Dividend

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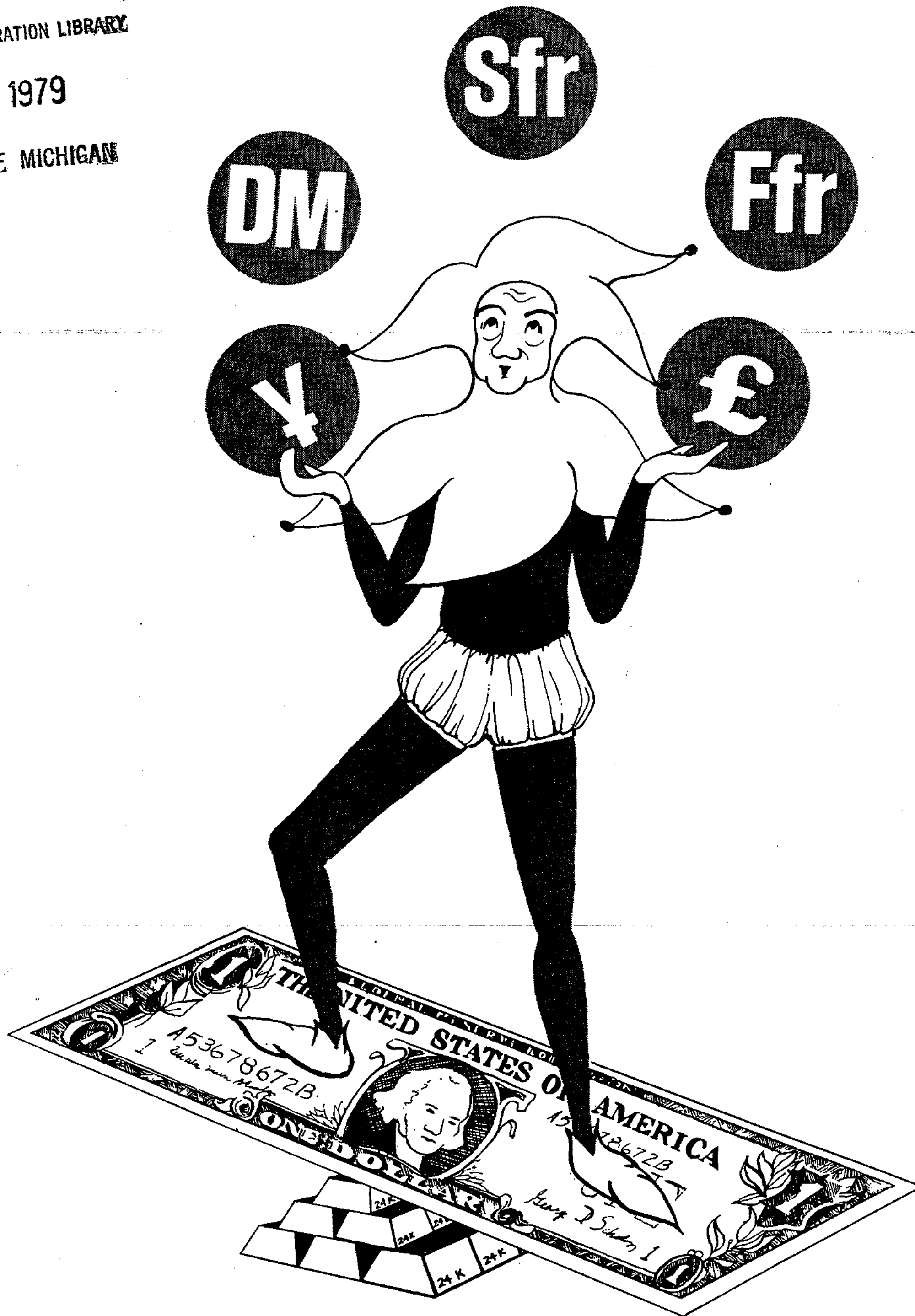


HOW GOOD IS GOLD?

The Game of Authors—Who Plays?

By Mary C. Bromage
Professor of Written Communication

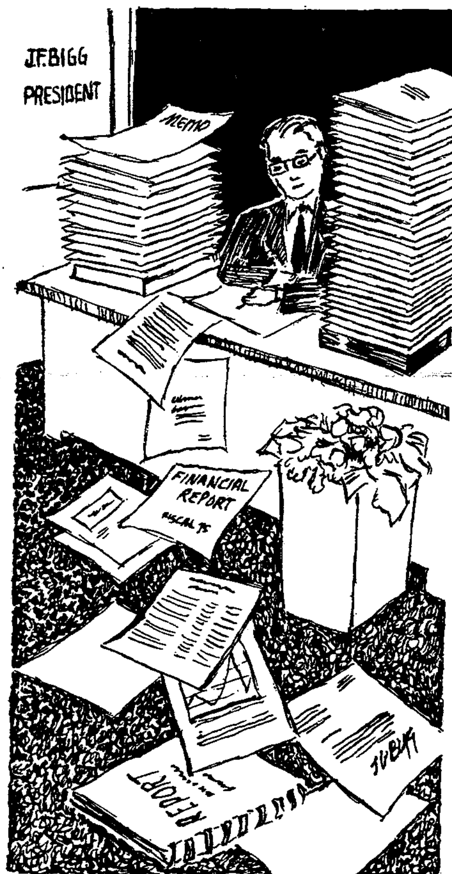
IT'S safe to say that the most productive writers, pound for pound, are not the professional literateurs but professional executives. What goes through their copying machines daily in the form of memos, letters, reports, procedures, summaries, job descriptions, arbitration decisions, performance reviews (all the multiplying managerial genre) far outweighs the slender output of the authors who write such successes as *The Godfather, Jonathan Livingston Seagull,* and *Love Story.*

Not only is the quantity produced in American offices and plants greater by far, but—unlike other kinds of writing—it must all be read, marked and inwardly digested (whether those on the receiving end like it or not).

For managerial communications are directed to a widening audience (seldom any longer to a single recipient), which is also a "captive" audience. The message, whether directed up, down or across, must be read if the day's business is to go on. The next turn of a wheel, the next allocation of a dollar, the next promotion may hang upon the incoming or outgoing message. To say one kind of authorship is creative and another is not is disputable.

All authors, literary or managerial are creative. The difference is that some (the literary authors) make writing their means *and* their ends, while others (the managerial authors) make writing the means *to* their ends. The difference between those whose writing is their profession and those whose writing is part of their profession (albeit a growing part) may come down to the difference imposed by quality versus quantity.

All good writing takes thought, time, humility and self-confidence. The language has its own principles of clarity and brevity: concrete words



to counterbalance the necessary but difficult abstractions of the policy-maker; short, definite statements to offset the involved, meticulously modified, circuitous sentences of the hardpressed official; low-hurdle paragraphs to break down the insurmountable wall of words which long paragraphs erect. Yet achieving a clear, concise style is a rocky road. Revision and critical review such as is generally exercised on the job by the "boss" may at times reach a point of diminishing return. As the master communicator, Churchill, once remarked: "There's another way to spell perfection, and that is paralysis."

It takes a logical and disciplined mind to produce a logical and disciplined communication. Unsound, uninformed or hasty thinking stand forth for what they are in the merciless glare of words. Indecision makes its presence known in ambiguity and circularity of sense. Of course, there are careful thinkers whose words do not do justice to their logic. Their style of writing is not the index of the soundness of their thought processes.

Clarity takes time, and so does brevity. It is easier to over-write than to program the reader selectively with what he needs in the way of fact to bring about concurrence. Cutting, best done by the writer himself rather than a well-meaning critic or editor, is another point that might change the trend in management's output to quality rather than quantity.

Above all, knowing the readers and their hopes and fears is an obligation incumbent upon the managerial communicator. Such a writer, unlike the poet or storyteller, has to have a preconceived purpose: to get action? to forestall objections? to persuade? to propose? to "sell"? to decide? to inform? Fulfillment of that objective depends upon the psychological and logical approach the writer chooses for his predetermined audience.

So businessmen-authors today find themselves working with the precision tools of the trade. They are working with the tools of the professional writers, writers who do not have to manage, who are not industrialists, but who write to make their living. All the craftsmanship of the person who writes by profession, limiting output in the interests of perfection, has to a certain extent become the desire of the financier, the merchant, the engineer, the organizer or the producer.

The manager's goal of clarity,

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The Game of Authors—Who Plays? ***by Mary C. Bromage*** **2**
Our professor of written communication discusses the enormous paper output produced by today's professional executives, and comments on some of the important attributes of the written word.

"You Are $40,000 Richer. This is a Recorded Announcement." **4**
Senior business student Walt Sandrowicz had a few dollars saved up, so he invested in the silver market. Here's what happened then.

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Gunter Dufey, associate professor of international business, is particularly interested in problems in international money and capital markets. We asked him about the role of gold in world finance? What about gold as a hedge against inflation? What about all that money the Arabs are piling up? Etc.

New Faces **10**
A portfolio of pictures to introduce you to ten new faculty members and a newly designed magazine, along with captions about them.

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A Dialogue Between Paul McCracken and Students
Dr. McCracken, Edmund Ezra Day University Professor of Business Administration and former chairman of the Council of Economic Advisers, discussed inflation, recession, depression and other matters with an overflow crowd of students in Hale Auditorium October 22. Here we bring you excerpts from the talk and from the question period which followed it. Dr. McCracken is currently serving as Senior Consultant to the Secretary of the Treasury.

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Winnebago president talks with MBA students; Contributions to Paton Accounting Center needed now; the Dean in Saudi Arabia; Paton celebrates 85th birthday; Donald Cowan dies; Public Finance Institute inaugurated.

Cover Drawing by Mary Lou Webster

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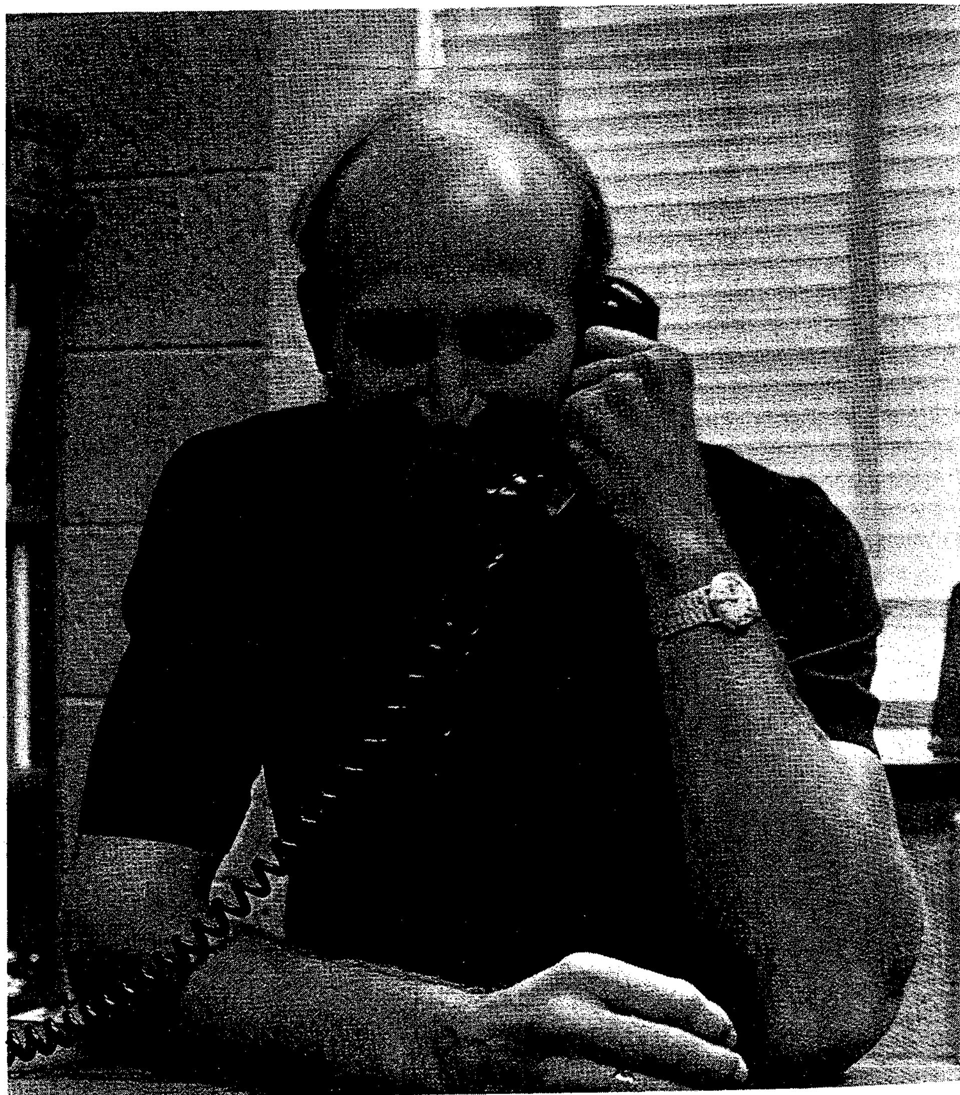
"You Are $40,000 Richer. This is a Recorded Announcement."

