

Don C. Hoefler's
MICROELECTRONICS NEWS

with *Manager's Casebook*



BOX 239, PACIFIC GROVE, CALIFORNIA 93950 • TELEPHONE 408-625-4090

SILICON VALLEY
NOVEMBER 1 1980

RECEIVED

NOV 3

BOOTLEGGERS TRAPPED IN STING

Seized Shipment Destined for USSR

Good Friend--

THAT WAS THE MONTH THAT WAS. It began with a phone call on October 1, and culminated with arraignment in San Jose (Ca) Municipal Court yesterday (31) afternoon. It was an October which will long be remembered by Roger Pitkin, onetime distributor sales manager at Signetics, who is now free on bail after being charged with possession of stolen property and exporting without a license. The goods, Intel EROMs, were intercepted in Munich, Germany, where they were to have been trans-shipped to the Soviet Union.

Also involved in the scam was Randy Benham, a 23-year-old identified as president and purchasing agent for Quest Electronics, a Santa Clara distributorship. Both Pitkin and Benham are at liberty, after their bail was reduced from \$50,000 to \$25,000 each.

Their arrest this week was the latest in a year-long investigation involving federal, state and county officers, along with a stool pigeon, a former gray market distributor who was arrested a few months ago and is now trying to buy clemency.

The stoolie let it be known along the grapevine that a certain dealer had a large quantity of hot Intel parts, the dealer being actually a deputy sheriff. Benham called the cop on October 1, and ultimately bought 1000 ICs worth \$23,000 for \$10,000 cash.

Pitkin and Benham packed the parts and hand-delivered them to a Lufthansa airplane at San Francisco airport, not realizing that their every move was under surveillance. The circuits were destined for a Siemens employee in Frankfurt, who was known to have connections behind the Iron Curtain. They never got there, however, being intercepted instead by German authorities at the offices of Analog Digital Techniq. The package was then put on another airplane back to the U.S., where it will be entered in evidence. Pitkin and Benham now face five years in prison and fines in excess of \$100,000 each.

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MORE TO COME. First blood was drawn this week in the 16k RAM snafu at Motorola in Austin (Tx). The high reject rate (MN, Oct. 11) was laid at the doorstep of the q.a. manager for the product, Ron Racino, who has departed the premises. His replacement is Bill George.

It's a cosmetic job, of course, and as problems persist the shining guillotine will plunge downward once again. And maybe twice or thrice.

STATE OF THE BUSINESS. "If you don't continue booking orders, sooner or later you run out of gas."

"If there is an economic recovery, our expansion will be called a wise decision. And if there is no recovery, then I don't care."

"We are not looking for a disaster in the fourth quarter, but we're not looking for great things."

So said this week, respectively, pres Charlie Sporck of National, chairman-pres Jerry Sanders of Advanced Micro Devices, and chairman Gordon Moore of Intel.

The occasion was the annual round-robin industry junket of New York security analysts.

Although hardly a bullish short-term prognosis, all of the executives said their companies were holding to their expansion plans for 1981, in anticipation of a turnaround.

But all agreed that the turnaround is not here yet, and they don't know when it will be.

Y'all hear that, Commerce Department chief economist Courtenay Slater (202-377-3523)?

THREE FOR TWO. It was three in and one out at Synertek this week, with a replacement plus the filling of two newly-created positions.

The replacement was Nelson Garcia-Cabale, in as head of all fab operations, for the departed Dan Barbado. Nelson returns north from the Burroughs plant in Rancho Bernardo, and he was previously at Advanced Micro Devices.

George Rutland comes in with v.p. stripes to build and operate the Santa Cruz plant. George did 12 years at National, including heading the Scotland plant, and later heading all Pacific operations. Things were dandy at Natty as long as he was reporting to Ed Pausa, but when he came home to confront John Finch it was another story. A story told many times before, and to be told many times yet, as people cross hairs with the Bull of the Woods.

TWO OUT, NONE IN. Two managers have pulled out of American Microsystems, one a relative newcomer and one a veteran, neither of whom has been replaced as yet.

Distributor sales manager Jim O'Sullivan, who was still memorizing the rest room locations, has bagged it in favor of the same job at Inmos in Colorado Springs (Co). There he'll report to marketing director Doug Rankin.

Tom Edel, who has been customer service manager at AMI since shortly after the first concrete walls were tipped up, has kissed it off to go into the PC board business with Gary Gilmor.

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FAIRCHILD ALUMNI ASSN. At the Eaton electronics group (Kasper Instruments, Pacific Reliability, etc.) headed by ex-Fairchilder Greg Reyes, the new marketing director is Perry Constatine. Perry was western area manager for Fairch.

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ADD HOMEWORK. A surprising number of people in the Valley are assembling PC boards for equipment manufacturers, even wives of engineers and managers--and the men themselves--all working at home.

But if you are considering using such hand labor, you should know all of the ins and outs.

First, if you are looking for a bargain, forget. Although the workers are paid piece rates, they expect to gross 1.5-2.5 times the minimum. But what you get in return is probably the best skilled labor available.

Remember that any time you send work home with an employee--even once--in California you and the employee are subject to the Industrial Homework Act. You are immediately liable for a license fee of \$100 for each such employee, and the employee is liable for a license fee of \$25. Whether the homemaker is an independent contractor or on your payroll, you are liable for workmen's compensation insurance coverage. All of these payments are cash on the barrelhead, no matter how much work you want done, and even if you discover the worker is incompetent and must be fired.

Thus it is usually better to go through a job-shop agency, which will handle all the formalities with the state, kit the parts, test the finished work if desired, and handle payments (usually COD). Two such operations in the Valley are Twin Industries, headed by ex-Nationalite Adam Moutafian, and Curtis Electro Devices, headed by ex-Signetisite Jack Curtis.

Each homemaker is required to maintain a logbook of hours worked, and this must be carefully monitored by the contractor-employer. If the worker should log eight hours for a job that should take no more than two, the employer could be guilty of paying less than the minimum wage.

For the contractor who works through a job shop, there are several advantages. No payroll records need be kept, no withholding tax collected, and no pay checks issued. One payment does it all. This is a better way to get hand-crafted products for operations which do not lend themselves to volume wave-soldering. Since the work can be farmed out to a number of workers, it can be completed much more quickly.

For the worker there is the advantage of working flextime, getting immediate payment, and not having to pay a baby sitter. The worker pays income tax at self-employed rates, and can deduct part of his/her rent or mortgage payments as a business expense.

So it's back to cottage industry, something which has been a rarity in American society for several generations. What would sweet old grandma say if she could see us now?

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HIGH VOLUME, TIGHT MARGINS. The automobile market for electronics, now running at the \$500 million annual rate, will triple to \$1.5 billion rate by 1985, mostly in microprocessors and sensors. So says International Resource Development, a Norwalk (Ct) market research outfit.

But the auto industry, like most dealers in consumer goods, is accustomed to squeezing every bit of fat out of its vendors' prices. A pressure transducer house, accustomed to commanding \$300 a part, was astounded to discover that General Motors wanted to pay \$5. The parties finally settled on \$12.

The industry also wants to dump the copper wiring harness in favor of a fiber-optic multiplexed bus, but won't do so until an LSI fiber-optic multiplexer comes along--at under \$3.

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IT'S THAT TIME AGAIN. The professional and Technical Consultants Association has just published its annual directory, now containing 150 listings of organizations in the Bay Area and Southern California.

For a free copy, write PATCA at 1190 Lincoln Ave., Suite 3, San Jose (Ca) 95125. Or call 408-287-8703.

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RECIPE FOR SUCCESS. What separates the men from the boys in a high-technology company's striving for the top? Prof. Al Bruno, chairman of the marketing department at Santa Clara University business school, and a private consultant, thinks he has some answers. He will lay them on you if you attend the Electronics Association of California luncheon November 12 at the Marriott Hotel in Santa Clara.

Tab is \$12 for EAC members, \$15 for non-members. Reservations 408-736-7600.

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THIS WILL STUNT YOUR GROWTH. Capital expenditures and R&D investments will both continue to droop on out until the next turn of the century, according to Predicasts, Cleveland economic researchers.

Capital spending will near \$1 trillion by 1995, they say, but this is only 8.7 per cent annual growth from present levels (3 per cent in real terms), as opposed to 9.4 per cent annually between 1967 and 1979.

R&D spending has been declining since the '60s, Predicasts adds, and this trend will continue for at least the next couple of decades.

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HOW DO YOU LIKE THIS? Unlike most semiconductor companies, you are able to fill all your job openings from walk-in traffic and employee referrals. It happens that all of your employees are white, and all of the referrals are white, and all of the walk-ins are white. You have no race bias whatsoever, but a state snooper says you are practicing *de facto* segregation anyway, and he drags you into court.

You lose, if you are in New York state, where the Court of Appeals found that you should have known the result of your hiring methods.

So let's see some *affirmative action*, man--and have a happy.

Don C.

MANAGER'S CASEBOOK by Don C. Hoefler

CASE No. 571 SUBJECT: LISTING BADLY, TAKING ON WATER

FRENCH ENTERPRISE By DON HOEFLER



"Oui, Mlle BoomBoom! Ze double-digit inflation, c'est grande!"

While I live, I will never resort to irredeemable paper.

--Napoleon Bonaparte

FRED ALLEN WAS RIGHT. We do live in a world that doesn't make sense.

Witness two crazy events of the past week: (1) One of the minor aspirants for the presidency, Barry Commoner, told a nationwide television audience that the main plank in his platform is to get the government out of the grip of the major corporations; (2) The treasury Department announced that for fiscal 1980, the government had racked up a deficit of \$59 billion, double that of the previous year, and the second highest in history.

Does this sound like a country whose affairs are being directed by a bunch of nasties in corporate boardrooms? It is true that deficit financing was invented by the railroad barons a century ago, in which bonds at maturity were redeemed only by refinancing through new borrowings. The original obligation just sat there, as ever-more interest was required to be paid on it. But when the master-minds in Washington learned the trick, they honed it to a fine art, making the rail moguls look like a bunch of rubes from Hicksville.

NOW I ASK YOU. If businessmen were really running this country, would they countenance a federal budget in which expenditures exceed income by 6 per cent? In which outlays are 64 per cent for "social welfare programs," 24 per cent for "defense," and a piddling 12 per cent for running the nation's business? Would they approve of a tax structure which discourages individuals from working up to their potential, and strangles efforts of companies to plow back adequate funds into maintenance and expansion of plant and equipment and R&D? Is Big Business dictating that the government shall toady to organized labor to the point where productivity is the lowest in the nation's history? Is it businessmen who tell the government to look the other way while the Japanese take us to the cleaners? Do managers tell Washington to keep pouring laws upon regulations upon strictures to the point where individual companies can barely function? What has Barry Commoner been smoking?

Since defense is such a large part of the federal budget, the warmongers prefer to consider it in terms of the gross national product. So OK. Except, it depends on who you talk to. The joint chiefs of staff like to call it 5 per cent. But the Arms Control Agency says it's half again that much. In any case, it is the largest of any country in the Organization for Economic Cooperation and Development. And as a result, our economic growth rate is lower than any except in Great Britain. And who's No. 1? You got it. Japan, with a defense outlay of 0.9 per cent of its GNP, and a growth rate of 8.8 per cent. Meanwhile, we spend 7.8 per cent and thereby limit our growth rate to 3.4 per cent. Canada, Germany, France and Italy are all doing better. Much better.

(OVER)

A FAIR TRADEOFF? Many nations, it is true, now reside solely in the history books because of inadequate military preparedness. But those same history books are rife with examples of nations that squandered economic opportunities by dedicating too large a proportion of their finite resources to military purposes.

Our performance as a welfare state is even more ominous. The purpose of all such schemes--no matter how disguised--is to transfer income from the so-called rich to the so-called poor. The Townsend Plan, so reviled in the Depression years when it was first propounded, has survived intact.

Look at the federal budget for fiscal 1980, which just ended September 30: Social Security \$115 billion; Medicare \$32 billion; Medicaid \$13 billion; "social services" \$11 billion; federal employee retirement benefits \$14 billion; veterans' benefits \$21 billion; unemployment compensation \$12 billion; "relief" \$31 billion; miscellaneous \$34 billion. Add interest on borrowings from past deficits (there's that deficit financing again) of \$57 billion, and you get a grand total of \$340 billion. *That is nearly two-thirds of the total government outlay for the year!*

PARASITICS. What all this adds up to is that proportionally more and more non-producers are bellying up to the trough of fewer and fewer producers of the nation's wealth. And since the non-producers have the same right to vote as the producers, politicians are scared spitless to try to reverse the trend. But is it the business community that put those enervating laws on the books? And is it the business community that wants them to stay there? Come on now, Barry!

