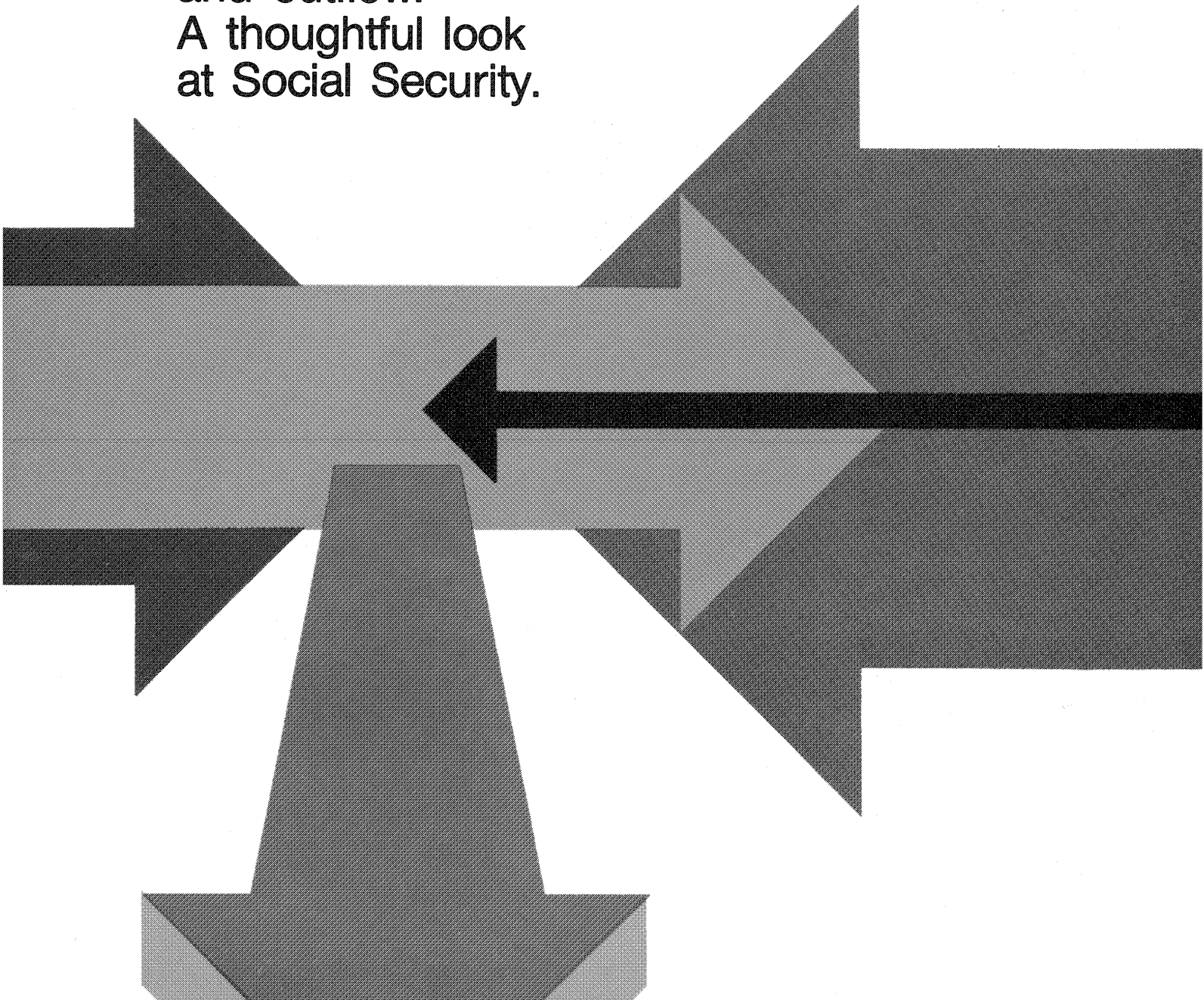


# Dividend

*The Magazine of the Graduate School of Business Administration • University of Michigan • Winter, 1978*

Balancing income  
and outflow:  
A thoughtful look  
at Social Security.



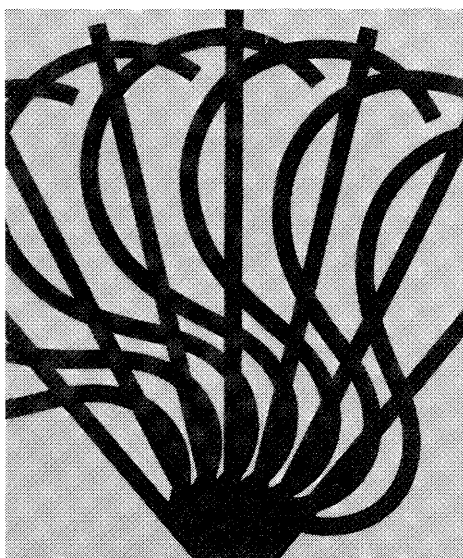
# Notes on the Worst Inflation in History

By Wilford J. Eiteman  
Professor Emeritus of Finance

The real rate of inflation today is much greater than that indicated by published indices of wholesale and consumer prices because those indices are the costs of a market basket of the more essential commodities and fail to give proper weight to the marginal "goodies" which Americans have become accustomed to putting into that basket—pizzas, "new and improved" cosmetics, motel rooms, and the like. While the American people wait in vain for a miraculous end to the current inflation, they might be wise to review the experiences of the German people from 1919-1923.

The armistice that ended the first World War was signed on November 11, 1918, and the Treaty of Versailles was ratified on July 10, 1919. The terms of that treaty required the Germans to produce huge quantities of goods for sale abroad where payment would be made in "hard" currency and to surrender the entire proceeds to certain Allied countries as reparations.

The wages of the laborers who produced the goods were paid with "printed pieces of colored paper" (Reichsmarks) but the goods that they produced were not available for purchase by those who held the paper money. Consequently a picayune quantity of purchasable goods (mostly foodstuffs) was matched against an enormous



*About the author:* Dr. Eiteman's primary research interest is stock markets and how they function, and he has done extensive work on this subject, including writing three monographs describing the operations of leading stock exchanges of the world. He has recently served as a member of the investment committee of the State of Michigan Pension Fund.

quantity of paper money (123,349,787,769,000,000) marks as of October 15, 1923). The purchasing power of the mark (once equivalent to 23.81 cents) declined to sixteen millionths of one cent and the internal price level rose by 16,685,000%. During the autumn of 1923, prices doubled *each week*.

In 1920 it was the custom for German employers to pay their laborers on Fridays. When prices began to rise rapidly in 1921 and 1922, employers began the practice of making advance wage payments on Tuesday, and paying the balance on Friday. As the rate of inflation accelerated, many firms shifted to three pay-days a week. By early autumn in 1923, daily pay-days were becoming the rule, and in November, 1923, some employers were paying twice daily—once at noon and the second time at 6:00 p.m.

The amount of wages that each laborer received was adjusted weekly on the basis of changes in a cost-of-living index computed on Fridays and announced on Tuesdays. The index was computed as follows: the market price of the quantity of food, fuel, rent, lighting, and clothing consumed by the average family of five (a father, mother, and three children with ages of 12, 7, and 1½ respectively) was determined at Friday prices. Then, on pay-days occurring in the next week, the amount of each laborer's wages was

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# Dividend

*The Magazine of the Graduate School of Business Administration*

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*Winter, 1978*

**Notes on the Worst Inflation in History by Wilford J. Eiteman 2**

Professor emeritus of finance Eiteman reviews the experiences of Germany with inflation from 1919 to 1923. During the autumn of 1923, for example, prices doubled *every week!* Eiteman discusses what a "currency commissioner" did to bring the situation under control.

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***A Thoughtful Look at the Social Security Retirement System***

Dividend interviews Donald H. Skadden and James E. Wheeler, two Business School professors of accounting who have made an intensive study of the social security retirement system for the American Institute of Certified Public Accountants. Their analysis of the problems and recommendations for solutions are discussed in this interview.

**Our Athletic Faculty 10**

A great many professors at the Business School have found regular exercise is a great way to keep in shape, and they are engaging in a wide variety of sports.

**The Multifaceted Motivation to Merge by Raymond R. Reilly 19**

Here associate professor of finance Reilly reviews a book on conglomerate mergers that won the U-M Press Book Award in 1977.

**Among Ourselves 20**

MBA surveys ranks us in the nation's top ten business schools; A study on management mobility and the work ethic; Prof. Hildebrant wins good teaching award; IBM vice-president speaks at Dean's Forum; Graduate School of Bank Management to offer sessions in May and June; McCracken sees some reasons for optimism about future economic performance.

**President Ford at the B School 24**

This fall President Gerald R. Ford gave a talk at the Business School, followed by an informal meeting with students and faculty in the executive lounge. Our photographer was there.

***Cover Design by Michael Ward***

***Dollar sign designs by John Vaccaro of The Tax Adviser Magazine***

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# Balancing Income and Outflow

## *A Thoughtful Look at the Social Security Retirement System*

*Editor's Note:* Here *Dividend* interviews professors of accounting Donald R. Skadden and James E. Wheeler, two of the three members of the Task Force on Social Security appointed by the Tax Division of the American Institute of Certified Public Accountants. Their report, entitled *Our Basic Retirement System—Social Security—Suggestions for Improvement*, was presented to the AICPA's Tax Policy Committee this fall. If approved by the Tax Division Executive Committee, it will be issued as a Statement on Tax Policy. In this interview, Skadden and Wheeler discuss their findings and their recommendations. Skadden, who joined our faculty as Arthur Young Professor of Accounting in 1974, is a leading authority in the field of tax accounting and has published a definitive work in this field, *Federal Income Tax*. He is president-elect of the American Taxation Association. Wheeler joined our faculty in 1972. He is serving as chairman of the Task Force on Social Security of the AICPA's Tax Division, and spent a year on the staff of the Joint Federal Taxation Committee of the United States Congress.

Q. *What do you see as the major problem of the social security retirement system as it is presently set up?*

*Wheeler:* Of course the most obvious problem, and the one that has received the most publicity, is the need to put the program on a financially sound basis. In the 1977 federal budget, the revenues generated by social security taxes (FICA, medicare and unemployment) are more than twice the revenues from the corporate income tax and represent more than one-third of total federal receipts. The recommendations of most observers concentrate primarily on the revenue side of the system and call for constant increases in the payroll tax. These taxes have already grown faster than the consumer price index, increasing by more than 600 percent between 1962 and 1977. Even so, the tremendous growth of revenues is proving inadequate to support the level of outlays, and in this regard Congress has just passed a social security bill that for many taxpayers will more than triple, within 10 years, today's social security taxes. Therefore, it would be useful to take a careful look at the benefit side of the system. Our recommendations emphasize the need for a sound and responsible relationship between contributions and benefits.

Q. *Then what do you see as the largest problem on the benefit side of the system?*

*Skadden:* When social security began it was planned to be similar to retirement insurance. That is, the benefits paid out were intended to be related to the amount of money paid in. But over the years, there has been an element of welfare gradually incorporated into social security, and this is an important factor in the problems the social security retirement system is now facing.

Q. *What do you mean by welfare?*

*Wheeler:* We mean anything that is paid out to an individual which is not supported by the money he and his employer have paid in. Presently most retirees are getting more than their contributions would justify—there are even retirees with \$500,000 or more in yearly dividend income who are drawing social security because they had at least enough earned income to qualify for the minimum benefits.

Q. *But if a person has worked and qualified for the benefits shouldn't he have a right to receive them, even if he does have a million or more other dollars?*

*Wheeler:* Yes. The millionaire ought to get what he paid for. But if he has

only worked for the minimum salary, he is getting an annuity many times greater than he paid for. Thus he is getting welfare just as much as other beneficiaries.

*Q. However, most people drawing the minimum social security benefit in retirement are not millionaires, but low income people. Are you saying they should not be getting any retirement income over what they were able to pay for, even though this may not be enough to live on?*

*Wheeler:* No. Welfare is essential for the good of this country but it should not be called social security retirement which implies earned benefits, and it should not be financed through a payroll tax. Welfare should be financed out of general revenues, which are derived from all portions of society, and it should be based on need.

*Skadden:* The major thrust of our recommendations is that welfare (that is, the unearned portion of benefits from the social security system) should be transferred to the general revenue budget. The regressive nature of the payroll tax would then be justified, because it would be paying for earned retirement benefits and not for welfare.

*Q. Am I correct in thinking that "regressive" means that the effective rate of tax decreases as income increases?*

*Wheeler:* That reflects the use of the term today.

*Q. With that meaning is the social security system considered regressive today?*

*Skadden:* It is very difficult to determine whether or not the total system is regressive, because the contributions are in the form of a highly regressive tax, but the benefit structure is quite progressive.

