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High wages translates to big spending

Business leaders predict continued growth, expansion

By Carolyn Smith
special writer

Business leaders should pay attention to the demands of consumers in southeastern Michigan because they have some of the strongest buying power in the nation.

That message came out loud and clear at an Oct. 7 business conference at the University of Detroit, which was co-sponsored by the Greater Detroit Chamber of Commerce and U-D's Keilstadt Consumer Research Center.

Laurence S. Rosen, state demographer for the Michigan Department of Management and Budget, said the eight-county southeastern Michigan area has 4.6 million people whose disposable income last year was about $52.5 billion. In addition to the tri-county area, his study includes Monroe, Washtenaw, Livingston, St. Clair and Lapeer counties.

Rosen said the area's heavy concentration of manufacturing and high-wage scales makes it "a substantially wealthier market area than the nation as a whole." Last year, southeastern Michigan was ranked as the country's sixth largest market.

BY THE YEAR 2000, the area will add 200,000 people, boosting buying power to $72.5 billion, Rosen said. There will be substantial growth in the number of people over 65 and single-mother households, as well as a significant decline in 15- to 24-year-olds.

Wayne County is expected to lose 6 percent of its population, mostly in Detroit. The other counties should grow in population, including a gain in Oakland County by 12.6 percent.

About 600 metro-Detroit businesses and consumers are generally positive about the area's future, according to Oswald Mascarenhas, a marketing professor at the University of Detroit.

IN A WRITTEN questionnaire measuring 56 predictions and conclusions, Mascarenhas said both segments were highly optimistic that metro Detroit over the next five years will:

- continue to be a better place to work and live;
- have more business expansions;
- have more discount and off-price stores; and
- offer retaining of more unskilled workers at area schools, colleges and universities.

But business leaders and consumers expressed concerns about other trends that may forecast that:

- increased automation will result in more unemployment of the unskilled;
- there could be more poverty and crime in metro Detroit;
- price may be a major deciding factor for major retail purchases; and
- suburban residents will not prefer to shop downtown.

Projected population growth

county	1985	2000	change number	1985-2000 percent
Wayne	2,215,573	2,081,830	-133,743	-6.0
Oakland	1,006,418	1,133,605	127,817	12.6
Macomb	697,860	743,760	45,900	6.6
subtotal	3,919,851	3,959,195	39,344	1.0
Lapeer	70,434	88,483	18,049	25.6
Livingston	99,737	150,369	50,632	50.8
Monroe	130,285	148,764	18,479	14.2
St. Clair	138,991	159,710	20,719	14.9
subtotal	439,447	547,326	107,879	24.5
Washtenaw	270,297	312,936	42,639	15.8
Total	4,629,595	4,819,457	189,862	4.1

Area business executives said they recognize the importance of matching supplies and services with demands in the marketplace.

FREDERICK MARX, president of Marx Management Co. in Birmingham, told conference participants that the consumer should be thought of as the "czar or czarina who can buy products elsewhere and (therefore) should be given the red-carpet treatment."

Frank Fraser Jr., senior vice president of automotive marketing for Campbell-Ewald, a Warren advertising firm, cautioned that car buyers *will be looking at the "worth ethic,"* meaning "price is what you pay and value is what you get."

Praising the Japanese automakers for well-designed vehicles and sound marketing strategy, Fraser said, "I hope domestic managements can do as well as their Japanese counterparts. I hope they can do even better."

Thomas Adams, vice president of marketing for Taubman Co. in Bloomfield Hills, stressed that today's consumer is far more discriminating than in the past. He predicted that many retailers will have to redefine their marketplaces.

The banking industry will experience more consolidations and mergers, said John Barnds, vice president and director of business and banking analysis at National Bank of Detroit.

"We will identify new locations for banks, even in Detroit where we've closed a lot of offices. There is a lot more competition in banking today, and we're always looking at pockets of opportunity," Barnds said.

IN A NATIONAL outlook, Sandra Shaber, vice president of consumer economics of Chase Econometrics, said the shift from a manufacturing to a service economy is helping to *create more two-income households* and women in the labor force.

But incomes from lower paying service jobs are not replacing the higher wages many people used to earn in manufacturing.

"For every 25-year-old earning $250,000 on Wall Street, there are 100 flipping hamburgers," she said. Productivity is declining, while wages are not keeping pace with inflation.

Such trends have the effect of shrinking the middle class, Shaber said, suggesting "the rich may be getting richer and the poor, poorer."

Witness calls Stoddard expenses 'piddling'

By Tim Richard
special writer

A volunteer expert witness said entertainment and house repair expenses of the sort Stanford C. Stoddard charged to Michigan National Corp. were "normal, proper, prudent and necessary."

"They were not perquisites," Peter H. Burgher testified in Stoddard's trial before a federal administrative law judge.

