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We asked four experts to spend an hour and a half discussing the causes of inflation and what, if anything, can be done about it.

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What kinds of factors come into play in salary and wage administration when the Consumer Price Index jumps from 82.2 in January of 1974 to 12,841 in September of 1978? In this article Argentinian Ph.D. student Cattaneo acquaints us with some aspects of Argentina’s mind boggling inflation.

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About the Cover
There were two schools of thought about our cover. One school liked the idea of the dollar literally inflating and thus getting paler. The other school said the order should be reversed. The dollar should be getting smaller, reflecting its diminishing purchasing power. If you belong to the second school, please feel free to reverse the order in which you “read” the cover. This all goes to prove, we think, that nothing about inflation is ever simple! Cover design by Pringle Smith.

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academic career in 1960 at Northwestern University's School of Business, where he taught managerial economics, statistics, forecasting, and linear programming, and became associate professor of business economics. In 1966 he moved to Washington University in St. Louis, served as adjunct professor of economics and professor of business economics, and from 1969 to 1976 was associate dean of the Graduate School of Business Administration. As associate dean he shared policy responsibility for curriculum, budget and general administration.

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Dr. Whitaker is co-author of two books published by Richard D. Irwin, Inc., "Business Economics: Principles and Cases" and "Forecasting Methods." His numerous research publications have ranged from common carrier freight transportation to computer usage in large companies and functions of public utilities and the communications industry.

During the administration of Dean Floyd A. Bond, the U-M Business School has developed new physical plant, including its Assembly Hall, and has consolidated a position as a national leader in management education. Dean Bond has extended his leadership abroad by assisting in the development of business education programs in Taiwan, The Netherlands and Saudi Arabia.
Editor's Note: There's hardly any topic today more timely and of more public interest and concern than inflation, so that seemed an excellent topic with which to begin a new feature, the Dividend Round Table. We asked four experts to spend an hour and a half discussing the causes of inflation, whether inflation at current levels is inevitable, and what should be done about it. An edited version of their remarks follows. Our experts include: Paul W. McCracken, Edmund Ezra Day University professor of business administration and former chairman of the President's Council of Economic Advisers; Edward J. Mitchell, professor of business economics, who has served as director of the National Energy Project of the American Enterprise Institute; Harold M. Levinson, professor of economics at the U-M who has published extensively on various aspects of collective bargaining both in this country and abroad; and Richard T. Curtin, director of the Surveys of Consumer Attitudes conducted by the U-M Survey Research Center.

McCracken: You probably wouldn't get very far into a general discussion of the causes of inflation before somebody would say that the quadrupling of energy prices in 1973 set the whole thing off. What would you say about that, Ed?

Mitchell: A substantial increase in the price of oil, which is what got the whole energy price level rising, did happen at a time when inflation was accelerating, so I suppose it would be natural to think that the oil price increase was responsible for the inflation that occurred. However, the acceleration in oil prices occurred after we were well into an inflationary period. I think it was an accident of history that oil prices happened to rise at the same time inflation was accelerating.

Levinson: I will take issue with that. I think it is quite clear that prices began to accelerate in 1973 primarily because of a world-wide food shortage. This may be what you had in mind when you said that inflationary pressure had already begun, and I would agree with that. But at the end of 1973 and into 1974, the quadrupling of oil prices was what I would consider to be the classic example of market power inflation. And the
increases both in food and oil, along with the resulting effects on prices of competing energy sources and other goods, account for a substantial portion of the total increase in the wholesale price index and the consumer price index.

McCracken: One can focus on what’s been happening and why by looking at the specific numbers and the components of the index. But another way to focus on what’s been happening is to stand back and look at some broad matters, such as demand-management policies, fiscal policies and monetary policies. One of the striking things about 1972 and 1973 is that we had just a hemorrhage of overly expansive policies then. Here I would draw on a report put out by a committee which I chaired for the Organization for Economic Cooperation and Development (OECD). In the appendix to that report we assembled some statistics measuring the expansiveness of policies. And when you look at 1972 and 1973, you see figures which absolutely look unreal—a vast overexpansiveness of central bank or monetary policies and fiscal policies. And that started the world on an inflationary move.

Then we had a near doubling of wholesale prices of food worldwide, and then the quadrupling of oil prices. Add to that the breakdown of the international monetary system, which seemed to release governments from the constraints that were imposed when they had to watch their foreign exchange reserves. With the new system of floating exchange rates exchange rates would move, so governments seemingly did not need to be so prudent. Of course, the new system imposed its own discipline. If an exchange rate deteriorates, it starts putting upward pressure on price levels. But that was a lesson that had to be learned. Anyway, it seems to me that we had a convergence at that time of very fundamental disturbances to the world economy. It is important for us to keep in mind the international character of this problem. Because this inflationary thing that we are talking about is in no sense confined to the United States.

Cur tin: Of course the world food problem and the oil problem are international in nature.

McCracken: They were international but there is also a surprising synchronism if you look at measures of demand management policy of various countries. In other words, that also tended to be fairly general on the part of major industrial countries.

Curtin: I am very much in agreement with the idea that inflation isn’t caused by any single act or market structure or international event. And I would add another factor to this list we are developing: namely, internal dynamics within an economy that have to do with the consumers and the workers themselves. Since 1970 consumers have raised their sights in terms of pollution and quality control, and have demanded different kinds of products which strain productivity. It’s been a period of market change that has accumulated quite a bit since 1970. So we have had a convergence not only of exogenous jolts to the structure of our economy, but also of internal dynamics that weren’t smooth either.

Levinson: I would still say that of all the factors, the world wide food shortage and the quadrupling of oil prices were the most important components. Let me put the question this way: In the absence of the food and oil factors, would we have had the kind of explosive inflationary pressure we experienced both in the U.S. and abroad? In my judgment the answer is no.

Mitchell: I disagree. If commodity prices such as oil are such a dominant factor in stimulating inflation, why aren’t they a dominant factor now in restraining inflation? Since the quadrupling of oil prices, we’ve had very little change in oil prices, and yet inflation has not leveled off. I think there is considerable difference here in people’s perceptions and what has actually happened. For example, if you told someone that the real price of gasoline today is lower than it was in the mid ‘60s, they almost certainly would not believe you. And yet it is. And it’s significantly lower than it was in the ‘50s. It is true that during the period of very high inflation, we also had a high rate of acceleration of gasoline prices. But

* This discussion took place before the recent OPEC decision to raise oil prices.
the fact is that at almost all other times in the past two decades, gasoline prices, in real terms, were falling. And people didn’t seem to notice that, because prices tended to fall gradually, whereas they rose sharply. I would be interested to know if the Survey Research Center has ever looked into this. What are people’s views with regard to oil prices?

Curtin: We asked a question last year that tried to get at people’s perceptions of the causes of inflation. The question was: “During the past several years, prices have gone up faster than in the early 1970s and 1960s. Why do you think this might have happened: 1) government did not tax enough? 2) business firms raised prices too fast? 3) union wage demands? 4) shortages? 5) government spending?” And out of these factors, shortages received a low percentage of the vote—37%. The smallest vote—7%—went to “government did not tax enough.”

McC racken: What got the biggest vote?

Curtin: The biggest vote reflected the feeling that business firms raised prices too fast (75%); next was union wage demands (70%); closely followed by government spending (60%). But when we asked people for the most important reason, business firms dropped out, and it became a tie between the unions and the government. So it’s not a widespread perception that shortages cause inflation.

Mitchell: I would have guessed differently, and I am delighted to learn that.

