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Regional Review

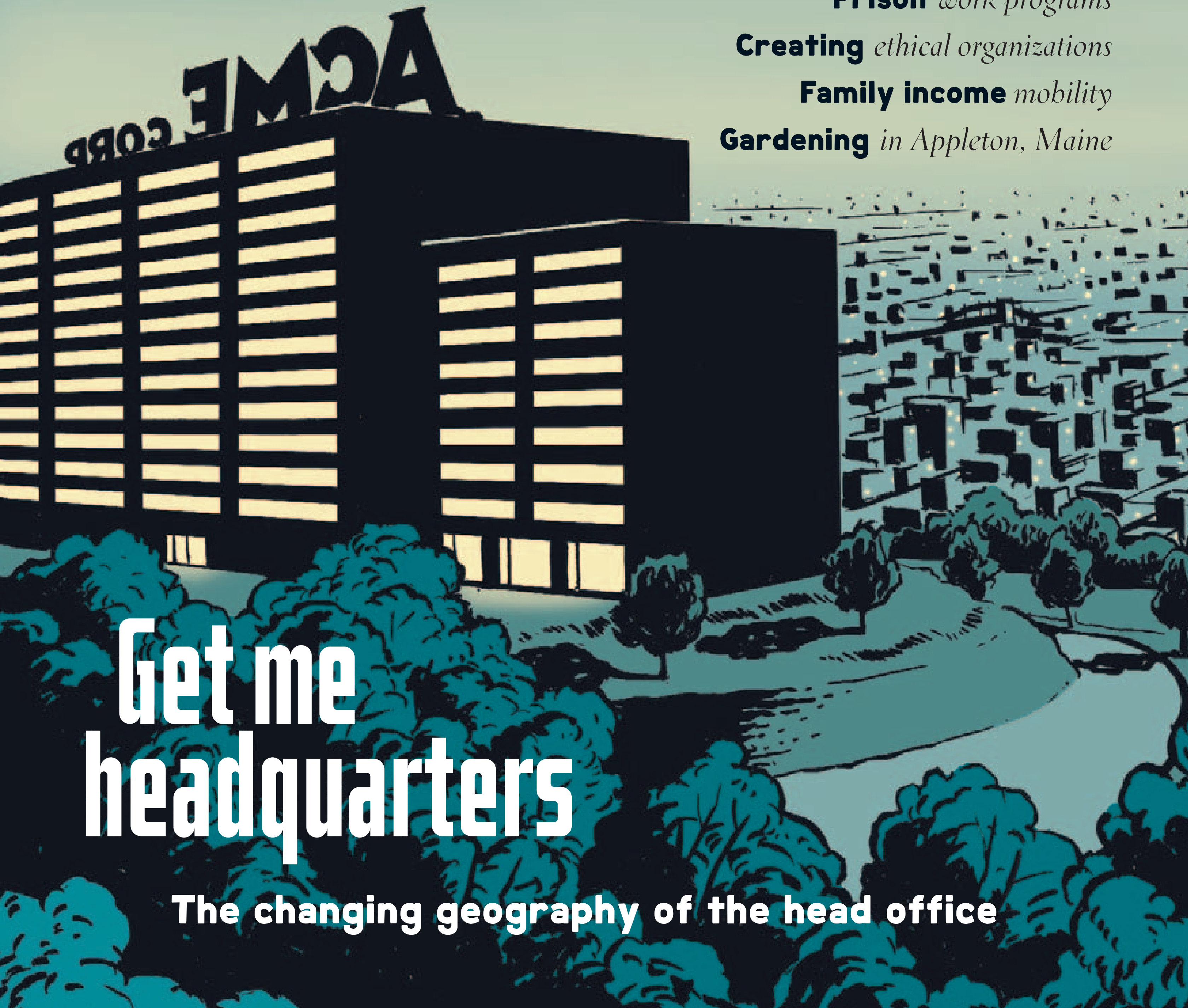
The Federal
Reserve Bank
of Boston

Prison *work programs*

Creating *ethical organizations*

Family income *mobility*

Gardening *in Appleton, Maine*



Get me headquarters

The changing geography of the head office

this issue

THIS ISSUE EXPLORES ways in which parts of the economy work together: how individuals function as members of business organizations and how business organizations function as members of larger communities. It also takes a look at how some New England states are dealing with the difficult task of integrating people coming out of prison into the world outside the institution.

In our **Perspective** column, Harvard Business School Professor Lynn Sharp Paine reminds us of the importance of organizational structures and practices in discouraging corporate misconduct. Because most individuals take their behavioral cues from others, she argues, even those with good intentions can find themselves doing wrong. She points out that fostering ethical business decisions requires careful design not only of compensation and other monetary rewards, but also of the entire array of processes and arrangements that make up the organization.

Jane Katz's article, **Get Me Headquarters!**, examines the organizations much desired by metro areas—the central offices of large firms. Katz shows why headquarters first located in large cities in the Northeast and Midwest and how they shifted over time to other regions—although New England has more than held its own over the past four decades. Katz also suggests that while headquarters are certainly a plus, they may not bring the same advantages as in the past.

Finally, in her article **Doing Well by Doing Time?**, Carrie Conaway explores how prison jobs programs can ease the transition to life outside the prison. She notes that although inmates have been working for as long as there have been prisons, and that the skills gained can be valuable, successful transitions may require a more comprehensive approach.

CATHY E. MINEHAN
PRESIDENT, FEDERAL RESERVE BANK OF BOSTON

PHOTOGRAPH BY KATHLEEN DOOHER

Tending a garden offers a new angle on the rewards of diversification. Page 31

www.bos.frb.org/economic/nerr/regrev.htm

COVER ILLUSTRATION BY JONATHAN CARLSON

observations

Playing for real

SOCIAL SCIENTISTS have typically lacked a laboratory environment for testing their theories. But an emerging genre of computer games known as massively multiplayer online games, or MMOGs, may provide just that. Many of these games have fantasy themes where players assume the roles of ogres and dwarves and where slaying dragons and casting spells are highly valued acts. But as in the real world, the characters must work—perhaps starting with something menial like chopping trees to sell as firewood—to survive and to advance levels. And a character can interact with those of other players, to buy and sell goods, forge alliances, wage war, or just hang out.

What is unique about MMOGs compared to other kinds of simulations is the sheer number of individuals involved and how seriously they play. About 500,000 people subscribe to Sony's EverQuest, for example, with about 60,000 players online at any given time, a population comparable to that of Portland, Maine. On average, EverQuest survey respondents play 5 hours a day and have spent about 800 hours developing online characters, finds economist Edward Castronova of California State University at Fullerton.

Game designers struggling to get the simulation right have found that their models are realistic enough to engender many of the same phenomena that exist in the real world, including market pricing, civic organization, friendship, environmental shortages, hyperinflation, theft, murder, and inheritance (or "twinking," in which a player transfers items from one of his own higher-level characters to one of his lower-level ones in order to give it an advantage). There is even foreign exchange, in which a player pays real money to another player for game items described on a web site, and then the two players arrange to have their characters meet in the game to exchange the goods. Castronova's first time in the world of EverQuest immediately impressed him; the markets "had all the feel of professional commodities markets." They performed so realistically that he thought they should have a board of trade.

Yet games may be better than the real world for research because the pace of a lifetime is accelerated, the goods have less value, and no human bodies can be injured. While these aspects may detract from their realism, MMOGs still offer social scientists an opportunity to do repeat experiments and explore topics such as auction outcomes, gender relations, governance, income inequality, and the behavior of different categories of players. And which games are popular can reveal the characteristics of society that people most enjoy, points out Castronova. Industry leader EverQuest is primarily meritocratic, yet 33 percent of the characters have less than 50 percent of the median character's wealth, suggesting perhaps that equality of opportunity matters more than equality of outcomes. Opportunities for analysis will only expand as MMOGs both differentiate and spread into mainstream markets; SimCity, for example, which departs from the fantasy theme and has proven more popular with women than its predecessors, will launch an online version this year. —*Kristin Lovejoy*

Black (magic) markets

The heart of the dragon Zlandicar sells online for $145, a fungus-covered scale tunic sells for $430, and game characters can go for thousands. Despite game-makers' attempt to ban these extra-game sales, "platinum pieces," the game currency in EverQuest, are auctioned often enough for economist Edward Castronova to calculate an exchange rate for what would be the 77th richest country in the world.

IN THE WORLD OF EVERQUEST

Population at any given time	60,381
GNP (US$)	$135 million
GNP per capita (US$)	$2,266
Exchange rate	$0.01072/platinum piece
Average character wage	319 pp (or $3.42) per hour
Average age of character	12.5 months

EVERQUEST PLAYER PROFILE

Average player wage	$20.74 per hour
Average player age	24.3 years
Percent male	92.2
Percent single	60.0

SOURCE: Edward Castronova, "Virtual Worlds: A First-Hand Account of Market and Society on the Cyberian Frontier," CESifo Working Paper No. 618. See also: http://business.fullerton.edu/ecastronova/vwguide.html.

ILLUSTRATIONS BY CHRISTIAN NORTHEAST

Weathering the bills

Ah, New England winters. The sparkling snow. The frosty windows. The nip in the air. The heating bills.

With an average daily temperature below 30 degrees from December through March, winters in New England are long and cold. But more than that, they are expensive. Prices for most types of fuel are higher here than in the rest of the country. Factoring in our long winters means that the typical New England household pays $350 more in energy bills than the U.S. average.

While you can always turn down the thermostat and put on a sweater to save money, there are limits to how much you can cut heating costs. It can be dangerous to live in an unheated house, especially for children and the elderly, and letting the oil tank get too low can damage the furnace. "The sensible thing to do is to get oil first," says Mae Chapin, who runs the Hardwick Area Food Pantry in northeastern Vermont. "But then many families have no money in their pocket for food."

Indeed, a 10-degree drop in temperature leads poor families to spend $67 more per month on fuel and $16 less on food prepared inside the home in today's dollars, according to a recent study by Jayanta Bhattacharya of the Stanford University School of Medicine and his colleagues. Meanwhile, richer families increase their expenditures on both fuel and food when the weather turns cold, paying $96 more for fuel and $20 more for food prepared inside the home.

Those extra costs pinch the poor more, since fuel costs are a larger percentage of poor families' budgets and since they have lower incomes to begin with. To cover the difference, many must reach out for additional help from the community. Chapin's food pantry often serves 10 to 15 percent more families in winter than summer. This year, she may serve even more; the price of residential fuel oil in first quarter 2003 is expected to rise 18 percent over the same period last year.

—Carrie Conaway

SINCE MOST *people judge their well-being by comparison with others, widening inequality of lifetime incomes may threaten our standing as a "land of opportunity."*

By Katharine Bradbury and Jane Katz

Are lifetime incomes growing more unequal? Looking at new evidence on family income mobility

The United States has always taken great pride in its reputation as a land of opportunity, a place where people have a chance to move up instead of being trapped where they start. But is this really the case? Can families who start at the bottom move up, or are most of them mired at the lower end of the income scale? Is the only way to reach the top to start there? These questions go to the heart of our identity as a nation as well as to our social and economic health.

Whether we still deserve our reputation has been called into question in light of the fact that over the last thirty years, Americans' household incomes have become increasingly unequal (see chart). In the early 1970s, the change was small; but by the late 1970s, the growing disparity between rich and poor was clearly evident. The difference grew even larger in the 1980s and continued to increase into the 1990s. In 1969, the richest one-fifth of households had about 10 times as much income, on average, as the poorest households; by 1998, the figure was almost 14 times. This increasing disparity was a significant reversal of the U.S. experience between 1950 and 1970, when rapid economic growth occurred along with a decrease in the difference between the incomes of the rich and poor. Moreover, the pattern stands virtually undisputed among researchers. No matter what data are used, whether looking at individuals or families, incomes in the United States have become increasingly unequal over the past quarter-century.

SHOULD WE CARE?

Is growing inequality a significant problem? Should the government support policies to do anything about it? These are bigger questions that provoke far greater debate. That debate centers on whether the increased inequality of year-by-year incomes tells us anything about the distribution of success and opportunity over longer time periods.