"It seemed unreal, because I never saw any money," says Walt Sandrowicz, senior business student who parlayed $4,000 into $40,000 by investing in silver. "The transactions were by telephone to California, and the way I found out how much money I had was by listening to a recorded telephone message quoting the current prices on silver and gold."

When Walt entered his sophomore year at the University of Michigan in September of 1972, he had $4,000 saved from a boyhood paper route, a job after school as a produce clerk in a supermarket, a lab technician's job he held for a few months after graduation from high school, and $1,500 from a four year stint in the Navy. So when a friend gave Walt a booklet about investing in silver, he read it carefully, then called the toll free number listed in the booklet for more information. The man at the other end told him what to do and how much it cost. "I was very unsure of myself," says Walt. "I had no understanding of the technical language of finance—he even had to explain to me what a margin account was." Nevertheless, Walt decided to invest, and went to the bank to cash in numerous small denomination savings bonds. "All the time I was signing all those bonds I was trying to act cool," Walt grins. "Actually I was very nervous. But then I thought, 'Look, I'm only



Walt Sandrowicz listens to the good news.

23, I'm not married, I have no family responsibilities. What can I lose? The most I can lose is $4,000.' "

So Walt bought 16 bags of silver coins for a total of $22,528. He paid for them with $4,128 of his own and borrowed $18,400 at 6½ percent interest. Each bag had a face value of $1,000, and each bag cost him $1,408 ($1,381 per bag plus a $27.00 commission). "It was not a conservative investment," says Walt, "but I wasn't worried because I didn't know what I was doing."

Twelve days after his initial investment, the cost of a bag of silver had gone up $51—from $1,381 to $1,432. Walt's broker told him he could buy more bags if he wanted to, so he bought three more. "I didn't realize at the time that I was actually increasing my margin loan," says Walt ruefully. "I thought I was using my profit and would not be paying any more interest. I was furious when I found out that I'd actually increased my debt, but by that time, the price of silver was up some more."

Walt was able to keep close tabs on the price of silver by calling a special number and hearing a recorded message quoting the latest prices on silver and gold. This toll free number is provided to its customers by the company Walt invested with. Need we tell you that he called it every day?

In February of 1973, the dollar was devalued and the price of silver skyrocketed. Walt's equity in his silver had grown from $4,000 to $12,000 in the six months since his original investment. By this time he was buttonholing all his friends and telling them to invest in silver, but, he says sadly, most people didn't have the money to do so.

By July of 1973, the U.S. dollar had started to decline on money markets, and the price of silver reached $2,032 per bag. At this point Walt increased his margin ("I was beginning to understand a little about what I was doing") and bought six more bags for a total of 25 bags of silver. One week later the price hit $2,300 per bag. In September, Walt entered the business school and took a course in finance. This gave him more understanding of the complexities of investment and so, in January, 1974, when the price of silver "went berserk" Walt started to get wary. He figured that the price of silver had been increasing about $200 per bag every three months. But by the middle of February, 1974, the price had gone up $800 per bag in six weeks. "What's going on?" Walt asked his broker. "I'm not sure," came the reply. "It looked like a peak to me," said Walt, "and I sold out for a total of $40,000 after all my margin was paid."

Seven days later the price of silver reached $4,500 a bag, and had Walt held on, he would have realized $65,000. So he reinvested in silver.

Within 24 hours, he had lost $10,000!

"I sold out again," says Walt, "as fast as I could. I now know that if I had not sold out I would have recovered my entire loss, but even so, I think it was right to sell out."

With the $30,000 he still had, Walt invested in gold coins at $144 an ounce, and had soon recovered everything he lost by what he refers to as "that stupid silver transaction."

At this writing, Walt still has his money in gold, but he is worried. "Now," he says, "I know more and I know there is a negative side to gold. Countries may start selling off some of their gold reserves, or the U.S. Treasury may sell some of its gold, and it's hard to predict what may happen. People have advised me to sell out, but I'm not going to, anyway not yet."

Well, what about selling out *some,* and putting the money into more conservative investments?

"I don't want to be conservative," says Walt. "I want to go for broke. I haven't been conservative yet. Why start now?"

"Does that mean," I asked, "that you think of yourself as a potential millionaire?"

"I want security, independence, and freedom," mused Walt, "so I guess I'm going to have to be independently wealthy. Whether I actually become a millionaire or not is not as important to me as having those three things. I do NOT want a nine to five job, that I know."

What are the long range plans of a man who does not want a nine to five job? "If I can get enough starting capital, I want to invest in real estate," says Walt. "That is, I want to buy a run down building, fix it up, sell at a profit or trade for another, bigger building—in other words, pyramiding. My concentration at the business school is in finance and real estate, and I'm learning all I can about house repair on the side. I'm the house manager at my fraternity, which has taught me a lot about how many items can go on the blink in a house and how to fix them. Who knows, I might eventually decide to go to graduate school in finance—but to understand finance for my own personal needs rather than for a career in it."

With all that money, did Walt take some time off in the summer to enjoy himself? No. He worked in a factory all summer—"to make enough money to put myself through school next year," he says.

By Pringle Smith
Editor, *Dividend*

How Good Is

The Other Side of the

Editor's Note: With inflation running rampant, more and more investors are looking for ways to protect themselves against its ravages. As the experience of business student Walt Sandrowicz shows (Page 4), precious metals have sometimes proved profitable as a hedge against inflation. But are there dangers in this kind of investment? How good *is* gold, really? For answers, Dividend talked to Gunter Dufey, associate professor of international business, whose special interests center on problems in international money and capital markets as well as in financial policy of multinational corporations. Dr. Dufey took his undergraduate work in economics, business and commercial law at the Universität Würzburg in Germany. He holds the M.A. and D.B.A. degrees from the University of Washington in Seattle. His professional experience includes extended periods of practical training in business with companies in Germany, France, and the United States. He has served as a consultant on the U.S. Capital Control Program to the U.S. Department of the Treasury and is currently a member of the Economic Advisory Board to the U.S. Secretary of Commerce. In October, Dr. Dufey gave the opening paper at the annual Congress of the International Fiscal Association in Rome, Italy. The focus of the Congress was on financial management in an era of inflation and fluctuating exchange rates.

Q. *What about the role of gold in world finance? The gold bugs say that gold will always be the standard of value. Why must gold be the standard of value of world currencies?*

A. The gold bugs mix up the various roles of gold. This metal has in the past been used as a monetary standard. Now it is still important, but as a commodity. Like any commodity, it is a speculative investment, and as in all speculative markets, people sometimes gain and sometimes lose by investing in it. But one should not confuse this with the *monetary* role of gold, a role that has been eroded over a long time and is now virtually eliminated.

Q. *Why?*

A. Some of the attributes that gold had in the past are not very valuable in an age of instant communication. The fact that gold is easily divisible, indestructible, light in weight as compared to value, etc. is not as important for monetary purposes now when banks have computers, and instant money transfer is important. Thus, gold as a means of payment has been eliminated from the system a long time ago.

Q. *I still can't see why gold will not be used as a standard of value for world currencies?*

A. Many people feel they need a standard of value as a denominator besides currencies which can be manipulated by governments, but that's not really necessary.

Q. *Why not? What kind of currency situation do we have if nothing is tied to anything as a denominator?*

A. Wait a minute. National currencies are always tied to goods. Thus, there is always a price in the sense that prices express relationships of goods to each other. For example, one dress is worth 10,000 buttons, or whatever. It is just a convention—admittedly a very useful one—to choose something as the common denominator. But we do not need an international common denominator. As long as the price of goods is linked to national currencies we can express the currency of one country in terms of the currency of another and, therefore, the link that matters is established.

Q. *Since gold has been the common denominator for many years, isn't it true that a given amount of gold today will buy at least the same amount of goods that the same amount of gold would buy thirty years ago? You can hardly say that about most of the world's currencies!*

A. Perhaps, but you might be able to say that about any number of commodities. For instance, a standard lot of pork bellies might buy the same amout of goods today that pork bellies bought 30 years ago—or a bushel of wheat, or copper, or any good that is useful. Essentially, this is a matter of relative prices, and by the way, historical data show that they haven't been that stable either. Some have bought more, some have bought less, but all have fluctuated widely in terms of all other goods. For example, there is general agreement that a massive sale of gold reserves on the part of any one of the major countries might lead to a precipitous drop in the free market price of gold.

Q. *But why would any country sell its gold reserves?*

A. Because its government may feel it has to; the government may not for example want to let the currency depreciate further. It may want to buy time.

Gold?

Coin

A Dividend Interview with Gunter Dufey
Associate Professor of International Business

Q. *When you say a government might sell gold because it doesn't want to let the currency depreciate, aren't you saying that gold backing is necessary for a healthy currency?*

A. No, gold is just an asset. They might choose to sell their gold, but they could choose to sell any other asset they might have in order to buy foreign goods and thereby mitigate rates of inflation in their own country.

Q. *Some people are talking now about using Special Drawing Rights as a common denominator instead of gold. Doesn't that show we do need some kind of common denominator?*

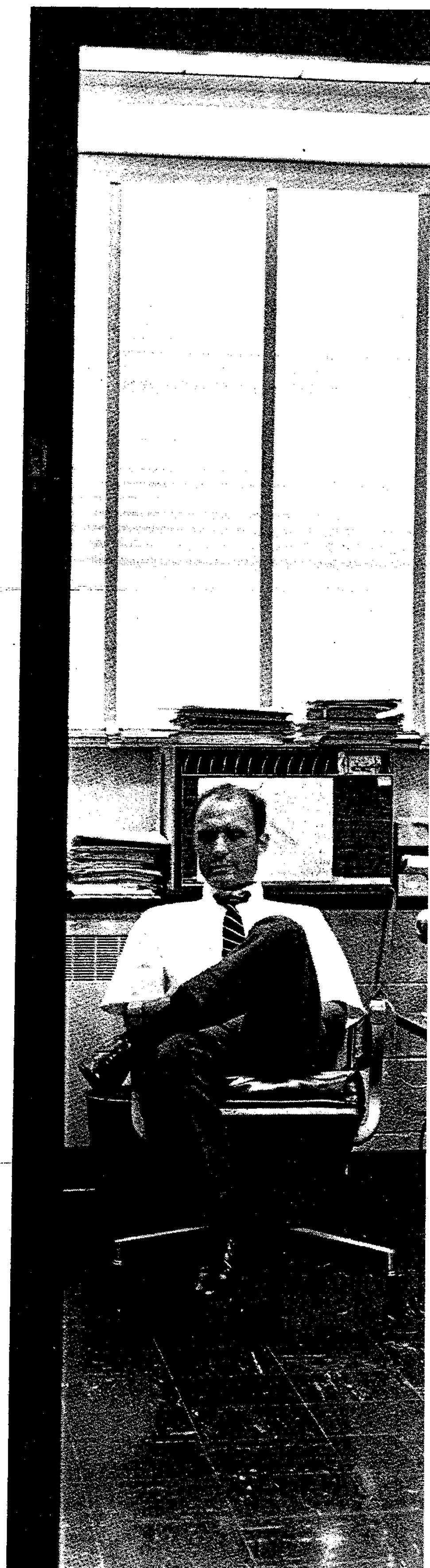
A. As far as the international monetary system is concerned, Special Drawing Rights or any other common denominator in a system of floating rates, has limited usefulness. As a matter of fact, SDR's are now defined in terms of a weighted basket of sixteen major currencies. Thus, it changes as each currency in the basket changes its value vs. all the others. What you have is a floating SDR! One should not overlook the fact that it was mainly the confluence of international political factors that created SDR's. If I may simplify a bit, the scheme was supported by less developed countries who thought they would get purchasing power which they could not get through foreign aid. Then there were those who wanted to reach international economic integration through fixed rates and an international central bank that would be able to create its own means of payment—that is, SDR's. Finally, there were those who wanted, for political reasons, to replace the dollar as an international means of payment and standard of value—which are by the way functions which it had obtained through market forces.

