CLINTON V. TRUMP

Who's Better For The Economy, Business & Maintaining Social Security/Medicare?

Using the Teachings of Peter F. Drucker (& Others) to Evaluate Alternative Proposals to Make America Grow Again: Part I

A Two Part Mini e-book Series

Presented by: MANAGEMENT MATTERS NETWORK

To receive Part 2 of this E-book, email **info@managementmattersnetwork.com**

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EDITOR'S NOTE:

We think you're going to love this e-book. Not everyone, we are reasonably sure, will agree with every article—indeed, we expect some readers to disagree with all of them.

But then, as our Drucker-inspired articles on *Management Matters Network* continually emphasize: The most serious mistakes are never made as a result of wrong answers.

The truly dangerous thing is asking the wrong questions. We do hope that readers, whether executives in a business, government policy-makers or teachers and students, will agree that this e-book addresses itself to the right questions.

And even the reader who disagrees heatedly with our prejudices, opinions and conclusions, will, we hope, find these articles eye-opening and helpful in understanding the potential consequences of misguided economic policies.

To slightly paraphrase Winston Churchill: Those who cannot change their mind cannot change anything.

Please send us your tips for improvement, complaints and compliments to info@managementmattersnetwork.com. And stay tuned for Part II.

Big Changes Ahead! Today's Election Decisions Determine Tomorrow's Economy!

Economists (of all stripes) had hoisted the warning signals. And executives had better read them carefully. Strategies you blueprint today are dependent upon tomorrow's economic climate.

First we make choices. Then the choices make us.

America's economic problems can no longer be swept under the rug. The choice for president is (in large part) a choice between two different economic plans both promising to reignite economic growth.

Peter F. Drucker is recognized as "the father of modern management" and acknowledged as "a lucid commentator, brilliant prescriber, and perceptive synthesizer" with respect to economic issues and policies.

The intended purpose of this e-book is to provide you with relevant Drucker teachings that help you better understand the consequences of various economic policy proposals that could make or break the U.S. and other economies around the world.

It should be mentioned – indeed, emphasized – that many of the articles in Part I of this e-book integrate the enormous contributions of Harvard's Ted Levitt, Joseph Schumpeter, Simon Kuznets, Lawrence Klein, C. Jackson Grayson, George Stiegler, Gary Becker, Friedrich von Hayek, Gary Becker, editorials from the Wall Street Journal, The Washington Post, and dozens of other sources.

About the Content in Parts I & II

Many of the articles in Part I & II of this e-book originally appeared/or will appear in Management Matters Network, the PEX Network, SSON, HRIQ, Automotive IQ and other IQPC portals.

The articles selected have a common theme. They deal (in one way or another) with answering the question: How do we make America grow again?

We've made every attempt to discuss economic policies not people.

Indeed, many of the concepts and policies discussed were Democratic in origin (as our article on ***How to Reignite Economic Growth: Returning Back to The Economic Policies of John F. Kennedy & Ronald Reagan*** clearly describes).

Right Verses Wrong Economic Policies

To be crystal clear: It has become fashionable these last years to be "anti--government."

But this won't work. Said Peter F. Drucker: "We need strong, effective government…In fact, we can expect more rather than less government in the next decades."

The new tasks—protection of the environment, combating homegrown and, international terrorism, strengthening our military to prevent wars, expanding our capabilities to thwart cyber terrorism, strengthening our electric grid which is now very vulnerable to unthinkable catastrophe – all require more rather than less government.

Further, we must do everything possible to maintain Social Security, Medicare and other extremely important social programs.

The point? We need a healthy, prosperous economy to fund all these must-do requirements and programs.

The right economic policies will enable us to accomplish these things. The wrong economic policies will damage our economic performance capacity. And could bring great civil unrest and much misery.

Whether the principles and resulting policies discussed in the articles are enacted by Hillary Clinton or Donald Trump is not our concern.

Said Drucker: “There seems to be a law of American politics that the world always changes between Election Day and Inauguration Day.”

We are simply attempting to explain not only the teachings of Peter F. Drucker and the findings of many other economists but also the empirical evidence that justifies our assertions.

A Glimpse of What You’ll Learn About In This Two-Part Series:

- What are the real economic consequences of raising corporate taxes, adding new entitlement programs, and failing to systematically abandon unproductive and obsolete government activities/programs?
- How John F. Kennedy reduced corporate taxes and reignited economic growth in the 1960s and why Ronald Reagan “creatively imitated” with great success Kennedy’s economic growth strategy.
- The mountains of empirical evidence demonstrating the consequences of government spending to stimulate the economy—it doesn’t work!

- How corporate tax cuts leads to innovation and entrepreneurship and, in turn, create new jobs which create a bigger tax base to pay for all-important entitlement programs (e.g., Social Security and Medicare).

- The reasons why the economy is stuck on 1% growth and business investment/job growth has stalled (companies are carefully evaluating future tax and regulatory burdens and are now beginning to manage for liquidity rather than growth).

- Why infrastructure spending to stimulate the economy is bound to fail and could lead to further tax increases and a galloping inflation.

- The underlying reasoning of why quantitative easing (i.e., printing more money) in a period of low economic growth inevitably leads to decreased purchasing power of the middle-class… and the potential for decreased business investment and further job losses.

- The economic model repeatedly discussed by Peter F Drucker has proven itself again and again in reviving floundering economies asphyxiated by the Neo-Keynesian Welfare State model.

- Why Peter F. Drucker's "abandonment principles and practices" could whittle away trillions of dollars of result-less government spending per year and help liquidate an ever-growing accumulated public debt and its unimaginable consequences on our future standard of living.

- And much, much more!

CHAPTER ONE

UNCANNY PREDICTIONS

CHAPTER ONE

UNCANNY PREDICTIONS

Contributor:
Editorial Staff at Management Matters Network

Editor's Note:

Both celebrated Harvard economist Joseph Schumpeter and famed author Ayn Rand made uncanny predictions about societal and economic trends that would inevitably threaten capitalism and destroy democracies.

Schumpeter (1883 – 1950) was named Austria's finance minister after World War I. He experienced, firsthand, the horrific consequences of runaway inflation; was an outspoken critic of age-old politically driven root causes of inflation; was dismissed from government service; and became a deservedly famed Harvard professor.

Ayn Rand (1905 – 1982) was a Russian-born American novelist, philosopher, playwright, and screenwriter. She is best known for her two best-selling novels *The Fountainhead* and *Atlas Shrugged.*

Without doubt, Rand's writings and philosophy are guaranteed to provoke controversy. Every argument she stirs, however, is relevant to building and sustaining a functioning society.

After we present the uncanny predictions of both Schumpeter and Rand, we provide readers (who may become depressed) with a series of follow-up articles detailing how we got into this mess and why it's quite possible to reignite economic growth and dramatically reduce result-less government spending if the right economic policies are put into place.

Peter F. Drucker's principles and practices provide the methodologies to help all Democracies to re-think and to re-form to stop and reverse the corrosion and spreading decay caused by the failure of the so-called Neo-Keynesian Welfare State.

