

## Wharton Reunion

May 15, 2010

Thanks, Tom, and good afternoon everyone.

50 years is a long time, and although the numbers don't brook argument, it's hard to believe it was that long ago that our class graduated from these hallowed halls. Both the campus and the city have changed a lot over the years; yesterday, Jan and I went looking for the house where we lived in a third floor walk up, and found nothing that resembles the neighborhood as it was then. I'm happy to report that the changes are all for the better!!

The campus has been upgraded a lot as well, and over the years the school has used its growing resources to burnish the outstanding reputation that gave all of us a great start and continuing career advantages.

As we all know by now, luck – both good and bad – can have an enormous impact on our lives. In my case, a real stroke of luck gave me the opportunity to attend Wharton.

### Infantry to Wharton

In the summer of 1958, having completed my military service as a 2nd LT of infantry at Fort Devens, Georgia I was working in the insurance business and living in Media – just outside Philadelphia – with Jan and our first child. I had applied and been admitted to a number of law and business schools, but had about given up on getting the full scholarship I needed when the phone rang and some kind soul from Wharton informed me that the school had just been endowed with a full scholarship by the accounting firm of Arthur Young and Company and that if I was ready to start school, I could have it. It was one of those "where do I sight" moments that didn't take a lot of thought.

Not long after that, we found the third floor apartment, Jan found a part time nursing job at Drexel Hill Hospital, I found a part time job as a night manager of WFIL, and I enrolled at Wharton.

The next 18 months was a real learning experience. In addition to learning all the things Wharton had to impart, I learned how to keep drunken news broadcasters off the air, how to operate a switchboard and explain to angry viewers why "Gun Smoke" or some other popular show had been preempted for any reason and how to feed a baby when mom was at work. Luckily, we were young, full of energy and ready for the adventure of a new turn of the wheel of fortune.

The Wharton Experience was a tremendous positive for Jan and me, as it has been for my nephew Roger, a much more recent graduate who is now president of Mass Mutual. Wharton is a gift that keeps on giving, and it's an honor to have been asked to participate in marking the 50th anniversary of our graduation.

In the years between then and now I did a variety of things for a number of companies,

sampling Eastman Kodak, Hallmark Cards, TWA, Bloomingdales and American along the way, and spending the bulk of my career in the airline business.

### Greeting cards to airlines

I made the transition from greeting cards to the airline business in the mid 1960's. At the time, I was working for Hallmark Cards in Kansas City, and TWA was pursuing me very aggressively. As it happened, we were living across the street from a TWA family, whose daughters we occasionally hired to baby sit but who were often unavailable because they were traveling abroad. One evening, as I was talking again to the TWA recruiter, Jan motioned that I should put down the phone for a second. When I did, she said, "I don't know why you don't take the job. They're going to give you a big raise, and maybe I could go to Rome now and then like the girls across the street." Having been married for some years at that point, I had learned to take a hint and soon thereafter I decamped to TWA!!!

In the years that followed at both TWA and American, I often found that the industry—despite its many frustrations—offered enormously complex management challenges and was an extraordinarily interesting way to earn a living. Ed Acker, who served as Vice Chairman of Braniff and as Chairman of both Pan American and Air Florida, once observed that "Once you get hooked on the airline business, it's worse than dope."

### Five percent of GDP

Given the fact that the industry has never earned its cost of capital and has lost something north of \$50 billion since it was created, some might say it's not a business at all. From the standpoint of airline investors, that assessment may be correct, but from a macro perspective, the airline industry is an economic powerhouse. In 2006, according to the FAA's air traffic organization, commercial aviation drove more than five percent of U.S. GDP, helping generate well over a trillion dollars in economic activity and supporting more than ten million jobs.

Moreover, as people across the world found out in April when volcanic eruptions virtually shut down air travel to, from and within western Europe, aviation has made the world far more accessible to millions of people than it has ever been before. And, despite its other failings, air travel is both very safe—the last decade has been the safest in U.S. commercial aviation history—and is also extraordinarily inexpensive. Adjusting for inflation, the cost of flying cost one mile in a domestic market has fallen from eight and a half cents in 1978 to just over four cents in 2008.

