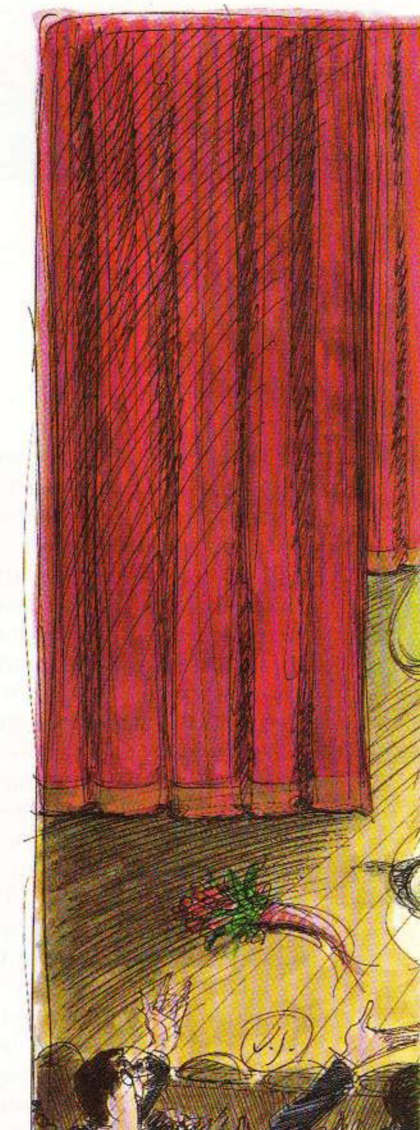
Does It Really Pay to Pay For Performance?

It's become the norm for top executives, but things are never as simple as they seem.

By Matthew Budman



You're a CEO, with a $1 million base salary and stock-option incentives worth up to $4 million. You work as hard, as smart, as you can. You steer the company deftly through complex markets. You function at the peak of your abilities. You provide the firmest leadership you can.

OK. Start over. You're the same CEO, with the same $1 million salary—but now your incentives top out at only $2 million. Now how hard, how smart, do you work? How firm is your leadership? Where do you steer the company?

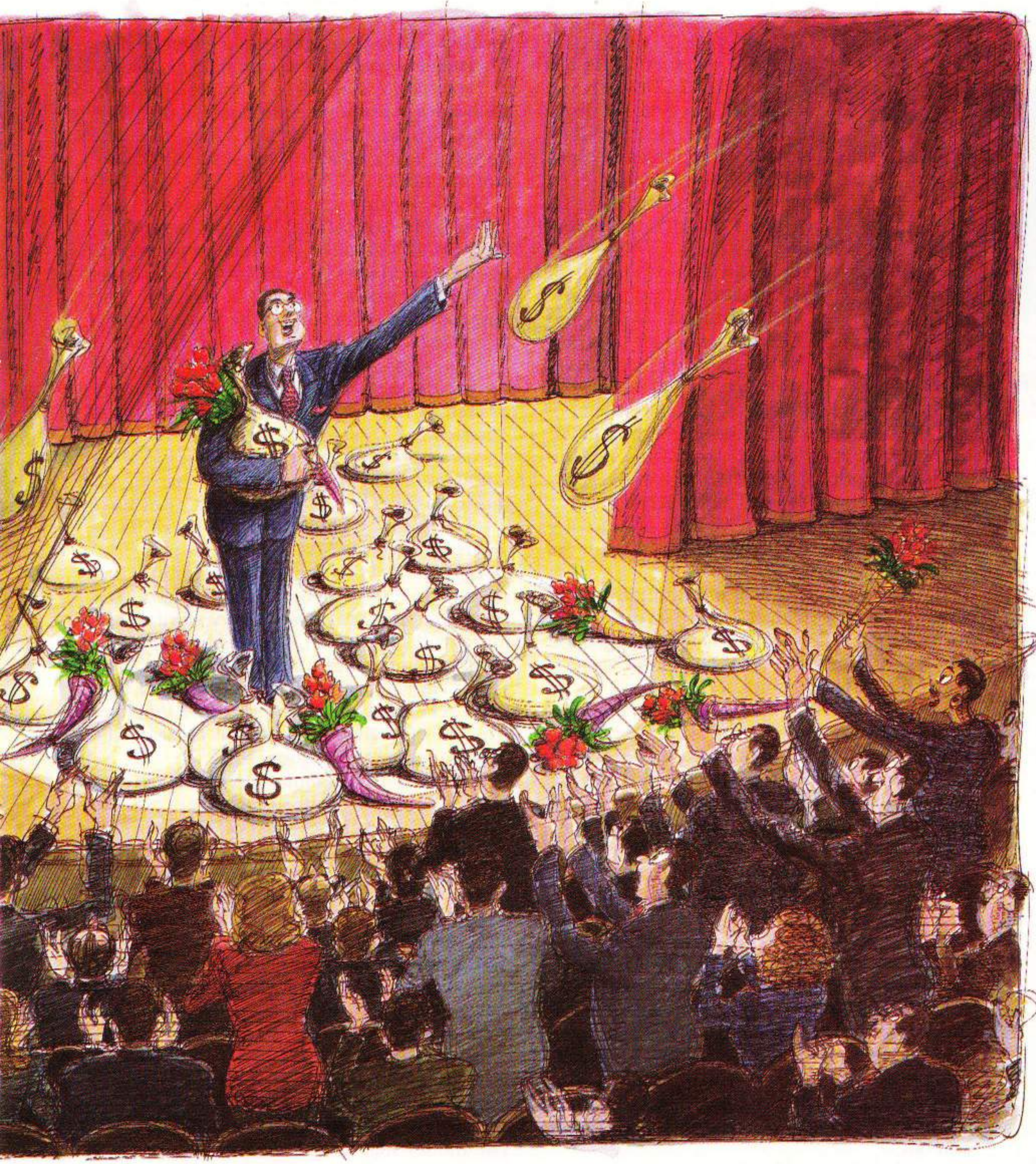
And if you insist that your performance would be no different, why should the company dangle that extra $2 million?