To realize just how hell-bent we are, consider the pell-mell pace at which the national debt has grown in recent years. In 1945 it was around \$250 billion. It took 30 years, until mid-1975, for it to double to \$500 billion. That was only five years ago, yet since that time the public debt has nearly doubled again, to perilously close to \$1 trillion. That means that you and I and every other man, woman and child in the country is in hock for about \$4500.

Nearly every year there is a move to make mandatory the balancing of the federal budget. This year it is H.J. Res. 14, introduced by Congressman Skip Bifalis of Florida. No doubt it will be round-filed like all the others. It is simply easier to print more fiat money than it is to face an undeserving electorate--until precipitously the economy falls off a cliff.

PRECEDENT. We hear tales from our parents, or were taught in modern European history about the post-World War I inflation in Germany, peaking in 1923 and leading directly to the rise of Hitler. But this was a clambake compared to that in France during the decade 1789-1799. That one began with the country declaring bankruptcy, the fall of the Bastille, war and riots, the execution of three heads of state (Louis XVI, Marie Antoinette, and Robespierre and 100 of his followers), and finally to a dictatorship under Napoleon.

The price of flour went from 40 cents to \$45 a bushel, of oats from 18 cents to \$10. Sugar went from 18 cents a pound to \$12.50. A head of cabbage went from 8 cents to \$12.50. A dozen eggs from 12 cents to \$2.50. A pound of soap or a pound of candles (this was a half-century before Thomas Edison was born) from 18 cents to \$8. A pair of shoes from \$1 to \$40.

Is this what we want, complete with a Reign of Terror? Well, it *can* happen here.

No, Mr. Barry Commoner. What this country needs is not less business participation in government, but *more*. Lots more. And soon.

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NOV 10

FERNANDEZ NEW PRESIDENT OF ZILOG

Faggin Moves to Parent Company

Good Friend -

IT'S OFFICIAL. Federico Faggin, founder and president of Zilog, called a dinner meeting at the Cabaña in Palo Alto (Ca) last evening (7), and announced to all the exempt employees present what has been *de facto* for many months, namely, that Manny Fernandez is running the company.

Now the organization chart will reflect that fact, however, as Fernandez assumes the title of president and Faggin moves up to vice president of Exxon Enterprises. He will be in charge of the Computer Systems group, a new post. Since Zilog is a part of that group, Fernandez will continue in effect to report to Faggin. Manny's former slot is being dissolved.

The move is effective immediately, as Federico prepares to relocate to The Big Apple.

It finally removes what had been a most awkward relationship, ever since Manny moved into Zilog from Exxon, 22 months ago. Although Faggin remained the undisputed technology director of the company, he was a figurehead president, as Fernandez took over the reins without portfolio.

He had been rushed in to quell a palace revolution, after co-founder Ralph Ungermann had tried a power play on the Exxon board to oust Faggin in favor of himself (MN, Jan. 20 1979). The result was to shunt aside Faggin, but it was in favor of Fernandez, not Ungermann, who was ousted.

At the time I stated, "I am now taking bets as to how long it will take Manny to supplant president Federico Faggin...". Since it took nearly two years, all bets are off.

In the interim, Fernandez was uneasy in the role of acting president, coupled with heavy pressure from Exxon to get Zilog looking more like an operating company and less like a college R&D lab. As a result, he had been keeping his options open and occasionally shopping the job market.

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(CONTINUED)

EVERYBODY WINS. But now that Manny has the job title to match his duties, he is charged up and ready to roll. And Federico told the 375 exempts last night that he is excited about the technology role he will be playing, and he looks forward to moving to New York.

All of this becomes official when the board meets on Thursday (13), when Manny moves from group v.p. to president and chief executive officer. The question of who gets Federico's job as chairman of the board has not yet been determined.

Fernandez got his first introduction to semiconductors as a part-timer at ITT, while taking graduate work at the University of Florida. His first full-time job in the industry was at Harris, and after several years there he began climbing the corporate ladder at Fairchild. He ultimately became Fairch's group v.p. for discrete devices. He joined Exxon to wind down its Emdex facility in Connecticut, a maker of photovoltaic sensors, a business which was no place for Exxon to be. He is very highly thought of at Exxon headquarters, but they might well have lost him for their languor in making the inevitable change at Zilog.

What the company will become under Fernandez' direction remains to be seen. It has been more an R&D captive for Exxon than a factor in the merchant market. Although it is preeminent in microprocessors, it lacks the jelly beans to fill out the product line.

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STOP LIGHT. Incredible as it sounds, the word from inside Fairchild is that it is dropping out of the automotive marketplace, leaving it to Motorola and National. That's a mighty big investment to write off, and leaves the question of what will be done with that beautiful new linear facility in revamped building 2.

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DELAYED REACTION. The decentralization of Fairchild (MN, June 21), which was not well received by many of the brass there, will probably turn sour early next year. Many disgruntled managers are planning to exercise the last of their stock options in December, and then bag it soon thereafter.

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FACE ON THE CUTTING ROOM FLOOR. I mentioned last week that there three new managers at Synertek, and then deftly dropped the subject after naming only two (MN, Nov. 1).

The new guy is Perry Wallia, whose title is director of technology transfer, a new post. No, Perry is not going to sell know-how to the Hottentots, but he might better be called manager of manufacturing engineering. He is the in-betweenner who takes a new product out of engineering and gets it up to speed before turning it over to manufacturing. He reports to operations manager Jack Bridges, who dreamed up the fancy title.

Perry was due in on Monday (3), but didn't show up as he was fighting off a last-ditch rerecruiting effort. But he did arrive Tuesday, obviously preferring Honeywell to General Electric. Previously he had been at Fairchild R&D.

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EMBARRASSMENT OF RICHES. Zilog national sales manager Bob Skinner got more than he bargained for on his recent foray into Asia (MN, Sept. 27), and since it's more business than he can handle, he is now sorting out the sensational opportunities for the plain vanilla stuff.

Skinner leaves Zilog December 12, with the avowed purpose of making Pacific Electronics into a \$100 million international marketing company within five years.

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NOTABLE EXCEPTION. Toymakers are singing the blues again, because of all those Christmas sales they're going to lose as the goofball semiconductor industry can't supply all their needs.

Not so at Atari, however. There pres Ray Kassar has his factory operating on a year-round schedule, backed by firm orders. There are no more December panics at Atari, nor January downers from returned goods. The company no longer sells on consignment, and consequently no longer takes those January baths of a few years ago.

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A PLACE TO CALL HOME. Valley companies looking for expansion room needn't go to the Pacific Northwest nor to saturated Arizona, when there is at least one town in California that would welcome the business with open arms.

Siskiyou County, of which Yreka is the county seat, expects its lumber industry to disappear in the next 15-20 years, and is actively looking for light manufacturing to replace it. There is an untapped labor force of some 5000 semiskilled bodies, mostly high school graduates, willing to work for not much more than the minimum wage.

Hydroelectric power is about half the price in the Valley. There is lots of cheap land, clean air and plenty of water. New houses (3-bedroom, 2-bath, 2-car garage) go for less than \$50,000. Weather is very similar to that of the Valley.

A very cordial board of supervisors will arrange whatever zoning variances that are necessary. Although the area lies in the Cascade range, it has been seismically stable for years. Recreational facilities include Mount Shasta, Marble Mountain Wilderness Area, Lava Beds National Monument, and the Tule Lake and Lower Klamath wildlife refuges. Hunting and fishing abound.

Yreka is on Interstate 5, and the city has a first-class airport, although no scheduled carriers at present. The main runway is 7500 ft., capable of handling anything short of a 747. The facility was built by the Air Force 15 years ago, and is now owned by the city. The 1800 acres surrounding it will be the site of an industrial park, where somebody is going to put in a 600-employee fab facility at extremely attractive terms. The government is even going to provide a Class I disposal site.

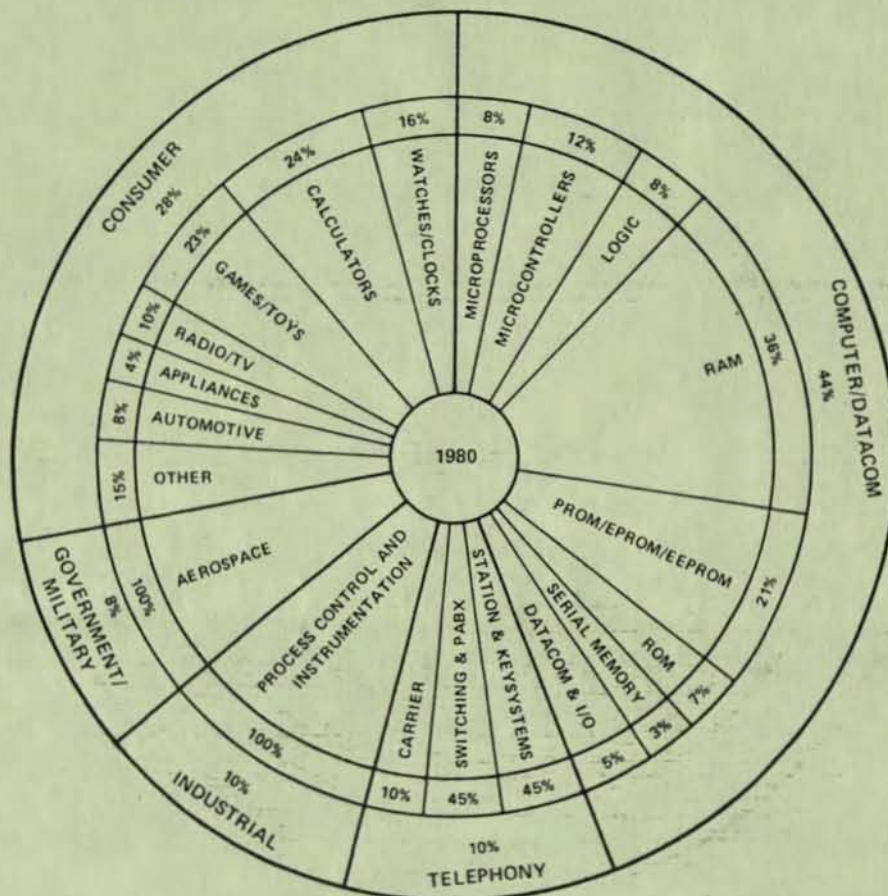
About the only thing lacking (other than air service, which will certainly be provided when the demand is there) is a four-year college. There is a community college, however, which has a correspondence arrangement with California State University at Chico.

The guy who can answer questions about the place, arrange transportation and set up meetings with authorities is Bud Bright. He is at 1798 Technology Drive, San Jose 95110. Phone 408-280-0654.

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WRITE WHEN YOU GET WORK. Electron Beam Microfabrication Corp. has picked up a \$1.2 million contract under phase III of the VHSIC program, for development of a direct-write electron beam mask pattern generator.

WORLDWIDE IC MARKET MARKET



GLOBAL VIEW. Integrated Circuit Engineering, which never fails to illustrate its data with gripping graphics, has cut up the semiconductor pie worldwide for the current year.

The data processing industry remains the biggest customer, with consumer goods running a respectable second.

But this chart will soon look much different, when three of the little guys--automotive and microprocessors at 8 per cent each, and telephone at 10 per cent--get up to speed.

When that happens, this particular pie chart will be merely a slice of history.

RESPLENDENT ISLAND. Motorola's next facility is going to be in Sri Lanka, the former Indian Ocean island of Ceylon. Located in the free trade zone, Moto's assembly-test facility will cost \$22 million and employ 2600.

This is the first electronics facility in the area, which previously has hosted mainly textile and garment plants.

PROMOTION(?). Bob Peters is American Microsystems' new regional manager for Northern California, south to San Luis Obispo. Bob was previously marketing manager for custom MOS/LSI.

CAPITAL SPENDING ON INCREASE. Despite the stagnation in the device marketplace (who said the recession is over), equipment makers have not been taking it in the chops this time, as they have in past recessions.

On the contrary, equipment shipments have been up better than half again over 1979, according to Technical Ventures' VLSI Capital Equipment Outlook. For the first half of this year, shipments were \$727.4 million, TV says, against about \$500 million for the first half of 1979.