Q. *Don't floating exchange rates encourage governments to print more and more money?*

A. In my view, governments tend to print excessive amounts of money because they prefer the short term economic stimulation that a disproportionately increased money supply provides (which is good for the next election) to the long term damages that ever accelerating inflation inflicts upon society. This rationale operates whether we have fixed or floating international exchange rates! The argument that governments can resist political pressures to inflate by pointing to their international obligations, such as maintaining a certain exchange rate, is not well documented by past experience.

Q. *Would you summarize the reasons why you believe a floating system is better than a fixed system?*

A. Monetary systems exist to tie national economies one to the other to make possible the most efficient production of goods and services. My concern is that the ties between national economies not be broken. Fixed rates make for more of a strain on the ties, because governments are tempted to interfere directly with trade and investment



Dr. Dufey in his office.

in order to keep their foreign exchange rates stable. Thus, the choice is not between fixed rates or flexible rates, the choice is between fixed rates with a lot of official intervention in trade and investment, or flexible rates with considerably less intervention. From the standpoint of economic efficiency, flexible rates are preferable because business firms can learn to adjust to market forces such as flexible rates quite effectively as the last two years have shown.

Q. *An article in the Wall Street Journal recently said, "In truth, if the monetary system were in a healthy state, it wouldn't make much difference what sort of mechanical arrangement were foisted upon it to facilitate international exchange, whether with fixed rates or floating rates, with gold as a numeraire or with man-made special drawing rights. But when the system is sick to start with, any mechanism will show strains." Would you comment?*

A. I guess one has to go back to the very basics. All financial arrangements have only one purpose: namely, to make production as efficient as possible so consumption can be maximized. Thus, I focus on the *service* role of any financial system. The mechanical arrangements, it is true, don't matter that much as long as the underlying system provides for efficiency.

Q. *Is it efficient?*

A. Well, efficiency is a matter of degree. However, one can argue that given the fact that the underlying system has certain deficiencies which we pointed out above, differences in financial arrangements matter insofar as they can make a bad situation worse, or alternatively, they can make a bad situation tolerable. As the situation now stands in the major and minor economies of the world, I believe a system of floating rates is a better solution—it won't cure the underlying problems, but it will give the international *economic* system a greater chance to survive.

Q. *Why?*

A. If we had national economies which would inflate and grow at similar rates over time, then a fixed rate system would provide stability which would be beneficial to international production and trade and therefore, consumption. But the fact is that we now have national economies with very different rates of inflation and growth. A floating system has a better chance of preventing the world economy from disintegrating.

Q. *What do you mean by disintegrating?*

A. My premise is that we live in an era of "activist" government. In international economic relations, governments are expected to intervene directly when "problems" occur, even if the very fact of their intervention may make things worse, at least in the long term. We have learned that this kind of interference usually hurts real output and therefore everybody's standard of living. For example, the Depression of the 1930s was made considerably worse because governments tried to get themselves out of temporary problems by jacking up tariffs, imposing exchange controls, etc.

Q. *But if you have no fixed standard such as gold would provide for a currency but instead have constantly fluctuating standards, might this not introduce more instability into the system?*

A. I think gold in the minds of most people means fixed exchange rates. History, however, has shown that governments have not followed this discipline of the gold standard, neither in respect to inflation in their own countries nor in respect to the external value of their currencies. Just to illustrate this, you could argue that exchange rates could be perfectly stable if all countries would adjust their rates of inflation upward—but what a price this would be for having stable exchange rates!

Q. *Since the oil crisis, I have read that more and more of the world's monetary reserves are being concentrated in the hands of the Arab countries. Someone said that the center of financial gravity of the world is moving to Riyadh and the Persian Gulf. What might be the effect on world currencies?*

A. I agree with most people in the field that this is an additional argument in favor of floating rates.

Q. *Why?*

A. The rise in the price of oil that the cartel of the producing countries imposed on the world economy causes additional imbalances among the various national economies, because different countries are affected in different ways by the change in the price of this commodity. Some countries have alternative energy sources which can be developed with relatively minor costs, while others have to bear the full economic brunt of this new international monopoly. Thus, you have introduced further diverging trends among the economies of different countries and I doubt very much that a system of fixed rates could stand the strain of all the adjusting which will become necessary.

Q. *What about the concentration of the world's reserves in the hands of the Arabs. Isn't this an unhealthy situation?*

"What does it really mean to withdraw money from a particular currency? You always have to ask where would these funds go? Money cannot disappear in the sands of the Arabian desert...The ability of the Arabs to create mischief in the international monetary system is limited as long as rates are flexible, or as long as central banks cooperate."

A. The word "reserves" in this context is a bit misleading under today's system. In a system of freely floating exchange rates, international reserves are not needed. This applies to gold as well as to SDR's and to other currencies. Reserves are needed only if you want to intervene in the market and change the value of a currency, which by the way is still being done to a certain extent—that's why we talk about "managed" floating. However, what the Arabs are accumulating should be viewed as financial claims on the oil importing countries. And financial claims mean purchasing power. The interesting question right now is what will be the effects of these financial claims that are accumulating in the accounts of these oil exporting countries.

Q. *It has been said that the Kuwait government, for example, maintains immense sterling reserves; together with other Arab holdings they amount to tens of billions of pounds; if they were massively withdrawn, the British economy would collapse. What about the ability of the Arabs to manipulate world currency?*

A. I acknowledge that this argument is frequently heard, but it also has been answered frequently. First, one has to show *why* the Arabs would suddenly withdraw their holdings in a currency, and second, we would have to see what the effects were.

Q. *Can you explain that?*

A. Well, what does it really mean to "withdraw money from a particular currency"? You always have to ask where would these funds go? Money cannot disappear in the sands of the Arabian desert. Withdrawing means exchanging one currency for some other. Now, under floating exchange rates the currency out of which they move would depreciate relative to those for which they exchange those funds. Thus, the Arabs would probably come out of it very poorly because the resulting depreciation would shrink the value of their own monetary assets. On the other hand, if rates are fixed, the funds would wind up in the hands of one or several central banks and these banks can always lend them back to the country where they came from.

Q. *Suppose the Arabs suddenly withdrew all the money they had in dollars and put them into Swiss francs?*

A. Then the dollar would drop in value—thereby losing the Arabs a good deal of money—because the drop would happen before they could get completely out of that currency; at the same time, the Swiss franc would increase in value versus the dollar and perhaps other currencies. Now this would have a number of other ramifications: It would cause Swiss exports to decrease and those of the United States to increase and if that happened very rapidly, there could be problems. Then again, this could be mitigated by central bank action along the lines of the Swiss Central Bank lending funds to the Fed.

Q. *Then you are saying that this is really not a legitimate worry?*

A. I am saying that the ability for the Arabs to create mischief in the international monetary system is very limited as long as rates are flexible, or as long as central banks cooperate.

Q. *Imagine the problem as Saudi Arabia contemplates accumulating, over the next several years, half of the holdings on the Eurocurrency market?*

A. In that case, the Arabs will share the fate of all holders of financial assets, which is basically a very sad one.

Q. *Why?*

A. Look at our own experience. Yields are eroded by inflation, nominal interest is taxed away, and claims occasionally are invalidated by governmental action.

Q. *If we do have a system of floating rates, does the uncertainty of what any currency will be worth over time make a great deal of money go to the short term market (including Arab money)—and make it very hard to obtain long term funds for investment? And does this make it tough for banks who, in a sense, have to borrow short and lend long?*

A. First of all, the move towards shorter maturities in credit markets is due primarily to uncertainty about future rates of inflation—not exchange rates. As a matter of fact, the United States is currently the only country where long term funds are still committed at fixed interest rates—in all other countries, including the major European countries, funds that are committed on medium or on long term have interest rates that are subject to change, say every six months.

Q. *Why is it still possible in the United States to obtain long term funds at fixed rates of interest?*

A. My answer is because the market here is so institutionalized . . . i.e., the people making the investment decisions are not investing their own funds and thus they have perhaps a more relaxed attitude about their lending policies. That may sound a bit facetious and it probably is, but undoubtedly there is a kernel of truth in it.

Q. *Let's get back to floating exchange rates. If you are lending money in a system of floating rates, aren't you taking a big risk, since the values of currencies may fluctuate so much over time?*

A. As far as floating exchange rates are concerned, companies, financial institutions, and individuals have learned very quickly to adjust through hedging and appropriate diversification techniques. As a matter of fact, this is currently one of the major research areas on which I'm working with Ian Giddy* and Rudi Naumann*. We are investigating various techniques and procedures that improve such business policies and help companies to cope with exchange rate fluctuations.

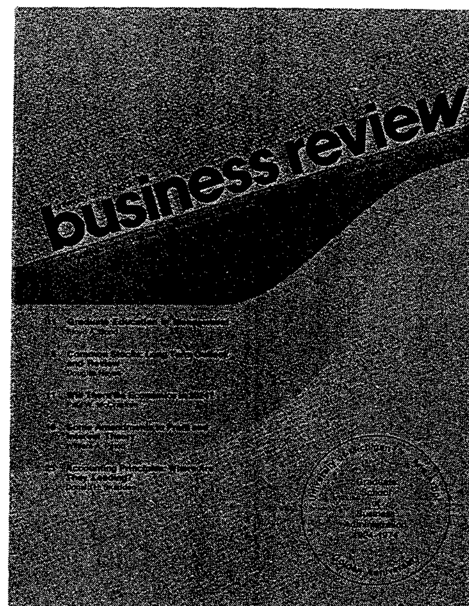
* Dr. Giddy now has his Ph.D. and is a new assistant professor of international business (see page 12). R. Naumann-Etienne is a Ph.D. student.

Continued on page 27

Pictured above getting acquainted over a cup of coffee at Dominick's are Richard Andrews, assistant professor of statistics and Paul Danos, left, assistant professor of accounting. Dr. Andrews received his M.S. from Michigan State University and his Ph.D. from Virginia Polytechnic Institute. Before joining our faculty, he was an assistant professor at the University of North Florida. His primary research interest is empirical Bayes estimation theory as applied to utility functions. Dr. Danos received his Ph.D. from the University of Texas at Austin. He worked as an industrial accountant for six years before getting his Ph.D., and is a member of the American Institute of Certified Public Accountants. His particular research interests are in financial accounting theory construction and its implications for auditing.

