Dividend

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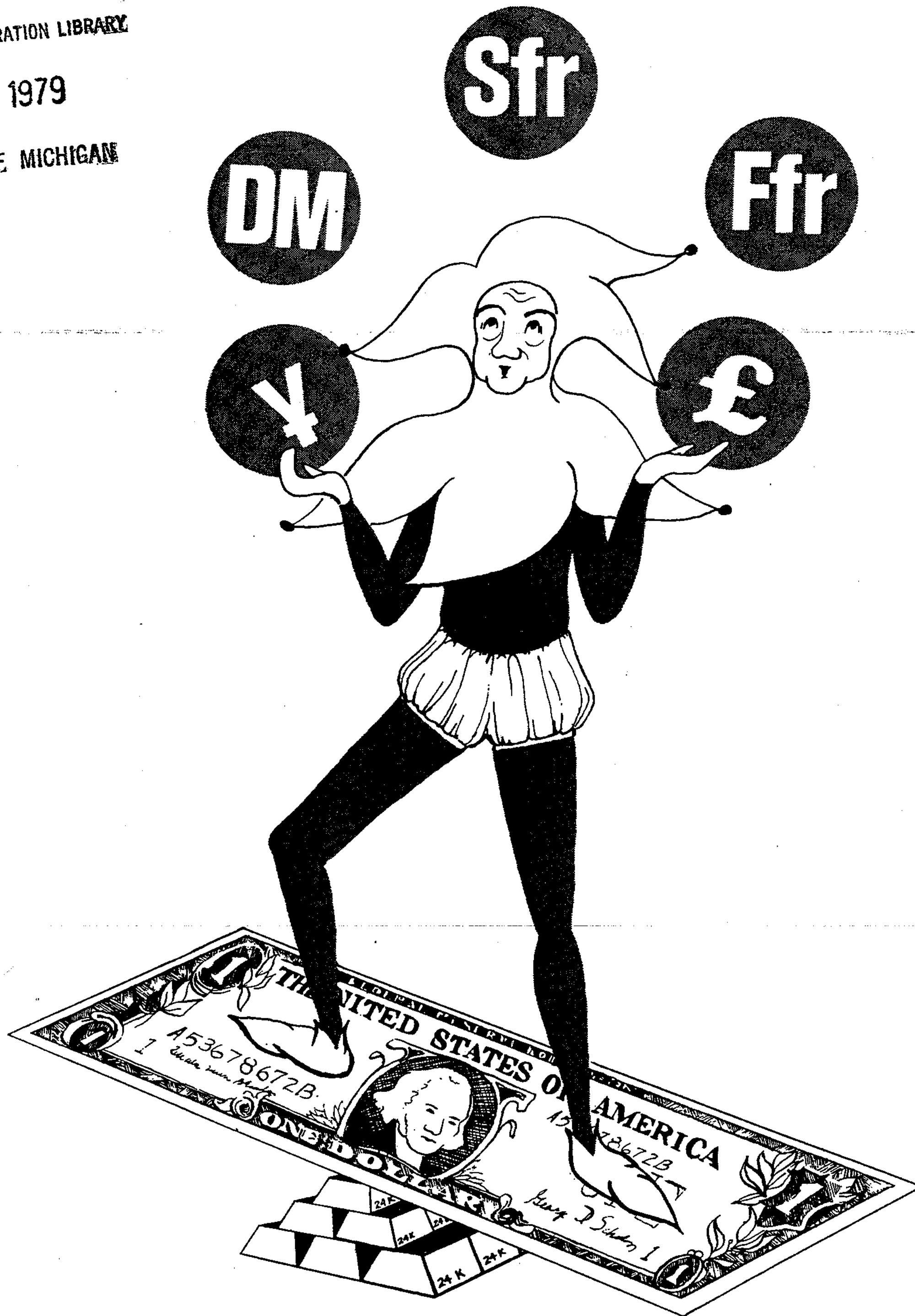


HOW GOOD IS GOLD?