Levinson: I’d like to follow up what you said about the increase in oil prices being a one-shot affair. You asked why we don’t perceive a leveling off or a decline in the rate of inflation if, in fact, oil prices were an important underlying cause of inflation? I think we have to distinguish between factors that may initiate a rate of change in inflation, and those which feed back into the system—consumer perceptions, union perceptions, worker perceptions. Suppose we are moving along at a rate of inflation of, say, 3% a year, and then something exogenous to the system—food, or flexible exchange rates, or a rise in oil prices, causes the rate of inflation to move from 3% to 6% or 10% or 12%. If everything else were constant, then when the initial cause were removed from the picture, the rate of inflation would level off. But the problem is that a different set of factors comes into play once the rate of inflation starts going up, because of the reactions of various groups in the society who are trying to compensate themselves for the original increase. Now at that point it’s quite possible that the originating cause drops out of the picture completely, but the rate of inflation continues. So I think to analyze the question, we should distinguish between an initiating element, and something that begins to feed back into the system.

McC racken: This might make a good transition to the next question: namely, is inflation at current levels inevitable?

Mitchell: That’s a very depressing analysis that Harold just gave us, because there’s an asymmetry. These so-called shocks, whether food prices or oil prices, are always occurring. Fiscal policy is almost impossible to manage in any shortrun sense. Budgets have gotten so large relative to the national income that you can’t maneuver them readily. And we don’t even really know how to measure changes in fiscal policy • • • however, over the past 10—15 years there has been a kind of generalized and persistent fiscal push inflation,”

Paul W. McC racken
Edmund Ezra Day
University Professor of
Business Administration
They go in both directions, but it would appear that the mechanism only works on the upside. For two decades prior to the oil price increase, oil prices were falling, and yet we didn't get a declining price level. If there is an asymmetry, then the only shocks you get operating on the system are upward shocks, and they then become built in. That is, after the price rise occurs, everyone expects it to continue to occur, expectations become built into the system, and we can only go one way. If that's the way the system works, then it seems to me that inflation is inevitable. I don't agree with that, but it seems to me that it follows from what you've suggested.

Levinson: I think some inflation is probably inevitable, but whether it need be at the rate we are currently experiencing, I would doubt. And hopefully we may get some shocks that would have a downward impact, although they are hard to come by.

McCracken: And moreover, there will be interest groups that would violently oppose them.

Levinson: Yes, you do have an upward bias in the interest groups and power groups and so forth.

Curtin: People's reactions to inflation aren't as tidy as perhaps the theorists would like. The power of the announcement is very important. For example, the impact of public tax policy depends on whether the change in policy is perceived and understood by the public.”

Richard T. Curtin
Director of the Surveys of Consumer Attitudes
UM Survey Research Center

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Mitchell: It seems to me that we should be looking at the experience of other countries. For example, in the case of Germany and Japan, the impact of the oil price increases was much more severe because a much larger fraction of their energy comes from oil. You see an impact of the oil price increases in other countries, but then you find that policies were changed in those countries, and you have seen some relief from the high rates of inflation. The question becomes how did they do it and we not do it?

McCracken: The two major price level successes I suppose would be Germany and Japan. Curiously, the United Kingdom does have to be put down, at the moment at least, as a success story in this sense: their rate of inflation got up to 25-30% per year, and they are down now to a rate approximately in line with ours.

Levinson: With, I might add, an appropriate incomes policy over the past three years.

McCracken: That's true. But don't overlook what happened to fiscal and monetary policy. Partly because of the prodding of the International Monetary Fund, there was a drastic disinflationary strategy in the U.K. for both monetary and fiscal policies, accompanied by a strict incomes policy. Of course we will see whether it can remain . . .

Curtin: I think there's a problem in using fiscal policy in this analysis. In defensive fiscal policy, the objective is to see what changes have occurred in the economy, and then take necessary offsetting steps. I think that works in retrospect, but it's not a policy that can work in a positive manner. Studies on fiscal policy have reported how the effects have actually worked out once the money was distributed into the economy. And rather than having the predictable kinds of effects we would like to see, they are very erratic. So that some-
times when we presume our policy to be expansive, money coming into the economy is really suggesting something less expansive. So I think in this analysis we need to restrict ourselves to fiscal policy that can initiate change rather than react to change.

**McCracken:** Let me be even more agnostic. For all practical purposes, fiscal policy is almost impossible to manage in any short-run sense. For one thing, the budgets have gotten so large relative to the national income that you can't maneuver them readily. And we don't even really know how to measure changes in fiscal policy. It's very interesting. You can give a set of budget statistics to a group of economists, and you will get varying judgments, based on the same set of figures, as to whether fiscal policy is even expansive or not. I would say this, however, that over the past 10-15 years there has been a kind of generalized and persisting fiscal push inflation. The key now is Federal Reserve policy. Because if we can't get rates of monetary and credit expansion worked back down, we will not solve the problem of inflation. That prediction I would make very confidently. You can't have rates of monetary expansion in the 10-11% range in an economy which is increasing its basic capacity by not over 31/2%. We should not then be surprised when we get something like 8% inflation! But I would like to raise the question here about incomes policies. No matter where we were sitting discussing what to do about inflation—whether in Ann Arbor or Washington or Paris or Stockholm—we wouldn't discuss inflation very long before we got to the subject of incomes policies. It is a very elastic, slippery term. In fact, you have people quarreling about whether incomes policies work or not, and late in the quarrel you find they weren't even talking about the same thing . . .

**Levinson:** Yes. Major negotiations will come up early in 1979 for the Teamsters. They are a very powerful union relative to the employers, and in my judgment what comes out of that settlement can have a very important impact on the rate of inflation for '79 and '80. I do think that a major factor underlying the continuing upward pressure on prices arises from the exercise of union power, which results in labor costs per hour going up more rapidly than productivity. Then businessmen pass the rising unit labor costs on in the form of higher prices. Assuming I'm correct in this underlying upward pressure, then the issue becomes whether the monetary authorities will accept that and say, well, we have to go along with this and pump in enough money to prevent the economy from entering into a recession, or not. And that's an extraordinarily difficult decision, politically and otherwise. But it does suggest that monetary policy is not necessarily the primary element—it's a little bit of the chicken and the egg problem here. I feel that what happens in the unionized sector of the economy does have important spill-over effects among workers who are non-union.

**McCracken:** Incomes policy is a very elastic, slippery term. In fact, you have people quarreling about whether incomes policies work or not, and late in the quarrel you find they weren't even talking about the same thing . . .

**Levinson:** Underlying conditions in the U.S. make it difficult to implement, but if we are going to get at the problem of inflation, I think we have to face up to the need for some sort of incomes policy.

**McCracken:** If you were President, what would you do in 1979?

**Levinson:** I think incomes policy is an extraordinarily difficult policy to implement. I'm assuming that in the U.S. it would be voluntary, as it has been in England for the last three years. But in England they have a much more highly centralized labor movement. The Trade Union Congress, which is the equivalent of our AFL-CIO, is very much more influential in terms of putting pressure on individual unions. Underlying conditions in the U.S. make it much more difficult to implement, but if we are going to get at the problem of inflation, I think we have to face up to the need for some sort of an incomes policy. By that I mean that the Council on Wage and Price Stability would indicate what it considers to be some sort of acceptable standard of wage and price increases. I do think that the President and the Chairman of the Council of Economic Advisers and possibly the Chairman of the Federal Reserve Board should use their good offices as effectively as they can to intervene in major negotiations. I also think that an incomes policy would have to be implemented by asking relatively large companies or large unions to pre-notify the government, and perhaps there should be the power to delay the implementation of an increase in wages and prices for some time to give the government a chance to intervene.

**Curtin:** I would agree that an incomes policy is very much needed. A restrictive fiscal policy takes aim at slowing the economy and that affects consumer attitudes drastically. In the Nixon era it was put straightforwardly. "We are going to slow down the economy and we are going to increase unemployment to help control inflation." This scared the daylights out of consumers, so I see a very great loss associated with fiscal policy in terms of the feedback effect. Although I agree that incomes policy is very difficult (and in fact I would be the first to point out that feedback from incomes policy did turn negative the last time we tried price freezes) I think that incomes policy—
I think we have to distinguish between factors that may initiate a rate of change in inflation, and those which feed back into the system—consumer perceptions, worker perceptions, union perceptions. ... A different set of factors comes into play once the rate of inflation starts going up."

