



FEDERAL ELECTION COMMISSION
WASHINGTON DC 20463

June 3, 1992

Reed F. Bilbray
Assistant Treasurer
Pilzer for Congress
750 N. St. Paul
Suite 1100
Dallas, Texas 75201

Dear Mr. Bilbray:

This refers to your letter dated May 21, 1992, to Mr. Andrew Zehe of the Commission's Reports Analysis Division. In that letter, you ask for "reaffirmation" of a proposal by your committee, Pilzer for Congress ("the Committee"), to pay for debt owed to the candidate.

The Committee was the principal campaign committee of Paul Zane Pilzer for election to Congress from the Third District of Texas in the 1991 special elections. ZCI, Inc. is a corporation 100 percent owned by Mr. Pilzer which has a staff of people dedicated to promoting and managing Mr. Pilzer as a speaker and author. You state that ZCI regularly sells such products as books and tapes written by Mr. Pilzer at fair market rates to both the public and to third-party vendors for resale.

You state that, in order to pay off its debt owed to Mr. Pilzer, the Committee wants to sell certain products to ZCI. These items are books written by Mr. Pilzer and audiotapes and videotapes of his speeches. ZCI will purchase these items from the Committee at prices equal to or below the price the company resells them to third parties.

No opinion of an advisory nature may be issued by the Commission or any of its employees except in accordance with the advisory opinion procedures set out in Commission regulations at 11 CFR Part 112 (enclosed). 11 CFR 112.4(f). The Act authorizes the Commission to issue an advisory opinion in response to a "complete written request" from any person with respect to a specific transaction or activity by the requesting person. 2 U.S.C. §437f(a). The request must concern a specific transaction or activity that "the requesting person plans to undertake or is presently undertaking and intends to undertake in the future." 11 CFR 112.1(b). The regulations also explain that such a request "shall include a complete description of all facts relevant

to the specific transaction or activity with respect to which the request is made." 11 CFR 112.1(c).

In view of the cited requirements, you may decide to submit a description of your proposal in the form of an advisory opinion request to the Commission. Because such a proposal requires a complete description of the relevant facts, you will need to provide responses to the following questions:

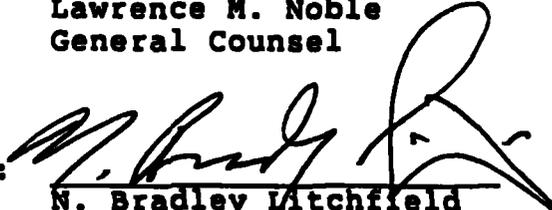
- (1) Please state how and on what basis the Committee first acquired the products. Your answer should include, but not be limited to:
 - (a) from whom the products were acquired;
 - (b) the rate paid for the products, e.g., usual and normal retail charge or usual and normal charge for a vendor that would resell to third parties;
 - (c) whether the products were purchased in certain bulk amounts at the outset of or at a certain point in the campaign, as opposed to being purchased by the Committee as needed;
 - (d) whether the seller of the products and the Committee made any arrangements for the disposition of the products that were not sold or used by the campaign (e.g., a buy-back arrangement) and a full description of those arrangements; and
 - (e) any other arrangements between the seller and the Committee.
- (2) Please describe these products more fully. For example, state whether they contain campaign speeches by Mr. Pilzer, whether they contain non-campaign speeches by Mr. Pilzer on public issues, whether they are typical of the products that ZCI normally sells, etc.
- (3) State whether these books and tapes were obtained specifically for distribution by the campaign, or for sale by the campaign in order to raise campaign funds. Describe the campaign's initial plans (i.e., the intended uses prior to this proposal), if there were any, for the sale of these products or for other use of these products.
- (4) If any of these products were produced by the campaign itself, state whether ZCI facilities were used and whether the ZCI was reimbursed fully for such use. If such reimbursement did not occur, please explain the reason.

Letter to Reed F. Bilbray
Page 3

For your information, we have enclosed Advisory Opinion 1989-4. Upon receiving your responses to the above questions, this Office and the Commission will give further consideration to your inquiry as an advisory opinion request. If you have any questions concerning the advisory opinion process or this letter, please contact the undersigned.

Lawrence M. Noble
General Counsel

BY:


N. Bradley Hitchfield
Associate General Counsel

Enclosures

**Pilzer for
Congress**

750 N. St Paul
Suite 1110
Dallas, Texas 75201
214-880-0102
FAX 214-969-7273

June 9, 1992

Mr. N. Bradley Litchfield
Associate General Counsel
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

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FEDERAL ELECTION COMMISSION
92 JUN 15 PM 3:29

AOR 1992 - 24

RE: Advisory Opinion Request

Dear Mr. Litchfield:

Thank you for your letter of June 3, 1992 outlining the steps for Pilzer for Congress to obtain an Advisory Opinion.

We hereby respectfully request that the Commission review these requests and issue an Advisory Opinion(s).

This letter will outline the facts and answer the questions raised in your letter.

The following three parties are involved in the proposed business activities.

1) Pilzer for Congress ("PFC")

PFC is a Texas Not-For-Profit Corporation formed on March 26, 1991 for the express purpose of electing Mr. Paul Zane Pilzer to the U. S. House of Representatives, Texas Third District. Mr. Pilzer is a Director of PFC. PFC owes Mr. Pilzer \$395,000 for loans he made to PFC during the campaign. PFC desires to settle its debts and close operations.

2) ZCI, Inc. ("ZCI")

ZCI is a Texas Corporation formed on September 14, 1989 for the primary purpose of supporting, promoting, managing, and selling Mr. Pilzer's research, writings, and speeches. Mr. Pilzer is the 100% owner, Chairman, and President of ZCI.

3) **Paul Zane Pilzer ("Pilzer")**

Mr. Pilzer is an active businessman, author, speaker and professor who became a candidate for the U. S. House of Representatives, Texas Third District, on or about March 25, 1991. The race concluded with Mr. Pilzer's defeat on May 4, 1991 leaving PFC with a current debt of \$395,000. Mr. Pilzer loaned PFC these funds from his personal funds. Mr. Pilzer does not have any current plans to seek elective public office. He does desire to assist PFC in settling its debts.