*Q. How are the contributions regressive?*

*Wheeler:* The present payroll tax is a flat-rate tax based only on earned income, and then on only a limited

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**“Congress has just passed a bill that for many taxpayers will more than triple today’s social security taxes within ten years. Over the years, there has been an element of welfare gradually incorporated in the social security system, and this is an important factor in the problems the social security retirement system is now facing.”**

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amount of that earned income. The effective tax rate is zero for those who have only investment income, no matter how high that income may be. The tax is a flat rate (6.05%) on those employees with earned income between approximately \$5,000 and the maximum taxable amount which currently is \$17,700. For those with earned incomes above this \$17,700, the effective rate decreases as income increases. This regressivity has been alleviated for the very low wage earners with dependent children. Those with earnings below approximately \$5,000 with dependent children receive a refundable income tax credit which, in essence, offsets more than their entire social security contribution.

*Q. You indicated that the benefit structure is progressive. How does that work?*

*Skadden:* This comes about through the computation of the benefits which are related to the retiree’s average monthly taxable wage. The average monthly taxable wage is stratified into seven strata with the lower wages generating a proportionately higher benefit. In year 1975 for example, the lowest \$110 of average monthly wage generated a monthly benefit equal to \$1.30 to every \$1 of wage. At the other extreme, the wages in the top strata generated only 21¢ of benefit

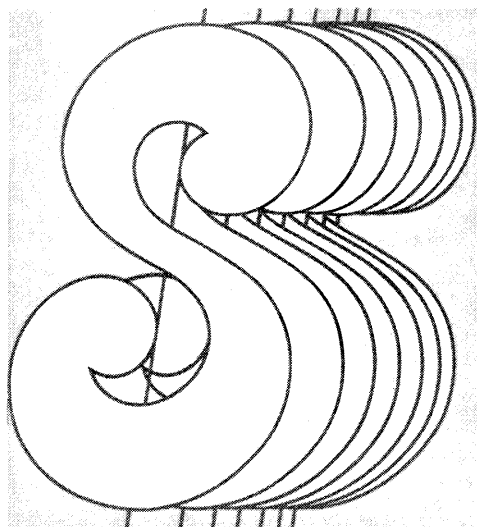
for every dollar of wage. Thus with the regressive tax favoring the upper income group, and the progressive benefit structure favoring the low income group, the middle income taxpayers are carrying a disproportionate share of the financial burden related to combining welfare with social security.

*Q. Is the welfare portion really a large part of the social security tax?*

*Wheeler:* It is indeed a significant part of the total burden. Professor Wilbur Cohen, former HEW Secretary, and currently Dean of the University of Michigan School of Education, testified recently before the Senate Finance Subcommittee on social security. He estimated that benefits received but not paid for by the beneficiaries “approximate about one-third of the long-range costs.”

*Q. Would your recommendations correct that?*

*Skadden:* Yes, we recommend that there be no stratification of wages and that all benefits be based directly upon the contributions that the individual and the employer have made for the individual’s retirement benefits. Thus, the benefits would be based upon the amount of contributions and the length of service in a fashion very similar to other retirement systems. If a retiree’s social security benefits plus income from other sources is below whatever



**“The absence of a means test for the welfare element of social security causes disproportionately high benefits to be paid to many individuals who have substantial incomes from other sources. It is fairer to finance welfare from general funds—not just from a tax on labor.”**

minimum level our society deems appropriate, then additional funds should be provided from a general fund welfare program.

*Q. But wouldn't this just mean shifting money from one fund to another? The money actually paid would be the same, so what are we actually solving?*

*Wheeler:* Even if that were the case, it would be fairer to finance welfare from general funds—not just from a tax on labor. But it would also be true under our recommendations that less money would be paid out for welfare.

*Q. Why?*

*Wheeler:* Because welfare involves some kind of a means test. The absence of a means test for the welfare element of social security causes disproportionately high benefits to be paid to many individuals who have substantial incomes from other sources. Also, it makes it possible, and often financially attractive, for government employees (who are presently exempt from social security payments because they are covered under other federal or state retirement plans) to accept covered employment just long enough to qualify for minimum social security benefits. And those minimum benefits are disproportionately high.

*Q. Do you recommend that all government employees be brought into the social security system?*

*Skadden:* If our primary recommendation that social security benefits be based upon contributions is adopted, it would not be significant whether government employees are covered by social security or by some other mandatory retirement plan. However, as long as the payroll tax is used to finance a significant portion of the Federal welfare program, it is extremely unfair that government employees be exempted from carrying their fair share of this burden. This inequity is compounded severely when those same government employees are able to avail themselves of the welfare benefits for which they

have not contributed. Thus, if the contribution-benefit relationship remains as it is today, we think it mandatory that all government employees be included.

*Q. You are recommending the separation of welfare and retirement on the benefit side. What effect would this have on contributions?*

*Wheeler:* The contributions should be the amount necessary to support, on an actuarial basis, a retirement annuity at whatever level Congress deems necessary. This would reduce the contributions for those millions of workers who are now supporting the substantial welfare portion of social security benefits.

*Q. Does this mean a reduction in total taxes?*

*Skadden:* It should, but this is very difficult to determine. Under our recommendation the welfare expenditures picked up by the general fund would be substantially smaller than the welfare presently paid through social security because of the many retirees who now get welfare which their economic circumstances do not justify. However, these reduced welfare payments presumably would be financed by the graduated income tax. Thus, for any specific taxpayer, the substitution of the graduated income tax for the flat rate payroll tax could decrease or increase the total tax load. It should be pointed out that at the present time, the social security system not only mixes welfare and retirement on the benefit side, it also mixes general fund reserves and payroll tax revenues.

*Q. How does that happen? I thought Congress has consistently refused to put general fund revenues into the social security system?*

*Skadden:* Congress has repeatedly refused to appropriate general funds directly into the social security fund. However, the earned income credit in essence rebates up to \$400 to some low income taxpayers for the announced purpose of offsetting all or part of the social security tax paid by those individuals. Also, it is

quite impossible to determine the extent to which Congress has reduced income taxes, or modified income tax increases, because of the ever-growing payroll tax burden. President Carter has announced that the size of his recommended 1978 income tax reduction will be determined partly by the size of the payroll tax increase. On the other hand, the payroll tax indirectly provides some support to the general fund on the revenue side as well as through the welfare payments.

Q. *How does that happen?*

Wheeler: The general fund is financed in large measure by the income tax. Inasmuch as social security taxes are not deductible for individuals, we have to pay income tax on the money that we are paying into social security, so there is a form of double taxation. Thus in a very real sense the social security system is contributing substantial amounts to the general fund, and these income tax revenues should be made available to the social security system. The amount of such double taxation is very difficult to measure.

Q. *Are there other economic problems involved?*

Skadden: The payroll tax has a substantial, and little understood, impact on non-profit institutions of all kinds, such as The University of Michigan, for example.

Q. *Why is that?*

Wheeler: Social security taxes paid by most employers are tax deductible. A corporation can thus pass on 48% of the social security tax through the reduction of the income tax. But a non-profit organization is tax exempt. Therefore, the *entire* cost of social security must come out of the budget of non-profit organizations. None of it can be passed on through an income tax reduction. In addition, most non-profit institutions, like The University of Michigan, are very labor intensive, and loading welfare on their labor cost has a very inequitable and unfavorable impact on

their operations which cannot be readily offset by changing the income tax, as President Carter proposes to do.

Q. *What are some of your other recommendations?*

Skadden: We recommend that investment income also be subject to social security retirement tax. One of the fundamental concepts of social security has been a forced savings program whereunder each individual is expected to provide at least a basic floor of protection for himself or herself. This would be better fulfilled if *all* income contributed to such "forced savings" and not just earned income. If society determines that a certain floor of retirement income is to be provided by social security, investors should also be expected to provide that floor of protection for themselves. In essence, we are saying that a person with wages of \$14,000 plus interest income of \$1,000 should contribute the same amount as the person with wages of \$15,000 and no investment income.

Q. *What about the limit on how much money you can earn and still collect social security benefits?*

Skadden: Under the present system, individuals who need additional income after 65 are penalized for working—both by reduction or loss of social security benefits *and* by having their wages subject to FICA taxation. At the same time, persons with large amounts of investment income collect full social security benefits. This seems to us to be a serious inequity. We recommend that the retirement annuity begin at 65 (unless the person chooses early retirement) and that the annuity be paid, based on prior contributions, regardless of how much money the individual is currently earning. After age 65 we recommend that earnings should *not* be subject to FICA tax.

Q. *Do you think social security benefits should be subject to income tax?*

Wheeler: Yes. The benefits should be subject to income tax, and the contributions made to social security should be deductible from income tax. People whose only income comes from social security benefits do not have to pay income taxes anyway, because the combination of exemptions and the standard deduction (now called a zero bracket amount) eliminates income tax for these people. Thus the present exclusion does not benefit them. It is interesting to note that the exclusion of social security benefits from income taxation has never been enacted by Congress, but is based solely on an administrative ruling. It is our feeling that an exclusion of this magnitude, if it is to be retained, should be legislatively enacted.

Q. *What would you recommend for current retirees? Would they find their social security benefits have suddenly become taxable?*

Wheeler: No. We recommend that they retain the tax exemption, because they were not able to deduct social security contributions from their taxes.

Q. *What would you recommend for the person who paid into social security all his or her life, and then died at 64 without having any dependents eligible for social security? Under the present system, the only payment he/she would get is \$255 for funeral expenses. Would you change this?*

Skadden: We recommend that every person who contributes to social security should receive benefits commensurate with those contributions. If the benefits cannot be paid to the taxpayer's dependents in the form of an annuity, then there should be a lump sum payment to the taxpayer's estate.

Q. *What about the working wife who pays in to social security all her life and then can get benefits either as her husband's dependent or on her own earnings—but not both—even though both have been paid for?*

Skadden: Settlement options at the time of retirement should permit: 1) a joint and survivor annuity (for married persons); 2) a single life annuity; or 3) an annuity with a guaranteed refund feature. So, if the husband retired and they chose a survivor annuity, the wife should get benefits under that as well as under her own earnings.

Q. *Can we talk about unemployment and inflation and their relationship to the social security system?*

Wheeler: We should note that the social security system has a tremendous impact on our entire economy—particularly now that we have such a large shortfall in the social security revenue, and therefore must consider increasing the social security tax rate. The increased employer's contribution raises labor costs, and the increased employee's share likely will result in higher wage demands and therefore also increase labor costs. This may result in higher prices, and also may result in increased unemployment. The increased labor costs hurt us in international trade because our products therefore cost more, and this in turn may be a contributing factor to unemployment. Any additional FICA tax which would tend to spur both unemployment and inflation should be avoided.

Q. *Is the present short run deficit in the system due to heavy unemployment?*

Skadden. Unemployment, of course, reduces social security revenues. If this shortfall in revenue is to be replaced, the burden should not fall solely on the remaining workers. If this happens, the labor sector is hit twice—once by unemployment, and again by the increased social security tax to offset the effect of that unemployment. Unemployment should be recognized as a general

economic phenomenon, and the costs thereof should be made up out of general revenues. This is another problem that would be substantially alleviated if our central recommendation were adopted and benefits were based upon contributions. Our recommendation would be that a shortfall due to unemployment would not be made up and those workers' eventual benefits would simply be lower because their contributions had been lower.

Q. *Would that impose an additional hardship after retirement upon the same workers who already suffered the hardship of unemployment?*

Wheeler: If a worker suffered such frequent or extended unemployment that his earned retirement benefits fell below the minimum standard of living, he would be eligible for welfare which would come from general funds.

Q. *You have mentioned the effect social security taxes may have on inflation and unemployment. Is there any way that social security benefits are protected from inflation?*

Skadden: Right now, there is double relief for the effects of inflation. First, the level of wages on which we pay social security goes up with inflation—and the increase in covered wages automatically increases benefits. At the same time, the benefit calculation itself adjusts for inflation. Thus there is a double adjustment on the pay out side, but only a single adjustment for the pay in. This effect was unintended when the 1972 legislation was passed and has been largely corrected by the 1977 legislation.

Q. *If people could use the money that they pay for social security to buy a private retirement plan, wouldn't they be able to do better for the money?*

Wheeler: It is unlikely that one could get greater benefits from a private

retirement plan because the present social security benefit structure includes an automatic inflation adjustment and a substantial element of welfare, neither of which are present in the typical private plan. The present social security system gives state and local governmental units the option of being included or excluded from the program. A governmental unit which is covered may withdraw from the program by giving a two-year notice. Within the past year or so, the city of New York and several other governmental units around the country gave notice that they were withdrawing from the social security program. Since giving that notice, nearly all of those governmental units have rescinded their requests for withdrawal because they received reports from their own actuaries that they could not get comparable benefits from any other plan. But this occurred before the recent passage of legislation that will greatly increase the cost of social security and so the answer may have changed, and new actuarial studies will be necessary.

Q. *What problems do you foresee in getting your recommendations adopted?*

Skadden: A basic problem is that the country has been sold on the idea that the social security retirement system is insurance. That would mean that there is a relationship between what the person pays in and what he gets out, and as we have seen, that is not true. Congress, however, has taken great pains to perpetuate that myth. It is time for people to face up to the idea that much of today's system is *welfare*, but there is a stigma attached to welfare. It perhaps seemed more politically palatable to build welfare into the social security system, in order that people could believe that they have paid for what they're getting.

