*ica*, maintains that the "crippling payments" both employers and employees must give to retirement plans "are surely hastening the decline" of the railway. The story of railroad pensions, he argues, is one that "shows how a worthy cause can be perverted by the politics of selfishness."

Congress passed the Railroad Retirement Act in 1934, over the protests of the Roosevelt administration. The act nationalized existing pension plans into a Railroad Retirement Fund (RRF) that taxes both workers and employers in a manner similar to (but separate from) Social Security. Lobbying by retiree groups has kept pensions generous. Railroad pensions range up to 125 percent of a worker's final salary.

Railroads pay for these generous pensions through high taxes. Since 1937, payroll taxes paid by employers and employees have risen from a combined six percent rate to 33.3 percent today. (The combined employer-employee Social Security tax rate is currently 14.3 percent.) Twenty-three percent of Amtrak's payroll costs go to retirement, far above the 3.1 percent average of other corporations. To pay for the rising tax burden, railroads have cut costs by slashing payrolls; employment in the railroad industry has fallen by 44 percent since 1979.

Because retirees outnumber currently employed workers by three to one, even high taxes cannot pay the entire cost of railroad pensions. Since 1957, Social Security has partially subsidized the RRF. The cost to the taxpayer in Fiscal Year 1987: $2.8 billion.

The Office of Management and Budget has proposed the privatization of railroad pensions. But such a move, Longman warns, would be "prohibitively expensive" for railroads because the system is already obligated to pay $44 billion in pensions even if the industry "never hires another worker." Unless Congress decisively cuts benefits, Longman warns, the bankruptcy of America's railroads is "just a recession away."

## *Trimming Business Fat*

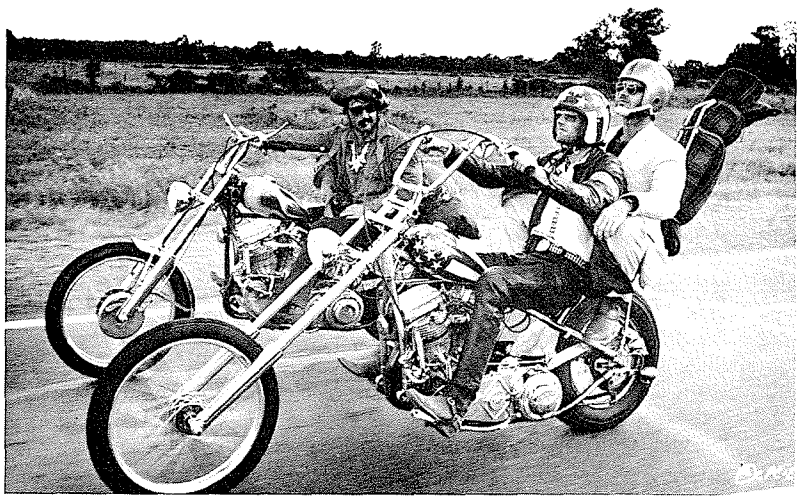
"The Pedagogy of Competition" by Murray L. Weidenbaum, Richard Burr, and Richard Cook, in *Society* (Nov.-Dec. 1987), Rutgers Univ., New Brunswick, N.J. 08903.

To many economists, America's current struggle to compete in world markets indicates only harder times ahead.

However, Weidenbaum, Burr, and Cook—at the Center for the Study of American Business at Washington University in St. Louis—believe that greater competition has spurred U.S. firms to reduce costs, improve product quality, and increase investment in research and development.

The long-term, cumulative effects of these actions, the authors believe, should lead to "sustained prosperity" in the 1990s.

Cost-cutting strategies have ranged from reducing labor expenses (which account for two-thirds of production costs in the United States) by slowing wage increases and by improving union relations, to adopting the Japanese "just-in-time" inventory system, in which parts are supplied as needed, instead of being made in advance and stored. By using the just-in-time approach, a Missouri Chrysler plant cut its parts inventory to $20 million from $29 million, thus saving $1 million each year in interest costs



*Dennis Hopper, Peter Fonda, and Jack Nicholson aboard American-made Harley-Davidson motorcycles in the film* Easy Rider *(1969).*

while reducing damage to parts in storage. A more ambitious cost-cutting project is General Motors' Flint Assembly Complex, which integrates component manufacturing and auto assembly in a single 500-acre facility. "In effect, steel blanks . . . enter at one end of the plant," say the authors, "and finished cars leave at the other."

American manufacturers, who "have rested too long on their laurels," have increasingly stressed quality throughout the production cycle. At Harley-Davidson, for example, all employees receive training in statistics, and are encouraged to evaluate and improve their own work. As a result, product quality has improved noticeably. Whereas five years ago 50 percent of the motorcycles produced by Harley-Davidson had defects, today 99 percent are reportedly flawless.

Corporate research has been aided by increases in defense spending. The Reagan administration's arms buildup, the authors maintain, has had potent "spillover effects" in the civilian economy. Subcontractors and suppliers in the electronics and instruments industries, for example, have successfully commercialized their defense-financed technology. Overall, federal expenditures on research and development rose at a rate of 12.2 percent each year from 1980 to 1984, compared to the 14.2 percent average growth rate in the private sector.

The steps taken by U.S. companies in response to increased world-market competition will not yield "quick and dramatic" changes, the authors concede. Nor will they prevent a possible recession during the late 1980s. Coupled with the "feedback effects" of the cyclical American economy, however, these advances make the 1990s "look good."