



Summary of Meeting with Fred Zimmerman

Civic Caucus, 8301 Creekside Circle, Bloomington, MN 55437

Friday, March 20, 2009

Guest speaker : Fred Zimmerman, professor emeritus, engineering and management, University of St. Thomas

Present: Verne Johnson, chair; David Broden, Paul Gilje, Jim Hetland, Wayne Popham (by phone), and Clarence Shallbetter

A. Context of the meeting —Responding to a Civic Caucus question earlier this year, today's speaker, Fred Zimmerman, offered to discuss in greater detail his contention that an imbalance in the economy between production and other activities is unsustainable and will lead to chronic deficits.

B. Welcome and introduction— Verne and Paul welcomed and introduced **Fred Zimmerman**, professor emeritus, engineering and management, University of St. Thomas. Before his retirement in 2005 Zimmerman spent 25 years at St. Thomas, including 10 years as head of the School of Engineering, which he helped found in 1985. Previously he had worked with IBM, Control Data and National Computer Systems. He has served on the boards of directors of 14 corporations. He has a Ph.D. in strategic management and organizational studies from the University of Minnesota.

C. Comments and discussion —During Zimmerman's comments and in discussion with the Civic Caucus the following points were raised:

1. Lower proportion of jobs in production relative to service —Zimmerman, who in 2002 co-authored with Dave Beal *Manufacturing Works: The Vital Link Between Production and Prosperity*, said that the USA, compared with other countries, has comparably fewer people in mining, construction, manufacturing and agriculture than in finance, insurance, real estate, services and government. Between 1979 and 1999 the USA added 39 million people to its service economy and lost 1.2 million in its production economy. We now have about 28 million workers in tangible production and 105 million in everything else, he said.

To illustrate an impact of these changes, Zimmerman recalled an article he wrote for the *Star Tribune*, April 9, 2001, titled "Hardly Working". In the article he related two experiences he had in buying clothes. When working for IBM in the 1950s, he was unable buy a suit at a Penney's store because,

the clerk told him, of lack of demand for service-job clothes. Forty years later he went to another Penney's store seeking clothes for working around the yard but received the answer: "We don't sell work clothes in the store anymore. Not much demand for them."

"We have to contemplate how much affluence we can afford and still be competitive in world markets," He wrote. 'The disregard of this precious relationship between production and consumption permeates today's society."

2. Failure of some production-related firms to become more efficient —We have some good examples of production firms that are doing well, including, Steel Dynamics, Inc., Fort Wayne, IN, which produces steel with the equivalent of .37 person-hours per ton. Until it went bankrupt, some plants of LTV Steel required the equivalent of 3.4 person-hours per ton. Too many production companies are poorly-run, which contributes to the decrease in production in the USA, he believes.

3. Production firms contribute proportionately more to the economy —In Minnesota, as late as the mid-1990s, manufacturing constituted 18 percent of the jobs in the state, but 23 percent of the payroll, and an estimated 27 percent of the taxes. he said.

Also many in the service sector including lawyers, accountants and other business services make money off the production sector. He cited information from the University of California that indicated 40 percent to 60 percent of all jobs are dependent upon manufacturing.

The biggest drop off in productive capacity has occurred in the geographically middle states of the nation, he said. Minnesota had been somewhat insulated but that has changed.

In order to achieve an employment profile similar to our major competitors, the United States would need to shift about 20 million of its workers back into the production sector, Zimmerman said. He doesn't see public office-holders focusing on this issue.

4. Public pension obligations arithmetically unsustainable —Within the service sector, government employment has been growing very rapidly, he said. Today there are 12 million more government employees in the USA than there are in manufacturing. Within the government sector two aspects of concern are (a) early retirement and (b) defined benefits. Arithmetically, with the number of employees in the government sector, the promised pension benefits can't be paid. The average teacher spends 27.4 years in retirement in Minnesota. Since 1960 the life expectancy of Americans has increased by eight years, but there's been no adjustment in retirement benefits. In fact, they've been expanded. During good times legislative bodies have increased benefits.

Zimmerman said he's not passing judgment on whether retirement benefits are appropriate; it's just the he can't figure out how there'll ever be enough money to pay them. He finds it hard to imagine that 30-year-olds will tolerate tax increase to pay for keeping existing pension commitments.