In associated articles **Drucker as Economist: Part I – Venezuela's Slide into Crisis & Its Lesson for America** and **Strength of U.S. Economy Depends on Re-strategizing and Permanent Cost-Cutting**, readers should gain a full understanding of what's happened and what's apt to happen.

The Uncanny Predictions of Joseph Schumpeter

Here's an excerpt from Peter F. Drucker's article *Schumpeter and Keynes,* originally published in Forbes in May 1983:

> *In 1942, when everyone was scared of a World-wide deflationary depression, Schumpeter published his best-known book,* Capitalism, Socialism and Democracy, *still, and deservedly, read widely. In this book he argued that capitalism would be destroyed by its own success.*
>
> *This would breed what we would now call the "new class": bureaucrats, intellectuals, professors, lawyers, journalists, all of them beneficiaries of capitalism's economic fruits and, in fact, parasitical on them, and yet all of them opposed to the ethos of wealth production, of saving and of allocating resources to economic productivity.*
>
> *The 40 years since this book appeared have surely proved Schumpeter to be a major prophet.*
>
> *And then he proceeded to argue that capitalism would be destroyed by the very democracy it had helped create and made possible.*
>
> *For in a democracy, to be popular, government would increasingly become the "tax state," would increasingly shift income from producer to non-producer, would increasingly move income from where it would be saved and become capital for tomorrow to where it would be consumed.*
>
> *Government in a democracy would thus be under increasing inflationary pressure. Eventually, he prophesied, inflation would destroy both democracy and capitalism.*

Now Ayn Rand's Prophetic Vision

Ayn Rand in her best-selling book, *Atlas Shrugged,* captured the essence of Schumpeter's prediction when she described a society in which its most productive citizens refuse to be exploited any longer by increasing taxation and mounting government regulations.

Rand describes how business leaders rebel by shutting down their enterprises and join a rebel leader named John Galt who is spearheading a rebellion to demonstrate that the "war on profits" will inevitably lead to the destruction of a functioning civil society.

> *Only if these leaders return to society, will a vibrant, growing economy continue to provide the highest possible standard living for the bulk of its members.*

Rand infuses the idea (originally credited to Schumpeter by economic historians) that profit is part of a moral and ethical system.

Profit in this sense is a *future cost,* that is, the surplus to cover today's unintended operating crisis and tomorrow's uncertain, risky innovative decisions.

The political elite still talk about the evils of "profit maximization." Rand—in a roundabout way—demonstrates why profit maximization is not the way most organizations survive and thrive. Trading off short-term profits for long-term growth is the only way most organizations sustain themselves.

Rand attributes the pending collapse of society to the *"looters and moochers"* created by politicians who appear to be motivated by the the spirit of collectivism, but, in essence, are actually fueled by the need to gain power over others and riches for themselves.

Looters appropriate property belonging to contributing members of society (i.e., producers) through force and fear tactics.

> *Trading off short-term profits for long-term growth is the only way most organizations sustain themselves.*

Moochers just mooch; they create no value; they prefer to take away the property of others through never-ending taxation and other means; they cannibalize the wealth-contributing members of society under the guise of seemingly limitless social programs based on *iffy* moral causes designed to help the less fortunate.

Atlas Shrugged was an instant success. Of course, it drew it share of outspoken critics, who appeared horrified (and expressed what could be best called injured innocence) concerning Rand's major thesis. A thesis that has proven remarkably true.

But Rand to this day has an astonishing number of followers who view the world from an individualistic, self-reliant lens and believe that capitalism has been a success story in improving the lives of people, delivering more growth and freedom than any other system.

CHAPTER TWO

DRUCKER AS ECONOMIST

Venezuela's Slide Into Crisis & its Lessons for America

CHAPTER TWO

DRUCKER AS ECONOMIST

Part I Venezuela's Slide into Crisis & Its Lesson for America

Contributor:
Editorial Staff at Management Matters Network

Editor's Note:

In a series of articles over the next several months, we hope to provide readers with Peter F. Drucker's spot-on-analysis of today's "crisis in economics."

Drucker was no fan the so-called "Keynesian Welfare State." In a series of time-spaced articles, he thoughtfully and thoroughly explained why Neo-Keynesian economic theories (the theories upon which many of our economic policies are based) have been totally discredited.

Thankfully, Drucker also clarified the types of economic policies/prescriptions required to produce real economic growth.

Every country (with a functioning civil society) that followed these prescriptions has experienced a major economic turnaround.

We can only conclude that slow/low growth economies practicing Neo-Keynesian economics suffer from the law of slow learning.

Introduction

As Peter F. Drucker said: "If there's one thing economists and I agree on, I'm NOT an economist."

In this rare instance, Drucker was wrong. He had a profound understanding of economics, an understanding that still eludes most economists today.

His writings, we believe, should shape the thinking and inform the questions on economic theory and economic policy. Now we just need government leaders to take the time to read, study, underline, discuss, and conduct in-house workshops on how to put his ideas into practice.

Newt Gingrich, former Speaker of the U.S. House of Representatives, for example, says he's been deeply influenced by Drucker's writings.

Indeed, he gave copies of several Drucker books to members of both the House and Senate in the hope they would begin to understand—in a clear, concise way—what needs to be done if America is to regain control of its domestic, economic and fiscal policies, all lost as a result of being wedded to a deeply flawed theory of economics.

Gingrich said:

> *Drucker, like Adam Smith, was essentially a philosopher of reality. He looked at what was really happening in the [the world] in economic, historical, and political terms, and then he made sense of it all...*
>
> *Many of his ideas are timeless and will likely be as useful 100 years from now as Adam Smith's The Wealth of Nations is today.*

Drucker wrote extensively about "the poverty economic theory."

He was very critical of the so-called Neo-Keynesian economic model that has led to today's misguided economic and social policies that now threaten to destroy democracy and capitalism. (In **Part II,** we show how Drucker discredits point-by-point the assumptions underlying Keynesian economics.)

Again and again, Drucker warned if we continue to bury our head in the sand with respect to the destructive societal tendencies of the Neo-Keynesian Welfare State model, we will suffer the inevitable consequences of our indifference.

An Example of the Real Consequences of Indifference: Venezuela's Economic Collapse

The stunning social, political and economic collapse of Venezuela should be a wake-up call.

This country of 30 million people is facing dire food and medicine shortages, frequent power outages, serious political unrest, the world's highest inflation rate, violent crime, and it's now in a declared state of emergency.

This wasn't supposed to happen. But it did. And it was predicted to happen. But nobody listened.

Venezuela's issues were fueled by idealists in search of utopian bliss. In brief, 30 years ago Venezuela was a relatively wealthy, very sophisticated country.

Then, the populace made terrible choices with respect to electing governmental leaders pedaling an alternative to capitalism.

To paraphrase Churchill, "I accept the possibility that capitalism may be a poor way to run an economy, except for all the other forms that have been tried and failed."

As is usually the case, aggressive left-wing populism was sold to the people. Initiated by the late Hugo Chavez and extended to this day by his handpicked successor, Nicolas Madero, Venezuela's business elite and the United States were blamed for Venezuela's problems.