Back when we were at Wharton, flying was still pretty rare, but these days, everyone flies a lot, and everyone is familiar with the difficulties presented by ever more intrusive security procedures, crowded planes, an obsolete air traffic control system and other symptoms of an industry which seems to be perpetually hard times. As you can imagine, these problems—and the passenger frustrations they generate—often weigh on the attitude and outlook of airline employees. In addition, as the industry has struggled financially, it

has been cutting back on wages, benefits and job security. In the last decade alone, every major airline but America has been through bankruptcy, nearly one in every four airline jobs have disappeared, and those still working do so for wages and benefits that compare badly to those of a decade ago despite all the stress and turmoil, airline people are often ready with a quip or a joke to lighten the mood.

#### Airline classics

Not long ago, a flight attendant on Southwest—which does not assign seats—was frustrated with the slow progress her passengers were making during the boarding process. She seized the mic and announced, "People, people, we're not picking out furniture here. Just find a chair and sit down." On a continental flight with a very large senior crew, the captain's greeting went like this: "Ladies and gentlemen, we've reached cruising altitude and will be turning down the cabin lights. This is for your comfort and to enhance the appearance of your flight attendance." And after a very hard landing, the flight attendant making the welcoming announcement embellished it like this: "Ladies and gentlemen, please remain in your seats until Captain Crash and the crew have brought the aircraft to a halt at the gate. Once the smoke has cleared and the alarms are silenced, we'll open the door and you can pick your way through the wreckage to the terminal." And an embarrassed first officer, after another hard landing, reported that a little old lady, exiting the plane, stopped to inquire if they had landed or had been shot down.

The industry has been frustrating for airline executives as well, particularly since it was deregulated in 1978. My predecessor as Chairman of American, Al Casey, once remarked during a budget review that if the Wright Brothers were still alive, Wilbur would have to fire Orville to cut costs. Perhaps the best known comment on airline economics—source unknown—holds that if you want to make a million in the airline industry you should start with a billion, and Mary Shugrue, then Vice Chairman of Pan Am, once expressed his frustration with the company's unprofitability by remarking that "If we went into the funeral business, people would stop dying."m

#### Merger mania

For all its remarkable achievements, the airline industry has never worked financially, and it still struggles today. As most of you surely know, United and Continental have agreed to merge, and have applied to the U.S. Government for permission to do so. Moreover, the press is full of speculation that if the merger happens, American and U.S. Airways will not be far behind.

While I do not think that allowing our major airlines to merge into an even smaller number of network competitors is either the answer to the industry's troubles nor sound public policy, this isn't either the time or the place for an airline tutorial. I make the point only to underscore the impact that changing perceptions of proper public policy can have on the fate of individual companies, entire industries and our economy as a whole.

Back in 1978, the political class came to believe that deregulating the airline industry to

create unfettered competition would have dramatic positive effects. Many in the industry, myself included, argued that there are some businesses in which laissez faire competition does not work very well, and that deregulating the airlines would have many unintended consequences. In the years since, many in congress have bemoaned their vote for deregulation as the worst they ever cast and many hundreds of cities have lost all commercial airline service. Now the popular wisdom is that consolidation—whose only purpose is to eliminate competition—will somehow produce a more satisfactory system than we had during the regulated years preceding 1978.

### Public policy's influence

Whether it will or will not remains to be seen. But there is a broader point I'd like to make, which is that new public policy will not always produce better results. While airline managers must accept responsibility for some of what has happened to our airlines, managers—in any business—must play within the rules established by public policy. Changing public policy has had a profound influence on the airline industry—and on many U.S. industries as well.

Some of you, I would venture to guess, spent your careers in the automobile industry, which is today a shadow of the behemoth that bestrode the automotive world in years past. You must wonder—as I do—what we should have done differently. Many have no doubt worked in some part of the financial world, and must wonder—as I do—whether eliminating Glass-Steagall was really such a great idea, how we will deal with the enormous public liability represented by Fannie Mae and Freddie Mac and whether we can find either a way or the will to create and operate a responsible system of financial regulation.