Capital equipment expenditures have also been picking up percentagewise. This year they should be 12.3 per cent of semiconductor sales, compared with 7.8 per cent in 1975 and 5.4 per cent in 1965.

Don C.

MANAGER'S CASEBOOK by Don C. Hoefler

CASE No. 572 SUBJECT: RONNIE IN THE OVAL OFFICE



Hail to the Chief.

It will be a cross between Eisenhower and Roosevelt with a little bit of Truman. Eisenhower did a lot of things that kept crises from turning up. He kept chaos from happening. On the other hand, we have such a mess that some amount of Roosevelt-type moves could be expected.

Edwin Meese III
Ronald Reagan's
Chief of Staff

I know that in many ways I'm a soft touch. Sometimes, when there was a negative action required, or something of that kind, a change--that's difficult for me to do. I like people, and, I guess for one thing, firing someone is virtually impossible for me.

Ronald Reagan

I AM LOUSY as a picker of U.S. Presidents. I have been backing losers since Tom Dewey, until I got on the Jimmy Who bandwagon and he turned out to be the biggest loser of them all.

This year, along came a challenger to hand the incumbent the worst shellacking since Richard Nixon creamed George McGovern in 1972, a greater electoral defeat than Franklin Roosevelt in 1932 handed to Herbert Hoover.

ALTHOUGH I COULD NOT bring myself to punch my card for either of the leading candidates, I think the majority made the right decision, given the limited options available. I could be wrong as hell about Ronald Wilson Reagan. I was worse than that in my assessment of James Earl Carter. And I had no time for Harry Truman as FDR's running mate, yet his administration turned out to be one of the best in modern times--infinitely better than the four Carter years.

But the less said about JC the better. Let's examine what kind of President Ronnie Reagan might become.

Let us strip away the trappings of office and remember that the man is still an Actor. A role-player, a performer, a masker, a mime. And a rather mundane one at that. He is a one-role performer, always playing himself, Mr. Nice Guy.

And this tells us immediately that he is not a leader of men, but a follower of direction. His campaign rhetoric was constantly larded with such crutches as "According to my best information..." and "My advisers tell me that..."

Another thing about actors is that they are child-like pretenders. Tim Conway hit it precisely, talking to Bob MacKenzie in the November 1 TV Guide: (OVER)

"We're all twelve years old, really. We get bigger, wear different clothes, but we never really get past twelve. In this business we get to play dress-up and do all the dumb things everyone really wants to do."

ANOTHER THING ABOUT ACTORS, that few of us workaday whelps realize, is that they are this way all the time. They don't take off the makeup and change into street clothes at the end of the performance, and go home for a look at the evening paper and a hot meal. No, they are on 24 hours a day.

A good case in point is my one and only encounter with Ronald Reagan, some fifteen years ago, when he was being touted for Governor of California, but had not yet begun campaigning in earnest.

I was then editor of *American Cinematographer*, the magazine of the Hollywood directors of photography. One day, while cleaning out my files, I discovered a picture of Reagan, standing alone in a railroad station at night. It was a still from the motion picture, "Kings Row." The composition and lighting were so striking (by the great James Wong Howe), that I assumed it must have been used in his autobiography. I went to a bookstore on Hollywood Boulevard, leafed through a copy of the book, and found this great picture missing.

Thinking then that Reagan didn't have a copy--or might not even know of its existence--I sent it to him in Pacific Palisades with a covering letter. When it arrived the following morning, he phoned me immediately, and the following monolog ensued:

"Hi, this is Ronnie Reagan (yes, he calls himself that). I want to thank you for the photo. I had never seen it before. That was my first picture, you know, and an actor always has a soft spot for his first."

Something didn't compute with that last statement, so I looked it up. "Kings Row" was released late in 1941, and Ronnie first appeared in films in 1937. "Kings Row" was not his first picture, but his 29th.

So why would he tell such a big lie, to a virtual stranger, about a subject which to the stranger had to be less than trivial? I asked myself that question over and over.

MY CONCLUSION WAS that he was not really lying, but merely fantasizing, a common exercise in tinsel-town. Although "Kings Row" was far from Ronnie Reagan's first picture, it was the only picture of lasting value he ever made. All of the other Reagan credits, before and after, were trash, not worth saving the negatives. This indisputable fact was a matter of great disappointment to him. He had hoped "Kings Row" would further his film career, but it just stood there, a lone beacon in a sarsaparilla sea.

So I don't feel lied to by Ronnie Reagan, as I most certainly do feel by James Earl Carter. As a betrayer, Jimmie Who ranks in my book close to Tricky the Dick.

As for Ronnie, I think he has no illusions about his leadership abilities nor about his rather limited intellect.

But he just might be the *vir bonus* that JC conned us into believing he was. Then if Ron will surround himself with a businessman re-gency, it could be a surprisingly good term.

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SILICON VALLEY
NOVEMBER 22 1980

HOPE FOR 4Q TURNUP OVER THE YARDARM

Recovery Still Illusory

Good Friend—

STILL IN THE SAUCE. Despite whatever lame-duck President Peanut may have told you, and no matter what you may have heard from the non-political chief economist of the Department of Commerce, as far as the semiconductor industry is concerned, the recession is still very much here and now.

The post-Labor Day augury of optimism never came (MN, July 5). The MOS downturn is only worse—much worse (MN, July 12). The 16k market continues to sink ever-deeper (MN, July 26). October came and went, but the accompanying smiles never materialized (MN, Sept. 13).

For October is the moment of truth. It begins the festival season when the big ordering is done for delivery early next year. But now the fourth quarter is nearly two-thirds over, and there are still no signs of life.

As has been the case since mid-year, MOS continues on a downer. Book-to-bill ratios in that segment of the industry have been simply awful. In October, they averaged somewhere close to 0.5, with Texas Instruments, National, Motorola and Harris doing somewhat better than that, and Fairchild and Mostek somewhat worse.

Notable exception on the upper edge is Intel, which by a lot of huffing and puffing has managed to remain close to unity. But it took an unprecedented order to the field troops—"Don't lose the order on price"—to maintain even that.

The very worst performer was ITT, with a b/b ratio somewhere down in the noise level, having had more cancellations than new purchase orders.

With the Japanese becoming more aggressive in their pricing, no customer is stock-piling or ordering for the long haul. All are ordering for current (30-60 days) needs, in anticipation of price bombing to come—just like the bad old days.

Even factoring in bipolars, average industry b/b is probably no more than 0.7.

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ON THE OTHER HAND. Says the Semiconductor Equipment and Materials Institute:
"Although the damage may not be tallied for some time, it seems certain that the semiconductor industry has weathered the current recession well; compared to the 1974-75 debacle, this recession may be inconsequential."

Since this is the first recession in history in which the equipment industry has been able to avoid going deeply into the tank, its assessment of the device manufacturers' problems is tantamount to the description of an elephant from the vantage point of an ant crawling up its leg.

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UPCOMING. We may learn next week that Bendix has decided not to exercise its option to take a major position in Nitron (MN, October 18). No reason will be given, but I suspect that if pressed, Bendi will say that they would have preferred the proceeds of the deal to go directly to Nit, rather than to McDonnell Douglas, another aerospace company.

Myself, I suspect that this is part of a series of attempts to disavow any deal blessed by the recently-departed Mary Cunningham, former v.p. for strategic planning.

In any case, it means that Nit pres Sam Nissim must look elsewhere for funding. Another public offering, perhaps?

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NOT QUITE STATE OF THE ART. With the Iraqis and the Iranians trying to beat each other's brains out, this is no time to be heading for Teheran or Baghdad. And I'll give you another reason.

Although Al Jumhuriya Al Iraquia is thought by some to be the cradle of civilization on this planet (as Mesopotamia, later Babylon and Assyria), its semiconductor plant outside Baghdad is not too refined. There you'll discover such niceties as holes in the ceilings with brick dust sifting into clean rooms, and hydrogen lines running directly through your office, if you're an engineer or manager.

This monstrosity was built for the Iraqi government by the Italian SGS, which learned the trade from Fairchild, until Hogan kicked them out of bed in the early 1970s.

The government is now offering a caliph's ransom for an American g.m. and engineering team to run the facility, but the recruiting is an uphill grind. Even with astronomical housing costs and the threat of smog, old Baghdad-by-the-Bay looks pretty good compared to Baghdad-of-the-Arabian Nights.

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DICHOTOMY. Dave Campbell has bolted Precision Monolithics in favor of Plantronics, the fourth v.p. (he was the financial honcho) to depart PMI within the past year.

On the other hand, a recent attitude of employees below the v.p. level was spectacularly favorable: place to work, 94 per cent; job satisfaction, 71; work load, 79; working conditions, 78; facilities and environment, 89; safety, 89; and job security, 80.

The University of Redlands profs who took the secret poll called it "a very positive group of employees," noting that two-thirds is considered a good score.

EXCEPTION THAT PROVES THE RULE. As was to be expected, my downbeat comments on graduate schools of business ("Manager's Casebook" No. 573) created quite a furor, primarily from middle-management MBAs.

My statement that "I cannot think of a single semiconductor chief executive who holds an MBA" was of course in error, as I know very well that Chuck Harwood of Signetics is the one and only. Not to take anything away from Chuck, who has done a bang-up job at Siggie, but his moving into this industry was an inside job. He happened to be the roommate at Harvard B-School of Amory Houghton Jr., later chairman of Corning Glass, and when Corning decided to replace Jim Riley, Chuck was eminently available.

It has also been pointed out to me that Hewlett-Packard (which I do not regard as part of the Silicon Valley community, even though it headquarters in the Santa Clara Valley and has captive semiconductor facilities) has an MBA president, two MBA exec v.p.s, three MBA group general managers, and perhaps more than a dozen MBA division managers.

"MBAs didn't set the basic tone that makes HP a good place to work," says an HP non-MBA, pointing out that neither Bill Hewlett nor Dave Packard are of that stripe. "Engineer-managers with broad awareness and lots of smarts did that. Maybe it's fair to say that the really good MBAs have taken over and carried things forward well enough to overcome the possibly deleterious effects of a whole swarm of not-all-that-great MBAs."

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POTOMAC FEVER. Although Jerry Sanders has his eye on the White House (MN, Oct. 11 1980), Bob Noyce may well beat him to Washington. He was an advisor to Ronnie Reagan during the recent campaign, and is expected to be offered--and to accept--a high ranking post in the Reagan administration.

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SECOND THOUGHTS. Although General Electric intends to stand by its deal to take over Intersil (and approval by Inter stockholders will be automatic) the parent-to-be is nonetheless nervous about the defections. The loss of Murray Siegel, followed by other MOS and CMOS types, stunned the company, since this is its main area of interest.

To add insult to injury, Rich Forte and his ex-Signetics guys, who were slapped around in the recent reorganization (MN, Oct. 4), are expected to stick around just long enough for their current options to mature, and then bail and decimate bipolar as well.

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MR. MOTO A TECHNOLOGY LEADER? Motorola seems determined to live up to its new slogan, "Innovative Systems Through Silicon." Long the copycat king, Mr. Moto may well end up as the the main challenger to Intel as the industry's innovative leader.

Credit heir-apparent Al Stein as the guy who has redirected the company from the longtime reverse-engineering mode established by Les Hogan.

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SPINOUT WAKEUP. Startup activity, long dormant in the Valley, appears ready to blossom again. VLSI Technology, Synertek spinout which has been beating the bushes for 14 months, appears on the verge of getting its first \$7 million. It isn't the \$40 mill originally sought, but it's a start.

AND ANOTHER ONE. Look for another Intel spinout in the near future, some half-dozen guys from the E²ROM (electrically erasable) operation.

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TIME OF THE LOCUSTS. The Fairchild hi-rel stinker (MN, Nov. 15) is causing microscopic scrutiny of all Valley companies by the Department of Defense office responsible for source inspection in the Valley. DoD is also putting through the wringer the outfit that made the IC that caused a NORAD computer to sound a false alarm last June and nearly start World War III.

The latter outfit might also have been Fairchild, since DoD is stonewalling its identity on orders of Gerald Dinneen, assistant secretary for communications, command, control and intelligence.

But whether one company or two is involved, all companies doing business with DoD are now tarred with the same brush, and we can look forward to the resounding splat of the zhit hitting the fan.

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SIGGIE'S GONE, GOODBYE. Signetics is moving its hi-rel headquarters to Sacramento, the first major company to invade the state capital. The firm has leased 82,000 sq. ft., which is expected to house 400 employees a year from now. The move is being made because of the available labor pool, to alleviate the high cost of Valley housing, and to give the division an independent identity.

