



What lasting impact will this recession have on families, businesses, and government? How can the economy recover? What is the best way to return to full employment? For three reasons, the only honest answer is that we don't know! First of all, economic forecasts are notoriously inaccurate because they are blind to unexpected turning points and interactions among concurrent changes. Second, the connectedness of the global economy is unlike anything we've ever seen before, so the lessons of history are, at best, only marginally useful. And third, the future depends on economic choices the president and Congress will make (or not make).

The financial wherewithal of families has declined markedly. Home values have plummeted; retirement savings accounts have been battered; and unemployment and under-employment are at 30-year highs. For more than a decade, U.S. households stimulated the economy by spending more than they earned and borrowing to fill the gap. But the era of easy credit is over. Banks have tightened lending criteria and are pushing borrowers to repay the money they borrowed in the past. Families are spending less and saving more. Clearly, it is unlikely that consumer spending will lift the economy out of this recession.

Similarly, businesses seem to be unable or unwilling to lead the recovery. They are reacting to criticisms from Washington and consumer frugality by curtailing hiring, keeping inventories low, and making only essential investments. With households and businesses on the sidelines, only two sources of demand remain: government spending and exports.

The Federal government stepped in to fill the spending void with the \$700 billion Troubled Asset Relief Program, \$878 billion Economic Recovery Act, and \$3+ trillion budgets in 2010 and 2011. This spending coupled with declining tax revenues blew the budget. The 2009 deficit was 10 percent of the GDP and it may be higher in 2010. The spending has shifted the debt burden from households to the Federal government. So far, the Treasury Department has had no problem selling bonds (even to the Chinese) because investors consider our government to be among the most creditworthy institutions on earth. In the near future, however, they will force the government to implement a workable strategy to reduce annual deficits.

The biggest threat to long term economic health is misguided spending. Successive extensions in unemployment insurance reduce the recession's pain, but unemployment payments are like putting dying patients on heart-lung machines - it keeps them alive but doesn't cause a recovery. Large infrastructure investments (e.g., repairing roads and building nuclear power plants) are more effective because something gets built while the money is channeled to unemployed workers. Furthermore, once such projects are finished, they no longer drain the budget! On the other hand, permanent spending increases in areas like health care are high risk since they must be funded by equally permanent tax increases or spending reductions.

During his interview with Oprah Winfrey, the president generously gave himself "a solid B-plus" for his first-year. He must have been evaluating himself on a bond-rating scale where the top grade is a triple-A. Following his historic election, President Obama had at boatload of political capital. He spent a chunk of it endorsing a stimulus package that failed to reduce unemployment and was widely seen as a pork barrel. More of his capital evaporated when, instead of dealing with 10 percent unemployment, he pushed a health care reform that many voters don't want. Many were shocked by the intrusion of government into management of the auto industry, the financial services industry, and the home mortgage industry. Still


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# TAMING THE DRAGONS OF CHANGE IN BUSINESS



10 TIPS FOR ANTICIPATING, EMBRACING, AND WINNING CHANGE TO ACHIEVE SUCCESS

RICHARD G. STIEGLITZ, PhD

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others are angry about soaring annual deficits. Recent Republican successes in Massachusetts, Virginia, and New Jersey confirm that President Obama is nearly bankrupt relative to political capital.

In his State-of-the-Union address, the president said that doubling our exports over the next five years may be the best bet to revive the economy and create jobs. *I agree!* Growth in exports is a viable, long-term solution, or at least a major part of one. Our negative balance-of-trade (currently \$500 billion per year) is a withdrawal from the economy - we send millions of jobs overseas when we import more than we export. The U.S. exported \$1.3 trillion in goods and services last year, which produced nearly 10 million jobs. Each \$1 billion of exports equates to about 7,000 jobs. To return to full employment, the U.S. should improve both sides of the balance-of-trade equation. On the import side, oil imports (nearly \$400 billion per year) could be cut in half in the next five years by drilling our own natural gas and off-shore oil, and pursuing alternative energy sources.

But will the president and Congress have the stomach to make the policy changes that would produce a substantial increase in exports:

- (1) Ratify the pending free-trade agreements with Colombia, Panama, and South Korea to expand U.S. exports to those markets
- (2) Reform the tax code to enhance U.S. competitiveness instead of taxing the overseas operations of U.S. corporations
- (3) Liberalize regulations that limit U.S. technology exports supposedly for security and foreign policy reasons
- (4) Challenge the Chinese to value their currency fairly.

Of these four policy changes, tax reform is the most controversial. Instead of raising corporate and personal income taxes, Congress should institute a value-added tax, a national sales tax, a carbon tax, or all three! Such taxes could be rebated on exports when they leave the U.S. and added on imports when they enter the U.S. Positive Congressional actions in these areas would create 7,000 jobs for each \$1 billion increase in exports - and not cost taxpayers "*one single dime*" as President Obama likes to say. It's time for him to talk turkey instead of peacock on matters of job creation, exports, taxes, and budget cuts!