The Rise of Incentives

While the press and public have long trained withering fire on high-paid executives, headline readers have paid special attention to those top executives seen as undeserving—those cashing in stock options while cashiering employees. Even before July 1982, when *Fortune* launched the first full-bore salvo against overpaid CEOs in an article titled "The Madness of Executive Compensation," outrage focused on how executives in charge of floundering companies nevertheless were taking home exorbitant bonuses.

Now, thanks to the Clinton administration's $1 million compensation cap (which limits deductible CEO pay to $1 million unless tied to company performance) and a general clamor to tie pay closer to performance, the balance has shifted. Despite some egregious exceptions—duly noted and pilloried by the business press—executive pay more closely reflects corporate performance. Using increasingly complex and cleverly designed pay packages, including targeted stock options (with, for instance, higher-than-current strike prices), compensation committees inventively tie performance to pay. The main vehicle for this shift has been incentives.

Pay incentives have been around almost since there's been, well, pay. The concept seems commonsense: *If you perform well, we'll pay you well.* "Do I think that the right incentives motivate? Yes. Do I think incentives create better performance? Yes," says pay consultant Rhoda Edelman, managing director and partner of New York-based Pearl Meyer & Partners. "Intuitively, I know that's the truth."



VICTOR JUHASZ

This line of thought has driven up incentive pay, fueling a bidding war for top talent. "There aren't that many CEOs with the reputation for turning a troubled company around. But if you're one of them, everybody who's troubled wants you," says Cornell University economics professor Robert Frank, co-author of *The Winner-Take-All Society* (Free Press). Every year, compensation committees promise CEOs ever more millions of stock options, and, like baseball free agents, confident, high-performing executives drift toward companies offering the most appealing pay packages.

The result: soaring paychecks, rising executive-employee inequality, *60 Minutes* exposés, fears of shareholder revolt and populist backlash.

"One effect of these incentives," says Professor Lex Donaldson of the Australian Graduate School of Management, "is that some CEOs get large payouts—as the schemes intend; these are then criticized and used as

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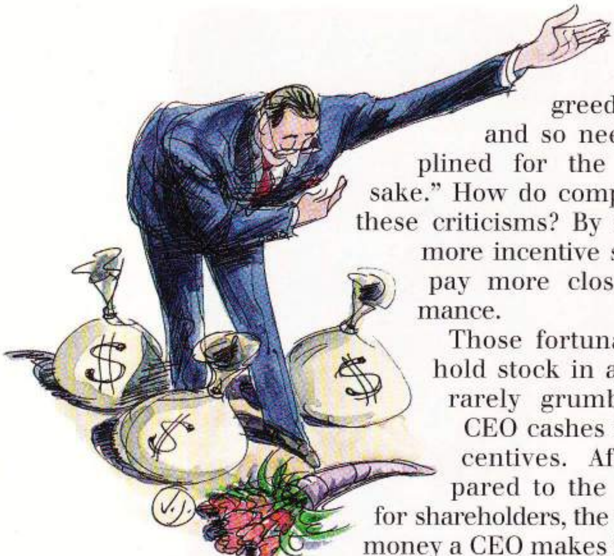

evidence that CEOs are greedy, self-serving, and so need to be disciplined for the shareholders' sake." How do companies address these criticisms? By adopting even more incentive schemes, to tie pay more closely to performance.