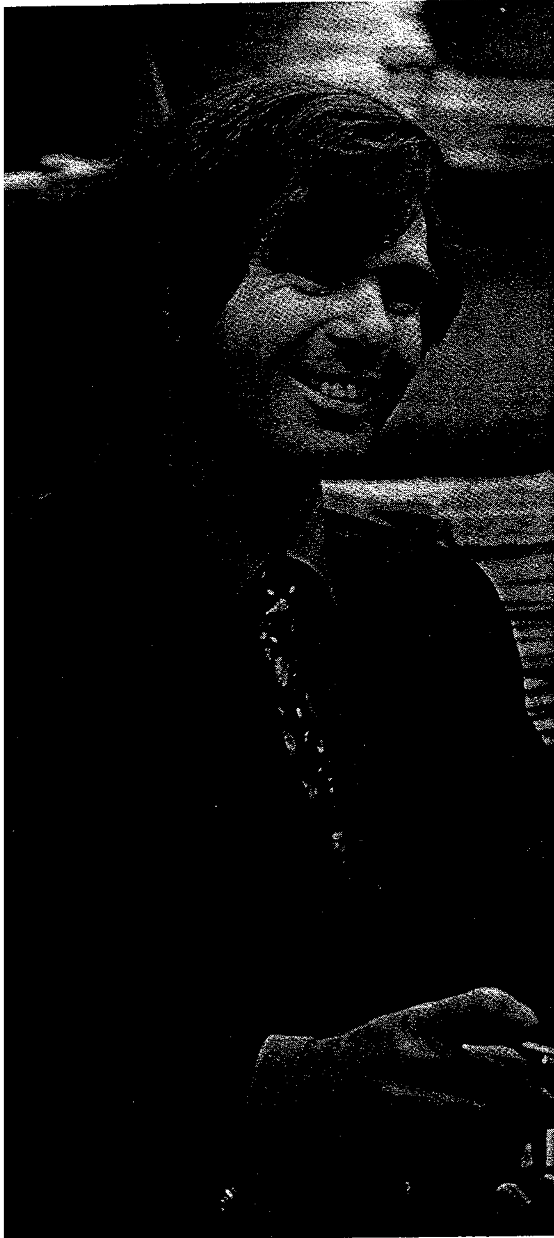
New Faces

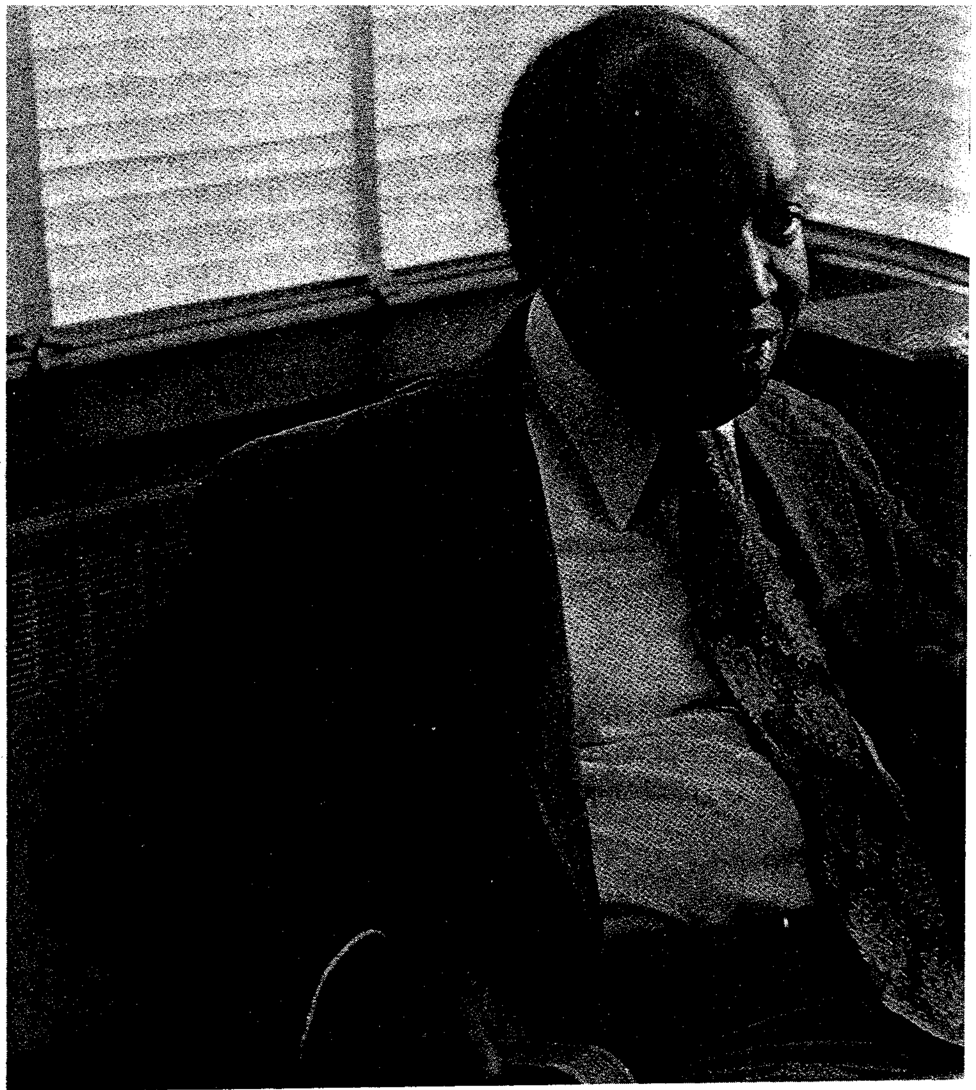
A portfolio of pictures and captions designed to introduce you to our ten new faculty members.



Patricia Shontz, pictured left, is the new editor of the U-M *Business Review* and director of publications for the Graduate School of Business. Dr. Shontz received her B.S. summa cum laude from the University of Detroit, where she also earned her MBA. She received her Ph.D. in economics from Wayne State University. Before joining our faculty as professor of business administration, she was an editorial writer and economist for the *Detroit News,* and the author of a nationally syndicated award-winning column on economics. She is a director of four major companies, a consultant to the U.S. Treasury and a member of the U.S. Census Advisory Board, the American Economic Association, and the Economic Club of Detroit. Above is pictured the cover of the September University of Michigan *Business Review* in its new format developed by Dr. Shontz. Subscriptions to the *Business Review,* which is published bi-monthly, are available for $6.00 per year.

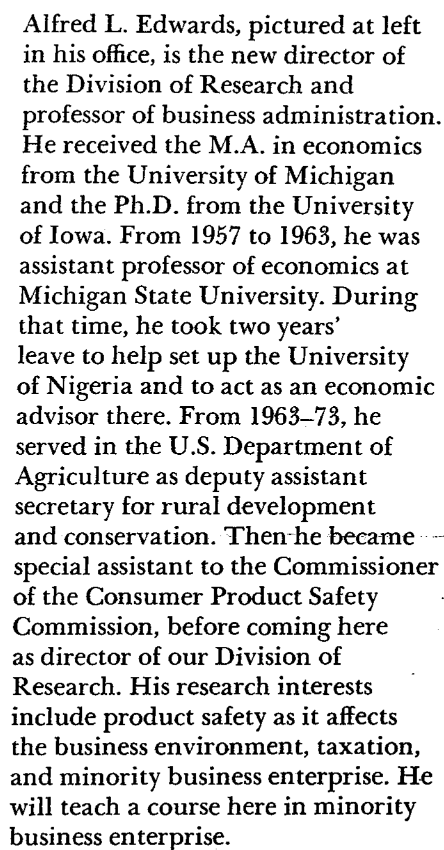
Photos by Virginia Geren



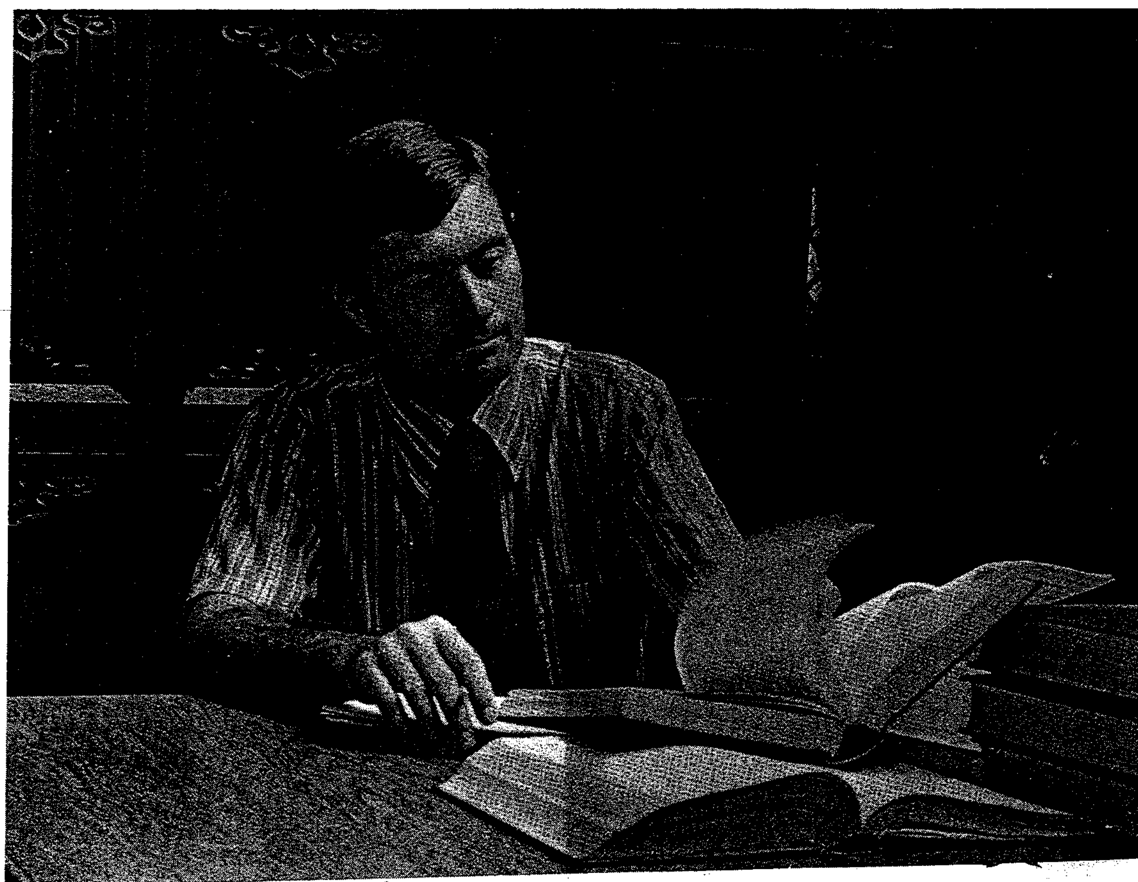


Ian Giddy, pictured left, came to Michigan in 1970 from South Africa with the idea of getting an MBA. While here, he became more and more interested in international business and in doing research, and so ended up getting his Ph.D. on a Ford Foundation Fellowship. Now an assistant professor of international business, Dr. Giddy is working with Associate Professor Dufey on a monograph dealing with international money markets (see page 9). His dissertation concerned the impact of devaluations and revaluations on stock prices.

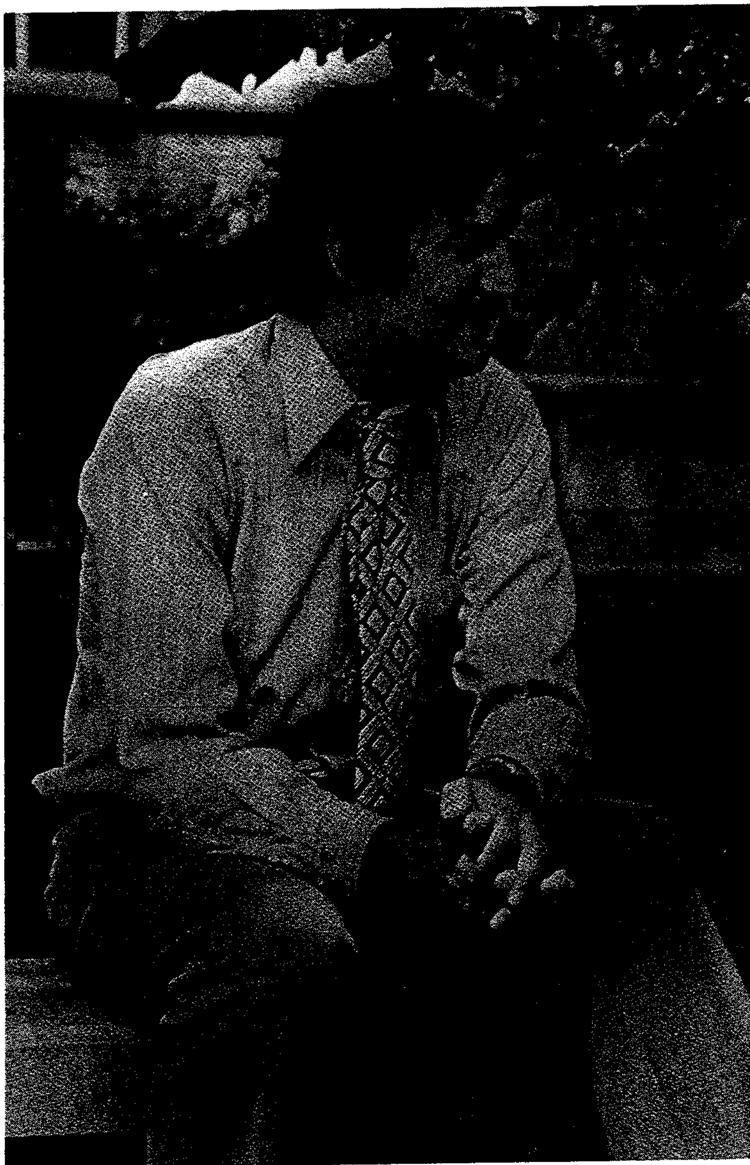
George J. Siedel, pictured right, assistant professor of business law, received his B.A. with honors in history from the College of Wooster and his Juris Doctor from the University of Michigan Law School in 1970. He received a Diploma in comparative legal studies from Cambridge University, where he studied for one year on a Ford Foundation fellowship. Before coming here, he practiced law for two years in Michigan and was an assistant professor in the College of Business Administration at Bowling Green State University.