"They were ordinary expenses to free his body to do what it does best," said Burgher, a retired certified public accountant from Utica.

IN AN OFF-STAND interview Burgher said he read news accounts of government allegations against Stoddard early in the two-month trial.

"I talked to heads of major banks, heads of law firms and some businessmen, who uniformly supported that I should testify. . . against irresponsible statements about unsafe and unsound banking practices," said Burgher. He then volunteered his testimony to Stoddard's attorneys.

Retired since 1979, Burgher is author of two books and testifies regularly as an expert witness. He considers executive compensation in his field of expertise. Under governmental cross-examination Burgher said he wasn't being paid in this case.

Government lawyers said afterwards that Burgher's testimony rebutted things they hadn't alleged. "There was nothing at odds" with the government's case, said federal attorney Ellen Broadman.

STODDARD, 55, of Birmingham, was a board chairman of the state's third largest bank holding company and two of its subsidiaries until mid-1984, when he was pressured to resign during a federal investigation.

The U.S. Comptroller of the Currency seeks to fine him $500,000 and bar him for life from working in federally-insured financial institutions.

His hearing in the Ann Arbor Federal Building is due to be wrapped up this week by exhibits and arguments.

Then Thomas Jones, an administrative law judge from Grand Rapids, is expected to take two months to decide wheather to issue the comptroller's orders.

BURGHER SAID he was treasurer of the Founders Society of Detroit Institute of Arts in the '70s and early '80s when Stoddard was board chairman of that private group.

"I'm not a close acquaintance," he added.

Stoddard's attorneys asked Burgher a series of hypothetical questions about a bank holding company with assets of $6 billion which made contributions of building materials of up to $34,000 a year to churches. The description fitted Michigan National Corp. and its donations to several Mormon churches across the state.

Burgher called the gifts "not material, given the size of the institution." He defined a "material" expense as one affecting 10 percent of a bank's earnings.

"Piddling," Burgher said time after time as he was asked questions about the bank chief executive's expenditures on church gifts, his own two residences and business entertainment expenses at family weddings.

"A shareholder would not see the effect on his earnings per share," he said.

What kind of expense would be unreasonable? he was asked.

"A polo pony farm . . . $1 million a year," he explained.

CITING STATE law which says an employee cannot be forced to spend money to hold a job, Burgher said the hypothetical banker "did exactly what he should have done. He separated personal from business expenses."

Asked about spending corporate funds to entertain at a daughter's wedding, Burgher said, "People have gotta know they're coming (to the wedding) because they're an important customer — it's not love."

As for bank's employees doing work on an executive's house, Burgher likened it to a secretary who manages the executive's civic, personal and business schedule.

The CPA said that $31,000 of work on an executive's residence used for business entertaining shouldn't be viewed as accruing to his personal benefit, but should be "offset against other valid expenses of the bank" in wooing depositors and customers.

IN EARLIER testimony this week, a former MNC executive denied Stoddard had pressured him into changing an auditor's report to delete a key recommendation.

David Searles of Birmingham said he ordered deletion of a section labeled "lack of written policies and procedures" from a draft audit of MNC's buildings and properties division.

B&P, as it's called, is the division whose workers made the controversial modifications of Stoddard's homes in Birmingham and on Lake Michigan.

Searles, who was president of MNB-West Oakland in Novi in 1981-82, was a vice president of the holding company and head of its audit section when the audit of B&P was performed in 1983. He now is with Franklin Savings & Loan.

He said that when he and others discussed the audit with Howard Cochran, B&P head, in fall of 1983, "Cochran became somewhat agitated" and left the room for a time.

By the end of the 1½-hour meeting, however, Searles said they agreed that written policies and procedures would be developed.

ABOUT 9 that night, Searles said he got a call at home from Stoddard, who asked, "What was wrong with Howard?"

"Initially, I did not feel anybody had done anything to agitate Cochran, said Searles, who admitted he was "set back" by Stoddard's unusual late-hour call.

Searles said he eliminated the criticism of lack of written policies "thinking of the individual involved. I was giving him the benefit of the doubt. I thought it was more tactful to handle that way."

He added, "The audit objective had been achieved."

Stoddard's attorney, Richard Roberts, asked, "Did you say Stoddard compromised you by asking you to delete that meterial?"

"No," Searles answered.

Link between working teens, drug use disputed

By Carolyn Smith
special writer

Are teenagers who work more than 15 to 20 hours a week more inclined to spend their money on non-essential items, including drugs, than their peers working fewer hours or not at all?

A University of Michigan researcher claims that's a "reasonable assumption." But area high school and drug abuse counselors dispute the link between a working teen's income and purchase of illegal substances.

Dr. Jerald G. Bachman, project director of annual surveys of high school seniors at U-M's Institute for Social Research, said he has studied the buying habits of teens since the mid-1970s.