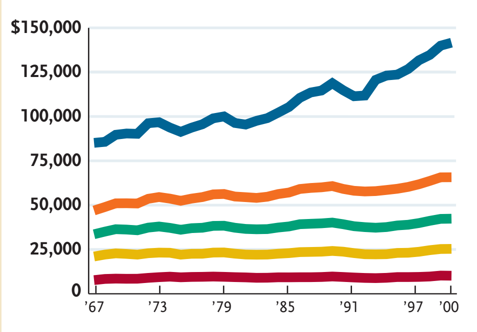
To see why, imagine two economies. Both show the pattern of increasing inequality noted above, but they differ in how that inequality falls on individual families over time.

In the first economy, the range of incomes is wide every year simply due to luck. Some people might have unexpected medical problems and lose paid time at work, while others win the lottery. Or perhaps one part of the country has unusually bad weather causing local crops to fail, while another enjoys ideal growing conditions for local produce. In any case, this random luck causes a number of families to experience unusually low or high incomes that year. Next year, other people or regions will have the good and bad luck and receive high or low incomes; the rest return to the *status quo*. Although incomes may be quite unequal in any given year, families in this economy will experience a fair amount of mobility year to year as their incomes bounce

ILLUSTRATION BY JESSICA ALLEN

A dramatic rise in inequality . . .

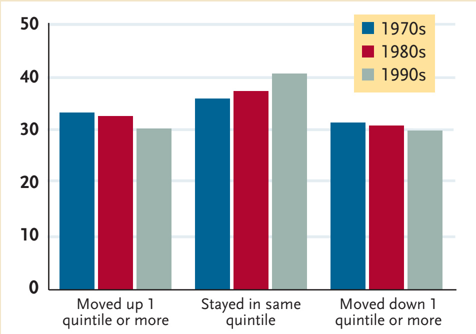
MEAN REAL INCOME FOR EACH QUINTILE OF U.S. HOUSEHOLDS



SOURCE: U.S. Census Bureau

. . . has not been offset by an increase in mobility

PERCENT OF ALL FAMILIES



SOURCE: Authors' calculations from data collected by the Panel Study of Income Dynamics

up and down along with the good and bad luck. Even if inequality is increasing over time, families at the bottom still have a shot at the middle and top each year as their luck changes. Over the long haul, the good and bad years for any particular family tend to cancel out, and all families have roughly equal lifetime incomes.

The second economy also has a wide spread of incomes; however, rather than being distributed randomly every year, the differences in incomes are persistent. Families at the top stay at the top, those in the middle stay in the middle, and those at the bottom stay at the bottom. That is, families experience no mobility relative to other families. This might occur because society enforces a class or caste system or because certain families or groups are discriminated against. Or it might be that individuals differ along some key dimensions that help to determine their family income—talent, willingness to work hard, access to a high-quality education or a good job—and those differences tend to persist. In this economy, if inequality is increasing over time, families at the top will enjoy both large and growing advantages over those at the bottom, and those at the bottom will be increasingly worse off and have no prospect of moving up.

This exercise suggests that how much attention inequality deserves from voters and policymakers depends, in part, upon whether inequality reflects short-run difficulties that families will get through or longer-term hardships that trap some at the bottom. And that determination depends, in turn, upon how much mobility—year-to-year shifts in position along the income scale—is also occurring. If increasing inequality, such as that experienced in the United States since the early 1970s, is not accompanied by increasing mobility, the short-run dispersion in incomes will tend to accumulate and lifetime incomes will grow increasing unequal. Some argue that a growing gap between the top and bottom is not a problem so long as everyone's income is rising in real terms. But to the extent that we judge our well-being by comparison with others, then the widening inequality of lifetime incomes may indeed threaten our standing as a "land of opportunity."

HAS MOBILITY INCREASED?

To answer this question, we need to know how individual families' incomes change over time; the Panel Study of Income Dynamics collects such information. Using their data on working-age households, we find no evidence of an increase in family income mobility since the 1970s. Consistent with earlier studies, we find that mobility held more or less constant from the 1970s to the 1980s. Based on newly available data from the 1990s, we estimate that mobility *decreased* slightly in the 1990s.

Looking at the 1970s, the movement of families up and down the income ladder seems unlikely to have been produced by chance. If we rank families from poorest to richest and divide them into five equal-sized groups (quintiles), we find that about half of all families in the poorest quintile at the beginning of the decade were still in the poorest quintile 10 years later; only about one-quarter of these families made it past the bottom two quintiles (see tables). Rich families also tended to stay put—about half of families that started in the top quintile ended there.

Mobility patterns during the 1980s appear very similar to the 1970s. About 33 percent of all families moved up one quin-

Measures of mobility

Income mobility can be measured only by following the same families over time. Income inequality is measured using a different sample each year.

Mobility can be defined in either absolute or relative terms. Tracking the movement of families across a fixed threshold (updated for inflation) measures absolute mobility. Absolute mobility measures do not change with changes in the shape of the income distribution. Thus, they furnish an absolute target against which we can measure progress—for example when evaluating policies that seek to raise income or consumption above some purchasing-power level such as the federal poverty line.

Tracking the location of families across quintiles (or any percentile) measures relative mobility since it follows the movement of each family up or down the income ladder relative to other families. This is useful since most people judge their well-being relative to others and because participation in society depends partly on having access to the goods and services that others have. Relative measures also tell us about the degree to which each family's place in the income distribution is permanent or transitory.

tile or more between 1969 and 1979; during the 1980s, the figure is 32 percent (see bar chart). Downward mobility was about the same in both decades. Although mobility would need to *increase* over time to offset the impact of increasing inequality on lifetime incomes, our calculations suggest that mobility was about the same.

In the 1990s, however, mobility declined noticeably. About 53 percent of families that began the decade in the poorest quintile were still there ten years later (see lower table), several percentage points higher than before. Families in the richest quintile were also more likely to remain there than previously.

Overall, about 40 percent of families ended the 1990s where they began, as compared with 36 and 37 percent in the 1970s and 1980s, respectively. While some hoped that increased mobility had offset the increased inequality in the 1980s and 1990s, these data provide no evidence of such an offsetting role. Rather, we find a slight decrease in mobility, which suggests that the lifetime incomes of rich and poor families have indeed grown more unequal.

SHRINKING OPPORTUNITY?

These findings suggest that those who are concerned about the future for families at the lower rungs of the income ladder may have cause to worry. Compared to 30 years ago, families at the bottom are poorer relative to families at the top and also a bit more stuck there. Mobility alone has not and is not likely to counteract the hardships caused by increasing inequality. Instead, we might want to look more seriously at policies to even up and improve the possibilities for those at the bottom in order to maintain our standing as a land of opportunity. ❊

The authors' article, "Women's Labor Market Involvement and Family Income Mobility When Marriages End," appears in the *New England Economic Review*, Q4 2002.

Up and down the income ladder

Mobility tables are a way of displaying where families start and end in the income distribution over a period of time. The upper table, for example, which displays outcomes for the 1970s, reveals that 49 percent (upper left corner) of all families who had incomes in the lowest 20 percent—or lowest quintile—at the beginning of the decade were still in the lowest quintile 10 years later, while only 3 percent (upper right corner) made it to the richest quintile.

1969–79 DECADE

WHERE FAMILIES STARTED IN 1969, BY QUINTILE	WHERE FAMILIES ENDED UP IN 1979, BY QUINTILE				
	POOREST	SECOND	THIRD	FOURTH	RICHEST
Poorest	49.4	24.5	13.8	9.1	3.3
Second	23.2	27.8	25.2	16.2	7.7
Third	10.2	23.4	24.8	23.0	18.7
Fourth	9.9	15.0	24.1	27.4	23.7
Richest	5.0	9.0	13.2	23.7	49.1

Percentages sum to 100 across rows

The lower table shows that in the 1990s the same figures were 53 percent and 4 percent, respectively. Note that if mobility outcomes were determined solely by chance, every cell would have an entry of 20—indicating that 20 percent of families that began the decade in a given quintile would land in each of the five ending quintiles 10 years later.

Several things are worth keeping in mind when interpreting the tables. First, some movements from lower to higher quintiles are simply the result of higher earnings that come with age and experience. Second, counting as mobility any family's crossing of a quintile dividing line (or any other threshold) means that some very small changes can be included, such as when a family right above or below the dividing line experiences a small decline or increase in income. For the same reason, the measure may miss some changes that are quite large, such as when a family starts at the bottom of one quintile but doesn't gain quite enough to move up into the next. This issue is particularly relevant at the extremes, since families can't drop lower than the poorest quintile nor rise higher than the top, although they can become much poorer or richer, and shift positions, within these quintiles. Third, the range between the upper and lower boundaries of each quintile can vary across quintiles and over time. Indeed, growing inequality pushes quintile boundaries farther apart; this has made moving up or down a quintile a higher hurdle in the 1990s than in the 1980s or 1970s.

1988–98 DECADE

WHERE FAMILIES STARTED IN 1988, BY QUINTILE	WHERE FAMILIES ENDED UP IN 1998, BY QUINTILE				
	POOREST	SECOND	THIRD	FOURTH	RICHEST
Poorest	53.3	23.6	12.4	6.4	4.3
Second	25.7	36.3	22.6	11.0	4.3
Third	10.9	20.7	28.3	27.5	12.6
Fourth	6.5	12.9	23.7	31.1	25.8
Richest	3.0	5.7	14.9	23.2	53.2

Percentages sum to 100 across rows

NOTE: Data are from the Panel Study of Income Dynamics (PSID). Income is in constant 2000 dollars and is adjusted using the PSID measure of needs, which takes into account family size and composition. One-person families (persons living alone or with nonrelatives) are included. Families in which there are no adults below retirement age are excluded.
SOURCE: Katharine Bradbury and Jane Katz, "Women's Labor Market Involvement and Family Income Mobility When Marriages End," *New England Economic Review* Q4 2002, Appendix Table A1 (which also includes the mobility table for the 1980s)

perspective

Bad people do not have a monopoly on bad deeds: taking an organizational approach to ethics

By Lynn Sharp Paine

ENRON'S MELTDOWN in December 2001 and the subsequent disclosure of legal and ethical problems at a number of other U.S. companies have once again focused public attention on what we can do to improve the ethical performance of U.S. businesses. To be sure, the bankruptcy of this energy-trading giant cannot be attributed solely to ethical breaches. Investors had begun to grow wary of Enron's economic prospects months before they learned about the company's misleading accounting practices and its executives' flagrant self-dealing.

Revelations of ethical breakdowns, however, proved the *coup de grace*. As evidence of improper accounting, questionable financial engineering, and executive conflicts of interest came to light, disappointment turned to indignation. Regulators and lawmakers geared up for investigations, while angry investors, employees, and other injured parties lined up for their day in court. After the ailing firm failed in a last-ditch effort to find an acquirer, a further credit downgrade triggered repayment obligations that Enron could not meet. The company, which at its peak boasted a market capitalization of $70 billion and a seventh-place rank among the *Fortune 500*, filed for protection from its creditors. Less than a year later, in October 2002, Enron Chief Financial Officer Andrew Fastow was led in handcuffs to a Houston courtroom to face charges that could send him to jail for 40 years.

In the wake of these events, much attention has focused on punishing the "bad apples" who perpetrated the misdeeds at Enron and elsewhere. Yet, to concentrate only on individual wrongdoers may waste a chance to improve the performance of business firms. Such a focus rests on a too-simple view of human behavior and neglects the powerful ways that organizations influence conduct. It assumes that bad deeds are the work of bad people and that decent, well-intentioned people will instinctively and automatically do what's right, whatever the context and circumstances. But without a serious attempt at dealing with ethics at the organizational level, even decent people who are doing their level best can find themselves acting at odds with both their own values and the expectations of the broader society.

TAKING CUES FROM OTHERS

Most of us are far more susceptible than we think to the influences and opinions of those around us, and more willing than we may realize to leave difficult moral judgments to others. In

EVEN DECENT PEOPLE *who are doing their level best can find themselves acting at odds with both their own values and the expectations of society.*

experiments undertaken by Princeton University social psychologist John Darley, research subjects were working on an assigned task in a computer room when they heard cries from next door. Some subjects were alone, while others were working alongside a small group of strangers who were part of the study and had been instructed not to respond. Darley found that 80 percent of those working alone got up from their work to check on the individual calling for help. By contrast, only 20 percent of those working next to the group did so. When interviewed after the experiment, those who had not responded explained that they had not acted because no one around them was acting.