Harold M. Levinson
Professor of Economics

more than fiscal policy—holds the hope of leading us out.

Mitchell: I prefer the term price controls to incomes policy, which seems to me a euphemism. In my view, inflation is primarily a monetary phenomenon, and the experience with price controls, at least in the commodity area, is extraordinarily negative, particularly in the case of oil. It seems that the only thing that price controls on natural gas and oil generally achieve is to reduce production in the U.S., as they are effective at the well head, even though they don't seem to be terribly effective insofar as the consumer is concerned. And in addition they dry up supplies here and increase demand for imports which in turn results in higher world prices. So I would argue that they are a positive spur to commodity scarcities.

McCracken: I am certainly not going to try and summarize the various comments. Inevitably we've had different points of view expressed here, and I would just make two or three concluding observations.

First, there is a route by which we can achieve a smaller amount of aggregate unemployment over the next decade. But I think it's very important for us to be honest about this—that it will have to involve less expansive demand management policies. I don't know of any group of economists who would be prepared to say this can be done without some near term rise in unemployment. It is promising something that the technology of economic policy cannot deliver to say "We're going to do it with no adverse effect on employment." I would state that quite emphatically. And we ought to recognize that, because it's not fair to the President or the Congress to put it otherwise. And while that route will come at the cost of some slack in the economy, it greatly minimizes the alternative danger of rocking along with a rate of inflation which now is accelerating and then having to slam the brakes on hard at some point, thus running the risk of a 74-75 type of recession except probably worse.

Secondly, I would rather argue the case against incomes policies in general than for them, partly because I think you can make a more persuasive case. Nevertheless, as I look at the problem which the administration faces as it has to try to move through 1979, it seems to me they have to try incomes policies. Because if we get out-sized wage settlements this year, then we are pretty well programmed for the next three years and the problem will become very substantially more difficult. I have no particular formula to suggest, and I am very sympathetic with the President and his advisers.

Finally, I think it very important that we not be too defeatist about the problem of inflation. We can live with it so long that we almost begin to feel it's forever. I don't see that. The American economy in this century—excluding war years and the Great Depression—up until about a decade ago operated with an average unemployment rate of about 4½% and an average inflation rate of about 3%. So I think our conversation here ought to conclude on the note that we do not see this as a problem that cannot be solved.
Inflation has come to worry North Americans increasingly in recent years, and on a very personal and practical level. The impact of inflationary pressures has been felt in many areas, and different proposals have been made to cope with the problem.

One of the areas where inflationary pressures are felt most strongly is in the field of salary and wage administration. This has been particularly true in Argentina, which in the past few years has been one of the world's leaders in inflation as measured by variations in the consumer price index.

In this article, I am going to examine some of the factors that come into play in salary and wage administration under extreme inflationary conditions, without attempting to investigate the reasons for the inflation itself. But before doing that, I want to present a brief historical outline of events in Argentina over the past several years, when the CPI has jumped from 82.2 in January of 1974 to 12,841 in September of 1978 based on an index of 100 for the 1974 average. (See chart page 12).

A Brief History

Argentina has long been accustomed to a rate of inflation much higher than what is accepted as "normal" in developed countries. But the rate in the last few years can be considered phenomenal. In 1974, inflationary pressures were building and in mid-1975 the Government changed its Economy minister, who attempted what he termed a "shock" policy to reverse the trend. The result was a marked increase in inflation as measured by the Consumer Price Index which jumped 21.2% in June, 1975.

The period between 1975 and March 1976, when the Peronist government fell, was marked by labor unrest which was caused in part by economic factors and in part by a struggle between pro-and anti-govern­ment factions in most labor unions. Labor leaders found themselves with a serious problem. On the one hand, they had to observe restraint in wage demands in accordance with the Peronist government line. It should be emphasized here that the trade unionists were one of the principal supports of the government: about one third of the majority party's congressmen were trade unionists, and the Minister of Labor was himself a labor leader. On the other hand, they needed to obtain the monetary relief workers were demanding—or run the risk of having the workers coopted by what some observers were terming "shop-floor Soviets."

For example, in labor contract negotiations which started in March, 1975 to replace contracts which would expire in May, 1975, no salary demands were made initially. Unions were awaiting the word from the government on how much wage increases were to be. When the word came in July, 1975 that the increase should be limited to 38%, this was unacceptable to union membership. (Keep in mind that the Consumer Price Index had gone up 21% in June, 1975 and 34% in July, 1975).

The solution to this problem for most unions was to create a fictional "conformed wage"—taking the Consumer Price Index into account—and then to add the 38% increase suggested by the government to these "conformed" figures. In effect this meant wage increases of 90% and...
more. Some of the weaker unions had already signed contracts with the 38% increase, and when the larger unions obtained these enormous figures, there were work stoppages and renegotiations. Some new fringe benefits obtained by the unions meant that in some cases the effective overall increase was in excess of 120%.

It is wryly amusing to note how all the parties involved, but especially labor and government (as the labor leaders were an important part of the governing party) developed and paid lip service to a deception in which nobody really believed. All the new labor contracts were filed as required by law in the Labor Ministry, and all of them referred to an increase of 38%, which was the rate the government had decreed. At the same time, the contract also listed the new wage rates, which were of course much higher than would result from applying a 38% increase to the current wages.

Towards the end of 1975 the consensus in Argentina was that the economy was a shambles. Inflation was running at a rate of over 1% daily and price increases, despite government controls, were a fact of life. (Price-controlled goods were in short supply or nonexistent.)

In March, 1976 (when the CPI rose by 37.6% and the wholesale price index by 54%) the government was ousted by the military and replaced by a three-man junta composed of the commanders of the Army, Navy and Air Force. The new Economy Minister, Jose Alfredo Martinez de Hoz, pursued an economic policy that attempted to bring the economy back to normality. Price controls were lifted. Wage and salary increases were discouraged. The government stopped granting general wage increases to all workers and limited itself to public workers and adjustments in pensions (retired workers receive their pensions from government-operated agencies). Many union leaders were jailed on charges of corruption, and in general unions had to limit their activities to grievance procedures and the administration of benefit programs, such as medical insurance plans and the like. No wage demands were allowed.

On the other hand, controls on prices and such things as bank interest payments were lifted, with the result that the interest rate for a 30-day deposit made in mid-October, 1977, reached 135% per annum.

A huge crowd gathered at a bank in Argentina the day interest rates on 30 day savings deposits went up to 135%. 

Photo courtesy of Editorial Attantida
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outline is overshadowed by the human
is outside the scope of this particular
article. Nevertheless, the CPI from December,
prices surplus and the economy,
while still depressed, has not ground
to a standstill. The
situation is not entirely bleak. The
situation remains far from ideal.
In general, the CPI monthly increases
have remained under 10% after
June, 1976 (with a few exceptions as
noted in the table on page 12).

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Source: National Board of Statistics and Census (Argentina)

Although the extreme inflation of early 1976 has been contained, the
situation remains far from ideal.

In general, the CPI monthly increases
have remained under 10% after
June, 1976 (with a few exceptions as
noted in the table on page 12).

Nevertheless, the CPI from December,
1977 to September, 1978 has increased
107.2%. At the same time, the
situation is not entirely bleak. The
country has been running a balance of
payments surplus and the economy,
while still depressed, has not ground
to a standstill.

It should be noted here that in the
opinion of many, this economic
outline is overshadowed by the human
rights-terrorism issue. While un-
doubtedly this is a major problem, it
is outside the scope of this particular
article.

Salary and Wage Administration Problems

Under the conditions described
above, salary and wage administration
presents special problems. Obviously,
workers are highly sensitized to the
pay issue; salary/wage policies become
an overriding preoccupation and the
subject of most workplace worries.