So, to bring dignity and inclusion to Venezuela's impoverished, Chavez aggressively set out to destroy what he called the U.S.- bourgeois alliance by micromanaging and regulating every aspect of economic life and centralizing all decisions under his strict control.

The result? The economy toppled under the "government controlling the means of production."

But the visible economic consequences were delayed. It was held together when oil prices were exceedingly high. As soon as oil prices plummeted, the consequences of a government-controlled economy reared its ugly head.

Vin Scully, the Los Angeles Dodgers' broadcaster extraordinaire, recently summed up his thoughts about socialism during a game against the Milwaukee Brewers, saying:

> *"Socialism is failing to work—as it always does—this time in Venezuela. You talk about giving everybody something free and all of a sudden there's no food to eat. And who do you think is the richest person in Venezuela? The daughter of Hugo Chavez. Hello!"*

The Writing on the Wall

Not long ago, Venezuela's President Nicolas Maduro, declared a state of emergency. Put bluntly, Venezuela has become the world's most visibly failing state. Many more countries will follow unless the right economic prescriptions are formulated and implemented soon.

If this doesn't happen, and quickly, America's future will be characterized by what the character Nick Carraway said in *The Great Gatsby* when asked how a given individual went bankrupt: "Slowly, then suddenly."

We believe Venezuela's under-reported economic catastrophe should serve as a major warning signal to indifferent and apathetic Americans.

Indeed, it should be a warning signal to all democracies clinging to Keynesian propositions completely discredited by Nobel Peace Prize winning economists. (We provide details about these economists in **Part II.**)

A truthful joke once told by marketing professor Ted Levitt: "It appears the biggest problem we have in America today is ignorance and apathy, don't you agree Burns?" Burns answered, "I don't know and I don't care." We had better start knowing and caring.

Today's decisions bring tomorrow's results. There is always a time lag between decisions made today and their inevitable results on tomorrow.

Lessons Learned From Venezuela's Horrific Crisis

We have many generalizable messages. But probably the most important one is: When government runs the economy, as in communist and socialist societies, the economy underperforms.

Those people, acting in a completely consistent, humanist way, vote for politicians who will keep them employed no matter what… Big government is thus consistent with inefficiency, not economic growth…

Jay Prag, professor of economics at the Peter F. Drucker and Masatoshi Ito Graduate School of Management, said:

> *Government-run enterprises have no competitive pressure that keeps them efficient. Government-run enterprises are more or less led by politicians—and they worry about another group of people, voters…*
>
> *But a large government sector implies a large block of voters who work for the government. In an incredible humanist irony, government employees have become a major voting bloc in countries around the world…*
>
> *Those people, acting in a completely consistent, humanist way, vote for politicians who will keep them employed no matter what… Big government is thus consistent with inefficiency, not economic growth…*
>
> *Eventually, everyone loses hope and things become unbearable… Indeed, the very people that kept the politicians in power for all the goodies, suffer the most… As has often been said: "There's no such thing as free lunch."*

How Would Drucker React To Today's Economic Happenings?

Of course, we can only guess since Drucker passed away in 2005. But we believe he would've said: "I told you so."

Drucker was an outspoken critic of mainstream economic theories (and resulting economic policies) based on the ideas of celebrated economist John Maynard Keynes and his disciples.

Keynes (1883-1946) was brilliant and formulated his theories in the 1930s. As Drucker repeatedly said: "Keynes asked the right questions but his answers were wrong." Incidentally, Drucker said the same thing about Karl Marx.

Since the publication of Keynes's almost unreadable book (*The General Theory of Employment, Interest and Money*) democracies worldwide have followed many of his economic prescriptions.

We should mention—indeed, emphasize—very few economic graduate students ever really read Keynes's book but rather rely on Harvard economist Alvin Hansen's *Guide to Keynes.*

Mindless politicians and Keynesian economists are scratching their head in disbelief, that is, wondering why we have slow/low economic growth, lagging productivity, and a pitiful labor force participation ratio, and all the rest; wondering why things are not working as they should.

If only they would seriously study Drucker, much misery would be avoided. Perhaps Will Rogers summed up how we feel about economic illiterate politicians and fixed mindset economists (the fixed mindset does not learn):

> *"It ain't so much the things we don't know that gets us in trouble. It's the things we know that ain't so."*

Since the publication of Keynes' convoluted—yes, poorly written—book, volumes of empirical research have decisively disproven all the assumptions upon which Keynes and his disciples derived their economic policies.

In Conclusion

We are suffering the inevitable consequences of a disproven economic model and what it suggests for policies to reignite economic growth.

Let us put it more forcefully. Disappointing economic results (e.g. jobs, productivity, GDP growth) are not unexpected with today's current economic policy prescriptions. Drucker summed it up when he said:

> *"Every democracy that has administered the so-called Neo-Keynesian prescription has had grave side effects and is of such doubtful efficacy (i.e., the ability to produce desired results), it would never be permitted if it had to be approved by an economic Food and Drug Administration."*

Stay Tuned

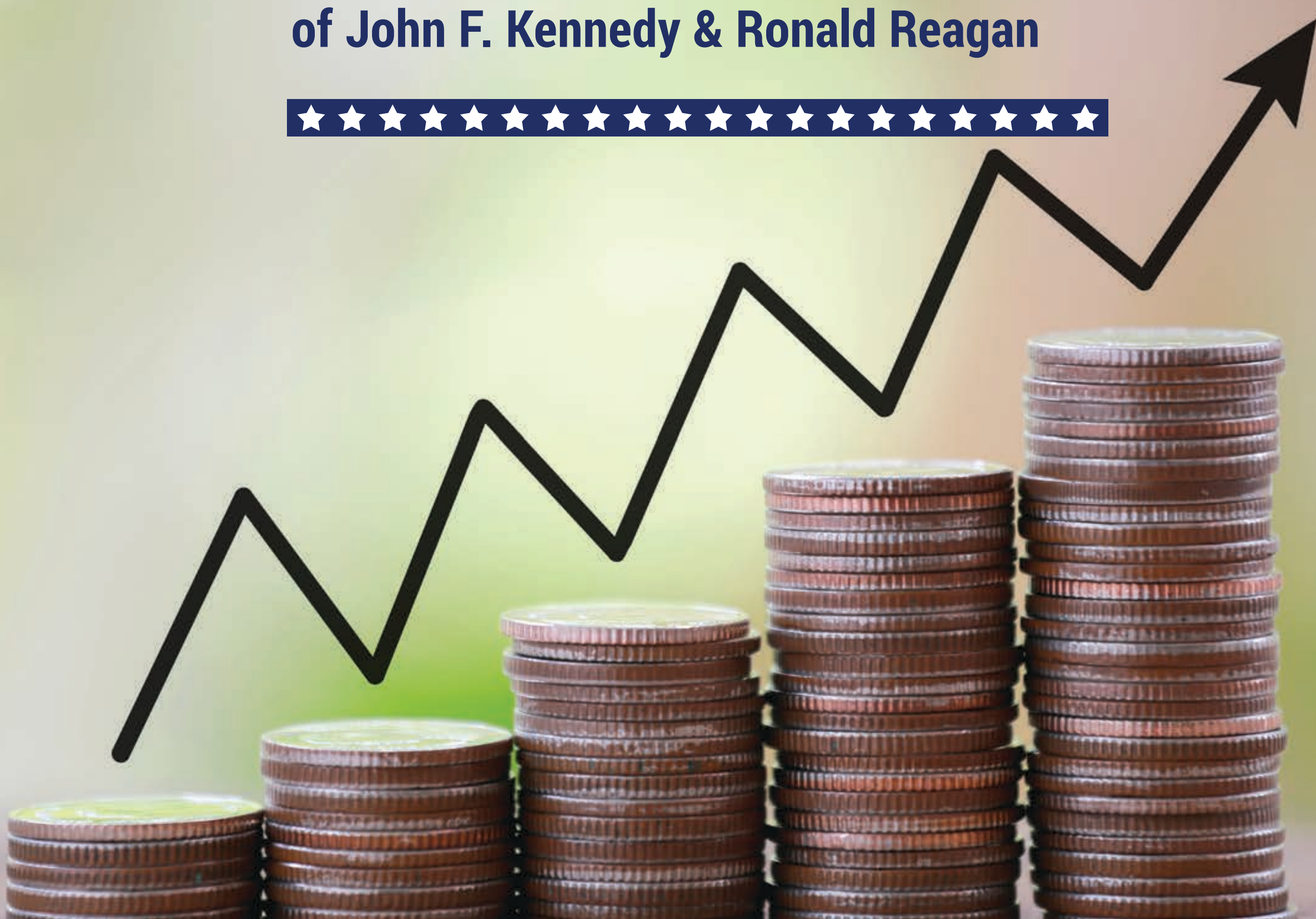
In **Part II** we discuss exactly what is meant by the "Neo-Keynesian economic model" and render explicit each and every assumption (e.g., government deficits stimulate the economy, consumption creates capital formation and capital investment).

