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Fallen Stars

"Who's Excellent Now?" in *Business Week* (Nov. 5, 1984), P.O. Box 506, Hightstown, N.J. 08520.

In Search of Excellence hit the best-seller lists three years ago, and after sales of some three million copies, it is still going strong. Unfortunately, the same cannot be said of 14 of the 43 U.S. corporations hailed by the book's authors, Thomas J. Peters and Robert H. Waterman, Jr.

The two business consultants published their book when the nation was mired in its deepest recession since the 1930s and when U.S. businessmen were desperately trying to figure out where they had gone wrong. Notes *Business Week*: "The book's basic message was U.S. companies could regain their competitive edge by paying more attention to people—customers and employees—and by sticking to the skills and values they know best. And when virtually all eyes were turned to Japan for the answer, the book showed there were worthy models of management in our own backyard."

Where did the unlucky 14 go wrong? Two companies (Revlon and Chesbrough-Pond's) violated the Peters and Waterman rule against infatuation with "number crunching"—abstract exercises with the ledgers. Several failed to "stick to the knitting," branching out into businesses where they had little experience. Fluor Corporation, Texas Instruments, and Johnson and Johnson are examples. But the most common error—and one that could not have been avoided by following the "eight commandments" of *In Search of Excellence*—was reacting poorly to broad economic and business trends. Delta Air Lines, for example, failed to meet the challenge of federal deregulation of its industry; Avon reacted sluggishly when housewives, the chief buyers of the beauty products it sells door-to-door, began taking jobs outside the home.

What is the lesson? Management guru Peter F. Drucker argues that *In Search of Excellence* was "a book for juveniles" that caught on largely because American executives were panicked by the 1982 recession. But *Business Week* takes a milder view. The book did point up some mistakes common to American business. The mixed record of the 43 "excellent" companies shows not only that corporate success may be temporary but that "good management requires much more than following any one set of rules."

Flexi-pay

"The Case for a Share Economy" by Martin L. Weitzman, in *Challenge* (Nov.-Dec. 1984), 80 Business Park Dr., Armonk, N.Y. 10504.

Gone (for now) but not at all forgotten, stagflation is one of the modern capitalist economy's most dreaded diseases. Weitzman, an MIT economist, claims to have found a cure.

Among the broad remedies economists have proposed in the past are tighter regulation of the money supply, a national industrial policy,

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and an "incomes" policy. Weitzman thinks much smaller. He notes that stagflation occurs when employees' wages begin to rise independently of their employers' output. To stay in the black in the face of growing payroll costs, companies can either boost prices or lay off workers. Frequently, they do both—and create stagflation.

Weitzman's solution is to alter the incentives to individual firms. His plan: Have employers pay workers a share of company revenues instead of a fixed wage. That would also spur corporations to boost hiring.

Consider a hypothetical example: If General Motors (GM) pays its workers a fixed wage of $24 per hour, then, to maximize profits, GM will keep hiring workers and expanding output until the *additional* sales revenue produced by one more hour of labor declines to exactly $24.

Now assume that GM's *average* revenue per hour of labor is $36. Suppose, furthermore, that GM and the United Auto Workers union agree to an unorthodox new contract: Employees will be paid two-thirds of the company's average revenue per worker instead of a fixed wage.

Initially, nothing changes. Hourly pay is still $24. But GM's incentives have changed. Where once $24 in new revenue cost it $24 in added payroll outlays, it now costs just two-thirds of the new revenue, or $16. So it makes sense for GM to go on hiring new workers and increasing production.

Employees pay a price for expansion because their wages drop marginally as new hands are signed on. But they gain in job security: Because wages fall automatically—though, again, marginally—if business slows, employers will not resort to layoffs. And workers gain in the long run because the "share system," as Weitzman calls it, encourages not only stable prices but also full employment.

SOCIETY

Nostalgia Wars

"The Politics of Nostalgia" by Christopher Lasch, in *Harper's* (Nov. 1984), P.O. Box 1937, Marion, Ohio 43306.

The nostalgic notion that "things ain't what they used to be" is often cultivated by the political Right and criticized by the Left. Ironically, says Lasch, a University of Rochester historian, both sides share a desire to avoid taking history seriously.

Nostalgia emerged as an ideological issue during the late 1940s, when Progressive historians such as Columbia's Richard Hofstadter lamented that Americans, buffeted by two world wars and a severe economic depression, were seeking refuge from the social and economic issues of the day in a Currier and Ives vision of the past. "By the early 1960s," writes Lasch, "the denunciation of nostalgia had become a liberal ritual." Conservatives were quick to mount a defense of "the good