Those fortunate enough to hold stock in a top company rarely grumble when the CEO cashes in all those incentives. After all, compared to the value created for shareholders, the total amount of money a CEO makes is a drop in the proverbial bucket. And he's *earned* the cash and options, right? The incentive program worked as planned, didn't it?

But wait a minute. Why does a company need to dangle financial incentives for its CEO to perform well?

A chief executive is a public figure, paid extraordinarily well to handle an extraordinary job. If he botches it, he's likely to be ripped in *Business Week*'s annual survey tracking CEO pay and performance, to be singled out in *The Crystal Report* as an illustration of how underinformed shareholders get screwed, to be made an example of in *Wall Street Journal* analyses of flagging corporate profits. Isn't it motivation enough to be credited with leading a successful company, to take home commensurate compensation, and—maybe most crucially—to avoid the fate of a Robert Stempel, a Bill Agee, or a Michael Spindler?

"If all these incentives really worked," says San Diego-based pay critic Graef Crystal, "what that means is that these CEOs are fundamentally lazy slobs who need these incentives to do a good job. Jack Welch once told me that incentives didn't motivate people—*promotions* motivate people. But how about when you're CEO? Then the motivation is to not screw up so much they throw you out."

And let's face it—by the time an executive works his way up to the top spot of a high-profile company, an extra few hundred thousand dollars probably doesn't matter as much as public reputation. Or even millions. How much would Robert Allen give up to get out from under his "bad guy" image in the popular press?

Working Hard, Working Smart

The entire issue of CEO pay-for-performance skirts one fundamental question: How good a job can a CEO do? Incentives presuppose that a CEO *can* do a better job, *can* be more focused, *can* deliver more to the shareholders. But is that a reasonable assumption to make?

Line workers, if offered bonuses for overtime work, will spend extra hours at the plant. But a CEO typically puts in 12-hour days and does the best job he can—regardless of financial incentives.

Would anyone suggest that *un*incentivized CEOs make worse decisions, deliberately or inadvertently? that CEOs need the promise of even more money to give 100 percent? that those CEOs who've resigned in disgrace, their companies in tatters, would have succeeded if they'd only been offered more incentives?

"These guys are already working as hard as they can," says Crystal, author of *In Search of Excess: The Overcompensation of American Executives* (Norton). "No one's accusing them of being lazy—even me, their harshest critic. They can't work harder for more money. They give their best. They have a lot of pride. They're already working as smart as they can."

Edelman, who begins by insisting that incentives "create better performance," concedes that more pay doesn't necessarily equal more work. "I think a CEO would work just as hard whether he got incentives or not," she says. "They're leaders, they're achievers, they want to be there. Would a CEO work less hard without incentives? No. Would he walk the extra mile anyway? I guess so."

This view isn't unanimous. While "there's always a mix of motivations," says Sharon Gurwitz of New York-based SCA Consulting, business people are, "obviously," more oriented toward money than those in other professions.

Kevin J. Murphy, professor of finance and business economics at the University of Southern California's School of Business Administration, has found that CEOs are virtually obsessed with their own compensation. "It's amazing how much attention they pay to their pay packages," he says. "These are the same executives who it's hard to get focused on a $200 million acquisition. But if you want to make a change in their packages, they're all ears; you've got them for a whole day or two." The money matters not so much in terms of increasing their own wealth, he says, as in terms of "keeping score."

That obsession translates, some say, into motivation. "I meet a pretty broad array of CEOs, and I would say money definitely does motivate," says Geoffrey A. Wiegman, principal of Buck Consultants Inc. in Stamford, Conn. "I think most individuals who succeed to the CEO spot are motivated individuals, but if there's a half-million dollars on the table, they'll work to get it. You're more likely to get them to be serious about your goals—not that they're not serious—but to be *more* serious."

But isn't the CEO already serious about the board's goals? Without that extra half-million dollars, would his objectives really differ from the board's? "We're trying to make the CEO a perfect representative of the owners, and the argument is that without these incentives he wouldn't be," Crystal says.

The assumption that the CEO's interests differ from the company's pervades thinking on CEO compensation, says Lex Donaldson, co-author of *Management Redeemed: Debunking the Fads That Undermine Our Corporations* (Free Press). "People have been bombarded with the idea that managers have different interests from shareholders and that managers' interests can only be aligned through pay tied to performance," he says.

The issue is largely one of executives' psychological makeup. Sure, some executives' interests lie closer to home than the boardroom. But about 70 percent of executives, estimates Professor James Davis of the University of Notre Dame, are "stewards" rather than "agents," driven by what's good for the company rather than pure self-interest. "Stewards treat their company like a football team. If the company wins, they win. The pay just shows that the board appreciates what they've done," he says. "Then there are others, agents, who are in this for the perks, for personal gain. They haven't won unless they've piled up money. The achievement they're looking for is personal success, not group success."