In addition, we will present the overwhelming evidence that invalidates the Neo-Keynesian economic model and detail an alternative to the Keynesian model—the Neo-Classical economic model—that has proven effective in every country skilled enough to apply it correctly.

CHAPTER THREE

HOW TO REIGNITE ECONOMIC GROWTH

Returning Back to the Economic Policies of John F. Kennedy & Ronald Reagan



CHAPTER THREE

HOW TO REIGNITE ECONOMIC GROWTH

Returning Back to the Economic Policies of John F. Kennedy & Ronald Reagan

Contributor:
Editorial Staff at Management Matters Network

It's true: The economy grew in the second quarter of 2016 by an annual rate of only 1.2%.

As a recent Wall Street Journal editorial pointed out:

> *The meager growth took most economists and Wall Street analysts by surprise, coming in at less than half the consensus forecast of 2.6%.*
>
> *This means that since last September the economy has pumped the brakes from the 2.2% average from 2012-2015 into a near-stall speed of about 1%.*
>
> *Seven years after the recession ended, President Obama took credit for an economy that he called 'stronger and more prosperous than it was when we started.'*

Worse, capital investment and spending by business has stalled. Dozens of the biggest U.S. companies have reported a shrinkage in overall profits for the fourth consecutive quarter.

It's Time for a Reality Check

The accumulated public debt—the total of all past deficits—is approaching $20 trillion, and the CBO projects $8.5 trillion will be added by 2025.

Most economists—liberal and conservative—think the rising accumulated public debt is unsustainable and could endanger the country's solvency in a financial or military crisis.

Record highs on Wall Street "mask an uncomfortable truth: Corporate America is still in the midst of recession," Ylan Mui wrote in The Washington Post. "Corporate earnings are supposed to be the bedrock of stock market value, but at the moment, they appear to be pointing in opposite directions."

Mui described the decline in corporate profits as "a lurking variable that could signal a full-blown recession is headed our way..."

Mui also pointed out: "...Considering the fact that out of 12 'earning recessions' since 1954, nine were accompanied by economic recessions a year before or after."

> *Most economists—liberal and conservative—think the rising accumulated public debt is unsustainable and could endanger the country's solvency in a financial or military crisis.*

Proposed Solutions to Avoid a Catastrophe

The Democrats are proposing more spending for social programs, clean energy, and a massive stimulus bill for infrastructure repair. In all likelihood, this will be accompanied by increased corporate and individual taxes.

Feedback from actual results seem to play no role in changing opinions on the results of stimulus spending to reignite economic growth. The central economic event of the Obama administration was an $834 billion stimulus bill in 2009. It was a dud!

There has not been one single case of government spending stimulating the economy, let alone one of government spending turning around a recession or depression.

In many well-documented articles celebrated economist Arthur Laffer has demonstrated "of the 34 countries in the Organization for Economic Cooperation and Development, those with the largest spending spurts... saw the least growth in GDP rates before and after their respective stimulus spending...The four nations—Estonia, Ireland, the Slovak Republic and Finland—with the biggest stimulus programs had the steepest declines in growth."

Japan and the United Kingdom among many others tried the same thing with disastrous results.

Logical But Wrong

The rationale seems so logical: Inject large quantities of money into a weak economy via public spending, and the population will, then, use the expected money to make purchases. Consumption will be stimulated which cause private companies to hire more workers to meet the increse in demand.

There's only one problem with this. It doesn't work. Never has!

It will be wonderful if it did. But those with fixed mindsets (fixed mindsets do not learn) refuse to acknowledge feedback from actual results, let alone search for alternative solutions that do work.

> *Conclusion: Government deficits do not stimulate the economy.*

What Does Work

Lawrence Kudlow and Brian Domitrovic in their astonishing new book *JFK and the Reagan Revolution: A Secret History* provides all the empirical evidence required to illustrate what has always worked, provided a country has a functioning civil society.

In a nutshell, there are two basic truths: (1) the engine of economic growth is the private sector and (2) government's responsibility is to make sure that growth happens, and is done by getting out of the way.

These two basic truths have kept America prosperous. Kudlow and Domitrovic write that the government "does not need to stimulate demand; businesses and entrepreneurs know how to do that through innovation and entrepreneurship."

Guess who practiced this philosophy and its resulting policies? President John F. Kennedy. This is the model to follow. It's called the *John F. Kennedy–Ronald Reagan model.* As Kudlow and Domitrovic explain:

It is the model of getting the government restrained and modest in its two key areas of economic policy: fiscal policy and monetary policy...

Both Kennedy and Reagan identified substantially cutting income tax rates and getting the dollar strong and stable as the specific policy mix that would let the private sector, which is to say the real economy, thrive.

The authors go on to demonstrate that it was Kennedy in the early 60s that pioneered the economic policies Republicans advocate today. Further, Reagan “creatively imitated” what Kennedy initiated.

Why wouldn’t he? There was ample evidence that it produced incredible results. And Reagan was results-focused.

Indeed, when Kennedy came into office, economic growth was dismal. His presidency launched the United States on one of the longest, greatest economic expansions in recorded history.

