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Eugene Guccione

"If you realize that there will always be people willing to pay to have things done, and if you're willing to find out what they are willing to pay for, you have nothing to be afraid of. You'll know that you can always strike a bargain with someone to do something—even if you're flat on your back."
Harry Browne, *How I Found Freedom in an Unfree World*

If you are a big businessman, don't waste your time reading this article. If your yearly losses run into the hundreds of millions of dollars, and if you and your management team are sufficiently incompetent, your survival is assured: Washington, if it hasn't already done so, will bail you out and keep on bailing you out.

The only purpose here is to answer one question: How can a *small* businessman or woman survive the 1970's? While it's obviously impossible to give a satisfactory answer without knowing a great deal about your specific industry, one thing at least is clear about the climate of the 1970's: it's horrible, and getting worse.

Big or small, virtually every industry today is fighting for its existence. We are plagued by a shortage of materials, of equipment, of fuels, of capital, of workers. If we solve these shortages, we are then frustrated in our attempts to build a new plant or replace an old one. If we manage to make a profit, demagogues will accuse us of stealing from consumers; and, if we do *not* make a profit and have to shut down, the same demagogues will accuse us of creating unemployment. Meanwhile, in every aspect of our business—from research and development to production, marketing and selling—we are hindered in every way by the bipartisan mismanagement and crippling controls of a government gone amok.

What can we do?

The first and simplest answer is: nothing. Why should we do anything? Why be a masochist? Nobody is forcing us to stay in business. As that great philosopher, Harry S. Truman, used to say: "If you can't stand the heat, get out of the kitchen." Those of us who can afford it (and want to), should close shop today, and take a few years' vacation. But some of us won't. And most of us can't do that: we must earn a living within the current economic context which, to repeat, is horrible.

Some businesspeople, especially those of the old school who started out their careers in the 1930's, are worried about a major credit collapse followed by a devastating depression. Yes, we'll have a depression—eventually. It cannot be avoided. But it won't occur tomorrow or next week. In the old days, you'd run

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out of credit when the bank refused you a loan. Today, you run out of credit when you can't borrow the interest on previous loans. (After all, like good Americans, we've been scrupulously following Mark Twain's advice for decades: "Live within your means, even if you must borrow to do so.")

Other businessmen are worried about continued inflation, and all they do is just complain about it.

I belong to a third school of thought which holds that, at least to the end of the 1970's, we'll see a more acute form of the stagflation or slumpflation of the past few years.

Briefly, let's see . . .

WHAT THE '70s HAVE IN STORE

A more severe double-digit inflation, double-digit unemployment, continued and unpredictable shortages (which will be worsened by the imposition of wage-price-profit-interest-dividend-and-rent controls), more bankruptcies, and more subsidies to big companies in distress—all these and similar events will be polluting the environment in which we'll have to operate our businesses. Let's not kid ourselves. Things will get worse before they get better, and if we admit it, we might just emerge from the ruins bruised but still alive.

You don't like to read this. And I don't like to write about it. Who wants to be a prophet of doom? But, realistically, I see nothing to feel cheerful about. Consider the inflation mess, for instance.

All inflations have a common symptom: high prices. Mathematically, price is the ratio of X amount of money per unit of goods or services, e.g., $2.95 per pound of steak, $2 per hour for a babysitter, etc. In fact, economists identify the general price level (GPL) as a time function of the ratio of the available money supply to the available supply of goods and services:

GPL = *f(t)* [Money Supply]/[Supply of Goods & Services]

Without obstacles to trade and production, the supply of goods and services would increase—and if the money supply (or its rate of growth) were held constant, we would then see at least a stabilization in the general price level and ultimately a decrease in prices. (Indeed, the history of virtually every industrial commodity is one of slowly decreasing prices across the years, thanks to technology, and in spite of government.) However, what's happened lately has been the exact opposite: the Federal Reserve System has been increasing the money supply to finance government deficits and other "worthy causes," while Congress and the Federal bureaucracy have been constantly concocting new schemes to curtail the freedom of trade and production. Not surprisingly, with the numerator of the GPL ratio increasing, while the denominator has been decreasing, the general price level has had no way to go but up—and at a much faster rate than the increase in the money supply. When *that* happens, as it has, inflation becomes uncontrollable. If you wonder why, consider the following:

The biggest single "purchaser" of goods and services is government. And it buys wholesale. The wholesale price index in 1974 rose by roughly 20 percent. If government wants to buy this year the same amount of goods and services it bought last year, it will need 15 to 20 percent more money. In fact, Treasury Secretary William Simon will have to raise in the next 16 months about $80 billion to cover the projected budget deficits for 1976. Where will government get the loot?

From taxation? No way.

From selling Treasury bonds directly to the public? Partly, but very cautiously because, as things now stand, excessive sales of government obligations to the public will drain so much capital away from the private sector that (as Alan Greenspan as so ably and repeatedly pointed out, and in vain) the resulting liquidity squeeze and rise in interest rates would totally wreck what's left of the housing industry, the equity market, and devastate all capital-intensive industries.

Conclusion: Government will continue to raise a good portion of the loot it needs by debt monetization via credit expansion (translation: by further printing of "legal tender."). *And this will pave the way to the next stupendous jump in the general price level.* Then, since nobody likes high prices, watch for the big scramble in Congress to reimpose wage and price controls, which this time will be draconian.

Except for libertarians and a handful of freemarket economists, no one wants a steady money supply —least of all business owners.

Quite aside from the fact that they'll think you're a lunatic if you mention a convertible gold standard as a solution, many business executives refuse to follow any argument that would prove why a constant money supply (or one growing, say, at a "moderate" annual rate of 4 or 5 percent, as suggested by Milton Friedman) is a necessary condition to curb inflation. You'll get for all your arguments the same warm reception accorded to a Zionist Jew proselytizing in downtown Cairo.

Though most big businessmen are so inarticulate that they can't ad-lib a belch after an Italian pizza, they do rise to lyric heights of eloquence when advocating easy money and low interest rates. After politicians, most businessmen are the best supporters of fiat money.

There'll be more shortages. Why? Simple: under ordinary conditions of State-organized plunder, a fiat currency is a claim by the government against existing goods and services. However, conditions are anything but ordinary. When a government inflates its fiat currency, the currency then becomes a claim also against *future* goods and services, a claim against values that haven't yet been produced. As a result, all sorts of shortages soon develop: the shortages of materials, of equipment, of fuels, and of capital—

which we've already seen throughout the early 1970's—plus the shortages of shelter, food, and jobs, which we are witnessing right now and that will worsen for the rest of the decade.

The shortage of jobs—or the abundance of unemployment—is usually viewed out of context, as a separate phase of the business cycle. It's called a depression, and every two-bit politician works overtime planning new expenditures to relieve the suffering of the masses. The fact is that a depression is not an isolated phenomenon, but a logical consequence of inflation. The job-shortage that occurs (as in the construction industry) is part and parcel of the government-created boom-and-bust syndrome.

So, expect nothing from government—and less than nothing from the business community.

Now that we have a picture of things to come, let's see how or if we can save our skin.

WHAT NOT TO DO

As a businessperson, your time is your most precious commodity. Don't waste it by trying to form business coalitions against this or that government agency. Tackling government is a full-time job.

Moreover, as Harry Browne points out in his excellent book *How I Found Freedom in an Unfree World* (Macmillan, New York, 1973), which you ought to read and study, "A sure way to make your life miserable is to attack the government head on. Its resources are limited, and it can't waste them tracking down every possible violator of every law. But it will certainly aim its power at anyone who *publicly* defies it .... *Don't organize.* Don't get a large group of people together to defy tax laws, promote ways of circumventing the government, or openly violate regulations."