The following is a list of the products involved in the proposed business activities. Samples are enclosed for your review.

- 1) ***Unlimited Wealth Soundview Audiotape ("Soundview Tape")***
Copyright 1991 by ZCI, Inc., Published by Crown Publishing
Cassette Format, 60 minutes

Mr. Pilzer personally outlines the six laws of Economic Alchemy as presented in his book, *Unlimited Wealth*.

- 2) ***Unlimited Wealth Interview Audiotape ("Audiotape")***
Copyright August 1991 by Robbins Research International, Inc.
Cassette Format, 60 minutes

Mr. Pilzer is interviewed by Tony Robbins, an international best-selling author and speaker on personal development and motivation. In this tape, Mr. Pilzer enthusiastically provides numerous examples of how the six laws of economic alchemy and rapid technological change are affecting us today.

- 3) ***Unlimited Wealth Videotape Speech ("Videotape")***
Copyright January 1992 by ZCI, Inc.
VHS Format, 90 minutes

Mr. Pilzer delivers a dynamic speech on his Theory of Economic Alchemy with numerous real life examples. One can clearly see and understand how important it is to understand these seemingly obvious points to be successful today.

- 4) ***Unlimited Wealth Book ("Book")***
Copyright 1991 by ZCI, Inc., Published by Crown Publishing
Hardcover, 256 pages

Mr. Pilzer wrote this ground-breaking, widely acclaimed book which highlights some of his work on how our economy is rapidly changing and expanding due to technology. The key to achieving wealth lies in the distribution rather than the accumulation of goods and resources.

5) Various Products Under Development
All copyrighted by ZCI, Inc., To be published by ZCI and/or others

Mr. Pilzer and ZCI actively work together on new products based on Mr. Pilzer's work in *Unlimited Wealth*. These include but are not limited to a new book, a "home study" program, and various audio and video tapes.

The above listed products are typical products produced and sold by ZCI. They were not produced by, for, or as a result of the campaign, do not contain any campaign items or propaganda, and were produced either before or after the campaign with no intention of them being used for campaign purposes.

As Mr. Pilzer's Theory of Economic Alchemy deals with the technological changes our economy and society face, the manner in which people and institutions (companies, governments, associations, etc.) work together, and the challenges they face in successfully addressing these changes, the material does discuss Mr. Pilzer's opinions on such public issues as unemployment, immigration, deficits, education, etc.

There are basically three types of business activities PFC specifically desires to conduct. The sole purpose of pursuing these activities is for PFC to generate sufficient income to cover its operating expenses and to retire its debts. All three activities involve to various degrees transactions with ZCI and Mr. Pilzer.

Transaction #1 - Sale of PFC Assets to ZCI for Resale to Third Parties

Background:

PFC ordered 10,000 Books from Crown Publishing on March 27, 1991. Total cost including shipping was \$20,768.00 or \$2.08 per book (see attached invoice). The bill was paid in full by PFC on May 20, 1991. The cost was the standard, fair market value price (see attached letter from the publisher dated April 19, 1991).

The Books were acquired by PFC for the sole purpose of distributing them to anyone interested in reading about some of Mr. Pilzer's thoughts and ideas.

A majority of the Books were distributed during the campaign. PFC has been storing the remaining Books in a third-party rented warehouse in Dallas, TX. Until now, there has not been a plan on how PFC would dispose of the remaining Books.

Transaction Request:

ZCI has opportunities to sell these remaining Books to third parties who request one. Market price for a single Book is the regular price of \$19.95. When bundled with other products (such as a tape) or

when purchased in larger quantities, discounts of 5-75% are typically given.

PFC desires to sell the remaining Books to ZCI at a price equal to or below the price ZCI resells them at fair market rates to third parties. Under no circumstances will the sales price be below the original purchase price of \$2.08 per book, or above the \$19.95 regular price. Thus there will not be even the potential appearance that PFC is receiving revenue at other than non-third party fair market rates for the Books.

All revenue will be used first to pay any PFC operating expenses and then to pay down its debts.

Transaction #2 - PFC retaining Mr. Pilzer to Speak to Third Parties

Background:

Mr. Pilzer regularly speaks to third parties for fees of \$5,000+ plus expenses which are typically negotiated through a third-party speaking bureau. He also often speaks for a reduced fee or at no cost to third-party organizations and charities that he personally supports, some of which typically charge fees for attending Mr. Pilzer's speeches.

The speaking topic is usually closely related to his latest book, *Unlimited Wealth*.

Transaction Request:

Mr. Pilzer has offered his speaking services to PFC at a reduced or no cost other than reimbursement for any out-of-pocket expenses.

PFC desires to offer Mr. Pilzer's speaking services to third parties at whatever fee it can negotiate.

All revenue will be used first to pay any PFC operating expenses and then to pay down its debts.

Transaction #3 - Purchase of ZCI Products for Resale to Third Parties

Background:

As highlighted earlier in this letter, ZCI regularly produces and sells products (typically tapes and books) related to *Unlimited Wealth*. ZCI also purchases products at wholesale prices from third parties such as Crown Publishers and resells them at market prices.

At Mr. Pilzer's speeches, by direct solicitation, and through indirect means (such as referrals or from someone seeing Mr. Pilzer being

Letter to Mr. N. Bradley Litchfield

June 9, 1992

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interviewed on television), ZCI frequently sells Books, Soundview Tapes, Audiotapes and Videotapes. At speeches, for example, sales are often made either to the event sponsor (for sale or distribution to attendees) or to individual event attendees.

Market prices for a particular items are at the following regular prices. See the attached sample Speaker Biography with a Product Order Form on the back.

Book	\$19.95
Soundview Tape	\$14.95
Audiotape	\$14.95
Videotape	\$59.95

When bundled with other products (such as a tape) or when purchased in larger quantities, discounts of 5-75% are typically given.