Back to 2016

Republicans are proposing massive tax breaks coupled with systematic abandonment of trillions of dollars of obsolete, outgrown, and unproductive government activities and programs.

They believe pro-growth tax reductions will stimulate business investment, innovation and entrepreneurship, and lead to a greatly expanded tax base (i.e. increased government revenues).

Jim Clifton, CEO of Gallup, says:

> *"When there is no job growth, the once huge tax base that pays for everything begins to shrink and critical government services and entitlements including government pensions, Social Security, Medicare and the like will be drastically cut."*

This is an extremely important message. Any attempt to cut entitlements—or even slow their growth—will be bitterly resisted. Ample evidence exists for this assertion.

To repeat: Returning to the policies of Kennedy and Reagan makes it possible to keep important entitlement programs in place (when accompanied by eliminating result-less government activities and programs that are costing trillions of dollars).

In short, without substantial economic growth and permanent government cost-cutting, we can expect further assaults on civil society and a continuation, if not acceleration, of the lawlessness (i.e. tyranny) that now seems to be characterizing our nation (see: ***The Needed Government Turnaround, Part 2: Strength of the U.S. Economy Depends on Re-strategizing and Permanent Cost-Cutting***).

For more on the economic problems we are facing, we recommend reading ***The Needed Government Turnaround, Part 1: The Forces Behind Tomorrow's Headline News*** and ***Drucker as Economist: Part 1: Venezuela's Slide into Crisis & Its Lesson for America.***

CHAPTER FOUR

THE NEEDED GOVERNMENT TURNAROUND

The Forces Behind Tomorrow's Headline News (Part I)

CHAPTER FOUR

THE NEEDED GOVERNMENT TURNAROUND

Part I: The Forces Behind Tomorrow's Headline News

Contributor:
Amanda Powers, Publisher, Management Matters Network

The Problem and Its Setting

Robert Samuelson, a Harvard educated economist, in a series of thoughtful and thorough articles in *The Washington Post* asks the question: *Are Both Parties Ignoring Deficits?*

Samuelson makes a strong case for why we can't avoid liquidating the Deficit State. It can't be postponed much longer.

The annual deficit (the difference between what the government takes in from taxes and what it spends) has been cut from $1.4 trillion in 2009 to an estimated $544 billion in 2016.

But there's a caveat associated with the budget deficit reduction that cannot be ignored.

Slightly paraphrasing Samuelson: The nonpartisan Congressional Budget Office (CBO) warns that the deficit will soon begin ballooning again as Social Security and Medicare costs soar to cover an aging population, interest payment increase on previous debt, and the U. S. economy struggles with slow/low economic growth.

Take-home message: Annual deficits will soon skyrocket.

Annual Deficits Versus the Accumulated Public Debt

Let's clarify one point *not* understood by the majority of Americans. There is a difference between the annual deficit and the accumulated public debt.

The accumulated public debt is the total of all past yearly deficits.

The accumulated public debt is inching towards $20 trillion. The CBO projects America will add another $8.5 trillion by 2025.

Says Samuelson:

> *"Many economists think the rising debt is unsustainable and could endanger the country's solvency in a financial or military crisis."*

Simply put, democracies worldwide (including America) are so deeply in debt that they can pay their daily bills only if their creditors lend more money, the government prints more money, or individual and corporate taxes increase.

Of course, there is another way to tackle the accumulated public debt without raising taxes.

Our accompanying article entitled ***Strength of U.S. Economy Depends on Re-strategizing and Permanent Cost Cutting*** details Peter F. Drucker's approach to preventing the horrific, potential consequences of mindless government spending.

Take-home message: The government will be overloaded with an accumulated public debt and will not, if current trends continue, be able to meet its financial obligations (e.g., Social Security, Medicare and all the rest).

Something must be done fast and successfully. And it can be!

We believe Peter F. Drucker defined the root causes of today's debt problem. His astonishing body of work provides all democracies with the thinking, knowledge, and methodologies for confronting this looming crisis.

Amputation Without Diagnosis

Times change. People don't. When the inevitable does occur (because no actions were taken to prevent it), panic sets in. That's a near certainty.

Insolvency brings with it the likelihood of what Drucker called "amputation without diagnosis."

Said Drucker: "We face downsizing for the sake of downsizing—that is, slashing and cutting for the sake of the numbers rather than to restore government to function, to strength, to performance."

The government will be exposed to something very similar to what has happened in a lot of big companies: wide slashing without any clear idea of what to slash, why to slash, and what to keep.

That practice won't reinvent government, it will severely damage it.

Translated, this also means entitlement spending (good and bad) will be sharply reduced. Why? Because the government will be forced to downsize quickly and without any real strategic thinking.

If that happens, many truly important entitlement programs such as Social Security and Medicare (to name just two) will be dramatically reduced.

The government will simply not have the monies to pay for these programs.

Take-home message: Tomorrow always arrives. And then even the mightiest of institutions (including nations) are in trouble if they have not worked on the future.

Cutting Entitlement Programs Could Bring Civil Unrest

Government's inability to meet entitlement program obligations could lead to the possibility of *massive civil unrest*, says Jim Clifton, CEO of The Gallup Organization.

We believe, when the promised or earned entitlements are no longer forthcoming, civil unrest is inevitable.

How do we prevent or minimize this? Jobs. High paying jobs! Jobs that create tax payers to increase government revenues.

We call this authentic job creation. More authentic job creation generates more government revenues because more jobs translates into a bigger tax base.

Take-home message: Discussions about our debt crisis have produced only a nationwide yawn with the general public.

Few realize and understand how the accumulated public debt relates to their earned entitlements and maintenance of a civil society. When they finally do, it may be too late!

The Entitlement Crisis

We sincerely hope Social Security and Medicare will remain intact. But changes do have to be made.

Sooner or later, entitlements will be cut in all developed countries. The only question is by what method.

Indeed, the Keynesian Welfare State make saying no appear heartless and almost immoral. Said Drucker: “Saying no is indeed painful. For a politician it is risky.”

However, tackling the problems of the accumulating public debt now makes saying no necessary.

Ever-increasing entitlement programs have become a threat to the very survival of our democracy. Yet any attempt at cutting entitlements—or even at slowing their growth—is still bitterly resisted. (France, Italy, Sweden, and Greece are proof of this assertion).

Take-home message: By ignoring the accumulated public debt and the dire need for entitlement reform, politicians are playing Russian roulette with the nation’s future.”

CHAPTER FIVE

THE NEEDED GOVERNMENT TURNAROUND

Strength of the U.S. Economy Depends on Re-strategizing and Permanent Cost-cutting (Part II)

CHAPTER FIVE

THE NEEDED GOVERNMENT TURNAROUND

Part II: Strength of U.S. Economy Depends on Re-strategizing and Permanent Government Cost-Cutting

Contributor:
Editorial Staff at Management Matters Network

Democracies worldwide are coming to the point where they have to re-think and to re-form their overriding economic models. The Keynesian Welfare State has ruled for over 50 years.

Peter F. Drucker was no fan of the Neo-Keynesian economic model. In no uncertain terms, he disproved the assumptions underlying this model (e.g., government deficits stimulate the economy and increased consumption automatically leads to new business investment).