A Civic Caucus member said that civil service hiring and retention practices also need changing.

A Civic Caucus member noted that differences in public sector retirement plans can be understood in light of precedents made long ago. Early retirement from the military has always been present. In the 1960s and 1970s public employees traded higher salaries for better pension plans.

Incentives for early retirement need to be removed along with moving from defined benefit to defined contribution retirement plans, Zimmerman said. You can't afford to have a public employee retire at 58 and pay guaranteed benefits to that employee for another 25 to 30 years, he said.

A Civic Caucus member observed that early retirement incentives have been deliberately utilized in schools to make it possible to hire younger, lower-paid teachers. So if early retirement is discouraged, local governments will be paying higher salaries to more veteran employees.

5. Higher standards of affluence —Another element to remember, Zimmerman said, is that Americans have put up more retail space. We have twice the square feet of retail space per unit of buying power as our Western European counterparts.

6. Myths about overseas "sweat shops" —We tend to think that all our manufacturing has been taken over by long-hour, low-pay Asian "sweat shops". But the facts don't bear that out, he said. Many are very well-equipped, and wages, while lower, are increasing.

7. Need for better trained workers —Too many Americans think that simply a BA degree means someone is trained for a job. Some Western European countries have proportionately fewer individuals attending universities but proportionately more trained in technical occupations.

8. Nurture the better companies —Rather than bailing out losers, Zimmerman said the nation might better nurture the better production companies like John Deere.

9. Ways to encourage more production-oriented companies —Asked what strategies might be undertaken to encourage more production-oriented companies, Zimmerman suggested we might try to learn more about how a state like Indiana has functioned. He said Indiana has proportionately fewer government employees. Its economic development programs are more streamlined and effective. Some 200 foreign companies have been stimulated to locate plants in Indiana. He recalled that when serving on the board of Winnebago, the company was seeking offers from various states as to where Winnebago might place its next plant. According to the Winnebago CEO, the weakest and least professional offer among nine states was Minnesota's, he said.

A Civic Caucus member observed that Minnesota doesn't seem to be doing too poorly, when you take into consideration the number of medically-oriented firms that have headquarters here.

Asked about Minnesota's current economic development environment, Zimmerman said he believes Governor Pawlenty is very interested in the quality of technical education. He thinks that Dan McElroy is one of the most effective commissioners of employment and economic development that Minnesota has had for awhile.

The state must look at how it promotes—not subsidizes—economic development, he said.

10. Every proposal for transportation cites potential impact on economic development —Whenever any owner of private land or city, county or other unit of government in Minnesota is seeking an improvement in roads or rail, it is inevitable that economic development will be cited as a principal objective, a member said. Thus, it is a challenge to determine which among a host of proposals are most realistic in their economic development claims.

11. Industries seeking plant locations naturally seek lower-cost locations —It's going to be extremely unlikely that any sensible manufacturing company will seek a new location in larger cities like Minneapolis, Pittsburgh or Cleveland because of anticipated higher costs, plus more uncertain quality of some public services in areas like law enforcement, education, and health, Zimmerman said. It's more likely that such companies will go to smaller urban areas like Fargo or St. Cloud or to counties on the fringe of the metro area.

12. Lack of practical experience on business school faculties —A Civic Caucus member asked Zimmerman about colleges and university business schools serving as incubators for new technology. Such institutions are handicapped, he replied, because their faculties have too few professors with personal practical experience in manufacturing firms. It was the private experience of its faculty that built the engineering school at St. Thomas, he said.

On a related matter Zimmerman is critical of how college faculty members spend their time. He distributed an opinion piece he wrote for the *Star Tribune*, June 16, 2002, in which he commented as follows: "Professors at teaching institutions usually teach classes for about 330 hours per year; at research institutions, about 165. An ordinary work year in industry is around 1,925 hours...In reality, many of us neither teach nor do research - very much. Instead, we meet. We have search committees and curriculum meetings and policy meetings and innumerable other meetings but very few decisions."

13. Thanks —On behalf of the Civic Caucus, Verne thanked Zimmerman for meeting with us today.