Transaction Request

PFC desires to purchase from ZCI at or above ZCI's cost Books, Soundview Tapes, Audiotapes, Videotapes, and any other future products. PFC also desires to purchase at wholesale prices from third parties such as Crown Publishers various products

PFC would then sell these products, particularly at events where it has booked Mr. Pilzer to speak. Product sale prices would be at normal retail prices and never different than the third-party established price for identical products.

All revenue will be used first to pay any PFC operating expenses and then to pay down its debts.

Thank you for agreeing to review these proposed activities for the issuance of an Advisory Opinion. We think that you will find our request to be within the guidelines of the current FEC regulations. However, since our desire is to only generate sufficient funds to repay PFC's debts and then close operations, we would appreciate any comments on altering the proposed transactions if you find that one or more do not fully meet the regulations.

Please call me at 214-880-0102 if you have any questions.

Very truly yours,



**Reed F. Bilbray
Assistant Treasurer**

Enclosures

CROWN PUBLISHERS Inc.

April 19, 1991

Reed F. Bilbray
Pilzer for Congress
6991 Forestglade
Dallas, TX 75230

Dear Mr. Bilbray:

It is normal industry practice in the book publishing business for a publisher to sell bulk quantities of a specific title to the author of that title at a favorable price, provided the author agrees to certain restrictions, including, usually, that the book is not to be resold through the normal book distribution channels, and that the author will receive no royalties on those copies purchased by him.

The sale by Crown Publishers Inc. of 10,000 copies of UNLIMITED WEALTH to its author, Paul Pilzer of ZCI Inc., is similar to many such sales of books to their authors, who are almost all non-candidates, in the ordinary course of our business. Mr. Pilzer would not be entitled to a royalty on these copies if he were not a candidate. This is a standard author accommodation.

Very truly yours,



James O'Shea Wade
Executive Editor
Vice President



ALFRED A

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COPIES FOR PAUL ZANE PILZER 7009 ORCHARD LANE DALLAS TX 75230				232		PAUL ZANE PILZER 7009 ORCHARD LANE DALLAS TX 75230		

TERMS: NO ANTICIPATION ALLOWED. SEND CHECK TO: P.O. BOX 630570 BALTIMORE, MARYLAND 21263-0570

1% by 4-10, net 30

PURCHASE ORDER NO.	ORIGINAL INVOICE NO.	TITLE DESCRIPTION	ISBN CODE	QUAN.	PRICE	DISC.	NET AMOUNT
		UNLTD WEALTH: ECO ALCH5	17582112	10000	190	NET	1900000
					10000	52 CTNS	
					2000	52 CTNS	
					3000	52 CTNS	
					4000	52 CTNS	
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					10000	52 CTNS	
					11000	52 CTNS	
					12000	52 CTNS	
					13000	43 CTNS	
TOTAL 10000 CTNS							

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SHIPPED VIA SSAI	C	B/L NO 1080237	SALES TAX
NO LI 1007	NO CTNS 15630	LOOSE P P	CTN P P
RETAIL VALUE 19,000.00	SHIPPING LOSS PROMOTION (SEAL) 13 pallets	TRANSPORTATION 20,768.00	
TOTAL AMOUNT DUE \$		20,768.00	

OK per [Signature]

ANY RESELLER IS FREE TO CHARGE WHATEVER PRICE IT WISHES FOR BOOKS PURCHASED FROM RANDOM HOUSE.

~~CONFIDENTIAL~~

3-27-91

Pay 4/25

CHECK REQUEST FORM

Payee: Random House, Inc

Amount: \$ 20,768.00

Purpose: 10,000 books - Unlimited Wealth

Submitted by: [Signature]

Approved by: [Signature]

980

Invoice Must Accompany This Form

-----Office Use Only-----

Check Number: 436 Date: 5/20/91

Amount: \$ 20,768.00

Check Issued By: [Signature]

SPEAKER BIOGRAPHY

Although his immigrant father never finished high school, Paul Zane Pilzer earned his college degree in three years when he was 19. He earned his MBA from Wharton Graduate Business School in 15 months when he was 22, and was appointed an Assistant Professor at New York University when he was 24

Pilzer became the youngest officer at Citibank at age 22 and their youngest Vice President at age 25. While at Citibank, he started several entrepreneurial businesses and earned his first \$1 million before he was 26

Today, he's the author of two national best-selling books, a Contributing Editor of two economic journals, an Adjunct Professor at NYU, and the Managing Partner of a \$300 million real estate and information company. Pilzer is a frequent lecturer around the globe and his works have been published in Japan, Taiwan, and the Russian Republic

In 1985, Pilzer testified before the U S Congress, warning that the S & L problem would grow to a \$200 billion disaster Congress didn't listen and in 1989 he wrote *Other People's Money* (Simon & Schuster, 1989) which was critically acclaimed by *The New York Times*, *The Economist* magazine, and Nobel prize winner John Kenneth Galbraith

In 1991 he wrote *Unlimited Wealth* (Crown Publishers, 1991) which explains how technological change is the driving force behind our economy, and why we are at the beginning of a period of economic expansion of unprecedented proportions

Unlimited Wealth has been praised throughout the nation by leading publications and businesspeople. Sam Walton, the founder of Wal-Mart, says that he is "amazed at Pilzer's business capacity" and his "ability to put it into laymen's terms."

Pilzer was an appointed economic advisor to both the Reagan and Bush Administrations and has been a candidate for the U S Congress. He is a regular commentator on CNN, National Public Radio's "Marketplace," and the *Larry King Live!* television program.



" he challenges us to scrap not only the way we think about our daily affairs but the way we prepare ourselves for the future "

Newark Star-Ledger, February 19, 1991

"Pilzer's arguments are refreshingly unrooted in any single ideological camp "

Washington Monthly, February 1991

" Pilzer has become quite famous for his book on economic alchemy which I highly recommend "

Anthony Robbins, Awaken the Giant, 1992

" a sophisticated financial observer "

The Economist, December 2, 1989

"His solutions on competing with Japan, the environment, drugs, and affordable housing are worth reading about Unlimited Wealth will have a long shelf life "

The (Cleveland) Plain Dealer, February 10, 1991

" explains how today's billionaires will create their wealth by producing goods and services that did not exist at the time of their birth "

National Review, March 18, 1991

" so clearly and articulately presented that it is as accessible to the automobile mechanic as it is to the economist so revolutionary that we recommend you read it from cover to cover and more then once "

Business Book Review, Summer 1991

Paul Zane Pilzer and UNLIMITED WEALTH

Paul Zane Pilzer challenges the way we think about our everyday lives and how we prepare ourselves for the future. In a dynamic 45-75 minute presentation, he explains how advancing technology has liberated us from the zero-sum game of traditional economics and how the key to success lies in managing our personal and corporate *technological gaps*.