#### Results Through Relationships EATING AN ELEPHANT

One of the best compliments a client ever gave to my company was: "*When I don't know where to begin, I give them the problem because I know they'll come up with something.*" The 1980s project that concerned him was acquiring business computers for a new military base....from scratch. The challenge seemed daunting. He needed answers to pivotal questions like: What capabilities were needed? By whom? When? How much would they cost? And how long would acquisition, installation, integration, and training take?

We didn't know the answers either, so we approached the project as if we were eating an elephant. We broke the enormous project into bite-size pieces: user groups, staffing, hardware, software, data, facilities, communications, security, and interfaces. We interviewed people at other bases to define requirements, developed specifications, estimated costs, and prepared a schedule. When the base opened four years later, the computer systems were operational, the staff was in place and fully trained, and wide-area communication links were operating. Innovation started by breaking the problem into manageable pieces.

The most effective approach to enormous challenges like changing our health care system is to innovate on a small part of the problem - soon a

The recession, layoffs, budget shortfalls, new technologies, acquisitions, and out-sourcings have produced a world of constant change. Today, ideas travel at the speed of light. You can communicate with anyone, anywhere, at any time, on any subject. To stay on top, you must do more than react. You must anticipate, embrace, and use change to your advantage.

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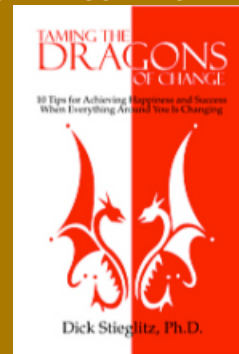
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total solution will emerge. Today, the Federal government faces daunting challenges. To transform itself, Congress must be willing to let go of the old and embrace the new. They must tame three ferocious dragons:

- \$ Terminating marginal programs to free resources for vital changes
- \$ Reengineering itself, and
- \$ Overcoming entrenched organizational resistance to change.

Extreme budget pressures from escalating Social Security, health care, and aging infrastructure will force changes. Government decision-making and funding methods are stuck in the industrial age. To succeed in the 21<sup>st</sup> century, it must form creative partnerships with industry and not-for-profits. Maybe Congress should break the current logjam by scraping its existing committee structure, and oversee issues and outcomes rather than agencies. How's that for an elephant-sized challenge?

### Personal Change

#### **PICKING FROM THE SMORGASBORD**

Late one Christmas morning, our entire family gathered at an aristocratic hotel in downtown Richmond, Virginia to enjoy the grand buffet. We walked down the palatial staircase into the middle of a sprawling smorgasbord. Waffles and omelets with all the fixings on one wall; an array of appetizers on a second wall; an assortment of meats, seafood, and vegetables on the third wall; and dozens of pies, sundaes, and pastries in the middle of the room. My first thought was: "*Wow, what a spread! What will I eat first?*" I picked something from every table, and added toppings and sauces - I ate so much I was sick. Others in our group chose to react differently. One admired the splendid presentation of the food. Another thought the spread was wasteful. A third ate almost nothing in the three hours we were there. Some ate just seafood and others just desserts. One voiced a fear that she would eat too much, and proceeded to do exactly that. Amid such an abundant smorgasbord of choices, which was the best? Of course, the answer is: "*It depends.*"

Like a smorgasbord, life has many choices, and each choice has several variations. Would life be simpler with fewer choices? Simpler maybe, but not nearly as challenging or exciting. "Simpler" really means having clear criteria: goals for the future and personal values on which to make uncluttered choices. Too often we give into instant gratification, lose sight of values and goals, compromise our closest relationships, and sometimes even damage our health by making poor choices.

Making clear choices forces us to prioritize our desires. In a world where we can't do or have everything we would like, our desires compete with one another. However, our core values and goals are revealed in our daily choices. For example, when we value family over work, we take a day off for a special family event. When we value health over pleasure, we choose exercise instead of a snack. Choice is the knife we use to whittle a universe of possibilities into our personal and professional lives

Tomorrow's results are determined by today's choices. Tomorrow will be as big as the goals we set today. Furthermore, we are reaping karmic rewards or paying karmic debts today for the choices we made yesterday. For example, my weight (which is more than I want it to be) is a karmic debt for my past eating choices. The good news is we get to make new choices every minute! To the extent our choices are different today than they were yesterday, our lives will be different tomorrow than they are today. As Army General Norman Schwarzkopf said: "*The truth of the matter is we always know the right thing to do. The hard part is doing it.*"

If you are looking for ways to make new choices in 2010 for your organization, contact me to discuss the possibilities. If you found this e-letter to be useful, send it to a friend. If you didn't, please let me know why at [dick@dragonsofchange.com](mailto:dick@dragonsofchange.com).

Until Next Month,

*Dick* ([www.DickStieglitz.com](http://www.DickStieglitz.com))

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