Until the fall of the Peronist
government in March of 1976, there
were two influences on changes in
wages: contract negotiations for
unionized workers, and government-
decreed increases for both unionized
and non-unionized workers. For
non-unionized workers, the most
common practice was to apply govern-
ment-decreed increases directly and
use the labor contracts as a guideline
for general increases. In addition,
yearly surveys were usually made to
ascertain the company's position in
the salary market.

A drawback to this system—from a
management point of view—was that
if the granting of general increases
too closely followed the labor
contracts, the compensation level of
non-union workers seemed to be tied
to union action. This situation then
seemed to justify the union practice
(enacted into the new labor law) of
collecting dues from all employees
(both union and non-union) in a
company which had a contract with
the union, on the grounds that all
employees were profiting from the
union, whether they belonged to it or
not.

In spite of this drawback, the
system was relatively easy to apply
and allowed salaries and wages to bear
some relationship to the cost of
living levels. When inflation was at a
"tolerable" level, this system resulted
in a couple of general increases per
year, frequently ranging from 10
to 30% each time.

However, the military junta which
took power at the end of March 1976
changed this system, and used
several techniques to contain inflation
gradually without producing mass
unemployment. One method they
used was to contain salaries, while
allowing a free market to set price
levels. A consequence of this policy
was that companies lost the salary
guidelines that had previously been
provided by the union contracts.

Although union wage demands
were prohibited, and the government
discouraged general wage increases,
companies faced several pressures to
adjust salaries. One was employee
morale. Another was the fact that the
labor market was not quiescent and
demand existed for certain skills and
activities; prospective employees
insisted on receiving what they
perceived as equitable salaries. Thus,
a company which could not, or would
not, pay competitive salaries was
not able to hire employees it needed,
was losing workers to firms offering
better pay, and had to contend with
diminished employee morale.

The morale of employees was
certainly affected if they perceived
that their company was lagging in
the salary market, and rumors would
abound such as "my brother-in-law

CONSUMER PRICE INDEX - ARGENTINA

Base: 1974 = 100

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<th>Year</th>
<th>January</th>
<th>February</th>
<th>March</th>
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CONSUMER PRICE INDEX - ARGENTINA

Increase over previous month, per cent

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Sometimes these rumors were accurate and at other times very fanciful, but they always had a bad effect on morale.

Thus, to remain competitive in the marketplace, companies started to carry out salary surveys two and three times a year, and the salary decisions of other firms were constantly and carefully monitored. In most firms, some four to six salary adjustments ranging from 8% to more than 30% were made each year. The average adjustment was somewhere around 20%. Not once a year but several times a year.

When this policy of frequent salary adjustments started to be followed, morale picked up considerably. While the subject of salaries naturally continued to be engrossing, the level of anxiety diminished noticeably, and even a certain degree of satisfaction set in, especially at management levels. The individual manager's own anxiety about his income was assuaged and he found it easier to identify with the company's salary policies as he was now not placed on the defensive vis-a-vis his subordinates. While this policy of frequent salary adjustments does help the morale problem (other things being held constant!) it does have several other important consequences worth mentioning.

The first is logistic/administrative. Carrying out a salary survey entails a good deal of work, from planning through data collection, analysis, and finally implementation. To this is added the work of providing information to other companies who are doing their own salary surveys. When the amount of surveying increases four- and five-fold pressures on compensation administrators increase proportionately.

Secondly, techniques for more rapid data collection and analysis had to be developed, and decision making needed to be streamlined. With such rapid inflation, data collected in June and used as the base to implement salary changes in September was already outdated. To illustrate, using 1978 data, a new salary structure, designed to meet June market conditions, by September is already at least 22% below the current market levels.

"In most firms, some four to six salary adjustments ranging from 8% to more than 30% were made each year."

In such a situation, multinationals are frequently at a disadvantage vis-a-vis local firms, because in a multinational structure compensation changes often require headquarter's approval, a process designed with the more stable economies of the parent companies in mind. Such approval can often take as long as three months.

Some solutions to this dilemma include streamlining the decision process at headquarters of the multinational, delegating more authority for such decisions to the local subsidiary, or incorporating an estimate of future market actions into the proposed new salary structure. A few local and multinational corporations have tried pegging their salaries to variations in the CPI, and then carrying out only one, or sometimes two, annual salary surveys to "fine tune" the structure.

A third, and perhaps more important aspect of these frequent and large salary adjustments is the impact they have on the employee's perception of such traditional motivating devices as merit and promotional increases. Without any scientific proof, but based on discussions with Argentinian employees at all levels who work for many organizations, I would venture to state that the merit or promotional increase considered "acceptable" by an Argentinian worker is twice as large as that accepted by a U.S. worker at a comparable level.

The large Argentine companies—whether Argentine-owned or subsidiaries of multinational firms, have pretty well structured salary policies: each job is assigned a salary range; salaries are reviewed yearly on the average; and merit increases are granted periodically and range from 5% to (in very special cases) 20%. The median merit increase is probably under 10%.

Now, if both a cost of living and a merit increase are granted simultaneously, the combined effect could be quite gratifying to the employee; but the question arises as to whether a distinction is truly made between the cost-of-living part of the increase and the merit adjustment, and what will be the effect on morale once a certain degree of normality returns to the economy and workers must be content with a yearly merit adjustment?

A fourth problem faced by senior management of companies is this: how to avoid both the danger of fanning the inflationary process as well as the danger of instituting a system that through "normal" competition in the salary market could cause a self-perpetuating mechanism of salary raises above and beyond "real" needs. However, most salary administrators believe that this is not a likely possibility.

Summary

The inflationary process in Argentina, while not as dramatic perhaps as the one which afflicted Germany and Austria in the period between the World Wars, still did (in 75/76) reach levels higher than those suffered by South Vietnam during the Vietnamese war, and while greatly reduced from those levels is still one of the highest in the world.

I have not attempted to either examine the causes of this phenomenon or even to explore most of its consequences but rather to outline the situation and its effects on salary and wage administration within private firms.

Much could be said on the development of new accounting and budgeting techniques, and on the impact of inflationary expectations of this magnitude on both managerial and consumer decisions. Again, I leave that to the experts in those fields.

However, I believe that the experience of Argentina, extreme as it is, can cast some light on both the logistical/administrative and the motivational aspects of compensation.
What Generation Gap?

These days, people are going to school at all stages of life, and "college age" can mean anything from adolescence to post retirement. Perhaps, then, it is not surprising if parents and children occasionally find themselves in the same classroom, but we think it is worthy of note that this year we have two parent-daughter pairs enrolled in the MBA program. On these pages, we introduce you to Abigail Beutler, studying for her MBA in the evening school, and her daughter, Kathryn, who is now in her second year of the full time MBA program; and Daniel Treacy and his daughter, Allison McFerren, both of whom are students in the MBA evening program.