In addition to being a captivating speaker, Pilzer is an internationally respected professor, a highly successful businessman, and the author of two nationally best-selling books. He was an appointed economic advisor in two Presidential administrations and his thought-provoking works have also been published in Russia, Japan, and in Taiwan.

He brings to his audiences a unique combination of economic optimism with business realism that makes him one of the most memorable speakers anywhere. He was perhaps best described by the late Sam Walton of Wal-Mart who stated that he was "amazed at Pilzer's business capacity and his ability to put it into layman's terms."

Additional Suggested Speaking Topics for Mr. Pilzer

How the greatest business opportunities in the 1990s lie in distribution of, rather than in the manufacturing of, goods and services.

How most of our social problems today stem from applying outdated *economic* (limited resource) policies to problems that require *alchemic* (unlimited resource) solutions.

Why the federal deficit doesn't matter in times of economic growth (because the government uses cash versus accrual accounting) and 50 other myths exploded on why things are getting much better, not worse.

How the factors that caused Japan's economic success in the 1980s will actually lead to its decline in the 1990s.

The problems with our public educational system today and how and why we are about to solve them

Why unemployment (due to technological displacement) is the first sign of economic growth *provided* that we embrace technological change (in getting the displaced employees back to work) rather than fight it.

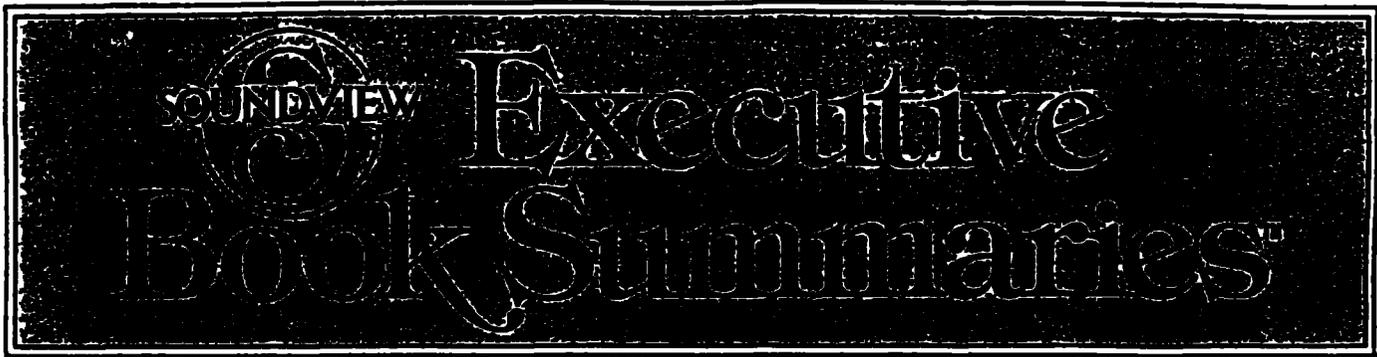
Why the United States is in the midst of a great expansion and how the current wave of large business failures shows that our economy is on the right track.

How today's markets have no corners and why businesses based on the exploitation of scarcity are doomed.

How consumer demand shifts between *Quantity Demand* (more products and services) to *Quality Demand* (better products and services), and how businesses can profit from these changes.

How the Fortune 500 companies that survived the 1980s evolved from being *physical asset* to *intellectual asset* businesses.

How most companies compensate for *duration*, rather than for performance and *innovation*, and how this naturally leads to today's successes becoming failures.



Alchemy: Turn Knowledge into Gold

UNLIMITED WEALTH

By Paul Zane Pilzer

THE SUMMARY IN BRIEF

Most of us aren't economists, but we do understand the basic principles of supply and demand, and the importance of resources, right? The basis of the traditional economic model is really quite simple. A society's wealth depends on its supply of physical resources (land, labor, minerals, and water). The only way to get more of these resources is to buy them or take them from somebody else. And because of the scarcity of most resources, one person's gain has to be someone else's loss.

This view of the world has spawned wars, revolutions, political movements, government policies, business strategies, and maybe a religion or two. History shows that people will always search for a better way to get a larger piece of the economic pie.

But what if we viewed the world as providing *unlimited* resources that permitted the possibility of wealth for all? What if, like the ancient alche-

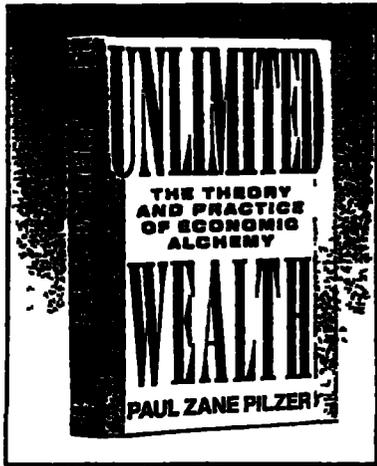
mists who tried to turn base metals into gold, we could create great value where little existed before?

We don't need to pretend — this is the way the modern world now works. Thanks to the magic of technology, we can expand the supply of resources available to us as well as create new materials to replace those resources the earth and cartels make hard to get.

Technology makes it possible to turn the raw materials of nature into elegant and sophisticated devices more efficiently than ever. Because we can "make computers from dirt," as mathematician Mitchell Feigenbaum recently said, we're playing an entirely new game.

What are the rules of this new "game"? Can the Theory of Alchemy change your life? That's what this summary is all about. You'll learn:

- The origins, nature, and rules of the new game,
- The six laws of the Theory of Alchemy,
- How you can apply the theory to your personal life and business — and profit.