Wheeler: Many retirees today don't know they're getting welfare. They've never attempted to calculate the taxes they've paid in and the rate of return on their investment. Even if they did that and found they were getting more than they paid for, many



of them would consider that entirely fair, because when *they* were workers they were paying so that people *then* retired could get more than they had paid for. But obviously this has to stop somewhere.

Q. *If your recommendations were implemented, what would be the effect on the social security system?*

Skadden: If our principal recommendation to remove the welfare element from social security were implemented immediately and applied to the present retirees, most of them would find their retirement benefits reduced. This, of course, would be very unpopular among the millions of retired voters and would, very likely, be politically unacceptable to Congress. Congress seems acutely sensitive to any potential "revolt at the ballot box" among retirees. However, as the current working population becomes aware of the fact that their payroll tax is financing welfare for millions of retirees who have no economic nor social need for welfare, Congress may face a "revolt" from this even larger group of voters.

All of the problems of mixing retirement and welfare benefits will be magnified many times if the new social security law passed in December 1977 is allowed to remain in effect. This will surely hasten the "revolt" of the working population. Congress must be made aware of this in order that they will take action to remove the welfare from our social security retirement system. All concerned groups and individuals should study this matter and convey their ideas to Congress.

Q. *Is there any way to implement your recommendations so as to minimize the impact on people retired or nearing retirement?*

Skadden: The separation of welfare from retirement benefits could be phased in over perhaps five years. This may well be essential to make it politically feasible.

Q. *How would this actually work?*

Skadden: The benefit structure for the present retirees could be left exactly as it is presently. For everyone not yet retired the contributions would be reduced to the level to support only their true retirement annuity, and all contributions would be deductible for income tax purposes. For all those retiring in the future, benefits would be taxable. For those retiring within the next five years, the benefits would include a gradually decreasing amount of welfare.

Q. *Your recommendations do not address the other parts of social security—such as survivorship, medicare, etc. What about them?*

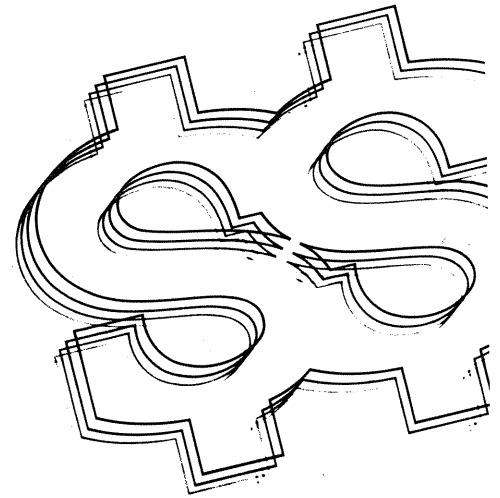
Wheeler: Other programs as well as retirement should be constituted so that there is a rational relationship between what you pay in and the benefits you get out.

Q. *Could we sum up the effect of your recommendations?*

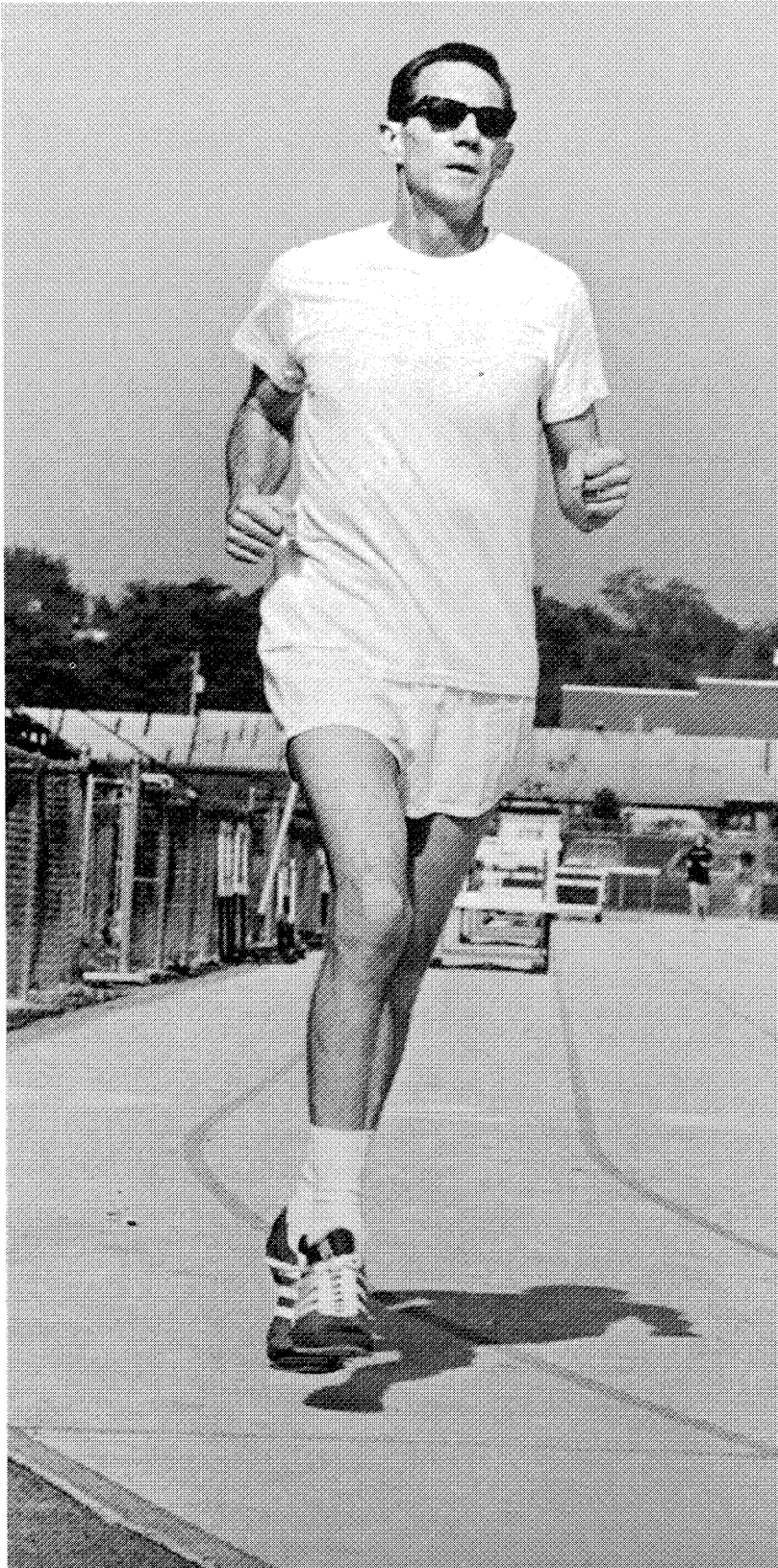
Skadden: The shift of welfare payments from the social security program should permit a significant reduction in social security taxes. However, the need for general revenue (primarily from the income tax) will increase. The tax reduction for social security should exceed the needed addition in income tax revenue because of the implementation of the needs test under any general fund welfare program. The entire tax reduction in social security should result in reduced labor costs and increased economic activity which should have a beneficial effect through reduced unemployment and inflation and through increased capital formation.

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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.



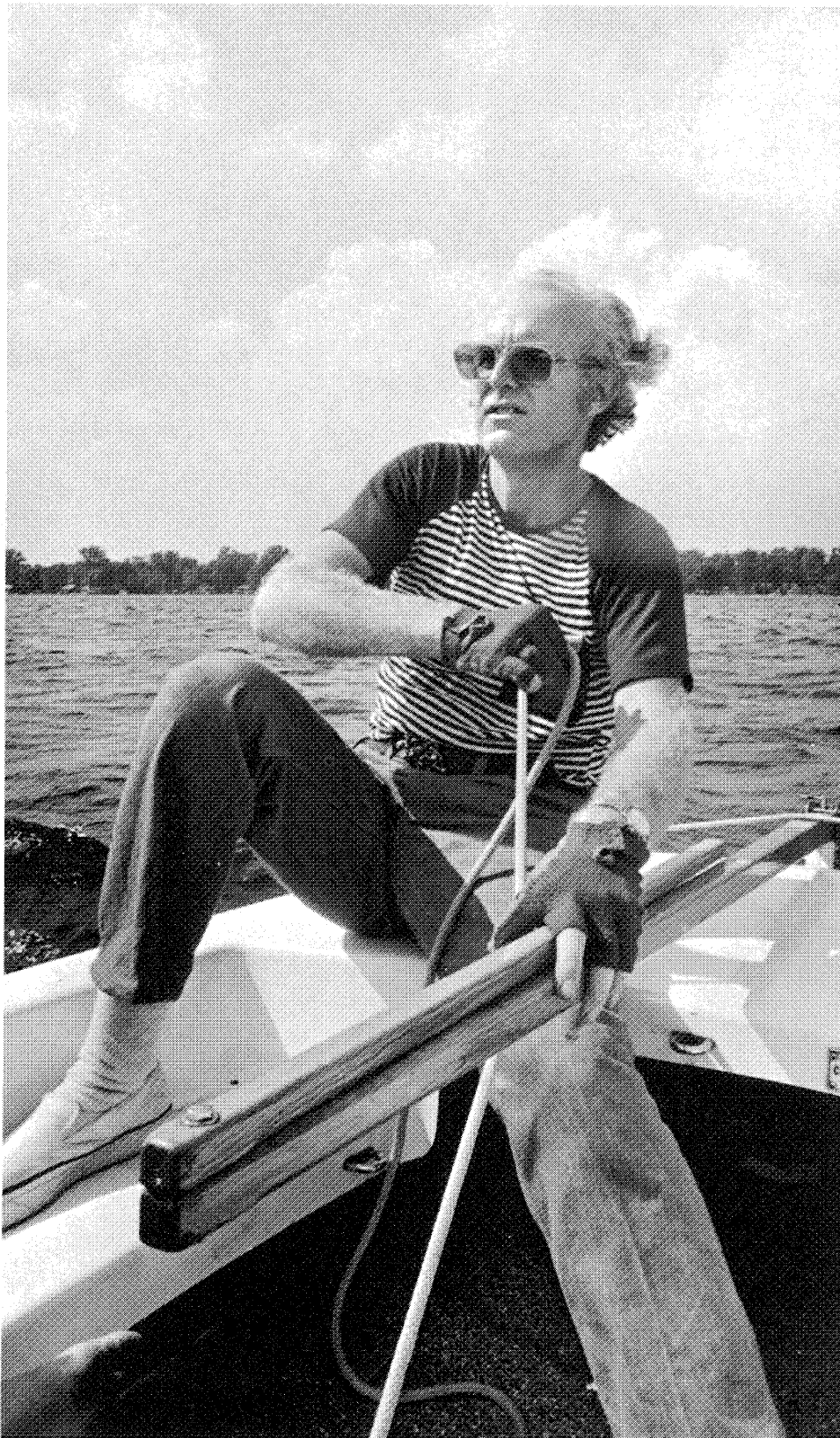
**“With the regressive tax favoring the upper income group, and the progressive benefit structure favoring the low income group the middle income taxpayers are carrying a disproportionate share of the financial burden related to combining welfare with social security.”**



# Our Athletic Faculty

Being a college professor is generally thought of as a profession in which one's mind is much more active than one's body, but a great many professors at the Business School say their minds work better if they participate in a regular exercise program. The excellent sports facilities offered by The University of Michigan have made regular exercise easily available, even in wintertime, and the result is a faculty who nearly all participate in one sport or another on a fairly regular basis. On these pages we bring you pictures of our athletic faculty. We hasten to say that this a representative sample *only*—if we tried to picture all of the faculty members at the Business School who are active in sports, we would run out of pages before we ran out of faculty!

Allen Spivey, professor of statistics (pictured left) runs five miles during his lunch hour every other day, and has been doing so for the past five years. He did cross country running while an undergraduate, and took it up again about eight years ago. He runs both to keep in shape and because he enjoys it. "It's a great way to get rid of one's frustrations," he says. "When I'm finished running I always feel refreshed and can handle the rest of the working day better."

