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THE WHITE HOUSE
WASHINGTON

12.6.82

Bill -

Let's discuss.

THE WHITE HOUSE

WASHINGTON

December 3, 1982

MEMORANDUM FOR MICHAEL M. UHLMANN

FROM: ROGER B. PORTER *RBP*

SUBJECT: Expropriations

The attached article entitled "Expropriations" makes several claims about a dramatic increase in practices that most would find disturbing — employee theft, trading on insider information, increased litigiousness. Other things like shifting manufacturing operations in search of lower wage rates abroad and executive compensation are obviously in a different category, although they are all lumped together in this rather uneven article.

The article raises two questions for me. First, are its claims accurate. As is often typical in such polemical pieces there are no sources cited for many of the claims and I have no confidence that the author is portraying a fully accurate picture. Second, if these trends are accurate we should consider whether there are additional measures we can take to deal with employee theft, insider trading, etc.

I would appreciate if you and your staff would evaluate these claims and provide me with an assessment of whether there is potential for any fresh initiatives here.

Thank you very much.

cc: Edwin L. Harper

Attachment

Expropriations

By Robert B. Reich

CAMBRIDGE, Mass. — America's long-run economic decline cannot be reversed by manipulating the money supply, taxes and Government expenditures, because the underlying problem has become more social than economic.

When productivity began slowing a decade ago, many Americans discovered that the simplest way to preserve their living standard was to expropriate a portion of someone else's wealth. But this "beggar thy neighbor" tactic is destroying our capacity to work together productively and thereby intensifying the decline.

To maintain profits, some corporate executives expropriate employees' wealth by closing plants and shifting manufacturing operations to gain lower wage rates. In 1970, 10 percent of American-owned manufacturing took place abroad; now the figure is 25 percent. Some managers are fighting unions more directly: The number of employee complaints of unfair labor practices alleging outright firings or other pressures to discourage unionization skyrocketed from 18,651 in 1970 to 41,259 in 1980 (the last year for which data are available).

Employees expropriate employers' and shareholders' wealth by stealing from their companies. Employee theft jumped from \$16 billion in 1970 to \$78 billion in 1981. Losses from bank embezzlement are estimated to be at least five times greater than losses from bank robberies; computer fraud alone resulted in losses of \$100 million in 1981. Employee expropriation also takes the form of unscheduled absences, which rose from 5 percent of the work week in 1970 to more than 8 percent in 1980.

Investors expropriate other investors' wealth by trading on insider information. Since 1978, the Securities and Exchange Commission has filed more charges against insider trading than in its previous 44-year history.

Corporate executives and investors expropriate the wealth of other executives and investors through unfriendly takeovers. Before 1970, attempted takeovers were rare. Since then, we have been treated to a series of brutal contests involving billions of dollars. A recent survey in *The Financier*, a magazine, showed that almost half the chief executives in our largest companies fear that their firms are vulnerable to takeover. So they spend time devising defensive and offensive moves, including paying "ransom" to would-be acquirers in order to buy back threatening blocks of stock.

Corporate executives expropriate investors' and employees' wealth by taking huge salaries and benefits. Between 1971 and 1981, total compensa-

tion of senior executives in Standard & Poor's 400 rose by 10 percent in real dollars. But total shareholder gains (measured in stock-price appreciation plus dividends) declined by 2 percent in real dollars. In 1981 (hardly a banner year for investors), executive salaries scored their largest increase in 17 years: 15.9 percent. In addition, top executives award themselves "golden parachutes," guaranteeing high salaries for years if their companies are taken over.

Executives and employees together expropriate consumers' wealth by pressing for Government protection against foreign imports. Since 1970, quotas and "voluntary" marketing agreements have burgeoned. The Administration has negotiated quotas on imported steel from Western Europe, cars from Japan, sugar from the Caribbean, at a total cost to consumers of some \$6 billion a year. More than 34 percent of the market for our manufacturers is sheltered. Motorcycle makers, mushroom growers, specialty-steel fabricators, electric-type-writer producers, clothespin makers and others are lining up for protection.

Everyone tries to expropriate everyone else's wealth by lawsuits. Investors sue executives, companies sue employees, companies sue companies. Between 1970 and 1980, the number of legal actions by private parties for breach of contract, anti-trust and wasting of corporate assets increased by 30 percent. Before 1970, one of every 600 Americans was a lawyer; today, it's one of every 400.

None of these ploys creates new wealth. Each merely shifts assets from one set of pockets to another. Together, they foster a cynical indifference to any goal beyond personal gain.

Sustained economic growth can be achieved only through cooperation. Our future welfare depends on complex, interdependent organizations in which responsibility is widely shared and all parties trust that benefits and sacrifices are borne equitably.

Unless we reaffirm a collective commitment to prosperity and resurrect the values of equity, loyalty and mutual responsibility on which such a commitment must be based; unless we abandon the myth that cowboy capitalism is the way to govern our economic life together; unless we begin to understand the relationship of economics to our common destiny, we will lose more than economic pre-eminence: We will lose the prospect of a better life together.

Robert B. Reich, who teaches business and public policy at Harvard University, is author of the forthcoming book "The Next American Frontier."