In observing the impact of Neo-Keynesian economics in practice, Drucker discussed the inevitability of slow/low economic growth, the impact of welfare in creating dependencies instead of competencies, and the potential for corrosion and spreading decay of domestic society.

Even though this article discusses the U.S. economy, it is equally applicable to other democracies in Europe, including the U.K., Greece, Spain, Portugal, and Italy.

We've had nearly 8 years of disappointing economic results. In the first half of 2016, GDP grew by 1%, much weaker than the 2% average at the end of the recession.

At the same time, we are experiencing declining business investment, declining productivity, a slowdown in new business formations, and trouble in the energy sector. And that's only the tip of the iceberg!

What Can Be Done?

Government must be run like a business. Government leaders must rigorously identify and maximize America's opportunities for long-term growth.

Said Peter F. Drucker: "They must begin to abandon unproductive and obsolete programs and activities. The first step in a growth/survival strategy is not to decide where and how to grow. It is to decide what to abandon."

Stated differently, government leaders must practice turnaround management to get the U.S. economy back on track.

To turn around any institution—whether a business, a labor union, a university, a hospital, or a government—requires two essential steps: (1) re-strategizing and; (2) achieving permanent cost-cuts.

Drucker on Neo-Classics Economics

Here's what Drucker had to say about Neo-Classics economics:

> *There can be no doubt anymore that Neo-Classics work as economics… In fact they work like a wonder drug…*
>
> *As soon as an economy moves toward free-market policies, that is, cutting government spending, balancing the budget, privatizing government-owned businesses (e.g., the post office), cutting back or eliminating government regulations and government controls of economic activity, an economic boom gets going…*
>
> *Neo-Classical economics have become the standard prescription for turning around an economy after it has floundered under government controlled (i.e., statist) or Neo-Keynesian economics…*
>
> *Noble Prizes in Economics have gone to Neo-Classical economists—George J. Stigler, James Buchanan, Gary Becker and others—for demonstrating how economies asphyxiated by government control have been brought back to life via step-by-step implementation of Neo-Classical economic policies…*
>
> *The countries of the former Soviet Empire (e.g., Poland), post-Maoist China, South Korea versus North Korea, and, of course, the U.S. tax-rate reductions and regulatory reforms in Ronald Reagan's presidency are just a few of the many examples to prove that Neo-Classism works as an economic model.*

Just to be clear: Drucker completely dismissed and ridiculed the Neo-Keynesian economic model in his 1995 essay entitled *Can the Democracies Win the Peace?* originally published in The Atlantic and extended into the book *Managing in a Time of Great Change.* (It's a great read!)

Future article will discuss why all the assumptions underlying the Neo-Keynesian Welfare State have been decisively disproven.

Permanent Cost Cutting

To turn around our economy requires more than just changing economic models. It also requires, according to Drucker, permanent cost-cutting with respect to government spending.

Some economists claim lowering the corporate tax rate will cost an additional $10 trillion over the next decade.

This, in all likelihood, is not true.

It would only be (possibly) true if reigniting business growth through corporate tax cuts would be a stand-alone strategy.

But—as the title of this article suggests—changing economic models must be accompanied by a disciplined program of permanent cost-cutting.

Currently, government leaders find it near-impossible to abandon anything of substance. So they keep adding new programs without eliminating old, tired programs.

Unfortunately, taxpayers have to pay for both new programs and old programs which are result-less and should be abandoned.

Indeed, many lawmakers are now advocating a wealth tax in addition to income tax in order to pay for excessive government spending.

How curious that lawmakers don't talk about the need to purposefully abandon outgrown, obsolete, and unproductive government activities, departments, and programs before even considering increases in taxes.

Some economists claim lowering the corporate tax rate will cost an additional $10 trillion over the next decade.

Drucker on the Need for Abandonment

Focusing resources on results is the best and most effective cost control. Said Drucker:

> *Cost does not exist by itself…It is always incurred—in intent at least—for the sake of a result…*
>
> *What matters therefore is not the absolute cost level but the ratio between efforts and their results…No matter how cheap or efficient an effort, it is waste, rather than a cost, if it is devoid of results.*

The government is loaded down with *result-less/resource-devouring* programs & activities.

Drucker formulated principles and practices for systematically abandoning unproductive and obsolete activities and programs.

Said Drucker: "Government has to abandon things that do not work, things that have outlived their usefulness and capacity to contribute, things that have never worked. It must begin concentrating on the things that do work, the things that produce results, the things that improve the government's ability to perform."

This is the only way out of the mess we are currently in.

We truly believe all the Neo-classical economic prescriptions (including pro-growth tax cuts) coupled with permanent cost-cutting could revive the U.S. economy quickly and successfully.

Permanent cost-cutting focuses on cutting "fat" not "muscle." It concentrates on reallocating monies and competent people to where they'll do the most good, that is, to high potential result areas.

Putting Every Government Agency On Trial For Its Life

Why do better what shouldn't be done at all? That's the essence of what Drucker meant by permanent cost-cutting.

Drucker suggested every government agency should be put on trial for its life by asking the following questions:

- What is the function of this agency?
- If we were not doing this today, knowing what we now know, would we be doing it?
- Is the mission of this agency or any of its programs still vital? And if it is, what's the best way to carry out that mission?

Take, for instance, the Department of Agriculture. They are, observed Drucker, always asking very important questions about specific programs.

But—and this is a very big but—he felt they weren't asking the most important question: If we had no Department of Agriculture, would we now restart one?

Said Drucker: "What do we need a Department of Agriculture for when farmers make up no more than 3% of the population and when farm production does not contribute a great deal more to gross national product of the country? Does it really require a separate department?"

When the Department of Agriculture was first launched approximately 70% of America was involved in agriculture. This makes it a candidate, said Drucker, for abandonment or extreme downsizing.

Similarly, Drucker critically questioned America's nonproductive investments in education, welfare, and many other governmental programs, activities, and agencies.

Take-home message: Drucker Management, and more specifically his abandonment principles and accompanying practices, could have a significant impact on saving our system.

Without a doubt, the right leadership could *whittle trillions of dollars from our yearly deficit* by sloughing off result-less activities and programs.

Other Ways to Dramatically Reduce Government Costs

An effectively functioning government makes change its ally. In addition to abandonment, dramatic cost reductions could be achieved by:

- Using predictive analytics to save hundreds of millions of dollars a year in Medicare/Medicaid fraud.
- Privatizing money-losing government operations, such as the post office.
- Implementing Lean Six Sigma/BPM programs to streamline and reengineer government operations.
- Launching a major Federal IT modernization/digitalization initiative. Some experts claim government IT is now 25 years behind the private sector.
- Managing the transition into a fully operative shared services environment (e.g., robotics process automation, HR service delivery).

In Conclusion

Entitlements (good and bad) can't be maintained unless a competent attempt is made to re-ignite economic growth while simultaneously lowering government costs and improving productivity.

We need strong, effective government. In fact, given all that's happening in the world, we can expect more rather than less government in the next few decades.