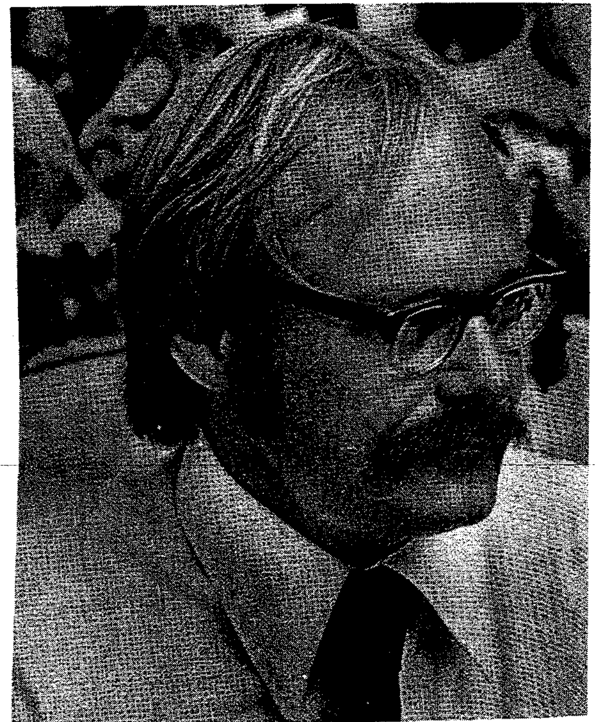


Alfred L. Edwards, pictured at left in his office, is the new director of the Division of Research and professor of business administration. He received the M.A. in economics from the University of Michigan and the Ph.D. from the University of Iowa. From 1957 to 1963, he was assistant professor of economics at Michigan State University. During that time, he took two years' leave to help set up the University of Nigeria and to act as an economic advisor there. From 1963–73, he served in the U.S. Department of Agriculture as deputy assistant secretary for rural development and conservation. Then he became special assistant to the Commissioner of the Consumer Product Safety Commission, before coming here as director of our Division of Research. His research interests include product safety as it affects the business environment, taxation, and minority business enterprise. He will teach a course here in minority business enterprise.



Bernard J. White, lecturer in industrial relations, received his B.S. magna cum laude from Georgetown University and his MBA with distinction from Harvard University. He is currently finishing his Ph.D. at the University of Michigan. He has worked as a consultant on organizational problems, and as an administrative analyst at State Street Bank, Boston.





John A. Fossum, lecturer in industrial relations, s
personnel administration and personnel research
Corporation in Minneapolis before going to Mich
for his Ph.D. He holds a B.A. from St. Olaf Colleg
from the University of Minnesota. Before coming
an assistant professor at the University of Wyomi

Alan G. Merten, associate professor of management science, is the director of the Data Translation Project at the Business School. The project is developing a practical method of transferring data (and ultimately programs) from one computer system to another. Dr. Merten holds the M.S. in computer science from Stanford University and the Ph.D. in computer science from the University of Wisconsin. He joined our faculty from the College of Engineering, where he was assistant professor of industrial and operations engineering. He has served as a computer consultant to numerous corporations and government organizations, and has published extensively on information system design and the transferability and translation of programs and data. He is pictured here talking with Rich Dissen, a first year MBA student who is working for Dr. Merten on a project on computer based information systems design.

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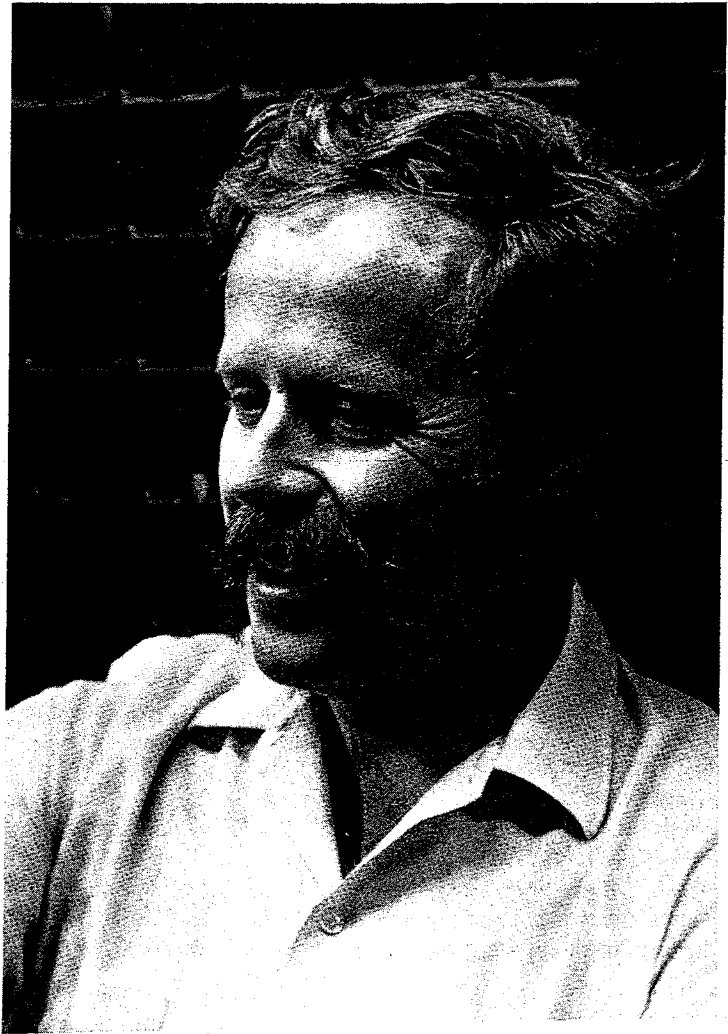
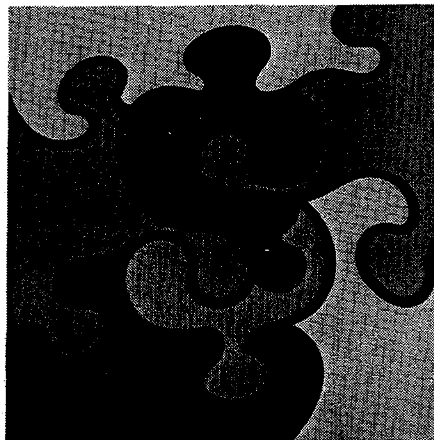


Joseph E. Finnerty, left, lecturer in finance, graduated with a degree in physics from the University of Notre Dame, then came to the University of Michigan for an MBA in finance. After a stint in the army during which he designed computer systems for the Army Security Agency, he returned to the University of Michigan for his Ph.D., and while a student here, was for three years the recipient of the Rodkey Fellowship.

Is the Economy on the Verge of Collapse?

A Dialogue between Paul McCracken and Students

Editor's Note: Dr. Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration and former chairman of the Council of Economic Advisers, gave a seminar entitled "Is the Economy on the Verge of Collapse" on October 22 for interested business students. A tremendous number of them were interested, and they packed Hale auditorium in the new Assembly Hall from stem to stern as well as sitting in the aisles and standing in the back. Here we present excerpts from the talk and from the question period which followed.



I suggested the topic for our seminar this afternoon for obvious reasons. Simply because there has been almost a tidal wave of concern about whether the economy is coming apart at the seams; whether we are on the verge of another Great Depression. Probably most of you, as a part of your breakfast table conversations back home, have heard a great deal from your parents about how it was back there when your father was trying to get a job when unemployment reached its peak of, say, 27 percent in 1933, and was still down not very much below 20 percent when the war effort came along in 1940.

What is the occasion for this concern? That the concern is there is certainly indisputable. I can say quite flatly that in all the time I have been a professional economist this is the first time that I have heard so seriously and persistently these questions as to whether our economy is going to be able to weather the storm. If this was one of these irrational tidal waves with absolutely no foundation, one could make light of it and dispose of it rather quickly. But the fact of the matter is that there are some serious stresses and strains in the economy that make the raising of these questions not entirely an academic exercise. (As you know, academic is a synonym for irrelevant. I have spent a percentage of my life objecting to the use of that word in that context—thus far to absolutely no effect.)

I am sure that when the news came a few months ago that the Bankhaus Herstatt had gone belly-up in Germany that people in my generation felt a kind of shiver because we recalled that the Great Depression in the 1930s began with a German-sounding bank—in this case it was the Credit Anstalt with headquarters in Vienna that got into trouble—and the presumption has been that that bank failure started the prairie fire that swept across the western economies until finally everything was in ruins. Well, as if Bankhaus Herstatt was not enough, it wasn't long before we heard about the Franklin National Bank and then occasionally there would be another. With each one, there was a flurry of discussion that this one might be like the string in a piece of knitting—pull that and all at once the whole thing becomes unravelled!

Beyond that there have been some more substantive problems that we need to bear in mind. One of them is that I think everyone had underestimated the kind of twisting and warping of our financial system which serious inflation would involve. And by "serious inflation" I certainly mean the kind of rates of inflation we have at the present time.

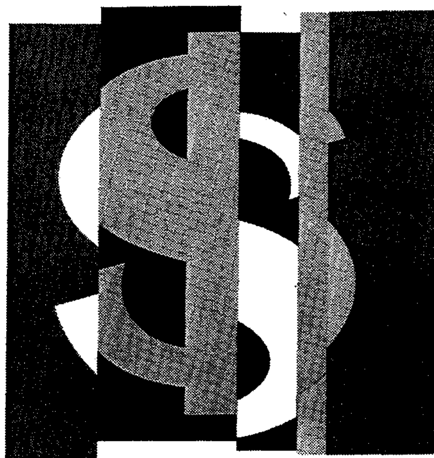
I recall sitting at lunch in Washington a few years ago with a former finance minister of a Latin American country that had experienced very rapid rates of inflation for quite a period. It had become his job as Minister of Finance to stabilize the economy. According to him,

they had been able to get the rate of inflation down to where it was considered to be at a level of stability—namely, somewhere around 20–25% per year. But the most significant thing the finance minister said was: "One of the first problems I had was that of course inflation simply destroys capital markets." And his task then was to recreate the institution of the capital market.

I thought about that again last night as I was talking with a senior executive of one of our major corporations here in this country. He had just come back from the United Kingdom and interestingly he made exactly the same observation—namely, for all practical purposes in the United Kingdom a bond market hardly exists any more.

In this country the first thing that collapsed was the equity market. One thing the accelerating rate of inflation has done in this country, is that with a very high rate of inflation (about a 14 percent per year annual rate depending on which index you use) and high interest rates, you inevitably get an adjustment to substantially lower price earnings multiples. These lower price earnings multiples, together with a 50 percent corporate income tax which makes after-tax earnings very sensitive to any understatement of costs—these two things together had quite a disastrous effect on equity markets. Consequently, as the requirement for capital developed in this period (and the requirements were particularly large precisely because internally generated funds were deficient, as well as because price levels themselves were rising) the demands converged more and more on the bond market. Then the bond market began to flounder and the demands turned more and more to the banking system, and we have had these perfectly horrendous demands for bank credit. Bank loans increased in the early part of this year at seasonally adjusted annual rates of 50 percent in one year.

Now, what is the significance of this? It is that this kind of a situation almost inherently will tend to produce an impasse where either the banking system starts to be weakened and/or the economy starts to hit



the end of the leash in terms of credit. And it's more than just whether the nasty old Federal Reserve will provide the reserves or not. There's a more fundamental issue here. That is, in a period of rapid inflation our banking system is confronted with demands for credit—reflecting a substantially higher price level than the price levels which prevailed when the banks were accumulating their capital funds. Therefore there is almost an inherent tendency for banks to find themselves with a capital asset relationship which gets thin in terms of their capital funds.

As you look at the major New York City banks over the last years, you will find that the increase in their capital funds was equal to only about 4.6 percent of the increase of their assets. That's a pretty thin relationship. Yet in a period of sharply rising inflation this is almost mathematically certain to occur. It is the current price level that is relevant when it comes to the magnitude in the demands for credit. But on the other hand their basic capital structure is more nearly reflecting lower price levels.

I don't want to belabor that unduly, but I think it is important to see

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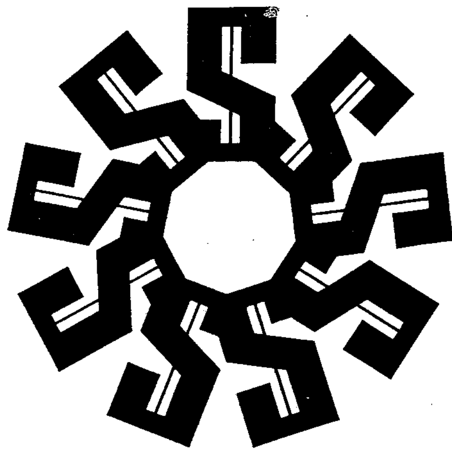
About the dollar signs: Dollar sign designs are from *The Tax Adviser* magazine, a publication of the American Institute of CPAs, Inc. They are designed by John Vaccaro and used by permission.

that the kind of problems we face in this country today are much more complex than the single-valued problem that presidents or managers of economic policy historically have found themselves facing. You go back to the mid-1950's—say 1956–57—and you would find that the problem was simply that the management of economic policy had overheated the economy—we had in a sense a kind of old-fashioned overheating at the peak of the boom. I happened to have been a member of the Council of Economic Advisers at that period (I seem to specialize in being there at the worse possible times). The problem then was simply to put on the brakes and to cool off the economy. No performance in economic policy is ever done perfectly and that was not either, but the inflationary overheating was cooled off, by mid-58 the price level was stabilized, and President Kennedy in 1961 then found himself with a price level which was stable. His problem was to encourage economic expansion because unemployment was too high. So, there again it was a concentration on one aspect or pushing in one direction. Then, by '69 (the year I came in as Chairman of the Council—again one of the worse times to go in), the problem was a relatively simple one. It was simply that the economy had been overheated by the combination of loading the Viet Nam expenditures into the budget without making compensating adjustments on the tax side or in terms of other programs. But, the economy was at full employment. In fact, at over-full employment.

