

An Avalanche of Gold Watches Coming

Seasoned managers know that gold watches are not watches at all. They are walls put up to protect organizations' budgets.

When an organization is instructed to cut their spending, the natural instinct is to respond with proposed reduction in the things the boss will think most valuable, i.e., the gold watch. That way, the boss may be reluctant to cut the budget of that organization and look somewhere else.

We have a good example at a very high level recently when the President said that the government would not be able to mail out Social Security checks if the debt ceiling was not increased. It's difficult for most of the President's bosses, i.e., the public, to know whether there were lower priority items that could have been reduced before getting to Social Security.

Seasoned managers know that the manager himself must lead by example. This usually means he's cutting his own compensation, reducing his own staff, getting rid of perks, disposing of vehicles, etc. That lets everyone know that this is serious, and their own compensation and perks are vulnerable.

Even then, the gold watches will come out. This is followed by the boss looking in detail at how the organization is spending its money and came to its conclusions. One example I remember vividly is when Mal Stamper, then president of The Boeing Company, personally challenged the details of capital facilities reductions in my area. At the time, I was running a division of 27,000 people, one of the larger organizations in the company. Mal took over a conference room, and for several weeks had our people try to justify the buildings and equipment they needed. He masterfully made large cuts without significant damage to the gold watches.

When it's time to cut spending, nothing should escape the microscope. I remember, T. A. Wilson, then chairman of Boeing, telling us that there were no such things as variable and fixed assets. Everything was on the line. Subsequently we sold buildings, renegotiated contracts, disposed of underperforming products, etc. I remember having to totally eliminate one of Boeing's prized jewels, the Boeing Scientific Research Laboratories.

Our country is in such a position now. We need strong actions in order to survive. In our current spending/taxing mode, our debt in today's dollar values will exceed \$60 trillion by 2030 and be over 300% of the Gross Domestic Product. One way to remain solvent is to increase all taxes by 10% and reduce all government spending by over 30%--right away. Each day that goes by makes this more difficult and the changes required more draconian.

That's why we are going to see an avalanche of gold watches. Be forewarned! There's no gold in these. We better open the gold cases and look carefully inside of both existing legislation and new offerings. Then quickly take action. We don't want to fall to the depths of Great Britain in the 1970's after they devalued their currency by 14% overnight, suffered inflation of 27% in 1975, doubled the price of oil, endured massive strikes and riots, and compelled people to work no more than three days a week.*

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* <http://econ.economicshelp.org/2010/02/economy-of-1970s.html>