The new tasks—protection of the environment, stamping out international and domestic terrorism, combating cyber security vulnerabilities, making arms control effective—requires more government, rather than less government.

The only way to pay for effective "big government" is to put into practice the right economic policies and management practices.

A good place to start? Government leaders and economists should seriously study the prolific teachings of Peter F. Drucker.

CHAPTER SIX

COMING:

A POTENTIAL FOR

Galloping Inflation That Destroys Middle-Class Purchasing Power

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A Potential for Galloping Inflation That Destroys Middle-Class Purchasing Power

Contributor:
Editorial Staff at Management Matters Network

Editor's Note:

In 2016, the federal government will spend $3.9 trillion. But government revenues will not be able to cover this expenditure.

The difference between what the government receives in tax revenues versus what they spend is called the deficit.

Though the annual deficit has been cut from $1.4 trillion in 2009 to an estimated $544 billion in 2016, a new report by the nonpartisan Congressional Budget Office (CBO) warns that the deficit will soon begin ballooning again.

Why? Because Social Security and Medicare costs will skyrocket to cover an aging population, interest payments on our accumulated public debt, and a U.S. economy plagued with slow/low growth pegged at less than 2%.

The accumulated public debt—the total of all past deficits—is quickly approaching $20 trillion and will inevitably reach $22 trillion in the not-too-distant future.

Worse, the CBO projects, given today's spending trends, we will add another $8.5 trillion to the debt by 2025.

Most people do not realize the implications to their standard of living with respect to our rising accumulated public debt at ever- increasing deficits.

In a nutshell, our rising debt is unsustainable and seriously threatens our country's solvency in a financial or military crisis.

This article attempts to explain how out-of-control yearly deficits and our mounting accumulated public debt could lead to galloping inflation and seriously impact middle-class purchasing power.

How Are Today's Deficits Being Financed?

Anyone with a detectable heartbeat realizes that our *swelling deficits* are financed in one or a combination of two ways: (1) printing more money (i.e. quantitative easing) or (2) raising tax levels.

Of course, government leaders could be practicing *systematic abandonment* of the things that don't work, never worked, and/or have outlived their usefulness. That would take hard work.

Further, they could be *shifting resources* from *clearly identified* marginal or result-less activities and programs to activities that produce significant societal and economic results. That would take hard work.

We will soon learn *we do not have infinite resources.* We have to maximize the effectiveness of the resources we do have. That would take hard work.

The government could be saving trillions of dollars. Yes, trillions.

This would require restructuring government agencies using Drucker-inspired management practices, implementing formalized tactical planning as was done in the Clinton/Gore era to enforce *The Government Performance and Results Act (GPRA)*, and applying Lean Six Sigma to government agencies with the purpose of streamlining/reengineering operations.

Of course, the government could also be *decentralizing* critical activities as has been shown in many whitepapers to create quantum leaps in government productivity.

The usage of predictive analytics could save hundreds of billions of dollars in Medicare/Medicaid fraud.

We will soon learn we do not have infinite resources. We have to maximize the effectiveness of the resources we do have. That would take hard work.

The list is virtually endless. Experts from many fields have written about management practices that could whittle many trillions off our yearly deficit and accumulating public debt.

To do all these things requires direction, method, and a high level of management competence. It takes political courage. And the ability to run government like a business.

Further, a change in economic policies would produce enormous economic growth. It has been proven, beyond a shadow of a doubt that Neo-Classical economics (as opposed to Keynesian economics) work like a wonder drug in reviving ailing economies.

(See: ***The Needed Government Turnaround, Part II: Strength of U.S. Economy Depends on Re-strategizing and Permanent Government Cost-Cutting*** and ***How to Reignite Economic Growth: Returning Back to the Economic Policies of John F. Kennedy & Ronald Reagan.***)

But instead of doing any of these things, the government has decided to take the easy path. *A path that requires printing more money and/or raising taxes.*

The Consequences of Solution #1: Printing More Money

Printing more money almost always equates with inflation. More money in circulation without corresponding increases in goods and services translates into "too much money chasing too few goods."

Jay Prag, celebrated economics professor at the Peter F. Drucker and Masatoshi Ito Graduate School of Management provides an easy-to-understand explanation of the relationship between the amount of money in circulation and prices:

> *Simplifying things a bit, suppose the economy is 100 apples that are sold once a year and the money supply is $100 that is used once a year. The price of apples would be $1 per apple.*
>
> *If we increase the money supply to $1000, but we don't change the number of apples or the frequency with which money is used, the price of apples would rise to $10 per apple; more money is chasing the same amount of goods.*

If the money supply increases every year by more than the supply of apples, the price of apples will rise every year and inflation occurs: a sustained increase in prices.

Bottom line: In a very real sense this is what's happening. The government is printing more money. But they're not doing anything that's working to produce significantly more "apples" (i.e., goods and services).

Take-home message: At the time of this writing, of the United States and the European Union are facing the prospect of low and slow economic growth for the balance of the decade until the year 2020.

By some estimates the United States will, on average, experience a 1% (or less) growth rate for the remainder of the decade; and the Eurozone 0.3%. Other estimates predict, on average, a 1.7% growth rate.

Couple this low growth with runaway printing presses to pay for existing and emerging new entitlement programs (e.g., universal healthcare, free college tuition, free/affordable pre-school) and *price inflation* seems to be "a future that has already happened."

Inflation is a Tax

Purchasing power declines with increasing price levels. People have less discretionary income after they buy the essentials. So, what's the inevitable result? They start asking for "cost of living increases."

Yet giving increases in wages *without corresponding increases in employee productivity* always results in more inflation. Why?

A simple equation, formulated by C. Jackson Grayson, former pricing commissioner during the Nixon administration illustrates this notion this quite well:

Wage Increases minus Productivity Increases = Price Increases

For example, if wages increase by 10% and productivity increases by 3%, then prices would increase by 7%.

From all the available evidence, productivity (especially knowledge worker productivity) will not keep pace with the demand for increased wages.

Just for the record: This type of inflation is called by some *wage-push inflation*. This differs from the type of inflation created by the government printing more money. That's called ***demand-pull inflation.***

Simply put, many are expecting to be hit by both demand-pull and wage-push inflation. They are interrelated in this situation. Both lead to decreased purchasing power and even slower economic growth.

If people have less money to spend, they buy less. And guess what happens? Companies adjust supply to meet diminished demand. Translated, unemployment goes up. And economic recovery becomes just a slogan.

The Consequences of Solution #2: Raising Taxes

Again, why would the government want to raise taxes? Because the government has to pay for *swelling deficits*. Increased taxes reduces consumer expenditures. People have less money to spend. In fancier language, this is called a decrease in disposable or discretionary income.

To repeat: When taxes are raised to levels that decrease discretionary spending, business investment dampens; the economy slows or even slips into recession.

It's really that simple. And it doesn't have to happen. But misguided economic policies are a choice—a bad choice that will bring with it much misery. First we make choices. Then the choices make us.

We need economic policies to promote economic growth. For example, pro-tax cuts that stimulate business investment and job growth, elimination of result-less government spending, cut backs in government regulations, and a host of other actions that will go along way in liquidating the deficit.