### Leader or laggard

Some of you have worked in and around medicine, and must wonder—as I do—why the U.S. ranks 37th in the world in maternal mortality. Some of you have surely been in education and must wonder—as I do—why the U.S. is no longer a leader in either primary education or the percentage of our kids that get through college. Some of you have spent a career in the military and must wonder—as I do—how long we will continue to spend life and treasure in Iraq and Afghanistan, where we have neither a plan to win nor a plan to leave. Finally, as we read about the turmoil in Greece, I wonder—as I'm sure you do—about what we can do to reduce our budget deficits and prevent our debt from rising beyond 100% of GDP, as it seems likely to do by the end of next year.

In these and many other cases, evolving public policy has had much to do with creating the enormous problems we now confront. Things have changed radically since we left Wharton and took up our places in the world.

Back then, to be honest, it never occurred to me that the United States Government would create obligations that it cannot pay—but it is clear that both social security and medicare now represent obligations we have no hope of paying on the basis of existing revenue

streams.

Frankly, unless somebody does something pretty dramatic, pretty soon, the future for our kids and grandkids doesn't look too bright.

I think the folks who should do something are us—not just those of us in the room, of course, but everyone in the country who has managed to live long enough to accumulate both some money and some wisdom, has had the benefit of a terrific education and who is smart enough to know that the country is in real trouble.

### Geezers Crusade

Not long ago, I came across a column by David Brooks entitled "The Geezers Crusade." In his column, Brooks points out that one of the keys to healthy aging is what George Valiant of Harvard calls "generativity"—the act of providing for future generations. Individually, we are all doing all we can for our own kids and grandkids—but in our political lives, we are engaging in reverse generativity—we are taking from the young rather than providing for them.

First, we are taking money. In a recent study, Julia Isaacs of the Brookings Institute tells us that the U.S. Government now spends \$7 on the elderly for each \$1 it spends on children.

Second, we are taking freedom. In 2009, according to Eugene Steuerle of the Urban Institute, 100% of federal tax revenue went to pay for mandatory spending programs. As more and more money goes to pay off prior promises, mostly to the old, the young have fewer and fewer choices.

Third, we are taking opportunity. For the last several decades, federal spending has hovered around 20% of GDP; by 2019 it will be 25% and it will rise still further in the years beyond. And it is compounded by state and local problems, where pension and health care obligations are already beginning to adversely impact education, public safety, and other essential services.

Brooks concludes as follows: "It now seems clear that the only way the U.S. is going to avoid an economic crisis is if the oldsters take it upon themselves to arise and force change. The young lack the political power. Only the old can lead a generativity revolution—millions of people demanding changes to make life better for their grandchildren. Old people now have the time, the energy, and with the internet, the tools to organize." Does changing the world sound unrealistic to you. Perhaps it is—but it doesn't seem that way to everyone.

### Finding the leaders

Lee Iacocca has been sounding off recently in speeches, articles and a book entitled "Where Have All the Leaders Gone." Introducing the book, Lee asks, "Am I the only guy

in this country who's fed up with what's happening? Where the hell is our outrage? We've got a gang of clueless bozos steering our ship of state right over a cliff...But instead of getting mad, everyone sits around and nods their heads when the politicians say 'stay the course'."

"Stay the course?" he continues. "You've got to be kidding. This is America, not the damned Titanic? I'll give you a sound bite 'throw all the bums out'." Lee will be 86 this October, and he doesn't sound worn out to me, although there is no question that he—and all of us—are getting a bit long in the tooth.

Bob Hope once remarked that you're getting old when the candles cost more than the cake. It's also a time of life when our minds may insist on making contracts our bodies can't keep and when the gleam in our collective eyes may really be just the reflection of the sun on our bifocals. There was a time when people actually believed such nostrums. Sigmund Freud once wrote that "About the age of 50, the elasticity of the mental processes on which treatment depends is, as a rule, lacking. Old people are not longer educable."