Daniel Treacy started the MBA evening program in 1971, taking one course per semester, because his heavy traveling schedule would not permit him to take more. As vice-president and project director of Minoru Yamasaki and Associates architectural firm, he was doing a great deal of traveling, particularly to Saudi Arabia for the Yamasaki projects there. His reasons for studying toward the MBA are twofold; first, "there is no business training in architectural education, and after the first 10 or 15 years in the field a large part of your work is business oriented," he says, adding that knowledge of statistics and international marketing is particularly helpful. Secondly, he says he has reached a point in his life where he wants to know something about financial planning, including investment strategy and estate planning. The courses he is taking in the MBA program were chosen by him to meet these needs, and, as he says, "if the degree happens along the way, that's great." (Actually, he is now only about 12 credit hours away from the degree). Treacy graduated from the U-M architecture school in 1950 and worked in Ann Arbor as an architect before joining the Yamasaki firm in 1956. His daughter, Allison, graduated from the University of Florida with a major in finance, then moved to Detroit with her architect husband and two children, 6 year old Line and 4 year old Brooke. The MBA evening program seemed the perfect answer to her desire to study toward her MBA and still be at home with her children during the day. She began the program in 1976, and figures that by the time she finishes her MBA in 1980 both children will be well established in school, and she will then be able to consider going to work full time.
Tomen who are at home develop fantastic management skills," says Abigail Beutler, now working at Pontiac Motors as assistant experimental engineer. "That's where I learned my first management skills, because one of the important things one learns as a mother is how to organize a family and a household—basically how to run a small business—often with very uncooperative employees." At the same time she was running a household, she was also getting a masters in physics at the U-M (her BS degree from Radcliffe was also in physics), having three children, and working at the Radio Astronomy Observatory investigating galactic radiation and biospheric effects from rocket data. When her husband went to Stanford University on sabbatical, she got her M.S. degree there in electrical engineering, then returned to Ann Arbor to a job at the Space Physics Research Laboratory. Her next job was with Lincoln Laboratory at the Massachusetts Institute of Technology, where she worked for nine years in the field of re-entry physics. Now divorced, she is currently in charge of three experimental laboratories employing 100 people at Pontiac. The laboratories include: the special problems lab, the development durability lab, and the emissions lab. (Perhaps we should also mention that she used to build cars as a hobby.) Although her job is now in management, and the MBA degree no longer a requirement or a necessity, she still feels that the knowledge one gains by studying for the MBA is very useful in sharpening up one's skills. Her daughter Kathryn is specializing in marketing in the day MBA program. Kathryn studied English at Cornell, but decided while still in school that she wanted to develop a marketable career that would be diversified enough to prevent her from being trapped in a narrow kind of job. An advertising course she took at Cornell influenced her to look into marketing as a career, and she entered business school right after graduation in 1977. After receiving her MBA, she hopes to work for a large corporation in either the marketing or advertising department, or for an advertising agency.
Visiting Committee Meets at School

Members of the School’s Visiting Committee came to campus one day in advance of the fall meeting of The Presidents Club to meet with School officials, consider recent School developments, and discuss future activities.

The major concern of the Committee was to be certain that the University would reserve all of the land enclosed by Hill Street, Tappan, Monroe, and East University for the School’s “developing quadrangle.”

Members of the Committee also expressed the view that the School must soon have a new residential executive-development facility or lose its enviable standing in the business community. A recent national survey ranked the School in the top five in the nation for its programs, but other business schools are building special facilities and mounting strong competitive programs.

The Visiting Committee, which consists of top executives primarily from major corporations, provides the School with close ties to the business community. "The comments, suggestions, and encouragement of members of the Committee are extremely valuable to the School," Dean Bond stated. "Committee members are extremely knowledgeable and helpful."

Following the meetings, which were held in the board room of the Assembly Hall, members of the Committee attended a faculty reception, and then went to the 13th annual McIlwainy lecture given this year by Francis A. Allen, Edson R. Sunderland Professor of Law at the U-M Law School, in the Clayton G. Hale Auditorium. His topic was "Regulation by Indictment: The Criminal Law as an Instrument of Economic Control."

Members of the Visiting Committee include William Agee, chairman of the board of Bendix Corporation; H. Glenn Bixby, formerly chairman of the board of Ex-Cell-O Corporation; Peter B. Clark, publisher of The Detroit News; Donald C. Cook, formerly chairman of the board, American Electric Power Company; R. E. Dewar, chairman of the board of K Mart Corporation; Clayton G. Hale, chairman of The Hale & Hale Company; James R. Martin, chairman of the board of Massachusetts Mutual Life Insurance Company; Paul S. Mirabito, chairman of the board and chief executive officer, Burroughs Corporation; H. Bruce Palmer, formerly president of Mutual Benefit Life Insurance Company, The Conference Board, and the Council of Better Business Bureaus, Inc.; R. T. Parfet, Jr., chairman of the board of the Upjohn Company; Travis W. Pearse, chairman of the board of The National Bank of Jackson; Raymond T. Perring, formerly chairman of the board of The Detroit Bank & Trust Company; Ward L. Quaal, president of the Ward L. Quaal Company; Walter E. Schirmer, chairman of the board of Clark Equipment Company; Goff Smith, president and chief executive officer of Amsted Industries Incorporated; Roger B. Smith, executive vice-president of General Motors Corporation, and Lynn A. Townsend, former chairman of the board of Chrysler Corporation, and Two honorary members of the Visiting Committee are R. C. Gerstenberg, formerly chairman of the board of General Motors Corporation, and William E. Schiller, formerly chairman of the board of Hershey Foods Corporation.
Clockwise starting from lower left: H. Glenn Bixby; Donald C. Cook; Travis W. Pearse; Raymond T. Perring; Clayton G. Hale and H. Bruce Palmer, all photographed during Visiting Committee meetings held at the School.
Ma Bell and the Marketing Seminar

Develop an integrated marketing strategy to increase interstate long distance telephone usage by residential customers in Michigan. There should be a one year plan, beginning with September, 1978, and a five year plan which incorporates the shorter range plan.

This was the assignment given to six student teams in the Creative Marketing Seminar for 2nd year MBA students. This Seminar uses the project concept to create a marketing strategy for an actual "client"; in this case, Michigan Bell Telephone Company and A.T. & T. Long Lines. The objective is to have graduating MBA students experience the task of putting together a marketing plan as members of a strategic team. The students apply the whole range of classroom theory and analytical training to a "real life" problem just prior to graduation.

Projects chosen for the Creative Marketing Seminar must be of serious concern to top management; the marketing situation must involve strategic matters affecting competitive position and growth, and must also involve a major commitment of company resources. The long distance project met those criteria, since it concerned itself with 25% of Bell's revenue and, in Michigan alone, involved more than 2½ million customers.

Planning for the project began with meetings between Claude Martin, professor of marketing who teaches the Creative Marketing Seminar, and executives of the residential marketing group of Michigan Bell. Once the project was decided upon, the staffs of both Michigan Bell and A.T. & T. Long Lines assembled detailed research material that could be used by the students. Some 21 studies were provided to each of the six student teams.

The next major step in the project were detailed briefings held for the student teams. The first was a day-long briefing, given at the Business School by Michigan Bell's marketing staff, and by marketing and research specialists from A.T. & T. Long Lines. A second detailed briefing session was held with Ross Roy (Michigan Bell's Advertising Agency) and the advertising and business research staffs of Michigan Bell. Information
Below, A.T. & T. executives listen to student presentation. From left to right the executives are Sam Ginn, vice-president, Staff, Long Lines; Walt Cannon, vice-president, Public Relations, Long Lines, and Warren Alexander, general manager, Residence Marketing, Michigan Bell. Left, Lou Zimmer, vice-president, Business, Michigan Bell chats with student Bob Gray (who has since joined Michigan Bell as a market researcher).

Left, A.T. & T. officials explain picture phone systems and demonstrate by a link up with A.T. & T. facilities in Washington, D.C.
from the briefing sessions and the research reports combined created a compendium of data and information nearly 12 inches thick. Needless to say, the familiar student lament of "we want more information" was not a critical variable in this project. In fact, many of the students reported that a very valuable experience received from the project was organizing and pursuing the analysis of such a voluminous amount of data.

Each of the student teams prepared an executive summary of their analysis and planning. These were distributed throughout the Michigan Bell and A.T. & T. Long Lines management staffs and served as a harbinger of what could be expected from the student presentations. The six teams then presented their recommendations to Michigan Bell management at an all day meeting at Michigan Bell's headquarters. After those presentations, two teams were selected to travel to Bedminster, New Jersey, to give their presentations to the executive management of A.T. & T. Long Lines at their headquarters. Both the presentations in Michigan and in New Jersey featured lively interchanges between Bell executives and the students.