The important thing, Davis says, is to "know your CEO," to understand what motivates him; determine which personality type you have and plan compensation accordingly. "You can't assume there's one model of man, one way of working, one best way."

In reality, most CEOs' goals don't differ much from those of the shareholders. If they do, he's probably the wrong guy for the job. Throwing him more stock options won't help.

The "$64 Billion Question"

If the psychological basis for CEO financial incentives is tenuous, what about the crucial factor: Do they *work*?

"This is the $64 billion question," says Murphy. "We're putting in all these stock plans because we believe in managerial incentives, that incentives will get people to work harder and smarter. That should result at the end of the day in better performance and higher stock prices, right?"

Gurwitz expresses surprise that anyone would even question the efficacy of CEO pay-for-performance: "It definitely works. Anyone who works in the field knows that it has a really big impact," she says. "Most people who see it at work are believers. If you choose a measure, people will focus on the goals to reach that measure: People will do what they're being rewarded for."

But she has difficulty explaining how a CEO with $4 million in potential stock might behave differently from one with $2 million. "It's a very sticky question," she admits.

And the issue is hardly as clear-cut as the term *pay-for-performance* implies: The evidence that incentivized CEOs outperform those without incentives rests on ground that's less than firm.

In the heavily researched field of executive compensation, the relation between CEO incentives and corporate performance remains murky. Pay consultants and academics flail a little when asked for evidence that pay-for-performance actually works. "My impression from the papers I've read," Frank says, "is that there's at least some weak evidence that executives who have stock in the company are more focused." (Since stock options are the incentive of choice, totaling 44 percent of CEOs' total pay in 1994, according to the newsletter *Executive Compensation Reports*, research usually addresses stock ownership and options.)

Nearly all modern financial economists, Murphy says, believe that "increased stock-based incentives cause managers to take actions that increase shareholder wealth." However, he notes, there's a "scarcity of empirical evidence linking stockholdings to shareholder returns."

And the work that *has* been done is a bit shaky in terms of making the case that CEO incentives lead to higher company performance. A 1988 *Journal of Financial Economics* article by Randall Morck, Andrei Shleifer, and Robert W. Vishny, which Murphy dubs "the earliest and best-known study of management holdings and market valuation," found that firm performance increases with managerial holdings when managers hold between 0 percent and 5 percent of the outstanding stock. But when managers hold between 5 percent and 25 percent of the stock, the authors document, performance actually *slips*.

"There's been a lot of work on whether the managers who hold more equity do better; the evidence is really mixed," says Professor David Larcker of the Wharton School. "There's a lot of loose talk, but there's no direct relationship between ownership and performance."

Murphy's own early-'90s studies of managerial incentives in major corporations—which stop short of concluding that higher incentives cause higher performance but find his results "certainly consistent with the view that shareholders benefit from CEO incentives"—have come under fire from Crystal, who is highly critical of Murphy's methodology. With equal assurance and authority, Murphy questions Crystal's, insisting that executive share ownership is clearly beneficial to shareholders.

Who's right? Take your pick. (See "The Advocate and the Critic," below.)

But it's tough to dismiss the fact that Crystal's studies—regardless of methodology—have turned up no connection whatsoever between rising corporate profits and new CEO incentive plans: Profits have risen similarly in companies with and without bonuses tied to stock prices.

Crystal's studies have left him in the curious position of strongly advocating pay-for-performance—he regularly, harshly, and publicly takes to task those CEOs whose compensation outstrips their companies' performance—while acknowledging that pay has little or no *impact* on performance. "I believe that money motivates, that we'd all sell our mothers for a quarter," he says. "And you always see anecdotal evidence that it does motivate executives. But the numbers just don't show anything. There's no correlation between incentives and performance—or between share ownership and performance, for that matter."

Gurwitz's rejoinder is that looking at corporate performance in aggregate is misleading. "One of the things that confuses it when you work statistically is that you can't really compare companies," she says. "When you look within companies, you oftentimes see a relationship. You see companies do a thoughtful analysis of performance measures, and then they change those measures, and they do better."

The Incentive for Incentives

If incentives don't clearly motivate CEOs to do a better job, and they don't necessarily produce better corporate performance, what purposes do they serve?

Several, actually. They can signal fresh thinking, a new direction. "You've seen companies giving these enormous grants of stock options," Gurwitz says, "and a lot of the time it goes hand in hand with new, high-risk strategies." (Other times, unfortunately for unsuspecting shareholders, companies simply toss more money into the kitty without making its purpose clear.)