After all, you don't want to create a big and visible target for government to shoot at. It would be better to work behind the scenes—and I can't suggest anything better than to give moral *and financial* support to the budding Libertarian Party. Let the experts do the political fighting for you: send whatever money you can to the Libertarian Party and suggest what you want done with your contribution —but don't expect results in the short term. It's still a small party, though the best that has appeared on the political horizon in a long time; and if it is successful, it *will* get government off your back.

Next. Don't neglect your psychological health (or physical health, either). Don't be brutal with yourself, in the sense of taking the rap for what ails the universe. If your business goes to pot, chances are that it wasn't your fault anyway. So, don't blame yourself for it, and don't torture yourself with futile recriminations such as "Somehow I should have done this and that," or "I should have known it," and garbage of this sort which is based on the mystical notion that "somehow" you should have been omniscient. Nobody is. In this regard, I strongly suggest you read and study Nathaniel Branden's *The Psychology of Self-Esteem* (Nash Publishing, Los Angeles, 1969); in it, Branden has an excellent section on how many people, especially businessmen and women, make themselves miserable and gather unspeakable and unearned burdens of guilt by making their sense of self-worth dependent on their success (or lack of success) in business dealings. Success or failure in business is often and largely determined by forces outside your control anyway. Real courage and strength, after all, do not consist in being infallible and never failing—but in getting up every time you fall.

WHAT YOU CAN DO

Ours isn't a "profit" system. It's a profit-*and*-loss system. We have to do two things, often simultaneously: cut costs, and make a profit.

Though not necessarily in the order outlined below, here are some common sense suggestions.

• (1) In every large city, there's a Small Business Administration office. Go there. You'll find out that SBA will provide at no cost (or nominal cost) to you the managerial talents of retired businessmen who act as SBA consultants. I have not done this. It might be a waste of time, but you could find a truly good consultant.

• (2) If you live in a small town, hire a management consultant—and, if you can, pay him only for results, *after* the results are achieved. Or, write to some school of business management for a list of texts and monographs on cost-cutting. You'll have enough bed-time reading for a year.

• (3) If your business is in manufacturing, in capital goods, bear in mind the shortage of equipment. Delivery time on new equipment is atrocious—and then, chances are that you can't afford new equipment prices anyway. So, watch like a hawk the trade journals in your industry for announced plant closings and/or for forced-liquidation sales in the used-equipment advertising sections (which are normally placed at the end of the trade journals). That, incidentally, is how I saved a bundle on equipment costs when I had to build my 1000-ton-per-day limestone crushing plant last year. You don't need new equipment. All you want is a piece of machinery that will provide reliable service for a certain amount of time, giving you that extra production capacity at minimum cost. If you're lucky, the used-equipment dealer will sell you the stuff at the going rate of junk steel—about 10 to 14¢/lb.—just to get it out of his hands. Warning: when you go on a trip scavenging for used equipment, no matter how much you think you know about a particular equipment line, take along with you a consultant. The going rate for an equipment consultant is (or was) $100 per diem plus travel and living expenses. Expensive? Hell no! It might save you from getting stuck with scrap, and then having to haul unserviceable junk from one end of the country to the other.

• (4) Do something about those late accounts receivable. I wish I knew how to solve that problem, other than appealing to the Mafia or some such friendly collection agency. Slow receivables—to me that means: anything beyond 90 days—can throw your cash flow severely out of kilter. If you can afford it, give up doing business with slow-pokes. You'll probably earn less initially, but you'll have fewer headaches and more time to devote to (hopefully) more reliable and profitable clients.

• (5) Accounts payable: get the longest terms possible from your vendors. I haven't bought any new equipment lately, so I don't know what the terms are even in my own industry. However, Steve Trotter, a chemical engineer who heads his own manufacturing company in Ogden, Utah, tells me that his vendors now offer him 60, 90, 120 or 180-day terms. "Perhaps vendors set up such liberal credit policies just to keep their sales going and their plants working full time," says Trotter, adding that what he tells his vendors is "whenever I have the cash, I'll pay you."