Fab will continue in Sunnyvale, and assembly in Orem (Ut), while Sacramento directs hi-rel processing, program management, marketing, sales support and order entry.

Siggie absorbs all costs of personnel moves, but anyone who refuses the transfer is guaranteed a comparable job in Sunnyvale.

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JIMBO IN THE PINK. Signetics' former president, Jim Riley, is still in pretty good shape for an old man (a hell of a lot better than this old man). In the recent American Electronics Association ElectRun, a 10km (6.2 miles) race, Jim placed No. 4 in the men-over-50 class, coming in at 43 minutes, 53 seconds.

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ROAD APPLES. At the Santa Clara County Manufacturers Group luncheon on Monday (17), American Microsystems president Glenn Penisten preceded Advanced Micro Devices president Jerry Sanders. Explained Glenn: "You don't know how much lobbying this took. Following Jerry requires the same sort of tippy-toe finesse as following the horses in a parade." Jerry was not amused.

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NOTICE NOTICE NOTICE. *Thanksgiving week-end is one of the two times a year we get a mini-vacation. Microelectronics News will therefore not publish next week, but will return with you on December 5. Have a good turkey with all the trimmings!*

Don C.

MANAGER'S CASEBOOK by Don C. Hoefler

CASE No. 574 SUBJECT: THE SHAPE OF THINGS TO COME

FREE ENTERPRISE By DON HOEFLER



"At last my ship came in--
and it's going back out empty."

U.S. REJECTS LIMITS

ON JAPANESE SEMIS

TRADE PANEL VOTES DOWN A PETITION
BY SIA AND COMPANIES ON IMPORTS

By MAHATMA KANE JEEVES

Special to Microelectronics News

WASHINGTON, April 1 1981--The International Trade Commission of the United States voted today that Japanese semiconductor imports are not causing serious injury to the domestic integrated circuit industry, thus rejecting a petition for import quotas and higher tariffs filed by the Semiconductor Industry Association on behalf of National Semiconductor Corp., Intel Corp., and all other members of their class.

The 3-to-2 vote by the Government trade panel means that SIA and the manufacturers will have to take their case for protection directly to President Reagan and to the Congress. But the chances for any decisive action this year are considered slim.

The commission majority found that the economic downturn, lowered productivity, inadequate expenditures for R&D and plant and equipment, the learning curve, lowered quality standards, poor security and insecurity, insufferable ego, lack of due diligence, and a marked shift in customer taste were greater causes of the troubles plaguing Silicon Valley than Japanese imports.

"After years of recessions aimed at curbing inflation, added to years of continually dropping productivity, exacerbated by the decreased quality of domestic ICs, the U.S. market changed significantly, and these imports were in a position to benefit," said the chairman in summing up the majority finding. "We should not, however, blame the messenger for the bad tidings," he added, in an apparent reference to himself.

"Did the Americans think that all those plant visitors in the 1960s were making courtesy calls and taking pictures for their family albums? And didn't those Americans flaunt their technology in technical society meetings open to all? Did not some of them sell their obsolete technology to the Japanese for exorbitant prices, in the smug belief that the Little Nippers would never get close enough to nip at their heels? It is the considered opinion of this commission that the U.S. semiconductor makers have no-one but themselves to blame for this turn of events, and that a bail-out by the Federal Government is unwarranted."

Importers Praise Decision

Key executives of trading companies, distributors, representatives and original equipment manufacturers called the decision a victory for users that reinforces America's long-standing embrace of free-trade principles.

Officials of the SIA and captains of the industry said that they would urge the President and the Congress to move swiftly because, as National's president, Charlie Sporck, put it, "This country cannot afford the continuing exploitation of our IC market by the Japanese."

Both President Reagan and ex-President Jimmy Carter had indicated sympathy for the U.S. semiconductor industry's position during last year's election campaign. Mr. Reagan, who had asked the trade commission to accelerate procedures to come up with an early decision, had promised to negotiate restraints with the Japanese if injury to the domestic industry were found.

"We remain concerned about the health of the domestic industry and will continue exploring ways in which the Government may be of assistance during this difficult period of transition," the Reagan Administration's special trade representative, Johnny Carson, said today, apparently referring to his own move from Hollywood to Washington and Democrat to Republican.

Tom Hinkelman, figurehead of the SIA, said the trade association would ask President Reagan to try to persuade the Japanese to slow their shipments to this market.

Growing, Growing, Gone

Although U.S. sales of ICs are presently about double those of Japan, the steadily decreasing ratio caused the SIA to petition for a curb in Japanese imports for a five year period. Decrease in the first year would be to 80 per cent of current levels; in the second year to 60 per cent; in the third year to 40 per cent; in the fourth year to 20 per cent; and in the fifth year to zero.

Japanese lobbyists were able to convince a majority of members of the commission, however, that should they approve such a measure, then the Sons of the Rising Sun would bomb Mountain View, Sunnyvale and possibly Santa Clara, and thereafter declare World War III, at a date to be determined later.

Undaunted by such a naked threat, a member of the pro-industry minority on the commission retorted, "The integrity of the international trading system requires a certain sensitivity on the part of overseas suppliers to avoid achieving their success at too high a cost to the host society. I have found a disturbing absence of such regard and sensitivity on the part of a particular Oriental island nation which manufactures ICs and flies a red-on-white sunburst flag."

He-e-e-re's Ronnie!

With the industry determined to appeal the commission's findings to President Reagan, the consensus is that they are wasting their time. All of his advisors, and therefore the President himself, are dedicated to free trade. That is the way to increase American business opportunities abroad, they argue, as well as benefitting consumers at home, checking inflation and maintaining prosperity.

"Maybe you don't remember the Depression, but I sure do," Mr. Reagan said this morning. "And it was all because Herbert Hoover signed that Smoot-Hawley tariff act. You're not going to catch me doing anything that dumb."

The alternative, sources say, is the issuance of new TS chits by mid-year, with the President to give each card-holder one free punch.

Don C. Hoefler's



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with Manager's Casebook

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SILICON VALLEY
NOVEMBER 15 1980

HI-REL SCANDAL IN MAKING

The Legacy of Wilf Corrigan

Good Friend =

CHICKENS HOME TO ROOST. The new Schlumberger management at Fairchild has discovered that the subsidiary is liable to the federal government for millions upon millions of dollars, because of short cuts taken in high reliability processing, a policy begun when Wilf Corrigan was running discrete devices in the early 1970s, and continuing company-wide until discovered and stopped by Schlumberger.

It was the parent company that notified the government of the corner-cutting, and the head of the company, Jean Riboud, has personally taken charge of the case. He was in Mountain View this week to tell the carryover Fairchild management that their performance is the biggest blot on Schlumberger in the company's history.

The major culprit, however, --Corrigan--was of course not present. But he has been pulling such stunts since Motorola days. There he once had a government contract for transistors which carried a substantial penalty for late delivery. Facing a schedule slippage, he ordered the shipment of a bunch of junk prior to the deadline. When the government source inspector remonstrated, Wilf laid the blame on the shipping department, and conned the government out of the penalty.

When he arrived at Fairchild, he simply ignored burn-in requirements in the name of profitability, first with discretos only, and later, when he became president, the same runaround became company-wide. The South Portland (Me) plant was notorious for shipping substandard.

When an R&QA director for one of the product lines discovered the company illegally making ICs in Hong Kong allegedly to MIL-38510 standards, he reported it to his superiors, but Corrigan refused to discontinue the practice. The R&QA guy then left the company and reported the infraction to the government.

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(CONTINUED)

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THE MAN WHO WASN'T THERE. Never during the Corrigan regime was there a corporate director of R&QA. What would he have had to do? All of the R&QA managers were at the divisional level, reporting to the operations managers, where their clout was absolute zero. Their assignment was merely to go through the motions and keep their mouths shut.

Since most of the cost of a hi-rel transistor is in post-assembly processing, consider how the money that Fairchild was paid for burn-in, data logging and other functions that it didn't perform, must have contributed to its profits. And since Corrigan's profits were always less than spectacular, think how much worse they would have been but for this thimble-rigging.

And one must wonder how so many source inspectors could have been flummoxed. Or was there some under-the-table palm-greasing?

And one must wonder further if there are grounds for criminal prosecution. "It was traditional. That's just the way they did things in those days," says an ex-Fairchilder in a position to know.

This is not the first instance of hanky-pank, but it should serve as a warning to others who are cheating the government. Teledyne did something similar a few years ago in its Hawthorne (Continental Device) plant, which brought the FBI down on the backs of management.

One customer source inspector, a man of the highest integrity in a company of the same, told me that only these Valley companies follow to the letter the hi-rel specs of the government and the customer: American Microsystems; Intersil; Monolithic Memories; Precision Monolithics; Raytheon and Signetics. All the others, he says, pay lip service and take liberties.

And Fairchild is not the only company missing from the above list.

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BEFORE THE PAINT DRIES. Fairchild has already had a substantial layoff in its just-renovated linear facility in Building 2 (Whisman Road). Operations manager Jerry Pettigrew was ordered to drop 15 per cent of his people. Apparently the "layoff" is permanent, since Jerry opted to cut them all from production support, even including industrial engineers and those irreplaceable maintenance technicians.

Fairch under Schlumberger has operated in much classier fashion than the old days, when office locks were changed during lunch hours and layoffs were announced over the PA system. This time, each person dropped was given a pay check through December 31, with nothing to do in the interim except find another job.

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NO SILVER LINING YET. The Fairchild layoff is symptomatic of an industry which still has the blahs. Almost every place you look, bookings are lagging billings by less than 1:1.

If, as President J.C. claims, it was the shortest recession on record, it was also the shortest recovery ever. In fact, it was so short that you probably missed it entirely.

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THIS DOES NOT COMPUTE. Walter Senges, briefly the stand-in president of Cramer, is coming to Siliconix as national sales manager.

EVERYBODY'S TALKING ABOUT THE JONES BOY. Terry Jones, former v.p. of marketing and sales at Advanced Micro Devices, who left under a cloud last summer (MN, Aug. 9, 1976), is resurfacing as president of a new Japanese-style trading company under the aegis of Nitron. The company is as yet unnamed, still going through the mating ritual with the California Commissioner of Corporations and Secretary of State.

The company will act as worldwide sales agent for Nitron and other manufacturers, and also manage Nit's rep and distributor organizations. It will also do product and process definition for Nit.

The position of Bob Miller, Nitron v.p. of marketing and sales, remains intact.

Whatever happened at AMD last summer is best forgotten. Nitron pres Sam Nissim is mighty glad to have Terry aboard, and that's good enough for me.

Welcome back, Terry.

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IT'S WORTH IT TO CHUCK MISSLER. Western Digital has improved its net worth by more than an order of magnitude in less than six months by judicious playing of the money market. At mid-year, WD's n.w. was \$3 million and today it stands at nearly \$40 million.

As a result, look for a major expansion including additional facilities.

The market maker, Montgomery Securities of San Francisco, first did a private placement worth nearly \$10 million. Then it recently concluded an additional public offering through a 63-member syndicate, including Lehman Brothers (which once controlled Signetics), for another \$25+ million.

This latest caper was brought in in 51 days, from first phone call to the attorneys to final remittance. The S-1 filing for the SEC was completed in only seven days, perhaps a new record.

Needless to say, WD pres Chuck Missler is deliriously happy with the magicians of Montgomery Street.

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GASSED. A chemical spill at Advanced Micro Devices resulted in arsine poisoning and hospitalization of 14 employees on Wednesday (12), and a 30-minute evacuation of the firm's DeGuigne Drive plant in Sunnyvale. There were no fatalities this time, fortunately, and all of those stricken were released from the hospital the same evening.

Before the emergency was over, the Sunnyvale Fire Department, Cal-OSHA and SRI International all got into the act.

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CREDIT WHERE CREDIT IS DUE. The market-breakdown pie chart I credited to Integrated Circuit Engineering last week (MN, Nov. 8) looks suspiciously like one first published in December 1976 by Dr. Ed Sack, senior v.p. for microelectronics at General Instrument.

A major difference, however, is that Ed's chart contained no numbers. It states, in fact, "Segments Undoubtedly Not to Scale."

But Ed still feels the ICE company owes him an acknowledgement--plus one Wild Turkey.