The Game of Authors—Who Plays?

By Mary C. Bromage

Professor of Written Communication

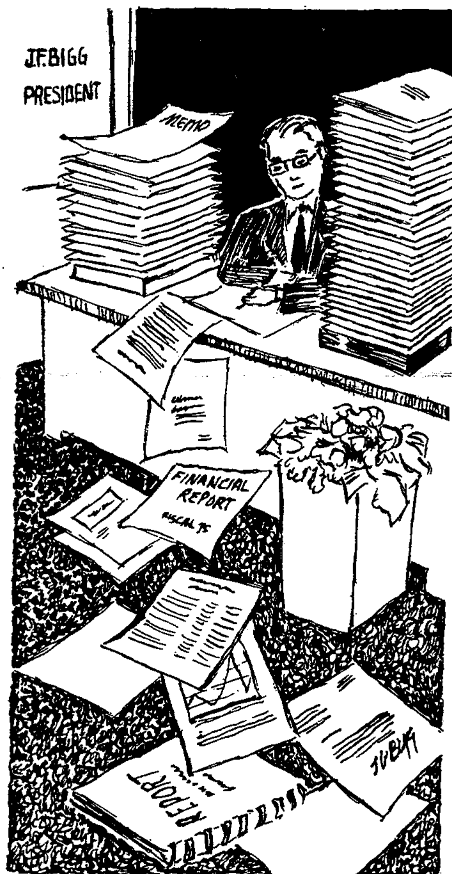
IT'S safe to say that the most productive writers, pound for pound, are not the professional literateurs but professional executives. What goes through their copying machines daily in the form of memos, letters, reports, procedures, summaries, job descriptions, arbitration decisions, performance reviews (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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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.

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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.

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

Is the Economy on the Verge of Collapse? **16**
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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Cover Drawing by Mary Lou Webster

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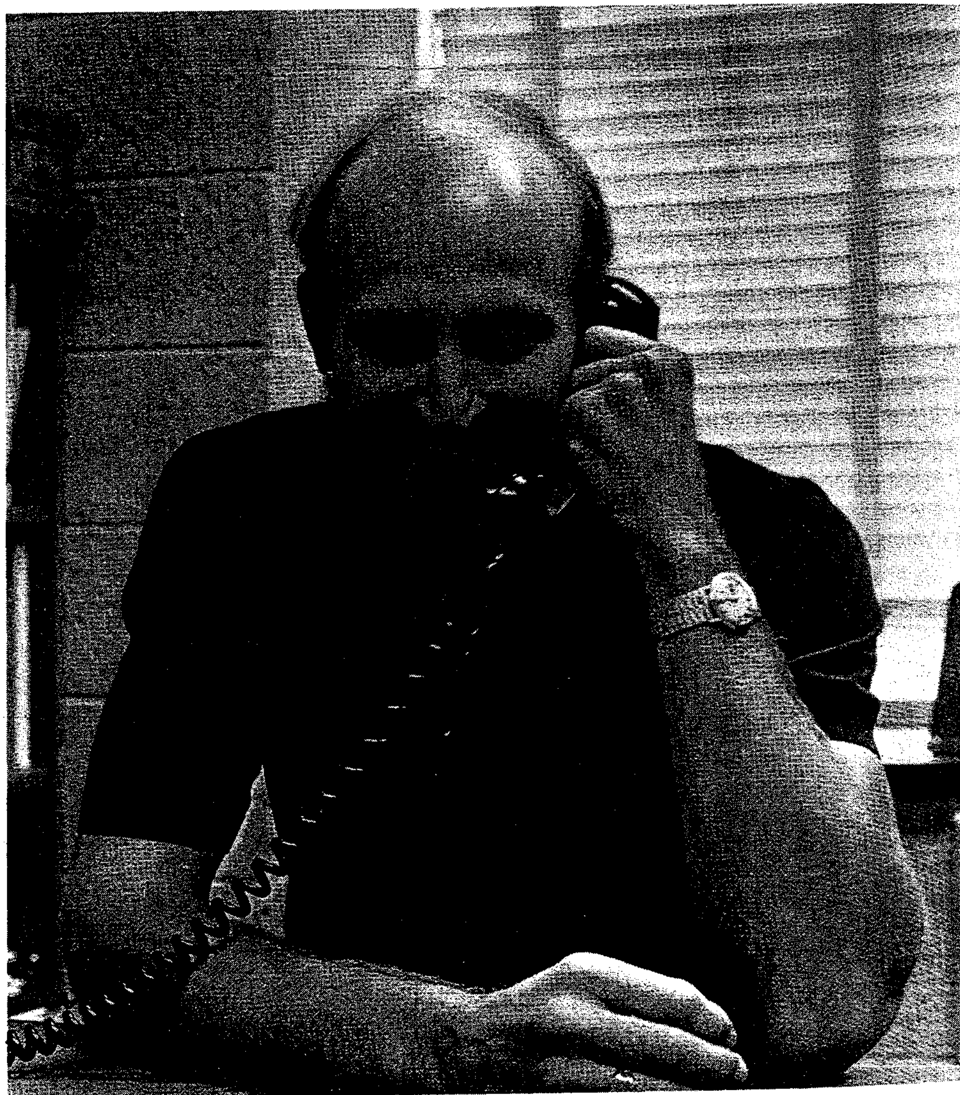
"You Are $40,000 Richer. This is a Recorded Announcement."

