

McKenna writes. From about 100 independent “management engineering” firms (as they were called then) in 1930, the number grew to 400 a decade later. Firms also expanded in size. In 1926, after a dozen years in business, Edwin Booz employed only one other management engineer; a decade later, Booz-Allen & Hamilton had 11 consultants on staff.

“Since the 1930s,” McKenna writes, “management consultants have reorga-

nized the largest and most important organizations in the world.” McKinsey and Company, for example, during the 1960s and ’70s, decentralized some 25 of Great Britain’s largest companies. “Whether reorganizing the Bank of England, Royal Dutch Shell, the government of Tanzania, or even the World Bank, management consultants disseminated American management techniques throughout the world.”

## *Mismeasuring Inflation*

“Measuring Inflation in a High-Tech Age” by Leonard I. Nakamura, in *Business Review* (Nov.–Dec. 1995), Federal Reserve Bank of Philadelphia, Dept. of Research and Statistics, 10 Independence Mall, Philadelphia, Pa. 19106–1574.

Assessments of the economic state of the Union almost always revolve around the “fact” that Americans’ wages, corrected for inflation, have declined, falling from an average of more than \$8 an hour (in 1982 dollars) in 1975 to less than \$7.50 last July. Nakamura, an economic adviser in the research department of the Federal Reserve Bank of Philadelphia, contends that the decline is, in all likelihood, an illusion.

The culprit, he contends, is the Consumer Price Index (CPI), which measures changes in the cost of living by tracking the price of a fixed “basket” of goods. The CPI basket currently holds items selected in the early 1980s. But today’s actual consumer basket is different. Improvements in the quality of goods (e.g., personal computers and cars) and services (e.g., cable television and medical care) increase the standard of living yet are largely missed by the CPI. The result: at least a half-point overestimate of annual inflation.

There are other problems with the measure. If clothes go up in price, for example, while computer supplies go down, the consumer may buy more of the latter and fewer articles of clothing. The consumer is better off, but, again, the CPI, with its fixed basket, takes no notice, distorting the index further by two-tenths of a percentage point.

New products, such as CD-ROMs, that have come out since the basket’s contents were fixed, are largely ignored. The Bureau of Labor Statistics, which collects

the basic data for the CPI, tries to keep abreast of new products by gradually fitting them into an existing category of goods and rotating part of the sample of stores and goods it surveys each year. But that procedure not only fails to capture all the improvements in the standard of living, Nakamura maintains; it itself pushes the inflation index further upward—by an estimated two-tenths to three-tenths of a percentage point a year. The reason: it gives greater weight to goods whose prices are likely to rise after their initial “sale price” introduction on the market.

All in all, Nakamura calculates, the CPI probably has been overstating inflation by more than one percent a year. If the index is revised downward by that amount, the post-1975 decline in real wages becomes an increase (to about \$9.50, in 1982 dollars). If Nakamura is right about this politically charged subject—which leaves economists, as usual, divided—then other items tied to the CPI, including Social Security payments and personal income tax brackets, have also been distorted.

Rapid advances in computers and telecommunications are responsible for many of the quality-of-life improvements that go unmeasured by the CPI. But such new technologies may also be part of the solution. The Bureau of Labor Statistics (which, it should be noted, has been taking steps to improve the measurement of inflation) still does its work the old-fashioned way, sending people out to stores to gather data. If the bureau instead could electronically tap into the detailed infor-

mation on sales that many retailers, wholesalers, and manufacturers now routinely

collect, a more accurate picture of inflation might emerge.

## SOCIETY

### *Financial Aid for Whom?*

"Scholarships: Need or Merit?" by Herschel Grossman, in *Cato Journal* (Winter 1995), Cato Institute, 1000 Massachusetts Ave. N.W., Washington, D.C. 20001-5403.

Professional baseball's exemption from federal antitrust laws has sparked controversy for years, but when America's colleges and universities received a similar exemption two years ago, hardly anybody noticed. Students, argues Grossman, a Brown University economist, are being shortchanged.

For decades, he notes, Brown and the seven other Ivy League schools joined with the Massachusetts Institute of Technology in "a cartel to limit competition for desirable undergraduate students." The institutions agreed to award scholarships on the basis of "need," not "merit." (And they defined need in a narrow way.) At an

annual meeting called "Overlap," representatives of the universities even jointly decided on how much aid they would offer to specific individual applicants. By not awarding "merit" scholarships, Grossman maintains, the institutions avoided costly bidding wars over talented students.

Need-based aid, especially when joined with so-called need-blind admission policies (admissions decided without regard to students' financial situation), gives families less incentive to save for college, since the more they save, the less aid they will get. A study last year found that the prospect of need-based aid prompted the typical middle-class family with two chil-

### *Mixed Blessings*

The American woman's situation today is difficult, Midge Decter observes in *The Women's Quarterly* (Winter 1996), not because she is in chains, but because she is free—free in an entirely new way, thanks to "the fateful and as yet not fully fathomed separation of sex and procreation."

*A woman must now decide everything essential to her. Whether to be serious about work or not—a decision which does not afflict any but the richest of men and which afflicts many of them with alcoholism and other forms of despair. Whether to sleep with this man or that man or none—again, a decision which afflicts few men in relation to women, for sexual revolution or no sexual revolution, few men can even now count themselves on the choosing end of this particular transaction. Whether to marry (a question which once offered her only the alternative of a pinched and barren spinsterhood) and whom to marry and when to marry—a form of freedom heretofore enjoyed, or possibly not enjoyed, only by men. Concomitant with this last freedom has come the freedom to divorce—if she thinks she ought to or even if she merely wants to.*

*In short, a woman must make up her mind in every major area of her life about what to do, whether to do, and how to be. Thus with the exception of unhappy accidents or unavoidable misfortunes, her satisfaction and contentment are in her own hands—to a degree possibly unprecedented in the history of mankind, a degree experienced by her as bordering on the intolerable. The question "What does woman want?" has become for her the question "What do I want?" It is a question none of us has the spiritual wherewithal to answer on one's own. Yet on her own is what the modern enlightened woman now is.*