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Accountant's Role in a Controlled Society

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Wage and price controls are not likely to go away, this writer feels. Rather, controls are likely to be extended to new areas. And it is the accountant, it is argued, who must evaluate each new control, its value, and efficiency—

THE ACCOUNTANT'S ROLE IN A CONTROLLED SOCIETY

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GOVERNMENTAL controls are likely not only to remain with us, but also to be extended to new areas. We now have price and wage controls in peacetime. We are likely to see ecological controls before long.

To those who would like to think of controls as a temporary phenomenon soon to disappear, it must be disconcerting to note that they have been introduced by a conservative administration about to seek reelection and not in need of problems (if any administration ever is). Nor is reassurance to be found in the failure of both fiscal policy and monetary policy to cope effectively with inflation, a failure that is not to be attributed to one side or the other of an economic debate, but rather to current economic theory in general.

There are many factors contributing to the failure of macroeconomics: doubtful quantification of qualitative data; defective measurement of legitimately quantified data; delays in gathering data for use in making decisions; difficulties in analyzing complex interrelationships; uncertainty in interpreting variations that are small in relation to total figures; and insufficient understanding of psychological responses to policies and conditions. With so much uncertainty impeding efforts to give direction to the economy through policies that are thought to guide the decisions of the individual enterprise through the operation of economic laws, governmental action has fallen back on policies that affect the individual enterprise directly. Instead of combating inflation primarily by making money tight, we control prices and wages.

Direct control over incomes may be necessary for another reason: namely, the powerful influence on inflation of issues related to distribution of income. Growing demands for service and facilities in the fields of health and education would, if met, channel more funds in those directions. The emerging ascendancy of service industries over manufacturing tends to channel demand more and more toward a sector of the economy where productivity gains are slow in coming. Nevertheless, wage-earning groups demand ever larger shares of the total pie, until the increases we manage to achieve in productivity cannot keep up with all that has been given away—in some industries, at least. Thus are the fires of inflation fed.

In the near future, we can foresee mounting pressures for redistribution of income from other quarters. Ethnic groups and the women's liberation movement are making demands that cannot long be ignored. In a fair assessment, some of the changes sought may be non-inflationary. For instance, when qualified people move upward into jobs that make better use of their abilities, their higher pay is justified by increased productivity. At the same time, it must be conceded that some inflationary changes are morally irresistible. For example, equal pay for equal work, where such equality has not existed up till now.

All in all, it is not easy to be sanguine about the prospects for early removal of wage and price controls. Nor can we avoid recognizing the cogent reasons for expecting a new set of controls to contend with our ecological problems of pollution, overconsumption of scarce materials, and unbalancing of the processes of nature.

Suggestions for cleaning up our environment are essentially extensions of accounting practice in charging clean-up costs to the products that create the mess. In moving from factory cost accounting to intercompany charges and credits, we enter familiar government grounds of taxes and subsidies as the means for transferring funds. The snag is likely to develop in defining and measuring pollution with fairness to all parties.

Likewise with other ecological programs. Conservation of materials will require definition, measurement, and reporting of inventories on a national scale. And preservation of the balance of nature requires much definition before any sort of meaningful reporting can be contemplated. Nevertheless, the inevitability of controls can hardly be doubted.

Consider the alternatives. Unbridled selfishness is intolerable; and voluntary restraint has its limitations. First, those who refuse to go along enjoy economic advantages over the conscientious ones. Second, laissez-faire traditions often produce a backlash of sympathy for "individualists" who challenge the rules. (Even in sports, the "dirty player" is likely to acquire a following all his own.) Third, group self-sacrifice leads to feelings of being put-upon, and finally to frustration, which is political dynamite; it creates a climate in which demagoguery can flourish. Fourth, a program of voluntary restraint requiring full public support can only survive while a recognizable national emergency exists.