This time we've got an extremely complex thing. We've got double digit inflation; we have unemployment rates that are far too high, and we are probably moving into a V-type recession as contrasted with the saucer shape where the economy essentially moves laterally. Our problem now is not the simple one of just bearing down hard in one direction or the other. One has to deploy a program very much more carefully.

Where do we come out?

Let me say categorically that to talk about another Great Depression even under these circumstances with



all of our problems is, in my judgement, absolutely irresponsible. In the two hundred years we've been in existence, we've had one Great Depression. In a sense, the drama of these banks which have been getting into trouble or the significance of that drama is an indication of the strength of our banks. Not their weakness. Now we hear of a bank failure every few months. Go back into the '20s and you would find that we were having an average of about two banks per day going broke. It is precisely the fact that our banking system has been so free of this kind of thing, has exhibited such great strength, that we attach so much significance to a specific instance.

Now a final point. Our central institutions generally (and that certainly includes the Federal Reserve system), see far better than they did four decades ago, what the real role of a central bank is. In the early '30's when we went into the Great Depression the Federal Reserve Banks were heavily manned by commercial bankers. Now there is nothing wrong with a commercial banker—we all need them occasionally—but the fact of the matter is that the instincts of a commercial banker dealing with *his* bank under critical circumstances can be exactly 180° off course when it comes to what a *central* bank ought to be doing. Namely, to make sure that it is the lender of last resort and will provide whatever credit is necessary to prevent a disaster. Now, is that academic again or do we have any evidence that perhaps the Federal Reserve does understand this a little better? I don't want to go into this in any great detail, but I would suggest if you want to go back and look at the record of how the Penn Central crisis was handled, I think it's instructive.

Almost nobody in Washington at that time was very much exercised about saving Penn Central. The thing that was of great concern was that Penn Central had such an enormous volume of commercial paper outstanding, and large amounts were held abroad. And there was the question of what might be set off throughout the financial system if that company goes under? What would be the possibility that some otherwise perfectly credit-worthy corporation might, in the paralysis of this kind of market, find that they couldn't roll over their commercial papers? One fairly major corporation had to sell over $100 million of commercial paper every day in order to avoid a run-off. In the days immediately following the bankruptcy of Penn Central, their sales of commercial paper got down on one day to below $20 million. How are you going to pay off the other hundred and eight? What was done? The Federal Reserve Presidents got in touch over the weekend with the major banks to tell them to take care of any corporation which had difficulty rolling its commercial paper over by lending them the money. Suppose the commercial bank didn't have the money? Go to the discount window and get it, because the discount window would be wide open—that phrase was used and this was the procedure and on the whole that was contained rather well.

Now, having said this, I don't want to give you the impression that all is well and that this is just one of these pieces of irrational nervousness which will quickly pass. We do have problems. There is no question that the capital structure of our industrial companies has been warped toward debt by the problems we have here. There's no question that many corporations got a little too casual about carrying on expansion programs even if they couldn't raise their money long term by going to the bank, and they started to violate a fundamentally important canon that you don't finance brick and mortar with short-term bank loans because you may get caught in the middle and not be able to finance it.

One of the striking things to me (and I do cruise around a fair amount in the business community), is the extent to which financial policy once again is being looked at very assiduously by boards of directors and by senior management of corporations. The old casual thing you know, of carrying on by bank borrowing to finance long-term projects won't do. Companies any more are beginning to re-learn that they can't carry on sound policies if they don't have a spare financial tire. And this is good. The kind of growing emphasis in the banking system about maintaining the liquidity of the banks is good. These adjustments are not easy, but on the whole I think it's reassuring to see this kind of thing in the banking community.

I think that we can say that we did skirt a little bit closer to the precipice than was really comfortable, but fortunately we began to see where we were and I think we're moving now in the right direction. This doesn't mean that it's easy or painless but as one who has personal recollections of the Great Depression, I can assure you it was a hell of a lot worse going through the 1930's!

Well, let's have some questions!

Q. *What about the surcharge on corporate income tax and the investment tax credit?*

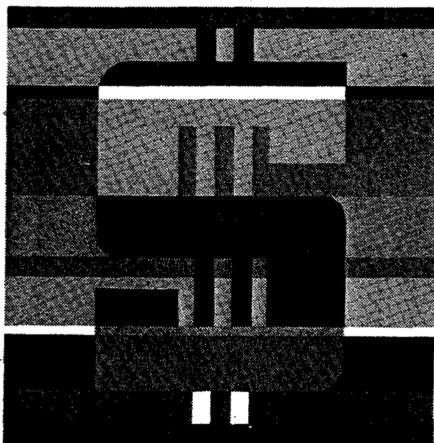
A. That's a very interesting point. I found myself just at lunch today in fact, being importuned by the financial officer of a corporation as to why the administration proposed something that was going to cost the corporations money under these circumstances. That is, he was arguing just the reverse. By and large

the surcharge on the corporate income tax and what would be lost by way of shifting the investment tax credit to 10 percent (public utilities from 4 to 10), those things just about balance out. In other words, what you do on the investment tax credit in terms of revenues is about what you would gain in terms of the corporate surcharge, and that is also true as far as individuals are concerned.

The most pertinent point of course to make here is that in the final analysis corporations never pay any tax. People pay taxes. One of the things that gives us bad tax policy is to say we will put this tax on individuals and this must be carried by business. Any tax on business is carried either by the customer; by the employees; or by the wage-earner.

Q. *How do you define inflation? . . . Do we expand credit and let inflation go? Or do we not expand credit and let the economy go?*

A. I must resist the temptation to start into another semester's series of lectures, as you've touched a great many bases here. On the question of defining inflation, you're using my definition when you say that this time we've had a thirty five year inflation in contrast to 1929. By 1929 we'd had 150 years of inflation if we use your definition of inflation—namely, the expansion of the money supply.



Q. *What about the sources of inflation? Isn't inflation really caused by an excessive expansion of demand relative to productive capacity rather than by expansion of the money supply?*

A. Doctrinal discussions here would not be useful, but let me comment on the substance of your question. Your point that inflation is an excessive expansion of demand relative to our productive capacity is well taken. Some years ago the London Economist said that rising prices are the thermometer registering the heat, but not the furnace producing it. That's a pretty good point, and it is your point. And there is no question that this inflation got started in part by an excessive monetary and credit expansion in 1972 and '73 beyond what the economy in real terms could validate. But we need to keep in mind also that about half of our current rate of inflation has come out of *ad hoc* factors: energy prices; the food price problem; the short fall of grain production in Europe and the Soviet Union. The rate of inflation that is being produced by *endogenous* economic forces is more nearly in the neighborhood of eight percent than 12 or 14 percent.

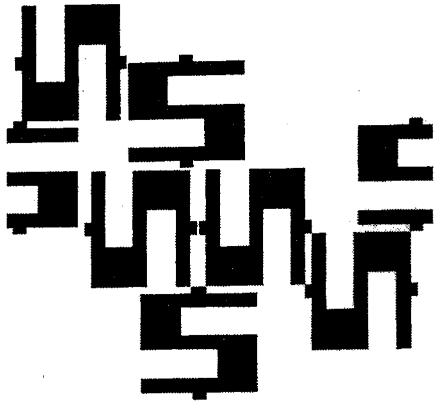
Q. *Would you comment on the accumulation of capital in the Arab countries? In particular, what are the problems involved in recycling petro dollars?*

A. Even in the United States there is a serious distributional problem. A senior officer in one of our major banks dropped in to see me when I was in Washington several weeks ago. He said that the day before they were approached by one of the OPEC parties and asked what they would bid for $200 million of funds for a very short maturity. They quoted the going rate. About lunch time they came back and said how about another two hundred million dollars? The bank said they were not very interested but finally accepted at a lower rate. But that's not the end of the story. Before the end of the day they came back with two hundred million more! The bank

at that point made it very clear that it really didn't want it. But they insisted so the bank offered two percent. It was accepted! This is just a vignette illustrating the intramural distributional problem within the U.S. You get some banks that are overloaded with this very short term liability. Now put yourself in the position of countries whose currency the oil producing countries do not want, or a country like Japan which has to import all of its oil.

Q. *What are the problems involved in the flow of petro dollars?*

A. There is no way by which a Saudi Arabia, for example, can possibly balance out via its trade account what's happening on its capital account. So you have a massive transfer problem here, to which nobody has an answer. Some way or other the third-area countries are going to have to be able to get the credit by which they can buy the oil, and that's going to have to be a joint effort of both the oil consuming and the oil producing countries. These are some of the problems. There is no answer as yet. Obviously a significant decline in the price of oil would be helpful. But there is no point in thinking that by scolding the OPEC countries we'll scare hell out of them and get the price down. That's like threatening to bid seven spades when the



other fellow knows he's got seven spades. There is no way to scare them. They've got the trump cards at the moment.

Q. *Does the upsurge in stock prices mean the market is going to level off, or is it going to continue to decline?*

A. I don't know, but it wouldn't be out of context if the stock market should not show some real strength, as the basic economic situation weakens. That's happened before, and it's not so illogical because if the economy is going to go into a V-type correction here then interest rates are going to continue to decline, and one factor which has been like a ball and chain on the market is going to fade.

Q. *What about strengthening the anti-trust effort?*

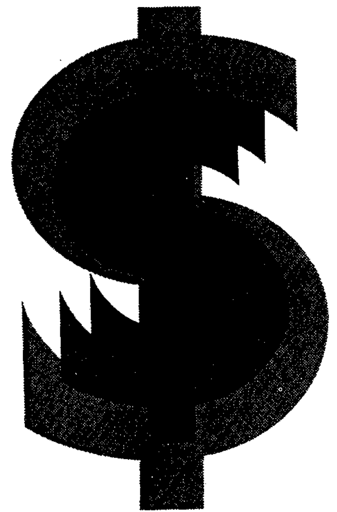
A. There is no question that one of the problems in the current economy is that in one way or another this economy has gotten too much arthritis. It's got to be loosened up. Its cutting edge of competition needs to be sharpened, and one dimension of that effort has got to be a strengthening of the anti-trust program. But that's only one part of it. Another highly important area is in the regulatory activities of government and the cooperation between the regulating commission and the regulated industry to minimize competition. This is a social scandal of absolutely cosmic proportions. Take the regulation of natural gas prices to "protect" the consumer by keeping natural gas prices at the well-head down. Let me tell you what the consumers are being protected from. They are not going to get the natural gas, and therefore instead of having natural gas at the well-head go from 24¢ or whatever to, say, maybe 50 or 60¢—the consumer will have to buy synthetic natural gas at $3.00!

Q. *Has there been any consideration given to the transition we need to make from a growth to a no-growth economy? How are we going to achieve this?*

A. I don't see any evidence yet of the congealing of public approval which would be necessary before we could deploy policies which would give us a no-growth economy. For example, in union negotiations is there any evidence of being willing to give up on the improvement factor? I don't see it. One could say oh yes, they don't think in terms of the higher things in life like the university people do. But I don't see any evidence on the part of university professors that they are any less interested in the paycheck than they used to be. Now what happens to produce the kind of congealing of public approval that in turn produces changes in public policy? This is something, by the way, that businessmen by and large don't understand at all. And you people will be going into the business community, so it's important for you to understand it.

Businessmen are constantly bewildered by finding legislation actively being considered by some legislative committee and they try to do something about it and find that from their point of view it is a lost cause. Now, what are they missing? What they are missing is any understanding of the dynamic process by which something finally matures into legislation. What happens is that up in the intellectual headwaters people start talking about an issue. I dare say that when Rachael Carson's book came out 10 or 15 years ago most businessmen didn't even know it was being published, or if they did know, they probably didn't read it. If they read it they probably thought—this is just another kook with crazy ideas. And then ten years or so later, they find themselves desperately trying to testify before a legislative committee and finding that about 98 percent of the elbow room has disappeared on the issue. Now my point is not whether Rachael Carson is right or wrong—the point is what kind of a process it is that finally eventuates into public policy? Any group that does not participate in the headwaters as it were is going to find that it has very little scope for influencing public policy.