And while you can't expect offers of stock options to change an executive's orientation, to make his personality fit the profile you're

The Advocate and the Critic

When asked if he's seen any evidence that CEO incentives lead to higher performance, Cornell University economics professor Robert Frank—like several other pay experts—cites the most famous study on the topic, a 1990 *Harvard Business Review* article by Kevin J. Murphy and Michael Jensen. "CEO Incentives—It's Not How Much You Pay, but How" compared CEO compensation and the market value of the CEOs' companies, finding a close association between the level of share ownership and corporate performance.

Focusing "on monetary incentives as the central motivator of CEO behavior," Murphy and Jensen concluded: "Until directors recognize the importance of incentives—and adopt compensation systems that truly link pay and performance—large companies and their shareholders will continue to suffer from poor performance."

Murphy, professor of finance and business economics at the University of Southern California's School of Business Administration, has become a leading academic advocate for stock-driven pay-for-performance—and an occasional adversary of pay critic Graef Crystal.

In the southwest corner of the United States—Crystal in San Diego and Murphy in Los Angeles—the two carry on a friendly quarrel in print and interviews. "It's OK now," Crystal says, "but it got nasty there for a while. We've taken some shots at each other, knocking each other's work through the press."

Granted, Murphy notes, the two men agree more often than disagree; their dispute is mostly in terms of emphasis and degree. But they couldn't be further apart on the issue of high CEO pay, which Crystal colorfully lambastes and Murphy generally defends (if the pay is indeed performance-driven)—or on the subject of CEO incentives.

Their differences are made stark when addressing the efficacy of CEO pay-for-performance. In his 10-times-a-year *Crystal Report*, Crystal openly criticizes the key studies—performed by Murphy—purporting to prove incentives' positive results. Murphy's studies derived from the United Shareholders Association's annual survey of executive-compensation practices in the 1,000 largest U.S. corporations.

Crystal initiated the USA survey in 1989 and conducted it for three years, but "I got tired of it"—"he was fired," according to Murphy, because of the USA's concern over Crystal's "obsession" with too-high executive compensation. His replacement: Murphy, who used the survey to address new questions. "The focus," Crystal says, "was no longer *how much* they were paid but *how* they were paid."

In his 1992 and 1993 USA surveys, Murphy ranked companies by their estimated CEO pay-performance sensitivities, which measured the change in CEO looking for, incentives may attract the perfect person to your company. "It's a matter of getting the guy to your company in the first place," says Smith College economics professor Andrew Zimbalist, "rather than wondering what he'll do when he gets there."

"If you take the Freudian view," Crystal says, "you say that most people's personalities are formed early in life. We don't know what made Lee Iacocca a risk-taker, but it was probably not him getting stock options at Chrysler. If you design a pay package with high risk, that pay package—while it might not *affect* anyone's behavior—might attract people who are risk-takers."

Moreover, as Wharton's David Larcker points out, simply adding risk to a CEO's pay package is itself highly risky. "If you impose too much risk, the guy may not make the right decisions," he says. "That can be costly to the shareholders. You've put him in such a weird position that he's going to make investments that may not be desirable. He may be very conservative or may bet everything on red."

Murphy agrees: "If you tie pay too closely to the price of the stock, you get some wacky results. If a CEO starts getting close to retirement, he may stop taking any risks at all."

The high-risk trend is growing in popularity: A *New York Times* article this past fall profiled—with approving quotes from compensation experts—three CEOs who collect or have collected all their compensation in stock options, taking no salary at all. Of the two executives with track records under the all-risk plans, one, Nelson Peltz of Triarc Cos., has been working for no money at all, since Triarc's stock price has crashed; the other, Dennis R. Hendrix of PanEnergy Corp., has watched his company's stock soar—and has taken home stock worth $10 million.

Hendrix's plan "seemed to work," wrote *Times* reporter Judith Dobrzynski. And indeed, if the only objective was to tie his fortunes to those of the shareholders, it did work—and so did Peltz's plan, which has left him with nothing, though it hardly matters to Peltz, with a personal fortune estimated at $620 million. But if the risky plans were intended to motivate the CEOs to perform better, their success is questionable.

"There's little evidence," Larcker says, "that if you impose risk, you'll do better."

Perhaps most important, *the market dictates overall compensation*, and incentive pay is the favored method of bumping up compensation

wealth associated with each $1,000 change in shareholder wealth. "In each of the last two years," he says, "I found that CEOs with higher pay-performance sensitivities have realized significantly higher shareholder returns over the past one year, five years, and 10 years."

But Crystal, viewing the same figures through a different statistical lens, continues to search in vain for the link between pay and performance. "There's a terrible error being made," he says.