To give an idea of the type of material developed, we briefly summarize the presentations given by the two teams who went to New Jersey:

Team one concluded that age was the most significant factor on which to segment the market, with education being a secondary factor. Four target groups formed the object of their five year strategic plan, with the major emphasis being on the age segments of 25 to 49 years of age during the initial years.

Team two used income as the major variable for differentiating groupings in the market, with a user/non-user designation for sub-segments within income classifications. The initial strategy focused on the $15,000-$25,000 customer as the primary target with the objective of a 12% shift upward in usage. Two other income segments formed the secondary target with objectives of increasing the number and duration of calls.

The total costs of the project, including all the travel and incidental expenses, were underwritten by Michigan Bell and A.T. & T. Long Lines. Both organizations were very hospitable to the students, including an awards dinner held in Detroit following the presentations.

While the objective of this seminar is to give the students a valuable learning experience, the sponsoring organizations report that they receive an equal amount, if not more, benefit from such an association. The Bell System executives were very complimentary in their reaction to this entire project and reported coming away from it with valuable strategic planning material and with an enriching experience of having interacted with some very bright and very talented M.B.A. students.

The Bell project was completed in the 1977-78 school year. This year's client is the Federal Reserve Bank—and the project is to investigate consumer and retailer demand for the new $1-coin and the $2-bill.
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.

Seegal-Macy Lecture
Given by Kroger Co.
Chairman of the Board

James P. Herring, chairman of the board of The Kroger Company, gave the 1978 Seegal-Macy Lecture Nov. 15 in Hale Auditorium.

Mr. Herring joined Kroger after 25 years of experience in the retail drug business. He became president of Kroger’s SupeRx Drugs when it was founded in 1961, was elected a corporate vice president in 1966, a director of The Kroger Co. in 1968 and was elected president of The Kroger Co. in 1970. He became chairman in 1975.

Kroger, which during 1977, reported sales of $6.7 billion, operates Kroger Food Stores, the nation’s third largest supermarket chain (1200 stores) and SupeRx Drug Stores (486 drug stores).

In his speech Mr. Herring gave a brief overview of the Kroger Company, and then went on to identify and discuss four major challenges that confront management of today. They are: 1) the management of a new, more diverse work force with changing attitudes toward work 2) the importance of planning 3) dealing effectively with external influences on the business and 4) maintaining high ethical standards of behavior.

Before the lecture, Mr. Herring spent an hour and a half in informal conversation with students in the executive lounge.

Mr. Herring is a director of Anchor Hocking Corporation, the Central Trust Company, Central Bancorporation, Inc., Ohio National Life Insurance Company, the Cincinnati Gas and Electric Company, and Cincinnati Milacron, Inc. He is a member of the board of trustees and vice-president-community affairs of the Cincinnati Chamber of Commerce, and a trustee of Good Samaritan hospital, the United Appeal of Greater Cincinnati, and the Cincinnati Museum of Natural History. He also serves as a member of the board of directors of the Dan Beard Council, Boy Scouts of America, and the Cincinnati Council on World Affairs.

The Seegal-Macy lecture series in marketing was established by Herbert L. Seegal, president of R. H. Macy k Company, in honor of Rose Seegal and R. H. Macy.
Nationwide Directors of Doctoral Programs in Business Meet

Demand and supply of doctorates in business through 1985 was discussed at the first session of the national meeting of directors of doctoral programs in business held at the Business School last fall.

Dick A. Leabo, director of the doctoral program here, led the session. The topic was discussed by Richard W. McEnally of the University of North Carolina and Richard W. Moxon of the University of Washington in Seattle.

A panel session on recruitment of doctoral students followed with panel members Hadley Schaefer of the State University of Iowa, Charles Christenson of Harvard University and Gerald R. Salancik of the University of Illinois at Urbana-Champaign. The session was led by James F. Rainey of Michigan State University.


At the luncheon meeting held at the Michigan League, Peter P. Gil, associate dean of the Sloan School of Management at Massachusetts Institute of Technology, gave a survey of doctoral programs.

The afternoon sessions included a discussion of innovative and interdisciplinary programs by Philip M. Carroll of Ohio State University; Timothy W. McGuire of Carnegie-Mellon, John Roberts of Northwestern and Jay Wiley of Purdue.

The last session before the business meeting at the end of the day was on evaluation of program quality. Panel members included Eugene N. Feingold, associate dean of the U-M Rackham Graduate School; William K. Laidlaw, executive vice-president of the American Association of Collegiate Schools of Business; and Patricia A. Thrash, associate director of the North Central Association of Colleges and Schools, Commission on Institutions of Higher Education. The session was led by Paul F. Smith of Wharton Business School at the University of Pennsylvania.

American Accounting Association Elects Skadden as President

The new president-elect of the American Accounting Association is Donald H. Skadden, Arthur Young Distinguished Professor of Accounting at the Business School, and chairman of the accounting faculty here.

Skadden was elected at the Association’s annual meeting, held in Denver. He will serve as president-elect for the 1978-79 year and as president in 1979-80.

The American Accounting Association, which was founded 65 years ago, is concerned primarily with matters relating to accounting education. Approximately half of the 11,000 members are from academic institutions, with the remainder from industry, government, and firms of certified public accountants.

Professor Skadden joined the U-M faculty in 1973. He received his Ph.D. in accounting at the University of Illinois and then joined the faculty of that school in 1955. At the University of Illinois, he served as professor of accounting and associate dean.

Skadden is the author of numerous publications, primarily in the field of tax accounting, which is his specialty. He is very active in professional societies, and has served on numerous committees of both the American Accounting Association and the American Institute of Certified Public Accountants. He is the immediate past president of the American Taxation Association, and served as vice-president of the American Accounting Association in 1975-76. He is listed in Who's Who in America.

Professor Morgan Collins Dies at Age Seventy Two

Morgan Collins, professor emeritus of business administration, died October 21 at his Ann Arbor home. Professor Collins taught at the Business School for 13 years before retiring in 1971. He came to the University following a career in industry which included holding a position as assistant treasurer of Ford Motor Company.

After receiving a BS degree from Massachusetts Institute of Technology, Collins went on for an MBA degree from Harvard, and spent an additional year at Harvard doing financial research. He then began a business career in finance and management, chiefly in New York City. Among his business affiliations were positions with Gary Corporation and Lehman Brothers, both of New York City, and the P. R. Mallory Company in Indianapolis.

In 1948 he went to Ford Motor Company in Dearborn as controller of the Lincoln-Mercury Division. After becoming assistant treasurer of Ford Motor Company, he retired in 1958 to come to the Business School faculty. During off-duty terms he held visiting appointments at Harvard and in the Netherlands.

When he retired in 1971, the U-M Regents stated in a memoir that "Professor Collins was warmly respected for his teaching, which, like his business career, was distributed between finance and management, and which was lent authority by his long practical experience on the one hand and his thoughtful understanding of basic issues on the other."

He was a director of K Mart, the Besser Co. of Alpena, and the Pension Equity Fund. He also had been a trustee of the Michigan Cancer Foundation executive committee.
Special Reception and Dinner Given to Honor Dean and Mrs. Bond

Close to three hundred people turned out on the evening of November 3 to honor Dean Floyd A. Bond at a special dinner and reception organized to recognize his achievements as he gives up the Business School Deanship to return to teaching.

The evening started off with a reception during which Dean and Mrs. Bond greeted their many friends as they came through the reception line. Following dinner, which was held in the Michigan League Ballroom, short talks were given by Allan Smith, former dean of the U-M law school, former U-M vice-president for academic affairs, and currently acting president of the University, whose friendship with the Bonds dates back to graduate student days, and by Paul McCracken, Edmund Ezra Day University professor of business administration. Herbert W. Hildebrandt, professor of business administration, was master of ceremonies.