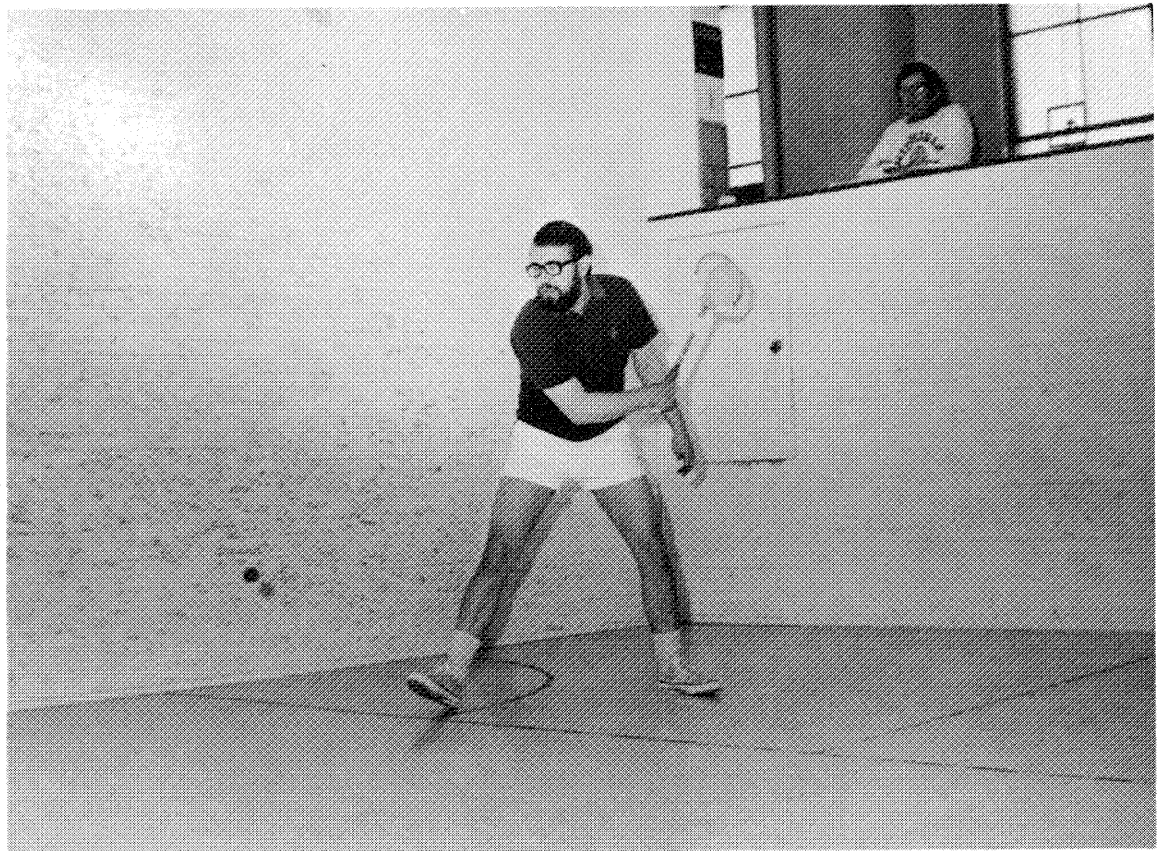
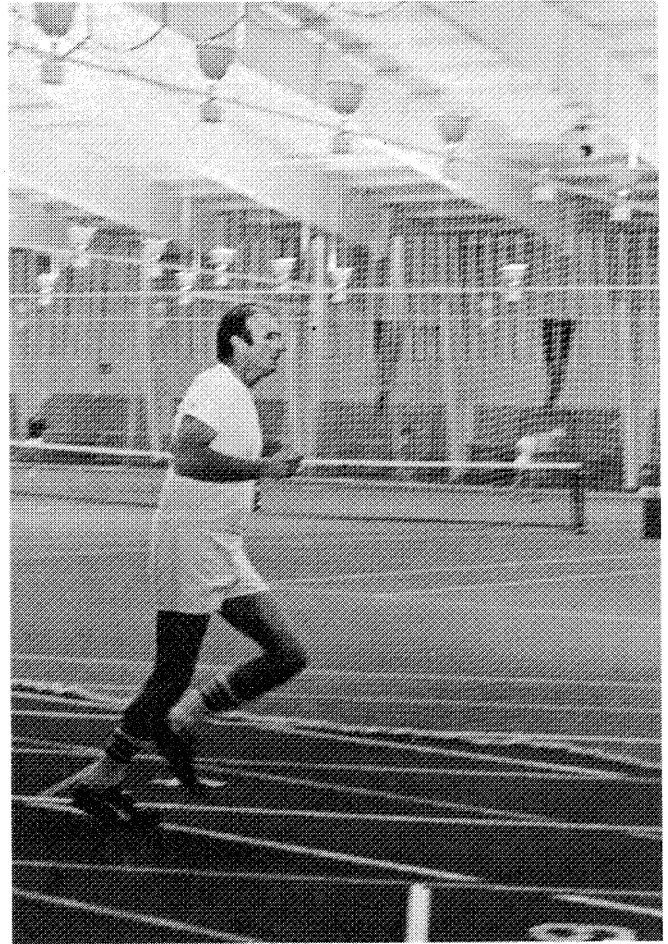


**A**lbert Schrader, associate professor of business administration and director of the Division of Management Education, got badly bitten by the sailing bug during a vacation at Camp Michigania, the University of Michigan Alumni Association's Family Camp. It took him five years to get around to buying a boat, but in 1976 he finally succumbed and bought an 18 foot Interlake which he named *Nereus* (after Neptune's father). He sails on Portage Lake during the summer, and says the old saw about a boat being a "hole in the water surrounded by wood into which you pour money" is no longer true. "Now," he says, "boats are made of fiberglass. You don't have to paint them or anything. Right now, my boat is sitting in my back yard with nothing over it. It will just stay there until time to put it in the water again." When winter comes, he runs three miles nearly every day to keep in shape, but finds running terribly boring—"even sort of a chore." Sailing, on the other hand, is "far from being boring. You want to see whether you can get from here to there without the boat tipping over." And has he ever capsized his boat? Only once. The first time he took his family sailing in it!

*Photos by Virginia Geren*

**E**d Miller, professor of industrial relations, started running in 1971 because of a bothersome muscle in his back. He concluded that a regular exercise program would help, and began working his way up to running 1½ miles five times a week. Now he runs four or five miles during his lunch hour nearly every week day. "There's something very cathartic about running," he says, "sometimes I think about work while I'm going around the track, but usually I just enjoy the running, and when I come back to the office, my mind is clear and ready for a productive afternoon." Miller points out that the excellent sports facilities the university offers represent a considerable "fringe benefit" for those who work here.

**J**ames Winjum, associate professor of accounting pictured below, learned squash while a student at Annapolis, where he was on the freshman squash team and later on the varsity team. After graduation, he didn't play for about ten years, but picked it up again after joining our faculty in 1968. He now plays three times a week.

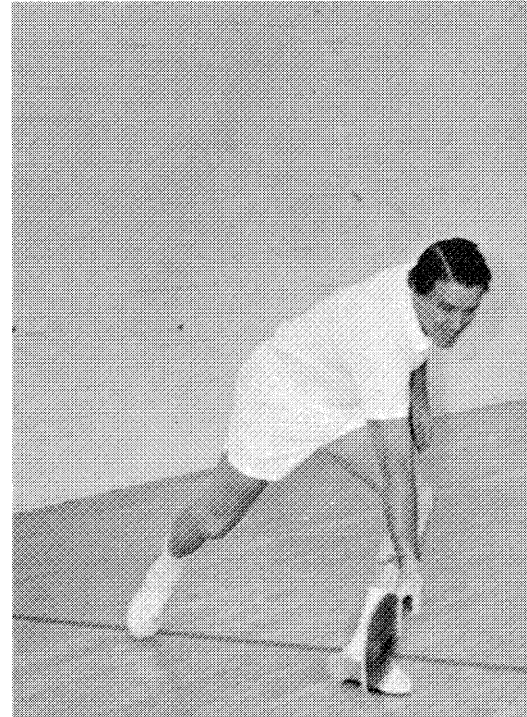
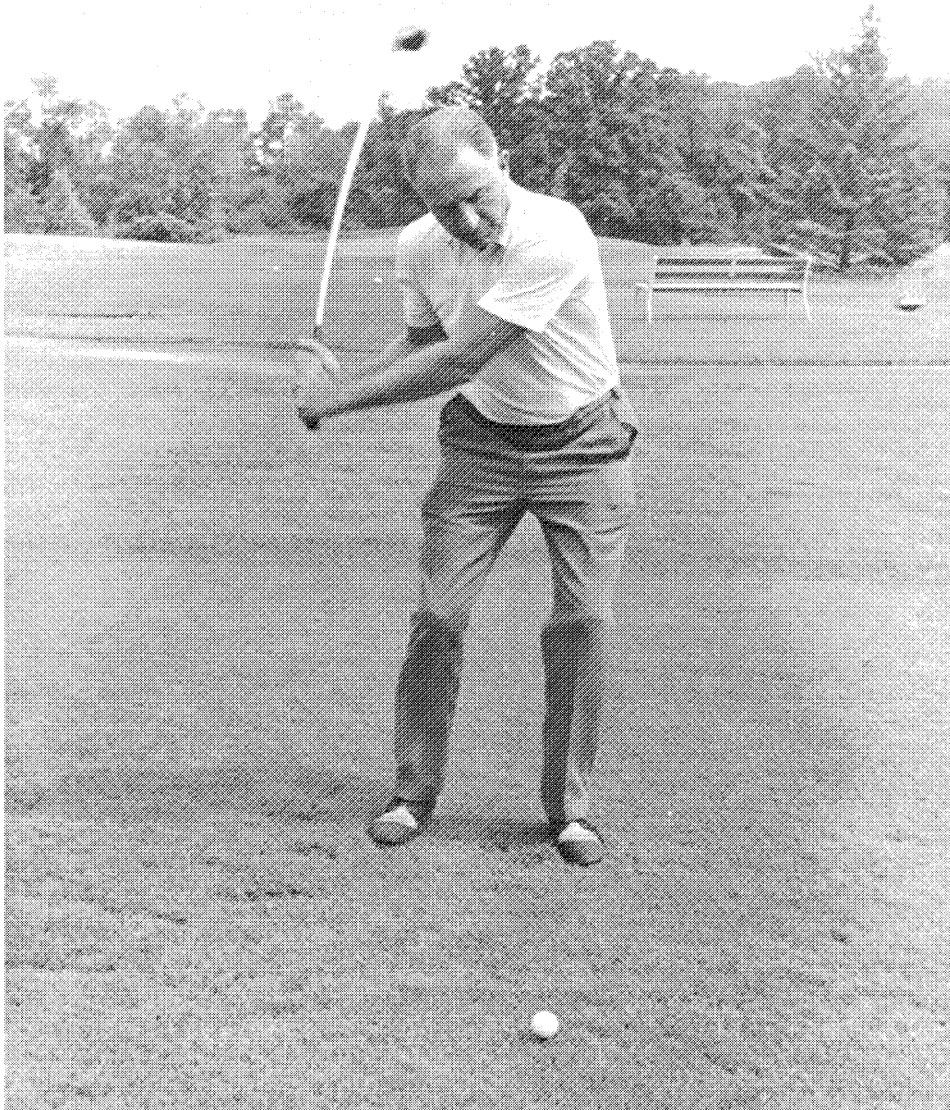




**G**unter Dufey, professor of international business and finance, started cross country skiing when a torn cartilage forced him to abandon downhill skiing. Another contributing factor was his move from Seattle to Michigan, with its corresponding loss of handy slopes within easy driving distance. Now he lives on the outskirts of Ann Arbor, and when snow conditions are good, all he has to do is put on his gear and ski out his door and over the fields. He says the nice thing about cross country skiing is that you get maximum exercise in minimum time (unlike downhill skiing, cross country skiing works the upper torso); you don't have to wait hours for the ski lift; it's cheaper and far less injury prone. He says it's a great sport to do either by yourself, or with others, an excellent way to combat ulcers, and substitutes very well for downhill skiing. When snow conditions aren't right, he runs or plays tennis for exercise, usually manages to get an hour or so of one of them, four or five times a week.

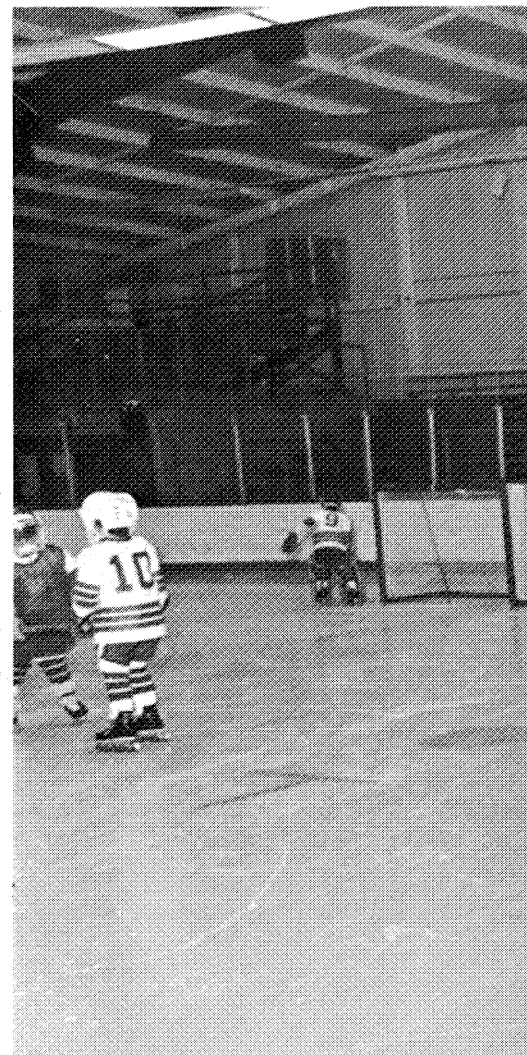
**D**ouglas Hayes, professor of finance, has been playing golf for forty years. He has been Club Champion at Ann Arbor Golf and Outing Club six times, and in 1977 won the Matthai Medal Play Championship at Radrick Farms. Golf is not his only game, however. He plays squash

and tennis as well, and before “re-tiring” from tournament playing, won the faculty squash championship four times. About his participation in sports, he says simply, “My mind becomes sluggish if I don’t get exercise on a regular basis.”

