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NIXON SCRAPS MOST WAGE PRICE CONTROLS

# Price Commission and Pay Board Abolished --Phase Three Begins

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Washington

**President Nixon ended mandatory wage and price controls yesterday—except for those involving food, health care and construction. He replaced them with a system relying mainly on "voluntary cooperation." He also ended all federal rent control.**

In a sweeping revision of the 17-month stabilization program, the President called on business and labor to support the program voluntarily. But he said he would back it up with the threat of renewed government wage and price regulation in situations he deemed to be inflationary.

In a message to Congress, the President indicated that he expects unions and companies, especially big ones, to adhere to standards that, initially at least, will be essentially those that have been in force.

### ABOLISHED

The President also announced that the Price Commission and the Pay Board have been abolished and that parts of their staffs will be assigned to the Cost of Living Council to work with a reduced Internal Revenue Service force on monitoring wages and prices.

Surveillance will be focused most intensely on big companies and big unions in decontrolled industries and on food, health-care and construction price and wage trends.

Mr. Nixon acted under the Economic Stabilization Act. He asked Congress to extend that law for one year beyond its scheluled expiration on April 30, 1973.

The President told Congress that his goal was "a further reduction in the inflation rate to 2½ per cent or less by the end of 1973." Administration officials contend that the inflation rate was almost down to the upper end of the President's goal of 2 to 3 per cent by the end of 1972.

### SURPRISE

The President's proclamation of Phase Three of the stabilization campaign was almost as startling as his announcement of Phase One, a 90-day wage-price freeze, in a televised Sunday evening broadcast on Aug. 15, 1971. Phase Two began when the freeze ended, on Nov. 14, 1971.

There had been widespread speculation that the scope of mandatory controls would be narrowed but Mr. Nixon went far beyond most

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expectations in paring the program.

Except in food processing and distribution, health care and construction, companies are now legally free to raise prices and wages as they like. However, the government expects them to take account of official non - inflationary standards and of what Treasury Secretary George P. Shultz called "the stick in the closet," the President's power to reintervene.

### UNKNOWN

How the government uses that power remains to be seen. In light of the Nixon administration's belief that wage increases have been the principal cause of inflation in the past several years, it was thought that the intervention mechanism, which includes the possibility of public hearings, was conceived principally with large, highly visible labor-management negotiations in mind.

Herbert Stein, chairman of the Council of Economic Advisers, acknowledged concern about an inflationary pull on prices later in the year, growing out of a possible "revival of another excess demand situation."

Mr. Nixon disclosed that five prominent labor leaders, including George Meany, president of the AFL-CIO, have agreed to serve with five businessmen on a new labor - management advisory committee. Meany and three other labor leaders quit the Pay Board last April, charging that wages were being held down more effectively than prices.

The new director of the Cabinet - level Cost of Living Council is John T. Dunlop, an authority on labor - management relations who has been chairman of the government's Construction Industry Stabilization Committee, a post he is relinquishing. Dunlop, who is 58, is an economist and the dean of the Harvard University faculty of arts and sciences.

He succeeds Donald Rumsfeld, a former Republican representative from Illinois, who has been designated as ambassador to the North Atlantic Treaty Organization in Brussels.

Shultz was pressed to distinguish the new "voluntary cooperation" program from the wage-price stabilization proposal that of Senator George McGovern made during his unsuccessful campaign last year for the Presidency.

Shultz shied away from a specific comparison, which many observers believe would show fundamental similarities, and emphasized Mr. Nixon's determination to keep "spending under control" and avoid a general tax increase.

Shultz, the President's chief economic spokesman, briefly reviewed recent and new measures to push down food prices. Referring to plans to sell government stocks of grains, he said "we expect to empty the bins and put this on the market."

In his message to Congress, Mr. Nixon said he was "directing that our current mandatory wage and price control system be continued with special vigor for firms involved in food processing and food retailing."

Initial sales by farmers of crops, livestock and poultry will continue to be exempt from controls. The administration has argued that controls of the farm would tend to diminish supplies and cause new upward pressure on prices.

The President said he was creating a "new advisory group to give special attention to new ways of cutting costs and improving productivity at all points along the food chain."

Its work and the government's other efforts, Mr. Nixon said, "will enable us to check effectively the rising cost of food without damaging the growing prosperity of American farmers."

In a concession to business, the administration modified the Price Commissin's profit-margin regulation, thereby giving corporations more leeway to raise prices.

The profit-margin regulation, however, no longer has the force of law excepting in the three sectors still under mandatory controls. It is now one of the "general standards" to be followed voluntarily.

As an incentive for moderation in raising prices, the new standards waive the profit-margin test for companies whose average price increase for all products does not exceed 1.5 per cent in a year.

In general, price increases are supposed to continue to be governed by the basic proposition of Phase Two — that price increases should not exceed cost increases plus customary markups or profit margins.

## LABOR

As a concession to labor, the President said that companies with fewer than 1000 employees no longer will be required to keep records of wage increases. Under the small-business exemption announced on May 1, 1972, companies with fewer than 61 employees were excluded from controls, excepting in construction, health care and lumber.

Officials said that, whereas about half the labor force had been covered by mandatory controls after May 1, the percentage subject to the new record-keeping requirement would be 20 to 25 per cent.

This change appeared to confirm the impression that what worries the administration most is the prospect of big wage increases for large numbers of employees in major industries. Apart from the direct effect on costs and prices, such increases tend to be widely reported and to establish patterns.

## STANDARD

For the moment, the Phase Three wage standard remains at 5.5 per cent a year plus 0.7 per cent for fringe benefits.

In addition to Meany, the members of the new Labor-Management Advisory Committee are: I. W. Abel, president of the United Steelworkers of America; Frank Fitzsimmons, general president of the International Brotherhood of Teamsters; Paul Hall, president of the Seafarers International Union of North America; Leonard Woodcock, president of the United Auto Workers; Stephen Bechtel Jr., president of Bechtel Corp., San Francisco; Edward Carter, chairman of the board of Broadway-Hale Stores Inc.; R. Heath Larry, vice chairman of the board of United States Steel Corp. James Roche, member of the board of directors of General Motors Corp., and Walter B. Wriston, chairman of First National City Bank, New York.

Of the labor members, all but Hall represented labor on the Pay Board until April. The fifth labor member was Floyd E. Smith, president of the International Association of Machinists and Aerospace Workers. He, Meany, Woodcock and Abel quit in April. Fitzsimmons stayed on.

The least surprising part of the announcement was the ending of all federal rent controls. Local rent controls were unaffected.

The administration said rent controls could be ended because of "the expanding supply of rental units, increasing vacancy rates and the modest rate of inflation shown in this sector." Under Phase Two, less than 30 per cent of all residential units were covered, it was said.

There was no threat to use stanlby authority to recontrol rents and no formal standard for moderating increases was proclaimed. The President's only exhortation to landlords was "to exercise restraint."