This shows what we know intuitively—that even good people are fallible, and the risk of moral error multiplies exponentially in an environment of moral indifference. Lacking a publicly shared set of values, individuals can easily become morally isolated. Some may even suppress their ethical concerns out of misguided deference to others. As one employee confided to me, "You lose your bearings and your ability to distinguish right from wrong."

Yet, many companies operate on the premise that organizations are essentially amoral and that to prevent wrongdoing, all that is necessary is to hire ethical individuals. That this premise is mistaken was made evident when Wharton School Professor Scott Armstrong and colleagues asked groups of executives and business students from eight countries to play the role of an imaginary pharmaceutical company's board of directors. In this scenario, one of the company's most profitable drugs was causing an estimated 14 to 22 "unnecessary" deaths a year and would likely be banned by regulators in the company's home country. A rival was offering an alternative medication with the same benefits and at the same price, but without the side effects. What should the board do?

More than 80 percent of the "boards" decided to continue marketing the product both domestically and overseas, and to take legal, political, and other actions to prevent authorities from banning it. Of the remaining 20 percent, some said they would continue marketing the drug until a ban actually took effect, while others said they would cut back on production or market only to doctors who requested the medication. No group decided to recall the product, and there were no significant differences by age or nationality.

Yet, when Armstrong asked a separate sample of business students, managers, and faculty members for their personal assessment, 97 percent said the decision to continue shipping was "socially irresponsible." Thus, 80 percent of the participants acting in a corporate capacity made a decision that 97 percent of those acting in a personal capacity judged to be morally unacceptable. This suggests how powerfully—and subtly—corporate roles can influence behavior.

ORGANIZATION BY DESIGN

Many executives who are quick to take credit for creating cultures that motivate sales or productivity are equally quick to deny responsibility for cultures that encourage misconduct.

ILLUSTRATION BY HADLEY HOOPER

But companies do not spontaneously arrange themselves in a way that makes it easy or even feasible to discourage illegal actions and foster ethical decision making. They must be organized, managed, and led in a way that makes this possible.

A company's ability to conform its activities to a set of ethical principles, to make sound judgments when values conflict, or to engage in self-scrutiny and self-correction all presuppose a suitably designed and effectively functioning infrastructure that allows and encourages the company to operate in an ethically responsible way. By infrastructure, I refer to the whole array of structures, systems, and processes that guide a company's functioning both day to day and long term.

Consider an auto mechanic whose job includes inspecting cars, recommending repairs, and performing repair work. Management instructs its mechanics to sell a certain number of repair jobs during every shift. If mechanics fail to meet these quotas, they can be transferred or have their work hours cut back. In addition, for every hour of repair work beyond a specified minimum, the mechanics earn incentive pay. One mechanic suspects that coworkers are recommending and performing unnecessary repairs. He knows for a fact that some have told customers that their cars' struts are "blown out and leaking" when they aren't.

When I've asked business executives to consider this situation from an ethical point of view, virtually all of them say that it would be unacceptable for the mechanic to do what the others are doing. However, when asked to predict what the mechanic is likely to do, most predict that he will lie. Most cite the organization's quota and incentive system—not the mechanic's character.

SORTING THE ISSUES TAKES PRACTICE

Many managers also could benefit from training in identifying and evaluating ethical issues when they arise and practice in thinking through how to handle them. Otherwise, even problems that seem obvious in retrospect can go unrecognized or mishandled until after the damage is done.

One such example is the firestorm that resulted when software maker Lotus Development Corporation and credit reporting agency Equifax, Inc., announced their jointly developed software product Lotus Marketplace. Intended to help small businesses identify prospective customers, Marketplace contained information on 80 million U.S. households gleaned from public sources and from Equifax's own credit reports. The companies' new product announcement unleashed a barrage of unexpected criticism about possible violations of individuals' privacy as well as the database's potential misuse. Taken by surprise, the development team proposed several changes, but the changes were too little, too late. Privacy advocates, buoyed by the prospect of Congressional action, had already begun a coordinated effort to oppose Marketplace. One email addressed to the CEO of Lotus put it bluntly: "If you market this product, it is my sincere hope that you are sued by every person for whom your data is false, with the eventual hope that your company goes bankrupt." In the end, plans to ship the product were canceled; later that year, Equifax discontinued sales of direct-marketing lists generated from its credit data.

The product design team's failure to recognize the potential ethical issues with Marketplace illustrates the dangers of relying solely on instinct for ethical guidance. Few people, even experienced managers of impeccable character, have such well-honed instincts that they can single-handedly grasp the moral questions raised by a new technology or a complex financing scheme. And neither ethics codes nor values statements are much help when it comes to difficult or novel matters like these. What's needed is a defined method for integrating ethical analysis and assessment into the organization's decision processes.

Companies do not spontaneously arrange themselves in ways that foster ethical decisions, but must be organized to make this possible

A ROLE FOR LEADERSHIP

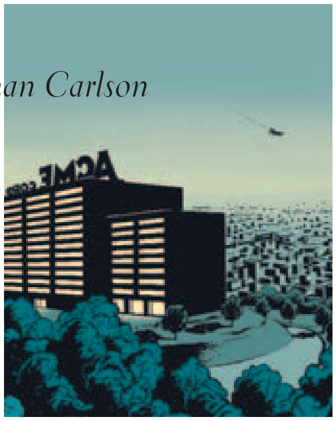
Calls for greater corporate responsibility have far-reaching implications not just for corporate governance, but for virtually every aspect of management—from the frameworks used to analyze and make decisions to the measurement and reporting of performance, and even the choice of strategy and structure.

This is not to say that an ethical business climate can be cultivated solely through the efforts of individual organizations. Political and economic choice, free-flowing information, and an educated public are also essential. Moreover, an effective legal and regulatory system is necessary to provide the incentives that promote and enforce basic ethical norms. At least in the United States, the legal system has played a crucial role in correcting social indifference, misconduct, and overreaching by business. Antitrust laws, food and safety laws, equal protection laws, and workplace safety standards are just a few examples.

This is also not to deny the existence of good and bad people or the importance of punishing wrongdoers. However, it is a mistake to believe that bad people have a monopoly on bad deeds. In the absence of an active effort to build and maintain a positive set of organizational values, the values of individuals are left to the corrosive forces of indifference. ☼

LYNN SHARP PAINE IS JOHN G. MCLEAN PROFESSOR OF BUSINESS ADMINISTRATION AT HARVARD BUSINESS SCHOOL. THIS ARTICLE IS BASED ON HER BOOK, *VALUE SHIFT: WHY COMPANIES MUST MERGE SOCIAL AND FINANCIAL IMPERATIVES TO ACHIEVE SUPERIOR PERFORMANCE*, PUBLISHED IN OCTOBER 2002 BY MCGRAW-HILL.

By Jane Katz ~ Illustrations by Jonathan Carlson



Get me headquarters!

The prosperity of American cities has long been linked with the large local corporations headquartered there. Local workers have spent their lives employed at companies such as Gillette in Boston, Norton in Worcester, United Technologies in Hartford, and Textron in Providence. In some of these firms, jobs were held by several family members, as each


ACME

generation bought homes, educated their children, and enjoyed their retirement with their earnings. These companies invigorated the region's larger economic development, encouraging the spread of technology and skilled workers and spawning a network of associated firms and suppliers.

The influence of large companies went well beyond jobs. Companies and their top executives were often key players in the community, a source of civic leadership and philanthropic effort. In the 1960s and 1970s, for example, powerful Boston executives formed the Boston Coordinating Committee (nicknamed "The Vault" for the safe near its meeting place at the Boston Safe & Deposit Company), which for a time was important in setting the local agenda on issues ranging from public education to the state budget. Senior executives and their wives sat on the boards of schools, museums, libraries, and hospitals, taking a lead role as benefactors and fundraisers for local charities.

Much of this economic energy and philanthropic largesse was assumed to be the direct outgrowth of the location of the company headquarters, typically near the firm's production and other facilities. When economic times were tough, senior executives were

Headquarters have been an engine of local jobs, charitable contributions, and civic energy. In the 21st century, will this still be true?

People who work at headquarters tend to be highly educated and paid—one reason headquarters are so desired

thought to be more reluctant to lay off local workers—who were also neighbors. Top management was often concerned about the community and the quality of the schools, streets, and hospitals that their workers used—in part, because their parents and children used them, too.

As better communication and transportation allowed firms to geographically separate various parts of the operations to lower-cost regions or to locations closer to their customers, the region's industrial economy began to give way to a service economy. Manufacturing jobs and firms left the region, and many expressed concern that company headquarters and the economic boost and the civic involvement they had traditionally provided would go along with them.

Perhaps then it is surprising to find that despite the turnover in companies that have their central offices here, New England has prospered as a location for large company headquarters. Many of the industries in which the region has long specialized—aerospace and defense, computers, and financial services—are still present in some form, legacies of earlier strengths. And growing industries, like retail, are also gaining a toehold. Whether headquarters still bring the same economic and community benefits is less clear.

WHAT DO HEADQUARTERS DO?

Modern large company headquarters are primarily in the information business. They collect, produce, and disseminate information. Headquarters employees regularly gather data and intelligence from other employees, customers, competitors, and outside experts and consultants. They use the material they collect to generate solutions to complex and unpredictable business problems: those of managing the diverse elements in a far-flung enterprise, identifying the best business strategies, developing and evaluating marketing campaigns, resolving legal issues, and turning out accounting and financial reports.

The people who work in headquarters tend to be highly educated and highly paid—one reason that headquarters are considered so desirable for a regional economy. According to the Bureau of Labor Statistics, the average annual pay of headquarters employees in New England ranged from $46,900 in Vermont to $104,800 in Connecticut in 2001, substantially higher than the pay in other establishments. (See table on page 17.) In the first quarter of 2001, average weekly wages at headquarters ranked second only to wages in the finance and insurance sector.

Headquarters also depend heavily on regular face-to-face contact with a network of outside suppliers of highly paid business services—investment and commercial banks, lawyers, accountants, advertising and media companies, and consulting firms. In addition, headquarters seem to benefit from congregating near one another. Studies suggest that business services firms are attracted to areas with a large market for their wares, leading to greater variety, higher quality, and lower prices.

This means that headquarters and their business service providers tend to end up locating near each other. And they tend to cluster in areas that can attract and retain a highly-skilled professional and technical workforce, with the educational institutions and the cultural amenities that such workers and their families favor. Also important is convenient access to airports, highways, and state-of-the-art telecommunication to ease the cost and hassle of being in contact with people in the field.

HEADQUARTERS CLUSTER

As a result, large company headquarters have historically been concentrated in the largest cities in the Northeast and Midwest—and particularly in densely populated New York City. A haven for large corporate headquarters, New York City completely dominated the game for most of the last century. In 1960, for example, New York was home to the largest number of Fortune 500 firm headquarters, including six of the top ten: Standard Oil, General Electric, U.S. Steel, Mobil Oil, Texaco, and Western Electric. (Fortune 500 companies are ranked by sales. As measured by its share of all Fortune 500 assets, New York had an even greater lead.)

Although the 1960s and 1970s saw an exodus from the central city, as old-line New York firms such as General Electric, Xerox, and Union Carbide moved to the Connecticut suburbs and to other regions of the country, New York continued to dominate. In 1987, for example, the greater New York metro area accounted for 160 Fortune 500 headquarters representing $2,237 billion in firm assets, more than five times that of Chicago, the next-largest metro area, according to economists Steven Holloway and James Wheeler. Today, the New York metro area is still by far the largest U.S. headquarters city, whether measured by number of companies or by assets.

1960 FORTUNE 500 companies headquartered in New England

To be eligible for the Fortune 500 in 1960, a firm must have derived half of its sales from manufacturing and/or mining (top of table). This requirement indicates the importance of manufacturing, which then accounted for almost 40 percent of New England jobs. Lists of the top firms in other sectors were published separately (bottom of table); New England's strength in financial services is already evident.

