What Will You Do . . . .

IF WAGE-PRICE CONTROLS

IF YOU DON'T FACE the fact of possible wage-price restraints, when they come—if they come—they may restrain you right out of business. For inflation is not likely to stop or even be mitigated. In the charged political atmosphere with both parties looking to the next Presidential elections, controls are an answer many are considering.

Happily, there are steps you can take now to avoid being washed out in the wave of controls which may be upon us in the near future. It is necessary first to understand how we got where we are.

Present inflation, for which wage-price control cures are sought, has had three causes. Classic inflation begins with more money chasing the same goods. This condition began to be operative in the late years of the Sixties when the Federal Reserve expanded money supply at a frighteningly fast rate. The average rate of increase during post World War II years was about 2.5%. This kept pace with increase in productivity. Far faster than productivity increases, however, were the swollen 6% money stock increases that came later.

Worried about this and about the inflationary price escalations that had come about as a result of the increased supply of money chasing only slightly increased supplies of goods, the Federal Reserve in 1969 stopped money supply growth. Predictably, the economy began to turn over like a dying whale as recession took hold. Again alarmed, the Federal Reserve in 1970—while still talking monetary restraint—began to inflate the money supply once more. From February 1970 to June 1970, money supply increased at a 9.8% (annual) rate of growth. The year's rate was 5.4%.

Meanwhile, prices tended to increase even faster than they had before stringency had been prescribed as the cure for inflation. This occurred because a second cause of inflation took over—cost-push.

Consider what wage increases mean. A manufacturer's costs go up. So he raises the price by a small percentage and ships his merchandise to the wholesaler. The truck line which carries the goods must pay higher wages. It, too, raises the tab for carrying the goods to the distributor. Now the distributor has increases to meet. He raises his price accordingly. And in order not to be swamped under the increases, he is forced to add a normal markup to the increases themselves. Then he ships to the retail store. Again, the merchandise moves in union-manned trucks and again the cost of transportation is higher, so that there is a series of increases on the cost by the time this merchandise reaches the retailer. He, too, is compelled to add his regular mark-up percentage to the increases themselves as well as to the old base price. Now, when the merchandise reaches the consumer, the percentage is no longer small. The price has been upped a great deal. Inflation feeds on itself.

When the Fed's whopping 1970 increase in money supply was added to this, a third cause of inflation entered. Monetary inflation caused cost-push. Cost-push fed on itself. A new round of money buildup threatens to accelerate the process.

It's frightening. That is why some people are calling desperately for wage and price controls in the hope of stopping inflation. These controls will probably come. But the hope that they might cure inflation is probably a forlorn one. One of the country's monetary experts, Darryl Francis, president of the Federal Reserve Bank of St. Louis, stated the fact succinctly when he said: "Direct controls, like a new paint job over a termite-infested house, hide the evidence but do nothing to eliminate the cause."

Wage and price controls are not entirely without effect, however. They have, in fact, always brought two effects into existence. The imposition of these controls can probably be counted upon to produce the same effects again and if you are to survive profitably, you have to know what they are and plan to meet them.

The first effect of price-wage controls is usually scarcity. When a product cannot be produced profitably, its maker switches his production to other products which he hopes will not be controlled as closely or possibly will escape controls. "Unpatriotic!" scream advocates of price-wage controls when this happens. They may be correct, but that does not alter the fact that scarcities of low-profit or no-profit items will develop under price controls.

No businessman can continue production at a loss and stay in business; nor is he likely to continue with a tiny profit when by changing to another area he can switch back to the profit path. This is likely to be especially true because of the continuing inflation under which we live; it soon erodes whatever buying value the small profit might possess.

Scarcities are likely to develop in labor, too, despite high unemployment rates of the present. "Unemployment makes a man want to work at whatever wage he can get," insist the advocates of controls. "Soon labor costs will go down." This is a nice theory but, like the idea that wage-price controls won't bring about product scarcities, this argument contains more wishful than effective thinking. Labor has alternatives to working at controlled wages; unemployment insurance and, in many cases, welfare.

Raises now might help if they are needed to bring salaries in line with prevailing conditions. But over the longer term, many find that employee loyalty is best built by means of fringe benefits which are not immediately taxed out of the employe's pay envelope and which tend to bind up his longterm interests with yours.

The next thing that wage and price controls bring about is **slimmer profit margins.** Despite controlled prices of things you buy, other, less tangible and controllable costs usually go up and profit margins decline. So to survive it is wise to begin now to trim fat.

"One thing recessions bring about that is in the end beneficial to every business," commented an economist, "is awareness of the fat on corporate bodies. In boom times,

*** Author of HOW YOU CAN BEAT INFLATION, NINE ROADS TO WEALTH, SIX STEPS TO INVESTING SUCCESS, HOW TO MAKE MONEY WITH MUTUAL FUNDS, PRACTICAL WAYS TO BUILD A FORTUNE IN THE STOCK MARKET, HOW TO CHART YOUR WAY TO STOCK MARKET PROFITS, HOW TO MAKE YOUR MONEY DO MORE (THE COMPLETE STOCK MARKET ADVISER), MANAGE YOUR MONEY—LIVE BETTER; past-president, Financial Analysts of New Orleans.**

By DAVID L. MARKSTEIN*

COME?

executives say, 'Who, us? Fat? Nonsense. Our costs are as far down as they can get.' But when the bite comes, every company from the giants to the Mom and Pop businesses find ways to trim off costs."

Don't wait until the bite clamps too hard onto the profit and loss statement. Plan now for trimming away unneeded cost items. The first step is to institute strict accounting of everything.

"I was amazed," one nurseryman told me, "what a cost audit showed. Almost 15% of our total overhead was subject to elimination!"

A sound way to conduct such an audit—expensive, perhaps, in immediate cost but possibly vital to survival under the stultifying iron hand of prolonged wage and price controls—is to require written reports of every operation performed in each department. These can be studied with the question in mind: "Is such a step necessary? Do we need this many people in the department? Are certain tasks easily combined? Are certain products or papers or equipment subject to reduction?"

A possible solution might be leasing. Leasing can include hiring contract personnel where possible. In addition to throwing the prolems of employee recruitment and training upon other shoulders than your own, a long-term contract can ensure the presence of labor, although not necessarily of the same faces, throughout the period when price controllers lay siege to your profits. Leasing might also ensure the institution's having equipment which is subject to later scarcities.

Leasing offers many advantages but some serious drawbacks, too.

Here are the advantages: (1) The big tax advantage of writing off expenses instead of maintaining a depreciation table; (2) decreased (sometimes eliminated) maintenance cost when leasing includes maintenance; (3) freeing of capital from long-term tie-up in fixed assets; (4) consolidation of accounts; (5) avoidance of troubles that arise from early equipment obsolescence; (6) fixed costs.

The disadvantages are: (1) failure to build up equity in leased assets; (2) loss of value when an asset—as can happen in a time of scarcity—increases in value by becoming hard to get; (3) costs of consolidated accounts which are sometimes higher than scattered small ones, and (4) lost of control.

Another possibility for wage-price control survival is a practice which was widely condemned during World War II price control days as hoarding. Call it stockpiling of vital supplies if you have semantic qualms. But do it if scarcity of needed items might render your operation marginal.

The need to do something about inflation is very real. Yet, observing past experience not only in the U.S. but in other advanced nations as well, it is doubtful that price or wage controls will prove the answer. That won't stop their imposition, however, nor silence the cry in a politically important year.