It may be that we are now seeing at the antecedent intellectual level the kind of ferment and discussion about no-growth that may eventually mature into public policy. But remember no government is going to go very far in terms of policy until public opinion has congealed. On the no-growth question, the thing to look for is when people indicate that they are willing to accept a leveling out in their own standard of living. Most of us are willing to accept a leveling out of the economy providing we are able to continue to take it away from somebody else. But that's of course not the test. So I think there is going to be continued emphasis on economic growth—a continued desire for rising material levels of living—for some time to come.



Among Ourselves

An informal collection of items, including news of the faculty, of alumni, and of the school, and assorted other information, opinion or comment that we think will interest you.

Winnebago President Enters into Dialogue with Graduating MBAs

At the end of the semester last spring, graduating MBAs went to a local restaurant to celebrate. They had only been there a few minutes when the faculty members who had taught their last class entered the restaurant with a guest. The students cheered.

Who were they cheering? The president of Winnebago Industries, John V. Hanson. Why were they cheering? Because Mr. Hanson had just engaged them in a highly informative, educational and interesting dialogue on his industry. In short, Mr. Hanson had served as the "living case" with which the faculty of the business policy class closes each course.

The "living case" provides students, who by this time have received two years of MBA training, an opportunity to apply all of the skills they have learned to a problem faced by top management in a particular company. Last year, students organized into project teams to study the recreational vehicle industry, which was currently being hard hit by the energy crisis. In addition to studying the industry as a whole, each student was provided with a case study on Winnebago, and was also expected to do outside research. Then the teams were expected to develop and evaluate strategic alternatives for Winnebago over the next several years.

At this point William K. Hall, one of the faculty who teaches the business policy course, wrote to John V. Hanson, president of Winnebago, to see if he would be willing to come to campus, listen to student presentations, and give his reactions and comments.

Mr. Hanson generously agreed to come to campus for one full day. He flew into Ann Arbor in time to meet with students in the evening MBA program and comment on their presentations. The next day, he heard presentations by teams made up of 218 day MBA students. At both meetings he responded specifically to each team's presentation, speaking from notes he had made during each presentation. He was impressed with the quality of the presentations, and particularly commented on a financial analysis and projection that had been done by one of the student teams. "It's very close indeed to our actual figures and projections," he said. He then commented at some length on Winnebago Industries and some of the planning the company was doing for the future.

Following the morning session, Hanson went to lunch with several faculty members at a nearby restaurant. That's when he ran into about 25 students from the class, who cheered to thank him both for his presentation and for his informative critiques of their ideas. He flew back to Forest City, Iowa, headquarters of Winnebago Industries, after lunch.

The business policy class is taught by David C. D. Rogers, professor of business administration; William K. Hall, associate professor of statistics; and LaRue T. Hosmer, associate professor of business administration. They hope to continue these "living cases" as the final session of their class because it brings students face to face with a top corporate executive who discusses their presentations on his industry with them. Eli Ferguson, executive vice-president for corporate planning of Equitable Life Insurance Company, has visited the class in previous years and discussed the insurance industry with students, who studied the industry extensively before his visit.

Contributions to Paton Accounting Center Needed Now

"It would be deeply appreciated if anyone who is considering a gift to the Paton Accounting Center would make it now," said Dean Floyd A. Bond as he announced that architectural plans and specifications for the construction of the Center are now complete.

The Dean announced that cash contributions now stand at $600,000 and added, "We hope to obtain some major gifts, such as Don Cook's $100,000 contribution, but we also need gifts of $10,000; $5,000; $1,000; $500 and $100 to make this project a reality. Moreover, we need these soon if we are to have this building 'on stream' early in 1976 as planned."

Veteran Congresswoman Delivers McInally Lecture

The Honorable Edith Green, veteran representative to the United States Congress from Oregon, delivered the 1974 McInally Lecture on October 31 in Hale Auditorium. Congresswoman Green has authored some landmark legislation in the House, including the Higher Education Acts of 1965, 1967 and 1972; the Equal Pay for Equal Work Act of 1963 and the amendments to end sex discrimination in education and health manpower training. She has been awarded numerous honorary degrees from universities all over the country.

The McInally lecture honors the memory of a former Regent of the University. Dean Bond was instrumental in the establishment of the lecture series and serves as chairman of the university committee that selects the speakers.

Ernst & Ernst Contributions and Pledges for Paton Center Now Approximate $250,000

Charles E. Stilec, MBA '33, retired partner of Ernst & Ernst, the international firm of certified public accountants, has reported that nine more partners of the firm have recently joined the Presidents Club and directed that their contributions be used toward the construction of the William A. Paton Accounting Center. The partners are: P. Thomas Austin, Richard E. D'Arcy, Robert C. Emde, Paul K. Geiger, Edward A. Hibbard, C. Andrew Kostrevagh, M. Ross Miller, George T. Strassburger and Jack L. Otto. In addition, Mrs. A. P. (Betty) Bartholomew, wife of a prominent partner and previous member, joined the Club in her own right.

Over twenty Ernst and Ernst partners have now made pledges for the Center approximating $250,000 of which over $100,000 have been paid.

"We are indeed grateful to the Ernst & Ernst partners for the substantial contributions to the Paton Accounting Center," said Dean Floyd A. Bond.

Gary McLaughlin

Scott Paper Company Foundation Gives Award for Leadership

Gary McLaughlin, a first year MBA student, is the recipient of the Scott Paper Company Foundation Award for Leadership which was given in the School of Business Administration for the first time this year. Mr. McLaughlin is a 1974 Phi Beta Kappa graduate of Duke University, where he earned his degree in engineering. In addition to his outstanding academic performance at Duke, Mr. McLaughlin was executive vice-president of the Associated Students of Duke University, vice-president of the Engineering Student Government and chairman of the Engineers Environmental Control Organization. He was also a contributing editor to the student magazine in the engineering school, and earned a varsity letter in swimming.

The trustees of the Scott Paper Company Foundation established the Leadership Award on two principles: 1) "That the young men and women of today who give evidence of becoming the leaders of tomorrow should be accorded recognition and should be encouraged in their educational endeavors and 2) That institutions of higher learning must receive financial assistance in order to maintain high academic standards and to offer a diversified program of extracurricular activities so essential to the maximum development of leadership qualities." To be eligible for the award, a student must have achieved a high level of scholarship and noteworthy success in extracurricular activities. In the selection of an Award recipient, great weight is given to the characteristics and abilities which should best equip the individual to succeed as a leader in industrial or commercial activities.

Since the primary purpose of the Award is to give recognition to demonstrated characteristics and abilities irrespective of financial status, the Award is to be granted regardless of the income level of the student or his/her immediate family.

In each of the academic years in which one or more such awards are in effect, the Foundation will make a separate unrestricted gift to the Graduate School of Business Administration at the University of Michigan.

The "Woman from NBD" is a Michigan MBA

Sandy Kramer, MBA '73 with distinction, was featured in a full-page magazine ad sponsored by the National Bank of Detroit. Under her picture was the headline: Now it's "The Woman from NBD"; copy explained that she came to the National Bank of Detroit as soon as she received her MBA in finance from the Michigan Business School. She completed her training course at the bank in the near-record time of 12 months, and is now the first woman lending officer in the Michigan Corporate Group of the NBD's U.S. Division. Says the Bank, "We're sure that she won't be the last."

The Dean in Saudi Arabia

Dean Floyd A. Bond was invited last spring to visit the College of Petroleum and Minerals in Dhahran, Saudi Arabia, and advise them on the establishment of an international school of management. The invitation came directly from the College which is governed by a Board of Trustees, of which the Saudi Oil Minister, Sheikh Ahmad Zaki Yamani, is chairman. During his five day visit in Saudi Arabia, the Dean strongly supported formative plans to 1) conduct all professional management education in English 2) make the American educational system the basic model 3) recruit an international faculty based on professional competence rather than national origin 4) enroll students from other countries as well as Saudi Arabia 5) have several "outside" trustees on the Board of Trustees, and 6) seek the continuing help of experts from the U.S. to serve in an advisory capacity.

Other policy questions discussed with the Dean during his visit included whether the school should be graduate or undergraduate or both; what the requirements for admission should be; what the curriculum should include; and what physical plant would be best for the proposed new school.

The Houston architectural firm of Caudill Rowlett Scott, which has been retained by the College to develop its master campus plan, has been in touch with the Dean several times for information about our new Assembly Hall, and has been invited by the Dean to visit our facilities and talk to our architects.

In addition to advising on the initial establishment of the professional school of management in Saudi Arabia, Dean Bond also commented on three important areas that would need to be addressed in the future, as they are very important for a professional school of management. These three areas are 1) research in management 2) continuing management education and 3) contacts with industry.

Public Finance Institute Inaugurated at B School

Forty-three individuals with important positions in the financial investment community attended the first Public Finance Institute held in June by the Graduate School of Business Administration in cooperation with the Securities Industry Association. Participants came from all over the country, and were about equally divided between bank dealer departments and investment houses. About twenty-five percent of the participants held the title of vice-president of their firm.

The approach of the Institute was to combine theory and principle, as represented by academia, with the knowledge and understanding that derives from the art of the practitioner. Accordingly, instructors were chosen both from academia and from practitioners. Topics covered included financial markets, fiscal and monetary policy, issuers of public finance securities, buyers of public finance securities, economics, contemporary issues in public finance, data and data analysis, and political science. There were also a number of evening seminars on topics such as professional ethics, executive health, and federal finance.

An important part of the institute was the exchange of views and information between participants. In addition faculty members spent a considerable amount of time in informal discussion at the residence hall where participants were housed during the two week session.

Realtors Association Gives $3,000 in Scholarships

Trustees of the Russel A. Pointer Scholarship Fund of the Michigan Association of Realtors have awarded $3,000 to the Business School to be granted in three scholarships this year. Dean Floyd A. Bond accepted the award, derived from annual earnings on a fund made possible by individual contributions from Michigan realtors and associates throughout the state.

The fund was established in honor of the late Russel A. Pointer, a Saginaw realtor who dedicated his life to the development of real estate education in Michigan and across the nation. He was ever loyal to the University's Certificate Program in Real Estate and served for many years as its supervisor.

The scholarships are open to candidates who aspire to a career in real estate and are taking real estate courses. They are intended to be used in a student's senior year or at the graduate level. This year the students named to receive the awards include Hugh G. Hilton, Richard Nowakowski, and David J. Sibbold, all candidates for the MBA degree.

Sam Wyly, MBA '57 Gives His Wife a Train for Her Birthday

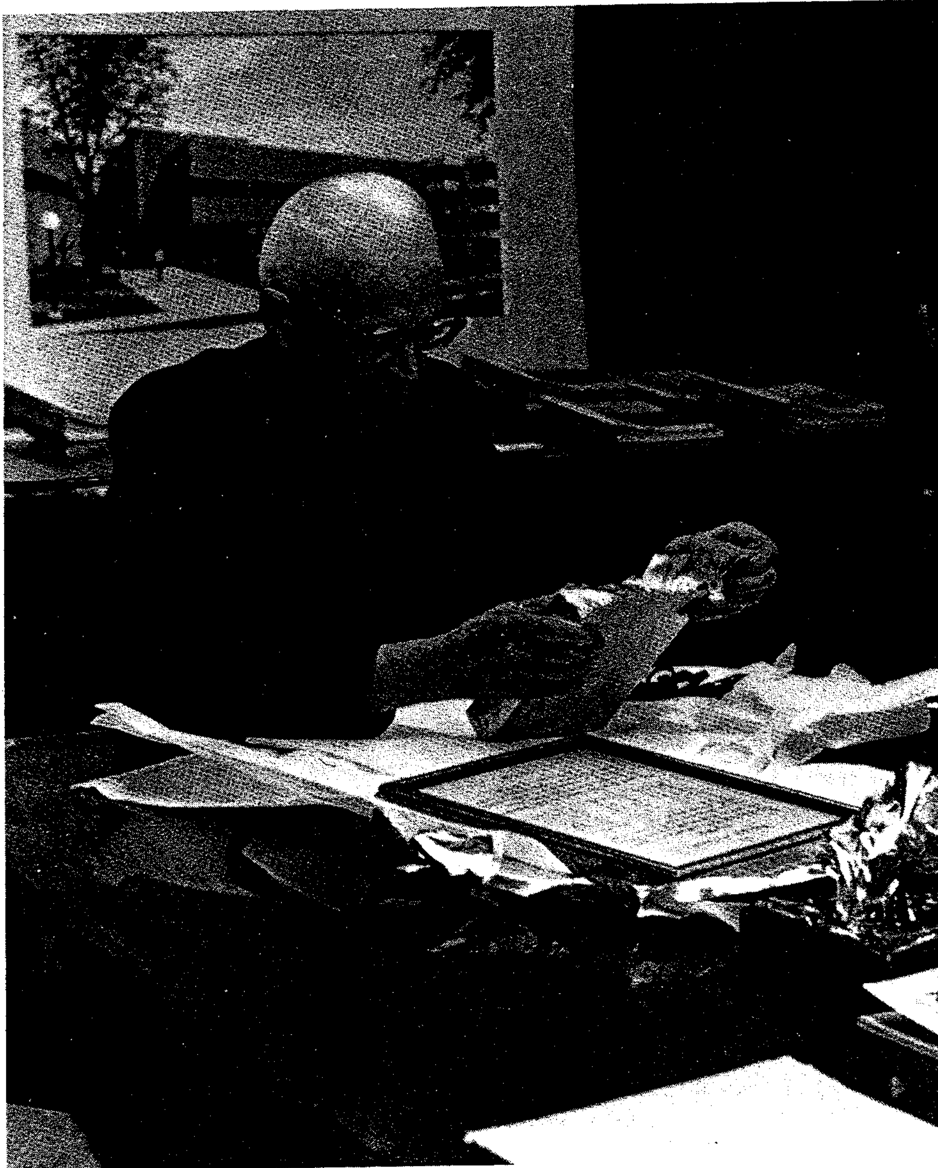
A train?