SEASON'S GREETINGS, SUCKER. Quotable quote from Harold Bernay, executive v.p. of Rosman Adjustment Corp., Chicago:

The best advice I can offer credit managers at this time of year is to offer your customers a glass of Christmas cheer, but don't offer them credit under circumstances any different than you would at any other time of the year...Often slower paying customers are given more time than they would have ever been allowed during other times of the year. And credit checking of customers with unusually large orders is often slighted in the Christmas rush. Worse yet, some completely new customers are approved with only cursory credit checks. In these marginal cases, all too often the wholesaler or manufacturer does not get paid, because it is too late to recover any of the incurred debt by the time the situation is turned over to a collection agency.

I know one acquired company which is still carrying a five-year-old receivable with a former customer with a notorious deadbeat reputation, because of credit extended by the former management. I warned the former president what he was getting into, but he assured me that all of his bases were covered.

Ha!

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ALSO QUOTABLE. Dr. Bob Harp, president of Vector Graphic, says he realizes that semiconductor makers must always be pushing the outer limits of the leading edge of the technology, but he wishes they would spend more time on developing 8-bit microprocessors rather than rushing into 16. The key is software, says the doc:

To begin manufacturing 16-bit microcomputers for small business and personal computing would make it necessary either to abandon an incredibly rich software resource, or to obviate the 16-bit performance advantages by accommodating 8-bit software through translators and emulators...There is a significant market for any company that would concentrate on 8-bit microprocessors and memory components, providing more dense circuitry and faster operating speeds with the 8080 or Z-80 instruction set. Silicon-on-sapphire processes hold the promise of increasing speed by a factor of two to four. This would be an enormous benefit to microcomputer manufacturers who could then provide systems that operate at speeds approaching the performance level of minicomputers.

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LOWERED EXPECTATIONS. The American Association of Engineering Societies is not enthusiastic about the back-of-the-hand treatment given to its input to the National Science Foundation study, "Science and Engineering Education for the 1980s and Beyond: A Report to the President."

AAES says it told NSF that there is great urgency in addressing the matters of engineering teacher shortage and obsolete laboratory equipment, yet the report contains no milestone goals or target dates. Says AAES pres Dr. Don Marlowe:

Failure to ensure quality engineering education will make it unlikely to achieve the government's projection that for the most part there will be enough well-educated engineers through 1990 to meet the country's high-technology needs. Developing new high technologies is crucial to the nation's reindustrialization.

Don

MANAGER'S CASEBOOK by Don C. Hoefler

CASE No. 573 SUBJECT: THE B-SCHOOL BLUES

FREE ENTERPRISE By DON HOEFLER



"Goddammit to Hell, where's that anti-Japanese formula?"

THE BASIC PREMISE of this column since its inception on October 17 1966 (if anybody can remember that long or gives a damn) was the simple notion that the managers in this business are retread engineers.

Hardly anybody then or now enjoyed the niceties of a business education on top of his engineering degree.

Who needed it? As masters of logic and scientific method, us engineering types could by definition run a business better than dilettantes who drifted in off the streets. Any place, any time, any way.

That same premise was applied in the late 1960s, when I broke the ranks at Wescon, organizing and chairing seminars in which the speakers were successful managers and entrepreneurs from the ranks of engineers.

The premise in both cases was based upon my own transformation from engineer to manager (and later entrepreneur). Except I cheated.

When I first got the title of engineering manager, I discovered that I wasn't so goddam smart after all, and hied myself back to college to find out what I was missing. I suspect most of us have

done something like that, even if only in night school or correspondence courses.

We have had some bet hedgers, of course, who have packed a Master of Business Administration Degree on top of an engineering baccalaureate. Lord knows there are enough schools catering to those types, starting with the two best known Harvard and Stanford. Others can be found at Chicago, Pittsburgh, New York University and Cal at Los Angeles. Also the Wharton School at Penn, the Sloan School of Management at MIT, the Amos Tuck School at Dartmouth, as well as Carnegie-Mellon University in Pittsburgh and Wake Forest in Winston-Salem (NC).

BUT WHERE ARE their graduates? Try as I might, I cannot think of a single semiconductor chief executive who holds an MBA. So what do these graduate schools of business actually produce?

It makes one wonder if the B-school profs are really doing their jobs. Or in fact if they ever held down a job in the real world beyond the ivy-covered walls of *Akademia*. As one who once taught what he had not yet learned, I must go along with Charles Lamb, who said:

We are not quite at our ease in the presence of a schoolmaster because we are conscious that he is not quite at his ease in ours. He is awkward, and out of place, in the society of his equals. He comes like Gulliver from among his little people, and he cannot fit the stature of his understanding to yours.

(OVER)

THIS IS A CHARGE that has been hurled at pedagogues since the profession began.
George Bernard Shaw said it best:

He who can, does. He who cannot, teaches.

And if this be true, it means our B-schools are in a sorry state of affairs. The B-school is by definition a trade school. You wouldn't study auto repair from an instructor who had never worked on a car in his life. Yet how many B-school professors can truly be defined as businessmen? Oh sure, there are lots of them drawn from the ranks of middle management and below. Just as Shaw said: guys who couldn't make it.

B-schools have traditionally relied on the case-history method of teaching. That at least is safe. If you don't have the experience yourself, tell how somebody else did it. And it works, up to a point. We all can learn some principles from history.

But businessmen every day run up against problems not taught in B-school. Nor does B-school equip them for problem-solving, except by stock formula. Running a business in this fast-moving world today requires a keen mind and the ability to imagine and to improvise. Yet the profs will duck the issue by telling us that such qualities are innate, and cannot be taught.

What they teach in its place are stock solutions to stock problems, theories and formulas in place of creativity, management by rote.

MANAGERS ARE RISK-TAKERS, but one would never know it by warming a seat in a B-school classroom. Since academicians themselves are play-it-safe types, more concerned with tenure than return on investment, they are hardly equipped to turn out decision-making risk takers.

The real world out there today is the entire globe, yet B-schools remain isolationist. None yet, for example, has come up with a means for coping with our differences with the Japanese. So we continue to barge ahead, unmindful of their culture, and unable to understand why they do not exchange it for our own.

No B-school yet has made any effort to turn out managers who are at the very least bilingual. I recall when I first travelled overseas, and the embarrassment I felt when natives would apologize to me for their inability to speak my own language well. Bilingualism is taken for granted in virtually every part of the world other than the United States.

Even though English is rapidly replacing French as the universal language, it is still a good rule, when in Rome, to speak as the Romans do.

No B-school to my knowledge teaches the fine art of negotiating, nor even the psychological principles which apply to it.

So what does the B-school do? Rather than producing business leaders, it seems mainly to produce business followers. Executives in the literal sense, rather than managers. Guys who will carry our marching orders rather than give them.

Every business needs such types.

But let us not delude ourselves that B-schools are turning out chiefs, when their primary product is Indians.

□

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MICROELECTRONICS NEWS

with Manager's Casebook

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SILICON VALLEY
DECEMBER 20 1980

FAIRCHILD FUNNY FARM

Back in the Sauce--Again

Good Friend--

HISTORY REPEATS ITSELF. The bad luck which has dogged Fairchild since its inception in 1957 is as tenacious as ever under the year-and-a-half old aegis of Schlumberger, which has now demonstrated that it is just one more confused outsider, no different from the long list of previous losers: Philco-Ford, Sylvania, General Electric, Westinghouse, ITT, Rheem, Corning, Garrett, McDonnell Douglas, etc. etc.

At a time when customers are more precious than diamonds, Fairch is crapping all over its reps and distributors. It has continued to screw up in MOS. It has called in an efficiency expert, whose biggest contribution has been to revive circulation of union authorization cards. The president has a closed-door policy, in which the only way one sees him is upon summons. And he has the audacity to bad-mouth one of Fairch's most illustrious alumni, Jerry Sanders, who has built an MOS organization several times the size of Fairchild's own, solely on the warm bodies of Fairch cast-offs.

It has always been thus. At its inception the company was at the mercy of a gang of plunderers in New York. Then its hand-picked president absconded with 20 people before the company was a year old. Later it was run by a canny copyist who eliminated Fairchild as innovator, forgetting that now he had nobody to copy. And then came the biggest crook of all.

Yet Fairchild, despite it all, made the key contributions to the industry (after Texas Instruments engineered the changeover from germanium to silicon). The Planar process, and the integrated circuits which use it, are Fairch inventions now employed industry-wide. Most of the companies in Silicon Valley are Fairch progeny.

And today Fairchild continues to muddle on, continually losing market share, and more and more oblivious to the real semiconductor world around it.

(CONTINUED OVERLEAF)

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BACKTRACK. Sales and marketing troops are appalled at what is happening in the field. The rep organization, built up during a cost-cutting frenzy in the last recession of the Wilf Corrigan regime, is well on its way to wipeout. Reps are being chopped right and left, with about half gone and the remainder on tenterhooks.

No reason is being given for the rep elimination, but it must be assumed that the company is going direct again, although even this has not been officially stated. This is a reversal of form in a down period, but with Schlumberger's bottomless pork barrel of cash, it may be wise to stockpile good people now for the next boom.

But the company is also stiffing its distributors, which has to be senseless in a recession. Now is the time that a principal plays huggy-kissy with his distributors, while handing off the onesie-twsie buyer, the marginal account and the questionable credit risk. But Fairch is making no effort to woo its distributors. It even boycotted the Hamilton-Avnet Christmas party this year, an annual command performance which all the industry biggies attend. For this and other reasons, Tony Hamilton is so zipped off at Fairch that he may drop the line.

NO MESSIAH, MASSA. Fairch management had hoped that its latest MOS Jesus, Gil Amelio, would be the magnet to attract the geniuses who would finally get the company into that marketplace. No soap. Gil has now been sidelined into a staff job, while the division is to be split into memory and microprocessor departments.

Meanwhile the group has come under the scrutiny of the C. Todd efficiency experts, which just completed a number at the South Portland (Me) plant, where productivity and profitability went up, morale went down, and union organizers moved in.

The unrest in South San Jose as a result of the incursion of the snoopers, is on the verge of anarchy, and while MOS is badly in need of an overhaul, this may not be the time or the way. It seems one more instance of the nuts-and-bolts approach of pres Tom Roberts to a people industry which it is now clear he does not understand. In a company which is desperately in need of some cheer-leading and morale-building, he fiddles with his sliderule while the company burns.

And his gratuitous slurring of Jerry Sanders is simply ridiculous and a decade behind the times. When Jerry assumed the presidency of Advanced Micro Devices, there was hardly a man-jack among us who did not vote him the man least likely to succeed. But he has since made true believers of all of us--except for the upstart.

Tom Roberts could learn much from Jerry Sanders--but he won't.

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LIKEWISE, I'M SURE. Tremors at Exar as well, as on Wednesday (17) marketing director Steve Pass and newly-arrived national sales manager (from Precision Monolithics) manager Bob Debowey took gas, for failure to meet the company's "high expectations." Remaining founder Alan Grebene has been pulled back from semi-retirement to devote full time to transferring Exar's I²L technology to Turkey.

Pres Ken Sato's distrust of U.S. managers has resulted in his doubling as manufacturing manager, while Nob Hatta triples as senior v.p., acting v.p. of marketing and acting v.p. of finance.

Meanwhile, two Japanese "outsiders" (not out of the parent Toyo mold), R&D v.p. Sonny Sato and engineering v.p. Yoshi Kurahashi, are also not long for the weird and wonderful world of 10-year-old Exar.

AND MORE OF THE SAME. It was Christmas-party time at Intersil this week, and the sales and marketing guys got around to comparing notes, and discovering that each and every one of them has a target departure date for early next year, ending with v.p. Ed Turney at mid-year.

First to go is longtime east coast honch Herb Criscitto, along with his deputy, Danny Randino. They are joining Frank Fernandez' Components Plus, a specialist in hi-rel products. The firm places probably half of Fairchild's military business, a very iffy proposition these days.

Meanwhile Inter sales-marketing résumés are flurrying over the Valley to produce an artificial White Christmas.

Ed Turney will be last to go, because he recently sold some Inter stock, and as an officer is now locked in for six months. If he bags it sooner, he leaves about a half-million on the table, so look for him to cool it until the good old summertime.

It looks more and more like Jimmy Dykes, recently moved from Harris to General Electric, will have to be the guy to pull GE's Intersil chestnuts out of the fire.

And Capt. Jack Gifford, senior v.p. at Intersil, has a new nickname inside the cloistered walls: "Tattoo," after the gnome of "Fantasy Island" who is always hearing airplanes overhead.