"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

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.

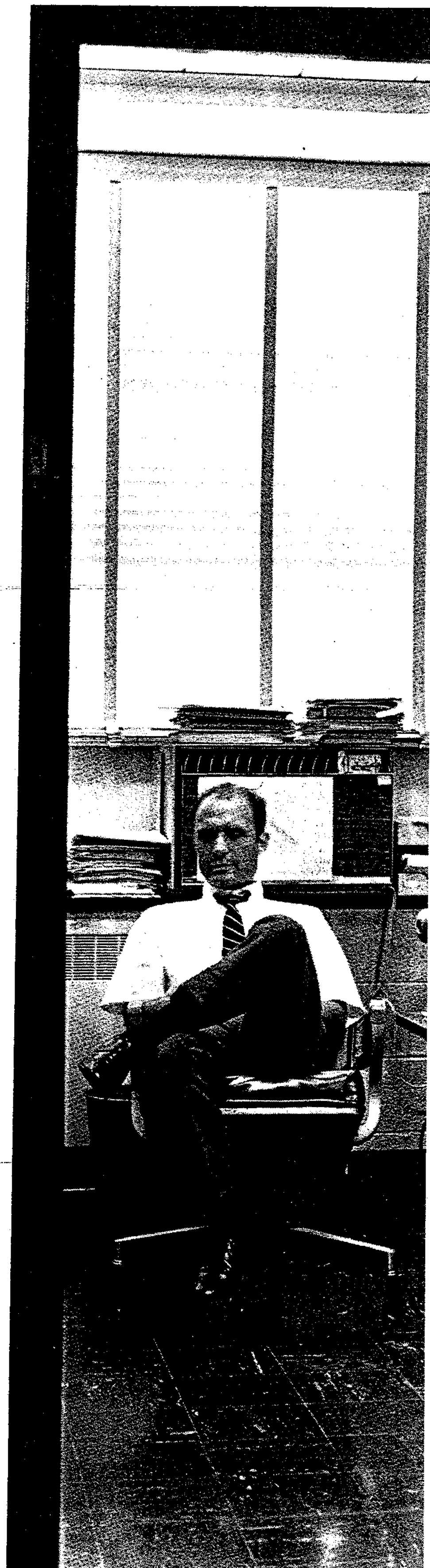
Q. *Don't floating exchange rates encourage governments to print more and more money?*

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

A Dividend Interview with Gunter Dufey
Associate Professor of International Business



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.

"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."

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