**SELECTED BY SOUNDVIEW
AS AN OUTSTANDING BOOK
FOR BUSINESS PEOPLE**

The author, Real estate whiz Paul Zane Pilzer also writes and teaches finance at NYU. He lives in Dallas, Texas.

Unlimited Wealth by Paul Zane Pilzer. Copyright © 1991 by ZMI, Inc. Summarized by permission of the publisher, Crown Publishers, Inc. 201 E. 50th St., New York, NY 10022. 216 pages. \$19.95. ISBN 0-517-58211-2. If you wish to order the book, call Soundview, 1-800-521-1227 (outside the USA and Canada, 1-802-453-4062, fax 1-802-453-5062) and charge to your credit card. Send mail orders, in U.S. funds drawn on a U.S. bank, to Soundview, 5 Main St., Bristol, VT 05443-1398, USA. Please include the book price plus \$2.50 shipping and handling for the first book and \$1 for each additional book, in Canada and Mexico, \$3.50 for the first book and \$1.50 for each additional book; all other countries, \$8.00 for each book. Canadians: Add 7 percent GST.

THE SUMMARY

The world has changed enormously in the last few years, and nowhere quite so dramatically as in economics and business. "Alchemy," a dynamic new view at odds with classical economics, best describes our advanced economy now. Here's the difference: While a traditional economist looks for better ways to slice up the same old pie, an Alchemist concentrates on baking a new pie that's big enough for all to share. In other words, an Alchemist creates wealth, an economist merely moves it around.

In this summary, you'll see that the Alchemic world isn't just a promising model, a hypothetical theory, or an abstract dream. It is, in fact, the world in which we live.

THE THEORY OF ALCHEMY

Since World War II, the Western world's wealth has continued to expand at an unprecedented rate. Because economic theory holds that a nation's wealth is based on its use and distribution of scarce resources, economists are baffled. The sustained expansion enjoyed by the US economy throughout the 1980s, for example, can't be explained by any traditional economic theory predicated on the concept of a scarce supply of resources. So what's happening?

The Alchemic World

While it seems unbelievable, ours is a world of unlimited resources, one of unlimited wealth. In the Alchemic world, as in the economic world, a

society's wealth is still a function of its physical resources. Now, however, both the definition and the supply of those resources are almost exclusively controlled by technology.

This new economy can cause confusion. For instance, in 1981 the US Congress passed the Economic Recovery Tax Act (ERTA), which lowered individual income tax rates and provided tax incentives to businesses purchasing new equipment. Economists warned that the policy would lead to an economic collapse. But that didn't happen. The gross national product continued to grow unabated.

Clearly something was going on that no one could explain. It was, in fact, Alchemy at work.

The ERTA forced corporate America to close the technology gap. In Alchemic terms, that's the gap between the level of *available* technology and the level of that technology actually in use.

With tax incentives directly connected to acquiring new equipment, America's corporations retooled. And with increased productivity and lower production costs, the inflation rate decreased, the supply of capital increased, and interest rates remained stable.

The Impact of Technology

Historically, levels of technology have been measured in terms of ages (Iron, Bronze) and revolutions (agricultural, industrial) which usually lasted millennia, centuries, or decades. Technology, the driving force of a nation's economy, now changes by the moment.

Traditional economics treats technology as a constant, a view clearly outdated. In contrast, consider these tenets of the Theory of Alchemy:

1. Technology is the major determinant of wealth because it determines the nature and sup-

Redefine 'recession'?

Rapid Technological Change Causing Displacement

Author Paul Zane Pilzer wonders whether the word "recession" best describes the changing economic conditions of 1991 (and beyond).

"What we're seeing," he told Soundview in an interview, "is rapid technological change causing displacement." New technology lets us do things cheaper, faster, and better — but GNP may fall and people may lose their jobs in the process.

"GM now makes a car called the GEO," Pilzer said, "a \$9,000 car. That car three years ago was worth \$15,000. To an economist, that's \$6,000 less in GNP. To an Alchemist, it's an opportunity to sell \$6,000 in new goods and services."

Our definitions of *GNP* and *recession* (two successive quarters of negative growth in GNP) may thus be outdated. "One of the largest factors in our GNP is the value of all the homes in America times the rental factor. Now what just happened to all the homes in America? Their prices declined 20 percent. That causes a massive decline in GNP."



PAUL ZANE PILZER

"Is everybody worse off because of it? Of course not. It's simply a transfer of wealth from the seller to the buyer. So the definition of a recession, and the definition of GNP, are based on a static economic environment."

Pilzer also points out that while some may think the economy stinks, others are doing just fine: "What about the man who owns a vinyl record plant? What does he think the economy is doing today?"

More people are buying CDs than vinyl records. Yet for the music industry it's a net wash, and the CD manufacturer thinks business is unbelievable."

Pilzer, while deploring the plight of displaced workers, is no romantic. He believes they could be retrained sooner and back in another job if society weren't so resistant to change. "We're taught to be nostalgic, to look back to the good old days. Instead we have to say, 'This is great! How do we embrace change and ride with it, not fight it?'"

ply of physical resources

2 The advance of technology is determined mainly by our ability to process information

3 The backlog of unimplemented technological advances (the technology gap) is the true predictor of economic growth for both the individual and society

Technology affects both sides of the traditional economic equation but it has a greater impact on the demand side. John Maynard Keynes predicted in the 1930s that people would lose their incentive to buy more after fulfilling basic needs, causing demand to fall. The opposite is true — the more people earn, the more they spend. Indeed, John Kenneth Galbraith said, in 1958, "In the affluent society, no sharp distinction can be made between luxuries and necessities." Technology provides an ever-increasing array of new products that may start out as luxuries but soon become necessities — like the fax machine.

SUPPLY-SIDE ALCHEMY

In 1972 the shocking conclusion of the enormously influential study *The Limits to Growth* was that the world's physical resources would be exhausted sometime in the next decade and most of humanity could be wiped out before the year 2100.