• (6) Keep liquid. I totally disagree with those colleagues of mine who have no compunction about debt financing. "Money is going out of style," so goes the argument. "Blow it. And borrow some more. You'll repay in cheaper dollars anyway." This was a good line of reasoning a few years ago, when an equity market still existed and the prime rate was around seven percent. Those days are over. Today, floating interest charges can make mincemeat of your profit margins faster than you can say A is A. Perhaps the old-timers are right after all, and a depression is in the offing: in that case, if you have ready capital, you'll be able to seize all sorts of attractive opportunities and acquisitions (e.g., from forced liquidations) at a fraction of the cost. Banks are illiquid, as if you didn't know. Why waste time bugging your banker for a loan you know you have one chance in 100 to get? One final point about liquidity: this could be the ideal time to sell your company. So, lower your sights, take a lower price, and be wise enough to recognize that doing nothing and just sitting on your capital for a while—by placing it on South African gold stocks, for example—could be the best thing under the circumstances.

• (7) Mergers. Potentially a merger is a good way of pooling resources and reducing overheads—provided the merger leads to an extension and expansion of your present market rather than into a new market. But even when everything looks promising in the beginning, a merger can multiply your headaches and make your life miserable. The problems inherent in a merger are extremely complex and cannot be discussed in a brief article.

• (8) Contract for help. This is one of Harry Browne's ideas. You'll find it in chapters 16 and 22 of his delightful *How I Found Freedom in an Unfree World.* Regretfully, I cannot use it in my own business (mining), but if you are in retailing, market research, consulting, insurance, and other service-type businesses, Browne's idea should be seriously considered. In his own words, "I was operating a small business in California—burdened with payroll taxes, bookkeeping requirements . . . Social Security taxes, unemployment insurance taxes, disability insurance taxes, and income taxes to be paid or withheld. They cost me money and time, and they reduced the takehome pay of all my employees." Browne's solution? "I fired all the employees (including myself) and made contracts with each person for his services. Since I no longer had any employees, I no longer paid or withheld payroll taxes . . . . After eliminating all employees and contracting for services needed, the business was in the black. Those who continued to work with me made more money per hour worked, and I was able to cut *my* working time by about half." If you haven't read Browne's book, this idea alone of contracting for help (which can only be briefly hinted at here) is worth many times the weight of the book in gold. Get it. Today.

• (9) The Trotter Plan. This is one of Steve Trotter's ideas. A chemical engineer by training, Steve, 36, heads his own manufacturing company, and produces reverse-osmosis membrane modules (never mind what those gadgets are). Steve's plan works beautifully (a) if you are the sole owner of your company, or at least if your minority stockholders are either good friends or members of your immediate family; and (b) if you intend to sell the entire business. Briefly, the plan consists in borrowing from your company—instead of taking a salary—so as minimize your capital-gain tax liability when you sell your company. Let's say the company's gross annual take is $300,000 and that your profit, which you would normally take as salary, is about $30,000. If you draw that as salary, you have to pay taxes on it. But nothing prevents you from "borrowing" $30,000 annually from the company at little or no interest. It's a loan, and you don't pay taxes on it. When you sell the company, you repay the accumulated loan from the proceeds, and thus reduce the tax liability on your capital gain by the amount of your loans.