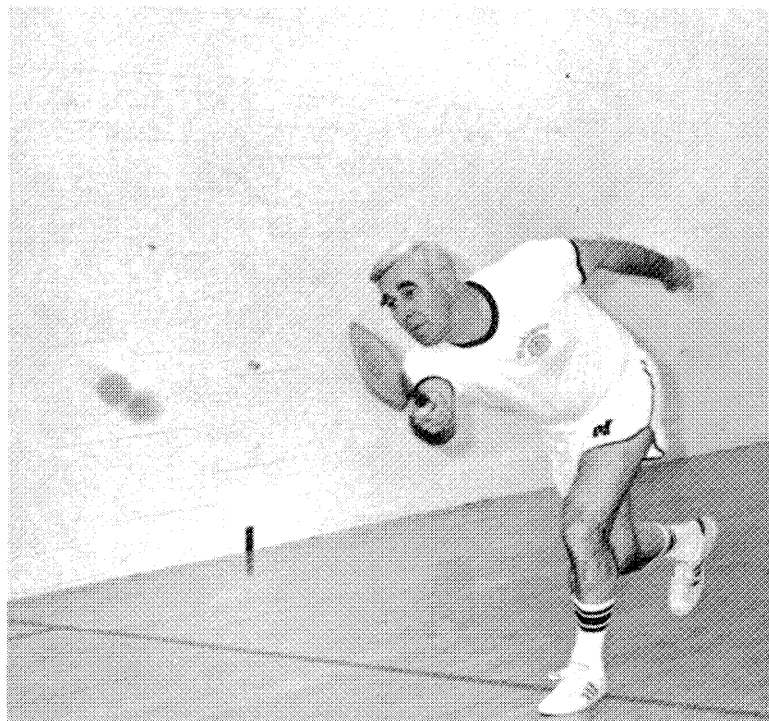


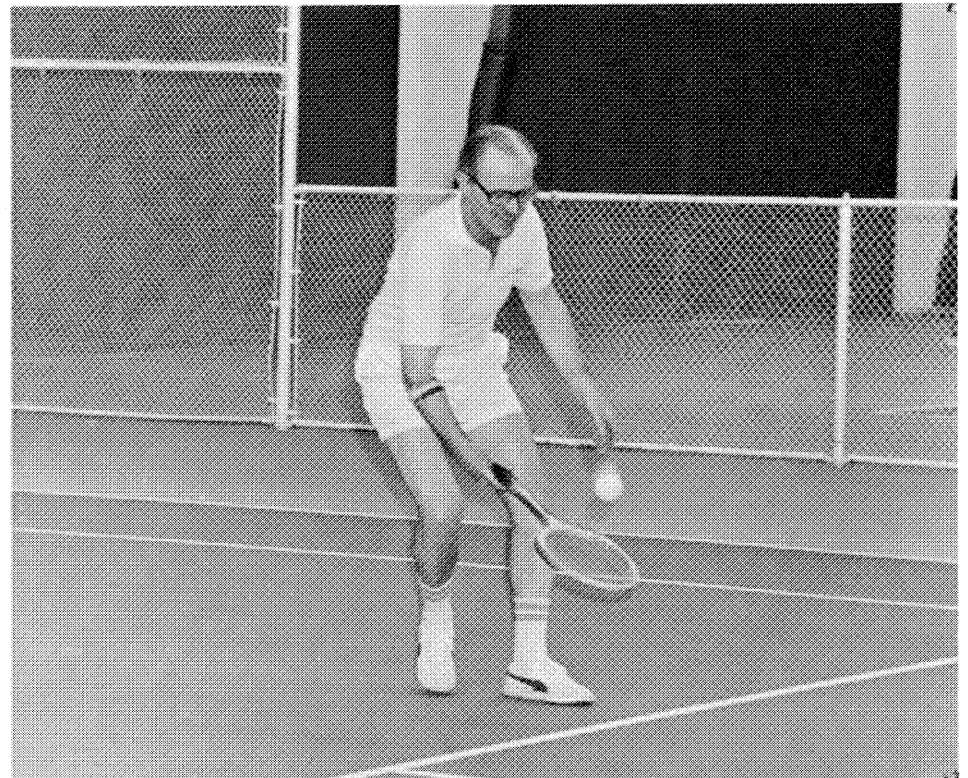
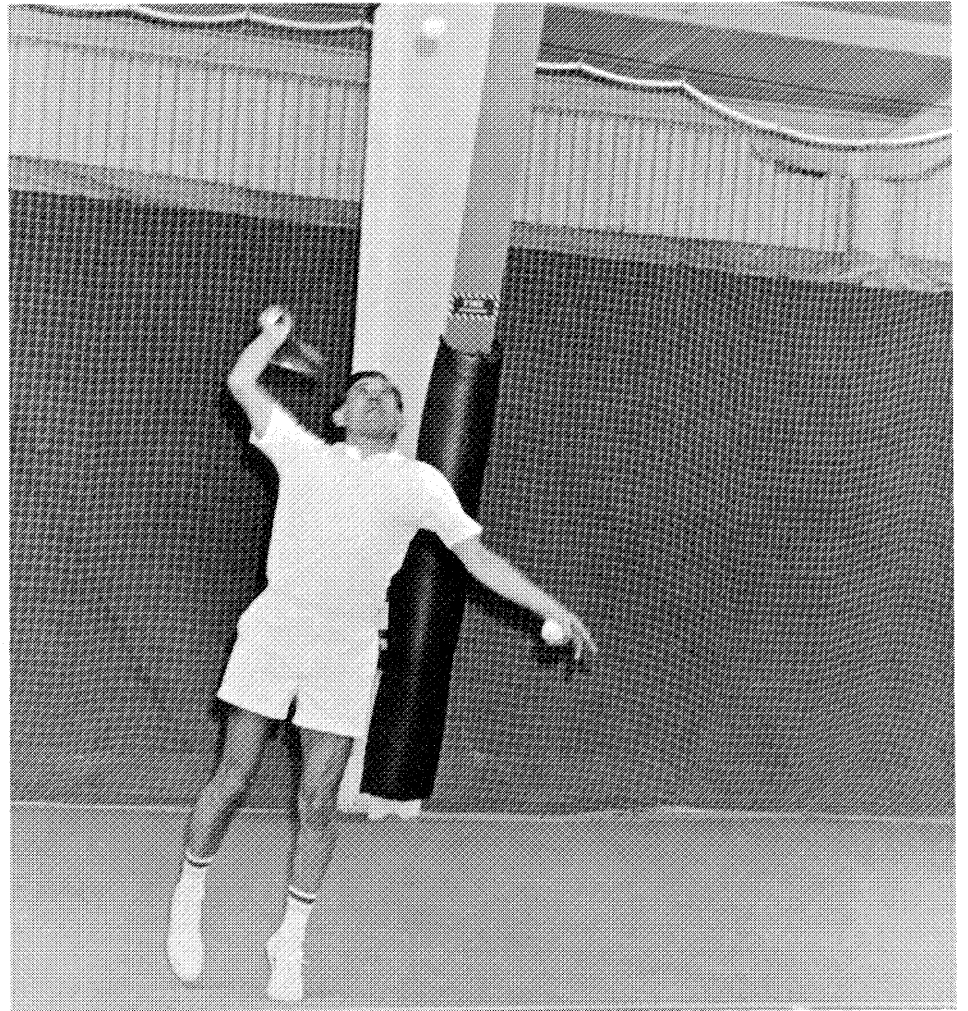
**D**avid Brophy, associate professor of finance, started playing hockey as a boy in Canada, was involved in intercollegiate hockey while studying for his Ph.D., and now plays twice a week in the Ann Arbor Recreational Hockey League. He is pictured on the ice with four of his sons: (left to right) Mike, Tom, Greg, and John. Brophy used to be a head coach, but with so many kids on different teams, he now serves

as assistant coach for each of his sons’ teams. The different teams practice at different times and at different rinks, and this can present a complex scheduling situation. Keeping track of it all usually goes smoothly, but Brophy once had the experience of arriving for practice with the correct number of sons at the correct time (6:15 a.m.) on the right day, only to discover that they had gone to the wrong rink!



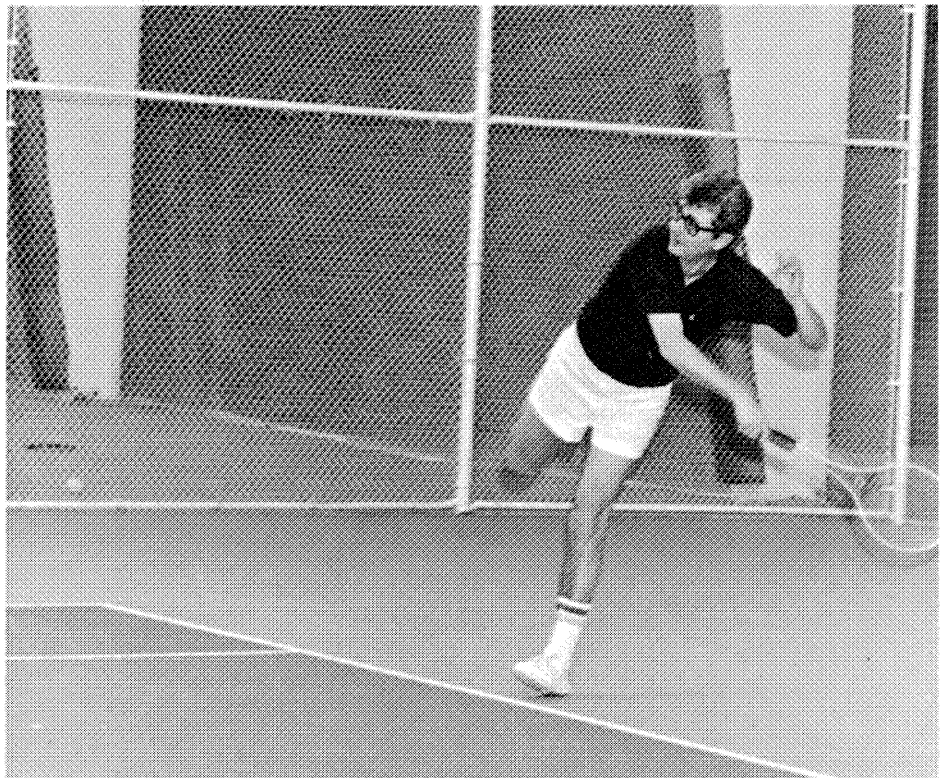
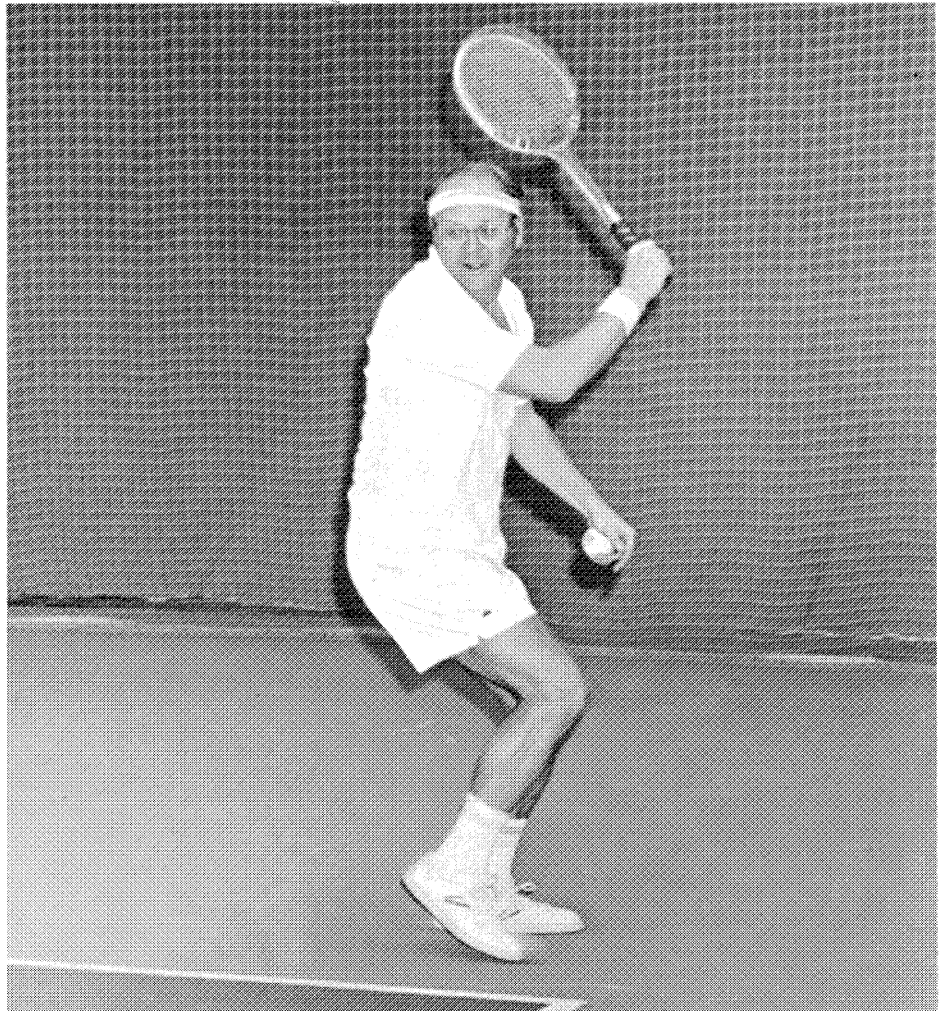
Walter Kell, professor of accounting (pictured left) plays paddleball once a week and tennis once a week, and also enjoys golf in the summer. He comments that besides the health and enjoyment aspects of sports, they also provide an opportunity to meet people from all over the University. Kell has always participated in sports, and while a student at the U of M won letters in both baseball and basketball. His weekly partner in paddleball is Lloyd MacDonald (right) professor of insurance, who says, "I'm an enthusiast, but Kell is a genuine athlete." MacDonald started playing paddleball when he came to the U of M 25 years ago, and has been playing ever since—on the same courts that he used when he first got here (those in the I-M Building).