The world's population was growing at a rate of about 2 percent per year and industrial output was rising by 7 percent annually — both too fast to save our resource base.

Economic growth, which had always been regarded as the solution to all woes, suddenly seemed to be the problem. Even the skeptics' doubts about the report were soon washed away. Arab oil producers raised prices and cut off deliveries to the West. The future looked grim.

Between 1973 and 1981, soaring energy prices sent the United States into some of the worst recessions in four decades. Yet the world didn't come to an end.

That's because the study reached the wrong conclusion. The world's physical resources aren't decreasing. On the contrary, our *effective* supply of resources — oil, natural gas, copper, silver, gold — is increasing. What's more, prices have tumbled as supplies have increased.

We're richer than we've ever been before. This is difficult to believe. You probably feel you have to work harder than ever simply to make ends meet. But the fact is you work significantly less than you used to in order to get what you want. Fact: In 1970 Americans worked three times as many hours to earn enough to buy a TV as they

did in the late 1980s

How is it that we have more resources at lower prices than ever before? Alchemy

The Heart of the Theory of Alchemy

The Theory of Alchemy recognizes that physical resources are neither scarce nor finite. What matters is not the particular resources but our growing ability to make more and better use of whatever is available. Wealth is the product of physical resources and technology, and of these two technology is the more important.

This profound truth can be expressed as a simple mathematical formula.

$$W = PT^n$$

W stands for Wealth, P for Physical resources, T for Technology, and n for the exponential effect of technological advances on themselves.

The formula has enormous implications, the most important of which is this. We no longer have to try to slice the same small pie. Instead, we can find a way to bake a new and bigger one.

THE FIRST LAW OF ALCHEMY

By enabling us to make productive use of particular raw materials, technology determines what constitutes a physical resource

Without technology, physical resources have no value. The discovery of the uses of fire made wood worth collecting. The development of milling and baking made grains worth cultivating. And the development of smelting made ores worth mining.

Technology, too, has made important resources of commodities as mundane and ubiquitous as sand (the raw material from which silicon chips are made) and sea water (from which such minerals as magnesium — and even gold — can be extracted). At the same time, technology has actually diminished or erased the value of some former key resources like natural rubber, tin, copper, and sheet steel — all of which have been supplanted to a degree by substitutes made possible by advancing technology.

What Is a Resource?

There's always an existing base of currently useful physical resources. A hundred years ago, however, this list would have looked very different from our resource base in the 1980s. You'd have seen ivory and whale oil on the list, but not silicon, bauxite, and uranium. So the resource base has never been fixed. Moreover, the supply of current resources is always expanding.

The *amount* of a resource is how much of it physically exists in the universe. But the *supply*,

THE SECOND LAW OF ALCHEMY

Technology determines our supply of existing physical resources by determining both the efficiency with which we use resources and our ability to find, obtain, distribute, and store them.

how much is known to exist and is available for our use, is determined as much by how we use resources as by the quantity available. The actual amount of oil buried in the earth is irrelevant. All that matters is the supply.

Quantity Technology: Supply and Use

To increase the supply of a physical resource we can (1) improve our ability to find, obtain, distribute, and store it (supply technology), and we can (2) improve the efficiency with which we use it (use technology).

Supply technology has the more direct impact on our resource base. Consider the supply of oil. Over the past two or three decades, advances in geology led to the discovery of the huge Alaskan oil field. Improved drilling techniques allowed producers to delve into the earth's crust to a depth of six miles instead of a mere five to ten thousand feet. Development of the super-tanker and advanced pipeline construction provided for more rapid distribution. Last, storage tanks made it possible to store heating oil in our homes and put gas stations on many street corners.

But use technology can also expand the resource base by improving the efficiency with which we employ a particular resource. For example, in response to the so-called fuel shortages of the early 1970s, auto manufacturers replaced \$300 carburetors with \$25 computerized fuel injectors. By doing so, they doubled the fuel efficiency of new cars in less than a decade and increased the effective supply of gasoline by well over a third.

As a result of the advances in technology use that were achieved in the 1980s, the world's effective supply of energy resources will be a full 50 percent larger in 2000 than it was in 1980.

THE THIRD LAW OF ALCHEMY

The rate at which a society's technology advances is determined by the relative level of its ability to process information.

Former U.S. Treasury Secretary W Michael Blumenthal regards information as "the key to modern economic activity — a basic resource as important today as capital, land, and labor have been in the past." But developing new information is only half the battle, information is useful only to the extent that it can be efficiently distributed.

School for Life

Paul Zane Pilzer has sympathy for workers displaced in today's economy. But rather than protecting unproductive jobs, he believes society must begin to educate displaced workers.

"You have to understand the first rule of Alchemic labor theory," Pilzer says. "The only way wealth is created is a two-step process: First, even though a man loses his job to a machine, we still get the benefit of the work. And then he gets another job." Wealth is created, Pilzer maintains, because society now receives the output of both the old and the new job "That's how we've gotten so rich"

Society has to get that worker back into a job as soon as possible. That's the hard part, because in the new Alchemic world success has less to do with mastering a specific task than with increasing our competence in basic skills — reading, writing, calculating, speaking, listening, and reasoning. Why? Because jobs in this dizzying age become obsolete rapidly, leaving only the flexible prepared for constant change

Pilzer's solution "We need to do more than just educate people in school — it doesn't work any more. We need to have people go to school one day a week for the rest of their lives"

Information Processing

Following the invention and development of writing five thousand years ago and the printing press only six hundred years ago, the third major advance in information processing is the computer. While its speed is an important factor, the computer's true value lies in its ability to sort through and collate data, to link different sectors of society through communications networks, and to transmit the information through these networks

Even with this technological advancement, the main constraint on innovation today is the ability of engineers and entrepreneurs to make use of all the new developments. To increase the size of the pie, we must continue to improve our ability to process information so that technology will advance at a faster rate. The result will be an increase in the effective supply of existing physical resources and the definition of entirely new ones — increased, unlimited wealth for everyone

A Cornerless Market

As a result of modern technology, we effectively have access to an unlimited supply of resources. What, in practical terms, does that really mean? For one thing, the key to achieving wealth is no longer the accumulation of resources. Many

who attempted to exploit the fear of resource scarcity have already learned that lesson

In the 1970s, various cartels tried to corner markets by dictating the price and supply of such basic goods as bananas, copper, rubber, and timber. By the mid-1980s, all of the cartels had been driven out of business. They had mistakenly believed that nations couldn't survive without these commodities, and that they'd pay any price rather than do without the goods.