Following the talks, the Bonds were presented with a Steuben Glass lunar vase to commemorate the 18 years served as Dean. After the presentation of the gift, Hildebrandt read several telegrams and letters sent by people who were not able to be present. Roger Smith, executive vice-president of General Motors Corporation, wrote: "General Motors holds a deep and sincere respect for quality. This is true in regard to our products and to the relationships we have with academia. The outstanding reputation with the business community held by the Graduate School of Business Administration exemplifies the high standard of quality you personally set for the School. As an alumnus, a businessman, and an employer, I congratulate you on your achievements, and wish you continued success on your return to the classroom." Robben Fleming, president of the U-M, wrote: "No dean has ever worked harder or been more devoted to his school than Floyd Bond ... he has established an honored role in the local, state, and national business communities."

Under Dean Bond’s leadership over the past 18 years, the faculty and student enrollment have doubled, three new buildings have been added to the School’s facilities (all funded through private contributions), new courses and degree curricula developed, new equipment supplied, research and publications expanded, and a solid financial base established for future growth and enrichment. As he left the Deanship, Dean Bond said he looks forward to devoting his energies to teaching, writing, and serving the School and University in new capacities.
Professor Gies Talks on Inflation and the Prognosis for the Future

The problem of inflation was reviewed in a speech given by Professor Thomas G. Gies, chairman of the finance department at the Business School, at a meeting of senior executives from construction, steel and machinery industries in Chicago.

Gies pointed out that our inflation rate, which used to rival West Germany's and was well below Japan's, is suddenly twice the rate of the Japanese economy and nearly three times that of West Germany. What happened and what is the prognosis for the future? Here is the analysis of Professor Gies:

"While the root causes may be multiple, there is much evidence to suggest that the federal government should be singled out for special recognition in the inflation process in the United States. It is here that the major shift in behavior patterns has occurred. There is actually little basis for attributing more inflation-generating capability to the labor unions or the big corporations than they possessed through the 1950s and 1960s, when inflation was relatively slight. Their interests are, respectively, higher wages and higher profits, but that is their traditional position and their ability to implement these goals has not increased in recent years and therefore does not explain the recent increase in severity of inflation.

"While the OPEC cartel's price decision in 1973 was a bomb in worldwide cost structures, it was a one-shot affair and does not support the accelerative quality of U.S. inflation, nor does it explain the differential rate between the United States and West Germany which has to import not just a fraction of its oil but 100 per cent of it.

"The federal government, on the other hand, has pursued policies which represent a departure from preceding decades. First, there have been large increases in production costs resulting from federally-mandated environmental and safety regulations. Whatever beneficial effects those may be having—and critics are beginning to question their benefits—they have had the effect of sharply increasing costs. The federal government's own Council on Wage and Price Stability estimates that the new regulations have added % of a percentage point to inflation each year.

"Second, the federal government has employed fiscal policy not as a cyclical balancing effort—stimulating the economy as needed and damping when necessary—but has used spending policy as a persistent, repeated stimulus whether needed or not. Federal government spending has skyrocketed from $185 billion ten years ago to more than $500 billion in the current fiscal year."

"The probability of inflation continuing indefinitely into the future, the real $64 question for management, is, unfortunately, high. The real fact of our situation, administration rhetoric aside, is that we do not have a program capable of significantly changing the accelerative path of inflation. Nor does it appear likely that we will develop such a program in the near future. There is not yet a sense of urgency in Congress or the Executive which will bring about the needed change in policy.

"Therefore, it is imperative that the business community develop its own plan for survival under these circumstances of adversity. Because inflation of serious magnitude is new to most managements, the necessary policy adjustments are not clearly defined. We are only beginning to understand how inflation really impacts the firm and how to recognize the resulting problems.

"First, inflation distorts the financial statement of the firm and exaggerates profitability. Corporate profits in the United States were unintentionally overstated by some $70 billion in the past three years. This in turn, causes higher tax liability (somewhat like the effect of inflation on an individual's tax bracket) and results in heavier than intended tax payments. Second, inflation misleads management in regard to dividend-paying ability, tending to cause more liberal dividend policy than the firm's real profits justify. In severe instances, these factors may easily lead to unintended and unrecognized capital attrition. Third, corporate tax liabilities were overstated by $25 billion for 1975-77.

"Finally, inflation leads to sharply increased working capital requirements. Inventory and receivables increase sharply, even though real levels of activity remain unchanged. For the firm which is not prepared for this problem, inflation may generate serious problems of illiquidity and potential inability to continue operations."

DOR Publishes Books on Academic Strategy and the Soviet Lawyer

The Division of Research has recently published two books by professors at the Business School: a study of the use of strategic design at three graduate schools of administration by LaRue Tone Hosmer, and an examination of the role of the lawyer in Soviet Russia today, by George Dana Cameron III.

Hosmer's book is entitled Academic Strategy (Michigan Business Studies, New Series, vol. 1, no. 5, 1978, xii + 247 pages, cloth, $15.00, ISBN 0-87712-176-1). Subtitled "The Determination and Implementation of Purpose at New Graduate Schools of Administration," the book establishes the applicability of the business policy concept of strategy to the functions of the academic administrator. Focusing on three recently established institutions—the University of Manchester's School of Business, York University's Faculty of Administrative Studies, and the Graduate School of Management at Vanderbilt University—Professor Hosmer examines their operations, curriculums, and systems of governance and of financial support for consistency with their originating purposes, and pays special attention to the origins of a variety of present and potential operating problems which could be counteracted by effective strategic design.

Although the major part of the
work is devoted to a close analysis of these newly developing institutions, its implications extend clearly to existing institutions as well. In his concluding chapters Professor Hosmer explicitly broadens the application of the study and also suggests areas for further research.

"Strategy," he asserts, "... offers a means of reconciling the requirements of the environment, the limitations of the resources, and the demands of the members of an organization in order to form an explicit statement of the organization’s objectives, with the intention that these objections should predominantly influence the systems for the operations and governance of the organization."

Documenting the need for strategic thinking by faculty and administrators, Academic Strategy speaks directly to the processes of redefining and reevaluation which have become imperative at institutions of higher education today.

_The Soviet Lawyer and His System: A Historical and Bibliographic Study_ (Michigan International Business Studies, no. 14, 1978 xii + 198 pages, paper, $9.00, ISBN 0-87712-185-0) assesses the role of lawyers and the state of the law in the Soviet Union today. To provide a historical context for his evaluation, Professor Cameron begins with a survey of prerevolutionary law and the tsarist legal institutions and traces the evolution of the Soviet legal system through the successive upheavals in Soviet history. He includes in his analysis the complete denigration of the lawyer brought about by Marxist-Leninist theory, the final effects of the Bolshevik Revolution, and the significant changes in the structure of the Soviet legal institutions which have been made since 1917. Since that time, courts, procedural and substantive law as well as lawyers themselves have been reorganized several times, with the last two decades seeing a substantial movement for legal reform. Using this historical perspective, Professor Cameron examines the role and status of the Soviet lawyer today, and in the course of this evaluation he surveys post-1945 Western literature as well as recent Soviet legal literature, much of which has not been indexed previously. The full documentation and bibliography as well as suggested methods for further research make this book an invaluable reference for all those interested in the current state of the Soviet legal system.


An analysis of _ex post_ information about successful applicants for loans from private lenders under the Guaranteed Student Loan program, Dr. Cross examines the effects which factors other than eligibility apparently have on student’s chances of securing such a loan, raising hard policy questions for a state government concerned about guaranteeing equal access to educational aid. (Michigan Business Reports, no. 63, 1979, paper ISBN 0-87712-190-7)

_Community Revitalization_ Edited by Gerald F. Whittaker

Selected proceedings from the 1978 annual symposium on the State of the Black Economy, sponsored by the Chicago Economic Development Corporation. The speakers, many of them directly involved in urban renewal programs across the country, discuss the revitalization of America’s inner-city communities—the methods and strategies currently in use and the many problems which demand solution. (1979, paper, ISBN 0-87712-192-3)

_Essays in Honor of William A. Paton, Pioneer Accounting Theorist_ Edited by Stephen A. Zeff, Joel Demski, and Nicholas Dopuch Foreword by Donald H. Skadden and Floyd A. Bond and introductory sketch by Howard C. Greer.