COMPANIES THAT PUBLISHED FINANCIAL DATA AND DERIVED MORE THAN 50 PERCENT OF SALES FROM MANUFACTURING OR MINING, RANKED BY SALES

MANUFACTURING	HEADQUARTERS	SALES*	EMPLOYEES	PRODUCT
United Aircraft	East Hartford, CT	$988	57,371	Aircraft engines and accessories
Raytheon	Lexington, MA	540	40,724	Electronics, high-tech defense
Textron	Providence, RI	383	29,000	Electronics, high-tech defense
Gillette	Boston, MA	225	9,670	Razors, shaving products, hair products, pens
Grinnell	Providence, RI	209	9,500	Burglar and fire alarm systems
Norton	Worcester, MA	182	14,000	Sandpaper, grinding wheels, other abrasives
Bridgeport Brass	Bridgeport, CT	142	4,746	Copper and copper alloy products
Scovill Manufacturing	Waterbury, CT	142	9,647	Brass mill, fasteners, appliances, electronics
Eastern Gas & Fuel Associates	Southbridge, MA	139	7,142	Coal, natural gas pipeline, home heating
Armstrong Rubber	West Haven, CT	117	3,693	Tires
Kendall	Boston, MA	112	7,220	Hospital supplies; industrial equipment
American Chain & Cable	Bridgeport, CT	111	7,852	Chains
Pepperell Manufacturing	Boston, MA	100	7,500	Mills, textile production
Polaroid	Cambridge, MA	99	2,834	Cameras, film
United Shoe Machinery	Boston, MA	97	7,469	Shoes
Stanley Works	New Britain, CT	95	7,198	Steel strapping, bolts, screws, hardware; hand tools
Eastern States Farmers' Exchange	West Springfield, MA	92	2,112	Feed, fertilizer, and farm supplies
American Optical	Southbridge, MA	91	9,438	Lenses, precision optical products
Seaboard Allied Milling	Newton, MA	81	944	Flour milling

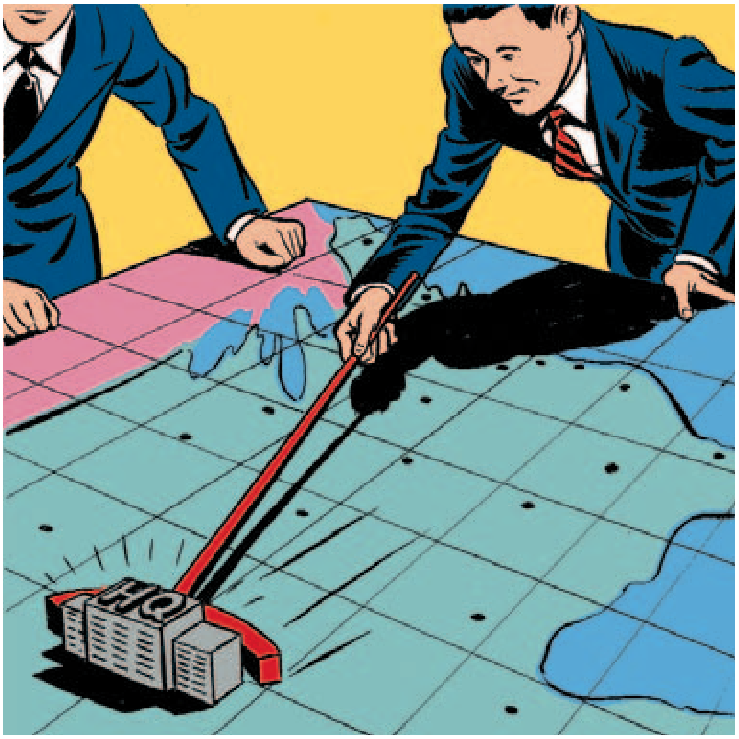
TOP COMMERCIAL BANKS, LIFE INSURANCE, MERCHANDISING, TRANSPORTATION, AND UTILITY COMPANIES

BANKING & LIFE INSURANCE	HEADQUARTERS	ASSETS*	EMPLOYEES	BUSINESS
John Hancock Mutual	Boston, MA	$6,127	18,126[1]	Life, accident, health insurance
Aetna	Hartford, CT	4,031	14,300	Life, accident, auto, health, liability, air travel insurance
Travelers	Hartford, CT	3,316	20,325	Life, accident, sickness, hospital, liability insurance
Mass. Mutual Life Insurance	Springfield, MA	2,440	3,239	Life insurance
Connecticut General	Hartford, CT	2,232	2,435[1]	Life, accident, air travel insurance; pensions
New England Mutual	Boston, MA	2,211	1,530	Life, accident, health insurance
First National Bank of Boston	Boston, MA	1,905	4,758	Commercial banking
Connecticut Mutual	Hartford, CT	1,594	1,000	Life insurance
Phoenix Mutual	Hartford, CT	894	1,695[2]	Life, accident, health insurance
State Mutual of America	Worcester, MA	734	1,036	Life, accident, sickness insurance

RETAIL & MERCHANDISING	HEADQUARTERS	SALES*	EMPLOYEES	BUSINESS
First National Stores	Somerville, MA	$536	>15,000	Grocery stores
United Fruit	Boston, MA	304	60,209	Bananas, sugar, other products
Stop & Shop	Boston, MA	239	8,000	Grocery stores

UTILITIES & TRANSPORTATION	HEADQUARTERS	OPERATING REV.*	EMPLOYEES	BUSINESS
New England Electric System	Boston, MA	$180	8,085	Electric services
Boston Edison	Boston, MA	124	4,172	Electric services
NY, New Haven & Hartford Rail.	New Haven, CT	134	11,670	Railroad

* In millions of dollars
[1] Figure for 1961
[2] Includes agents
SOURCES: "The Fortune Directory: the 500 Largest U.S. Industrial Corporations," *Fortune*, July 1961; "The Fortune Directory: Part II," *Fortune*, August 1961; *Moody's Industrial, Bank & Finance, Public Utility, and Transportation Manuals*, 1961 and 1962; and company annual reports, 1960



Large company headquarters began to move beyond the older industrial areas in the Northeast and Midwest

As small and midsize cities grew larger in the second half of the twentieth century, however, more of them developed the population, professional workforce, and network of high-quality business services necessary to support large company headquarters. Advances in communications and transportation, particularly the expansion of smaller airports, made them viable headquarters sites; lower costs served as an attraction. As early as the 1960s and early 1970s, large company headquarters began to move beyond the older industrial cities in the Northeast and Midwest to areas in the South and, to a lesser extent, the West.

According to Chicago Federal Reserve economists Thomas Klier and William Testa, this trend continued through the 1990s, as the South added headquarters faster than population. Using a slightly larger sample of firms (public companies with 2,500 or more employees) they find that Houston, Atlanta, Nashville, and Miami, in particular, attained the size and skilled workforce necessary to attract headquarters to their metro areas. By contrast, headquarters grew more slowly than population in the West, leaving that region relatively "under-headquartered" by the decade's end.

The biggest increases both in population and in headquarters growth occurred in metro areas with a population between 1 and 2 million people—places such as Orlando and West Palm Beach, Florida and Greensboro, North Carolina. At the same time, high-tech manufacturing headquarters became more geographically concentrated—about 80 percent were located in the 10 largest metro areas, as compared to 60 percent for non- high-tech firms—perhaps because companies that face rapid innovation and intense competition are especially reluctant to separate the information-gathering and problem-solving tasks performed at headquarters from research and development and production facilities.

How did this changing distribution of locations come about? Direct relocation—such as when a company simply picks up and moves its headquarters—is one avenue, although not necessarily the most common. A change can also result from the accumulated effects of the rise and fall of local firms and the industries of which they are a part. Successful companies thrive and grow large; regional giants fade and vanish as the result of poor management, competitive pressures, or changing demand or technology. Another route is a change in ownership—when one company acquires another or two companies merge. After the deal, one headquarters assumes leadership for the combined firm—sometimes choosing the larger company, sometimes the larger city—and the other is absorbed. The significance of these three factors (direct relocation, rise and decline of local firms, and ownership change) will likely vary over place and time.

Nonetheless, Klier and Testa conclude that when it comes to growing, attracting, and retaining headquarters, the most densely populated metro areas still have the advantage. Or, put another way, large company headquarters remain far more geographically concentrated than the U.S. population at large. According to their calculations, the 50 largest U.S. metro areas had 87 percent of headquarters in 2000—exactly the same percentage as in 1990. So while headquarters showed some tendency to shift away from the very largest metro areas, they identify no overall shift to places with fewer than 1 million people.

WHAT ABOUT NEW ENGLAND?

Despite this drift to midsize cities in the South and West, New England and particularly metro Boston (the 7th largest U.S. metro area with a population of 5.8 million), has more than managed to retain its share of headquarters. In 1960, 17 of the Fortune 500 firms were located in the region, accounting for about 1.9 percent of the list's total sales and 1.6 percent of total assets. Forty-one years later, New England has 28 companies on the list, accounting for 5.9 percent of revenues and 7.6 percent of assets. Even excluding the eight suburban Connecticut companies located in the New York metro area, New England's share rose to 3.3 percent of revenues and 4.6 percent of assets, respectively. (Tables on pages 13 and 15 show New England's Fortune 500 companies in 1960 and 2001.)

Interpreting these figures is not completely straightforward. To qualify for the Fortune 500 list in 1960, for example, firms had to receive at least 50 percent of revenues from manufacturing and/or mining. But New England also had a significant number of big insurance companies that were listed in a separate Fortune 50. This makes comparisons with 2001 (when there was one list for all industries) more complicated. In addition, the percentages noted above suggest not only that more New England companies are making the list in 2001, but also that the firms may be comparatively larger than in 1960, as measured by sales or assets. Nevertheless, it's worth remembering that the sales and assets themselves are national figures, and not the

2001 FORTUNE 500 companies headquartered in New England

By 2001, New England was home to the headquarters of 28 firms in the Fortune 500. Regional specialties such as metal production disappeared from the list; the number of retail chains headquartered in the region rose, reflecting a similar increase nationally. Aerospace and defense, computers, and financial services all continued to be well represented. With the exception of Massachusetts Mutual in Springfield, all firms could be found in the region's most densely populated metropolitan areas, including 12 in metro Boston, five in Hartford, and two in Providence. Another eight were part of the New York City consolidated metro area.