As prices rose, consumers began looking for substitutes. For example, as the price of copper rose, the telecommunications industry accelerated the development of new technologies such as fiber-optics that didn't depend on copper wiring and cable. By the end of the 1980s, US telephone companies had installed 1.5 million miles of fiber-optic cable

In the Alchemic world, the market has no corners. As a result of technology, one can find a substitute for virtually any raw material

The Key to Wealth

If accumulation of physical resources through attempts to corner the market doesn't lead to wealth, what does? Efficiency in distribution

Technology has driven actual production costs of a product down to an average of just 20 percent of its retail price. The other 80 percent lies in distribution costs and profits. With few exceptions, we haven't applied to our distribution networks the technological advances that have so profoundly transformed the rest of the supply pipeline. On the supply side of the Alchemic equation, improvements in distribution have the potential to yield tremendous financial gain

One exception is Sam Walton. Because distributors weren't eager to service his first Wal-Mart in tiny Rogers, Arkansas, he started his own distribution system. Implementing the latest advances in data processing and communications technology, he constructed the most sophisticated automated distribution system the world had ever seen

As a result, Wal-Mart has grown, from its humble beginnings in 1962, to a \$30 billion-a-year enterprise. It is likely to pass Sears and K mart on its way to becoming the largest chain in the world.

DEMAND-SIDE ALCHEMY

Economists and Alchemists alike would agree with the Elizabethan philosopher Francis Bacon who observed, "Money is like muck, not good except it be spread." The point of money is to be spent

Supply is useless unless it can be matched with some corresponding demand. If consumption

doesn't keep pace with rising income, prices fall, jobs are lost, economic growth grinds to a halt.

Fortunately, demand does keep pace with income: Real per capita income in the U.S. rose 174 percent between 1940 and 1987, while real per capita consumption spending rose 172 percent.

As advancing technology provides us with new products or processes which induce changes in our basic behavior, it both defines and determines the nature of human demand. Before the invention of the electrically powered agitator-type washing machine in 1922, for example, people simply didn't wash their clothes all that often. Most clothing was constructed to require a minimum of laundering. Shirts came with detachable collars and cuffs.

But once it became possible to wear a clean shirt every day, without tremendous effort, freshly laundered clothing became a staple of middle-class decency. Technology created a need that previously hadn't existed, and by the mid-1930s, detachable collars and cuffs were a thing of the past.

THE FOURTH LAW OF ALCHEMY

By providing us with new products and processes that change the way in which we live, technology determines what constitutes a need, and hence the nature of consumer demand.

The new needs technology creates — how many of you can't live without a car phone? — generate demand in a self-fulfilling cycle that will continue as long as technology continues to advance.

Quantity and Quality Demands

When consumers' quantity demands — those for more of what they already have (food, clothing, etc.) — are satiated, quality demands kick in.

Quality demand is the desire for a new and different model of a product.

From 1960 to 1980, the number of homes containing a television set rose from 90 to 98 percent. Then quantity demand kicked in: The number of homes containing two or more televisions rose from 11 to 60 percent. With quantity demand satisfied, consumers yearned for better TVs — those with giant screens, remote control, and stereo sound. Consumers, it seems, replace some of their quantity purchases with the improved products made possible by advancing technology.

As long as technology continues to advance, better products will be developed every year, and the process will start all over again. By purchasing the new products technology makes available, you are, in effect, boarding an Alchemic train of virtually unlimited demand.

In the Alchemic world of unlimited technology, there is no limit to your "real needs." While economists may argue that what is available is a function of what you want, the Alchemist recognizes that what you want is a function of what is available. New products plant new ideas in your mind, but they also provide you with choice — one of the most potent stimulants of demand.

THE FIFTH LAW OF ALCHEMY

Technology determines the level of consumer demand by determining the price at which goods can be sold.

The economist will argue that, since people really don't like change, they'll only buy new products or try new ways of doing things if the cost/benefit ratio is irresistibly favorable.

The Alchemist recognizes that new products create their own need and the only constraint on demand today is price. If the price is right, you'll suddenly find you have a need for that newfan-

WILL JAPAN BURY THE WEST?

Alchemy teaches that demand drives the economy and helps its citizens prosper. Japan, however, has meager internal demand due in part to a desire to save money and to an archaic distribution system that greatly increases the costs of basic items.

Despite its high per-capita GNP, Japan has a much lower standard of living compared with the U.S. Its real estate prices are outrageous, and the people spend about 30 percent of their income on food (versus about 15 percent for Americans). Moreover, the average Japanese spends \$13,500 per year for goods and services an American can buy for \$7,800.

As Japanese firms move their production facilities to the West to get closer to the action and cut down on distribution costs — Sony TVs sold in North America are all made there now, for instance, as are 61 percent of the cars they sell in America — they export capital, jobs, and their best and brightest managers.

Says Paul Pilzer: "In a demand-driven economy they've done very well — supplying us with what we've demanded." Unless they start buying more at home to sustain their own economy — which Pilzer believes they'll eventually do — the Japanese will gradually lose their strength and influence.

gled gadget you've heard about. At some price, you may even want more than one

Use Technology to Lower the Price

Sure, anything will sell if it's priced cheaply enough. But will the seller make a profit in the process? The economist will answer, "not necessarily." The Alchemist, knowing that technology is the driving force of an economy, will answer yes. That's because of the power of technology to lower the expense of materials and labor that go into production of a product.

Production costs are a relatively small component of the total cost of making finished products today. Fixed expenses are far greater; they remain the same whether you produce one item or a thousand. So, the more items you produce, the lower the cost of each unit, and the lower price you can charge. And the lower the price, the more demand there will be for your product and the greater the likelihood that you'll be able to sell the huge quantity of items you produced.