In a 1994 *Compensation & Benefits Review* essay, Crystal charged Murphy with arranging "his cart in front of his horse, instead of properly behind it. For example, when studying company performance over, say, the five-year period beginning Dec. 31, 1986 and ending Dec. 31, 1991, he related that performance to CEO shareholdings as of the end of 1991, not of 1986.... If you want to prove that owning shares motivates performance, you should establish the ownership data at Point A and then measure performance between Point A and Point B. You don't establish the ownership data at Point B and then measure performance between Point A and Point B. If you do, you will find, among other things, that the extreme failures have dropped out of your database (they have gone bankrupt), and you will also find that your independent variable (the value of shares owned) has been contaminated by your dependent variable (total shareholder return)."

For the 145 CEOs in the Murphy-Jensen study still running their companies, Crystal finds "no significant relationship between shareholder return performance . . . and the CEO's total wealth" for *any* period of time between 1988 and 1995, he writes in *The Crystal Report*.

Murphy is gently dismissive of Crystal's critical analysis, explaining that *of course* viewing corporate performance from the direction Crystal does will yield no results: Over time, the market will balance out incentive-based performance. "The current stock price reflects all publicly available—and some privately available—information," he says. "Information on managements' stockholdings is publicly available and thus already incorporated into stock prices." Crystal, he says, "chooses to ignore this."

The issue is simple and his results clear, Murphy says: "When you look backward, you find companies with incentives did better than companies without incentives."

Naturally, Crystal disagrees, but he leaves open the possibility for, if not unity, at least congeniality between the two. "I'm not trying to disprove Murphy. I'd be pleased if I could come up with numbers that wouldn't invalidate my two-decade career as a pay consultant, that showed that all this money was doing anything. I just can't find numbers that show that people change their behavior when they're given incentives."

Crystal regrets that the two—though just 100 miles apart—have met only once. "I heard that when Murphy was working at Towers Perrin he wanted some kind of rapprochement with me," he says. "I'd like to call him. Do you have his number?" ***—M.B.***

to retain or attract the right people. A company can't simply slash available pay for the top slot. "Failure to offer that type of contract means you don't get that type of person. You can't expect companies to voluntarily drop out of the bidding for talent," Frank says. "If every CEO is paid less at every company, then every CEO will work hard. But if *you* pay less, you're not going to get the talent."

Does "Fair" Pay Save the Day?

In a broader sense, the all-American issue of fairness provides a crucial reason why incentives' popularity continues to grow: Pay-for-performance takes some of the sting out of some of the astronomical levels of pay that a handful of top execs take home.

Crystal agrees: "You could very well accept that none of this stuff affects behavior—and still feel better about the CEO holding shares, that he's going to go south if the stock does, too. Misery loves company," he says. "And as long as the stock performs, I don't think shareholders give a damn about what the CEO is paid. In the good times, no one cares."

But the good times can't last forever. "How long do you think those shareholder-ownership guidelines are going to last when we have a real market downturn, when the Dow drops to 4,000?" Crystal asks. Does anyone believe that when corporate profits finally begin falling, half of America's CEOs will take their skeletal paychecks with a smile? that Dennis Hendrix will resign himself to working for no pay at all?

What's likely to happen, naturally, is that compensation committees will rethink those incentive packages and find other ways to deliver appropriate salaries—without the heavy reliance on incentives, without the truckloads of stock options at looking-forward strike prices. It's happened before. "In the late '70s, the Dow fell 200 or 300 points, and we saw a lot of people dump their option plans," Murphy says. "Just let the Dow fall 3,000 points now, and the same thing will happen."

Would declining corporate fortunes mean that incentives have stopped working? Would pay consultants then acknowledge that maybe pay-for-performance isn't the only valid compensation philosophy?

Until a downturn comes, those questions will remain unanswered.

Meanwhile, one may wonder whether simple tradition isn't the overriding factor in incentives' unchallenged longevity. As Rhoda Edelman says, "if you got rid of incentives"—regardless of whether CEO incentives actually make sense in terms of logic or evidence—"you'd have anarchy on your hands. That's the way it is. That's the way it works in this country." ■

From the Diamond to the Corner Office

To gain sympathy for their clients' relative plight, defenders of highly paid executives frequently compare CEOs to highly paid baseball players, who make untold millions for . . . *playing a game.* Not just a game, but one that's played only during the sunny six months of the year, one that requires much more comfortable work clothing, one that requires the player to sit half of every ballgame and stand around most of the other half.

Differences aside, with regard to pay, there are clear parallels between CEOs and ballplayers, and the issue of incentives and motivation. In either case, "It's kind of peculiar that you need to motivate them," says Smith College professor of economics Andrew Zimbalist, author of *Baseball and Billions: A Probing Look Inside the Big Business of Our National Pastime* (Basic).