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AND THE DOWNBEAT GOES ON. And strange things are going on at Signetics as well. The entire top line, including pres Chuck Harwood and v.p.s Jack Halter and Mike Hackworth, have absented themselves from the headquarters on East Arques to new digs on Lawson Lane. It may be purely coincidence that the company's brush last summer with OSHA and NIOSH resulted only in patchwork on the Arques building, which is still far from sporting a clean bill of health.

And Hackworth is still trying to hush up the fact that the same building is infested with fleas, from a shipment from the Philippines late last summer. Despite persistent extermination efforts, the insects still abound in the MOS area, and they are more than a nuisance, since they carry hepatitis virus.

And so, IR manager Mike Oliver was quoted in the December issue of the employee house organ, "Probe," as wanting for Christmas "an office in a building where the carpeting is naturally green, not green from mold."

Advertising director Hugh Morris, after getting booted at American Microsystems, brought with him a group of hamdonny camp followers, the least of which is a roaring drunk who sometimes arrives on the scene at 11 AM, and attends meetings *non compos mentis*.

John Marck, computer OEM sales manager, has been working overtime trying to discredit MN and destroy bootleg copies, following his recent mention in these pages (MN, Dec. 6). He has also been working overtime trying to get out of Siggie, to no avail. He recently notched rejection slips from both Fairchild and Advanced Micro Devices.

My recent item about the small-town kids trying to make the microprocessor big time (MN, Dec. 6) seems to have cued second thoughts as Siggie. The company has decided to second-source the Motorola 68000, but needs some Moto peripherals to fill out the line. The company is trying to cut a cross-license, but has nothing to offer that Mr. Moto will accept in return. He and his jaunty lads from the Silicon Desert are therefore holding out for cash on the barrelhead --as in Big Bucks.

WILFIE FUNDED (?) The Valley was abuzz this week with reports that Wilf Corrigan's new venture (MN, Oct. 18 1980) has seed money, but the details were blurry at best. The amount ranged from \$5 million to \$100 million, and the source from England to the Valley. Everything about the rumor seems to come up *tilt*.

One report said the backer is Capital Research with Don Valentine, and possibly Gene White of Amdahl. But that is hard to swallow, for Don (ex-Fairchild, ex-National) has been very negative on the semiconductor industry as investment potential ever since he got into the venture business. And Corrigan and White were once unfriendly competitors for the top job at Fairch, with Gene the loser.

Corrigan has been touting Bill O'Meara, marketing v.p. at Synertek, as his chief peddler, but Wilf was the primary reason for Bill quitting Fairch in the first place. He admits he has been approached, but has not said yes.

Also mentioned are Bill Baker, ex-Fairch (later Monolithic Memories and National) and now plant manager for American Microsystems in Pocatello (Id), as manufacturing manager, plus an unnamed body from Intel as engineering manager.

As another company president (who used to report to Corrigan) said this week: "How could anybody in this Valley agree to back that guy?" We shall see, we shall see.

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AS EXPECTED. The housecleaning at DCA Reliability has begun (MN, Oct. 11). Receiving Dear John telegrams over the week-end were founder and former president Mike Economy, his brother-in-law, Chuck Balalis; also Mark Comianus, Marty Mathios and a fourth unnamed member of the Greek community.

To avoid an appearance of a Greek purge by the new owners, Peabody International, Economy's sister (and Balalis' wife), Fifi, was spared, as was Spiro Paxinous-- for the nonce. But much deadwood remains at DCA, and more heads are destined to roll, and the survivors are more than a bit nervous.

Also, forget that blather about Steve Burack being the permanent president and relocating from Connecticut. Steve is tired of the commute, and is actively looking for a replacement for himself.

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AGAINST THE TIDE. The stock market was up marginally yesterday on huge volume, but virtually the entire semiconductor group was on a downer. National dropped 1/8, Intel and Intersil down 1/4, Motorola and Advanced Micro Devices down 3/8, Siliconix down 1/2, American Microsystems and Monolithic Memories down 1, and Texas Instruments down a big 3-3/4.

The sole holdout of note was Western Digital, up 1/8.

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SO LONG UNTIL NEXT YEAR. Virtually the entire industry will lie dormant for the next two weeks, and we at MN next week get our second mini-vacation of the year. We will be back on January 3 1981, with the year-end wrap-up for 1980.

WE THANK YOU FOR YOUR PAST PATRONAGE, AND WISH YOU A VERY MERRY CHRISTMAS AND HAPPY NEW YEAR. SEE YOU THEN.

Don C.

MANAGER'S CASEBOOK by Don C. Hoefler

CASE No. 576-2 SUBJECT: DEATH, TAXES AND INFLATION (PART 2)

FREE ENTERPRISE

This Registers the amount
of your Purchase



Change: Gold, Silver or Paper?

OVERDOSE. The thirty years war on inflation in the latter half of the nineteenth century in the United States is now known to historians as the beginning of "The Age of Excess."

It was a young, raw country, and everyone wanted too much, too soon--and very often got it. Yet the United States was not nearly as independent as it thought it was. The world economy even then was much too fragile for that.

Most of the world's monetary systems at mid-century had been bimetallic, with both gold and silver serving as legal tender. But in 1871 Germany went on a single gold standard, selling off its silver coinage as bullion. In 1873 the countries of the Latin Monetary Union imposed limits on coinage of silver.

The U.S. also had a bimetallic system, urged on by the discovery of gold in California in 1849, and of silver in the Comstock Lode of Nevada in 1859. The latter event radically altered the outlook for silver throughout the world.

The value of silver relative to gold in world markets had for years been standardized at 15.5:1. But as extractions from the Comstock got up to speed and markedly increased the world's silver supply, the silver-gold ratio began wobbling in the neighborhood of 18:1. But at a statutory coinage ratio of 16:1, silver now had more value when sold to the Treasury for specie, than as bullion in world markets.

DESIGN OR OVERSIGHT? Then the U.S. also modified its coinage laws in 1873, and somehow when the dust settled, silver was no longer legal for coinage. To some this was a minor mistake, but to a coalition of the inflationists and the silver miners it became "The Crime of 1873." Now the two made common cause--free coinage of silver at 16:1--which would at once increase the money supply, and provide a ready market for silver at tidy prices.

It took five years, but in 1878 Congress passed the Bland-Allison Act, overriding the veto of President Rutherford Hayes. The new law provided that the Treasury buy \$2-\$4 million in silver bullion on the open market each month, and coin it into silver dollars. In the ensuing 12 years, some \$378 million in cartwheels were put into circulation.

Meanwhile on the sound-money side, Treasury Secretary Sherman continued his quest for gold reserves, against the redemption of greenbacks for specie, due to begin January 1 1879. The law did not specify the ratio of reserves to outstanding paper, so Sherman arbitrarily followed the practice of the Bank of England, which maintained a level of 40 per cent. It was far more than enough, for Resumption was virtually ignored, with most people content with their greenbacks. John Sherman's hoard of the precious yellow metal--\$133 million worth--remained virtually intact. But not for long.

(OVER)

DEUS EX MACHINA. A recession early in 1879 caused British investors to start unloading their U.S. holdings in exchange for gold. The resulting drain on Sherman's painfully acquired reserves was about \$13 million, before nature stepped in and reversed the tide.

In late spring and early summer of 1879, the weather was so miserable that British crop yields sank by as much as half. On top of that, there was a major drop in the cotton crop in India. But in the U.S. southland and on the prairies, the weather was perfect, with the result that this country shipped more wheat and cotton than ever before.

The gold movement completely reversed, and the Treasury reserves, which had dropped from \$133 million in December to \$120 million in June, were up to \$157 million by September.

But a Treasury surplus was deflationary, since it kept money out of circulation. And throughout the 1880s the country had an embarrassment of riches. While revenues held steady at around \$367 million, expenditures weren't much more than \$267 million, leaving an annual surplus of nearly \$100 million. The obvious answer would be to bring income more in line with outgo, but this would mean lowering tariffs, a bitter pill to Republicans.

The only other way to get the money back into circulation was to spend it. All sorts of schemes were proposed for leaning the pork barrel--river and harbor improvements, national defense, rehabilitation of the merchant marine--but the only one that carried was to expand the welfare state. Pensions nearly doubled in the decade, from \$56 million to more than \$106 million.

But that was nothing when the surplus was fattening at a \$100 million annual rate. By 1888, of the nation's total wealth, only three-quarters was in circulation, while the other 25 per cent lay dormant as Treasury surplus. So the next move was to use the cash to redeem bonds--until there were no more bonds to call, and the government went into the open market and drove up prices. By 1890, 4 per cent bonds of 1907 were selling around 123-130.

But while the bond retirement was effective in reducing the national debt, it failed as a means of putting money back into circulation.

COUNTERPRODUCTIVE. The bond-retirement gimmick backfired, because of the National Banking Act of 1863, a law still on the books more than 25 years later. It provided that banks could issue banknotes only if they were secured by government bonds. Now as the government drove up the price of its own bonds, the banks naturally sold its bond holdings to retire its notes at a profit. Thus instead of putting money back into circulation, the government was forcing it out.

The whole crazy situation had the inflationists seeing red, when their cause received new clout through the admission of six new states to the Union, all in the northwest and all pro-silver. That meant a lot of new Representatives in Congress, and especially 12 new Senators.

The Congress promptly passed the Sherman Silver Purchase Act of 1890, which ordered the Treasury to buy all of the country's silver production--4.5 million ounces a month--and pay for it all with paper: treasury notes. The notes in turn were redeemable in silver or gold.

The move was a time bomb.

(Next: Treasury on the Brink of Default)

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SILICON VALLEY
DECEMBER 13 1980

VALLEY AREA STARTUP IN EARLY '81

VLSI Tek Gets First Ten Million

Good Friends

COME TO PAPA. VLSI Technology, the Synertek spinout which has been looking for seed money for 16 months, yesterday signed a deal for its first \$10 million, and is off and running. The firm will decide within the next week on which of four sites it will begin manufacturing, one in the Valley, or one of three nearby. The down payment is only one-quarter of the \$40 million the firm was originally seeking, but the opening ante is not exactly chopped liver, especially since it derives from a classy consortium of a manufacturer and professional investors.

The systems house which is taking a position in VLSI is Evans & Sutherland Computer Corp. of Salt Lake City, makers of flight simulators who want to incorporate VLSI into their next product generation. This is a \$40-\$50 million company which has been growing at a 75 per cent annual rate.

The bankers include Kleiner, Perkins, Caulfield & Byers, and Hambrecht & Quist, both of San Francisco. Gene Kleiner of the former is one of the original eight founders of Fairchild, while H&K has been involved in many high-technology ventures, including taking Apple Computer public yesterday (12), and taking E&S public last summer.

Whether the next phase of VLSI Tek financing will involve a public offering is yet to be determined.

Part of the present money package is being derived from east coast sources, including Newport Securities, Benrock (Rockefeller) and Advanced Technology Ventures.

It has been a long pull for the VLSI Tek founders, president Jack Balletto, and v.p.s Dan Floyd and Gunnar Wetlesen. The firm's cash flow has derived from high-priced seminars, although the individuals have been comfortable from the sale of Synertek to Honeywell.

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NEW LEVEL ON THE SPIRAL? Advanced Micro Devices late yesterday afternoon (12) accepted "with regret" the resignation of Jeff Schlageter, who moves to Carrollton (Tx) to become dynamic memory products manager at Mostek.

Jeff's compensation package involves nearly a quarter-million in cash, plus other perks. He will remain on the AMD payroll for another 30 days before taking up his duties in Texas.

AMD has been aware for some weeks of Jeff's incipient move, but since the company has not exactly been a hot ticket in RAMs anyway, it was reluctant to get into a bidding war.

But with this move, plus a couple of \$50,000 facilities engineers moving recently for \$80,000, only the present softness of business is offsetting another price war in this talent-drought industry.

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THIS WAY TO THE EGRESS. The exiting of warm bodies continues at Intersil, all the direct result of conflicts with senior v.p. Jack Gifford, who is running out of stalwarts. Latest defectors are Tony Lantini, Ron Hammer and Tony Macaluso.

Lantini, former ROM product manager, and one of the imports from Signetics with Rich Forte, has left in favor of the systems business.

Marketeers Ron Hammer and Tony Macaluso have bagged it to get into the rep business, joining Ken Grossman, whose former partner, Jack Stauffer, has moved to Los Angeles for an opportunity in the light dimmer business. Also joining the group is Dave Haun, who has recently been with Elrepco, after his own Trident reppery was shot down by the loss of the Nippon Electric account (MN, May 24). Major account of the group is ITT Semiconductors.