COMPANIES THAT PUBLISHED FINANCIAL DATA IN ALL INDUSTRIES, RANKED BY REVENUES

DIVERSIFIED FINANCIALS	HEADQUARTERS	REVENUES*	EMPLOYEES	BUSINESS
General Electric	Fairfield, CT†	$125,913	310,000	Diversified financial

MANUFACTURING	HEADQUARTERS	REVENUES*	EMPLOYEES	BUSINESS
United Technologies[1]	Hartford, CT	$27,897	152,000	Aerospace and building systems
International Paper	Stamford, CT†	26,363	100,000	Forest and paper products
Raytheon	Lexington, MA	16,867	87,200	Aerospace and defense
Xerox	Stamford, CT†	16,502	79,000	Computers, office equipment
Textron	Providence, RI	12,321	51,000	Aerospace and defense
Gillette	Boston, MA	8,084	31,500	Household, personal products
EMC	Hopkinton, MA	7,091	20,100	Data storage for computers
Praxair	Danbury, CT†	5,158	24,222	Industrial gases; metallic and ceramic coatings
Emcor Group	Norwalk, CT†	3,420	20,000	Engineering, construction
Pitney Bowes	Stamford, CT†	4,690	32,724	Computers, office equipment
MeadWestvaco	Stamford, CT†	3,984	17,530	Forest and paper products

BANKING & INSURANCE	HEADQUARTERS	REVENUES*	EMPLOYEES	BUSINESS
Mass. Mutual Life Insurance	Springfield, MA	$19,340	10,929	Life, health insurance[3]
FleetBoston Financial	Boston, MA	19,190	55,909	Commercial banking
Hartford Financial Services	Hartford, CT	15,147	27,400	Property/casualty insurance[4]
Liberty Mutual Insurance	Boston, MA	14,256	34,516	Property/casualty insurance[3]
John Hancock Financial	Boston, MA	9,361	8,355	Life, health insurance[4]
State Street	Boston, MA	5,637	19,753	Back-office, asset management for institutional investors
Allmerica Financial	Worcester, MA	3,312	6,000	Property/casualty insurance[4]

RETAIL	HEADQUARTERS	REVENUES*	EMPLOYEES	BUSINESS
CVS	Woonsocket, RI	$22,241	110,000	Drugstores
Staples	Framingham, MA	10,744	40,914	Office supplies superstores
TJX	Framingham, MA	10,709	89,000	Off-price apparel retailer
BJ's Wholesale Club	Natick, MA	5,280	15,800	Membership warehouse
Ames Department Stores[2]	Rocky Hill, CT	3,648	32,700	Discount retailers

UTILITIES	HEADQUARTERS	REVENUES*	EMPLOYEES	BUSINESS
Northeast Utilities	Berlin, CT	$6,874	7,400	Gas & electric utilities
NSTAR	Boston, MA	3,192	3,262	Gas & electric utilities

HEALTH CARE	HEADQUARTERS	REVENUES*	EMPLOYEES	BUSINESS
Aetna	Hartford, CT	$25,191	35,700	Insurance and financial services[3]
Oxford Health Plans	Stamford, CT†	4,421	3,400	Health benefits provider

* In millions of dollars
† Part of New York City consolidated metropolitan area
1 Formerly United Aircraft on 1960 Fortune 500 list
2 Ames declared bankruptcy in 2001 and closed all stores in 2002
3 Owned by stockholders
4 Owned by policyholders
SOURCE: "Fortune 500 Largest U.S. corporations," *Fortune*, April 2002

The most promising approach to fostering new headquarters may be to promote and nurture firms born in the region

amount sold or located in New England. Overall, however, the statistics do suggest that New England's large companies and the business services that support them continue to be successful at finding and attracting the educated workers necessary to keep headquarters in the region.

In contrast to the trend in the rest of the nation, New England's headquarters do not seem to be shifting to the region's smaller cities, but instead have become even more concentrated in its largest metro areas. In 1960, New England's Fortune 500 firms were scattered. In 2001, all but one of metro Boston's 12 firms are located within its outer beltway, Route 495; the other two metro areas large enough (population 1 to 2 million) to support Fortune 500 headquarters are Hartford (five) and Providence (two). Only Massachusetts Mutual Life, in Springfield, is located outside these three metro areas.

New England's roster of firms has also undergone significant turnover over the past 40 years. Of the 17 companies on the list in 1960, five no longer had head offices in the region 10 years later; another three had disappeared by 1980; and by 2001, only Raytheon, Textron, Gillette, and United Aircraft (renamed United Technology in the late 1970s) were still present both in the region and on the Fortune 500 list.

Particularly evident is the disappearance of the old-line manufacturing firms that milled flour, produced rubber tires, milled and manufactured metal and machinery, textiles, and shoes. In a few cases, such as Stanley Works, the company continued to grow, just not fast enough to hold its place in the Fortune 500. More often, there was a change in ownership (or a series of such changes) driven by financial problems or industry consolidation. For example, Bridgeport Brass was bought by Olin Corporation; Pepperill merged with West Point to become West Point-Pepperill (headquartered in Georgia); American Optical was sold to Warner-Lambert Pharmaceuticals (headquartered in New Jersey); Norton merged with French firm Saint-Gobain to avoid a hostile takeover by a British conglomerate; and so on. Except for the sale of Bridgeport Brass to Olin—then in Stamford, Connecticut and now in Norwalk, Connecticut—the corporate headquarters went elsewhere.

As some headquarters moved away, others took their place, with newcomers in keeping with New England's traditional strengths. Aerospace and defense firms continue to be well represented among those headquartered here. Insurance companies and financial services firms also remain in the region, even after several decades of deregulation and consolidation. In 1960, eight of the nation's top 20 life insurance firms were headquartered in New England. In 2001, New England remains the home of a number of insurance companies, one of the country's larger banks, and State Street Bank, which provides asset management and back-office services to institutional investors.

One notable change is an increase in the number of retailers on the list, in line with the national trend toward large retail chains. While in 1960, most department stores, hardware stores, stationery stores, and pharmacies were locally owned and run, in 2001, 9 percent of Fortune 500 firms were retail chains, including 21 specialty retailers such as Staples (headquartered in Framingham, Massachusetts), Home Depot, and even Amazon.com, which made the list for the first time in 2001.

The fate of the region's high-tech headquarters has received special attention at various points, particularly after a number of Fortune 500 firms were swallowed up by bigger ones headquartered elsewhere. "Piece by piece, outsiders are making off with the crown jewels of Route 128," declared the *Boston Globe* in 1995, after Cambridge-based Lotus was bought by IBM in Armonk, New York. There were similar concerns voiced in 1998 when Compaq acquired Digital Equipment and its headquarters shifted from Maynard, Massachusetts to Houston.

It is hard to know exactly how much to make of this. Any young industry characterized by rapid technological change is going to exhibit a great deal of volatility as particular firms and technologies either catch fire or burn out, and the industry matures. So it can be risky to infer too much about longer-run trends from what happens over a short period of time. In addition, many successful tech companies are still small by Fortune 500 standards; making the 2001 list required sales greater than $3 billion. Focusing only on firms big enough to make the Fortune 500 risks missing perhaps more important changes occurring at high-tech firms below the cutoff.

Yet, even with Klier and Testa's somewhat larger group of firms, the evidence remains tantalizingly inconclusive, in part, because there is no single definition of what makes a company "high-tech." Using their sample and a stringent (OECD) definition, the number of high-tech companies headquartered in New England fell during the 1990s from seven to six; using a more inclusive (BLS) definition, it rose from 14 to 20.

Perhaps the most striking feature of the New England roster in 2001—in fact, in any year—is that so many of the companies are home grown, with roots in New England's traditional industries. Textron was initially founded in 1923 as the Special Yarns Corporation, a small Boston textile company; by 1960, it had only just begun to assume its modern form with the addition of businesses that sold home generators and helicopters. Defense giant Raytheon was established in Cambridge in 1922 as the American Appliance Company to commercialize a prototype refrigerator using artificial coolants developed by an MIT professor. And CVS traces its history back to the late nineteenth century and the Melville Corporation, a company that mass-produced and distributed shoes. These examples also suggest that firms that manage to stick around often undergo significant changes in their lines of business.

NOT YOUR FATHER'S HEADQUARTERS

When Seattle-based Boeing decided to move its headquarters in 2001, the event was treated in the press as part beauty pageant and part sporting event. Chicago, Dallas-Fort Worth, and Denver each put its best foot forward in a competition for the top offices of a company that produced more than $50 billion in revenues and employed 188,000 people. After two months of site visits and negotiations, Boeing declared Chicago the winner, spurred in part by promises of tax breaks and grants reportedly worth about $50 million to $60 million over 20 years.

Yet, while Chicago won bragging rights, the other benefits seem less clear. To be sure, there are still potential rewards that accompany large headquarters, including the direct contribution of new jobs, spillovers in increased revenues and employment at local banks, law firms, and other business services, and the additional source of philanthropic energy and charitable giving in the local community. But there are also reasons to think that the size of these rewards may have diminished.

For one, the direct contribution of headquarters to local employment is small. Less than 1 percent of all U.S. establishments are headquarters and, even in large companies, they account for relatively few jobs. In the case of Boeing, Chicago was only expected to receive about 500 new jobs (or half the 1,000 jobs at Seattle headquarters) as a result of the move. This means that when a headquarters leaves a metro area, the direct job loss is also relatively small. In a striking (and perhaps extreme) example, when Tosco, an independent oil refiner with worldwide revenues of more than $24 billion, was sold to Phillips Petroleum in 2001, only a couple of dozen employees worked at its headquarters in Waterbury, Connecticut, making the direct job impact minuscule.

In addition, the past 20 years has seen a number of forces that continue to keep headquarters job counts down. Global competition and shareholder pressure to cut costs and increase productivity have pushed firms to streamline or eliminate administrative and managerial positions at headquarters, and to move top managers into the field and closer to operations. "Headquarters glamour is increasingly seen as gluttony—an unnecessary layer of bureaucracy and overheads," observed the *Economist* in 1990. After the leveraged buyout of RJR Nabisco, for example, company headquarters moved from Atlanta to New York City and the staff was reduced from 650 to 350. Closer to home, Union Carbide's headquarters jobs in Danbury, Connecticut peaked at 3,000 in the early 1980s, after which the firm spun off several of its business units (including Fortune 500 company Praxair) under threat of takeover. By 2001, when it merged with Dow, Union Carbide had only about 650 employees left at headquarters.

Improvements in transportation and communication have also left firms freer to put different parts of the company in different places. Firms have grown increasingly sophisticated in site selection, putting headquarters in the best spots for headquarters' tasks, back-office operations in the best places for those functions, production facilities in one place, and warehouses in another. In many firms, top managers have been moved out of the central office and into the field so they can better run operations. But these forces have left headquarters more tightly focused on problems such as corporate strategy and finance, and have reduced any tight link to jobs in production facilities or other parts of the operation.

Boeing, for example, deliberately chose a headquarters location apart from its three existing business units in Seattle (commercial jets), Long Beach (space and communications), and St. Louis (military aircraft). And it had no plans to move any new facilities or employment into Chicago. Rather, Boeing wanted its headquarters to be insulated from operations—centrally located St. Louis was not even on the short list of cities considered—so that headquarters executives could be more ob-

In Charge

Headquarters account for only 0.5 percent of all U.S. establishments, but pay there is relatively high, in part because of the high share of professional and technical staff.

	HEADQUARTERS		ALL	
	NUMBER	AVERAGE ANNUAL PAY	AVERAGE ANNUAL PAY	% PAY DIFFERENCE
U.S.	37,100	$68,965	$36,219	90
Connecticut	562	$104,824	$46,993	123
Maine	226	$51,210	$28,815	78
Massachusetts	1,091	$66,563	$44,975	48
New Hampshire	265	$68,936	$35,481	94
Rhode Island	111	$62,435	$33,603	86
Vermont	25	$46,977	$30,238	55

NOTE: Headquarters are North American Industry Classification System 55, "Management of Companies and Enterprises."
SOURCE: U.S. Bureau of Labor Statistics

While headquarters may still bring jobs and philanthropy to a region, there are fewer guarantees of this than in the past

jective and focus on all three divisions equally. The distance would also encourage the heads of the business units, recently moved from Seattle into the field, to run their operations with less interference from the central office.

Similarly, the gain or loss of a headquarters after a merger or acquisition may be more dependent than in the past on the particular circumstances of the companies and industries involved. In some instances, such as with high-tech firms that employ workers with skills not easily found in all parts of the country, job loss may be attenuated. A marriage with a larger company may even provide capital and other resources that allows the local office to expand in ways that would not have been possible otherwise. When IBM bought Lotus for $3.5 billion in 1995, for example, there was a great deal of concern about how the firm would fare once headquarters shifted. "Lotus may be just another doomed company caught up in the bureaucracy of IBM," observed an industry analyst in *Software Industry Report*, an industry newsletter. But less than three years later, Lotus was prospering; employment had risen to 8,500 people (3,000 more than before the purchase); and Lotus Notes sales had increased from 2.2 million to 20 million units. "We have been freed and liberated from the chains of having to compete against Microsoft on a constrained budget," said one software engineer to the *Boston Globe*.

This is not to say that the loss of headquarters is never cause for concern. By 2001, for example, Lotus's employment was back down to 5,000. And when Compaq bought Digital Equipment in 1998, employment in the Massachusetts area was cut by 3,500 jobs the first year after the purchase. But the extent to which these losses are attributable to the headquarters moves versus other factors—such as increased competition or decreased product demand—is hard to disentangle.

THE GEOGRAPHY OF CORPORATE GIVING

When Norton Co., the largest private employer in Worcester, Massachusetts was bought by the French firm Saint-Gobain, in 1990, many locals braced for change. Founded in the late 1900s, Norton had been run by members of the same Worcester-based family for three generations. Even after professional managers took over in the 1970s, family members remained active in the community, and the company continued to be visibly involved in everything from the public schools to helping the homeless to supporting the local Boy Scouts. "I don't think we'll see the same degree of paternalism that we've seen in the past because they will be responsible to another corporate entity," said a local official in the *Boston Globe*.