That's right. A train, or, to be more specific, Car 1000 of a train. Mr. Wyly, along with his wife and the train, was pictured recently in a full page ad for Business Week. He was an early activist for the National Association of Railroad Passengers, whose we-must-rebuild-rail-service efforts led to the Amtrak law in 1971. The Wylys, who live in Dallas, Texas, from time to time entrain for California where they have a beach house at Malibu.

Mr. Wyly founded University Computing Company in 1963 with a capital of $1000. It is now a subsidiary of the world-wide Wyly Corporation, which includes University Computing, DATRAN, Gulf Insurance and Computer Leasing.

Mrs. Wyly graciously gives her railroad car back to Mr. Wyly whenever his associates have special travel needs.

Dean Floyd A. Bond (left), H. Glenn Bixby and T. Kenneth Haven (right), watch as Professor Paton opens a birthday gift.



Happy Birthday, Dear Bill, Happy Birthday to You!

William A. Paton, professor emeritus of accounting, was the guest of honor this summer at two parties celebrating his 85th birthday. One dinner was given at the Detroit Country Club with H. Glenn Bixby, honorary chairman of the board of the Ex-Cell-O Corporation, and T. Kenneth Haven, financial and management consultant and adjunct professor of finance in the School, as co-hosts. Guests included: Mr. and Mrs. Lynn A. Townsend, Mr. and Mrs. R. C. Gerstenberg, Dean and Mrs. Floyd A. Bond, Dr. and Mrs. W. K. Pierpont, Mr. and Mrs. Oscar Lundin, Mr. and Mrs. John Riccardo, Mr. and Mrs. Raymond T. Perring, Mr. and Mrs. Robert P. Briggs, Mr. and Mrs. Harold Soper, Donald Bevis, Francis Ross, Charles Stilec, and Herbert F. Taggart.

Another dinner during the same week was given in honor of Professor Paton by the national accounting firm of Ernst and Ernst at the Barton Hills Country Club in Ann Arbor. For the occasion, the walls of the dining room were graced with poster sized pictures of Paton taken by Francis Ross, former professor of accounting at the School, on a camping trip in Canada in 1926.

Top left, Professor Paton with (left) Mrs. Raymond (Viola) Perring and Mrs. H. Glenn (Pauline) Bixby; top right, Charles Stilec, retired partner of Ernst and Ernst, and Professor Paton; center, Paton and his friends (left) Richard C. Gerstenberg, chairman of the board of the General Motors Corporation and Lynn A. Townsend, chairman of the board of the Chrysler Corporation. Center right, Oscar Lundin, vice-chairman-elect of the board, General Motors Corp. chats with one of the guests; below left, Lynn and Ruth Townsend (right) talk with Mrs. T. Kenneth Haven and another guest (back to camera).

Donald Cowan, Professor Emeritus of Marketing, Dies

by D. Maynard Phelps,
Prof. Emeritus of Marketing

Donald R. G. Cowan, Emeritus Professor of Marketing, died on June 18, 1974 at the age of 77 years. A Canadian by birth, Prof. Cowan was a student at Queens University and the University of Toronto, but received his Ph.D. at the University of Minnesota and also did graduate work at both Northwestern and the University of Chicago. During and after his graduate work he held responsible positions in marketing research at Swift & Co. in Chicago, Goodyear Tire & Rubber Company of Canada, and the Republic Steel Corporation. Professor Cowan was always a teacher. During all of his business affiliations he taught night courses at universities: Chicago, Northwestern and Western Reserve. He also taught at the Universities of Missouri and Minnesota. He joined our Graduate Business School faculty in 1950 to handle the courses in marketing research.

Professor Cowan published widely before coming to Michigan, mostly articles in scholarly publications. However, his principal contribution here was in teaching rather than in research. His principal interest was in guiding graduate students through research projects and this he did exceedingly well. His wide knowledge of marketing and his command of statistical techniques served him well in his research guidance activities. He was chairman of nine doctoral committees and served on many others. One of his outstanding characteristics was his willingness to aid students. Although it undoubtedly circumscribed his own research and writing he never could deny them his time and energy. He was always available to them. The result was that during his active years on the Michigan faculty (1950–1966) many students benefited greatly from his devotion

Professor Donald Cowan

to them and they still hold him in high esteem.

Professor Cowan held important offices in professional associations and received many distinguished awards from them. He served as president of the American Marketing Association and president of the Chicago chapters of both this association and the American Statistical Association. He was also consulting economist for the National Coal Association. After retirement he was a member of a team which studied Thailand's economy and estimated its electric power requirements through 1990.

Above all, Professor Cowan was a kindly, courteous, even charming individual. He was small in stature but very large in those fine human qualities which meant much to his students and colleagues.

Real Estate Program Offers 43 Classes

The University of Michigan's statewide Real Estate Program, presented by the Graduate School of Business Administration and the University Extension Service is offering 43 evening classes throughout Michigan this fall.

The program, which leads to a U–M Certificate in Real Estate, is designed for those entering the real estate business as well as those in other pursuits who wish to add to their professional knowledge of the field. The certificate is awarded to people who have successfully completed eight of the courses in the Real Estate Program, and is recognized by the National Association of Realtors and the Michigan Association of Realtors as meeting the academic qualification toward the Graduate Realtors Institute (G.R.I.) designation.

Courses are being offered in appraisal, business, finance, law, management, building, selling methods and regulation. Instruction is provided under the supervision of the Graduate School of Business Administration; they carry credit toward the certificate but not toward a degree from the School. Instructors include the real estate faculty, realtors, appraisers, finance officers, judges and attorneys.

In December, the U–M program offers nine Real Estate Institutes in several locations in the state. These are concentrated, week-long programs.

Assembly Hall Featured in Bethlehem Steel Ad

Five full color pictures of the Assembly Hall—both interior and exterior views, were featured in a double page advertisement sponsored by Bethlehem Steel which appeared in the May issue of *College and University Business,* a McGraw Hill magazine. The advertisement made the point that steel frame met the functional and aesthetic objectives of the Assembly Hall building and stayed within the budget.

Parts of the Assembly Hall pictured included Hale auditorium, one of the case rooms, a faculty office, an exterior view, and a view of the main lobby.

How Good is Gold?

Continued from page 9

Q. *Could we talk a little more about the problem of borrowing short and lending long and what this does to banks?*

A. Well, the banks make up for the uncertainty by adjusting interest rates more frequently. But as I pointed out before, the change in the maturity of lending is not a foreign exchange problem but a matter of interest rates in my view.

Q. *Can you talk a little about the difficulties that some banks have been getting into through speculation in foreign exchange markets?*

A. The floating rate system has brought a substantial change in the nature of foreign exchange risk and foreign exchange speculation. Under fixed rates, which were never really fixed, but were adjusted in one-time big jumps, foreign exchange traders were playing essentially against central banks which had other objectives than to maximize trading profits—like keeping exchange rates stable. In this environment occasional huge profits were possible while losses were relatively rare and limited in size.

Q. *And now that we have floating rates?*

A. Now foreign exchange traders are playing against each other, and if we presume, realistically, that they all have the same information, profit and losses in foreign exchange markets become random—as some banks came to appreciate the hard way.

Q. *Are you saying that the losses come about because some of the banks were playing by the old rules—i.e. rules that were operating under fixed rates and that they haven't learned that the rules have changed?*

A. Yes, this is my opinion. Of course they may have thought that they could forecast better than all the other market participants, but I don't think anybody is able to do so over the long run in today's environment.

Q. *What about keeping money in foreign currencies as a hedge against inflation? I have heard that Switzerland, for example, has a high rate of inflation, sometimes even higher than we do. And in times when inflation is worldwide, how is one inflated currency a hedge against another? Does it matter whether a currency has a high gold backing?*

A. First, it is very important to realize that for a long time no one has been able to go to any central bank anywhere and demand gold in exchange for paper currency—no matter what the gold backing. So that the percentage of gold backing really isn't very meaningful.

Q. *Then can foreign currencies be used as a hedge against inflation?*

A. One must distinguish between foreign currencies as a hedge against inflation, or as a hedge against foreign exchange rate changes. If you want to protect against exchange rate changes, you can work that through holding a diversified portfolio of currencies—or rather, holding your assets in diversified currencies. But that wouldn't do much good as far as protection from inflation is concerned, because the relationship between foreign exchange rate changes and inflation is a very tenuous one. Rates of inflation and currency depreciation are normally positively correlated but that relationship again is not a very stable one. On the other hand, if all countries inflate at approximately the same rate, our diversified currency portfolio will buy fewer goods in the future, though the exchange rates may not have changed. As I heard Paul McCracken once remarking, inflation wouldn't be so bad if only prices did not rise!

Q. *So you are saying that you can't protect against inflation by holding foreign currencies?*

A. Yes. All currencies are subject to inflation. They differ only in degree. Inflation needs to be hedged through other means, primarily investment in real assets. But this is a somewhat different topic and frankly I am not very good at it as my own personal economic performance shows.

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The Game of Authors—Who Plays?

Continued from page 2

conciseness and accuracy (perfection, in short) demands a cold appraisal as to cost, time-consumption and the kind of training it presupposes. Part of the burden now resting upon paperwork can be distributed among newer media (the use of closed circuit T.V., as one example, to instruct employees instead of making them rely as of old upon procedure manuals). Perhaps the volume can be controlled by the one-page limitation Churchill set for his staff. Perhaps eye-to-eye and ear-to-ear dialogue can be increased to lighten the load on the pen, typewriter and copy machine.

Even so, the written word remains as the vehicle most capable of conveying precision, performance and pinpointing. Whereas the spoken word may be hasty, casual and vague (sometimes intentionally so), the agreed-upon structure of the written sentence is intended to rule out ambiguity. As such, the paperwork of organizational life becomes its record and history, often serving as a precedent for the future. The value of performance is not yet proven about the other media.

But the crowning value of practical writing is its pinpointing for the sake of the reader. Audience-orientation is indispensable whether the designated readers be few or many. Their degree(s) of familiarity, their needs, their expectations can be projected with due deliberation by the writer. When the pen does go into motion, the tailormade vocabulary (technical or general), the properly hung sentence (direct or indirect), the proportion of fact to opinion come naturally from the thinking writer.

Cutting corners is inevitable if readers are to peruse, in the course of the working day, all the messages their co-workers are writing to them. But to know what corners can be cut without the loss of clarity will take all the executive skill of the individual who can practice two professions: the science of management and the art of written communication.

It's a hard game to win, on or off the job: this current game of authors that any businessman must know how to play. For those who take it as seriously as they take marketing, accounting, industrial relations or finance, there are rules for the game and there are many on-the-job winners. Those who can think and plan and act can also write. Authorship can no longer be brushed off as the province of genius. It is the daily task of those who earn a living. Their writing goals are to inform and convince. Those are attainable goals for professional people who will accept the humbling discipline which the laws of language impose upon us.

Cut Along This Line. Address on Other Side.

WE WANT TO HEAR FROM YOU!

Believing that a two-way flow of information between the School and its alumni is important and mutually beneficial, we are continuing to publish a postcard on which we invite you to write us. Unless you indicate otherwise, we will feel free to publish your remarks in a letters column.