Three years ago, Bachman wrote in the ISR publication "Economic Outlook USA" that "premature affluence" of teens working long hours had negative effects, including "diminished involvement with school, family and peers, as well as increased use of cigarettes and marijuana . . . Drug use is positively associated with the number of hours worked in part-time jobs."

DOES FURTHER research point to different conclusions? Bachman said no.

"We never asked them (teens) about spending on drugs. We looked at hours worked, money earned and drug use. We concluded that the more hours worked, the more money spent on drugs. I think that's a reasonable assumption," Bachman said in a recent interview.

His studies since 1983 also show that most high school seniors working long (15-20) hours began using marijuana in the eighth grade.

AREA COUNSELORS didn't deny that a teen's working long hours means more income to buy non-essential things, but they disagreed that drugs are prevalent among them.

Janice Cotter, program manager for Maplegrove Youth Treatment Center, West Bloomfield, deals with many youths with chemical dependencies. Maplegrove is the only residentital treatment center for teens in the tri-county area.

"When drugs or alcohol become problematic, among the first things to go are school and job performance," Cotter said. She added that those who want to use drugs or alcohol will always find the money.

"Having more money certainly increases the risks of buying more jeans, candy or even drugs."

Deborah Trapp, a teacher and counselor at Plymouth Salem High School, agrees.

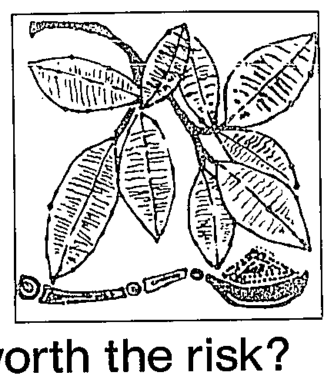
"If I'm chemically dependent, it doesn't matter whether I work 10 hours per week or 50. I'll always come up with the money. There's a million things kids can do to get drugs," she said.

"Teens are among the 10 percent of our nation's total population that has drug or alcohol addiction. A major symptom is inability to get and hold a job . . . . (Bachman's study) seems to refute the fact that chemical dependency is a disease."

Louis Ruggirello, head counselor for 13 of his 17 years at Lahser High School in the Bloomfield Hills School District, said youngsters who work tend to get better grades than those who don't.

"His (Bachman's) slam is on the kid who has a hard-work ethic. His conclusions would seem to be self-defeating to the youngster with initiative, drive and motivation," Ruggirello said.

He also questioned the study's timeliness. "Social trends among teens change from year to year, and that's what I think the study fails to address. A good kid, no matter how many hours he's working, is fairly secure, has strong family ties and an ego strong enough to say no to drugs."



Are home equity loans worth the risk?

practically speaking

Each year homeowners tap more than $3.5 trillion in loans based on the equity in their homes. The money provides ready cash for a variety of uses, including home improvements, education, medical expenses, new cars and more. But these loans also put at risk what is probably their single most valuable asset — their homes.

Equity is the market value of your home after subtracting what you owe on any outstanding mortgages. Many homeowners are reluctant to borrow against this because it usually represents their largest financial cushion.

How do home equity loans work? Many have different names coined by the institution offering them, but these loans, as well as second mortgages, basically are backed by the value of the borrower's house.

Although the amount you can borrow is determined by the lender, some institutions will allow their customers to borrow up to 80 percent of their home's appraised value, less the amount owed on the home.

There are two basic types of home equity loans, open-end and closed-end. An open-end loan is actually a line of credit which can be drawn upon at any time by using checks and sometimes credit cards up to the limit of the loan. With a closed-end loan, you borrow the entire amount all at once.

Before you commit to making an equity loan, you should ask these questions:

- What are the fees? An equity loan is similar to a second mortgage with many of the same fees. There are application fees, annual fees and the cost for the closing. Many lenders also charge up-front fees in the form of points. Find out how much these and other fees will add to the total cost of the loan.
- Is the interest rate fixed or variable? If you choose a variable rate, your payments will fluctuate to match the current interest rates that your lending institution charges. Make sure you know how often the rate can fluctuate and by how many interest points.
- How are payments applied against the loan? Every time you make a payment, you are paying a portion to the principal, the actual loan amount, and a portion to pay the interest. Know what these portions are and ask if you can make early payments on the principal. This will help to shorten the loan's repayment schedule and save on the amont of interest you have to pay. Sometimes pre-payments are subject to penalties, so find out what they are.
- Can the loan be "called" if you sell your house? When you take out a loan to buy a house, the bank has some control over what you can do with it. If you decide to sell you might have to settle these obligations which might require paying off the entire loan.

HOW WILL THE new tax reform affect equity loans? Interest deductions will only be allowed under certain circumstances. If the loan or mortgage is greater than the purchase price of your house plus the cost of any improvements you have made, it will no longer be deductible unless the extra money is being used for improvements on the house itself and for other specific items.

— Michigan Association of CPAs -Haynes