#### 70 the new 50?

Today, there is lots of research that tells us that the old image of old is badly out of date. Science now knows that the brain is capable of creating new connections throughout life, and that those who sustain mental and physical activity remain intellectually capable far into what we call old age. As you and I both know, 70 really is the new 50.

In a may 9 column in the New York times, Tom Friedman characterized the decisions we'll need to make in the years ahead as root canal politics. As Friedman put it, "We baby boomers...were raised to believe there really was a Tooth Fairy, whose magic would allow conservatives to cut taxes without cutting services and liberals to expand services without raising taxes. The Tooth Fairy did it by printing money, by bogus accounting, and by deluding us into thinking that by borrowing from China or Germany, or against our rising home values, or by creating exotic financial instruments to trade with each other we were actually creating wealth."

All of us gave up on the childhood Tooth Fairy many years ago, and now it is clear that the adult version—in which many of our political leaders seem to believe—is equally fictitious. It seems clear that whether Democrat or Republican, the folks who run the political process during the next few years are going to have to raise some taxes to increase revenues, cut other taxes to stimulate growth, cut both services and entitlements and find a way to make the investments needed to repair and expand the infrastructure needed to create and sustain a growing economy. None of this will be easy, and will require the best thinking of the best people in America.

#### Guiding our politicians

Wharton taught us all how to analyze and solve problems, but it didn't teach us much

about either dentistry or political participation. To get America back on the right track, our politicians are going to need lots more guidance and encouragement than we have been providing in recent years. I think it's time for all of us who have the capacity to get more active than most of us have been—to better understand the issues and the options, to be more aggressive about educating our friends and neighbors, to write more letters, send more e-mails, and make more calls.

Since most of us haven't chosen a life in politics, it won't be easy and quite often, it won't even be fun. But if we don't lead, who will?? As Edmund Burke has famously said, "All that is necessary for the triumph of evil is for good men to do nothing."

Fortunately, in this country we are not yet talking about good vs. evil. Our problems are the consequence of ideological extremism, stupidity, avarice, sloth, and indifference. We have created a complex political system which has very little real transparency, which advances many ideas which are never either fully understood or carefully examined, in which ideology often trumps reason, and which is dis-incentivized by public indifference from developing and applying mechanisms to punish either sloth or avarice.

Unhappily, it's hard for the uninformed to have much impact on the political process, and lots of us have fallen into the habit of acquiring our political information—and political perspectives—from either very biased media sources or from the internet, where fact checking isn't a recognized discipline. One of many consequences is the national decline of our newspapers, where news and editorial viewpoint can be and usually are separated.

### Back to greatness

The only cure for an ailing system which must practice root canal politics is an active, well informed, impatient, and demanding public. To lead the way, we need a geezers crusade full of Wharton equivalents—analytical, articulate, thorough and determined to take our country back to greatness.

One of the best things that I've heard lately came from a commencement address given in June 2000 by Anna Quindlen which went like this: "It is so easy to waste our lives; our days, our hours, our minutes. It is so easy to take for granted the color of azaleas, the sheen of the limestone on Fifth Avenue, the color of our kid's eyes, the way the melody in a symphony rises and falls and disappears and rises again. It is so easy to exist instead of live."

Most of us retired some years ago, and we've had time to indulge our own personal interests. Jan and I sailed across the Atlantic, and have been back and forth to the Caribbean many times. My brother, a fine golfer, has knocked his handicap down by ten strokes. Whether you fish, hunt, bowl, play bridge, play chess, practice archery or whatever—you've had time to make yourself better at whatever you like most.

### Leading the way

Along the way, to extend Quindlen's thought, we have taken for granted the opportunities and freedoms we have always known in the United States we all love. Now we've got a new challenge—we need to lead the way back to what we have been and can be again—a great and prosperous country that can offer today's kids and grandkids the same wonderful chances we had. I plan to join the crusade—and I hope you will too.

As you prepare to march, have a great reunion!!!