These are reasonable concerns when the headquarters of a large firm moves away. Large employers tend to be major contributors to local causes such as the United Way, notes Harvard Business School Professor Rosabeth Moss Kanter. In fact, it is often argued that the traditional strength of corporate philanthropy (as opposed to funds from foundations) has been that its giving is largely local in nature.

But beginning in the late 1970s and 1980s, the rise of "strategic philanthropy" rendered the impact of headquarters location less clear. Before that, corporate giving and community involvement were not universally recognized business functions, and company participation was frequently haphazard and subject to the whim of senior management. In addition, the community with which the company was involved was typically the local community immediately surrounding headquarters.

Today corporate giving is far more likely to be business-driven. Most large companies have written policies governing both the reasons for and recipients of their giving—generally explicitly aimed at improving relations with customers or employees. Philanthropic efforts are integrated with the firm's other interests, and run by a professional staff, and thus less likely to be aimed at causes that simply happen to be favored by the CEO and his or her spouse. In addition, as companies increasingly operate in many places across the country (and, indeed, the world), "the community has become 'communities'—no longer just the local or headquarters community, but rather multiple and scattered in whatever sites the company operates," note Boston College Professor Sandra Waddock and Clark University Professor Mary-Ellen Boyle.

How this affects the geography of giving depends on what the firm is trying to accomplish with its charitable efforts and where its workers and customers are located. Consumer products companies may focus on issues that matter to their customers; a global company that is trying to improve its image at home, for example, may initiate programs to improve educational and health conditions for workers in countries where its products are made. In other firms giving may be aimed at causes that employees care about; this might mean that giving is geographically concentrated in places where the bulk of employees work. Or the firm may target its charity for direct business reasons, such as when a publisher promotes literacy or an insurance company donates to AIDS-related causes, with uncertain implications for the geography of corporate charity.

In all these instances, headquarters location matters but other places where the firm operates matters, too. Ownership change can also impact the distribution of corporate largesse—and not always in expected ways. A Conference Board study found that merging firms headquartered in different regions were *less* likely to reduce total contributions, whereas merging companies in the same region—since they tended to support the same causes—were likely to trim some of the overlap.

How does this all add up? Reliable numbers are exceedingly hard to come by, but there is some evidence that headquarters location, while still important, is less significant than it once was for corporate charity. Craig Smith, former publisher of *Corporate Philanthropy Report*, estimates that roughly 40 percent of corporate grants are directed toward headquarters cities, down from about 60 percent before the rise of strategic giving. While people seem to be programmed for a certain amount of geographic loyalty—and headquarters locations will probably always matter—the impact of headquarters on philanthropy and community involvement appears to have declined.

TAKING A HARD LOOK

It would be a mistake to conclude, however, that the presence of large company headquarters in a region carries no advantages. Or that their loss brings no penalties. Headquarters generate revenue and jobs for local law firms, financial services providers, and advertising agencies. They contribute to travel and convention business. They remain a significant source of community involvement and corporate giving. Moreover, the success of New England's metro areas in encouraging and retaining the headquarters of Fortune 500 companies is a good measure of the overall health of its economy, the skills of its labor force, and the attractiveness of the region as a place to live.

But it does suggest that any city or state would do well to carefully evaluate the potential gains before spending large public sums in the form of tax breaks or other grants simply to attract an additional head office. For while headquarters may still bring additional jobs or philanthropy, there are fewer guarantees than in the past. And the benefits that actually flow to the region will likely depend on the firm and industry involved.

Paying too much attention to headquarters also risks ignoring other generators of high-paying jobs and economic vitality—for example, medium-sized firms and research and development facilities. Recently, Novartis bought the New England Confectionery Company (NECCO) building near MIT; the firm expects to employ 900 people in major research facilities in Cambridge, although it is keeping its headquarters in Basel, Switzerland.

If history is any guide, the most promising approach for New England may lie in promoting and nurturing the firms that are born on our soil. Growing our own has been the best source for large company headquarters in the past, and it will likely remain so in the future. ❊

Long and winding road

Although CVS has deep roots in New England, its corporate headquarters arrived in the region only recently. The firm's earliest history goes back to the Melville Corporation, a small chain of shoe stores founded in New York City in 1892. After World War I, Melville teamed up with a manufacturer in Nashua, New Hampshire to mass-produce and distribute shoes through its chain of Thom McAn stores (named for a Scottish golfer). Over the years, the firm prospered, adding factories and stores. By the close of the 1960s, Melville had grown to become the nation's largest shoe retailer.

In 1969, as part of an effort to diversify, Melville began to buy other retail chains, including the Consumer Value Stores (CVS), a string of 40 drugstores founded in Lowell, Massachusetts in 1963. The original concept was to offer discount health and beauty products; in 1968, pharmacies were added. Melville also acquired several apparel chains, including Chess King and Marshalls, and a number of other retail businesses. Sales continued to climb and the firm moved its headquarters from New York City to Westchester County. It also began purchasing drugstore chains, which it merged into CVS, eventually making CVS Melville's largest and most profitable business.

But it wasn't until the mid 1990s, that it became clear that CVS had outgrown its corporate parent. In a major restructuring, Melville decided to spin off or sell its other units and focus its attention on drugstores. In 1996, Melville was renamed CVS Corporation and its corporate headquarters moved to the CVS headquarters in Woonsocket, Rhode Island.

PHOTOGRAPH BY EVAN CAMPISI

BY CARRIE CONAWAY PHOTOGRAPHS BY JOSHUA PAUL § Maine is hardly a haven of crime. In fact, it has the lowest incarceration rate in the nation, with only two-thirds as many reported crimes per capita and a violent crime rate 20 percent of the national average. Still, nearly 2,000 Mainers are imprisoned in one of six correctional facilities around the state. While a few are in for life, most are not; almost 700 each

Doing well by

At their best, prisons can help inmates leave more employ year complete their sentences and return to the community. § Maine's ex-offenders are in growing company. Across the nation, over 1.3 million people are incarcerated in a state or federal prison, and more than 95 percent of them—1,600 every day, 600,000 each year—will eventually be released. In addition, another half-million prisoners are currently detained in county and local jail facilities; almost all of them will

Maine State Prison inmates Ed Hardy (left) and David Bartlett (right) display products made in the prison's industries program, which employs almost 200 prisoners.

doing time?

able than when they arrived. But most aren't there yet.

be released within a year.

Once these inmates return to the outside world, they need to reestablish themselves as productive members of society—get a job, find a place to live, and so on. But many are unprepared to do so. They lack the education, skills, and work experience to land a well-paying job, problems that often contributed to their criminal behavior to begin with and that make the economic temptations of crime that much more difficult to resist. Their time in prison could be used to help prepare inmates for their eventual return to society, and indeed most prisons offer educational and vocational programs geared at making this transition easier. But security concerns and budgetary limitations mean that even in low-crime states like Maine, these programs neither reach every inmate who needs them nor provide enough services to those who do participate. Yet they may be the best hope for helping prisoners make it on the outside.

> A prison's highest priority is to guarantee public and inmate safety, not to create a nurturing environment

"A SERIES OF FAILURES"

A look at the prison population is a look at the lives of those at the bottom of the social ladder. To begin with, most inmates have a number of serious obstacles to finding stable employment even before entering prison. Across the nation, less than two-thirds of prisoners have a high school diploma or its equivalent, according to a study by the Bureau of Justice Statistics; even among the high school graduates, many are functionally illiterate. Twelve percent have diagnosed learning disabilities, a rate almost four times as high as the general population's. Almost two-thirds are black or Hispanic. Only half held a full-time job prior to incarceration. All these factors contribute to exceedingly low earnings; 70 percent earned $20,000 or less per year before their incarceration.

Inmates also tend to come from troubled homes. Only about 40 percent lived with both parents growing up, and 17 percent lived in a foster home or other institution at some time in their youth. Nearly two in five have at least one family member who has been incarcerated. More than a quarter had parents who abused drugs or alcohol, and almost all have a history of abusing alcohol or illegal drugs themselves. "For most of these guys, their life up until prison has been a series of failures—failure in their family, failure in school, failure in employment, failure in their interpersonal relationships," says Ellen Mason, who manages prisoner reentry programs for The Work Place in Boston.

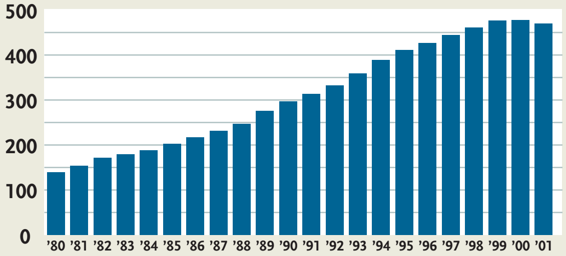
The prison environment typically does little to change this. The highest priorities for prisons are to guarantee the public's safety and to ensure the security of the inmates in the prison, not to create a nurturing psychological and social environment. And for good reason—almost half of state and federal inmates were convicted of violent crimes such as murder, manslaughter, rape, or assault, so the threat of violence is always lurking. Simply keeping these men (93 percent of U.S. inmates are male) secure and preventing them from harming one another requires cadres of trained guards and stringent disciplinary procedures. Multiple daily population counts, restricted access to anything that might be construed as a weapon, and limited physical contact with visitors are all designed to prevent dangerous situations from arising for guards and for the community at large. But they also create an aberrant social environment—one cut off from the positive influences of law-abiding family, friends, and community members, one in which prisoners cannot interact normally with those around them and in which they must constantly be on guard.

Living in such an environment can have negative long-term effects on prisoners, particularly on young adults. Nearly two in five inmates are currently age 29 or younger, and many more entered prison before reaching their 30s—a time in most people's lives when they are gathering the educational and work experiences that will sustain them in future employment. From a purely economic per-

BEHIND BARS

"Get tough on crime" policies, increased sentence lengths, and rising drug convictions have combined to dramatically increase the proportion of the population behind bars. At this rate, more than 5 percent of the U.S. population will eventually serve time in prison.

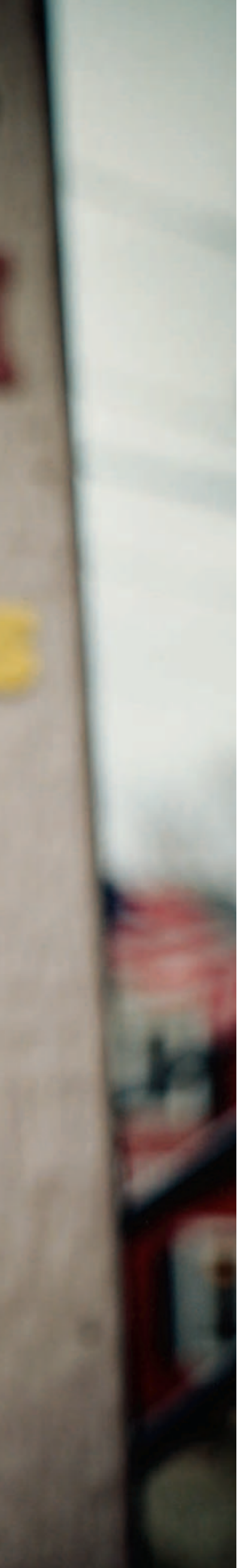
NUMBER OF SENTENCED INMATES IN STATE AND FEDERAL FACILITIES PER 100,000 PEOPLE IN THE U.S.



SOURCE: Bureau of Justice Statistics

The prison industries program offers a rare opportunity for inmates to earn money. They are paid up to $2.50 per hour to design and make products, like these toy boats, for later sale in the prison's retail store.