An example demonstrates the validity of this approach. In the early 1960s, Fairchild Semiconductor tried to build demand for its 1211 transistor. To compete with RCA's nuvistor tubes, which were selling at \$1.05 each, Fairchild chose a rather unconventional approach, slashing the price of its newly invented transistor from \$1.50 per unit to \$1.05 per unit at the very beginning. Fairchild was betting that the enormous cut would spur a huge demand to justify raising production levels so unit costs would fall low enough to make the effort profitable. It worked. In 1965 Fairchild commanded 90 percent of the UHF tuner market in the United States, and production levels were so high that the price dropped to fifty cents each. As one Fairchild employee said, "We were selling into the future."

All of this is standard practice among smart manufacturers. The Japanese used it to take the VCR market away from the U.S. companies that invented the device. Though called "dumping" by some, it's not unfair because the market still has to come through for you.

Lessons in Demand

The Alchemic entrepreneur knows that today's consumers most likely won't want tomorrow what they want today. Consumer needs and wants have always been flexible, but in recent years the rate of change in the marketplace has begun to accelerate. Products evolve, mutate, and change at speeds undreamt of in the past, partly because consumers learn about new products at the speed their television sets provide the information. It's

easy for them to decide they want something *now*.

Those who make a good product and have a steady market are, paradoxically, at risk in this new world — either someone will come up with a better product at a lower cost or a new product may obliterate demand for what's available. Blazing new trails has always been harder than improving old roads. But in the Alchemic future, the people most likely to prosper in business will be those who devote themselves to developing new products.

Take the record business, for example. Despite great improvements in the price and quality of vinyl records and stereo turntables, the industry is well on its way to extinction. The reason is the coming of compact-disc technology. By 1989, just five years after their debut, CDs were outselling vinyl records by a hefty margin and the demand for CD-players had almost completely replaced the demand for conventional turntables.

Alchemists recognize that, regardless of the product being sold, they are in the business of change. The nature of demand is infinitely plastic, the level of demand is unlimited, and there is no end to what people can, will, and must have.

THE TECHNOLOGY GAP

When President Kennedy announced in 1961 that the U.S. would land a man on the moon by the end of the decade, the technology to perform this feat didn't exist. But as long as the consumer (in this case, the government) was willing to pay the price, it was assumed that technology could deliver. It did.

This is the essence of Alchemic management. The new Alchemists have such faith in technology that they design products without worrying about the current level of technology. Their only concern is their reading of the marketplace. To survive in the fast-changing Alchemic world, you must anticipate what is coming and base your plans on what you think will be — not on what already is.

THE SIXTH LAW OF ALCHEMY

The immediate economic potential for an individual, an industry, or a society can be explained by examining the technology gap, the best practices possible with current knowledge and the practices in actual use.

Traditional economics views technological advance as a byproduct of economic growth. The Alchemist sees this from the opposite perspective. Economic growth is a byproduct of technological advance.

Technology is progressing so rapidly that we

are simply unable to make use of everything it offers us How many manufacturers use the latest CAD/CAM methods to design and fabricate products? How many retailers track inventory and customer preferences with point-of-sale scanners? Few of us question our routines with the regularity or the rigor that our fast-changing culture requires. This is, of course, the essence of the technology gap.

Alchemists recognize that a wide gap signifies room for growth. They assume as a matter of course that the route currently used — even if it's presently the cutting edge — will sooner or later no longer be the best one. They are always on the lookout for the better way that will appear

R-I-Ts

The better way that Alchemists search for is an R-I-T, that is, a Ready-to-be Implemented Technological advance. An R-I-T already exists; it's available now But out of ignorance or laziness, we aren't making use of it Some current R-I-Ts are computerized fuel injectors that haven't replaced mechanical carburetors, radial tires that haven't replaced bias-ply models, or electric typewriters that haven't replaced manual ones

An R-I-T is user transparent It's virtually the same as the product it is meant to replace The only thing that has changed is that a job that was more difficult is now easier A person who can use a rotary phone, for example, will find the push-button model easy to use No new skills are needed, but the user can dial faster and more accurately

The implementation of R-I-Ts usually drives most start-ups If you're going to start a business today, it's not enough to determine that you're going to be as good as your competition Consumers no longer have any patience with the status quo — so you've got to be able to promise to provide your product or service better, cheaper, or faster — and preferably all three

The new Alchemists stay on top of change by studying their industries to see if there exists a technology gap they can exploit. Even if they find

one, of course, technology doesn't stand still So how do the Alchemists get a fix on what will be happening the day after tomorrow?

B-R-Ts

The answer lies in our Basic Research Technological advances, or B-R-Ts. Studying and understanding the nature of R-I-Ts can help us determine what's around the corner. By analyzing our B-R-Ts, we can preview what to expect over the next hill.

Real advances in technology are links in a continuing chain of innovations. This is the multiplier effect of technology — every new development that we can identify as an R-I-T becomes the basis for an array of new technologies. In other words, it becomes a B-R-T. Over time, the B-R-T yields another R-I-T, and the process accelerates and widens with each cycle until it seems to be continuous

To see how this cycle works, let's look at the development of a particular technological advance A development laboratory discovered that silicon is a better semiconductor than germanium This discovery became the basis of a B-R-T Eventually, after several years of refining the development, the lab figured out a way to design and manufacture a new silicon semiconductor The finished product represents a new R-I-T

Five new companies, after learning of this R-I-T, use it as a B-R-T to develop a new finished product of their own, silicon transistors. The development lab's R-I-T became the transistor maker's B-R-T which used it to create a second R-I-T

Assume each of the five companies has twenty customers who use transistors in circuit boards, TV oscillators, thermostats, and other components The one hundred component makers can use the silicon transistors as a B-R-T to develop new and better circuit boards, TV oscillators, thermostats, and other components, representing yet another new R-I-T By keeping an eye on the latest B-R-Ts, the Alchemist stays ahead of the game — which may be the minimum necessary to survive

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