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RAGTIME MARCHES ON. Yet another reppery is about to be born, a partnership of Jim Kennedy, ex-Raytheon, ex-VSI, and Mike Clark. Beginning January 1, they will be the Valley reps for Oki.

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WINSOME ONESUM? The second of the third founders of the Thresum reppery, Mike Feldman, is calling it a day as of the end of the year. All that remains of the original group is the prime mover, Dave Conrad.

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THE HONEYMOON IS OVER. Don Fullam, the distributor marketing manager at Motorola who was much fought over fifteen months ago (MN, Sept. 15 1979), finally succumbed and joined Harrison recently on Long Island. Then Mr. Moto decided to clean house of its marginal distribs, including Harrison, and Harrison thereupon cleaned house of Mr. Fullam.

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GEORGE ORWELL TIME. That fateful time, forecast decades ago in the novel "1984," is due to hit the Valley a few years hence. Intel, which announced long since that it will expand in that area no more, now has plans to have all manufacturing removed--with only R&D and administration remaining--by A.D. 1984.

NEIGHBORLY GESTURE. Exxon, which continues hell-bent on high-technology acquisitions and startups (including Zilog), may now have its eye on Memorex.

At least that's what present employees believe, as they stiff the blandishments of headhunters right and left.

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UNNEIGHBORLY GESTURE. National was caught red-handed Wednesday night (10), dumping 20,000 lb. of lime into the Santa Clara city sewer system over a nine-hour period. Nat is now a three-time repeater on this identical violation, and while the city has the power to shut the plant down, it is going to levy a stiff fine instead.

Companies using acids are supposed to neutrize the drainage from sinks, usually in a percolation pond, to a pH level of 7±1. In this case the effluent into San Francisco Bay was much higher.

National seems to be the last holdout from the days when Valley companies thought nothing of polluting air and water. As recently as the mid-'70s, Fairchild's Building 2 on Whisman Road was freely showering acid droplets all over the employee parking lots. If you wanted to work at Fairch in those days, getting your car finish ruined was a standard occupational hazard.

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LOOK DOWN, LOOK DOWN. The state of recession in this business continues grim, such that virtually nobody is now bullish about the first quarter of 1981. Holiday shutdowns are now planned just about industry-wide, with very little happening between December 22 and January 5.

Fairchild has quietly laid off 650 people worldwide, and is prepared for a 15 per cent rollback after the holidays. GTE in Arizona--at the same time it has opened a hybrid plant in Genoa (IL)--has dropped the third shift, and cut deeply into the ranks of the professionals. Intel has a 5-10-15 per cent layoff contingency plan ready to go, if conditions don't turn up early in the first quarter.

With interest rates now such that most companies can make more money as bankers than as manufacturers, the situation is drum-tight. One Bay Area semiconductor user is keeping parts inventories down to the two-week level.

If the screw-tightening is all due to trying to squeeze out a cleaner balance sheet for the year-end, then we should see orders turning back on soon after the holidays. But don't bet on it. My bet is that we shall again be witnessing--and living with--widespread layoffs before February rolls around.

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BUM RAP. The Defense Department has now gone public with the story of the QA corner-cutting at Fairchild during the esteemed regime of Wilf Corrigan, in which spot checks of hi-rel transistors were substituted for 100 per cent testing (MN, Nov. 15).

The Associated Press story this week said that parent Schlumberger "admitted" the crime, as if it were a confession of its own perfidy. The record should show that the screwup is directly traceable to the Corrigan management, and in no way is Schlum culpable. It was merely the Persian messenger, the bearer of the bad tidings of what it inherited, and it first brought to light what it discovered, not the government.

DEAR SIR, YOU CUR. GCA president Milt Greenberg has received a letter from Precision Monolithics president Earl Rogers, which just might not have made his day. The text follows:

SUBJECT: GCA/David Mann 9400 Digitizing System

It has been brought to my attention that subject system is being discontinued without regard for your customers, who together have invested \$ Millions in its purchase. I further understand that this decision has been "dictated by GCA Corporate."

We are totally dependent on this system, and purchased it with the assurance of continued service support, backed by the reputation of a NYSE company.

This situation can only be interpreted as an indication of what we might be faced with if we were to purchase other equipment from GCA. Therefore, I have instructed our process engineering and purchasing people to remove all GCA divisions, subsidiaries and affiliates from consideration for any new equipment purchases. This decision can only be reversed by your personal assurance that our 9400 and any other GCA equipment we may purchase will be serviced by GCA throughout its useful life.

Earl has papered a large portion of the western half of the United States with copies of this blackball.

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POINT OF VIEW. A group calling itself Advanced Associates, in Richardson (Tx), has issued a monograph titled "VLSI and the Rising Sun."

Among its conclusions:

"The charges of the U.S. semiconductor industry against the Japs appear to be largely true. Their fear of this fierce competitor and their denouncement of the Jap trade practices is quite understandable. However, they must realize that Japan is *not* a free economy; it is a highly planned economy. And the Japs want it that way. The government will have about as much success negotiating the Japs into our way of doing business as they would in converting a Buddhist to a Christian."

This telling it like it is, is in sharp contrast to the recent Bank of America report, "The Japanese Semiconductor Industry: 1980." Prepared by BA Asia Ltd., this one reads like a tract for the Tokyo Chamber of Commerce.

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AH SO. The recent TV series based on the novel, "Shogun," has been shown in Japan to a lukewarm response, but it did evoke this comment from an official of the foreign ministry:

"Sure, we may regard the scenes of bloodshed and brutality as a bit exaggerated, but 'Shogun' can be the start of a learning process for millions of Americans, as they find out Japan is not a 'transistor salesman'..."

Glad to hear it.

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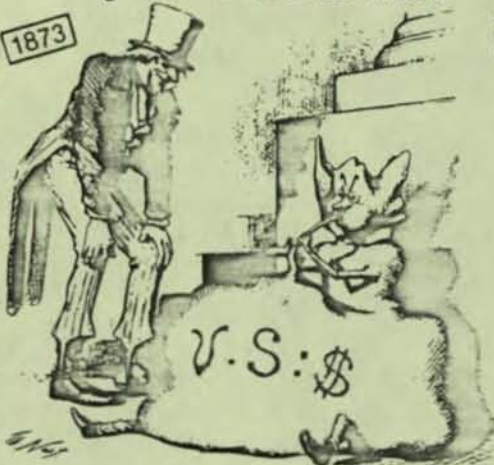
DIAMOND DUST. Which brings us quite naturally to a parting thought from Oakland A's manager Billy Martin: "It doesn't matter if you win or lose--until you lose."

Don't.

MANAGER'S CASEBOOK by Don C. Hoefler

CASE No. 576-1 SUBJECT: DEATH, TAXES AND INFLATION (PART 1)

FREE ENTERPRISE By DON HOEFLER



BY INFLATION YOU WILL BURST!
Uncle Sam: "You stupid Money-Bag. There is just so much money in you; and you cannot make it more by blowing yourself up!"

HISTORY LESSON. The drawing at left, published more than a century ago by our first great political cartoonist, Thomas Nast, is a benign reminder that this country has passed this way before. The bad news is that it took 30 years to do it.

While it is instructive to examine how our great-grandfathers worked their way out of it last time, we should realize that although there are some parallels, there are also some marked differences.

Both situations were largely the legacies of the deficit financing of wars: the Civil War then, and World War II, Korea and Vietnam now. But the nation was then on the gold standard, with a backup of a newly-found hoard of silver. And in those days there was a highly vocal minority who were openly advocating more inflation; if such a group exists today, they are quietly keeping their profile way down in the noise level. There was no income tax: the major source of income was tariffs. The federal budget, rather than multi-billions, was a few hundred million.

And while one of Ronnie Reagan's first official acts will be to raise the ceiling on the national debt from \$925 billion to \$1 trillion, there was a surplus in those days, and the biggest argument

was how to spend it.

THIRTY YEARS WAR. The period 1866-1896 was a classic case for the monetarists, who still maintain that there is one cause of inflation, pure and simple: the overexpansion of the money supply which forces up the price level.

But in the last half of the nineteenth century, there was a group who wanted precisely that to happen. These were primarily the midwestern farmers who saw an increase in the money supply as an easy way to higher prices for their crops. Arrayed against them were the merchants, manufacturers and bankers of the East, who argued for "sound money," to support a more stable system of commerce, both internationally and domestically.

The inflationists got first blood money during the Civil War, which was financed largely by floating paper called "legal tender notes," later popularly known as "greenbacks." Since the war between the states was expected to be over quickly, the hope was that the greenback bulge would be easily absorbed. But before the dust settled, more than \$400 million in greenbacks had been issued--considerably in excess of the gross national income in those days--and the currency in circulation was up by nearly an additional two-thirds.

Since the issuance of the greenbacks had been a wartime emergency measure, it was planned that they would be redeemed after the conflict as rapidly as the federal budget would permit.

(OVER)

LESS IS MORE. The recession of 1866-67 played right into the hands of the "more money" lobby, who were able to badger the Congress into abandoning the plan to retire the greenbacks. Thus for years to come, some \$346-\$382 million of the original \$400 million issue was to remain in circulation.

Flushed with that victory, the greenbackers pushed for the issuance of still more legal tender notes, which got through Congress but was killed by a gutsy veto of President Grant in 1874.

While the outflow of gold for redemption of greenbacks had been stopped, the other means of financing the Civil War had been war bonds, and these bore the promise of exchange for gold. But most of the bondholders were eastern banks and overseas investors, a fact which stuck fast in the farmer's craws. For they were still doing business in an inflated paper currency which was worth only 68-71 cents toward a dollar in gold.

The farmer began to feel that he was playing with a short deck, and leaped on a loophole in the provision for redemption of the war bonds, which called for payment of the interest in gold, but equivocated about the principal. It was generally accepted at the time of sale, however, that the entire paper was good as gold. But the inflationists tried to get a law passed that the bonds would be redeemed in paper currency.

But one of the campaign promises of U.S. Grant was redemption in gold of both principal and interest, and the promise became an Act of Congress on March 18 1869. To the inflationists, this was a sell-out to the banks, industrialists and sinister foreign interests, against the farmer and the workingman. So they formed their own political party, the National ("Greenback") Party.

LOSING IS WINNING. The Greenback Party opposed payment of obligations in specie, advocated elimination of bank notes, and while it wanted the issuance of more greenbacks, their export would be prohibited, as would the sale of gold bonds in foreign markets.

The Greenback Party won more than a million votes in 1878, but elected no Congressmen and was soon dissolved. Nonetheless, the tide was moving in the inflationists' direction.

The power shift in 1874 from Republican to Democrat caused the lame-duck Republican Congress to pass the Resumption Act, which provided that on January 1 1879 the U.S. Treasury should "redeem in coin the U.S. legal tender notes then outstanding." While this seemed a blow for the inflationists, they got the law gaffed such that the greenbacks thus redeemed were not retired, but were to be reissued right back into the money supply.

The inflationists seemed exceedingly adroit in the fine art of turning lemons into lemonade. But the thirty years war was less than half over, and still getting up to speed.

The next sound-money warrior was Secretary of the Treasury John Sherman, brother of Gen. William Tecumseh Sherman, the Civil War hero. John, three years younger than William, was quite a scrapper himself. He resisted public clamor for repudiation of the Resumption Act, and began stockpiling gold.

And then a new precious metal appeared on the scene, the result of the discovery of the Comstock Lode of silver in Nevada.

(Next: Inflation from Greenbacks to Silver)

Don C. Hoefler's



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Don C. Hoefler's
MICROELECTRONICS NEWS

with Manager's Casebook



BOX 239, PACIFIC GROVE, CALIFORNIA 93950 • TELEPHONE 408-625-4090

SILICON VALLEY
DECEMBER 6 1980

HAVE A HAPPY HOLIDAY

And Don't Hurry Back

RECEIVED

DEC 8

Good Friends

BURN THE YULE LOG AT BOTH ENDS. It's unpaid Christmas leave time again, a sure sign of market softening in the semiconductor industry. Although the flacks are telling the gullible media that the problem is perennial high absenteeism and low productivity, the true cause is high inventories and low sales. With book-to-bill ratios well below unity and still falling, virtually every company in the industry is taking a no-pay breather over Christmas and New Years. The sole major exception (which may simply be dragging its feet in making an announcement) is Motorola.