For security reasons, each of the 500 items sold in the showroom generates a trail of paperwork that tracks every piece of wood, screw, and person-hour used in making the product.



spective, the time inmates spend out of the labor market is time in which their skills and training are deteriorating, making it more difficult for them to find employment once they leave the prison setting. But the psychological impact can be equally as harmful. A spell in prison can exacerbate the mental health problems of the 16 percent of the prison population that has been diagnosed with a serious mental illness. And something about the prison environment may actually increase the likelihood that inmates are reincarcerated. One study from California indicated that offenders who had served time in prison were nine percentage points more likely to commit a future crime than were similar offenders placed on probation. Another examining drug offenders in Missouri found that those sentenced to prison were twice as likely to re-offend as those who only received probation. Spending time in prison may thus have the perverse effect of increasing the chance that an ex-convict will commit another crime.

> While incarcerated, inmates are losing economic ground to peers who are employed or enrolled in school

LEARNING AND WORKING

Like most states, Maine makes an effort to mitigate these negative effects by providing meaningful activities for its prisoners. While in prison, Maine's inmates are highly encouraged to participate in some sort of educational or work experience activity. Schooling, from adult basic education and high school equivalency up through college coursework via distance learning, is available. Vocational training programs include welding, electrical, computer repair, and other trades, along with some more unusual offerings like guide-dog training. In many cases, inmates can obtain certification to work in a trade while still in prison. Most prisoners also participate in work assignments such as kitchen duty, cleaning crew, or grounds maintenance. Programs like these are typical in most state prison systems. Vermont, for instance, operates a self-contained high school for prisoners, and Massachusetts prisoners can receive training in trades like construction, culinary arts, or welding.

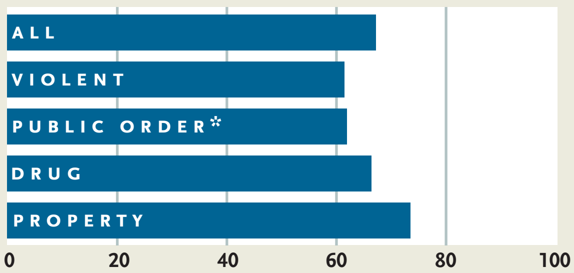
The most well-known of Maine's work programs, however, are their prison industries. These programs—similar to in-house factories—employ almost 200 inmates in jobs like woodworking, upholstery repair, machine shop, or garment production and offer one of the few opportunities for inmates to earn money while in prison. Prisoners must apply and interview for these jobs and must remain discipline-free to participate. Those selected work a six-hour day, five days per week, on tasks such as sewing inmate clothing, repairing furniture, or harvesting wood. Others make boats, cutting boards, furniture, or one of the 500-plus other items for sale in the prison's retail shop in Thomaston. Most are paid between $1.10 and $2.50 per hour, depending on skill and experience. Up to 80 percent of their income goes to cover income taxes, room and board, family support, and victim restitution, but they still can make enough to save some money—sometimes as much as $3,000 to $5,000—for when they leave prison.

Though the chance to earn some income is definitely an attraction, money is not the only reason why so many prisoners participate. Feeling useful and productive is a critical element of psychological well-being, and one that many of them did not experience before prison. "One prisoner told me, 'If I'd known I could do this before I got here, I wouldn't be here,'" says Kimberly Ellis, director of prison industries programs for Maine's Department of Corrections. Being unemployed can cause depression and a sense of purposelessness, and ultimately the loss of one's sense of social identity. These problems are only exacerbated in the strange social environment of a prison. This makes programs like prison industries especially important. "For a lot of these guys, this is the most normal part of their day," says Bob Walden, a correctional industries manager at the Maine State Prison in Warren. There, as in the real world, prisoners can learn useful skills, receive some positive feedback on their work, and be rewarded for their effort.

WHAT GOES AROUND, COMES AROUND

Even though more than 95 percent of prisoners are eventually released from prison, over two-thirds of them end up back behind bars within 3 years of their release.

PERCENT OF EX-OFFENDERS REARRESTED WITHIN 3 YEARS, BY ORIGINAL OFFENSE



* Includes weapons, drunk driving, court offenses, commercialized vice, morals and decency charges, liquor law violations, and other public-order offenses.

SOURCE: Bureau of Justice Statistics

HARD LABOR: *What is the purpose of work in prisons?*

Ever since the first prisons, work has been ubiquitous in prison life. Before prisons were established, fines, lashings, or the stocks sufficed for most minor offenses and property crimes. For more serious crimes, offenders were sentenced to public admonitions, expulsion from the community, and very occasionally the death penalty. But in 1557, in an attempt to deal with the problems of vagrancy and idleness, the city of London decided to abandon the old corporal punishments and instead detain vagrants in workhouses. During their sentences, which could range from weeks to years, inmates were required to engage in hard labor and to receive training in crafts and trades. Officials hoped this would change their "habit of idleness" into a "habit of industry," and ultimately allow them to earn an honest living.

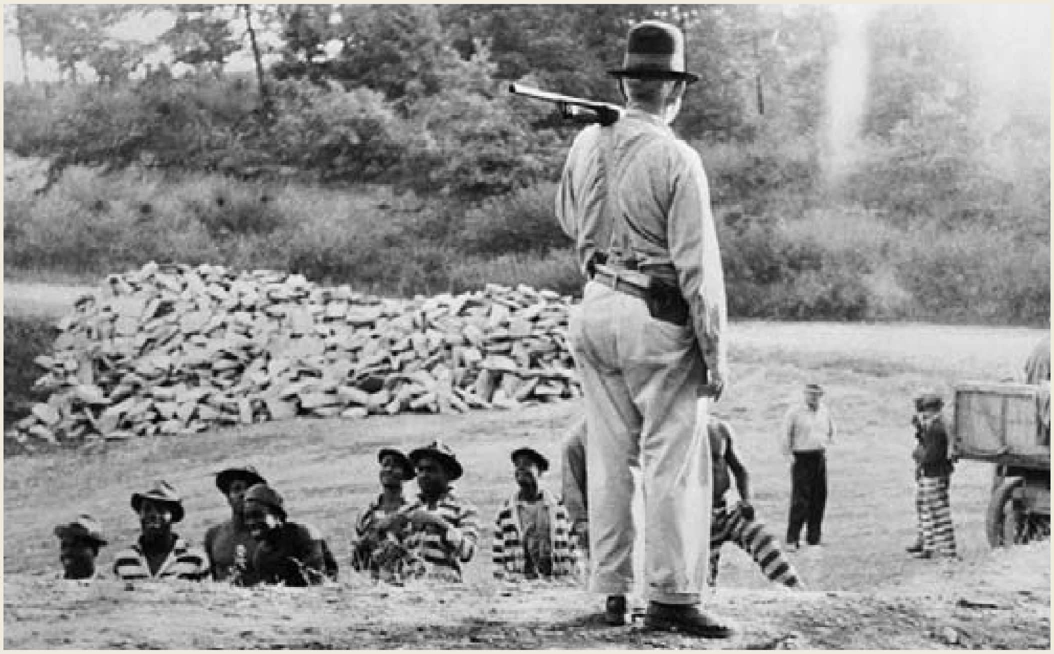
Detention in workhouses quickly became the standard punishment for vagrants and the idle. Indeed, the planning for the first workhouse in the American colonies began in 1629, only nine years after the Pilgrims first arrived. And by the 1800s, detention had become the penalty of choice even for crimes that did not result from a "habit of idleness." After all, what worse punishment could there be in a country that had just attained its liberty than to take a citizen's liberty away?

Through it all, prisoners worked. Hard labor, such as breaking rocks, digging ditches, or working on chain gangs, was a common feature of prison life in the 1800s, serving both to keep the men occupied and to complete public works projects. Other nineteenth-century incarnations of work programs included mandatory assignments within the institution, vocational education, and contracting directly for outside employers. By the turn of the twentieth century, a full 85 percent of inmates worked, whether directly for the institution or on lease to a local employer.

Working conditions in prisons were far from ideal. Many inmates were injured or died within months of their arrival, and some workers were paid so little as to be akin to slave laborers. Reformers were also concerned that the low pay dragged down wages for unincarcerated low-skilled workers. At the same time, businesses complained that the relatively low cost of prison labor made it difficult to compete in manufacturing the same products with traditional employees. These tensions led to regulations and reform over the next century. By 1887, inmate leasing (in which a prison contracted out the care of its inmates to a farmer or businessperson, a system that led to some of the worst human rights abuses of prisoners) was outlawed by an act of Congress. By 1940, Congress had also banned the interstate sale of prison-made goods to cut down on unfair competition, a restriction that remains in effect today. Prison industries programs could then only make products for sale within the state, limiting them to supplying state government except under special circumstances. Yet despite all these changes, work still played a central role in prison life. Indeed, its role broadened as prisons developed educational and vocational programs such as high school equivalency and trade certification.

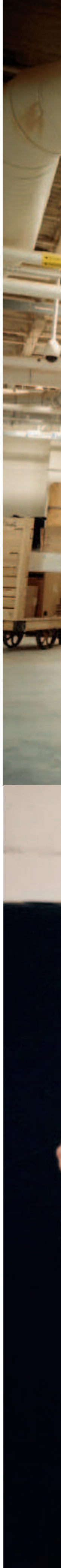
Throughout the history of prisons, work has always been acclaimed as the solution for crime. But what has never been clarified is the purpose that work is intended to fulfill. Is it to punish prisoners by having them labor in undesirable jobs? Is it to help maintain order in the prison environment? Is it to rehabilitate inmates and improve their employability on release? Or is it to help prisoners make amends for the costs they have imposed on society by their criminal behavior?

In fact, work serves all of these functions and more, and it is in this ambiguity of purpose that the work solution gains its strength. American society imbues work with broad powers to transform the lives of even those farthest from the fold. Though we may not agree on the causes or consequences of criminal behavior, we can all agree to this: when it comes to reducing crime, work works.



BETTMANN/CORBIS

One of the most brutal forms of forced labor for prisoners, chain gangs were common in the U.S. until the early twentieth century, especially in the South.



The machine shop (below) must scramble to keep outdated machinery, such as a 50-year-old belt sander (above), operational while meeting safety standards.

In the best-case scenario, the training inmates receive in their educational and work programs can help them link up with job opportunities on the outside. "They can walk out of here with a trade, and often at more than entry level," notes Jeffrey Merrill, the state prison's warden. Some former inmates from the woodworking program, for instance, have gone on to work in finish carpentry or to open their own woodworking businesses. But even if the prisoners only nail down the basics of how to keep a job, most officials would consider it a success. "A lot of these guys have never held a steady job for any length of time, so this is a good chance for them to practice job skills like showing up on time, doing their work assignment, and keeping a good attitude," says Ellis.

Running inmate programs can also benefit the prisons themselves. "Idleness is a big security concern in prisons, so we are always trying to find something meaningful for the men to do," says Merrill. Attending class or going to a prison industries job is a privilege most inmates do not want to jeopardize, so they have a strong incentive to refrain from violence or other infractions that would disqualify them from participating. This in turn makes the guards' jobs easier. Certain job programs also help to offset administrative costs. Maine's prison industries programs are not quite self-supporting, but the revenues from sales of finished goods in the retail store ($1.9 million last year) support most of the costs of running the program, including the salaries of seven staff positions. Another portion of the money prisoners earn returns to the institution in other ways, such as commissary sales and reimbursements for room and board expenses. It is these institutional benefits, as much as the desire to help ex-offenders stay out of prison, that keep the programs running year after year.

TOO LITTLE, TOO LATE

Whether or not the inmates are prepared for it, all but five percent of them will someday rejoin the outside community. Unfortunately, for many of them their freedom won't last long. The Bureau of Justice Statistics reports that about two-thirds of those released from state and federal facilities are rearrested within three years (see chart). Half are reincarcerated during this time. Given that 600,000 people leave prison every year, that means that 300,000 ex-offenders are imprisoned again within 36 months of their release.

While many people assume that nothing can be done to prevent this outcome, it is far from a *fait accompli*. Recent research shows that prison programming, such as attending school or working in a prison industry, can make a difference in improving ex-offenders' chances for success. One of the best-designed studies found that prisoners who had partici-

The upholstery shop where Mike Seger sews lawn furniture cushions once accepted repair work from the public. But security concerns led officials to temporarily suspend the program when the prison relocated to a new facility in 2002.

pated in educational or vocational programs in prison were 35 percent less likely to return to prison within one year than a control group who had not participated in those programs. Participants were also 14 percent more likely to be employed.

