the government, there have been about 40 million Americans working at home in 1992. There were only 25 million in 1988. From these 40 million home workers, there are 12.1 million self-employed, 11.7 million part-time self-employed, 8.6 million working at home after regular office hours, and 6.6 million working at home instead of regular office hours. All these spontaneously created high-tech and well-paid jobs receive no governmental encouragement, tax-breaks, investment or support. The government is going to “build bridges” while people want to be autonomous, empowered and – working at home.

Brooks’ “Cost of Bribery”

Under the avalanche of bribery and corruption cases in Russia and Central Europe, under their misinterpretation and caricature of free markets as ‘free-style’ markets and ‘anything goes’ markets, we sometimes forget to analyze the role of bribery in our own society of fully functional, mature free markets.

Yet, any form of bribery is a clear violation of free-market ethos, it is a crime with identifiable victims and it carries high social costs.

Herb Brooks has taken a closer look at some 20 bribery cases from U.S. history, identified their victims and estimated their overall costs. Among his conclusions is the affirmation that the victim’s cost is greater than the bribe. He introduced a *cost/bribe ratio* in order to measure the damage: its levels vary between 7–20, with a median of 15.

Bribes therefore have a distinct multiplier effect, influencing the economy in a significant way: some estimates show that bribes could represent circa 1% of the GNP.

In view of such economic properties, the devastating effect of high-level, high-multiplier bribery in Russia and Central Europe could amount to an economic disaster.

Brooks also introduces very simple graphical models of bribery, involving the interaction between beneficiary, controller of valuables, money, favors and property.

Unfortunately, the most bribery-ridden part of U.S. economy, the Savings and Loan failures of the recent years, has not been studied because of the incomplete data. Yet, bribery is quite common: the total amount of bribes and kickbacks pocketed by U.S. businessmen was in 1976 estimated at \$ 15 billion per year.

Among the most damaging bribery cases (high cost/bribe ratio) are, according to Brooks: Teapot Dome oil reserve lease (1922; c/b = 400), Power Co. oil purchase (1974; c/b = 44), etc.

Bribery is only one specific technique of the overall corruption variety: fraud, kickbacks, nepotism, insider trading, international aid ‘business’, lobbying, etc.

Herb Brooks has collected an impressive list of references and readings on bribery and corruption, allowing any serious student of economics to proceed with efficiency and dispatch.

Shrader’s “Max Weber”

Professor Shrader’s recommendation is that consulting Max Weber and Joseph Schumpeter could bring forth a proper framework for designing Central European and Russian economic transformation strategies.

This could be an important recommendation, because current “shock therapies” are central-government-oriented, proceed by governmental decrees, ignore the teachings of Schumpeter, Weber and von Hayek, and neglect and restrict entrepreneurs and small businesses as key ingredients of lasting transformation.

The emphasis of “shock therapy” is on restriction of production, increase of monopolistic (i.e., ex-communist state enterprises) prices, socialization of property through public “vouchers”, and so on, thus leading directly to high levels of inflation, unemployment and corruption.

Professor Shrader turns to classic and now neglected economic literature which turns out to be very relevant to the situation in Central Europe today. (Schumpeter in fact came from Moravia.)

The bureaucratization of publicly-owned corporations, their command hierarchies of socialist-type central planning, are seen as a source of inefficiency and socialization of capitalism, which was the main concern of Schumpeter. This is the model – entrenching the half-privatized, state-controlled corporations – the governments of Central Europe have adopted.

Max Weber was even more directly convinced of the key role of entrepreneurs and small businesses in the evolution of capitalism. Yet, Central Europe has no credits for entrepreneurs (but plenty for state corporations), taxes them through viciously-conceived value-added tax, allows speculators and criminals to push them out, and forces them into a cheap-labor, raw-material-based mode of paper speculation.

Central Europe is being increasingly deprived of any marketing experience and knowledge, high technology, and research and development: its already very low competitive standing is rapidly being further eroded or destroyed.

Shrader is very sensitive to the outright radical transfer of capitalist external characteristics to Central Europe: he quotes Parsons, asserting that natural evolution towards capitalism is a strictly western phenomenon and a thing of the past. Re-establishing slavishly its end conditions borders on naïveté.