The "Liberty Street Group" has been playing tennis together once a week for about three years. They include Martin Warshaw, professor of marketing (upper left); Merle Crawford, professor of marketing (lower left); James Bulloch, adjunct professor of accounting (upper right) and Herbert Hildebrandt, professor of business administration (lower right). Hildebrandt took up tennis about four years ago—after a 20 years lapse—when he found he could not get his regular lunch hour swim in because of too many noon meetings (the Liberty Street Group meets after work). Crawford sees tennis as a means of enforced athletic activity—says the only way he will keep up a regular exercise program is if he has a regular time for it every week. He laughs when he talks about the group. "We are not young any more," he observes, "and sometimes we have the darnedest collection of weak elbows and knees you ever saw. Sometimes we make the mistake of bringing in one of the younger guys as an alternate—and they return shots we thought were so good we were walking away from them confidently!" The group has an alternate list of about 15 players, in case one of them can't make it, and about ten of these alternates are faculty members at the Business School, which gives you some idea of the popularity of the game here. With the growth of indoor tennis facilities in Ann Arbor, tennis has become available as a year around sport, and this seems to be an important reason for its popularity. "I like the competitive aspects of tennis," says Warshaw, "and you can finish a game in an hour or so, which makes it easy to fit into a work schedule." Warsaw also likes skiing, and comments that most skiers like tennis because the sports are complementary—"they keep your legs in good shape." It's obvious, when you talk to the tennis players, that they may be playing primarily to keep in good physical shape, but that they are also having a whale of a good time doing it!



## Notes on the Worst Inflation in History

Continued from page 2

adjusted according to the rise in the cost-of-living index computed for the previous week.

As long as prices rose slowly (i.e. double digit inflation) the lag between the computation of the index in one week and the adjustment of wages in the next week was not significant. But when the rate of inflation approached 10 or 20% *daily*, the lag became significant.

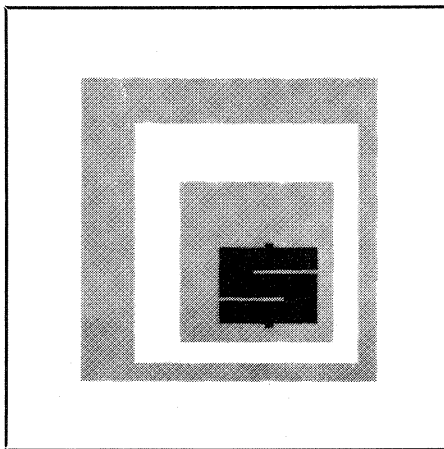
Consequently, when a laborer received his wages, his wife would rush to the market to spend the money without delay. For example, if a laborer was paid at 6 p.m. on Tuesday (in October, 1923) and if for one reason or another his wife could not go shopping until, say, Friday, she would acquire 40% less merchandise than she would have acquired had she gone to market early on Wednesday morning due to the 40% rise of prices during the interim. The rate of rise was so rapid that money held for seven days lost all of its value.

Dr. Hjalmar Schacht, an economist and banker, was appointed "Currency Commissioner" on November 12, 1923, and assigned the task of stabilizing the value of the mark. He was instructed to print new marks and to get them into circulation within three days. The mechanical task of printing the new money within such a short period required the services of more than two thousand workmen operating 1,973 printing presses located in 33 separate factories.

The first theoretical problem that had to be solved involved determining the rate at which new marks were to be exchanged for old marks. Schacht set this rate at one trillion (1,000,000,000,000) old marks for each new Rentenmark. The new mark was given an initial value of 10/42nds of an American dollar (23.81 cents).

The second and more important economic problem was to establish some regulations that would stabilize and maintain the value of the new mark. The following measures were adopted:

**"As the rate of inflation accelerated, many firms shifted to three pay-days a week. By early autumn, 1923, daily pay-days were becoming the rule and in November, 1923, some employers were paying twice daily."**



1) The central bank of Germany (the Reichsbank) was separated from the government and made an independent entity free from outside control.

2) The central bank was then prohibited from making any loans to the government to aid in financing deficits. This forced the government to curtail expenditures and augment revenue via higher taxes.

3) The Reichsbank agreed to purchase the notes of other banks provided that the loans that gave rise to the notes were for the purpose of aiding agriculture. The object of this policy was to increase the supply of foodstuffs.

4) Local banks were prohibited from making loans to firms unless the purpose of the loan was to finance production of salable goods and then only if the borrowing firm had disposed of all of its security holdings and reduced its commodity inventory to a reasonable minimum. This measure was designed to stop commodity speculation and to block financing of consumer loans.

5) New loans of each bank were limited in each period to the amount of loans maturing and liquidated in that period. This prevented an expansion in aggregate bank loans.

Opposition to Schacht's rules was immediate and vociferous. The politicians objected to the "no government loan" regulation. The public complained about the increased taxation and the rapidly growing unemployment. Economists argued against the "credit-rationing" policy on principle.

During the spring of 1924 the price level began to decline. Many factories producing nonessential items went bankrupt. Unemployment was rampant and wage rates declined precipitately. Storms of violent protest swept the country as breadlines lengthened. Political pressure was applied to force Schacht to abandon his "ruinous" policies. The German press demanded his removal from office. But Schacht stood firm and unshaken against the outcry. He sanctioned no departure, however small, from his regulations. In the meantime, foreign loans postponed the devastating effects of immediate reparation payments.

Lower prices and wages led to lower costs of production and to increased demand and production. By August, Germany had achieved a favorable balance of trade. Production and employment increased. Soon the German people began to experience a reasonable degree of prosperity. Within a year those who had condemned Schacht most and clamoured loudest for his removal were singing his praises and hailing him as the heroic saviour of the German economy. ■

# The Multifaceted Motivation to Merge

by Ray Reilly  
Associate Professor of Finance

A review of *Mergers—Motives, Effects, Policies*, by Peter O. Steiner, published by The University of Michigan Press. 359 pp. (Steiner received the 1977 U-M Press Book Award for this book.)

The conglomerate merger, a phenomenon of the swinging sixties characterized by names such as Litton, Textron, Gulf and Western LTV, is the focus of Peter O. Steiner's *Mergers—Motives, Effects, Policies*. As the title suggests, Steiner examines the multifaceted motivation to merge, gives evidence of its impact on efficiency and competition, and suggests a posture for public policy toward merger activity. His description of historical background, related economic theory and the legal environment relates clearly to the conglomerate merger, but his prescription for public policy is applicable to a broader class of business combinations.

Before considering Steiner's analysis of the conglomerate merger wave of the sixties, it may be instructive to define the other classes of merger activity. In a vertical acquisition, the firm integrates backward into supplier industries or forward into its customers. A horizontal merger involves the acquisition of competitor firms in the hope of increasing market share in

existing product lines. Product extension mergers describe combinations in which the products of the acquired firms complement those of the acquiring firm. In a market extension merger, the products of both firms are the same, but the geographic areas in which the products are sold are distinct.

The pure conglomerate merger is any merger which does not fit the above-described categories. Steiner's working definition of the conglomerate merger—mergers which do not have a primary direct impact on competition within an economic market—includes all pure conglomerate mergers and many, but not all, mergers classified in the product extension and market extension groups.

What are the factors which motivate mergers of the conglomerate type? Four important factors are: 1) efficiency (for example, a more intensive use of talented management, an ability to raise capital at lower cost, economies in advertising); 2) certain tax

incentives, as summarized succinctly by Steiner; 3) investor psychology and accounting practice, as they affect value in ways unrelated to real economies or tax incentives. A fourth incentive to merge exists if, for any combination of the above reasons, the market value of the combined firms exceeds the value of the separate parts.

Steiner recognizes, however, that owner wealth is not the only factor weighing in favor of or against merger. Insiders, including managers, large shareholders, and members of the financial community may be interested in the effects of merger in ways other than the impact on owner wealth. Control performance evaluation, need for liquidity and status are just a few of the factors considered in addition to the direct value effects.

Of the several deterrents to merger, Steiner chooses to focus primarily on the impact of antitrust laws. In chapter seven, he provides a brief historical summary of the major antitrust legislation and a more detailed account of the major legal events of the late sixties.

The importance of the conglomerate merger can be measured by its effects on the economic well being of the nation. Steiner reviews the major empirical work, only to conclude that there remains much

*Continued on page 27*

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*About the author:* Dr. Reilly is particularly interested in applications of systems dynamics to problems in finance, and has recently completed a paper on compensating balances in bank lending agreements.

# 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.*

## **MBA Survey Ranks Michigan B School in Nation's Top Ten**

The Graduate School of Business Administration has been chosen one of the top ten business schools in the nation in a survey conducted by MBA Communications, Inc. and published in the December issue of MBA Magazine.

The U-M School was one of only two state university schools to make the top ten, the other one being UCLA. The other eight top-rated institutions were all private schools, and included Stanford, Harvard, University of Chicago, MIT (Sloan), University of Pennsylvania (Wharton), Carnegie-Mellton University; Northwestern University, and Dartmouth.

The survey was conducted by asking Deans of the 130 graduate business schools accredited by the American Association of Collegiate Schools of Business (AACSB) to rate as many of the schools as they wished on a five point scale for "overall quality of the master's program." The reported response rate was 65% (85 out of 130).

Survey results showed a fairly clean break between the most highly-rated schools with national reputations and a second tier of schools which were classified as "regional." All the schools listed as "regional" had lower ratings than those listed as "national" schools.

The fourteen schools listed as national included, besides the top ten, Columbia University, the University of California at Berkeley, Cornell University and Indiana University.

Stanford was listed as "the best" and Cornell as the "most improved" business school in the nation.

## **Why Do Executives Change Jobs? More Money? Better Working Conditions?**

A study on management mobility and the work ethic done by the Graduate School of Business Administration and Schwarzkopf Consultants, Inc. of Milwaukee, has found that American executives are highly receptive to job relocation—frequently at no pay increase. According to Edwin L. Miller, professor of industrial relations who directed the research project, "an American corporation is far more vulnerable to losing its best executives than it may realize."

The study found that during the next five years 53% of the survey respondents would be willing to change positions at no pay increase. If another company offered a 20% salary increase and performance bonus, 64% of the respondents would join a new employer and be content to do the same work, and an additional 21% would change if the new job offered more challenging work.

The Michigan-Schwarzkopf study team obtained answers to their questions from 689 managers, 512 spouses, and 35 executives and their spouses from a "control company" noted for its advanced personnel policies (a Fortune top 500 company). Over 25% of the surveyed executives were at the vice presidential level, and 73% of the group had changed positions in the last five years.

The researchers analyzed values and priorities that prompted executives to make their most recent change in position and locale. Their findings showed the highest priority was a

more challenging job that could further enhance the executive's career potential.

Other priorities, in order of importance, were: opportunity for more pay and performance bonus; family factors satisfying spouse and children; job locale; and resolution of personal problems.

Professor Miller cited four reasons for the high degree of mobility among executives. They were: inability of employers to challenge younger professionals; monotony of many managerial positions; effects of stress involved in crisis management; and increased acceptance of family mobility.

