

ADMINISTRATION EXEMPTS ONE-QUARTER OF ECONOMY FROM PAY-PRICE CONTROLS

SMALL UNITS FREE

Employers With Work Forces of Up to 60 Affected by Move

By PHILIP SHABECOFF
Special to The New York Times

WASHINGTON, May 1—The Administration exempted millions of small business and local governments from wage and price controls today, effectively freeing over a quarter of the nation's total work force and sales from compliance with its economic stabilization program.

The Cost of Living Council announced that all businesses or government units with 60 or fewer employees need no longer comply with wage and price regulations.

The decision affects five million small concerns and about \$500-billion in annual sales, or 28 per cent of the nation's total annual sales.

19 Million Exempt

It also means that 19 million workers, or 26 per cent of all payroll employment, will be exempt from wage controls. Some of these had already been exempted as low-wage workers earning \$1.90 an hour or less.

Meanwhile, Herbert Stein, chairman of the President's Council of Economic Advisers, sought to allay business fears that the Administration was seeking to put a harsh limit on corporate profits. In remarks prepared for delivery to the Economic Club in New York, he said that there were "reasonable" limits on profit margins, but added that "for business to become frightened at this moment would not only be entirely without foundation but could also precipitate controversy which would really undermine the [controls] system and impede recovery."

[Details on Page 57.]

Donald Rumsfeld, director of the Cost of Living Council, said the new exemptions "are not a step toward decontrol or Phase Three."

Erosion of Confidence

"They are the logical next steps in the refinement of the economic stabilization program," he said.

The decision to exempt small business and government, Mr. Rumsfeld said, will "eliminate unnecessary red tape" from administration and enforcement of the stabilization program and will allow better allocation of the program's limited resources.

The chairman of the Price Commission, C. Jackson Grayson Jr., along with other commissioners, did not concur with the decision to exempt the small businesses, commission staff officials said today.

The commission reportedly believed that, while the decision would have no adverse economic impact, the timing of it might erode some of the public's

Continued on Page 14, Column 3

Continued From Page 1, Col. 1

confidence that controls were being firmly enforced.

The council did not include the construction industry or medical services in its action in exempting small business. Mr. Rumsfeld said that these companies would remain controlled because of their "potential inflationary impact."

The Cost of Living Council also announced the following related decisions:

¶Controls on construction and medical services have been made "tighter" by reclassifying 201 companies upward into Tier I, the prenotification category, and Tier II, the category of companies that must report price and wage actions.

Stabilization Act Cited

¶The Internal Revenue Service will now shift about 30 per cent of its stabilization program manpower from handling inquiries and complaints and related matters into compliance and enforcement activities and investigations and audits. From now on, more than half, instead of 20 per cent, of the revenue service's 3,000-man stabilization force will be helping enforce the stabilization program.

¶The Price Commission staff will be increased from 445 to 595 persons, a 33 per cent gain, and the Pay Board staff will expand from 137 to 174, or 27 per cent, to help the two agencies cope with their case work.

The Cost of Living Council declared in its statement today that its action in exempting the small businesses was consistent with the provisions of the Economic Stabilization Act amendments approved by Congress last December.

Last January, the council exempted about 75 per cent of the nation's retail stores, which account for about 15 per cent of total retail sales, as well as about 40 per cent of all rental housing from the controls program.

At that time, Mr. Rumsfeld emphasized, as he did at today's news conference at the new Executive Office Building, that the exemptions were not a sign that the government had started to decontrol the economy.

Master Contract

Under the new rules adopted today, prices and wages will remain under direct controls where more than 50 per cent of the employees in a small business are affected by a master employment contract covering more than 60 or more workers.

For example, if a company had an average of 40 workers in a year, but 30 of them were



Associated Press

Donald Rumsfeld at news session in Washington.

covered by a contract that involved other concerns, that company would still be subject to wage and price controls.

But if a company has 60 or fewer employees and some, but fewer than half, are covered by a master contract involving more than 60 workers, only the wages of those workers covered by the contract are subject to wage controls. The other workers and the company itself would be exempt.

It is likely that more non-union than union workers will be exempted from controls under the new rules because union labor tends to be covered by master contracts.

Price Rises Doubted

The council said that the new exemptions would release 67,500 small governments, accounting for 83 per cent of all local government units, and 378,000 local government employees, or 7 per cent of the total, from controls.

The council said that even though small businesses and governments were now exempt and would no longer be monitored on an ongoing basis, "compliance with the standards and policies of the economic stabilization program is still expected."

The council added that a periodic review of the effects of the exemption would be conducted "to ensure inflationary pressures do not arise unexpectedly."

The council added that, in any case, "prices charged by smaller firms are not expected to increase significantly because large companies within an industry tend to exert some price discipline over small companies."