Like CEOs, baseball players are public figures. A player who proves unworthy of his ungodly contract (which, perhaps, necessitated a rise in ticket prices) will be booed when stepping into the batter's box, will be showered with hot dogs when taking his place in the outfield, will be slammed on a daily basis by sports columnists, will be cursed on sports talk radio by armchair managers across the country. Surely that's motivation enough to perform well.

"Who *doesn't* want to be an All-Star?" asks pay consultant Rhoda Edelman of New York-based Pearl Meyer & Partners.

So, then, why do stars' contracts routinely include incentives? Though—as per baseball's collective-bargaining agreement—ballclubs aren't allowed to promise individual bonuses based on measured performance, players are usually handed extra cash for winning awards or helping the club capture the World Series. Last season, for instance, the Toronto Blue Jays gave pitcher Pat Hentgen an extra $50,000 for winning the American League Cy Young award; San Diego Padres third baseman Ken Caminiti took home a $100,000 bonus for being named National League MVP.

Zimbalist says these incentives serve little purpose. "I think that the main incentive is not what you're getting in the current contract but what you're going to get when the contract runs out," he says. "It's similar for corporate executives, who are looking to what they'll get when they leave and go to another company. The big news for a Cy Young winner is not that $50,000 but what he'll get from the next contract. The incentives are just icing on the cake, really."

Remember, though—in baseball that fickle crowd isn't going away, and no one receives so much scorn as a player who appears to be slacking off: His lack of effort is obvious, glaringly visible, and captured on videotape for posterity and instant replay.

That, perhaps, is the CEO's great advantage over a ballplayer when it comes to accountability: His off days aren't so clearly apparent. ***—M.B.***

• What Gets Better With Age? • Fire the Training Department
• When Talking Makes Things Worse

ACROSS THE BOARD

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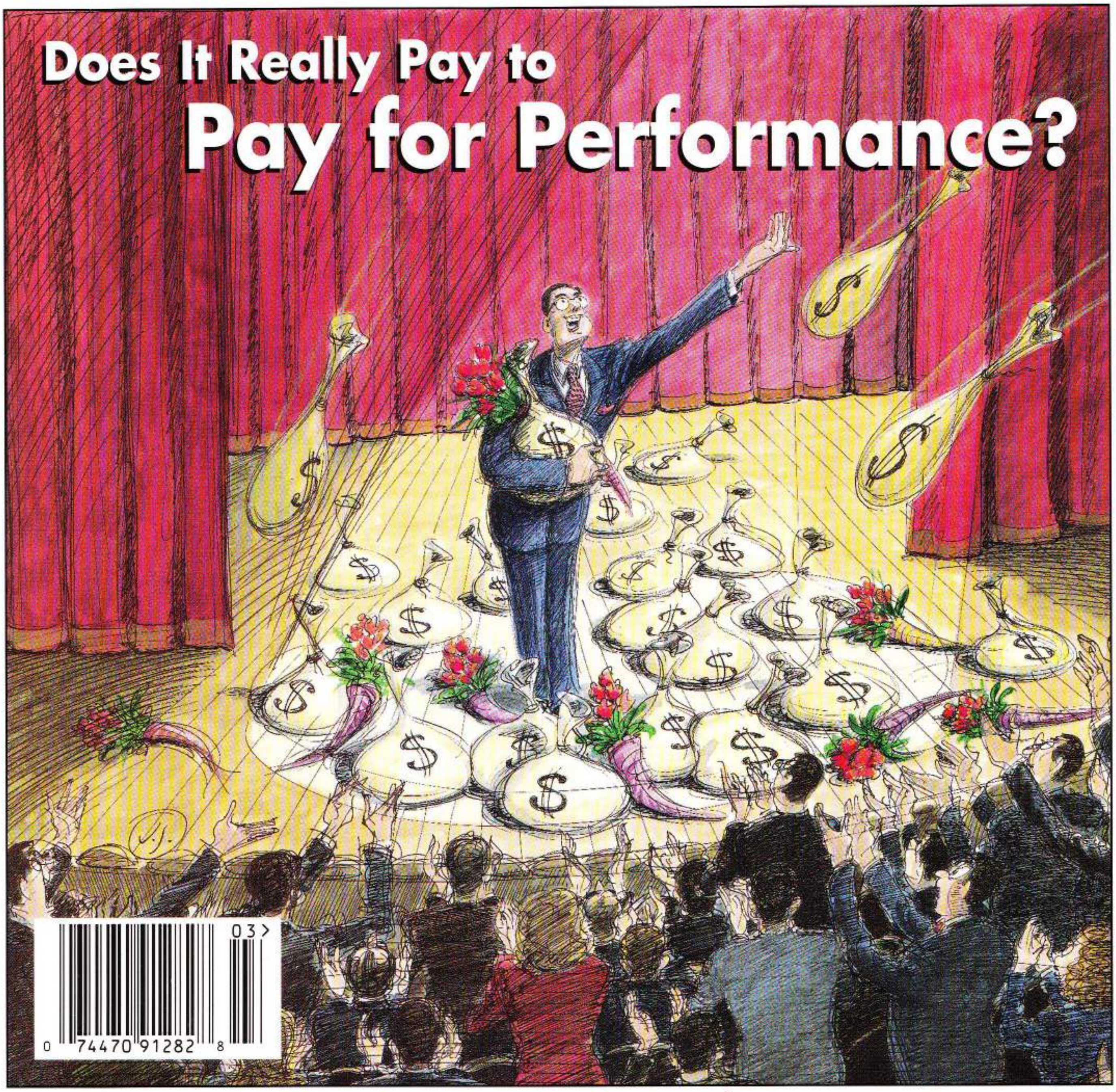