To mark the ninetieth birthday of William A. Paton, Professor Emeritus of Economics and Accounting, nine of his fellow professors of accounting at leading universities have prepared essays on topics close to Paton’s heart. (1979, cloth, ISBN 0-87712-183-4)

Karl Pearson Discusses Inflation’s Effect on Real Estate

Real estate is troubled in many ways by the uncertainties of uncontrolled inflation. Karl G. Pearson, professor of business administration and director of real estate education spoke on this topic at the annual commercial property clinic of the Detroit Board of Realtors.

One hopeful sign for real estate, he said, is the reduction of the capital gains tax in the new tax legislation—at long last a recognition that most of the gain in property value is not a real gain at all, but merely a reflection of the inflation that has taken place. It can also have the unfortunate side effect of pushing the recipient into a higher income tax bracket.

"With uncontrolled inflation, how can one make specific plans for new apartment houses, new office buildings and shopping centers, new industrial properties, as well as existing ones?" Pearson said.

"If you make plans on the continuance of an 8 per cent inflation, what happens to you if the rate jumps to 10 per cent? How can you contract ahead for labor and materials, unless you negotiate subject to upward price revision? How can your forecasts rely on present interest rates, present utility rates, or present property taxes in the face of future inflation?"

Rents must be raised to stay ahead of inflation, he added. Leases must provide for adjustments in rentals to be based on increases in the consumer price index. While these adjustments in rentals do maintain the purchasing power of original rentals, they may be totally unrelated to market rents in the locality and may not compensate for expenses that increase more than the general price level.

"We are now strait-jacketed in a locked-in inflation," said Pearson. "We cannot cut down on the 34 million Social Security recipients who get automatic increases with the increases in the Consumer Price Index, the 8.4 million union members whose contracts provide for automatic cost of living adjustments, the

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Deans Discuss How to Manage a School of Business at AACSB Session

"Managing the School of Business" was the theme of the regional conference of the American Assembly of Collegiate Schools of Business hosted by the U-M Graduate School of Business Administration during October.

H. Raymond Swenson, Dean of Butler University's School of Business and president of the Mid-Continent East AACSB, presided over the conference, which was attended by deans from Minnesota, Wisconsin, Kentucky, Indiana, Illinois, West Virginia, Ohio and Michigan, the eight states comprising the region.

Dean Floyd A. Bond of the U-M Business School set the stage with his opening remarks reviewing the revolutionary changes in the status of business schools from the late fifties to the present. The program chairman, Dean James D. Benson of Northern Illinois University, then outlined the series of events for the two-day conference. U-M Assistant Dean William Moller handled all local arrangements.

At the first session, the future supply of, and demand for, business faculty was considered by Dick A. Leabo, director of the Ph.D. program at the U-M Business School, Dr. R. Stansbury Stockton, director of graduate studies at Indiana University, and Dean Thomas A. Bausch of Marquette University.

Strategies for controlling admissions was the topic of the second session, and was discussed by Dr. Richard Brown, associate dean at Northern Illinois University, Dr. George Pinnell, executive vice-president of Indiana University, and Dean John Ericksen of the College of Liberal Arts and Sciences of Bowling Green University. Presiding over the session was Dean Clifford E. Larson of the University of Wisconsin-Oshkosh.

Dean H. H. Mitchell of Virginia Polytechnic Institute and State University, the national president of AACSB, was the luncheon speaker. Dean James D. Benson of Northern Illinois University presided.

The luncheon meeting was followed by a panel discussion of enrollment trends. Participants included Dean Schuyler F. Otteson of Indiana University; James Vieland of the AACSB staff; Dean William A. Peters of the University of Louisville, and Dean John D. Hogan of Central Michigan University.

"Accreditation—Process and Standards" was the topic of the last session of the afternoon. Panel members included Dean Karl E. Vogt of Bowling Green University and Dean Benson of Northern Illinois University. Dean V. K. Zimmerman of the University of Illinois presided.

At the dinner Thursday evening over which Dean Bill Moeckel of Miami University presided, Dean Bond received a standing ovation in recognition of his long and distinguished service to education for business leadership.

"Faculty Moonlighting—Types and Control" was the topic of the first session the following day. Panel members included Dean Robert H. Bock of the University of Wisconsin-Madison and Dean Ralph Westfall of the University of Illinois at Chicago Circle. Dean Richard J. Lewis of Michigan State University presided.

The conference ended with a session entitled "Dean's Problems." Participants in the panel discussion included Dean James F. Wenner of the University of Wisconsin at Eau-Claire and Dean Moeckel of Miami University. The session was presided over by Dean James G. Marmas of St. Cloud University.

Adjournment followed the luncheon session.
Clockwise starting from below: National AACSB President Dean H. H. Mitchell of Virginia Polytechnic Institute and State University (left) and William K. Laidlaw of the AACSB staff; Dean David M. Lilly of the University of Minnesota; (left to right) H. Raymond Swenson, Dean of Butler University's School of Business and president of the Mid-Continent East AACSB; James D. Benson, Dean of Northern Illinois University and program chairman for the conference; and Dean Mitchell, national AACSB president; George Pinnell, executive vice-president of Indiana University.
LETTERS

Editor:

In the Fall issue of Dividend, Patrick C. Ross, Senior Vice-President of B F Goodrich Company, expresses some very thought provoking ideas regarding general management challenges in a mature industry. He lists some strategies on how large corporations can adapt to a mature market; one of them is to break the productivity barrier. This is a noble goal but it will require the cooperation of our tax-levying government(s). Assuming higher productivity means higher wages for the worker, it also means that the government (federal, state, and local) will take more taxes out of wages. There comes a point of diminishing returns for the worker when he sees his extra efforts are not improving his standard of living; therefore, he tends to slack off. The point is, government deficit spending must be stopped so tax relief can be granted to the wage/salary earner. By doing so, I believe a very fundamental barrier to more productivity can be eliminated.

William A. Chansler
Odenton, Maryland

Inflation and Real Estate

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24 million military and federal Civil Service retirees receiving the same adjustments, and the 20 million people getting food stamps adjusted upward with the cost of living.

There is no chance that inflation will slow down in the months ahead, Pearson said. Among factors he cited: employers will pay higher Social Security taxes for employees starting in January, which will be passed on to customers; the minimum wage will go up to $2.90 per hour in January, leveraging upward the entire wage structure. Union contracts to be negotiated next year for the teamsters, rubber and electrical workers, "will all aim for the 39 per cent increase the coal miners got; the Organization of Petroleum Exporting Countries has raised oil prices by 15 per cent; interest rates and utility rates will be higher; costs for lumber, insulation, steel and metal products, and for capital equipment will soar."

Pearson does not believe that voluntary wage and price guidelines will work and suggests they will be followed by real wage and price controls which in real estate means rent controls.

"There is one hopeful sign against inflation, and that is the tax revolt now sweeping our country. Tax revolt," he noted, is "putting the finger on government spending as the biggest cause of inflation." People are "convinced that the only way to cut down on government spending is to give the government less money to spend."

Pearson denies that tax revolt will cut down on essential public services, noting that "less than two out of three of our federal dollars for aid to the poor actually reaches the poor" and "government employees enjoy a 13 per cent wage advantage over private sector employees."

Pearson cited a number of government financial abuses and concluded: "Our dollar is being booed off the world stage. We have balanced our budget twice in the last 21 years. Foreigners are dumping our dollars on exchange markets, because they regard all of our talk about controlling our inflation as just so much hot air. If we blame our staggering balance of trade deficits on our imports of petroleum, how is it that Switzerland imports all of its petroleum, yet has an inflation rate of only 1 per cent?"