Perhaps the best we can hope for is a system for limiting controls to those industries where they are demonstrably necessary. To begin with, there are the industries where consumers have lost their traditional market influence over prices. While this list includes some of our most important and influential industries, it would still leave a sizable number of industries to operate in a free market. The advantages are obvious: the control mechanism is less likely to become overloaded; political considerations and unrealistic pricing would not invade the uncontrolled area of the economy; and evasions of law would be averted.

This brief survey of the outlook for controls suggests a role for accountants in defining and measuring the things to be controlled; in designing and installing systems for reporting activities; in providing feedback information for compliance; and in recommending extension or relaxation of specific controls in certain areas. Chances are that some of these functions will be thrust upon accountants willy-nilly. It behooves us to be prepared to meet these challenges.

To stop there, however, would be to shirk responsibility that ought to be recognized as truly belonging to accountants by virtue of training, experience, and aptitudes. Moreover, accountants traditionally maintain an attitude of detachment while enjoying opportunities for familiarization with the operations of the individual enterprise. The proper course for accountants is manifestly to place these assets at the disposal of both business and government.

Input/output analysis is guide

As advisers to business, accountants might begin by developing a body of expertise in interpreting official policies and assessing their impact. Input/output analysis provides a benchmark of interindustry transactions from which to construct pro forma input/output estimates that contemplate shifts in consumption, production, and use of materials. The problem with input/output analysis is that it cannot by itself accommodate such changing relationships as are brought about by substitutions of synthetics for commodities, or by price changes, or by economics of scale (as demand grows). But an input/output chart can offer a useful, if imprecise, picture of the entire economy, illustrating relationships between industries. This pic-

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ture can serve as a starting point from which modifications can be estimated.

As advisers to government, accountants might begin by accumulating data that will permit more accurate evaluations of how individual enterprises react to various policy changes, and to predictions of change. The failure of macroeconomic policy is attributable in part to a paucity of information on the precise impact of specific policies on specific industries and enterprises, and on the way that managements adjust to the situations they find themselves in. A great deal of imaginative thinking will be required to fill this information gap. Accountants ought to do more to join in the effort to find solutions.

One direction that we might take is to extend industry's expertise in the field of budgeting to a reporting structure that would parallel the reporting of actual financial data, in the hope of overcoming problems associated with time lags between the occurrence of significant events and the awareness of them. Each company's budget reflects its management's current expectations as to volume of activity, material consumption, labor requirements, expenditures, and earnings. There may be biases, to be sure, very likely on the optimistic side. But analysis and interpretation may be able to evaluate these biases in time. Aggregates of budget data from many sources may then prove to be highly reliable, as random errors cancel out and adjustments are made for observed tendencies toward over- or understatement.

Such budget aggregates would be quite useful in analyzing changes in plans and expectations. Comparisons of projected figures with actual data of past periods might help to reveal trends before they fully develop. Revisions of budgets, reported monthly or quarterly, would indicate changes in opinions and outlook, supported by recent occurrences. And variance reports of actual versus budget would provide feedback for evaluation of earlier conclusions, and of the process of budget aggregation itself. Not only would budget aggregation improve the timeliness of available data tremendously, but it would also emphasize change and rate of change. The impact on the whole structure of decision making by government and industry could be considerable.

Incidental to this discussion, perhaps we should note that the time may not be far off when independent accountants will be asked to certify to the reasonableness of budgets or the soundness of the methods by which they are produced. Investors prefer to look ahead and to evaluate a company's prospects from forecasts that relate to economic trends, rather than rely exclusively on historical patterns and the hope that they will continue. Increased utilization of budgets to satisfy the wants and needs of investors would fit very well with the use of budget aggregates in establishing economic policy, as advocated in this article.

In addition to collecting and aggregating budget data, we can improve the timeliness of reporting by gathering information on purchase contracts and agreements. A company's total position in a commodity, for example, includes its open contracts as well as its inventories. And its total position may indicate something of the management's views on the trends of prices and business volume.