Consultant Edwin A. Schwartzkopf of the study team notes that few companies have effective career planning programs for managers. Companies need to better synchronize career goals of individuals with corporate needs, he said, adding that improved career management programs would reduce executive turnover and be cost effective to the company. For example, the survey found that control company executives were half as receptive to a promotional opportunity with a new employer than overall survey respondents.

The study also examined executives' attitudes on the level of agreement with their employers' ethics and on the relative importance of loyalty to the company. As the managers' income rose, the more they "strongly agreed" with their employers' ethics. Few managers "strongly disagreed" with their companies' ethics. For the entire study group, 49% were in

significant agreement on the ethics issue, while among executives earning over \$45,000 a year, 65% concurred significantly on their corporations' ethics.

As managers got older, they understandably gave increasing importance to loyalty. Overall, 66% of the responding executives believed loyalty to a company was significantly important.

The two most significant pressures reported by executives to be connected with a new job were the pressure to solve problems inherited in the new job and not being familiar with operations in the new locale. While the "control company" executives had the same two problems, they believed they were much better equipped with managerial skills than the respondents as a whole.

The researchers also explored the role of the spouse in executive transfers, and reported that the significance of this role has not been fully understood. First, they found that wives reported a harder adjustment in the new locale: 60% missed the old locale; 57% had difficulty leaving friends; 46% saw problems of children leaving friends; and 25% cited leaving family ties. Before the move the wife was more "participative" than her husband in overall activities, and after the move she became less active in social, cultural, religious, community and sports activities. In addition, 23% of the wives were unable to continue their full or part-time jobs in the new locale, and another 8% permanently withdrew from the job market. The researchers also found that the spouse was the single greatest influence by a wide margin in deciding whether a manager accepted a transfer or new job.

"With these difficulties, you would assume the spouse was disillusioned by her husband's career moves," consultant Schwarzkopf says. "Not so. The wife strongly concurred with her mate's career goals, his occupation and his employer. And 88% said they would move in the next five years if everything were right."



*President Fleming gives Professor Herbert W. Hildebrandt the citation for the AMOCO Good Teaching Award.*

### **Prof. Hildebrandt Wins Good Teaching Award**

Herbert W. Hildebrandt, professor of business administration and of speech was named a winner of a 1977 AMOCO Foundation Good Teaching Award. The citation was awarded by Robben Fleming, president of The University of Michigan, along with a check for \$1,000.

The citation read in part, "Your versatility is exemplified in dual teaching appointments in business administration and speech. Your nomination for this award was actively sought by students who know you as friend and adviser, who find

your classroom illuminated by conscientious preparation, informative lectures, and most of all by enthusiastic dialogue between instructor and students. There are no silent students in a Hildebrandt class."

Hildebrandt has been a faculty member at the U-M since 1958 and a member of the business administration faculty since 1970. At the Business School, he is also director of alumni relations. Between 1966 and 1970, he served as secretary of the University and assistant to the U-M president, but even during those years he also taught one term a year, so as "not to lose sight of what some of the students are thinking in the classrooms."

## IBM Vice-President Speaks at Dean's Forum

Theodore C. Papes, Jr., president of IBM Systems Products Division and a vice-president of the corporation, spoke on "A Perspective on Management" this fall at a Dean's Forum held in Hale Auditorium.

Papes drew on 20 years of management experience in his presentation, which covered planning processes, the uses of contention in management, and task forces.

On the subject of management evaluation, Papes said, "I would say that you cannot tell how good a high level manager is until you see him or her in a stress situation. We have our best people on our toughest problems."

On delegation, he said, "I know that you have heard how important delegation is, but equally essential is a certain amount of inspection on the part of higher management as events unfold in the operation of the business. No matter how much confidence a manager has in his subordinates, he must provide a measure of inspection from time to time if he is to minimize unhappy surprises. This inspection process also conveys a sense of priority on certain subjects, which is very useful to both the high level manager and the subordinates."

In closing his presentation, he offered some thoughts on what business school graduates might expect as they enter and progress through levels of business management. "First, the promotions you will achieve will include some side effects and one clear fundamental aspect. The side effects are the title, the size and decor of the office, and the salary. The fundamental aspect is that you will have a broader range of responsibility and more accountability for the results you achieve and the resources you control."

He added a second point. "You should expect that the higher the responsibility attained, the more difficult and nebulous the decisions will become. At lower levels you can assemble data and facts and opinions



*IBM Vice-President T. C. Papes, Jr. discusses management questions with students at an informal session after his presentation.*

which more often than not, point to a specific course of action with good probability of success. As you move up the ladder to broader responsibility, the data are less conclusive, the tradeoffs are much more difficult to assess, and the courses of action have opportunity for failure. There are also more 'first time' situations."

The question and answer period which followed his talk ranged across a wide variety of subjects including competition, growth potential, and business ethics.

Papes is a member of a three generation U-M family. He graduated from the U-M in 1952, his wife in 1954, and her father was a graduate of Michigan Law School. Matthew Papes, their oldest son, is currently a U-M sophomore.

## Time Quality Dealer Awards Give School Money for Scholarships

A check for \$2,000 to be used for graduate scholarships at the School was given to Dean Floyd A. Bond this fall on behalf of *Time* Magazine, the National Automobile Dealers Association, and all of the winners of the Time Magazine Quality Dealer Awards. These awards, made annually to the automobile dealers judged to have the most qualities pertinent to being a good dealer and a good citizen, are decided by a committee of faculty members of the Business School. Richard Heineman, who presented the check to Dean Bond, is managing director of the Quality Dealer Awards.

## **Graduate School of Bank Management to Offer Two Week Sessions**

The Michigan Graduate School of Bank Management will offer a two-week session in both May and June this year at The University of Michigan campus. The sessions, scheduled for May 14-26 and June 4-16, are designed to extend the managerial capacity of the bank executive who is involved (or expects to be involved) in management at the general administrative level.

The school is co-sponsored by the U-M Graduate School of Business Administration and the Michigan Bankers Association. It is the newest graduate school of banking in the United States, having been initiated in 1927 as a replacement for and an extension of the Michigan School of Banking, which had been in continuous operation since 1952.

"The U-M school is unique among graduate banking schools," explained David J. Brophy, associate professor of finance and director of the Michigan Graduate School of Bank Management. "Enrollment is kept relatively low (an upper limit of 50-60), thus stimulating a high level of interaction among participants and faculty members."

The program of the school has three objectives: 1) to extend banker understanding of decision-making techniques and managerial tools, and their effective application in banking, 2) to increase banker understanding of the social, economic, and regulatory environment within which the bank and its executives must function and 3) to provide a perspective for general management and decision-making which encompasses the total bank organization.

Participants in the program attend two two-week sessions over a period of two years. Directed primarily to the educational needs of Michigan Bankers, the school also accepts applications from bankers in other states.

The permanent faculty of the school consists of professors from the

U-M Business School and Law School, each of whom has a professional interest in and connection with the banking industry. Practitioners from the fields of banking and finance also serve as guest lecturers and resource personnel.

Current faculty members include: Prof. Brophy; Douglas A. Hayes, professor of finance; Claude R. Martin, Jr., professor of marketing; Edwin L. Miller, professor of industrial relations; James S. Reece, professor of policy and control; Thomas J. Schriber, professor of statistics; James J. White, professor of law; Ross Wilhelm, professor of business economics.

More information and application forms may be obtained from Prof. David J. Brophy, Director, Michigan Graduate School of Bank Management, Graduate School of Business Administration, University of Michigan, Ann Arbor, Mich. 48109.

## **DOR Researcher Speaks in Brazil on Marketing Health**

Patricia Braden, assistant research scientist at the Division of Research of the Graduate School of Business Administration, was one of five experts who toured Brazil in November under the sponsorship of the U.S. Department of Labor.

The experts spoke at various symposia in Brazil on the topic of industrial safety and occupational health. Dr. Braden's particular topic was the application of marketing techniques and the use of the media to communicate information on industrial safety and occupational health. At the end of the tour, the visiting experts met for discussion with Brazilian labor ministry technicians and representatives of quasi-government foundations.

Dr. Braden organized a conference entitled "Marketing Public Health Action" for the Michigan Public Health Association last summer, and her work with that program led to the invitation from the U.S. State Department for the Brazilian trip.

## **B School Participates in Admission Forum**

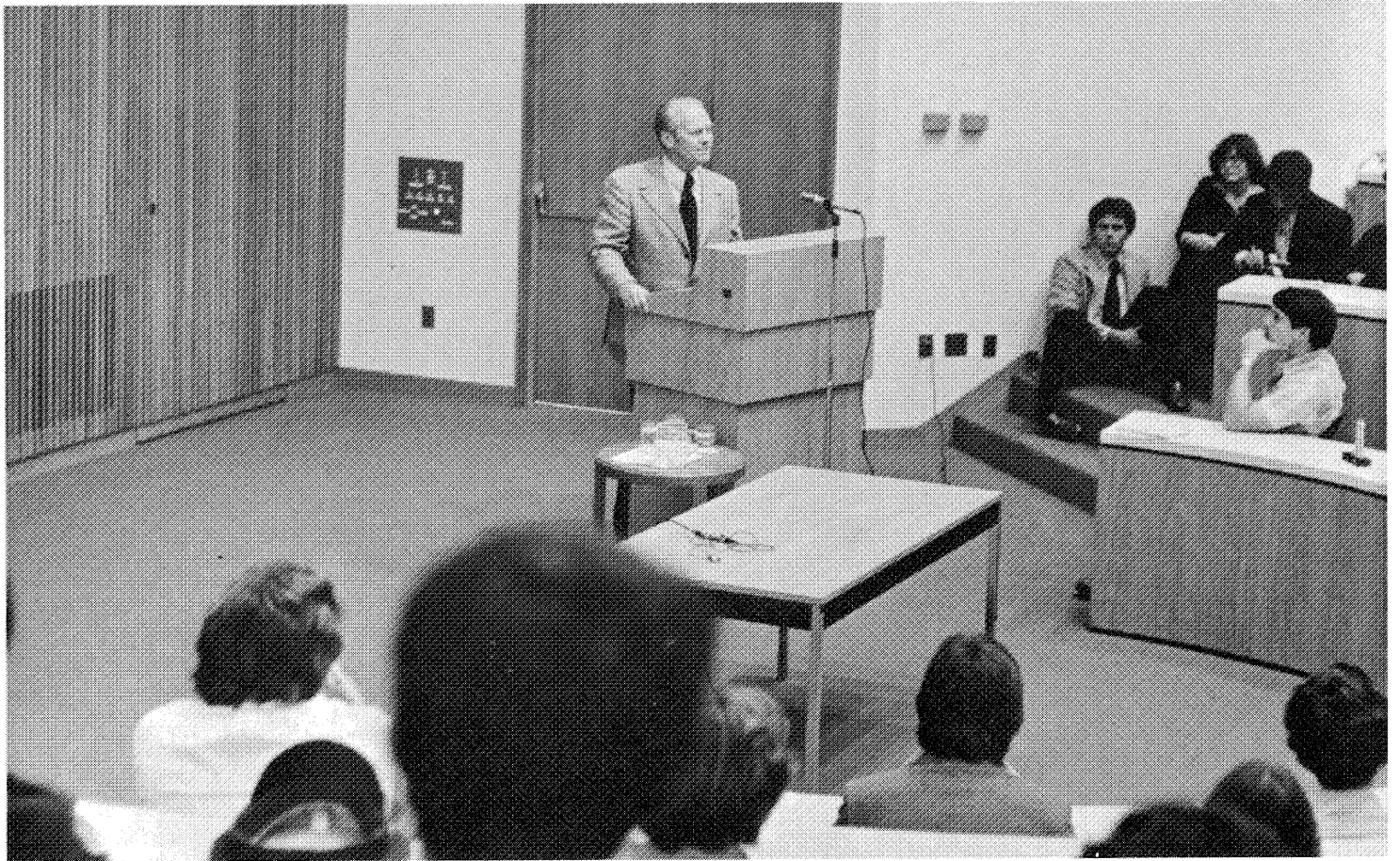
The Graduate School of Business Administration participated this fall in an MBA Admission Forum held in Chicago. The meeting was sponsored by the Graduate Management Admissions Council to enable prospective MBA candidates to have access at no cost to admissions officers representing a wide range of business schools. More than 70 institutions participated in the Chicago Forum.

James B. Ardis, director of admissions and former chairman of the Graduate Management Admissions Council, explained that the Forum "provides a unique opportunity for personal contact with admissions officers otherwise available to students only by traveling across the nation to visit individual schools."