Without substantial economic growth (as measured by GDP), unemployment rates could rise even higher than today's current "real" rate of unemployment of 9.7% (as estimated by Gallup).

And the consequences of increased unemployment means more of each country's budget will be required to support the growing ranks of the unemployed as those who drop out of the labor force opt for federal assistance.

It's scary. But easy-to-understand.

Without substantial economic growth (as measured by GDP), unemployment rates could rise even higher than today's current "real" rate.

The Real Cost of Additional Entitlement Programs

A study by the nonpartisan Tax Policy Center and The Urban Institute several months ago concluded that former Democratic presidential contender Bernie Sanders' proposals "would have cost a staggering $33 trillion over a decade—while his new taxes on the wealthy would raise only $15 trillion."

To fund his plans, it was estimated the government would have to borrow $18 trillion, more than doubling the current accumulated public debt.

In simpler terms: "There's no free lunch." Someone always pays. In this instance, it will be the middle-class.

Suggested/offered new entitlement programs by Hillary Clinton have not yet been seriously analyzed because they are still quite vague in terms of specifics.

But it's safe to say: Without a tremendous increase in economic growth through real job creation, any plans to increase entitlement programs given slow/low economic growth amounts to the destruction of middle-class incomes due to draconian increases in taxation and price inflation.

In simpler terms: "There's no free lunch." Someone always pays. In this instance, it will be the middle-class.

Summary & Conclusions

Hillary Clinton is proposing to implement another round of stimulus spending (estimated by some to exceed $650 billion) to combat high unemployment and sputtering growth rates.

But we would hope before she leaps (if elected), she would take a hard look at how this has worked in the past.

It worked miserably. Said Arthur B. Laffer:

> *Of the 34 nations in the Organization for Economic Cooperation and Development, those with the largest spending spurts from 2007 to 2009 saw the least growth in GDP rates before and after the stimulus…*
>
> *The four nations—Estonia, Ireland, the Slovak Republic, and Finland—with the biggest stimulus programs had the steepest declines in growth…*
>
> *The United States was no different, with greater spending (up 7.3%) followed by far lower growth rates down 8.4%*

Said Peter F. Drucker:

> *"There has not been one single case of government spending stimulating the economy."*

If history is our guide, stimulus spending for infrastructure investment as a remedy for a weak economy will not work.

We will not create the necessary number of jobs to significantly increase government tax revenues required to maintain all-important entitlement programs.

This means, in all likelihood, we can expect even greater increases in taxes and more quantitative easing (i.e., printing of money) and government borrowing to pay for ever-increasing deficits.

This could lead to galloping inflation, more unemployment, and a host of other economic ills.

Who will win the presidential election is still largely conjecture at the time of this writing. But whoever wins, we hope they will pivot rather than persevere with respect to decisively disproven economic policies.

BIBLIOGRAPHY

Selected Peter F. Drucker Readings Related to Economics and Government Effectiveness

The following bibliography is neither exhaustive, nor complete. It's merely intended to provide the reader with some of Drucker's most powerful essays related to the "poverty of economic theory" and the resulting economic policies proven to be the root cause of decay and corrosion of domestic society.

Drucker on Neo-Keynesian Economics

P.F. Drucker, Managing in a Time of Great Change (Harvard Business School Press, January 26, 2010).

Chapter 25 entitled Can the Democracies Win the Peace? illustrates point-by- point why all the assumptions of the so-called Neo-Keynesian economic model have been decisively disproven.

Written in clear, practical language, Drucker demonstrates why for 60 years the domestic policies of developed countries have been dominated by two sets of beliefs, each considered self-evident truths. In reality, both have created "dependencies rather than competencies," which would promote greater equality of income.

This chapter is a good introduction for readers with minimal economics training who wanting to understand the assignable causes of many of our current societal problems, including growing civil unrest, the encouragement of "welfare cripples," the entitlement crisis, and many other of today's daily headline grabbers.

Further, Drucker explains why "the current advocacy of the use of government deficits to stimulate the economy" was initially intended to convert "charity" into "economic stimulus" as a way to get the middle class to accept welfare spending on the poor.

Additionally, Drucker details why John Maynard Keynes (the so-called architect of the Keynesian Welfare model) believed passionately in free markets and minimal government regulations, and thought redistribution of income was futile.

That's why we call it the Neo-Keynesian economic model. This chapter is an eye-opener. It will take some time to read and digest.

But it could forever change the way you view what's happened, what's happening, and what's apt to happen if corrections are not urgently/ immediately made.

Chapter 24 entitled Reinventing Government provides an easy-to-read introduction to why government must be turned around.

Drucker shows why "we can no longer wait to abandon things that do not work; the things that have never worked; the things that outlived their usefulness and their capacity to contribute."

This Drucker abandonment prescription includes Federal Reserve policies reliant on Neo-Keynesian economic assumptions to drive economic policy prescriptions. This is a great read!

Drucker on Making Government Perform

P. F. Drucker and Rick Wartzman, The Drucker Lectures
(McGraw-Hill, 2010).

In this superbly edited collection of Drucker's thinking and writing, Wartzman shows Drucker at his best—sharp, knowledgeable, erudite, and, yes, full of advice that could make government effective/accountable again and avoid economic and social catastrophe.

Chapter 21 entitled Reinventing Government:The Next Phase (1994) is the perfect supplement to the above-mentioned Chapter 24 in Managing in a Time of Great Change.

Drucker, in essence, details why government is now in danger of "slashing without any idea of what to slash, why to slash, and what to keep."

Simply put, "amputation before diagnosis" is quite likely to occur if current trends continue.

If the government refuses to abandon the outworn, the obsolete, the outgrown, says Drucker, emergency downsizing of government will cut muscle (i.e., performance capacity) rather than just fat.

An important takeaway from this chapter is: We can avoid drastic cuts to Social Security, Medicare, and other equally important entitlement programs if we generate enough money through job growth and permanent cost-cutting (i.e. abandoning results-less activities and programs).

P.F. Drucker, Toward the Next Economics (Harvard Business School Press, 2010)

Chapter 10 entitled How to Guarantee Non-Performance takes the reader from the broadest management concepts to specific how-to pointers.

Government leaders will eventually have to learn the Drucker management lessons or risk a career change. America is drowning in debt. We are, says Drucker in other works, insolvent.

No one can guarantee the performance of a public service program. According to Drucker, we do know how to ensure nonperformance with absolute certainty.

This article was originally published in Public Administration Review (March-April 1980). Drucker outlines the all-too-common errors government administrators continue to make.

Everything from failing to set priorities, focusing energies on "administration" rather than on results; refusing to "pilot" new programs and preferring to do everything on a grand scale at the first try; denying feedback from actual results (not learning from experience); and demonstrating an inability to abandon the unproductive in the obsolete.

Anyone with a detectable heartbeat, will soon realize after reading this chapter the incredible insights of Drucker (if they had been understood and practiced by government administrators) would have saved the United States and many other developed countries from result-less spending, needless suffering, runaway spending, and mounting civil unrest.