Inventory data might be improved also by aggregating figures that indicate substitutions of one material for another. Also, shifts in quality and price are of interest. And analytical methods should be employed to study the implications of changes in the aggregates for these characteristics. Improved classification of inventories might offer useful clues to trends of ecological importance. There are opportunities for gaining insight into the workings of the economy through expanded reporting and interpretation of inventory data. Accountants ought to concern themselves with this area more than they do.

Improving productivity

Another field of considerable importance is productivity: its measurement and improvement, as well as the manner in which the benefits of improved productivity should be distributed. And if distribution problems are deemed to be the special province of economists, then perhaps what I am suggesting is that accountants *are* economists, a fact that few people doubt, but not many accountants live up to, in terms of meeting the responsibilities implied.

The measurement of productivity raises difficult problems of valuation. Perhaps they can never be resolved to everyone's satisfaction. Nevertheless, we have a few things going for us as accountants in this area. In cost accounting, in financial statement presentation, and particularly in reporting inventories, we have been coping with many facets of evaluation for a long time, exploring possibilities and weighing alternatives to meet various purposes and needs. We have also learned to be objective in our approach; and we have developed and emphasized concepts of fairness, largely for our own guidance. In taking on the challenge of measuring productivity, we can justifiably show confidence in our methods.

Improvement of productivity is one of the purposes of those among us who specialize in management advisory services, systems analysis, and information systems. Some seek to improve systems and procedures directly to accomplish more work at less cost; while others provide operations managers with information for planning and control. Either way, accountants have long accepted responsibility for encouraging productivity. Techniques for allocating resources so as to maximize profits may also be considered as methods for promoting the productivity of available resources. Thus, capital budgeting and linear programing may be counted among the tools that accountants use to increase productivity.

In the area of productivity, perhaps the trickiest questions of all arise in connection with equitable distribution of the gains from increased productivity. While bargaining power may always remain the chief determinant of distribution patterns, nevertheless, there is a need for a reference point to be established in each case with objectivity, judgment, and fairness. Accountants are particularly well qualified to address themselves to such problems. Since increased productivity is widely considered to be the key to containment of inflation, every effort to encourage productivity must be valuable. And what better source of encouragement is there than equitable distribution of benefits derived?

Should each industry keep its own productivity gains intact, or should all industry and the entire work force share in productivity gains generally? As a corollary question, and one of great significance, should the service industries stay permanently behind in raising wages?

However, equitable determinations are not at all obvious in many cases. When higher productivity comes from improved machinery, those who operate the machines may or may not need a higher level of skill. How much of the gain should be awarded to them? And how much should go to the designers of the new machines, to those who build them, and to those who provide the capital for putting them to use? For that matter, how much of the gain should go to the consumer? Similar, though not identical, considerations apply when higher productivity is achieved through improved methods and innovations.

Additionally, there is an even more basic question: Should each industry keep its own productivity gains intact, or should all industry and the entire work force share in productivity gains generally? As a corollary question, and one of great significance, should the service industries stay permanently behind in raising wages? This question leads to another dilemma: If the answer is yes, then how are the service industries to be held down; and, if the answer is no, then how are they to be given a fair share?

Perhaps we will do well to avoid such questions as these as much as possible by resorting to the market mechanism, negotiation, and compromise. In any case, the ultimate solutions are likely to be practical rather than theoretical. Still, as we noted before, reference points can be very useful; and if these reference points need to reflect considerations of a practical nature, then accountants are even better qualified to produce them, by reason of the close association of accountants with practical matters in all their work.

Summary

There can be no doubt that our national economic problems would be more tractable if we had considerably more information of the sort that arises with individual enterprises. Both macroeconomic policies, that influence the economic climate for doing business, and microeconomic policies, that affect individual companies directly, can be expected to pursue their purposes with greater assurance of success if we define and measure precisely the effects of government actions on managerial decisions and business transactions.

To further this end, accountants should become involved in a concerted effort to define, classify, measure, and collect data on a great many variables in the business world. In particular, accountants might concern themselves with aggregates of corporate budgets, nationwide inventory analysis, and studies of productivity.