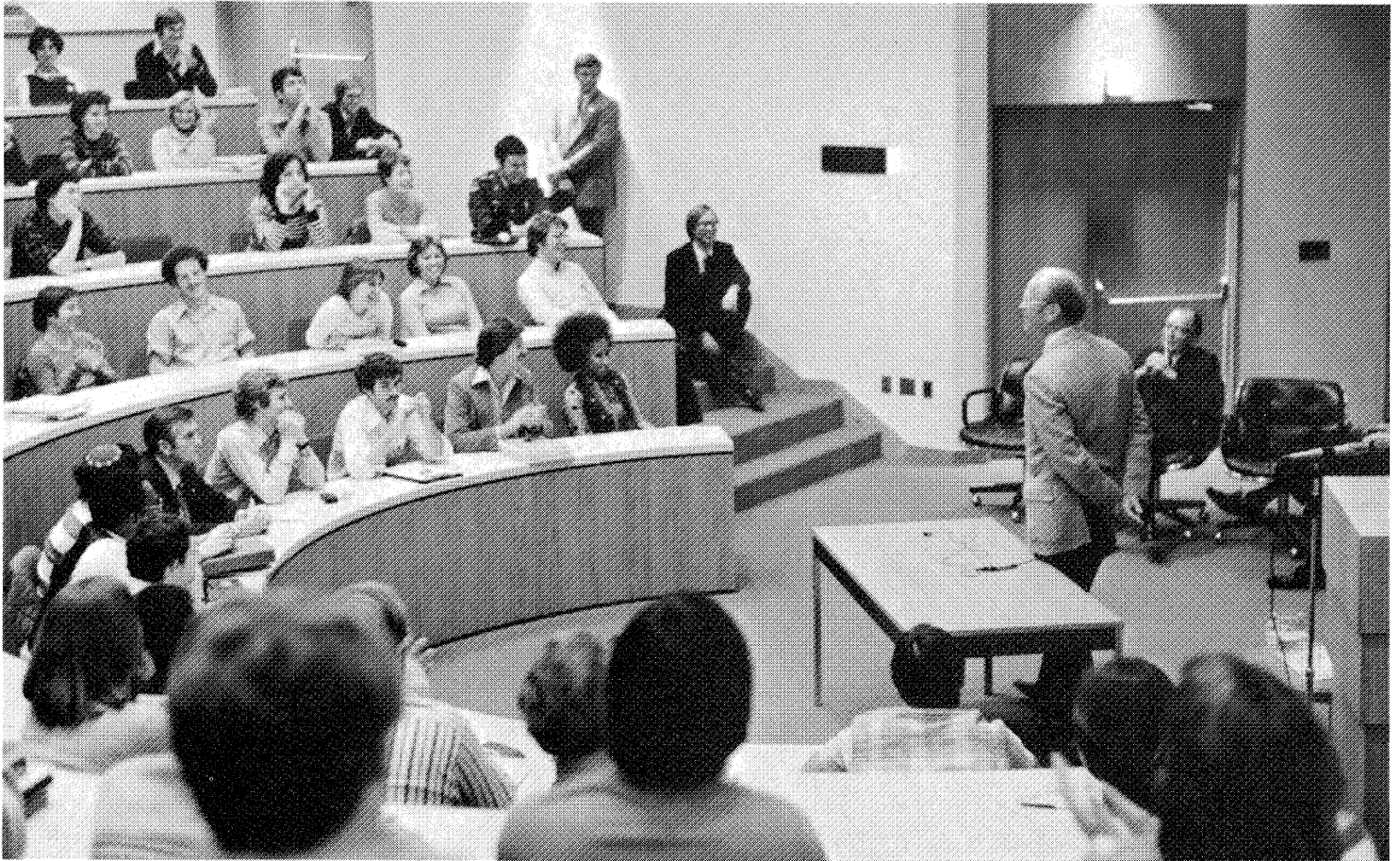
The Forum is designed to help men and women decide whether securing an MBA degree is the best career decision for them, Ardis said. It enables prospective MBA candidates who may still be in college or working to confer on a one-to-one basis with officials from schools offering a wide variety of full or part-time MBA programs.

The Forum provides information about managerial careers, graduate programs, and admissions requirements, and may serve to attract qualified individuals who might otherwise not have an opportunity to explore the many available MBA degree options.

It should, officials said, "help people, many of whom may never have considered business school as a pathway to a higher salary and a more satisfying career, to decide whether securing an MBA degree is a good decision for them."







## *President Ford at the B School*

Former President Gerald R. Ford's visit to The University of Michigan this fall started with a talk at the Business School. He spoke briefly, and then threw the meeting open for questions. Hale Auditorium was packed with an overflow crowd for the event and Ford received a standing ovation at the end of his talk. Afterwards, Ford met informally with faculty, Ph.D. students, and student council members in the Executive Lounge of the Assembly Hall building. Pictures on these pages record those two events.



## McCracken Sees Some Valid Reasons for Optimism about Future Economic Performance

A willingness to face our problems should improve international economic performance—bringing higher employment levels, stronger gains in real income, and a more stable price level, said Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration, in a speech in Belgium at the fall Conference Board International Financial Conference.

Dr. McCracken, chairman of a special study committee for the Organization for Economic Cooperation and Development (OECD), suggested that despite the current mood of pessimism about the world economy and even its political and economic systems themselves, there are valid reasons for optimism about future economic performance.

“For one thing,” he said, “we do need to remind ourselves at the outset that the world economy has been buffeted by an unusual series of shocks and mishaps during the last decade, and the sheer statistical probability that we would again so soon experience such a clustering of adverse developments is not high.

“It began with the U.S. government’s inflationary fiscal policy in the mid-1960’s when it failed to impose tax increases or cuts in civilian programs in order to offset the increase in military outlays. Then followed the breakdown of the international monetary system . . . (resulting in) further inflationary stimulus. . . .

“At about this juncture a concatenation of special features produced an explosive boom in commodity prices. The industrial economies moved into an unusually synchronized boom. Developments ranging from short crops in parts of the world to the failure of the anchovies to appear on schedule produced an explosive rise in agricultural prices. . . . Finally, of course, at this juncture came the quadrupling of oil prices.”

Dr. McCracken, chairman of the

Council of Academic Advisers with the American Enterprise Institute for Public Policy Research, said that another reason for hope is that “economies do continue to respond in rational ways to the economic policies that are actually pursued.”

He noted that economic policies were “massively expansionist” in 1971–73, with money supply rising at the rate of at least 10 per cent during much of that time in the United States, up 15–20 per cent in Germany and in the 20–30 per cent range in the United Kingdom, adding: “the over-heated state of economies that then emerged is precisely what would be expected. . . . Indeed, the countries that have pursued the more cautious monetary and fiscal policies are the ones which have had the better price-level record, which is what would have been expected .

“A third reason for some hope is that governments themselves no longer accept the old conventional wisdom that stronger gains in output and lower sustained rates of unemployment can be ours if only we are willing to accept yet higher rates of inflation. There is a new realism here. The higher levels of employment and output are now seen to be transitory, and the final result of high-pressure policies is some combination of more rapid inflation and unemployment and a higher probability of a sharp recession. Indeed, the extent to which governments, even at some political risk, are now looking beyond the immediate months ahead to the medium and longer-run results is one of the profoundly encouraging developments of recent years.”

As an example of the social strains caused by high rates of inflation, McCracken explained that the current 8 per cent annual price level rise in OECD nations would cause a 65-year-old retiree on fixed pension to lose almost two-thirds of his original purchasing power over the 13½ remaining years allotted the retiree by life insurance statistics.

“There is a great deal of evidence that such rates of inflation are simply not acceptable to the citizenry,” he said.

Governments, he added, must be more candid about what government policy itself can and cannot do. “We believe the route to sustained full employment lies in recognizing that governments cannot guarantee full employment regardless of developments in prices, wages and other factors in economic life. . . . Demand management policies can broadly establish the rate of expansion of economic activity in nominal terms. Government has no magic to assure, regardless of actions that others may take, that this will be an expansion of output and employment rather than more price-wage inflation, and governments should say so.”

McCracken suggested that the disciplining of monetary policy in recent years by the adoption of explicit targets for rates of growth in the money stock is “obviously a move in the right direction.”

The key problem for fiscal or budget policy, he said, is greater discipline on the forces making for increases in public outlays. He noted that in several countries roughly half of the national income is now channeled through the public sector, and the proportion continues to rise.

The U-M economist discussed other “structural” problems in economies: serious “misfits” have developed between the types of skills of people wanting employment and the skills and education required for the jobs available, too often due, he said, to teachers teaching what they want to do rather than what the students will need to confront the labor market; wage differentials have become narrower than productivity differentials, with the result that unemployment rates hold high among groups where wage levels make their employment uneconomic, he said, noting that the U.S. government by escalating further the minimum wage, “has just acted to increase unemployment further among young and unskilled members of the work force, where unemployment rates are already high.”

“Society must recognize that distorting the price-wage mechanism to achieve a more equal distribution of income leads inevitably toward

both an unsatisfactory pattern of income distribution and unacceptably high rates of unemployment in groups about which there is already particular concern," McCracken said.

He discussed the necessity of maintaining "vigorously competitive markets" between countries, restraining unreasonable wage demands, and insuring that "the markets of industrial countries remain fully open to the exports of manufactured goods from the developing nations."

Can the historical capability of the liberal market-oriented economies to deliver sustained and vigorous increases in material levels of living widely shared be resumed?

McCracken said he is encouraged by evidence of a new realism: "There is now more citizen disposition to listen to plain talk from political leaders. This is giving governments more room to take the longer view. They have not in panic this time opened the flood gates of inflationary policies. There are identifiable further actions which faced candidly would improve our economic performance."

### **Two BBA Graduates Honored for High Scores on CPA Exam**

James B. Jordan of Saginaw and Steven Patler of Oak Park, both 1977 BBA graduates of the Business School, were honored at the 51st annual fall accounting conference, held in Ann Arbor in October. They were presented with the Paton Award for their achievements in being the highest scorers in Michigan on the May CPA examination. The award was presented by Professor William A. Paton. The accounting conference was co-sponsored by the Michigan Association of CPAs and the U-M Business School. Dean Floyd A. Bond acted as master of ceremonies for the luncheon program at which the awards were given.

In addition to being honored for being the highest scorer in Michigan, James Jordan was presented with the Elijah Watt Sells Honorable Mention Award for his achievements nationally in the May CPA exam.

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## **The Multifaceted Motivation to Merge**

*Continued from page 19*

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to be done in this area. The complexity of the problem coupled with a paucity of relevant data explains the difficulty of developing substantive "proof" of one or the other merger hypotheses. Still, Steiner encourages further attempts to test the multiple cause framework which he has identified.

The effects of the conglomerate merger on competition, potential competition and macroconcentration is, perhaps, the most interesting and useful section of the book. It is here that Steiner blends most effectively the economic theory and legal argument underlying the conglomerate merger. The various facets of reciprocity are examined in instructive detail, with the limits of our knowledge clearly stated. The notion of fashioning the concept of potential competition into a merger policy which makes economic sense is argued cogently. And, the role of macroconcentration—the size and diversity of corporations—is analyzed as a potential policy variable. The stage is now set for the concluding

chapter; from the complexity of the motives and effects of conglomerate mergers there emerges a logical process from which meaningful public policy can be developed.

The suggested guidelines are presented as six "premises" for policy. To summarize, Steiner suggest that public policy be limited as opposed to comprehensive, that guidelines be trichotomous—providing substantial grey area between the legal and the illegal, and that standards be developed by industry, not by market, with the goal of a comprehensive standard in time.

In conclusion, Steiner ranks the importance of the conglomerate merger wave of the sixties as "somewhat more important than the Florida land boom and somewhat less consequential than the 1937 depression." His book, however, is very important. It is thoroughly researched, well written and contains a significant message for public policymakers. It is worthy of the attention of all who study and practice business.

*Postage  
Here*

Dividend Magazine  
The Graduate School of Business Administration  
The University of Michigan  
Ann Arbor, Michigan 48109

Editor:

Dan Cordtz' commentary in the fall issue of *Dividend* was a cop-out. Like most media persons, he dismisses the conflict between business and media as due to hostility and different sides of the fence.

When Dan says that most journalists just aren't interested in business and think we're dull, his cop-out really gets into high gear. A religious leader may be interested in spiritual values, but most have sufficient understanding to know that dollars make possible their spiritual efforts. What happens to the media persons when there is not sufficient advertising revenue for them to gain their opportunity to do their thing? Does perhaps the fault lie in the educational institutions and their training

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## Letters

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of the journalists—creating the journalists' lack of interest in or understanding of business?

While I am willing to accept "man bites dog" is more newsworthy than "dog bites man," it is incumbent upon the responsible journalist—whether he is interested in dogs or man or *not*—to *correctly* report. In a nation where there is such poor understanding of business and the economics that make business work (or not work) I believe it especially incumbent on the reporter to be accurate in his data as well as his concepts.

To say, as did a recent Chicago journalist, that since Zenith made 185 million dollars of profit in the last five years, Zenith had plenty of money to keep 5,600 employees not required by the business on the payroll, is misleading and poor reporting.

Businessmen may not wind up in a mutual admiration society with journalists (as the journalists do with some political leaders) *but* there is no reason why professionals cannot respect the professional abilities and good sportmanship of each other *when it occurs*. As long as there continues to be the lack of understanding of business by the journalist, it will occur infrequently.

Philip M. Smith,  
BBA '51, MBA '52  
Lake Forest, Illinois

*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.