Among those shutting down are Texas Instruments (at Dallas, Austin and Sherman, plus probably Houston), National, Signetics, Advanced Micro Devices, Synertek, Intersil, and probably Intel and possibly Fairchild.

INSTANT REPLAY. The current situation looks more and more like a playback of the 1973-75 recession, which also began with a presidential election. The mainframers are not buying and the minicomputer guys--especially in southern California--are beginning to lay off. Interest rates and stock prices are gyrating wildly. The automobile industry is again in disarray. Already companies have been quietly trimming deadwood.

ANOTHER CRAPPY NEW YEAR? There are signs that companies are once again tuning up for major layoffs, ones that will cut to the quick, ignoring the advice of "Manager's Casebook" No. 561. But this time there could be one major difference.

The unions are spoiling for a fight, and just waiting for the manufacturers to give them an issue. The year 1981 could be the start of the domino game.

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Deepest condolences to the survivors of the casualties of the Arrow flash fire.

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FREE AGENT. While General Electric proceeds toward its acquisition of Intersil, it has also picked up a g.m. to head its east coast semiconductor operations at Research Triangle Park in North Carolina.

Headed north from Florida is Jim Dykes, who last year replaced Don Sorchych as v.p.-g.m. at Harris Semiconductor.

It looks like GM expects to be in the semi big leagues, for it reportedly paid Jim a signing bonus of \$500,000.

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MEANWHILE, ON THE OTHER COAST. Matters inside Intersil are getting no better in a hurry. Jack Gifford's reorganization (MN, October 4) is beginning to draw blood. His protege, production-control head Jim Krehbiel, now has all of the operating groups in an uproar and at each other's throats.

The QA group, once one of the best in the business under Dick Staffieri, has become a shambles since his departure.

And the long-standing fued between Captain Jack and marketing-sales v.p. Ed Turney (Gifford has stated on many occasions that Eddie is one of his targets) had another imbroglio during the recent national sales meeting in Hawaii. Gifford didn't like the dinner table that Ed had arranged for him, and complained loudly and publicly.

After the meeting, Jack returned to Cupertino, while Ed remained on the island for some R&R. In his absence, an Intersil guard was seen rummaging through his desk, leading to rumors inside the company that he had been sandbagged. Not so--yet. But if the time comes when Turney is required to report to Gifford--that's all she wrote.

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MONEY FROM HOME. Four former key employees and stockholders of Hugle Industries have four-figure checks waiting for them, but Mr. Keene, Tracer of Lost Persons, has been unable to determine their present whereabouts.

The missing payees are: Jim Kennedy, last known at Varian; Don (Bill) Wilson, former R&D v.p. at NCR in Dayton; Billie Wilson, last known at Applied Technology; and Dr. Ken Cummings, whereabouts unknown.

If you know any of these guys and gal at present, have them get in touch with Bill Burns at Caldwell Mortgage Co. in Los Angeles, for a special Christmas surprise.

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THE TEN-GALLON-HAT BOYS RIDE AGAIN. Texas Instruments is returning to the Valley again next week, for its third talent raid within the year. Once again the raiders will be headquartered at the Marriott in Santa Clara, but unlike the media blitz of the last two shots, this one will use a rifle approach.

The company has engaged an outside headhunter, who rides into town armed with inter-office telephone books. Among the company listings he is known to be carrying are National, Advanced Micro Devices, Signetics and Intersil.

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THE YAHOO'S STRIKE AGAIN. Plans of Advanced Micro Devices for a south-county campus (MN, Sept. 6) have struck a snag, and as a result garlic may remain the area's sole export.

Despite the fact that the town council voted 5-2 in favor of the project, and minority groups are anxiously awaiting the new job opportunities, some local redneck is challenging the annexation of the property to the city, claiming that there is plenty of industrial land available within the present city limits. He is circulating a petition for a referendum, which likely will put the project on hold for two years, and could kill it entirely.

AMD is determined to maintain schedule, and v.p. George Scalise has at least three alternate sites ready to go.

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NATIONAL WAR COLLEGE. The guy who is leading the Iranian army in its war against Iraq is a 26-year-old engineer, who until a year ago was employed at National Semiconductor.

Now known as the General of the Army on the Western Front is Ahmed Nobari.

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DRAFT DEFERRED. John Marck, a computer specialist at Signetics, got himself into an army stockade in France on a recent business trip, charged with desertion (he is still a French citizen). It took some political string-pulling by the parent Philips research and technical center in France to get John bailed out and shipped stateside.

Some of his underlings would have been happy to see John stay in the brig, as they say he appropriates the work of his best people, passes the buck for foul-ups, and generally is a political survivor.

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UNDER THE TABLE. No more stock options at Fairchild? Well, none you can see, anyway. But the company has been quietly qualifying key people it wants to keep, and handing them large chunks of Schlumberger stock upon signing of an employment contract.

The practice is highly selective, however, not company-wide, with the injunction, "Here's your deal and keep your mouth shut." But it has enabled Fairch to keep the people it wants to keep. The deals are so generous as to make them untouchable.

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REVOLVING DOOR. It's still a high turnover industry, especially in MOS these days, as Signetics has had five g.m.s of its MOS microprocessor division in four years, and National has lost four MOS operations managers in the last two months, two of them to Siggie.

John Meyer has left Nat to become Sig's microcomputer division g.m., replacing Roger Badertscher, now v.p. of Atari's new consumer computer division.

Nat Hindorf has left Nat to run MOS memories at Sig. Eric McLeod is on his way from Nat to Intel in Phoenix, and there is still a fourth defector who I have not been able to identify.

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TOO LITTLE, TOO LATE. Signetics is readying a 16-bit microprocessor to be called FAST, an acronym for "Fontenay Apeldoorn Signetics Technology." What did he say? That's right, but you'll have to follow this closely.

Fontenay is a small town in France, whence come three of the engineers on the project. Apeldoorn is a smaller hamlet in Holland, source of three more of the engineers. Three more are Americans, the product of "Signetics technology."

Two questions immediately come to mind: 1. Can these small-town boys deliver a product that can compete in the big leagues? 2. Who needs yet another 16-bit uproc at this stage of the game?

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THE MAN WHO WASN'T THERE. California's exquisitely unpredictable Governor Moonbeam was scheduled to address the Executive Planning Conference of the Semiconductor Industry Association with a speech redundantly titled, "Shaping Industrial Policy for Industries of the Future."

But the gov failed to show, with no notice or apology. Adman Regis McKenna, who preceeded him, just kept talking to fill the gap.

Maybe next time Jerry will phone it in, like the hack actor he is.

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END RUN. Headhunters are being stiffed these days, by employers who are quite ready to resort to chicanery to avoid paying their healthy fees. Among those who have ruled out headhunter fees is Tom Longo at Fairchild R&D.

One of his managers complied with the edict by hiring a man he wanted on a futures basis. The prospective employee was asked if he could wait 90 days to come aboard, which just happened to be the period that the engineer was under exclusive contract to the headhunter.

PS: The engineer got the job; the headhunter didn't get the fee.

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LITTLE GREEN MEN? Tom Longo at Fairchild R&D is spending like a drunken sailor to raid PhDs out of SRI International. All of these guys are specialists in artificial intelligence.

Can the debut of the Schlumberger robots be far behind?

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WELCOME BACK, MOE. Maurice O'Shea, who fell into disfavor with the Nippon Electric nippers at Electronic Arrays, and has been beached for several months, landed on his feet this week. He is now at Zilog, heading microprocessor and memory engineering.

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POINT OF NO RETURN. John Hulme, longtime v.p. and technical director at Siliconix, has been on leave for surgery, and will not be returning. He is very circumspect about his reasons for leaving, but it looks to me like he is looking for someplace with a little more excitement.

And maybe he also has had his problems with operations v.p. Harold Molyneux, who certainly has the QA people upset these days.

Don L.

MANAGER'S CASEBOOK by Don C. Hoefler

CASE No. 575 SUBJECT: REINDUSTRIALIZE OR CONTRARIWISE?

FREE ENTERPRISE

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ALL RIGHT, YOU GUYS:
REINDUSTRIALIZE!

SIX MONTHS AGO, one Amitai Etzioni, senior adviser to a United States President who was trying to curry favor with business in his bid for reelection, came up with a new buzzword, "re-industrialization,"

The neologism was to be the new battle cry of a triumvirate comprising business, labor and government, which according to former Assistant Secretary of Commerce Frank Weil would "identify problems, articulate national goals, and specify ways to realize those goals."

In August, President Carter announced the formation of an Economic Revitalization Board, comprising members from those three groups, who would draw up a "long-range program" of industrial renewal, to be executed by an "industrial development authority."

REACTIONS COVERED THE SPECTRUM from extremely positive to extremely negative, with a lot of ho-hums in the middle. Some thought it was the resurrection of the New Deal, while others thought it was our last hope. Still others thought it was mere sloganeering, with no more force and effect than John F. Kennedy's "let's get this country going again," or Jerry Ford's "whip inflation now."

NEW YORK BANKER John Battalana put it down as "just the latest expressions of the many philosophic and economic errors that have existed in a host of countries since the Industrial Revolution."

But the head of one of the world's largest companies said, "The concept excites me." Irving Shapiro, chairman and c.e.o. of du Pont, added, "The ERB has the potential for creating a major change in the relationship of government, industry and labor; of getting the adversary quality out of the relationship."

Opponents believe that "reindustrialization" is a code word for "corporatism," which is freely translated to "socialism," which everyone knows is the first cousin of "communism." To Austrian economist Ludwig von Mises, it is the "crisis of interventionism."

Even if you take "reindustrialization" to be the equivalent of "socialism," you can prove anything you want with it. In the United Kingdom it was something less than a smash hit, while in Japan it has served to pound U.S. industry like a slab of abalone (notwithstanding economist Milton Friedman's fantasy that the relationship of the Japanese government to its industry is *laissez faire*).

Although Battalana grants that, following the present trend, there will be selective benefits from accelerated depreciation, tax credits, startup deductions, and employer social security tax credit, the whole bag "will not abate the decline in productivity of those individuals and businesses staggering under the weight of continued inflation induced by a budget deficit."

(OVER)

LORD KNOWS, we have a problem or six. Despite wars and recessions, average industrial productivity in the U.S. once grew steadily at 3 per cent a year. Then beginning in the last decade, it nearly halved to 1.8 per cent. In 1979 it went negative.

Beginning a decade earlier, capital investment for new plant and equipment as a percentage of gross national product was the lowest in the U.S. of anywhere in the world.

As a result, the average age of U.S. factories is 20 years, against 12 years in West Germany and 10 years in Japan. Now aren't you glad we clobbered those two to "win" World War II?

Our R&D expenditures peaked at 3 per cent of output just before the 1964 recession, and have been dropping steadily ever since. In Germany and Japan, they have been increasing just as steadily.

Forty per cent of the patents issued in the United States are filed by overseas inventors, against 20 percent in the 1950s.

We were all raised in a country which had a worldwide trade surplus which would never end. Only in 1970 it did, such that by 1978 our deficit with Japan alone was \$13.5 billion. And that deficit is qualitative as well as quantitative.

For while more than 50 per cent of our exports to Japan are such staples as food, fuel and raw materials, nearly 70 per cent of our imports are high-technology finished goods.

Freighters sail from our west coast ports loaded with fruit and timber, returning loaded with semiconductors, cameras, automobiles, calculators, TV sets and video cassette recorders. Even big names such as RCA are private-labelled in Japan.

WE COMPLAIN about the narrow Japanese profit margins against which our companies must compete. But does anyone ever turn the coin over to say that it is our margins which are too high?

We complain that the Japanese can sustain losses for years as they patiently pursue their long-range goals. But does anyone ever complain that that it is the short-term and shortsighted demands of U.S. stockholders that force managers to live from day to day and crisis to crisis?

THE TIME HAS COME when we must realize that we can no longer rely on the belief that we are naturally superior economically, productively, inventively, militarily and intellectually. If such a condition ever was our birthright, it was achieved by our forefathers by plain damn hard work, and we have blown it.

No longer can we afford to strut around as the world's big shot. We have won war after war, and lost the peace time after time. And then we ran into Vietnam, which we not only lost, but the flimflam financing of which has brought us catastrophic inflation and an economy on the brink of disaster.

None of that history can be relived, but we must accept the fact that we can no longer be the world's policeman, provider and bank.

What has to be done must be done on our own. None of our former beneficiaries will now be our benefactors. We are far past the point of no return.

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