But most prison systems are not able to provide the programs necessary to attain this level of success with their inmates. One of the biggest challenges most face is simply getting services to everyone who wants or needs them. In Maine, for instance, computer repair is one of the most popular vocational programs, but it is offered only at the correctional facility in Windham, and overcrowding prevents most prisoners from moving between facilities. The prison industries program has a waiting list of over 100 inmates who would like to participate. And the number of spots in these types of programs has not kept pace with the increasing number of inmates in the system, so a dwindling proportion of prisoners can take advantage of their benefits.

What's more, the training that prisoners receive is not always well matched to the needs of the labor market. Though the prison industries programs employ over 100 people in woodworking and upholstering jobs, the Maine Department of Labor predicts that there will only be about 35 new job

MENTORS: *Stopping the rebound*

"You go to jail because you have issues, just like you go to a hospital because you have issues," says Steven Peevy of the Boston Reentry Initiative. "If you go into a hospital with a gunshot wound, they're going to try to treat the problem. If they don't treat the problem, you're going to die. But jails walk you right in and right out. By themselves, they don't address the issue that got you there in the first place."

For the last two years, the Boston Reentry Initiative has been helping jails operate a little more like hospitals. Each month, law enforcement officials select 15 to 19 inmates from the Suffolk County House of Corrections whom they feel are most likely to re-offend without major intervention. The inmates begin receiving assistance from community and law enforcement agencies several months before their release, and this help continues seamlessly once they are on the outside. "We try to give these men a huge array of services and support for doing the right thing, and at the same time give them a clear picture of what their next conviction will mean," says Ellen Mason, who runs the employment aspect of the program.

Because the problems that led these men to prison are complex and interrelated, the Boston Reentry Initiative takes a multi-pronged approach to solving them. Close to a dozen law enforcement, employment, housing, educational, faith-based, and other agencies collaborate to help with the critical minutia of building a successful life on the outside: obtaining identification papers, finding housing and employment, and arranging for child support payments.

A key element of the program is the mentorship of ex-offenders like Steven Peevy and his colleague Derrick Patrick. Both Peevy and Patrick have served time for armed robbery and now work with the Ella J. Baker House in Dorchester to keep others from going where they've already been. They are extremely involved in their clients' lives before and after they leave prison, calling their families, helping them enroll in school, and providing a sympathetic ear. This constant involvement is the linchpin to the program's success. Peevy and Patrick are so effective because their clients can relate to them in a way they never could to someone who hadn't walked a mile in their shoes. "We are proof in ourselves that you don't have to be caught up in this crime confusion," says Patrick. This is especially critical once the ex-offenders are back in the community, when the problems of their prior lives reemerge. "You can't just tell someone what to do and let them out. You have to always be there with them. They need a foundation," says Patrick. "That could be their church and their faith, or not wanting to let their mother down, or doing it for their kids." And, for some, having a mentor to rely on.

Even with all these resources brought to bear on the issue, finding that foundation for each ex-offender is a Herculean task. "The Suffolk County House of Corrections alone releases 200 men a month into the Boston environs," says Mason. "Between the two programs I'm involved in, maybe I get to contact 30 guys. Most of them leave with referrals to agencies, but no prison can afford to give them the real connections they need. What we do is such a drop in the bucket."

opportunities each year in those fields across the entire state of Maine. The Department of Corrections is often hamstrung in their efforts to provide market-relevant training by the costs of modern facilities and the security risks involved in operating in a prison environment. The woodworking program uses equipment as much as 60 years old, jury-rigged together by inmates in the machine shop. The fact that prison officials cannot let a single screw or hinge go unaccounted for, lest an inmate turn it into a weapon or sell it on the prison black market, means that they must operate a cumbersome inventory tracking system unnecessary in a noninstitutional woodworking facility. And even though wages are low, inmates are so closely supervised by guards and production is so inefficient that the total cost of operation is higher than it would be in a regular factory. "We'd like to get more into technology-based programs, like computers, the Internet, or telecommunications," says Ellis. "But we would have to convince the administration and security people that it's a safe thing to do. The state just isn't ready for that yet."

Linking inmates with social service agencies before their release can help keep them from returning to prison

STOPPING THE REVOLVING DOOR

Even if all ex-offenders left prison fully employable, they would still have to contend with the increasing lack of opportunity for low-skilled workers in today's economy. In 1970, 89 percent of U.S. men without a high school diploma were in the labor force, but by 2000 this had declined to 75 percent as job opportunities weakened for the less skilled. And even those with jobs may find themselves in a tough economic situation. Many participants in the industries program could be employed as woodworking machine operators, but the pay averages only $7.74 per hour in Maine. The fastest-growing occupation in the state, cashier, pays $7.03.

Ex-convicts also must cope with the additional difficulty of getting hired with a criminal record. A recent study showed that two-thirds of employers would not knowingly hire someone with a criminal conviction, and one-third routinely check applicants' criminal records. Despite this handicap, most former inmates do not experience great difficulty in finding some kind of employment, but they pay the price for their conviction in their wages. Bruce Western, a sociologist at Princeton University, finds that "incarceration reduces the wages of ex-inmates by 10 to 20 percent...[and] the rate of wage growth by about 30 percent," even after taking into account the increased labor market problems of all low-wage men during this period.

Nonetheless, officials and policymakers are coming to recognize that if all prisons do is corral inmates, occupy their time, and release them when their debt to society is paid, the cost to society will ultimately be higher than if institutions play an active role in reducing the number of ex-offenders returning to prison. The seeds of this approach are already present in existing educational and work programs. But the need for services is far greater than the current capacity to provide them.

To this end, in July 2002 the federal government pledged $100 million in grants for states developing prisoner reentry programs. The State of Maine has just received a $2 million grant to implement a program targeting nearly every 15- to 25-year-old who will eventually leave prison to live in Andorscoggin, Knox, Penobscot, or Washington counties. These inmates will be connected early in their incarceration with an integrated case management team of educators, social workers, mental health specialists, vocational trainers, job developers, and housing providers—specialists who will continue to work with the inmate after his release. Ex-offenders will also have a trained individual sponsor on the outside who pledges to help them make the transition out of the institution. "Evidence has shown that one of the most significant things you can have in your life is someone who cares about your success or failure. That could be a family member, church member, community member, or employer," says Wayne Theriault, a planner for the Department of Corrections. The department plans to take what they learn in these four counties and use it in programs across the state, hoping ultimately to reduce the number of ex-offenders who return to prison. (See sidebar on page 29 about a similar program in Boston.)

All the social services, job opportunities, and emotional support in the world cannot prevent every ex-convict from returning to jail. Some offenders prefer the thrill of the criminal life. Some want to quit but cannot conquer their internal demons. Some are under enormous economic pressure and can't see any other way out. Some simply need to outgrow it. And for prisons, the costs and security concerns of dealing with a sometimes violent and disruptive population place significant limits on the kinds of programs they can offer. Yet despite their limitations, prison programs hold great promise in helping offenders to do well by doing time. ✻

from appleton, maine

Two vegetable advocates invest in the earth, growing their portfolio the old-fashioned way

By Linda Tatelbaum § The future may be unknown, but one thing is certain. You can't eat money. For this reason, back in 1977 my husband Kal and I made what our elders perceived as a risky investment. I suppose we did seem like fools when, after only a few years as a college dean and a professor, we cashed in our tiny pensions and plowed the money into what we thought of as Gardening Mutual—

We spread the risk so that no matter what weather the summer brings, the year

some rough acres in Maine. We figured we were investing in a proven asset: the earth, with its unmatched record of exuberant growth. We were young and didn't know beans about compounding. That money would have quadrupled by now, no doubt.

But beans were exactly what we wanted to know about. We left academia to become "back-to-the-land" homesteaders, quickly learning that beans are the ultimate compounders. A single bean, planted in May, produces a bushy plant heavy with approximately ten pods holding five beans each. In September, when the pods dry, our one bean yields fifty beans. Plant all fifty the next year, and in just two growing seasons, we're in the bean business for life. By this magic, the value of our initial purchase of land, frontloaded with manure, has grown exponentially to produce a reliable annual dividend—the family food supply.

You can't eat money, but the sad truth is you can't live without it either. We came to Maine with enough to buy the land and build a small one-room house with a slightly crooked aluminum roof. We returned to professional careers, part-time, after two years—after our son was born, to be exact. Putting beans in a jar wasn't going to help pay for camp or college. So I became an English professor at nearby Colby College, and Kal opened a practice in marriage and family counseling. "Working out," as it's called when a farmer goes off to earn money in town, diversifies our portfolio. We no longer put all our radishes in one basket. Instead, we each spend two days a week working with people and return home to our life among the trees with great joy, and a paycheck.

Diversification is the rule in gardening, too. Unpredictable fluctuations are natural in a growing season. We have learned to spread the risk so that no matter what kind of weather the summer quarter brings, the year-end statement is bountiful. In a very hot year, we harvest an abundance of tomatoes, peppers, and eggplant. If it's cool, cabbage and kale thrive. There's always something to eat so long as you're willing to eat what there is.

For all the work of planting, watering, weeding, and fending off the deer, some crops do fail. This year, porcupines ate the raspberry canes down to the ground before a single blossom had a chance to become a berry. Even

photographs by kathleen dooher

When they started their Maine homestead in the 1970s, author Linda Tatelbaum and husband Kal Winer could never have predicted the range of benefits they would reap from investing in land, tools, and elbow grease.

worse was the season we nurtured a household staple, potatoes, all the way to harvest, only to dig up a crop of deformed spuds we couldn't use. But all losses are offset by gains in our compost heap. We toss the dregs onto the pile in autumn, where they turn into "black gold" to be spread on the soil in spring.

When our son went off to college in 1997, we looked into cutting our investment in Gardening Mutual in half. Considering such a change was difficult, because we love to see those rows of beans wave in the breeze, those sprawling tomatoes end up in Mason jars on cellar shelves. But the surplus income is taxing. It takes three people to polish off the stack of cucumbers that ripen all at once, or the pickles we make in a hurry before green beans come due, or the corn that we have to stuff ourselves with before the raccoons beat us to it. And not only are we missing one eater now, but our middle-aged appetites make us stop when we're full. Rather than cut back the garden, though, we opted to consider our excess

-end statement is bountiful

yields as health insurance. Maintaining a larger garden than we need keeps us from sitting around getting fat, and a fridge full of broccoli allows no space for luxury foods.

Meanwhile, we're also enjoying a complimentary bonus offered by Gardening Mutual—marriage insurance. How else can a couple hope to stay committed to each other, except by indulging in the mutual fun of puttering, pruning, and picking? Not that gardening is always an idyll. Sometimes the mosquitoes swarm, or we discover some new damage to the crops. It's too dry. It's too wet. We're having a fight. We're stiff from setting out 500 onion plants the day before, and we'd rather be...doing what? There's nothing like a garden to keep away the seven-year itch. A screen porch helps, too.

In addition, staying home to tend a huge garden insures our income by keeping us from spending it. We mow our own lawn; paint the trim; clean two chimneys; raise food and cook it the long way; chop wood; patch, mend, and glue what's broken. This frugality is good preparation for retirement, especially in our case since, unlike most people, our expenses are likely to increase as we age. We're going to need hired help to keep the homestead going: carpenters, mowers, chimney-sweeps, eventually even kitchen and garden helpers. Diminishing physical strength is one of those losses you can't just toss onto the compost heap and hope it turns to gold.

Compost to the contrary, a human life does end. But here's where compost has it right: by plowing the green under, death enriches the survivors. Whoever inherits our place can count on fertile soil, well-oiled tools, careful records of when to plant what, and a collection of heirloom seeds (especially beans). Perennial plantings, like asparagus, rhubarb, blueberries, raspberries, grapes, and apple and pear trees, also add value to our estate. You can't eat money, so doesn't it make sense to store our wealth in food? As we continue to grow more than we need in the second halves of our lives, we can afford the ultimate pleasure of doing well: sharing with others. The IRS allows us to bequeath up to 10,000 zucchini a year, tax-free. This seems a charitable gesture for two career vegetable advocates who've spent their life raking it in. ✻

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