Big Questions

I like big questions. And I can hardly think of a bigger business question than that posed by our main cover story this month: Does it really pay to pay top management for performance? Not only a big question but also timely, since pay incentives lie at the heart of executive compensation these days. But even to ask the question is to put one under suspicion of being . . . well . . . how to say it? . . . somehow un-American.

"You're darn right, Vogl," I can hear somebody interrupting. "Now listen here: Paying for performance represents a core value, buddy, nothing less than an eternal verity. What gets measured gets done, we pay for what gets done, what gets done is what we pay for, and what we pay for is performance. Got it? This is the way of the world. Vogl, are you listening? This isn't rocket science."

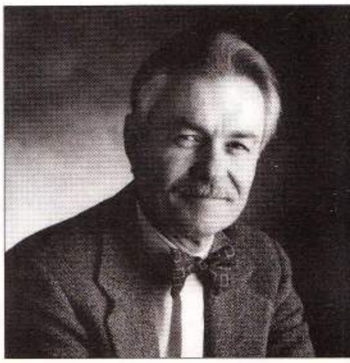
A good thing, too, since most journalists I know are not rocket scientists. I am certainly not one, nor is associate editor Matthew Budman, who wrote our cover story (page 16). But he has a curious mind and likes to ask questions, and he asked a lot of people a lot of questions in researching this article. You would think that, by this time, since pay-for-performance has been elevated to the state of received wisdom, there would be plenty of evidence to support the idea, but what Budman found was more opinion than fact. Despite interviews and e-mail correspondence with consultants, academics, and other authorities all over the world, the hard evidence he found was scant or subject to challenge.

How come? And how come, despite the lack of evidence, paying for performance has become a given in executive-compensation circles? And is there a better way? Interesting questions, these, and Budman arrives at some interesting answers. He even finds that a case can be made for pay-for-performance despite the lack of evidence of its benefits. All of which goes to show, I guess, that big questions remain big because they are not absolutely answerable.

That's an observation that can also be directed at another article in this issue: "What Gets Better With Age?" (page 39) by Richard A. Posner, who is chief judge of the 7th U.S. Circuit Court of Appeals and a senior lecturer at the University of Chicago Law School. In the course of asking big questions, such as whether such things as leadership and creativity are enhanced or deteriorate with age, Posner made me think about all sorts of related issues. It may be politically incorrect to say so, for instance, but if yours is a company on the leading edge, or one looking for fresh ideas, doesn't it make sense to go with youth? Certainly the companies in Silicon Valley are living proof of this. (And the Roman Catholic and Mormon churches examples of the opposite.)

And what of the esteem that society accords the old? "The smaller the proportion of the population that survives to an advanced age, the more likely society is to attribute extraordinary powers to those who do survive," says Posner, who points out that mass education has reduced the value of old people's memories. Frankly, I'd never thought of that.

Nor had I thought about the issue of "filial piety." If there is less of it, could it be because parents, who nowadays hold considerable political power over the young, have less need of it, and so have less need to inculcate it in their children? And do the young have less reason to be grateful to their elders because the old are less willing to make sacrifices for them?



One of the pleasures of dealing with an intelligence as encompassing as Posner's is the intellectual side trips he takes you on. Read his *Aging and Old Age* (Chicago) and see what I mean.

Last, let me briefly mention "The Great Myth of Hidden Harmony" (page 23). We've all heard our failure to resolve conflicts explained as "a failure to communicate," but David Stiebel poses another big question: What do you do after communication fails? Communicate more and better, you say. But Stiebel argues that you may be facing an issue that further communication won't solve. What then? His article suggests how to approach this problem. Good luck.

Vogl

EDITOR