It is not enough for governments to declare, “Let the market system reign!” In fact, it’s the very last thing needed. Capitalism, unlike socialism, cannot be decreed.

Gripton and Valentich’s “Assertiveness at Work”

Professors Gripton and Valentich of Calgary are advocating individual *assertiveness* as a necessary behavioral mode for the newly emerging market economies of Eastern Europe.

Assertive behavior, being learned or conditioned, is part of culture. It can only thrive and be effective in a highly democratic, secure and competitive workplace, where employees’ rights and duties are

clearly defined and well understood. As the authors themselves emphasize: “Premature or misplaced assertiveness training will fail”.

The truth is that the behavior most rewarded in Eastern Europe today has little to do with assertiveness. The “Wild East” conditions are spawning aggression, ruthlessness, egotism, corruption and even cut-throat pseudo-competition. Instead of “Our customer – our master”, the “Consumer beware” ethics have taken a firm stranglehold.

The productivity, performance and competitiveness have consequently plummeted all over Eastern Europe (some 25% down in the Czech Republic). The industrial performance, compared with the dismal communist-run systems of 1989, is now virtually nonexistent. Such failures are not surprising under the conditions where employees are not allowed to share in ownership, profits or gains, have no rights and even their own “unions” support the medieval “hired-hand” status of their own members.

In Eastern Europe, programmatically and unmistakably, democracy truly ends at the factory gates. The authors are clearly aware of this: “Transition is a phenomenally difficult undertaking not only because a democratic tradition in recent history is lacking but because daily survival issues plague the population, leaving few resources for the development and implementation of a culturally-sensitive strategy”. The concept of culture has never even entered into the value-free shock therapies of inept monetaristic transformation schemes.

Assertiveness has been translated into aggression, neglect and violent action (mafias, organized crime, high-level corruption). Free market is officially and broadly interpreted as freely and actively infringing on the rights of others – a tough environment indeed for Gripton and Valentich to make their noble point. It is difficult to conceive that assertiveness training would currently meet with success anywhere in Eastern Europe.

However, the United States, Japan, Taiwan, China and similar economies, experimenting seriously with employee co-ownership and participation, should become the most receptive environments for assertiveness training of managers and workers.

Turnbull's "Corporatization and Privatization"

Centrally-controlled multilevel hierarchies, which have dominated the Anglo-Saxon public and private corporate architecture until recently, have evolved such a large number of defects that they cannot withstand the stricter standards and requirements of the knowledge era.

Central hierarchies of the intra-company decision command system, the very negation of free market principles within a corporation, have been characterized by strategic inflexibility, high cost, inability to compete, slow responsiveness, high rates of layoffs, short-term orientation, employees' passivity, high levels of corruption and owners' absenteeism, among others. Such characteristics are becoming largely unsustainable in the era of heightened customer, knowledge and competition imperatives.

Shann Turnbull proposes that the flaws of central hierarchies arise from the use of unitary boards which introduce conflicts of interests for directors and thus reduce their ability and incentives to improve operational performance. He proposes the use of supervisory boards and stakeholder councils to decentralize control and induce better performance on the part of directors and their organizations.

Stakeholder participation provides a way to con-

vert "open" hierarchies into several decentralized "closed loop" information and control systems. Practical examples of such systems range from Mondragon to keiretsu.

Another issue is related to Just in Time (JIT) and Total Quality Management (TQM) systems. These cannot become fully functional without being embedded within extensive stakeholder democracy, employee empowerment and internal departmental autonomy.

One of the major errors of propounders of quality and productivity management is their lack of attention to corporate governance, organization, ownership and technology – as if these primary factors were of lesser importance. This has led to decades of "teaching" quality-related slogans and statistical routines in corporate cultures that are patently unable to absorb them. Total Quality Management is impossible within a hierarchical command system – by definition, and no matter how much money is being paid for the "training".

The recent spontaneous "slaughtering of hierarchies" has been quite inevitable: no economy can remain effective and competitive without fundamentally reinventing its governance, organization and ownership structures. A new wave of management methodologies and techniques is bound to follow soon afterwards.