• (10) Barter. To illustrate the point. I'll relate a personal experience. It may be a way to deal with shortages of fuels and materials. Perhaps the only way—and I hate it. Anyway, my company makes calcium oxide, calcium hydroxide, and pulverized calcium carbonate. The fuel I use is coal. Because of the coal shortage last year, my money was inconvertible into coal (which upset me infinitely more than the dollar's inconvertibility into gold). Market de-
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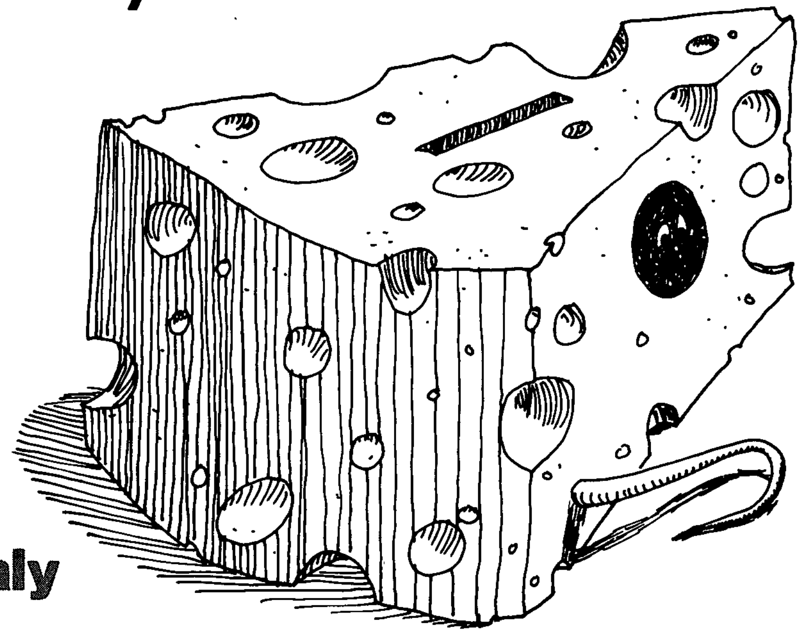
Do you really need a swiss bank?



Raymond E Daly

There are a number of myths regarding the banking business in Switzerland.

This assertion is predicated upon my observations from the uniquely dual vantages as chairman of a Swiss bank . . . *and,* chairman of an American bank.

The Swiss banking community certainly merits much of the high respect it is accorded; nevertheless, Americans would do well to seriously consider several factors before hastily embarking on any such banking or investment relationship.

First, there is *no way* for a Swiss bank to provide Swiss bank secrecy *within the United States.* It is just not possible or feasible under existing regulations.

As an American banker, I can tell you that governmental agencies are in our bank, as well as all other banks, most of the time. They can obtain pictures or records of any documents and there is no legal way they can be denied this by any U.S. financial institution, irrespective of whether or not it is Swiss-owned.

Secrecy should not be correlated to evading taxes. There are a number of good reasons for people to require secrecy and they do not necessarily mean tax avoidance. In any event, that type of secrecy can only be provided *outside* the United States.

The second thing that should be understood about Swiss banks is—and not surprisingly so—they are in the business of making money, and as a result, brokerage and safe-keeping costs are substantially higher.

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For example, on brokerage, Swiss banks tack on an additional 50 percent. If an order is executed for your account and the brokerage commission in London is 100 pounds, you will pay 150 pounds because the Swiss bank charges an additional 50 pounds as its commission.

Another myth regarding Swiss banks is their supposed large size. In fact, most Swiss banks are small, and all but the top five banks in Switzerland are about comparable to a medium-sized bank in the United States.

In today's international market, U.S. banks generally have the advantage due to size, efficiency, and association with a currency of wide acceptance.

Size is not only important in making very large loans; it also confers a competitive marketing advantage by attracting depositors who often equate safety with size—although that equation is not necessarily true, because quality is as important as quantity. The 5 largest banks in the world are based in the United States, and 6 of the top 10, 8 of the top 20, 9 of the top 30, 11 of the top 40, and 14 of the top 50 are U.S.-based. The deposits of the largest U.S. banks are nearly twice the size of their largest foreign competitors.

GREATER EFFICIENCY

Banks in the United States are probably more efficient than those abroad—a result of the much larger number of U.S. banks. There are 14,000 banks in the United States—more than in the rest of the world together! The very large number of banks in this country reflects the 19th century populist fear of centralized money trusts which has led to barriers against branching across state lines—or across the street in Chicago.